MONTHLY REVIEW

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FEDERAL RESERVE BANK OF RICHMOND

RICHMOND 13, VIRGINIA FEBRUARY 28, 1949

Business Conditions

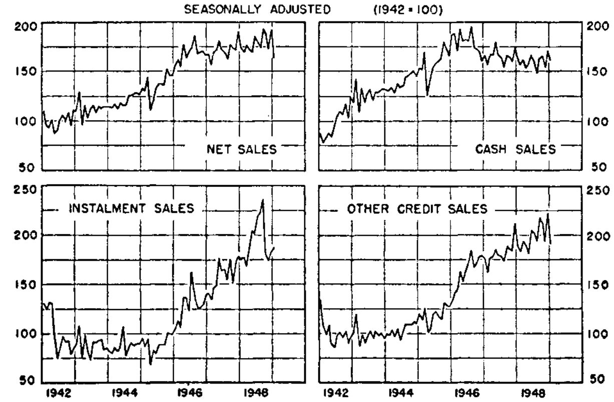
What appeared to be strength in the trade demand as reflected seasonally adjusted department store sales in December was not confirmed by the January sales level. Rather it appears that demand was inadequate to move goods accumulated for the Christmas trade at regular mark-ups, hence the more widespread and more substantial mark-downs in these two months.

The chart on this page shows the growing reliance on instalment and other credit sales in maintaining the total sales level, and it is significant to the total store sales outlook that the instalment sales have turned down. This drop in instalment sales in department stores represented in the chart is due mainly to a reduction in demand for major household appliances. This change in demand does not appear to be greatly influenced by moderately tighter credit terms; for if this were true, the sales of furniture would seem to have been likewise affected, and this was not the case.

The real question concerning the trade trends over the next several months are: Will the stores be able to replace inventories at prices which the consumer will accept and still purchase the goods necessary to hold the employment level in the producing factories? Does the consumer reaction in recent months indicate that a lower price of goods is necessary to move a level of production as high as that of 1948? These questions cannot be answered now, but the sales performance in the next two or three months should give a much clearer outlook.

January sales of department stores seasonally adjusted dropped 12 per cent from the December level, and while January sales were still 4 per cent ahead of January, 1948, that month on a seasonally adjusted basis was the lowest of the year. The January, 1949, seasonally adjusted sales were below the November level which was lower than any other month of 1948 save January. Stores in this District, however, were successful in bringing down their inventories by the end of January, 1949, to a level more in line with sales than was the case in either November or January, 1948. Thus, if the sales level can be maintained even at the reduced seasonally adjusted levels of January, outstanding orders will probably rise somewhat.

INDEXES OF SALES OF FIFTEEN DEPARTMENT STORES
FIFTH FEDERAL RESERVE DISTRICT
SEASONALLY ADJUSTED (1942 = 100)



Textiles

The consequences of the January showing at department stores, not only in the Fifth District but in the country as a whole, have been felt in several of the major manufacturing industries of the Fifth District, and as of the 23rd of February there had apparently been little improvement. In fact, it may be that the situation had deteriorated further in the cotton textile, hosiery and other knit goods, and apparel industries, despite rather optimistic anticipation in each.

Although the price structure in cotton goods has held quite firm on the majority of constructions, new business has lacked exuberance at a time when purchases for the spring season should have run heavy. Yarn prices are still unsettled, and business is below expectations. The seasonally adjusted index of cotton consumption for the Fifth District declined 10 per cent from December to January to a level 16 per cent below January, 1948, and below the November level which was the low month of 1948.

Price weakness has continued in women's nylon hose, and numerous retail promotions have been made on unbranded 51 gauge 15 denier first quality goods at one dollar a pair and in some cases even less. The full-fashioned end of the industry seems quite optimistic about the outlook, but the seamless end has much excess capacity and may be in for a siege of price cutting.

Prices of rayon broad woven goods, which had remained firm during the period when cotton goods were falling sharply, have recently been marked down by some of the large producers, and deliveries of rayon yarn to mills have halted its upward trend of many years standing.

Construction

Construction contract awards for the Fifth District fell 3 per cent more than is normally seasonal from December to January to a level 27 per cent below January, 1948, and 28 per cent below the monthly average for 1948. Building permits in value in 29 cities of the District fell 13 per cent on an adjusted basis from December to January and fell 38 per cent under January permit valuation a year ago. Of the 29 cities reporting building permits, 13 showed mainly moderate increases in valuation from a year ago while 16 cities showed mainly substantial losses. Outstanding among the cities showing large declines were Baltimore, Norfolk, Roanoke, Charleston, W. Va., Greensboro, Raleigh, and Washington, D. C. New home loans guaranteed by the Veterans Administration continued their downward trend through December in all states of the Fifth District.

Lumber and Furniture

Production and employment in the lumber industry of the District has been falling in recent months beyond the normal expectation of the season, and numerous small mills have ceased operations. Part of this is due to the unwillingness of retail yards to accumulate inventories for spring requirements, and this, in turn, has been a result of the weakening in prices of some grades of lumber. Another part of the sag in production is due to some easing in demand from consumption sources. If the construction volume in the Fifth District does not improve by more than seasonal average from that of the last three months, the lumber demand in this District will be off appreciably from last year.

The latest figures available on furniture manufacture are for December when factory sales were 34 per cent under those a year earlier and finished inventories were 130 per cent above. Employment levels in the industry declined through the summer of 1948 but showed signs of stabilizing in the fall. January, 1949, figures in Virginia indicate a further downward movement, being 2 per cent below December and 10 per cent below a year ago. New orders from retailers were received late in January and early in February which are reported to have saved some of the smaller manufacturers from financial difficulty and prevented large scale layoffs in the larger plants.

Retail furniture sales seasonally adjusted have held up remarkably well in this District despite the drops in the last two months. Trade information would indicate

Continued on page 9

BUSINESS INDEXES—FIFTH FEDERAL RESERVE DISTRICT
AVERAGE DAILY, 1935-39=100—SEASONALLY ADJUSTED

	Jan. 1949	Dec. 1948	Nov. 1948	Jan. 1948	% Change Jan. 1949 from Dec. 48	% Change Jan. 1949 from Jan. 48
Automobile Registration*	......	146	147	126	....	....
Bank Debits	318	324	337	302	— 2	+ 5
Bituminous Coal Production	154	159	166	170	— 3	— 9
Building Contracts Awarded	236	243r	283	324	— 3	— 27
Commercial Construction Contracts	437	263	368	503	+ 66	— 13
Manufacturing Construction Contracts	171	223	117	311	— 23	— 45
Public Works and Utilities	208	164	163	401	+ 27	— 48
Residential Construction Contracts	250	283r	391	358	— 12	— 30
Apartments and Hotels	188	230	420	260	— 18	— 28
One and Two Family Houses	281	328	423	398	— 14	— 29
Building Permits Issued	232	267	277	375	— 13	— 38
Business Failures—No.	43	49	46	11	— 12	+291
Cigarette Production	224	211	227	219	+ 6	+ 2
Cotton Consumption	126	140	129	150	— 10	— 16
Cotton Spindle Hours	127	134	132	153	— 5	— 17
Department Store Sales***	305	346	306	292	— 12	+ 4
Department Store Stocks	318	335	339	335	— 6	— 6
Electric Power Production	......	276	265	257	....	....
Employment—Mfg. Industries*	......	......	......	......	....	....
Furniture Orders***	......	257	238	340	....	....
Furniture Shipments***	......	204	314	378	....	....
Furniture Unfilled Orders***	......	526	537	818	....	....
Furniture Sales—Retail	271	273	273	262	— 1	+ 3
Gasoline Consumption	......	......	......	......	....	....
Life Insurance Sales	226	231	241	276	+ 1	— 18
Wholesale Trade:						
Automotive Supplies**	280	213	382	317	+ 31	— 12
Drugs	267	238	262	276	+ 12	— 3
Dry Goods***	114	180	181	175	— 37	— 35
Electrical Goods**	96	89	95	105	+ 8	— 9
Groceries	241	252	251	263	— 4	— 8
Hardware	145	163	159	140	— 11	+ 4
Industrial Supplies**	399	448	510	330	— 11	+ 21
Paper and Its Products**	134	163	154	170	— 18	— 21
Tobacco and Its Products**	97	105	91	100	— 8	— 3

* Not seasonally adjusted
** 1938-41=100
*** Revised Series—back figures available on request

State and Municipal Bond Issues Fifth District

The high level of expenditures by the Federal Government received considerable attention by those interested in calculating the effects of spending by the various components of the economy on the levels of production. employment, and income. Not nearly as much attention is devoted to the volume of spending and borrowing by the state and local governments, but in view of the possibility that private investment outlays this year might fall below the level of the past two years, the rising trend of state and local government expenditures assumed increased importance. It is obvious that with the forces of inflation and deflation now apparently in rough balance, materialization of the anticipated decline in capital expenditures of manufacturing enterprises will have to be offset by increased spending in other sectors of the economy if the deflationary forces are not to prevail.

Hence it is significant to note that despite the fact that spending by state and local governments rose to an all-time high of arounl $15 billion in 1948, all indications point to a continued rise in such outlays this year. Whether this growth will be accompanied by an increase in the amount of long-term borrowing by these units is difficult to state categorically. In a recent survey, for example, of the bond markets made by a leading investment banking concern (see *Finance,* January 15, 1949, p. 41) it was stated that there would likely be a lessening in the issuance of municipal[1] offerings during 1949. However, in view of the large backlog of capital projects confronting the states and municipalities and considering the growing problem of insufficient revenues—particularly in the case of towns and cities with their relatively inflexible tax bases—it would appear that there are grounds for anticipating an increase in the proportion of total spending by states and local communities that will have to be financed through borrowing. During 1948 total long-term borrowing by states and municialities rose 18% above the level of 1947 to reach $2.7 billion. This was about 18% of the total expenditures for goods and services made by these spending units. On the basis of experience since 1929, this proportion appears to be close to the upper limit and is, of course, well above the average for the period. However, in view of the two factors mentioned, it is very possible that an increased proportion of state and local government spending will have to be debt financed.

Certainly, there is no question of the need for a tremendous amount of new public works by state and local governments that would have to be financed through bond issues. Such requirements and contracts let for public works are checked and reviewed regularly by the Federal Works Agency, which administrates most of the programs that call for grants-in-aid to local governments, and it has been recently estimated by this agency that there is a backlog of around $100 billion of "necessary" public works for states, counties, cities, and other local units. The breakdown of this estimate is as follows:

Highways	$60.0 billion
Schools	10.5
Sewers and waterworks	9.5
Hospitals	8.5
Airports	3.5
Public buildings	3.5
Public utilities	2.5
Recreational facilities	2.0

The foregoing list contemplates long-run needs and implementation, but it is indicative of the magnitude of current requirements and the need for careful planning in order to relate such work most effectively with the course of private investment. In other words, there is a substantial, albeit potential, aid to ideas and plans for stabilizing the economy in the manner and timing by which such needs might be satisfied. It might also be pointed out that to realize this potential will require considerably more planning and attention in this direction by local governments than is now apparent.

Veterans' Bonuses

As was the case in 1947, a preponderant share of new state borrowing authorized by the electorate last November was for the purpose of paying cash bonuses to veterans of World War II. In fact, over 60% of new authorizations for borrowing was for this purpose, and this included only four states. As a consequence of the First World War twenty states distributed cash bonuses totalling about $398 million. The aftermath of the Second World War has seen "bigger and better" bonuses authorized by only fourteen states to-date but involving a total amount of almost $2 billion. The states making the payments and the amounts reported are as follows.

($ million)

Connecticut	50	New Hampshire	6
Illinois	385	New York	400
Iowa	85	Ohio	300
Louisiana	60	Rhode Island	20
Massachusetts	150	South Dakota	30
Michigan	270	Vermont	4
North Dakota	27	Washington	100

In addition to the foregoing authorizations, bonus proposals, in various stages of progress, are pending in the following states:

California	300	New Jersey	105
Indiana	142	Pennsylvania	500
Maryland	100	South Carolina	60
Maine	25	Tennessee	90
Minnesota	150	West Virginia	90
Missouri	135		

[1] The term "municipals" will be used to mean state and municipal bonds.

Thus far, none of the states of the Fifth Federal Reserve District have participated in the "bonus march" beyond the stage of proposals. In Maryland identical bills for a $100 million bonus bond issue have been introduced in the Senate and the House of Delegates in the current session. However, on February 21, 1949 Governor Lane stated his attitude toward the proposals by saying that he "must . . . veto anything for which funds are not provided." (Reported in *The Sun,* Baltimore, February 22, 1949.) In reporting on the bonus proposal, *The Sun,* February 22, 1949, stated:

"The bonus measures, as introduced . . . meet the legal requirements for financing the proposed $100,000,000 bonus bond issue through real estate taxation by directing the county commissioners of the several counties and the Mayor and City Council of Baltimore to levy real estate taxes ranging from 4 cents on each $100 of valuation in 1952 to 27 cents in 1955.

"With that legal technicality out of the way, however, the bills provide that the prescribed real estate taxes 'shall not be collected in any year if . . . the Board of Public Works shall ascertain . . . that all payments of principal and interest have been met during the current year.

"That throws the burden back on a previous section which provides that the retail sales tax and its sister levy, the use tax, shall be used, to the extent necessary, to finance the bonds.

"Commenting on this today, Governor Lane pointed out that the sales tax already is 'dedicated in the budget.' To throw the burden to real estate, he intimated, would 'impinge' too heavily on the counties. The real-estate tax, he pointed out, is the main source of revenue in the counties."

In the event of a veto the bill will be returned to the originating house where it will require the approval of 60% of that body and then of 60% of the other house before becoming law.

On January 18, 1949, a resolution was introduced in the West Virginia Legislature proposing the submission to the voters in 1952 of a plan to pay a cash bonus to personnel of World War II, the cost of which was fixed at $50 million. Under the terms of the proposal, the bonds would be financed from increased taxes on real and personal property. However, on February 24, 1949 the West Virginia Senate passed and sent to the House a $90 million veterans bonus proposal to be financed by increasing the consumers sales tax.

The only other state in the Fifth District in which a bonus proposal is currently pending is South Carolina. On January 27, 1949 a $60 million veterans bonus was proposed in the General Assembly to be financed by a tax on small loan companies. It was estimated by the sponsor of the bill that the license fees and gross profits tax imposed on such companies would yield $5 million annually, all of which would be pledged to a $70 million bond issue from which the bonuses would be paid.

Under the conditions of the post-war period, particularly of the tremendous backlogs of deferred demands for all types of goods and services and of liquid savings available for the implementation of those demands, it is difficult to justify the pouring out of fuel on the inflationary fire in the form of bonus payments. At a time when, in addition to a huge store of liquid assets, disposable incomes have been running at record levels, it would seem unnecessary and short-sighted to swell the flow of individual income which was already too great to flow smoothly through market channels. Thus with the unnecessary result of increasing the income stream during a period of full employment, a number of states have assumed a burden of debt service requirements that is likely to bear much more heavily upon the taxpayers in the future than it does now in a period of general prosperity.

Offerings in the Fifth District

Continuing the experience of the first six months of 1948 (see *Monthly Review,* August 1948), bond offerings by the states and municipalities of the Fifth District during the last half of the year increased at a very much faster rate than was characteristic of the country as a whole. Whereas total issues in the District during the first six months amounted to $78 million, an unprecedented amount of $149 million of long-term borrowing was engaged in during the period July-December 1948. Thus, againts an increase of 18% registered in the entire country for 1948, this District's new municipal issues were 133% greater in amount the past year than in 1947.

For the District as a whole the most important purpose, so far as dollar amounts are concerned, for which debt was incurred during the last six months of 1948 was construction and improvement of streets, highways, and bridges. As shown in the following table, funds for this purpose accounted for almost one-half of the total bond issues. School building and improvements ranked next in importance on a dollar basis, requiring 18% of the funds raised from bond issues, and water drainage and sewerage systems was a close third, accounting for about 16% of the total bond issues of the District. It should be noted that the purpose breakdown in the table of offerings is not as detailed as might be desired. Such broad categories, recorded as reported by the issuing units, as "public improvements," "public buildings," "general obligations", and "combined public utility system" are overlapping and fail to disclose specific purposes of the issues.

STATE AND MUNICIPAL BOND OFFERINGS

July 1-December 31, 1948

	MARYLAND			VIRGINIA			WEST VIRGINIA			N. CAROLINA			S. CAROLINA			FIFTH DISTRICT		
	No. of Issues	Amt $000	Per-cent	No. of Issues	Amt $000	Per-cent	No. of Issues	Amt $000	Per-cent	No. of Issues	Amt $000	Per-cent	No. of Issues	Amt $000	Per-cent	No. of Issues	Amt $000	Per-cent
Street, Road and Bridge Building and Improvem't	1 1	50 37,500*	.... 57.3	2	22,150**	45.6	2 1	395 2,000*	.... 49.9	15	720	4.5	2 1	116 10,000*	.... 71.6	25	72,931	48.9
School Building and Improvements	4	10,330	15.7	9	6,801	14.0	......	....	....	18	6,969	43.2	7	2,536	17.9	38	26,636	17.9
Water and Sewer Systems	7	9,840	15.0	7	4,030	8.3	5	2,404	50.1	29	6,404	39.7	5	480	3.4	53	23,158	15.5
Public Improvem't	1 1	330 6,695*	.... 10.7	5	14,095	29.0	......	....	....	9	1,075	6.7	......	....	....	16	22,195	14.9
Public Buildings	......	....	....	1	1,487	3.1	......	....	....	2	50	.3	......	....	....	3	1,537	1.0
Flood Protection	1	700	1.1	......	....	....	......	....	....	......	....	....	......	....	....	1	700	.5
Combined Public Utility System	......	....	....	......	....	....	......	....	....	......	....	....	2	600	4.2	2	600	.4
General Obligation	1	42	.1	......	....	....	......	....	....	......	....	....	1	350	2.5	2	392	.3
General Refunding	......	....	....	......	....	....	......	....	....	7	340	2.1	1	50	.4	8	390	.3
Electric System	......	....	....	......	....	....	......	....	....	1	360	2.2	......	....	....	1	360	.2
Recreation Facilities	......	....	....	......	....	....	......	....	....	2	160	1.0	......	....	....	2	160	.1
Parks and Playgr'nds	......	....	....	......	....	....	......	....	....	1	50	.3	......	....	....	1	50	....
Erosion Project	1	39	.1	......	....	....	......	....	....	......	....	....	......	....	....	1	39	....
Total	18	65,526	100.0	24	48,563**	100.0	8	4,799	100.0	84	16,128	100.0	19	14,132	100.0	153	149,148	100.0

*State Issues.

**Includes conditional contract to purchase $22,000,000 Elizabeth River Tunnel Commission bridge tunnel construction revenue bonds.

Source: Weekly listings in "The Commercial and Financial Chronicle.

Water and sewer systems accounted for the largest number of issues of bonds floated during the last six months of the year, with schools and street and road improvement and construction ranking second and third. Both the increasing number of individual issues and the purposes for which the majority of the issues are being made reflect the deferment of maintenance, improvements and additions to municipal plant that occurred on such a vast scale during the period of the war. As was pointed out in an earlier article, the reduction in debt of states and municipalities during the war meant simply postponed borrowing. While the military exigencies which precluded normal government programs and outlays enabled many states and municipalities to reduce their debt and achieve a relatively strong financial position, it was for the most part a short-run condition. But despite the general strengthening of financial conditions on the part of states and municipalities during the war and in spite of the high levels of tax collections, reports and statements of finance officers indicate that a growing number of local governments are being confronted with severe difficulties. And to this picture should be added the fact that in the great majority of cases the backlog of public works has been barely scratched.

Also reflecting these facts is the steady increase that has taken place since the close of the war in the average dollar size of total issues. For example, the average face value per bond issue in the Fifth District during the last half of 1948 was $875,000 as compared with $485,000 during the last half of 1947. And whereas only 13 issues out of the total of 106 in the latter period were for amounts of $1 million and over, with only three of these in excess of $4 million, 28 of the 153 issues made in the Fifth District during the last six months of 1948 were for amounts of $1 million and over, with eight of these for individual amounts exceeding $4 million. As would be expected, the range of individual issues was quite wide, extending from an issue for only $8,500 running for 18 years to one for $37,500,000.

The two largest issues were both revenue bonds—the Chesapeake Bay Bridge issue in Maryland of $37,500,000 and the Elizabeth River bridge tunnel construction offering in Virginia of $22,000,000 (final details of the sale of which are yet to be consummated.) In keeping with the trend throughout the country, the number of revenue bond issues in this district and their total amount have shown great increases during the post-war period. Altogether, 10 such issues totalling over $62 million were offered in the states of this district during the last six months of 1948.

It is interesting to note that of the 153 bond issues offered in the Fifth District during the last half of 1948, only 4 represened state borrowing. Maryland had two issues: the Chesapeake Bay Bridge bonds just noted and a $6,695,000 issue for general construction purposes. South Carolina offered for sale $10 million of certificates of indebtedness covering 12-year loans for highway construction, and West Virginia issued $2 million of bonds for the same purpose. Neither states of Virginia and North Carolina went into the bond market for funds during this period.

Including both state and municipal issues, Maryland accounted for 44% of the district total during the period, Virginia 33%, North Carolina 11%, South Carolina 9%, and West Virginia 3%. This is the order of distribution that has prevailed over the past two years. It should be pointed out, however, that during the post-war period the largest number of individual issues has been made in North Carolina. A much greater number of municipalities in this state have issued bonds than in any other state of the District; in fact, about 52% of the total number of issues put out in the Disrict during the past ten years were originated by North Carolina communities.

Costs of Borrowing

Although no attempt was made to segregate similar credits for the purpose of comparing costs of borrowing during the last six months of the year with earlier periods, it would appear that the upward trend in net interest costs to borrowing municipalities in the Fifth District during the post-war period was halted during the last half of 1948. Despite the fact that yields on high-grade municipals rose steadily over about two-thirds of the period from July 1 to December 31, 1948, a rough inspection of the net interest costs to borrowing municipalities in the District indicates that the rising trend of costs flattened out during the last half of the year. This may have been due, of course, to the possibility that a larger proportion of borrowers during this period had higher credit ratings as compared with the communities that issued bonds during the preceding period, but in view of the fact that state and municipal bond issues almost doubled in volume during the last half of the year it is a rather interesting development.

Another factor that might be mentioned in this connection is the increasing proportion of Fifth District issues that have had serial maturities extending over a period greater than 15 years. For example, in the three purpose categories of schools, water and sewer, and street and roads about 71% of the total issues in the last half of 1947 extended beyond 15 years; in the first half of 1948 the proportion increased to 76%; and in the last six months of 1948 the percentage had moved up to about 83%.

Proposed Issues

Although the municipal market closed out 1948 with a definite tone of optimism, this feeling was soon supplanted by reflected opinion that greater caution had better be exercised. One of the factors in this shift of sentiment was the prospect of a continuing large supply of state and municipal issues. Although a record-high volume of borrowing was contracted for by Fifth District states and localities during 1948, at year's end the volume of proposed issues had moved up to a new high level. As shown in the following table, compiled by *The Bond Buyer,* proposed state and municipal issues in this District as of November 15, 1948 totalled $379 million—over two and one-half times the actual issues of the last six month period of 1498. This includes only those issues that have progressed beyond the "idea" stage and does not include the bond issues amounting to $110 million that have recently been proposed in South Carolina and West Virginia to finance the payment of soldiers' bonuses. It will be noted that a large proportion of the inventory, about 28%, is assigned to West Virginia; although a similarly large inventory of proposed issues has been shown for West Virginia since July 1, 1947, total actual issues by this state have been far less than reported proposed issues. Unfortunately, information is not available concerning the amount shown in the following table.

INVENTORY OF PROPOSED STATE AND MUNICIPAL BOND ISSUES

(Amounts in Thousands)

	Total		State and State Agencies		Municipal	
	11-15-48	7-1-48	11-15-48	7-1-48	11-15-48	7-1-48
Maryland	192,175	153,850	5,710	1,085	186,465	152,765
Virginia	37,914	54,695	....	....	37,914	54,695
West Virginia	105,928	106,383	96,040	97,000	9,888	9,383
North Carolina	45,207	53,372	15,000	15,000	30,207	38,372
South Carolina	7,383	10,706	....	5,000	7,383	5,706
Fifth District	388,607	379,006	116,750	118,085	271,857	260,921

Source: The Bond Buyer.

It would be interesting to know in detail the purposes for which the amounts in the foregoing table are intended. Attention has been directed before, for example, in this publication to the probable need for improvements and additions to the public schools in the District. During the war the Fifth District suffered a decline in population of public school age (5-17 years of age). According to recent estimates of the Bureau of the Census, the following changes took place between April 1, 1940 (date of Census) and July 1, 1947.

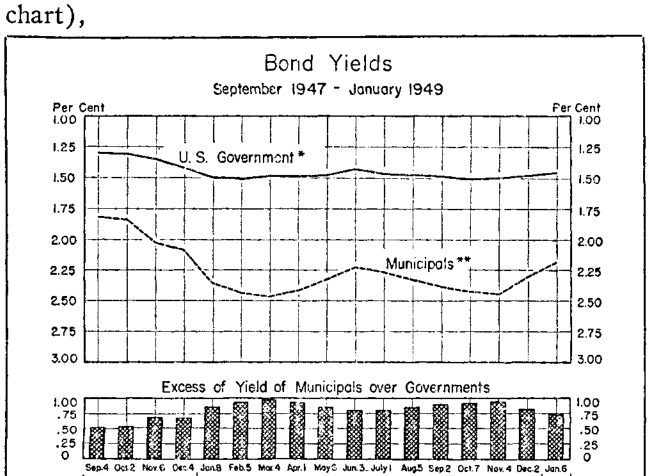
	July 1, 1947	April 1, 1940	Per Cent. Change
Maryland	402,000	395,124	+ 1.7
District of Columbia	116,000	105,552	+ 9.9
Virginia	677,000	688,614	— 1.6
West Virginia	494,000	521,781	— 5.4
North Carolina	969,000	1,026,826	— 5.6
South Carolina	545,000	562,097	— 3.1
Fifth District	3,203,000	3,299,994	— 2.9

The declines shown, however, are likely to be reversed in the near future as a consequence of the high rate of marriages and births during the later years of the war period and the early years of the post-war period. For the country as a whole a decline of 1.4% was registered during the period shown above in population 5 to 17 years old, but it has recently been estimated that the number of children in elementary schools will increase from 18.6 million in 1948 to 20 million by 1950, to 22 million in 1952, and to 26.6 million in 1957. High school attendance will shrink somewhat up to 1950 from the figure of 6.3 million in 1948 and then increase to 8.1 million by 1960. Similar estimates of a high degree of accuracy can be prepared by the individual states and communities, and it would appear to be an inexcusable omission to fail to be aware of and to plan now for the calculable changes that will take place shortly affecting school requirements.

Municipal Yields

During 1948, according to the "Bond Buyer" index of 20 bonds, municipal bonds recorded a yield range of approximately ¼ of 1%. The high point (low in terms of price) for the year was reached during the first week of March when, as a consequence of the uncertainty over the manner in which the market could absorb the forthcoming huge issues of bonus bonds of New York and Ohio, the index showed a yield figure of 2.47%. Following the successful marketing of these issues, the market experienced a gradual improvement up until early June when on June 3 the index was at 2.23. At this point the market trend was again reversed and had a steady decline until the election when a yield of 2.45 was reached. After that date, reflecting in part the anticipation of higher taxes, the market improved and closed the year on a 2.20% basis, the lowest yield point reached during the year.

In some respects it might have been expected that the huge volume of new municipal offerings marketed during 1948 would have forced the market below the 2.47 basis noted in the preceding paragraph. As it was, however, the yield on municipals was sufficiently high during a good part of the year (2.39% or over at six of the points plotted for 1948 in the following chart) to attract increased buying on the part of institutional investors. More important in this respect was the increased spread, relative to 1947, between yields on municipals and those on United States Government bonds. During 1947 there were only four months when the excess of yield on municipals over the yield on Treasury bonds of similar maturity, after allowance for income taxes, amounted to 60 basis points. During 1948, however, the spread fell below 80 points only at the close of the year and ranged from 80 to 98 points during eleven of the months. In fact, for the first time in a number of years the average yield on municipals exceeded the yield on Governments (Bank-eligible Treasury 2½s of 1972/67) without making allowance for the payment of income taxes on the income from the Federal government bonds. This was the case in March, April, and November of 1948, and in three other months the yields were equivalent or separated by only ,01 of 1% (based on the series shown in the chart),



* Bank-Eligible Treas. 2½s of 1972/67 (Yield after 38% Corp. Inc. Tax).
** The Bond Buyer's Index of 20 Bonds

For Period March 1946 - August 1947 See *Monthly Review*, Oct. 1947

Thus, even though the market was moving away, at the time of this writing, from the price and yield levels necessary for the attraction of insurance company and savings bank buying, it should be pointed out that the market demonstrated its ability to absorb a huge flow of new municipal issues in 1947 at substantially higher prices and narrower spreads, relative to Treasury bonds, than those that held at the close of 1948.

Holdings of State and Municipal Bonds

Although the spread of yields on municipals from those on Treasury bonds offered a positive advantage to investors not concerned with tax-exemption on only three occasions during 1948, such investors showed a renewed interest in the municipal market. For example, according to the Institute of Life Insurance, life insurance companies acquired $293 million of state and municipal bonds during eleven months of 1948; this was over five times the amount purchased in the same period of 1947 and almost 13 times the amount acquired in 1946. The purchases during the past year raised the municipal holdings of life companies to $841 million as of November 30, 1948; this was an increase of 36% above such holdings a year earlier and represented for the first time in a number of years an increase in the percentage of municipals held by life insurance companies to their total holdings of securities and mortgages.

Similarly, commercial banks increased their holdings of municipals during 1948. As reference to the final table will show, commercial banks have been the only group of investors to have increased their holdings of such investments over the period shown. Contrary to the situation referred to in the preceding paragraph with respect to the yield differential for non-taxable investors, during all of 1948 the spreads from United States Government bonds for high-grade municipals afforded a definite advantage to corporate investors subject to income taxes. During the year yields on municipals (Standard and Poor's Corporation) averaged 85% of the yields on triple A corporate bonds (Moody's) and 98% of the yields on United States Government taxable bonds with maturities of 15 years and over (see statistical section of *Federal Reserve Bulletin*. In view of the corporate income tax of 38%, a tax-exempt municipal bond has to yield only 62% of the return on a taxable security in order to attain an equivalence in yield, other considerations being equal. As just stated, however, the differential during the past year has been considerably better than 62%; in fact, the ratio with respect to corporate bonds of 85% was the same as the average that prevailed from 1920 to 1939. During that time holdings of state and municipal bonds increased from about $8 billion to almost $20 billion and income tax rates were, of course, considerably lower than those now imposed.

As a consequence, in part, of the increase in holdings of municipals by commercial banks, the percentage of such securities to total investments has been increasing steadily over the past four years. As shown in the following table, member banks in the Fifth District have raised this proportion from a low point of 2.2% on December 31, 1945 to 4.4% on June 30, 1948.

STATE AND MUNICIPAL BONDS HELD BY MEMBER BANKS, 1940-1948

(As Per Cent of Total Investments

	Banks—U. S. All Members	Banks—U. S. Country Members	Fifth District Member Banks
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
1947	6.4	7.7	3.7
1948 (June 30)	7.2	8.8	4.4

All years as of December 31, except 1948.
Source: Member Bank Call Reports.

It was stated in an earlier article (*Monthly Review*, August 1948) that it would be interesting to note, when the information became available, the effect on individual holdings of the sharp rise in the index of municipal bond yields that occurred during the period from September 1947 to February 1948. This information is now available, and as shown in the following table holdings of municipals by individuals rose from $6.8 billion on June 30, 1947 to $7.6 billion on June 30, 1948. This growth of about $800 million absorbed about 44% of the increase during the year noted of $1.8 billion in the total of outstanding debt of states and municipalities. Thus despite the incentive to invest in tax-exempt securities stemming from the large increases in income tax rates since 1937, the rise in individual holdings noted marks the first definite reversal of the steadily downward trend in such holdings since 1937.

It should be noted, however, that the $7.6 billion of state and municipal bonds in the hands of individuals on June 30, 1948 amounted to but 41% of the total of such securities outstanding as compared with about 46% in 1937. This decline reflects in part another aspect of the influence of the high level of taxation that has prevailed over most of the period shown in the following table, namely, the reduction in the potential accumulation of savings by wealthy individuals and the consequent weakening in the most important sector of the market for state and municipal securities. It remains to be seen whether the strengthening of demand by individuals for municipals exhibited during the year ended June 30, 1948 will continue over the course of this year. Important factors in this connection are the prospect for a continued heavy flow of new offerings, the timing of new issues, the amount of retirements of fully and partially tax-exempt securities, the trend of yields on taxable securities, and the attempts to increase income tax rates in the higher brackets.

In addition to the changes noted in holdings of individuals, it is interesting to observe the shifts in the holdings of other investors in state and municipal bonds. Whereas commercial banks held but 15% of the total municipals outstanding in 1937, the proportion of their holdings in 1948 had risen to 30%. This increase was offset by absolute and relative declines in the holdings of insurance companies, mutual savings banks, other corporations and associations, and in United States, state, and local government trust and sinking fund holdings. In the last named category—government trust and sinking funds—holdings declined from 21% of the total outstanding in 1937 to 16% in 1948.

DISTRIBUTION OF OWNERSHIP OF STATE AND MUNICIPAL BONDS JUNE 30

(Billions of Dollars

	1948	'47	'46	'45	'44	'43	'42	'41	'40	'39	'38	'37
Individuals[1]	7.6	6.8	6.8	6.9	7.1	7.5	7.6	7.9	8.2	8.5	8.7	8.8
Commercial banks	5.6	5.0	4.1	3.8	3.5	3.5	3.6	3.7	3.6	3.2	2.8	2.8
U. S., state and local governments	3.0	2.9	2.9	3.4	4.0	4.4	4.6	4.6	4.3	4.1	4.1	4.0
Insurance companies	1.3	1.2r	1.2	1.4	1.6	1.7	2.2	2.2	2.2	2.0	1.9	1.8
Other corporations and assoc's	.8	.6r	.7	.8	1.0	1.1	1.1	1.1	1.2	1.3	1.1	1.1
Mutual savings banks	.1	.1	.1	.1	.2	.2	.4	.5	.6	.6	.7	.8
Total outstanding[2]	18.4	16.6	15.7	16.4	17.3	18.5	19.5	20.0	20.0	19.8	19.8	19.3

1. Includes unincorporated businesses and personal trust accounts.
2. Includes issues of territories and possessions, amounting in 1948, for example, to $45 million. Sum of details may not equal totals due to rounding.

r revised.

Source: Annual Report of the Secretary of the Treasury on the State of the Finances, June 30, 1948.

Business Conditions

Continued from page 2

that the chief difficulties at the manufacturers' level at this time are (1) that retailer inventories have caught up with sales and demand on manufacturers for further inventory accumulation is not a reasonable expectation, and (2) that consumer price resistance and new styles have resulted in clearances of old styles and poorer quality goods, which has found reflection in a lower level of orders. Thus far the retail sales of furniture in this District give no indication that serious trouble is facing the industry.

Employment

Employment in manufacturing industries has been receding moderately since the middle of 1948 in non-seasonal industries. Virgina figures for January, 1949, and North Carolina figures for December indicate this downward tendency is still in evidence. Both durable and non-durable goods industries in the aggregate show downward tendencies, the durable goods fall being due to machinery, transportation equipment and lumber industries, the non-durable goods fall being due to cotton textile, knitting mill, and paper industries. In addition to the lower level of employment many concerns are operating fewer hours a week.

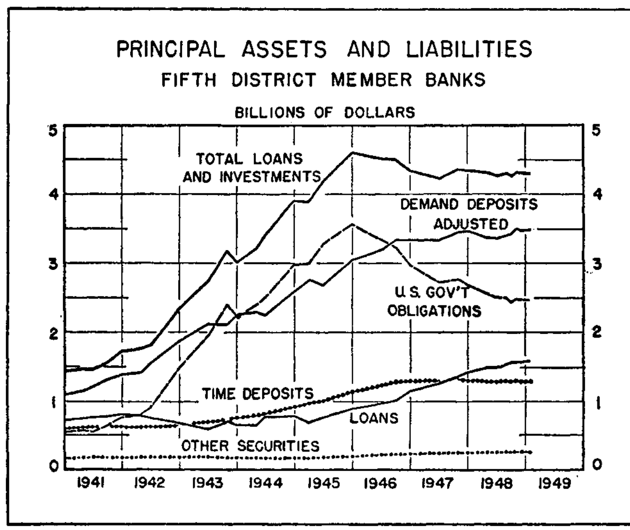
Virginia manufacturing employment in January was down 5,000 from December and 7,300 below January, 1948, durable and non-durable goods showing almost equal numerical declines but in percentage they were respectively 5.5 per cent and 2.5 per cent. North Carolina employment in manufacturing industries in December declined 2,000 or 0.5 per cent from November, and 13,500 or 3.5 per cent from December, 1947.

The Employment Security Commission of North Carolina report for January indicates a further drop in employment and states that lay-offs and curtailed operating schedules had not abated in textiles, lumbering, and seasonal industries.

AVERAGE DAILY TOTAL DEPOSITS* OF MEMBER BANKS

	Last Half of Dec. $ thousands	% of U.S.	Last Half of Jan. $ thousands	% of U.S.
Maryland	1,013,019	.93	1,020,733	.95
Reserve city banks	649,061	.60	640,850	.60
Country banks	363,958	.33	379,883	.35
District of Columbia	891,404	.82	903,763	.84
Reserve city banks	869,686	.80	881,766	.82
Country banks	21,718	.02	21,997	.02
Virginia	1,310,503	1.20	1,301,179	1.21
Reserve city banks	297,881	.27	296,375	.28
Country banks	1,012,622	.93	1,004,804	.93
West Virginia	621,713	.57	618,483	.57
North Carolina	844,696	.77	824,817	.76
Reserve city banks	377,636	.34	370,895	.34
Country banks	467,060	.43	453,922	.42
South Carolina	439,043	.40	436,529	.40
Fifth District	5,120,378	4.70	5,105,504	4.73
U. S. (millions)	109,028	100.0	107,944	100.0

* Excluding interbank demand deposits.



FEDERAL RESERVE BANK OF RICHMOND

(All Figures in Thousands)

ITEMS	February 16, 1949	Change in Amt. From 1-18-49	2-18-48
Total Gold Reserves	$1,051,506	+11,971	— 2,881
Other Reserves	24,855	— 636	+ 3,210
Total Reserves	1,076,361	+11,335	+ 329
Bills Discounted	16,364	+ 3,428	— 6,244
Industrial Advances	68	— 3	+ 22
Govt. Securities, Total	1,431,798	+ 5,567	+ 71,672
Bonds	641,517	—41,986	+278,738
Notes	24,430	— 7,685	— 82,955
Certificates	427,505	+21,025	+145,328
Bills	338,346	+34,213	—269,439
Total Bills & Securities	1,448,230	+ 8,992	+ 65,450
Uncollected Items	246,437	+14,664	— 22,125
Other Assets	50,556	— 2,673	+ 10,573
Total Assets	2,821,584	+32,318	+ 54,227
Federal Reserve Notes in Cir.	$1,591,735	—30,369	— 80,336
Deposits, Total	961,521	+47,834	+127,570
Members' Reserves	837,804	— 4,722	+118,465
U. S. Treas. Gen. Acct	84,131	+50,194	— 9,787
Foreign	35,452	+ 2,548	+ 17,444
Other Deposits	4,134	— 186	+ 1,448
Def. Availability Items	225,578	+12,995	+ 1,505
Other Liabilities	620	+ 51	— 122
Capital Accounts	42,130	+ 1,807	+ 5,610
Total Liabilities	2,821,584	+32,318	+ 54,227

51 REPORTING MEMBER BANKS—5th DISTRICT

(All Figures in Thousands)

ITEMS	February 16, 1949	Change in Amt. From 1-19-49	2-18-48
Total Loans	$ 855,497**	— 7,903	+ 54,177
Bus. & Agri.	411,600	— 868	+ 21,634
Real Estate Loans	199,616	— 2,172	+ 24,071
All Other Loans	252,113	— 4,696	+ 16,304
Total Security Holdings	1,668,706	+12,293	—110,754
U. S. Treasury Bills	101,460	+20,171	+ 43,663
U. S. Treasury Certificates	183,662	—14,843	+ 29,735
U. S. Treasury Notes	44,043	— 375	— 60,061
U. S. Govt. Bonds	1,212,527	+ 7,706	—129,147
Other Bonds, Stocks & Sec.	127,014	— 366	+ 5,056
Cash Items in Process of Col.	221,337	—14,835	+ 17,297
Due from Banks	147,225*	— 3,666	— 3,586
Currency and Coin	61,495	— 3,482	— 1,463
Reserve with F. R. Banks	551,192	+ 7,556	+ 77,493
Other Assets	48,400	— 133	— 7,202
Total Assets	3,553,852	—10,170	+ 25,962
Total Demand Deposits	$2,719,999	—18,240	+ 42,728
Deposits of Individuals	2,036,829	—15,904	+ 33,133
Deposits of U. S. Govt.	73,277	+26,295	+ 21,463
Deposits of State & Local Govt.	183,555	+ 4,632	— 1,884
Deposits of Banks	375,983	—25,808	— 4,974
Certified & Officer's Checks	50,355	— 7,455	— 5,010
Total Time Deposits	587,850	— 689	— 19,737
Deposits of Individuals	566,211	— 910	— 22,020
Other Time Deposits	21,639	+ 221	+ 2,283
Liabilities for Borrowed Money	7,000	+ 6,450	— 6,050
All Other Liabilities	18,887	+ 1,310	+ 1,104
Capital Accounts	220,116	+ 999	+ 7,917
Total Liabilities	3,553,852	—10,170	+ 25,962

* Net Figures, reciprocal balances being eliminated.

**Less losses for bad debts.

CONSTRUCTION CONTRACTS AWARDED

STATES	January 1949	January 1948	% Change
Maryland	$13,641,000	$18,753,000	— 27
Dist. of Col.	3,860,000	3,948,000	— 2
Virginia	17,315,000	13,727,000	+ 26
West Virginia	1,841,000	16,465,000	— 89
North Carolina	7,971,000	9,070,000	— 12
South Carolina	6,340,000	8,109,000	— 22
Fifth District	$50,968,000	$70,072,000	— 27

Source: F. W. Dodge Corp.

RAYON SHIPMENTS AND STOCKS

	December 1948	November 1948	December 1947
Rayon yarn shipments	75,000,000	70,400,000	62,100,000
Staple fiber shipments	21,200,000	21,300,000	22,200,000
Rayon yarn stocks	11,100,000	12,300,000	7,700,000
Staple fiber stocks	4,600,000	5,400,000	4,000,000

Source: Rayon Organon.

DEBITS TO INDIVIDUAL ACCOUNTS

(000 omitted)

	January 1949	January 1948
Dist. of Columbia		
Washington	$ 722,773	$ 736,173
Maryland		
Baltimore	942,534	963,568
Cumberland	20,005	20,390
Frederick	16,333	17,406
Hagerstown	26,604	27,023
North Carolina		
Asheville	51,104	50,478
Charlotte	233,079	240,427
Durham	89,453	96,005
Greensboro	74,950	78,342
Kinston	14,545	13,278
Raleigh	108,447	94,632
Wilmington	32,541	36,566
Wilson	15,060	17,005
Winston-Salem	119,556	121,098
South Carolina		
Charleston	61,273	58,994
Columbia	93,510	91,410
Greenville	84,635	82,289
Spartanburg	49,451	51,811
Virginia		
Charlottesville	24,971	26,412
Danville	26,007	30,920
Lynchburg	39,006	41,072
Newport News	32,601	34,371
Norfolk	183,963	184,516
Portsmouth	19,632	21,400
Richmond	485,850	427,770
Roanoke	92,255	84,847
West Virginia		
Bluefield	46,306	45,383
Charleston	147,165	135,475
Clarksburg	32,935	33,895
Huntington	68,623	61,132
Parkersburg	27,560	26,242
District Totals	$3,982,727	$3,950,330

COTTON CONSUMPTION AND ON HAND—BALES

	January 1949	January 1948	Aug. 1 to Jan. 31 1949	1948
Fifth District States:				
Cotton consumed	345,622	426,979	2,128,129	2,326,535
Cotton Growing States:				
Cotton consumed	607,398	763,237	3,749,309	4,094,758
Cotton on hand Jan. 31 in				
consuming establishments	1,412,900	1,898,403		
storage and compresses	8,169,635	5,045,649		
United States:				
Cotton consumed	674,463	860,704	4,204,057	4,645,463
Cotton on hand Jan. 31 in				
consuming establishments	1,627,055	2,229,229		
storage and compresses	8,213,189	5,105,438		
Spindles Active, U. S.	20,927,000	21,471,000		

Source: Department of Commerce.

COTTON CONSUMPTION—FIFTH DISTRICT

	No. Carolina	So. Carolina	Virginia	District
January 1949	181,157	148,439	16,026	345,622
December 1948	176,853	150,750	13,112	340,715
January 1948	232,222	176,319	18,438	426,979

Source: Department of Commerce.

PRICES OF UNFINISHED COTTON TEXTILES

	January 1949	December 1948	January 1948
Average, 17 constructions	65.04	65.78	99.25
Printcloths, average (6)	71.27	72.16	129.83
Sheetings, average (3)	58.26	58.25	81.69
Twill, average (1)	64.90	67.58	116.15
Drills, average (4)	57.01	57.70	73.18
Sateen (1)	89.52	91.81	128.15
Ducks, average (2)	60.41	60.23	63.16

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

DEPOSITS IN MUTUAL SAVINGS

8 Baltimore Banks

	Jan. 31, 1949	Jan. 31, 1948	Dec. 31, 1948
Total Deposits	$391,302,897	$390,743,417	$391,089,969

BUILDING PERMIT FIGURES

	Total Valuation Jan. 1949	Jan. 1948
Maryland		
Baltimore	$ 942,400	$ 3,976,810
Cumberland	30,650	43,260
Frederick	63,100	182,675
Hagerstown	45,405	42,750
Salisbury	77,423	43,970
Virginia		
Danville	126,847	211,749
Lynchburg	153,470	108.715
Norfolk	387,445	1,974,120
Petersburg	95,756	12,900
Portsmouth	116,795	147,140
Richmond	1,141,477	1,026,688
Roanoke	382,317	1,002,438
West Virginia		
Charleston	420,555	1,011,261
Clarksburg	42,750	12,665
Huntington	222,292	105,825
North Carolina		
Asheville	100,517	177,260
Charlotte	1,478,850	900,695
Durham	537,999	457,090
Greensboro	334,225	1,425,810
High Point	136,430	342,766
Raleigh	209,805	702,485
Rocky Mount	70,367	70,450
Salisbury	41,500	30,400
Winston-Salem	288,123	299,066
South Carolina		
Charleston	392,695	134789
Columbia	224,885	260,390
Greenville	902,200	281,600
Spartanburg	258,110	106,100
District of Columbia		
Washington	3,517,050	5,541,570
District Totals	$12,741,438	$20,633,437

SOFT COAL PRODUCTION IN THOUSANDS OF TONS

REGIONS	January 1949	January 1948	% Change
West Virginia	13,825	15,595	— 11
Virginia	1,394	1,789	— 22
Maryland	77	159	— 52
Fifth District	15,296	17,543	— 13
United States	47,170	55,780	— 16
% in District	32.4	31.5	

Source: Bureau of Mines.

TOBACCO MANUFACTURING

	January 1949	January 1948	% Change
Smoking & Chewing tobacco (Thousands of lbs.)	14,679	15,689	— 7
Cigarettes (Thousands)	28,005,601	27,278,272	+ 3
Cigars (Thousands)	438,286	461,398	— 5
Snuff (Thousands of lbs.)	3,536	3,898	— 9

COMMERCIAL FAILURES

MONTHS	Number of Failures District	U.S.	Total Liabilities District	U.S.
January 1949	24	566	$530,000	$19,159,000
December 1948	22	531	531,000	31,731,000
January 1948	6	356	89,000	12,965,000

Source: Dun & Bradstreet.

WHOLESALE TRADE, 180 FIRMS

	Net Sales January 1949 compared with Jan. 1948	Dec. 1948	Stock Jan. 31, 1949 compared with Jan. 31 1948	Dec. 31 1948
LINES				
Auto Supplies (6)*	—19	+16	+14	— 5
Electrical Goods (8)*	— 8	—14	+22	+ 3
Hardware (9)*	— 8	+ 3	+35	— 1
Industrial Supplies (4)*	— 4	0	+ 7	+12
Drugs & Sundries (8)*	+ 6	+15	0	+ 2
Dry Goods (10)*	—34	—16	— 2	+ 7
Groceries (50)*	—10	— 1	+ 1	+ 6
Paper & Products (6)*	—17	— 1	....	....
Tobacco & Products (8)*	— 2	—20	+13	— 9
Miscellaneous (71)*	— 6	+19	+ 2	— 6
District Average (180)*	— 8	+ 4	+12	— 1

Source: Dept. of Commerce.

* Number of reporting firms.

RETAIL FURNITURE SALES

STATES	% Change January 1949 from January 1948
Maryland (5)*	— 5
District of Columbia (6)*	+26
Virginia (18)*	— 7
West Virginia (9)*	—33
North Carolina (12)*	—13
South Carolina (9)*	—19
Fifth District (59)*	— 3
INDIVIDUAL CITIES	
Baltimore, Md. (5)*	— 5
Washington, D. C. (6)*	+26
Lynchburg, Va. (3)*	+ 4
Richmond, Va. (6)*	— 5
Charleston, W. Va. (3)*	+24

* Number of reporting stores.

DEPARTMENT STORE TRADE

	Richmond	Baltimore	Washington	Other Cities	District
Percentage change in Jan. 1949 sales, compared with sales in Jan. '48:	— 6	— 3	+ 2	+ 2	— 1
Perctge. change in stocks on Jan. 31, 1949, compared with Jan. 31, '48:	—16	+ 1	— 4	— 3	— 4
Perctge. change in outstanding orders Jan. 31, 1949, from Jan. 31, 48:	—32	—39	—44	—27	—39
Perctge. chg. in receivables Jan. 31, 1949, from those on Jan. 31, '48:	+ 6	+14	+23	+11	+16
Percentage of current receivables as of Jan. 1 collected in January:	34	47	43	44	42
Percentage of instalment receivables as of Jan. 1 collected in January:	15	19	18	20	18

	Maryland	Dist. of Col.	Virginia	W. Virginia	No. Carolina	So. Carolina
Percentage change in Jan. 1949 sales from Jan. 1948 sales, by States:	— 3	+ 2	— 4	+ 4	— 7	+ 6

NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

Industrial production showed little change in January, continuing somewhat below the peak of last October and November. Employment in manufacturing showed a marked decline. Value of department store sales showed a larger decline than usual in January and the first three weeks of February. Prices of agricultural commodities decreased further but recovered part of their declines in mid-February. Prices of some industrial products were reduced further.

Industrial production

The Board's seasonally adjusted index of industrial production was 191 per cent of the 1935-39 average in January, as compared with 192 in December, 195 in November, and 193 in January 1948. Activity in durable manufacturing industries decreased slightly in January, while nondurable goods production was somewhat above the December rate. Output of minerals declined 3 per cent.

Steel production rose 2 per cent in January to capacity levels and was at the highest rate on record. Activity in the automobile industry also expanded, reflecting mainly increased production of trucks and of parts for new model passenger cars. Output in the steel and automobile industries has been maintained at the advanced January rate in February. Activity in machinery industries decreased about 4 per cent in January, reflecting reductions in industrial equipment as well as household appliance lines. Lumber production showed a substantial decline, in part because of unfavorable weather conditions in the Northwest, and activity in the furniture industry declined 6 per cent. Output of most other durable goods was maintained at about the December level.

According to preliminary indications, output of nondurable goods showed a slight increase in January. Activity at cotton textile, paper, and paperboard mills was above the reduced December rate. Newsprint consumption showed less than the usual seasonal decline. Activity in the petroleum refining, chemicals, and rubber products industries, on the other hand, was reduced somewhat. Output of manufactured food products showed the usual large seasonal decline.

Crude petroleum production declined 3½ per cent in January and was curtailed further in the early part of February, as stocks of crude and refined products continued to rise. Anthracite production was curtailed sharply in the latter part of January and early February, mainly because of unusually mild winter weather in the East. Output of bituminous coal and of metals was maintained in January at the reduced level of the preceding month.

Employment

Employment in nonagricultural establishments showed more than the usual large seasonal decline in January and was 250,000 less than in January 1948, reflecting mainly reduced employment in most manufacturing industries. The number of persons unemployed increased by 700,000 in January and was substantially above the level of a year ago.

Construction

Value of construction contract awards, according to reports of the F. W. Dodge Corporation, dropped sharply in January, with marked declines in most classes of construction. The number of new dwelling units started in January, as estimated by the Bureau of Labor Statistics, was 50,000 units as compared with 56,000 in December and 53,000 in January 1948.

Distribution

Value of merchandise sold at department stores, despite a large number of special sales, showed more than the usual seasonal decline in January. The Board's adjusted index was 290 per cent of the 1935-39 average, as compared with 309 in December and 286 in January 1948. Sales during the first three weeks of February were 4 per cent smaller than in the corresponding period last year.

Carloadings of railroad freight generally declined further in January and the early part of February and were about 10 per cent below a year ago. Declines in rail freight from the levels of a year ago have resulted in part from diversion of shipments to other forms of transportation.

Commodity prices

Following marked declines in January, prices of farm products and foods dropped further in the early part of February but in mid-February returned to the levels prevailing at the beginning of the month. Prices of some industrial commodities including scrap metals, alcohol, and rayon and petroleum products, were reduced further in February, while prices of most other industrial items continued to show little change.

Retail food prices continued to decline from mid-January to mid-February, reflecting mainly further sharp decreases in meat prices. In the latter part of February wholesale prices of meats showed some advance from the earlier low points which were one-fourth below the record levels prevailing last summer.

Bank credit

Seasonally large Treasury tax receipts increased Treasury deposits at the Reserve Banks in the latter part of January and the first half of February. This reduced deposits and reserves of commercial banks, and banks sold short-term Government securities and drew down their excess reserves. Reserve Bank holdings of Government securities increased as purchases of short-term securities exceeded further sales of bonds.

Business loans at banks in leading cities declined somewhat during the last half of January and the first half of February. Holdings of Government securities were reduced, reflecting sales of short-term securities. Banks outside New York City increased considerably their portfolios of Treasury bonds.