



FEDERAL RESERVE BANK OF RICHMOND

RICHMOND 13, VIRGINIA

JULY 31, 1949

Business Conditions and Prospects

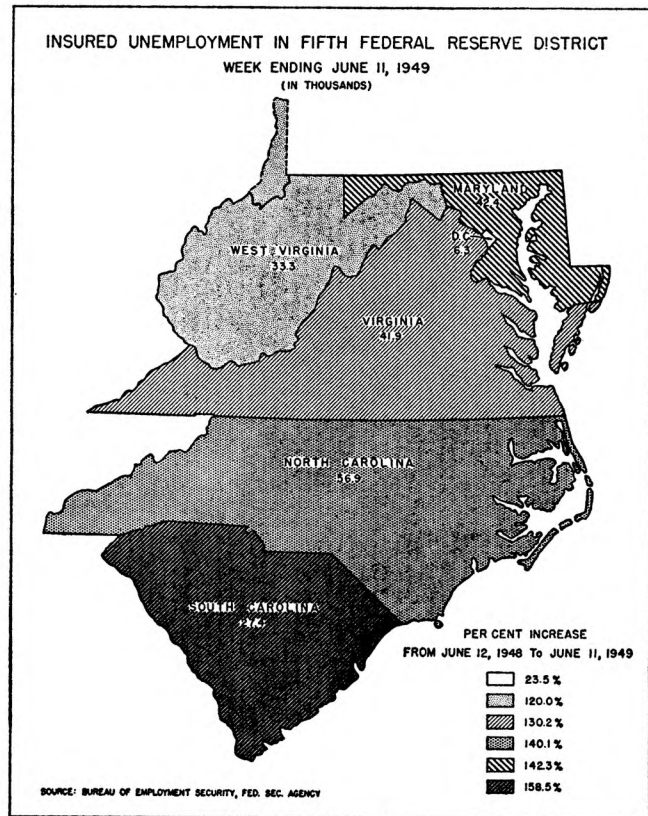
IN his Midyear Economic Report to Congress on July 11, 1949, President Truman stated that "In recent months we have seen the abatement of postwar inflationary forces. We are now in a transition period . . . Employment is still high, but unemployment has been increasing . . . Production is still high, but it is lower, particularly in some industries than it was last year. Business investment is at a high rate, but plans for new investments are being made with caution . . . Many of the price adjustments that have taken place have been healthy . . . But there is nothing healthy about unemployment or less production."

The dominant question of the day is whether or not the national economy is facing more recession. The following excerpt from a recent newspaper report is indicative of the difficulty in answering this question: "A feeling of cautious uncertainty, brightened by occasional touches of optimism, persists among business men in this area."

The foregoing might be applied to the business sentiment throughout the country as a general description of the economic outlook. On balance, however, it is clear that in recent weeks expressions of cautious optimism have become more prevalent. This feeling has been well expressed in a letter to this bank from a leading business executive who points out that "In all events, price and business adjustments will continue for the next few months. After the long rise in prices and increase in national income that has taken place over the past several years, we can hardly expect the necessary readjustments to be completed in a few months . . . However, I see some evidences of the possibility that by the end of the year business will pick up, production and traffic increase and a rebound from the present rather low state of psychology."

Unemployment

As the accompanying Fifth District map shows, insured unemployment registered increases during the year ended June 11, 1949 that ranged from 23.5 per cent in the District of Columbia to 158.5 per cent in South Carolina. For the district as a whole the increase of 131 per cent was considerably higher than the increase of 83.6 per cent recorded for the entire country. In this connection it is to be noted that the heaviest declines in post-war employment throughout the nation have occurred in the textile industries and



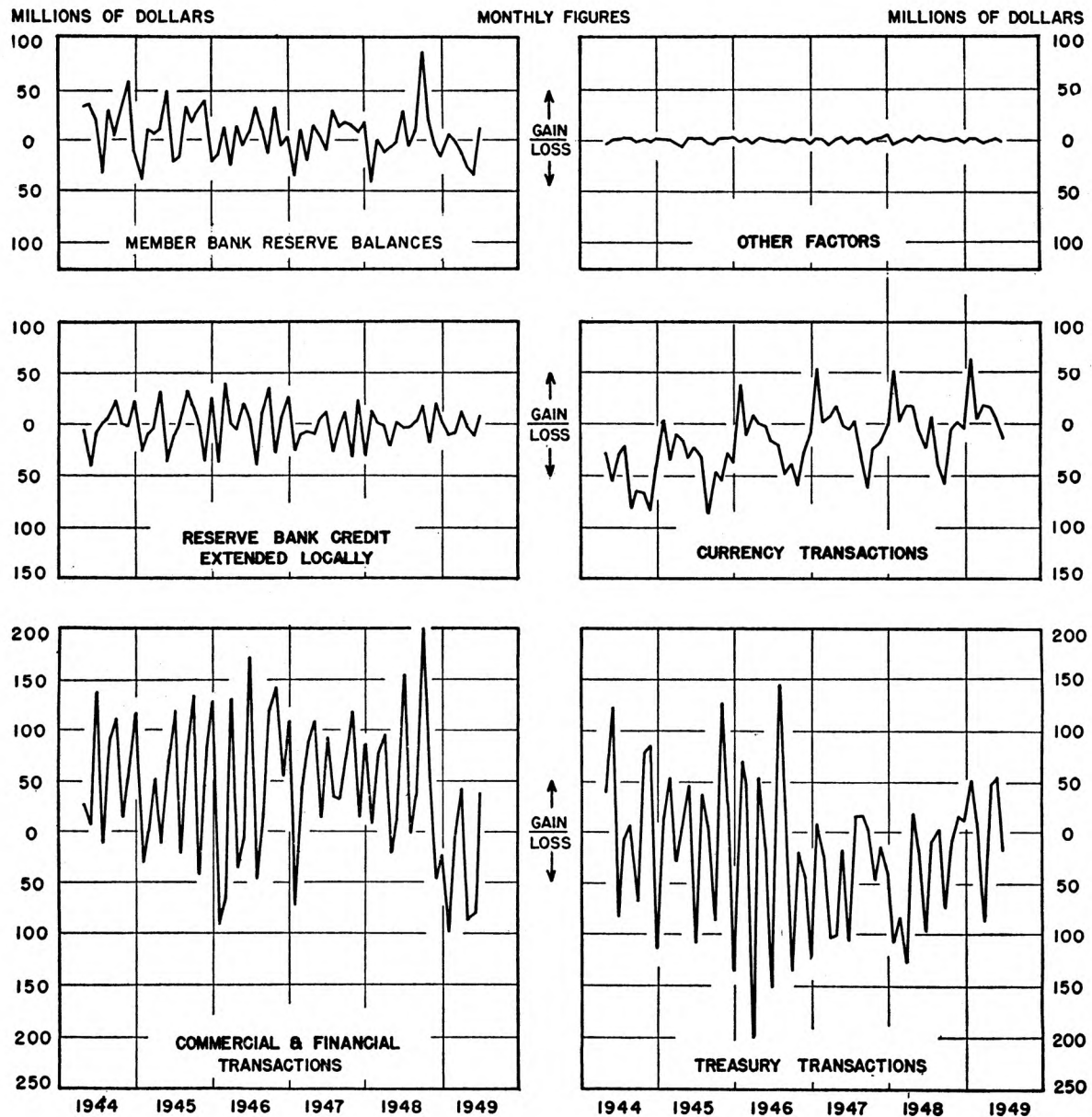
in the metals group, exclusive of automobiles. Of these two, textile-mill products alone account for around 35 per cent of the total number of manufacturing production workers employed in the Fifth District. Obviously, a curtailment of production and employment in this industry hits Virginia, North and South Carolina unusually hard.

Other industries which have had relatively large declines in employment include food and furniture. Based on the 1947 Census of Manufactures, the four industrial groups noted account for over 50 per cent of production workers in this district.

A significant aspect of unemployment in the district as a whole is the fact that the downturn in employment in some of our most important lines occurred much earlier than the date at which the post-war peak in employment in all manufacturing industries was reached throughout the country. In other words, the period of adjustment in these industries following the first

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CHART I
 CHANGES IN RESERVES AND IN COMPONENT FACTORS
 FIFTH FEDERAL RESERVE DISTRICT



The Balance of Payments of the Fifth Federal Reserve District---I

The interregional balance of payments of the Fifth Federal Reserve District should be of particular concern to bankers and businessmen in this area, for it is a reflection of the growth and status of the economy of the District. Just as the balance of payments accounts of the various nations reflect the basic changes in the economies of those nations so does the balance of payments account of any given region reflect the basic structural changes within that region. In fact, there may even be a rather close parallel between shifts in the debtor-creditor status of various countries and shifts in the debtor-creditor position of regions within the United States. In the past it has been customary to consider the Fifth District a "debtor" region, but there has never been sufficient empirical data to support this assumption. Although it is not possible to construct for any Reserve district a complete balance of payments account (which would include all of the inward or outward payments made across a district's boundaries) and therefore to establish definitely its debtor-creditor status, available data on commodity and money flows between the Fifth Federal Reserve District and other areas may serve to throw some light on the District's interregional position.

Ideally, an interregional balance of payments account between a given Reserve district and the rest of the United States would be broken down as to (1) commodity trade, (2) private capital flow, (3) government and fiscal operations, (4) service transactions, and (5) miscellaneous items. Thus, in approaching the question of the Fifth District's balance of payments, it is obvious that the most desirable approach would be a precise determination of the District's debits and credits in each of these categories. However, it is very difficult to obtain a satisfactory record of commodity movements between districts within the United States; and it is even more difficult, if not impossible, to segregate capital flows from payments arising from commodity movements. Nevertheless, it is possible to approach the interregional balance of payments of any Reserve district by (1) tracing the gain or loss of bank reserves between districts which undoubtedly serve to effect an equilibrium in the interregional balance of payments between districts, and (2) examining directly the commodity movements between a given district within the United States and outside.

In this article it is proposed to examine briefly the net interdistrict flow of reserve funds which represents the mechanism of interregional adjustment. In a subsequent article it is hoped that this examination of money flows may be followed with a more direct examination of the District's commodity trade account.

The Fifth District's Gains and Losses of Reserves

From the statistical record, it is apparent that the Fifth District has experienced a substantial loss in reserve funds in the first half of 1949. From December 31, 1948, through June 30, 1949, member bank reserve balances in the Fifth District declined approximately \$92 million. However, changes in member bank reserve funds in a given district reflect both the interregional movements of funds on commodity and capital accounts and intra-regional movements of funds. In other words, there may be a drain of reserves from one region to another due to a loss on commercial and financial account; or changes in reserve balances may simply reflect purely intra-regional factors such as the local extension of Reserve Bank credit and the dishoarding of currency within a region.

Thus, a closer examination of the factors contributing to the loss in reserve balances in the Fifth District thus far in 1949 reveals that the District had a much larger loss on commercial and financial account with other districts than its net loss of reserve balances. In the first half of 1949, the District lost over \$200 million of reserve funds on commercial and financial transactions with other districts. This loss was partly offset by (1) the Treasury's spending more in the Fifth District than it was absorbing via taxes, thereby adding to reserve funds, and (2) a continued inflow of currency from circulation. (See Table I.)

TABLE I
CHANGES IN FACTORS AFFECTING RESERVES
FIFTH FEDERAL RESERVE DISTRICT
DECEMBER 31, 1948 — JUNE 30, 1949

| | Change |
|---|-----------|
| Member bank reserve balances | — 91,717 |
| Factors accounting for change: | |
| Reserve Bank credit extended locally | — 12,453 |
| Commercial and financial transactions | — 200,622 |
| Treasury transactions | + 42,162 |
| Currency transactions | + 72,984 |
| Other factors | + 6,212 |

Source: Federal Reserve Bank of Richmond.

Explanation of Factors

Reserve Bank Credit Extended Locally represents credit extended by the Reserve Bank within this District to banks (both rediscounts and advances) and to other qualified borrowers under Sections 13A and 13B [which permit (1) rediscounts for Federal Intermediate Credit Banks, (2) direct loans to industrial and commercial concerns for working capital purposes, etc.]. This factor also represents the change in net float of the Reserve Bank (in other words, the excess of uncollected items over deferred availability items) which represents credit extended by the Reserve Bank without the acquisition of an earning asset. Increases in this factor then normally serve to increase member bank reserves.

Commercial and Financial Transactions represent the gain or loss in reserve funds in settlement of commercial and financial transactions with other districts. Domestic payments between individuals and corporations in different Reserve districts are carried out for the most part by transfers in bank accounts, and indebtedness growing up between various districts is usually liquidated by means of payments through banks. These payments are normally credited through the Interdistrict Settlement Fund, which effects settlements between Federal Reserve Banks arising from the collection of checks and other items between districts. This factor then represents the net of the aggregate of all trade and financial payments between districts as reflected in transit clearings through the Settlement Fund (adjusted for non-commercial transactions between Reserve Banks).

Treasury Transactions represent the net increase or decrease in reserve balances due to Treasury receipts and expenditures affecting reserve balances in the district. Treasury receipts from tax payments and subscriptions to security issues increase the Treasury deposits in the Federal Reserve Banks and decrease member bank reserve accounts. Similarly, Treasury checks, coupons, and matured obligations are charged against Treasury deposit accounts at the Reserve Banks and are credited to member bank reserve accounts. On balance, the sum of these transactions, as reflected in the Treasury deposit account at the Federal Reserve Bank, represents the Treasury's receipts-expenditure pattern for this District affecting member bank reserve balances.

Currency Transactions represent an approximation of changes in the amount of money in circulation in this District which has an inverse effect on bank reserves. Additions to circulation generally occur through shipments of money upon request of member banks with their reserve accounts being decreased correspondingly. Similarly, shipments of currency from banks to the Federal Reserve Banks result in credits to member bank accounts. Although there is no way of measuring accurately those currency movements between districts which are affected outside of the banking system, this factor roughly approximates the gain or loss in reserve balances due to changes in the demand for currency and coin within this District.

Other Factors represent net change in capital accounts and miscellaneous liabilities and in bank premises and miscellaneous assets of the Federal Reserve Bank.

It is interesting to note that the loss of reserve funds on commercial and financial account with other Reserve districts and the gain of reserve funds due to Treasury transactions (i. e., Treasury expenditures—Treasury receipts) in the first half of 1949 is in contrast to the historical record of the District's experience in the immediate prewar, wartime, and postwar period to the end of 1948. In the period from 1935 to 1948, the District consistently gained reserve funds on commercial and financial account with other districts. Offsetting this inflow of reserve funds on commercial and

financial account with other districts, the Fifth District regularly experienced a drain in reserve funds due to Treasury transactions. In other words, in spite of the relatively high Government expenditures in this District during the war years, the Treasury was consistently drawing reserve funds from this District, as is evident in Chart I.

A plausible explanation for this normal pattern of gain on commercial and financial account and loss on Treasury account may be found in the fact that the excise taxes on tobacco, which is one of the Fifth District's principal manufacturing industries, are paid at the source and enter into the supply price of the commodity when exported. Therefore, this results in a higher favorable balance on commercial account with other districts, and at the same time results in the Treasury's drawing funds from the District due to the concentration of these collections in this District. Thus, both the normal inflow on commercial and financial account and outflow on Treasury account are probably exaggerated by the effect of the excise taxes, particularly the excise tax on tobacco since the latter industry is of major importance in this District.

Although it should be recognized that the movements in reserve funds indicated in Chart I may be in part seasonal (and pronounced seasonal movements are apparent in this chart) and may in part represent temporary and long-term adjustments in the interregional balance of payments, it is obvious from the chart that the experience in the first half of 1949 is a distinct reversal of the historical pattern in gains and losses of reserve funds for the Fifth District. If this changing pattern marks the beginning of a trend toward a consistent loss on commercial and financial account only partly offset by a gain on Treasury transactions, it indicates some significant structural changes and perhaps a shift in the District's debtor-creditor position. In any case, the implications for the District could be rather serious if this drain of funds is prolonged for any period of time. For, in effect, this drain of reserve funds represents a loss in gold stock corresponding to an international loss of gold; and, therefore, the clear-cut implication is a shrinkage in the credit base of this District.

Similarly, it is interesting to note the directional movement in the gains or losses in reserve funds due to commercial and financial transactions with each of the other Reserve districts. In the first half of 1949, it appears that this District lost substantial amounts of reserve funds to the Chicago, Philadelphia, Atlanta, and St. Louis Reserve Districts. These losses in reserves were offset in large part by this District's drawing reserve funds from the New York Reserve District and by rather small gains in reserves from the other districts. (See Table II.)

TABLE II

FIFTH DISTRICT'S GAIN OR LOSS OF RESERVE FUNDS ON
COMMERCIAL AND FINANCIAL ACCOUNT WITH
OTHER FEDERAL RESERVE DISTRICTS
DECEMBER 31, 1948 — JUNE 30, 1949

(Thousands of Dollars)

| | |
|---|-----------|
| Commercial and financial transactions | —200,622 |
| Boston | + 60,097 |
| New York | + 464,027 |
| Philadelphia | —206,904 |
| Cleveland | + 14,160 |
| Atlanta | —153,968 |
| Chicago | —246,968 |
| St. Louis | —140,731 |
| Minneapolis | + 14,433 |
| Kansas City | + 3,667 |
| Dallas | + 11,033 |
| San Francisco | — 19,467 |

Source: Federal Reserve Bank of Richmond.

Finally, it should be noted that the gain or loss of reserve funds on commercial and financial account between the Fifth District and other districts has not been experienced with equal intensity throughout the Fifth District. From the record of commercial and financial transactions with other districts, the loss in reserve funds can be segregated to show the loss from the Head Office territory and the Baltimore and Charlotte Branch territories. Segregated on this basis, it appears that the Charlotte Branch territory actually registered a gain in reserves during the first half of 1949 while the Baltimore and Richmond territories shared rather equally in accounting for the Fifth District's loss in reserve balances. (See Table III.)

TABLE III

FIFTH DISTRICT HEAD OFFICE AND BRANCHES GAIN OR LOSS
OF RESERVE FUNDS ON COMMERCIAL AND FINANCIAL
ACCOUNT WITH OTHER FEDERAL RESERVE DISTRICTS
DECEMBER 31, 1948 — JUNE 29, 1949

(Thousands of Dollars)

| | Richmond | Baltimore | Charlotte |
|---|-----------|-----------|-----------|
| Commercial and financial transactions | —121,644 | —166,566 | + 94,350 |
| Boston | + 38,131 | + 5,844 | + 17,433 |
| New York | + 146,105 | — 50,986 | + 394,097 |
| Philadelphia | — 82,680 | — 61,571 | — 67,134 |
| Cleveland | — 4,651 | + 42,988 | — 29,705 |
| Atlanta | — 31,441 | + 33,594 | —163,741 |
| Chicago | —142,102 | —119,939 | + 13,403 |
| St. Louis | — 64,415 | — 5,274 | — 71,935 |
| Minneapolis | + 16,337 | — 4,335 | + 2,943 |
| Kansas City | + 1,202 | + 5,012 | — 2,153 |
| Dallas | + 19,082 | — 3,092 | — 4,281 |
| San Francisco | — 17,212 | — 8,807 | + 5,423 |

Source: Federal Reserve Bank of Richmond.

It is also apparent from Table III that there is considerable variation in the flow of funds between the Richmond Head Office and the Baltimore and Charlotte Branches and the various other Reserve districts. For example, the Baltimore territory is gaining funds from Cleveland and Atlanta, while the Richmond and Charlotte territories lose to these Districts. Likewise, the Charlotte Branch registers a slight gain in reserve funds from the Chicago District, while Richmond and Baltimore experience heavy losses.

Reserve Balance Changes—Fifth District and United States

The preceding discussion of recent changes in the Fifth District's reserves has concentrated on the factors affecting the District's reserve position without reference to the changing level of reserve balances in the country as a whole. Although these changes are distributed between reserve regions principally through the net interdistrict flow on commercial and financial account, a lag in the distribution of funds—or uneven distribution—may result in a District *directly* gaining reserves from (or losing reserves to) other regions yet not gaining or losing *relatively* to the country as a whole. Thus this relationship between the District's changes in reserve balances and the overall change in reserve balances of all member banks in the United States may be an important consideration.

Numerous difficulties arise in making a comparative analysis of factors affecting reserves in the Fifth District and the United States. For example, Reserve Bank credit extended locally is not comparable with total changes in Reserve Bank credit. (This District's immediate participation in the System Open Market Account is allocated and does not represent an immediate change in reserve funds.) However, since increases in total Reserve Bank credit should accrue to individual Reserve districts outside New York through the interdistrict commercial and financial transactions factor, it is possible to make a rough comparison of factors affecting reserves in the Fifth District and the United States by combining changes in gold stock with Reserve Bank credit affecting reserve balances of all member banks, and by combining Reserve Bank credit extended locally with commercial and financial transactions in the analysis of factors affecting reserve balances in the Fifth District.

Using this rough method of comparing the Board of Governors' statement of factors supplying and using reserve funds of all member banks with the regional factors statement for the Fifth District, some significant differences may be noted. (See Table IV.)

- (1) In the immediate postwar period through 1948, the District did not share proportionately (in terms of its holdings of total member bank balances) in the increase in member bank reserve balances in the country as a whole.
- (2) In spite of the loss of reserve balances on interdistrict commercial and financial account in the first half of 1949, the Fifth District did not experience a proportionate drop in reserve balances relative to that in the United States. Thus, the District's proportion of total member bank reserves increased from 4.07 per cent

on December 31, 1948, to 4.23 per cent on June 30, 1949.

- (3) During the whole postwar period, excepting the last six months, the District gained reserves relatively due to extensions of Reserve Bank credit and inflow of gold, but lost reserves relatively due to Treasury activities and outflow of money in circulation.

Conclusion

This initial appraisal of the Fifth District's balance of payments from the standpoint of the interdistrict movement of reserve balances (with particular reference to the flow on commercial and financial account) requires considerably more interpretation of the underlying factors, namely, commodity and capital flows. Some explanation of these flows of funds between the Fifth District and outside may result from an examination of the District's commodity trade account. Therefore, a subsequent article dealing with the commodity trade account, the principal item in the District's balance of payments, may furnish some clues as to the why of these money flows and constitute another step toward determining the interregional balance of payments of the Fifth Federal Reserve District.

TABLE IV
COMPARISON OF FACTORS AFFECTING RESERVE BALANCES
UNITED STATES AND FIFTH DISTRICT
1944 — JUNE 1949

| | Total member bank reserves | Member bank reserve balances bank change | Factors accounting for change: | | |
|----------------------------------|----------------------------|--|------------------------------------|-------------------------------------|--|
| | | | Reserve Bank credit and gold stock | Treasury deposits with F. R. banks* | Non-member deposits in and out of F. R. accounts |
| (In millions of dollars) | | | | | |
| 1944 | | | | | |
| United States | +1,319.0 | +5,779.0 | +351.0 | -4,890.0 | +79.0 |
| Fifth District..... | +92.1 | +537.7 | +47.7 | -491.7 | +1.6 |
| 5th Dist. as % of U. S. ....4.38 | 7.0 | 9.3 | 13.6 | 10.1 | |
| 1945 | | | | | |
| United States | +1,979.0 | +4,823.0 | +105.0 | -3,165.0 | +214.0 |
| Fifth District | +90.5 | +537.3 | -39.2 | -405.0 | +2.6 |
| 5th Dist. as % of U. S. ....4.59 | 4.6 | 11.1 | | 12.8 | |
| 1946 | | | | | |
| United States | +239.0 | -290.0 | +622.0 | -460.0 | +368.0 |
| Fifth District | +5.8 | +498.5 | -303.6 | -184.3 | +2 |
| 5th Dist. as % of U. S. ....4.54 | 2.4 | | | 40.1 | |
| 1947 | | | | | |
| United States | +1,842.0 | +1,514.0 | +486.0 | -19.0 | -138.0 |
| Fifth District | +51.7 | +583.7 | -467.2 | -81.8 | +7.0 |
| 5th Dist. as % of U. S. ....4.32 | 2.8 | 38.6 | | 430.5 | |
| 1948 | | | | | |
| United States | +2,339.0 | +2,414.0 | -383.0 | +543.0 | -235.0 |
| Fifth District | +38.6 | +556.8 | -483.8 | -44.8 | +10.4 |
| 5th Dist. as % of U. S. ....4.07 | 1.7 | 23.1 | 126.3 | | |
| 1949 (through June) | | | | | |
| United States | -2,225.0 | -4,008.0 | +803.0 | +899.0 | +81.0* |
| Fifth District | -61.6 | -209.3 | +53.7 | +89.9 | +4.1 |
| 5th Dist. as % of U. S. ....4.23 | 2.8 | 5.2 | 6.7 | 10.0 | 5.1 |

*Adjusted for changes in Treasury cash and Treasury currency.
Source: Federal Reserve Bank of Richmond.

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

| | June 1949 | May 1949 | Apr. 1949 | June 1948 | % Change—Latest Month | |
|---|-----------|----------|-----------|-----------|-----------------------|----------|
| | | | | | Prev. Mo. | Year Ago |
| Automobile Registration ¹ ..... | ..... | 197 | 179 | 105 | +10 | +86 |
| Bank Debits | 320 | 328 | 312 | 327 | -2 | -2 |
| Bituminous Coal Production | 118 | 187 | 179 | 166 | -37 | -29 |
| Building Contracts Awarded: | 335 | 287 | 363 | 335 | +17 | 0 |
| Commercial Construction Contracts | 266 | 573 | 1285r | 478 | -54 | -44 |
| Manufacturing Construction | 138 | 133 | 414 | 246 | +4 | -44 |
| Public Works and Utilities | 303 | 252 | 245 | 453 | +20 | -33 |
| Residential Construction Contracts | 441 | 314r | 304 | 271 | +40 | +63 |
| Apartments and Hotels | 1145 | 334 | 428 | 305 | +243 | +275 |
| One and Two Family Houses | 285 | 312 | 292 | 299 | -9 | -5 |
| Building Permits Issued | 479 | 342 | 285 | 441 | +40 | +9 |
| Business Failures — No. | 69 | 59 | 128 | 29 | +17 | +138 |
| Cigarette Production | 249 | 247r | 232 | 245 | +1 | +2 |
| Cotton Consumption | 115 | 111 | 111 | 148 | +4 | -22 |
| Cotton Spindle Hours | 119 | 115 | 112 | 155 | +3 | -23 |
| Department Store Sales ³ | 311 | 315r | 303r | 320r | -1 | -3 |
| Department Store Stocks | 311 | 303 | 315 | 323 | +3 | -4 |
| Electric Power Production ..... | ..... | 253 | 258 | 256 | -2 | 0 |
| Employment — Mfg. Industries ¹ ..... | ..... | 122 | 125 | 135 | -2 | -10 |
| Furniture Orders ³ ..... | ..... | 175r | 172 | 173 | +2 | -27 |
| Furniture Shipments ³ ..... | ..... | 202r | 217 | 248 | -7 | -23 |
| Furniture Unfilled Orders ³ ..... | ..... | 252r | 297 | 474 | -15 | -62 |
| Furniture Sales — Retail..... | 290 | 274 | 234 | 299 | +6 | -3 |
| Gasoline Consumption ..... | ..... | ..... | 210 | 200 | +3 | +7 |
| Life Insurance Sales | 242 | 253 | 249 | 253 | -4 | -4 |
| Wholesale Trade: | | | | | | |
| Automotive Supplies ² | 380 | 344 | 260 | 431 | +10 | -12 |
| Drugs | 270 | 266 | 268 | 260 | +2 | +4 |
| Dry Goods ³ | 128 | 166 | 156 | 175 | -23 | -27 |
| Electrical Goods ² | 73 | 90 | 77 | 77 | -19 | -5 |
| Groceries | 259 | 246 | 238 | 273 | +5 | -5 |
| Hardware | 122 | 139 | 124 | 175 | -12 | -30 |
| Industrial Supplies ² | 296 | 248 | 255 | 391 | +19 | -24 |
| Paper and Its Products ² | 135 | 129 | 125 | 161 | +5 | -16 |
| Tobacco and Its Products ² | 82 | 85 | 89 | 93 | -4 | -12 |

¹ Not seasonally adjusted.

² 1938-41 = 100

³ Revised Series—back figures available on request.

Business Conditions and Prospects

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phase of the post-war period was initiated earlier and is probably closer to completion than in many other lines of activity, particularly the durable goods industries.

Cotton Textiles

It has often been the role of the textile industry to lead the way in general cyclical fluctuations in business activity, entering the downward trend ahead of other major industries and completing the adjustment for an upturn before industry in general has touched bottom. It has already been pointed out that the downturn in the textile industry antedated the current general recession, and it has been suggested in these columns during the past two months that improvements in textile production might be looked for this fall.

This opinion is strengthened by recent activity in household fabrics. During the week ended July 16 suppliers of both branded and unbranded sheets and pillowcases shortened their discounts on the Type 128 sheets, effecting increases in list prices that ranged from 1 to 1½ per cent. Several unbranded manufacturers raised slightly prices on Type 140 sheets; and, at that time, expectations were that new price advances could develop within a few weeks. The significant point of this minor price movement lies in the unexpectedly heavy volume of orders received by mills on the heels of the new price quotations. Although the majority of sales have been for August delivery for participation in white sales, a number of sellers report orders for September delivery.

Increasing activity in the print cloth market during the week ended July 16 was followed by a firming of prices as a number of mills reported refusing orders at prices below the current quotations. The latest available information states that print cloth deliveries are beginning to tighten for spot and nearby dates. It is felt that this indication of improvement in the textile industry may carry over into the cotton yarn market which has been probing for a bottom in prices and demand for a number of months.

Our textile industry correspondents are in almost complete agreement that excess inventories have been largely liquidated and that, with the current production curtailments and satisfactory unit volume of retail sales, it is reasonable to assume that improvements in mill volume will soon be forthcoming.

Rayon

Continuing the month-to-month improvement noted here last month, deliveries of rayon yarn and staple fiber for the United States in June (see table on page 11 of this publication) were 14 per cent above the May figure. Compared with June 1948, however, shipments were off 27 per cent. Similarly, total rayon deliveries for the first six months of this year fell 23.5 per cent below the figure for the corresponding period of 1948. *Rayon*

Organon reports that as of June 30, producers' stocks of rayon yarn and staple amounted to 69.2 million pounds, composed of 33 million pounds of viscose and cupra filament yarn, 17.3 million pounds of acetate yarn, and 18.9 million pounds of staple. Thus, total stocks of rayon yarn were 429 per cent higher than they were at the end of June 1948, while staple fiber stocks were up 350 per cent.

The only type of rayon yarn and staple fiber for which deliveries during the first six months of this year exceeded shipments in the comparable period of 1948 was high tenacity viscose yarn. The increase of 15 per cent was due to the increasing use of this yarn in the production of tire cord and fabric. Rayon and nylon tire cord and fabric output during the first quarter of this year amounted to a record 69 million pounds, accounting for 54 per cent of the total production of tire cord and fabric; cotton and chafer fabric accounted for 34 per cent and 12 per cent respectively.

Hosiery

Another industry that is glad to have seen the passing of the second quarter of the year with its severe price declines and curtailments of output of selected items is the hosiery industry. Of the two branches of this industry, the seamless type had the pipelines from manufacturer to consumer filled fifteen months ago. As a consequence of the rapidity with which machines of all types were placed into production following the war, a tremendous over-production ensued which has plagued the seamless producers down to the present time. In fact, although a considerable number of the machines added have been taken out of production during the past several months, it is likely that curtailed operations will continue until more of the marginal producers have been forced out of the picture. Indications are, however, that wholesalers and retailers have reduced their inventories to such an extent that substantial improvements in both fall and spring business may be anticipated.

About eight months ago improvements in the fiber supply as well as installations of new semi-automatic long section machines brought about over-production in the full fashioned branch of the industry. The effect has not been so serious with respect to volume of operations, but this branch has suffered from a drastic price adjustment of approximately 40 per cent. Currently, most of the mills in this district are running their 51 gauge equipment full time, but the demand for 45 gauge 30 denier hose has been greatly reduced during recent months.

Representatives of the industry in this district are of the opinion that the price structure is now fairly well stabilized. One of our leading manufacturers

reports, "I believe this price adjustment has about reached the bottom and that our industry will recover slowly from this point. Inefficient manufacturers and those who have not purchased modern labor-saving machinery will fall by the wayside." Another producer points out that although the price movement of full fashioned hosiery has been drastically downward for the past six months, "we feel that prices will soon level off . . . In view of our optimism for fall business we have not planned any further curtailment.

Bituminous Coal

Contending that overproduction in the coal industry had "created menacing instability," Mr. John L. Lewis ordered all hard and soft coal miners to observe "a brief stabilizing period of inaction" during the week beginning June 13. Only one week of work followed this lay-off before many of the mines in this district shut down for a vacation period extending from June 25 to July 4. This, in turn, was followed by the beginning on July 5 of the three-day work week in bituminous mines.

As a result of the work stoppage and vacation period, coal output in the Fifth District during June was about 37 per cent less than in the preceding month, after seasonal adjustment. Curtailment of output will continue with the short work week which Mr. Lewis has stated will prevail until further notice, presumably until new wage contracts are signed or until business conditions in the bituminous coal industry improve to the satisfaction of the labor representatives.

For the first six months of this year, however, output of soft coal in this district was only 2 per cent less than in the comparable period of 1948, as compared with a national reduction of 11 per cent. The 85.7 million tons mined in the Fifth District during the first half of this year was 34 per cent of the total bituminous production in the country.

It has been estimated that under the short week, national production will average slightly more than 35 million tons a month. Consumption, including exports, will total about 45 million tons, and if the short work-week continues, the national coal inventory would amount to about 17.5 million tons by the end of November. Although industrial stocks of bituminous coal at the beginning of June averaged 73 days' supply, there was a wide disparity in holdings. No single industrial group, except electric power utilities, had as much as the average supply; retail dealers, for example, held only a 15-day supply.

Construction

According to the F. W. Dodge Corporation, construction contracts awarded during June showed little change in total amount from the June 1948 figures in either the Fifth District or in all states east of the Rockies. Some of the largest projects included in the June awards in this district were apartment buildings and a dam and reservoir in Virginia; 45 apartment buildings in Prince George County in Maryland; 44 apartment

buildings in Guilford County, North Carolina; and 40 apartment buildings in Richland County, South Carolina.

For the first six months of this year total building contracts awarded in the district were off 12 per cent from the comparable period of 1948. Residential construction contracts, which comprised 38.4 per cent of the total, were down 10.7 per cent from the first six months of 1948; non-residential, accounting for 40.2 per cent of the total building contracts awarded, showed a negligible change; and public works, making up 21.4 per cent of the total, showed a decline of 31.7 per cent from the 1948 figures.

In this field a very significant feature is the prospective growth in volume and importance of state and local government outlays. Private construction programs are already suffering curtailment, and state and municipal capital outlays should serve as an important offset to consequent declines in income during the year ahead. Historically, capital expenditures of state and local government have risen and fallen with the fluctuations in private investment outlays. Now the prospect is that state and municipal spending will be an important counter-cyclical factor.

This should be particularly marked in the Fifth District. Maryland, for example, has a four-to-five year program for overhauling its 4,500 miles of roads that will entail \$200 million. Of this amount, a bond issue of \$100 million has already been authorized and an initial installment of \$22.5 million was sold on July 15. The Virginia State Highway Commission expects to offer for sale, after Labor Day, \$18.5 million of revenue bonds for the purpose of financing a new bridge at Yorktown and the acquisition of the James River Bridge System and the Chesapeake Bay Ferries. West Virginia has just sold an initial installment of \$4.5 million of bonds of an authorized issue of \$50 million for secondary farm-to-market roads. Similarly, South Carolina is expected to issue \$5 million of highway bonds during the second half of the year. The State of North Carolina is entering the bond market this year for the first time in several years. It is expected that before the end of the year \$82.5 million of bonds will have been sold to finance the initial projects of a \$233 million program for improvements and new construction of highways, harbors, and schools. Outlays of such magnitudes will constitute a major element of strength in the economy of the Fifth District during the next twelve months.

Furniture

The spotty business sentiment earlier described was in clear evidence at the furniture markets held during July in High Point, Chicago, Grand Rapids, and New York. Uncertainties existing at the retail level were indicated by the reluctance of dealers to anticipate fall needs; buying was limited to immediate requirements with the average dealer placing orders for his needs from 30 to 60 days. Conflicting views concerning fall prospects were expressed by manufacturers, but the weight of opinion appeared to hold that the low point

has been passed and that production will show an upturn over the first half of this year that may measure as much as 20 per cent.

Manufacturers' shipments for the first five months of this year averaged around 28 per cent below 1948. Due to the decline in demand, many producers have been operating less than 40 hours a week. However, there are indications that this fall will witness the seasonal upturn in furniture business that was characteristic of pre-war years. If this materializes, it is believed that a majority of the manufacturers will be able to maintain normal work weeks throughout the fall period.

According to well-informed furniture dealers and manufacturers, the price level as a whole is approximately 10 per cent below what it was in January. In addition, the improved quality of the products represents an increase in value of from 10 to 20 per cent. In the judgment of most manufacturers, the price decline and the improvement in quality exceed cost reductions from lower cost of materials and from improved techniques. One of the district's leading furniture manufacturers holds that "Price corrections in furniture have taken place to the full extent that they can, unless material or labor costs come down . . . most concerns are now operating on a very narrow margin and must have a reasonable volume of business in order to enjoy that margin."

Retail Trade

The latest available figures for department store sales show the Fifth District to be continuing its better-than-average performance. For the four weeks ended July 16 it was the only Federal Reserve District to show a gain in sales over the comparable period of 1948. Whereas declines ranged from 3 per cent to 11 per cent in department store sales in the other districts, a gain of 1 per cent was recorded by the reporting stores in the Fifth District.

Preliminary retail trade data for June show that changes from a year ago in cities throughout the district range from a decline of 12 per cent to a gain of 9 per cent. For the district as a whole, retail trade for the first six months of this year was only 2 per cent under that of the same period in 1948; for the nation the decline was about 4 per cent. The district's average was boosted mainly by the gain of 2 per cent in the relatively large volume of sales of Washington stores, but gains were also realized in Raleigh; Charleston, South Carolina; Columbia; and Charleston, West Virginia.

Agriculture

Harvest of wheat and other small grain is now virtually complete in the Fifth District. Yields were variable, but for the district as a whole they averaged approximately the same as last year. About 26.3 million bushels of wheat were harvested, which was about equal to the 1948 production. Oats production was 38.3 million bushels, an increase of 36 per cent over

1948, and barley production increased 10 per cent, totalling 7.9 million bushels this year. Total production of corn for grain in the district in 1949 is estimated at 178.9 million bushels, about one million less than last year. Yields are expected to average about the same as last year.

The Fifth District's production of flue-cured tobacco in 1949 will probably total 1,023 million pounds, an increase of nearly 5 per cent over 1948. Most of the increased production is due to a larger acreage. Yields, except in South Carolina, are below those of 1948. However, yields for 1949 will probably average about 1,230 pounds per acre and be second only to the 1948 yield of 1,246 pounds.

Exports of flue-cured tobacco from the United States in 1949 are expected to exceed last year although it is not known what effect the recently announced austerity program of the British Government will have on United Kingdom imports of America tobaccos. A leading business executive in the industry in this district states that it is likely that British tobacco purchases from this country will approximate the earlier estimated requirements of 175 million pounds. He adds, "if their purchases should be materially reduced from this figure, it would necessarily have some tendency towards a weaker market and more tobacco would have to be taken in under the Government Loan Program than otherwise would be necessary."

Hatchery production in the district in the first six months of 1949 was a little over 125 million chicks. This was 28 per cent more than in the same period last year. Chick production for flock replacement is now complete in this area. The demand for chicks for commercial broiler production has weakened somewhat because of relatively low broiler prices. In the last two months broiler prices generally were nine to twelve cents a pound under prices at the same time a year earlier. Broiler prices this summer have been lower than prices of heavy hens a good part of the time; normally, the reverse condition prevails.

Summary

The foregoing comments have been based in large part on replies from prominent business executives to a request for their opinions concerning conditions and prospects in the industries of this district. While there was a natural divergence of views, the weight of opinion of our correspondents fell on the slightly optimistic side. About 70 per cent of the replies indicated the feeling that the low point had been reached in the particular industries covered. Within this group of replies some felt that although they could see no upturn in the immediate future, their particular industries would hold their own from this point on. A larger number felt that an upturn was in sight, basing their judgment on present trends and developments. Only 30 per cent of the businessmen contacted felt that the industries they represented still had some distance to go on the downward path of readjustment.

BUILDING PERMIT FIGURES

| | Total Valuation | |
|--------------------------|-----------------|---------------|
| | June 1949 | June 1948 |
| Maryland | | |
| Baltimore | \$ 6,147,350 | \$ 6,619,260 |
| Cumberland | 19,225 | 71,815 |
| Frederick | 70,475 | 451,735 |
| Hagerstown | 96,385 | 112,074 |
| Salisbury | 156,980 | 268,441 |
| Virginia | | |
| Danville | 65,156 | 379,953 |
| Lynchburg | 206,224 | 523,428 |
| Norfolk | 1,034,005 | 2,674,335 |
| Petersburg | 208,505 | 158,039 |
| Portsmouth | 176,705 | 164,070 |
| Richmond | 1,565,911 | 3,324,307 |
| Roanoke | 1,495,280 | 591,703 |
| West Virginia | | |
| Charleston | 451,084 | 1,719,480 |
| Clarksburg | 142,865 | 62,810 |
| Huntington | 441,509 | 2,388,325 |
| North Carolina | | |
| Ashville | 118,276 | 245,120 |
| Charlotte | 4,867,602 | 2,928,511 |
| Durham | 868,688 | 511,625 |
| Greensboro | 1,842,429 | 1,258,000 |
| High Point | 256,026 | 329,515 |
| Raleigh | 319,265 | 3,119,687 |
| Rocky Mount | 215,430 | 181,225 |
| Salisbury | 166,700 | 65,640 |
| Winston-Salem | 767,156 | 477,872 |
| South Carolina | | |
| Charleston | 122,135 | 679,098 |
| Columbia | 437,773 | 799,565 |
| Greenville | 1,043,591 | 466,550 |
| Spartanburg | 104,770 | 812,195 |
| Dist. of Columbia | | |
| Washington | 15,799,114 | 4,230,254 |
| District Totals | \$ 39,206,614 | \$ 86,116,132 |
| 6 Months | \$141,076,636 | \$149,618,305 |

REPORT ON RETAIL FURNITURE SALES

Percentage comparison of sales in periods named with sales in same periods in 1948

| STATES | June 1949 | 6 Mos. 1949 |
|---------------------------------|-----------|-------------|
| Maryland (4)* | - 5 | - 4 |
| District of Columbia (6)* | + 5 | +11 |
| Virginia (19)* | -11 | - 6 |
| West Virginia (10)* | - 4 | -10 |
| North Carolina (11)* | -13 | -15 |
| South Carolina (10)* | -10 | -11 |
| District (60)* | - 5 | - 3 |
| INDIVIDUAL CITIES | | |
| Baltimore, Md. (4)* | - 5 | - 4 |
| Washington, D. C. (6)* | + 5 | +11 |
| Richmond, Va. (6)* | -14 | - 2 |
| Lynchburg, Va. (3)* | -13 | - 5 |
| Charleston, W. Va. (3)* | -33 | -10 |
| Charlotte, N. C. (3)* | -23 | -25 |
| Columbia, S. C. (3)* | -31 | - 8 |

*Number of reporting firms.

WHOLESALE TRADE, 180 FIRMS

| LINES | Net Sales | | Stock | |
|--------------------------------|-----------|----------|--------------|-------------|
| | June 1949 | May 1949 | June 30 1949 | May 31 1949 |
| Auto supplies (8)* | -16 | + 6 | - 7 | - 3 |
| Electrical goods (6)* | -10 | - 7 | -11 | - 5 |
| Hardware (12)* | -22 | -20 | + 8 | + 5 |
| Industrial supplies (4)* | -27 | +19 | + 4 | + 6 |
| Drugs & sundries (9)* | - 2 | 0 | + 3 | + 1 |
| Dry Goods (12)* | -23 | -21 | -33 | - 4 |
| Groceries (56)* | - 5 | + 8 | - 3 | - 5 |
| Paper & products (5)* | -12 | + 7 | ..... | ..... |
| Tobacco & products (5)* | - 2 | + 2 | + 4 | - 4 |
| Miscellaneous (63)** | - 2 | + 2 | + 3 | + 6 |
| District Totals (180)* | - 9 | - 2 | - 6 | + 1 |

Source: Department of Commerce.

*Number of reporting firms.

SOFT COAL PRODUCTION IN THOUSANDS OF TONS

| REGIONS | June 1949 | June 1948 | % Chg. | 6 Mos. 1949 | 6 Mos. 1948 | % Chg. |
|----------------------|-----------|-----------|--------|-------------|-------------|--------|
| West Virginia | 10,568 | 14,500 | -27 | 77,209 | 77,525 | 0 |
| Virginia | 1,216 | 1,860 | -35 | 8,165 | 9,539 | -14 |
| Maryland | 51 | 151 | -66 | 378 | 863 | -56 |
| Fifth District | 11,835 | 16,511 | -28 | 85,752 | 87,927 | - 2 |
| United States | 35,274 | 53,118 | -34 | 255,391 | 286,277 | -11 |
| % in District | 33.6 | 31.1 | ..... | 33.6 | 30.7 | ..... |

Source: Bureau of Mines.

RAYON YARN SHIPMENTS AND STOCKS

| | June 1949 | May 1949 | June 1948 |
|------------------------------|------------|------------|------------|
| Rayon yarn shipments | 56,800,000 | 51,700,000 | 68,300,000 |
| Staple fiber shipments | 10,800,000 | 7,700,000 | 22,400,000 |
| Rayon yarn stocks | 50,300,000 | 50,200,000 | 9,500,000 |
| Staple fiber stocks | 18,900,000 | 20,400,000 | 4,200,000 |

Source: Rayon Organon.

TOBACCO MANUFACTURING

| | June 1949 | % Change from June 1948 | 6 Mos. 1949 | % Change from 6 Mos. '48 |
|---|------------|-------------------------|-------------|--------------------------|
| Smoking & Chewing tobacco (Thousands of lbs.) | 17,331 | + 2 | 94,851 | - 3 |
| Cigarettes (Thousands) | 32,735,291 | + 3 | 175,498,113 | + 2 |
| Cigars (Thousands) | 519,509 | + 8 | 2,681,923 | - 3 |
| Snuff (Thousand of lbs.) | 3,252 | - 1 | 20,330 | - 5 |

Source: Treasury Department.

COMMERCIAL FAILURES

| MONTHS | Number of Failures | | Total Liabilities | |
|---------------------|--------------------|-------|-------------------|---------------|
| | District | U. S. | District | U. S. |
| June 1949 | 28 | 828 | \$ 597,000 | \$ 28,161,000 |
| May 1949 | 30 | 776 | 746,000 | 28,374,000 |
| June 1948 | 12 | 463 | 337,000 | 12,163,000 |
| 6 Months 1949 | 207 | 4,581 | \$5,645,000 | \$232,635,000 |
| 6 Months 1948 | 94 | 2,543 | 2,529,000 | 97,338,000 |

Source: Dun & Bradstreet.

DEPARTMENT STORE TRADE

| Richmond | Baltimore | Washington | Other Cities | District |
|---|-----------|------------|--------------|----------|
| Percentage change in June 1949 sales compared with June 1948: | | | | |
| - 7 | - 7 | 0 | - 4 | - 4 |
| Percentage change in 6 mos. sales 1949 compared with 6 mos. in 1948: | | | | |
| - 3 | - 5 | + 2 | - 4 | - 2 |
| Pctge. change in stocks on June 30, 1949 compared with June 30, 1948: | | | | |
| - 6 | - 4 | - 1 | - 9 | - 3 |
| Pctge. change in outstanding orders June 30, 1949 from June 30, 1948: | | | | |
| -45 | -43 | -34 | -52 | -39 |
| Pctge. change in receivables June 30, 1949 from those on June 30, 1948: | | | | |
| + 6 | + 1 | +12 | - 4 | + 6 |
| Percentage of current receivables as of June 1, 1949 collected in June: | | | | |
| 32 | 48 | 48 | 45 | 44 |
| Pctge. of installment receivables as of June 1, 1949 collected in June: | | | | |
| 15 | 19 | 20 | 21 | 19 |
| Maryland Dist. of Col. Virginia W. Va. N. Caro. S. Caro. | | | | |
| Percentage change in June 1949 sales from June 1948 sales, by States: | | | | |
| - 7 | 0 | - 6 | - 7 | - 4 |
| Percentage change in 6 months 1949 from 6 months 1948 sales: | | | | |
| - 5 | + 2 | - 3 | 0 | - 9 |

NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

Industrial output declined further in June. Department store sales declined somewhat more than usual in this period, while sales of automobiles were maintained in record volume. Construction contract awards increased further. Prices of basic commodities showed some recovery from mid-June to mid-July; the average level of all wholesale commodity prices showed little change.

Industrial Production

The Board's seasonally adjusted index of industrial production in June was 169 per cent of the 1935-39 average—3 per cent lower than in May and 13 per cent below the postwar peak level reached in October and November 1948. The decline in June reflected mainly further curtailment of output in most durable goods industries and a marked decline in activity in the coal mining industry. Production of nondurable goods as a group was maintained at the reduced levels prevailing in April and May.

Iron and steel production decreased sharply in June and declined further by mid-July. Output of open hearth steel in June was at 85 per cent of capacity, while electric steel output, following a decline of one-third from the reduced May level, was at 39 per cent of capacity. Activity in most machinery industries was curtailed further in June. Production of lumber and of stone, clay and glass products remained about 11 per cent below last year's level. Output of passenger automobiles, which had been reduced in May by a labor dispute at the plants of a major producer, increased considerably in June and was at a new high rate in mid-July.

Activity in the textile industries increased somewhat in June from the very low levels reached in May. Output of apparel wool textiles showed a further recovery from the April low point. Production of manufactured foods rose slightly in June. Newsprint consumption, however, decreased from the record May rate, and activity at petroleum refineries and chemical plants also declined somewhat.

Minerals production decreased in June reflecting largely a marked reduction in coal output as a result of a work stoppage and the beginning of the annual vacation period. Coal output remained at a low level in July with most mines operating three days a week. Production of crude petroleum was curtailed slightly in June and somewhat more in early July.

Construction

Value of construction contracts awarded in June, according to the F. W. Dodge Corporation, increased further to 946 million dollars as compared with 880 million in May and 935 million in June 1948. The increase reflected chiefly a further rise in awards for private residential work and an expansion in awards for public utility construction. The number of new

housing units started in June totaled 100,000, according to the Bureau of Labor Statistics. This was 5,000 more than in May and equal to the postwar high reached in May 1948.

Distribution

Value of department store sales showed somewhat more than the usual seasonal decline in June and the Board's adjusted index was estimated to be 284 per cent of the 1935-39 average, as compared with 292 in May and 307 in June of last year. Sales in the first half of July remained near the June level, after allowance for the usual seasonal changes.

Railroad revenue freight shipments decreased further from May to mid-July. In addition to marked reductions in the volume of coal loadings, shipments of various other industrial goods were in smaller volume than in earlier months.

Commodity Prices

Prices of nonferrous metals and some other industrial materials advanced from mid-June to mid-July, following sharp declines in recent months. Steel scrap prices, however, decreased further by 5 per cent. Prices of hogs and pork showed marked seasonal increases in this period, while prices of worsted fabrics, paints, and some other finished products were reduced.

The average level of consumers' prices increased slightly in June as small advances in prices of foods were partly offset by further declines in clothing and housefurnishings.

Bank Credit

Required reserves of all member banks were reduced by about 800 million dollars on June 30 with the expiration of the temporary reserve requirement authority granted to the Board of Governors by Congress in August 1948. Subsequently, during the first three weeks of July, Government security holdings at the Reserve Banks declined by about one billion dollars, reflecting sales of bills and certificates made in response to a strong market demand for these securities.

Business loans at banks in leading cities were reduced further during June and the first half of July, but the declines were somewhat smaller than in other recent months. Holdings of Government securities increased by over one billion dollars in the first half of July.

Security Markets

Shortly before the reduction in reserve requirements, the System announced a change in open market policy. These developments were reflected in sharp declines in yields on Government securities early in July. System sales of bills and certificates checked this decline, but the resulting yields were still substantially below previous levels.

Prices of other securities—bonds and common stocks—advanced steadily in the first three weeks of July.