FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

THE FIFTH FEDERAL RESERVE DISTRICT

MARCH 1950

BALTIMORE: The City and Port

The largest industrial city in the Fifth District is shown here through the courtesy of the Baltimore Association of Commerce. Two recent developments important to the Baltimore area are discussed in this issue on pages 2-3.

ALSO IN THIS ISSUE

Industrial Expansion in the Baltimore Area

Two recent announcements by the steel industry are of particular importance to the Fifth District's largest metropolitan area, Baltimore. One disclosed a $30 million program for further expansion of Bethlehem Steel Corporation's Sparrows Point steel plant, one of the largest peacetime outlays ever made in the Fifth District for the expansion of a single manufacturing plant. This outlay will amount to about 40% of the total plant and equipment expenditures made by all primary and fabricated metal industries throughout the five states of this District in 1947, the latest year for which such information is available.

The second announcement may be of even greater significance to the Port of Baltimore since it disclosed the United States Steel Corporation's intention to make this port its East Coast entry for iron ore from its vast and recently discovered deposits in Venezuela.

A quarter-century ago the late Charles M. Schwab, one of the notable personalities in the steel industry, expressed the hope that "eventually we shall have at Sparrows Point the greatest steel plant in the world." Today that hope is closer to realization than many believed possible within such a period.

The Sparrows Point plant of Bethlehem Steel is now the second largest in the world and the largest plant of its kind located on tidewater. The new Sparrows Point installations, to be completed in 15 months, will provide an increase of 900,000 tons in the present capacity of the plant for electrolytic tin plate, cold and hot rolled, and galvanized sheets—a 40% rise in capacity for these products and a 25% increase in total capacity of the plant. No provision for new furnaces is included in the present expansion since production of existing furnaces will be stepped up sufficiently to supply additional ingot requirements. Consequently, the cost of the new facilities is estimated to be only a little more than $30 per ton of additional capacity, whereas at present prices the construction of a new plant for the production of raw steel would cost around $250 a ton of annual capacity. Economically, it is impressive that the 800 additional jobs created by this expansion program will involve a capital outlay of $37,500 per worker.

Increased Employment

Highly significant in the expansion of the Sparrows Point plant are the probable effects on employment and income in the Baltimore industrial area. It is known that capital expenditures on plant and equipment play a basic role in the creation and maintenance of high-level employment. Aside from another war, the greatest fear in this country is that of idle workers, and one of the prime ways of bringing on widespread unemployment is for business to curtail its capital outlays.

In short, jobs are dependent upon investment in plant, equipment and other assets, as well as on consumption expenditures. Apart from heavy construction expenditures and wages spent on this new steel capacity, operation of the new facilities at Sparrows Point will require 800 new workers whose relatively high wages (Bethlehem workers paid on an hourly basis averaged $1.84 an hour in 1949) will increase the total payroll in the Baltimore industrial area. This, however, is just the initial effect; every dollar of capital outlay acts as a fulcrum permitting a leverage or expansionary effect upon total income. In other words, the business created in the Baltimore area by the 800 additional jobs should amount to considerably more than the added payroll. Income studies indicate that the increase of 800 jobs in a basic industry like steel should create more than 600 additional jobs in the service activities of industrial Baltimore. It is likely that the additional payroll stemming from the expansion of the Sparrows Point plant will create a volume of business in the Baltimore area at least two to three times the amount of the initial wage payments by the steel company.

Strategic Location

In July 1948, following the Supreme Court decision in the now famous Cement Institute Case and a Circuit Court decision in the Rigid Steel Conduit Case, in both of which the basing-point system of pricing was condemned as unlawful, the steel industry abandoned the basing-point system and began to sell its products on an f.o.b. mill basis. Heated arguments have followed this switch in pricing method but no unanimous opinion has emerged as to ultimate effects on prices, competition, and relocation of steel suppliers and/or users. However, it is quite likely that continued use of f.o.b. mill pricing by the steel industry would favor the plans for expanding the Sparrows Point plant. A recent study by the Maryland State Planning Commission, "Survey of the Impact of F.O.B. Mill Pricing on Maryland Manufacturers," points out that in view of Baltimore's advantageous location with respect to steel consuming markets, "it might well happen that the Sparrows Point mill will be the largest mill in the world before 1960, if f.o.b. mill pricing is established throughout the steel industry".[1]

Under the basing-point price system, mills in Buffalo and Pittsburgh met Sparrows Point prices and sold to consumers in New England—but only at the expense of their profit margins. Under present freight rates for iron and steel, Sparrows Point can ship more cheaply to Connecticut, Massachusetts, and Rhode Island than

1. A Bill (S. 1008) legalizing absorption of freight costs in order to quote uniform delivered prices was introduced in the Eighty-First Congress. Passed by the House, the bill has been held up in the Senate.

can mills in Pittsburgh and Buffalo. Similarly, the Baltimore plant has a decided freight advantage in the important consuming areas of New Jersey and metropolitan New York. Hence under a pricing method in which shipping costs are not absorbed by producers but in which steel products are sold f.o.b. mill, the important north-eastern market can be most economically served by Sparrows Point—under existing production location.

As pointed out in the Maryland State Planning Commission study, Sparrows Point's natural market also extends southward through Virginia and the Carolinas. Thus the Baltimore plant would, under f.o.b. plant pricing, be advantageously located to meet the requirements of markets extending from the Maine border to South Carolina—an area which consumes about *one-fifth* of the nation's steel and is the *second* largest steel market in the country.

Nor is this the limit of the market that could be most economically served by the expanding heavy industry in Baltimore if f.o.b. pricing is permanently established. Despite geographical distances, Sparrows Point is economically closer to Galveston, for example, than is Birmingham. Similarly, rail-water shipping costs from Sparrows Point to Los Angeles are lower than they are from, say, Gary, Indiana. Thus, the expansion of steel facilities in Baltimore, under existing conditions, might well pace the rapidly growing consumption of steel on the West Coast and in Texas.

Baltimore Port May Gain World Tonnage Lead

A second argument favoring expansion of heavy industry in the Baltimore area is its advantageous location with respect to newly discovered sources of iron ore. For many years mills at Sparrows Point have been fed imported ores brought to the Port of Baltimore at lower freight costs than could be obtained on domestic ore. Bethlehem Steel has long imported small quantities of lateritic iron from Cuba and a much greater tonnage of ore from Chile, amounting in 1948, for example, to 2.6 million tons. Its most extensive source of foreign ores, however, is located in Venezuela where its El Pao open-pit mine has reserves estimated at 50-60 million tons. Development of the concession staked out there ten years ago was interrupted by the war, but under present plans Bethlehem hopes to be shipping out 2½ million tons annually by late 1951 and ultimately 3 million tons.

Of even greater importance to the Port of Baltimore is the recent announcement by the United States Steel Corporation that it intends to make this port the East Coast point of entry for its enormous Venezuelan iron ore discovery. Early in 1945 this company became convinced that in view of the dwindling reserves of the Mesabi Range, which supplies nearly two-thirds of the nation's iron ore needs, it would soon have to spend tremendous sums for economic use of Taconite—a rock mixture in which waste accounts for about two-thirds of the total bulk. In the meantime, it was felt advisable to undertake further search for usable iron ore deposits in Latin American countries.

The result was the discovery of what has been described as "the richest and greatest iron deposit in the history of the world!" The site of this fabulous discovery is Cerro Bolivar, a mountain 11 miles long, a mile wide, and rising to 2,000 feet, located 50 miles west of Bethlehem's El Pao concession in the interior of Venezuela. It is reported to contain hundreds of millions of tons of iron ore of such an unbelievable purity that the early reports were discounted back in the States.

A tremendous amount of work must be done before new giant ocean carriers will be unloading this ore in United States ports, and a definite date when shipments will begin has not been announced. However, it is likely that the job will be assigned top priority and that Cerro Bolivar ore will be on its 2,500 mile journey to Baltimore within three to four years. Possibly within a decade U. S. Steel will be importing as much as 10 million tons of ore annually from its Venezuela mines. Although part of the shipments will enter the ports of Mobile and Trenton (the latter the site of U. S. Steel's planned new steel mill), Baltimore's share along with other ore imports from Venezuela and possibly from Labrador and Africa could put the Port of Baltimore in position to challenge New York as the world's leading seaport in foreign trade tonnage.

Preparations are already going forward in Baltimore in anticipation of vastly increased ore imports. A petition has been presented to the House Appropriations Committee for funds to be used in dredging all the main channels of the port to a depth of 39 feet in order to accommodate the huge ocean carriers that will ply between Venezuela and Baltimore. Contracts have not been let for these vessels, but Bethlehem is preparing to build in its shipyard at Sparrows Point two 16,000 ton shallow-draft carriers to move ore down Venezuela rivers to deep-water ports.

The Baltimore & Ohio Railroad has announced plans for the construction of a $5 million ore pier adjacent to its huge coal pier at the Port of Baltimore. Said to be the first of its kind built by a railroad on the eastern seaboard, it should be ready for ore cargoes sometime next year. In addition, both the Pennsylvania and Western Maryland railroads are reputedly planning on expanding their yard facilities in Baltimore.

Conclusion

Continued expansion of steel-making facilities at Sparrows Point and prospective vast increases in ore imports portend a future for Baltimore that befits its industrial heritage and its strategic location. It is not

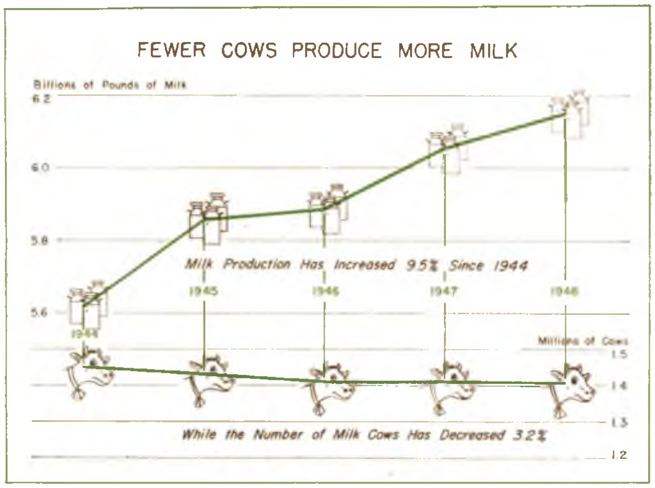
Continued on page 12

Spotlight on Dairy Farming: A Postwar Review

Dairying has become relatively more attractive to many farmers during recent years and the dairy enterprise continues to offer opportunities in this period of price adjustment. Industrially expanded areas offer ready markets for milk and dairy products—cash markets with milk checks coming in throughout the year.

Milk Production Continues to Increase

Milk production on Fifth District farms totaled 6,137 million pounds in 1948—the highest on record, 9% above that produced in 1944, the last full year of the war, and 24% greater than in 1939. While total output of milk was increasing, the numbers of milk cows on farms declined slightly—in 1948 they were 46,000 head below the peak of 1,441,000 reached in 1944. This decrease in milk cow numbers, however, has been entirely offset by the yearly increases in the average production of milk per cow which, in 1948, reached a new high of 4,399 pounds for the District as a whole.



Except for the years 1945 and 1946, production of butter on farms has declined fairly steadily for more than a decade. Production of farm-churned butter in 1948 was, at 56.7 million pounds, about 2.5 million pounds less than in 1947. Farm-churned butter, however, still remains highly important in a District where most dairy herds are small and large numbers of milk cows are kept principally to provide the farm family with milk, cream, and butter.

Noteworthy are the facts that Fifth District States produced more than 18% of the Nation's total farm-churned butter for the years 1943-1948, and that North Carolina, which produced 22.5 million pounds of the butter churned on farms in 1948, not only led the District in this category but also ranked third in the Nation for the eleven years ending in 1948.

During 1948 the amount of milk fed or consumed on farms where produced totaled 2,432 million pounds—slightly less than in 1947, but close to the general level of recent years. Distribution of this farm-used milk shows that 1,367 million pounds were consumed in farm households as milk or cream, 915 million pounds were eaten as farm-churned butter, and 150 million pounds were fed to calves. Compared with 1944, there was an 8% decrease in the consumption of milk as farm butter, but 8% more milk was consumed as fluid milk and cream and 14% more was fed to calves.

Larger Farm Marketings of Whole Milk

All whole milk, cream, and farm-churned butter sold or used for the preparation of dairy products sold from the District's farms in 1948 utilized 3,705 million pounds of milk—497 million pounds, or 15% more than in 1944. Of this total amount sold, 2,687 million pounds were delivered to plants and dealers as whole milk; 362 million pounds were skimmed and delivered to plants as cream; 469 million pounds were sold by farmers directly to the consumers at retail; and 187 million pounds were utilized in the preparation of farm-churned butter for sale. The quantity of milk sold to plants and dealers was 28% greater than in 1944, while the volume of milk in each of the other classifications was less.

Whole milk delivered to plants and dealers in South Carolina during 1948 was down 4% from 1944, but deliveries in all other Fifth District States were up, with increases ranging from 17% in West Virginia to 41% in Virginia. This growth in the sales of whole milk reflects not only the larger production of milk since the war, but also a shifting by many of the District's farmers, particularly those in the Carolinas, from the practice of selling farm-separated cream. Virginia, the most important cream-selling area, is the only State in which there was an increase in the amount of milk skimmed and sold as cream.

Sales of milk and cream retailed by farmers direct to local consumers have declined steadily since the peak reached in 1944 and 1945 when volume of milk sold in this category was 507 million pounds in each of the two years. The downward movement in the retail sales of milk and cream by the District's farmers took place in West Virginia and the Carolinas. The biggest reduction—20%—in farmers' retail sales has occurred in North Carolina, while a slight uptrend in these sales has been apparent in Maryland and Virginia.

Value of Dairy Products Sold by Farmers Hits New High

The trend in farmers' cash receipts from marketings of dairy products—the combined value of the milk, cream, and farm-churned butter sold by farmers—has been upward since 1938, and in 1948 reached a new high of $208,728,000. Not included in this cash received by farmers is the income from the sale of calves and cattle from the milking herds. Value of the milk and milk products sold in 1948 increased nearly 12% over the previous year and was about two-thirds greater than in 1944. This high level of cash returns to dairy farmers, however, does not represent the level of net returns from dairy cattle because production costs were also high in 1948.

Whole milk sold to plants and dealers at wholesale by farmers made up almost three-fourths of all cash returns from marketings of dairy products in 1948, whereas in 1944 sales of whole milk provided only about two-thirds of the total cash receipts from milk and other dairy products. The value of milk sold reached a new record in 1948 at $150,986,000, an increase of more than 80% since the war.

Relative to cash returns from the marketings of all farm products, the share of cash income from dairy products has risen slowly but steadily since the war—from 8.9% in 1944 to 10.6% in 1948. As a proportion of the cash received from all livestock and livestock products, the trend has been the same. Compared with other income-producing enterprises on Fifth District farms, dairying now ranks fourth (following tobacco, cotton, poultry and eggs in that order) if measured in terms of cash income derived from farm marketings. In each of the States dairy farming is the second leading livestock enterprise, being outranked only by the poultry and egg business.

Value of Farm-Consumed Dairy Products Highest in North Carolina

The value of dairy products—milk, cream, and farm butter—consumed by farm families on the farms where they were produced totaled $129,214,000 in 1948. This figure represents an increase of 42% over 1944 even though there had been a slight drop in value during 1945. In North Carolina, the State with the largest farm population and where large amounts of farm-churned butter are consumed, the value of farm-consumed dairy products was highest, and in 1948 amounted to $49,218,000, over half of gross farm income from dairying. Thus, in terms of the value of dairy products consumed on farms, North Carolina became the third-ranking State in the Nation. For a number of years prior to 1948, however, it had placed second only to Texas.

During 1948 the District's gross farm income from all milk and milk products—the value of combined sales, plus the value of products consumed in farm households—amounted to $337,942,000. This was a record gross income from dairy products, 55% above that in 1944, and more than double that for the years preceding 1942. In terms of gross income from milk, Virginia has led all States in the District since 1945.

Need for More Small Family Dairy Herds Continues

With output per cow being maintained at relatively high levels, indications are that milk production in Fifth District States continued to increase in 1949 in spite of the fact that prices of dairy products dropped sharply at the farm level. For all milk and milk products, however, the farm value remained about three times above the prewar average.

Reflecting this decline in prices received by farmers, both cash and net farm income from dairying will be lower in 1950.

Despite the lower prices in prospect for dairy products the need as well as the incentive for a great many more small family dairy herds continues. The cash crops—cotton, tobacco, and peanuts—have long been the "backbone" of the District's agricultural economy, even though agricultural experts have maintained for a long time that the "weakest link" in our agriculture has been the lack of balance between crop and livestock farming.

With this fact in mind and considering the use to which many of the cash-crop acres must necessarily be diverted—or lie idle—in 1950, it seems inescapable that more attention should be placed on dairying—not as an enterprise to replace the important cash crops, but to supplement and add to the farmers' year-around income.

Record Loan Volume Increases District Member Bank Earnings

Loan expansion during the second half of 1949 reversed the moderate decline of the first half, brought the volume of loans outstanding to a new record level, and raised current operating earnings of Fifth District member banks to a new high. At the same time, expenses rose to record levels and so did income taxes. Net profits increased slightly, but remained below the record level of 1946.

Gross current operating earnings of $141 million represented an increase of $7 million—largely accounted for by larger earnings on loans, which were $5.5 million above 1948. Earnings on Governments fell slightly while interest and dividends on non-Government securities showed an increase of $0.4 million over 1948.

The increase in member banks' current operating expenses paralleled the increase in gross operating earnings, each item increasing by slightly over 5%. Net current operating earnings, as a result, registered slightly more than a 5% increase. These items showed substantially the same rate of increase as for all member banks in the United States.

Total current operating expenses of Fifth District member banks increased by more than $4 million in 1949. Largest increases were in salaries and wages of employees and officers, which accounted for two-thirds of the entire increase in expenses. All classes of expenses with the exception of "interest and discount on borrowed money" rose during the year.

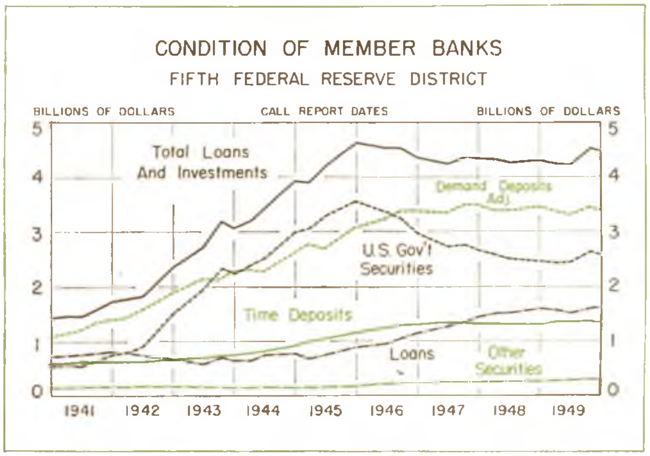
EARNINGS
FIFTH DISTRICT MEMBER BANKS
(dollar amounts in thousands)

Item	1949	1948†
Earnings	140,990	133,990
Interest and dividends on securities:		
U. S. Government	40,529	40,904
Other	5,812	5,433
Interest and discount on loans	70,675	65,201
Service charges and fees on loans	552	714
Service charges and deposit accounts	7,967	7,317
Other charges, commissions, fees, etc.	4,126	3,678
Trust Department	5,975	5,695
Other current earnings	5,354	5,048
Expenses	87,323	82,998
Salaries—officers	16,732	15,675
Salaries and wages—employees	25,759	24,036
Fees paid to directors and committee members	1,091	1,021
Interest on time deposits	12,357	11,885
Interest and discount on borrowed money	136	178
Taxes, other than on net income	4,707	4,610
Recurring depreciation on banking house, furniture, and fixtures	2,594	2,330
Other current expenses	23,947	23,263
Net current earnings	53,667	50,992
Recoveries, transfers from valuation reserves, and profits	4,726	6,551
Recoveries on Securities	476	1,052
Profits on Securities	1,842	1,578
Recoveries on loans	1,094	1,948
All other	1,314	1,973
Losses, Charge-offs, and transfers to valuation reserves	10,946	16,996
On securities	1,453	3,151
On loans	7,753	12,190
All other	1,740	1,655
Net changes in valuation reserves	5,352	8,824
Actual‡ net losses and recoveries	868	1,621
Profits before income taxes	47,447	40,547
Taxes on net income	14,473	12,352
Net profits	32,974	28,195
Cash dividends declared**	13,770	12,751
Number of banks at end of year	479	478

†Adjusted to include banks in operation during part of the year but not at the end of the year.

‡Reported net losses minus net transfers to valuation reserves on loans and securities.

**Includes interest on capital notes and debentures.



Net current operating earnings of $53.7 million were at a new high in 1949. Aggregate net current earnings were 13.4% of total capital accounts as compared with 12.1% for all member banks in the United States.

Reported net losses at $6.2 million were down more than $4 million from 1948. Net losses actually experienced, however, were $0.9 million as compared with $1.6 million in 1948. The difference is largely attributable to net transfers to valuation reserves for bad debt losses on loans which accounted for $5.2 million of reported net losses in 1949.

Profits before income taxes were $47.4 million, $6.9 million above the level for 1948. After a record $14.5 million had been paid in taxes on net income, net profits after taxes were reduced to $33 million. This represented an increase of $4.8 million over 1948, though net profits after taxes were still $2 million below the level of 1946.

Net profits of Fifth District member banks in 1949 were 8.2% of total capital accounts, as compared with 7.4% in 1948. This exceeded the rate of return earned by all member banks in the United States, which was 7.6% in 1949 and 7.2% in 1948.

Fifth District member banks in 1949 retained 58% of their net profits, as compared with 54% retained by all member banks in the United States. Net profits retained were 24% larger than in 1948. Dividends declared increased by 8%.

Assets

Total loans and investments of Fifth District member banks fell slightly from November 1, 1949, but at $4,470 million were almost 4% above the level for December 31, 1948. Net loans, which fell more than seasonally during the first half of the year, more than recovered this loss during the second half and reached an all-time high of $1,615 million. Commercial and industrial loans, however, fell off 3.8% to $567 million.

Consumer instalment loans constituted the most important factor in increasing loan volume. Retail automobile instalment paper outstanding increased by more than 35%, other retail instalment paper increased by almost 25%, home improvement instalment loans and instalment cash loans each increased by more than 20%.

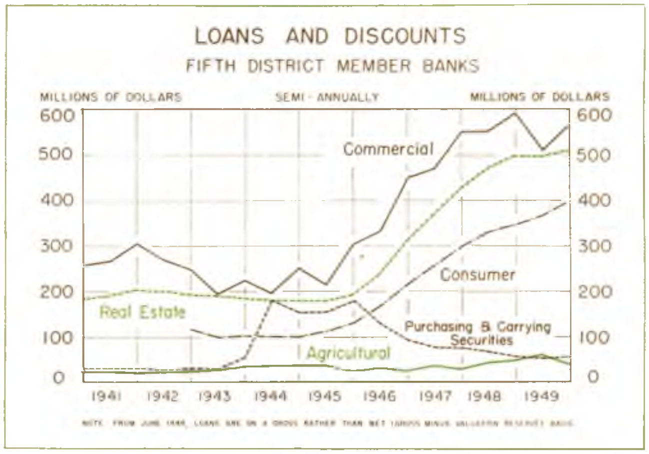
Slower expansion of real-estate loans occurred in 1949. Loans on residential property (at $342 million) were up less than 1% from year-end 1948; loans on farm land (at $43 million) increased less than 4%. Real-estate loans on other properties, however, increased by $7 million to $125 million, or about 6%.

Loans to brokers and dealers in securities expanded by 86% during the year, and at year-end 1949 were $14.6 million. Other loans on securities fell 16%.

The $7 million decline in loans to farmers was in C.C.C.-guaranteed loans. Other loans to farmers increased by almost $2 million.

Holdings of U. S. Governments reached a postwar low during the first half-year, then climbed back to $2,628 million in November, then dropped slightly to $2,562 million at the year-end. Holdings of other securities, after rising to an all-time high of $297 million on November 1, declined to $292 million, but showed a net increase of $29 million (11%) during the year.

Reserves, cash, and bank balances of Fifth District member banks fell by $140 million, to $1,506 million. Due largely to lowered reserve requirements during the year balances held with the Federal Reserve Bank declined $140 million in 1949.



ASSETS AND LIABILITIES
FIFTH DISTRICT MEMBER BANKS
(dollar amounts in thousands)

	Dec. 31 1949	Dec. 31 1948
ASSETS		
Loans and investments	4,470,378	4,302,496
Loans (including overdrafts)	1,615,498	1,586,079
U. S. Government obligations	2,562,384	2,453,292
Other securities	292,496	263,125
Reserves, cash, and bank balances	1,506,124	1,646,057
Reserve with Federal Reserve Bank	709,114	849,151
Cash in vault	114,043	113,000
Balances with banks	378,808	366,063
Cash items in process of collection	304,159	317,843
Other assets	73,953	69,786
Total assets	6,050,455	6,018,339
LIABILITIES		
Demand Deposits	4,297,103	4,311,648
Individuals, partnerships, & corporations	3,280,770	3,335,924
U. S. Government	129,034	99,500
Banks	481,651	453,607
Other	405,648	422,617
Time Deposits	1,315,952	1,292,999
Individuals, partnerships, & corporations	1,234,381	1,249,421
U. S. Government and Postal Savings	28,954	16,346
States and Political subdivisions	51,613	25,808
Banks	1,004	1,424
Total deposits	5,613,055	5,604,647
Borrowings	2,936	1,465
Other liabilities	33,643	29,354
Total liabilities	5,649,634	5,635,466
Total Capital Accounts	400,821	382,873
Total Liabilities and Capital Accounts	6,050,455	6,018,339
Demand deposits adjusted	3,382,259	3,440,698
Number of banks	479	478

Liabilities

Total deposits of Fifth District member banks were virtually unchanged from year-end 1948. Demand deposits were off less than 1% while time deposits were up about 2%. This points up the strong comeback in the District economy folowing the recession early in the year.

Demand deposits adjusted declined by almost 2% in 1949. Demand deposits of banks increased by 6% and U. S. Government demand deposits increased 30% over year-end 1948. Interestingly, the increase in time deposits was altogether in U. S. Government and postal savings deposits, which rose by 77% and in time deposits of states and political sub-divisions which doubled in 1949. Time depoits of individuals, partnerships, and corporations decreased slightly during the year.

Total capital accounts of the 479 Fifth District member banks were $400.8 million, an increase of almost 5% over the total capital accounts of the 478 Fifth District member banks at year-end 1948.

LOANS AND DISCOUNTS
FIFTH DISTRICT MEMBER BANKS
(dollar amounts in thousands)

	Dec. 31 1949	Dec. 31 1948
Commercial and industrial loans including open-market paper	567,328	590,810
Loans to farmers directly guaranteed by the Commodity Credit Corporation	5,049	14,435
Other loans to farmers (not secured by real estate	37,434	34,351
Loans to brokers and dealers in securities	14,634	7,867
Other loans for purchasing or carrying securities	41,563	49,741
Real estate loans:		
On farm land	42,771	41,231
On residential property	341,516	338,659
On other properties	125,327	118,029
Other loans to individuals:		
Retail automobile instalment paper	84,077	62,147
Other retail instalment paper	26,372	21,225
Repair and modernization instalment loans	22,013	18,103
Instalment cash loans	65,154	53,968
Single-payment loans	200,718	191,916
Loans to banks	2,052	1,808
All other loans (including overdrafts)	56,801	53,600
Loans—gross	1,632,809	1,597,890
Reserves	17,311	11,811
Loans—net	1,615,498	1,586,079

Business Situation

Conditions in the Fifth Federal Reserve District, in January were maintained about on a par with December, after allowance for seasonal tendencies, but have been adversely influenced during a considerable part of February by the nation-wide coal strike. Direct effects of the strike have not been severe so far, but production could be adversely affected in this District. Due to the fairly large amount of hydro-electric power installations in this area, adverse effects would hardly be as great as in other areas.

Indirect effect of this strike has been felt in retarding the business activity; producers' sales are weakening in areas where industrial shut-downs are anticipated. Industries anticipating a shut-down are neither anxious to place forward orders nor for deliveries on business for which they have already contracted. Thus, the rising trend of business volume in the Fifth District has been interrupted in February and its consequences will be felt in March—if not beyond.

On balance, the January business situation continued to be one of strength though department store trade levels receded somewhat from adjusted December levels. Strength of the District's business comes from two broad sources: (1) the construction industry, which is maintaining volume at extraordinarily high winter levels; (2) manufacturing output, which on balance has been rising for several months. A substantial measure of strength in the registrations of new automobiles and trucks continues, bank debits, which are a good measure of total payments, returned in January to the highest level ever attained after correction for seasonal variation.

Weaknesses in the District's business situation come largely in the field of trade. Department stores, furniture stores, and household appliance stores all show less favorable January trade levels after accounting for the seasonal factor than in December. These changes, however, were of modest proportions and give no impression that real weakness exists at the retail level. The situation is best characterized by the fact that no rising or falling trend is observable.

Construction

In the first month of the new year, construction volume, as measured by Dodge contract awards, was 83% higher than a year earlier; yet it failed by 9% to make the usual seasonal rise from December to January. Noteworthy are the unusually large increases recorded in public works and utilities and in manufacturing building. Building permits more than doubled from December to January on a seasonally adjusted basis due largely to a substantial increase in the residential permits in the city of Baltimore.

Employment

Employment in the District seasonally slackened in January from December levels. Nonseasonal industries, other than bituminous coal and in those places where the results of reduced coal output were reflected in unemployment, have been rising, but the increases have been insufficient to offset the seasonal losses which occurred largely in trade and in construction. The unemployment situation in the District is not critical. In most areas in the District it is less than 5% of the labor force. Outside of the coal districts probably the largest percentage of the labor force unemployed in the District can be found in Newport News, Virginia, and Charleston, South Carolina, both largely due to reduction in personnel at the shipyards.

Textiles

The outlook for hosiery production in the District is unclear at the present time due to reduction in nylon allotments by the Du Pont Company. There is no clear indication as to when that company's production will improve and a greater supply of yarn will become available. The current situation is mixed, with some concerns having a sufficient supply of yarn to continue production, and others being short. As a consequence, the demand at the producers' level has been very good and prices are remaining firm.

Cotton mills have their books solidly filled for the next two months—and the second quarter is substantially booked. During February new business written has been considerably below what producers feel is a desirable level. A few price concessions have been made, particularly in print cloth. It is believed, however, that resumption of coal production will clear the air and create further orders. Hesitation has been noted in purchases of industrial yarns. Here buyers have been wary of making commitments for future delivery, but again a coal settlement would have bullish implications for activity in these industries. In January, cotton spindle hours rose 3% above December (on a seasonally adjusted basis) to a level 18% higher than January 1949. Apparently, February operations were of about the same magnitude as January's (on a seasonally adjusted basis). March may show some reduction, particularly if the coal strike were to go a week or so more.

Rayon yarn production continues to run at capacity levels despite the fact that finished goods are moving slowly into the retail levels. Yarn producers show little concern over this slowness at the finished goods level, apparently believing that demand will run in excess of their ability to produce.

Lumber and Furniture

Lumber supply continues rather tight. Recent adverse weather has reduced operations in the woods and the price situation is quite tight, both in southern pine and in hardwoods. The incidence of the new minimum wage is heavy in the lumber industry and this has a share in the recent price rise. Reports are current that a number of small mill operators have shut their plants as a consequence of the new minimum wage.

Demand for furniture at the producer level has been more than satisfactory, and furniture prices have risen in the neighborhood of 5%. Employment is expanding in the industry and should continue through the spring. Retail demand for furniture remains at a high level and with the continued expansion in residential construction the outlook appears bright for this industry.

Summary

The outlook for Fifth District business hinges on the coal strike, its duration and terms of settlement. Substantial cutbacks in industrial operation loom, as these lines are written, and many industries are feeling the lack of supplies. Aside from the psychologically and physically deterring effects of the perennial "coal problem", the business outlook continues to look moderately favorable.

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

	Jan. 1950	Dec. 1949	Nov. 1949	Jan. 1949	% Change—Latest Month Prev. Mo.	Year Ago
New Passenger Car Registration*	.....	185	198	134	— 7	+ 27
New Commercial Car Registrations	......	202	206	158	— 2	+ 12
Bank Debits	346	324	317	335	+ 7	+ 3
Bituminous Coal Production	97	107	128	152	— 9	— 36
Building Contracts Awarded, Total	432	474	521	236	— 9	+ 83
Commercial Construction Contracts	451	288	324	437	+ 57	+ 3
Manufacturing Construction Contracts	329	336	146	171	— 2	+ 92
Public Works and Utilities	626	400	562	208	+ 57	+201
Residential Construction Contracts	466	591r	616	250	— 21	+ 86
Apartments and Hotels	354	530	1128	188	— 33	+ 88
One and Two Family Houses	527	669	523	281	— 21	+ 88
Building Permits Issued	753	373	400	232	+102	+225
Business Failures—No.	76	78	135	43	— 3	+ 77
Cigarette Production	236	219r	233	224	+ 8	+ 5
Cotton Consumption	149	155	147	126	— 4	+ 18
Cotton Spindle Hours	150	145	144	127	+ 3	+ 18
Department Store Sales†	300	311	305	308	— 4	— 3
Department Store Stocks†	291	295	295	294	— 1	— 1
Electric Power Production	.....	283	265	267	+ 7	+ 3
Employment—Mfg. Industries*	......	124	124	129	0	— 6
Furniture Mfrs: Orders†	......	346	360	208	— 4	+ 35
Furniture Mfrs: Shipments†	......	235	313	199	— 25	+ 15
Furniture Mfrs: Unfilled Orders†	......	710	632	482	+ 12	+ 35
Furniture—Retail:†‡						
Net Sales	182	194	184	178	— 6	+ 2
Cash	201	222r	200	267	— 9	— 25
Credit	174	181	175	160	— 4	+ 9
Receivables	132	130	127	110	+ 2	+ 20
Collections	174	166	160	178	+ 5	— 2
Inventories	137	152	139	145	— 10	— 6
Household Appliance Store Sales*	81	157p	125	81	— 49	— 1
Life Insurance Sales	238	249	253	226	— 4	+ 5
Wholesale Trade:						
Automotive Supplies**	511	448	514	280	+ 14	+ 83
Drugs	248	234	252	267	+ 6	— 7
Dry Goods	118	181	157	114	— 35	+ 4
Electrical Goods**	51	59	47	96	— 14	— 47
Groceries	226	227	245	241	0	— 6
Hardware	129	122	131	145	+ 6	— 11
Industrial Supplies**	279	259	246	399	+ 8	— 30
Paper and Its Products**	167	166	146	134	+ 1	+ 25
Tobacco and Its Products**	66	68	65	97	— 3	— 32

*Not seasonally adjusted

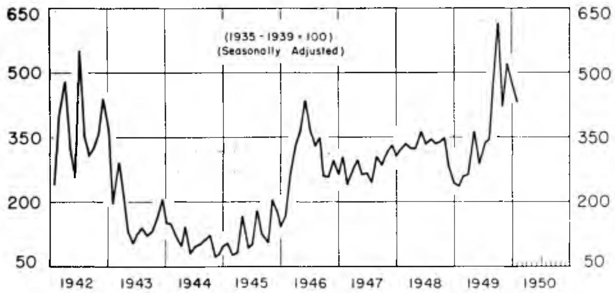
**1938-41=100

†Revised Series—back figures available on request

‡1941=100

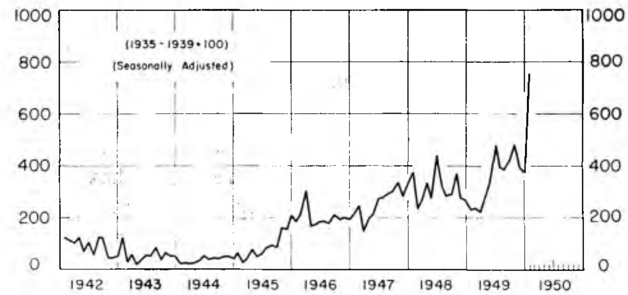
FIFTH DISTRICT TRENDS

CONSTRUCTION CONTRACTS AWARDED



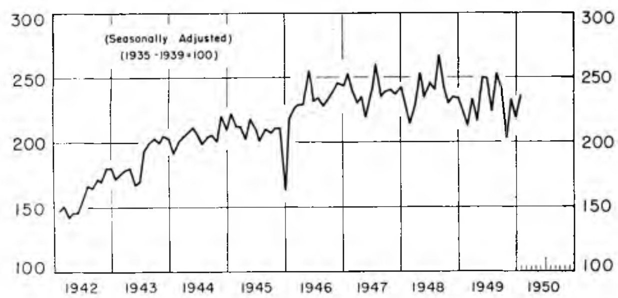
Total construction contract awards in January were the highest on record for that month but they failed to gain by seasonal proportions from December. January contract awards were up 83 per cent from a year ago.

BUILDING PERMITS



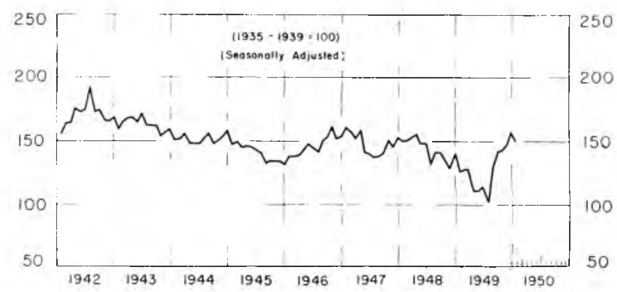
January building permits made an all-time high record for any month since 1919 resulting from unusually large increases in Baltimore, Roanoke, Charleston, West Virginia, and Durham North Carolina. Only 5 of the 29 reporting cities failed to show a rise in permits over a year ago.

CIGARETTE PRODUCTION



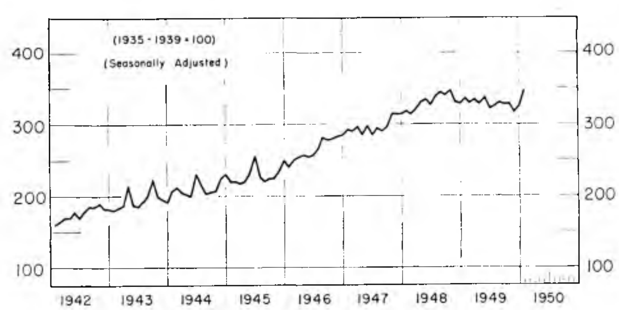
Cigarette production in the Fifth District rose more than seasonally in January to a level 5 per cent ahead of January 1949. January, however, ran below that month in 1948 and 1947. A slight downward trend may be reversed by the opening of a new plant in Durham.

COTTON CONSUMPTION



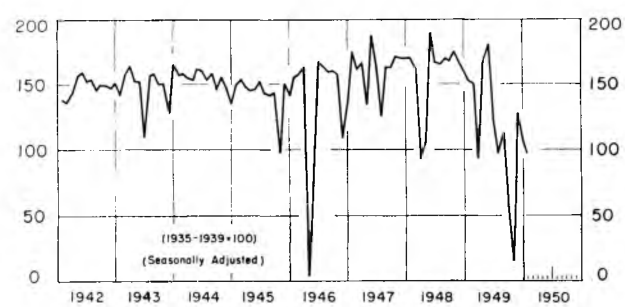
Cotton consumption in the Fifth District declined 4 per cent on a seasonally adjusted basis from December, but spindle hours operated in this month rose 3 per cent after seasonal adjustment. Coal strikes have had an adverse effect on business in this industry.

BANK DEBITS



Bank debits established an all-time January high this year and on a seasonally adjusted basis, figures equaled the previous peak of October 1948. This is a good indication that the business situation in the District is somewhat stronger than individual indicators show.

BITUMINOUS COAL PRODUCTION



The mines were still out of production as of the turn of March. The courts have found the U. M. W. not to be responsible for the strike situation. A bill has been introduced in Congress to authorize Government seizure of the mines. The outcome of the coal situation is anybody's guess.

WHOLESALE TRADE

LINES	Sales in Jan. 1950 compared with Jan. 1949	Sales in Jan. 1950 compared with Dec. 1949	Stocks on Jan. 31, 1950 compared with Jan. 31 1949	Stocks on Jan. 31, 1950 compared with Dec. 31 1949
Auto supplies (8)	+ 1	+ 1	— 2	— 1
Electrical goods (3)	—28	—31	....	....
Hardware (9)	— 7	+22	—14	+13
Industrial supplies (3)	—20	+20	....	....
Drugs & sundries (9)	+ 1	+ 8	+ 3	0
Dry goods (12)	— 1	—14	— 1	+16
Groceries (60)	— 7	+ 3	+ 1	+ 8
Paper & products (5)	— 3	+21	....	....
Tobacco & products (9)	— 4	—16	— 8	0
Miscellaneous (84)	— 6	0	— 1	+ 1
District Totals (202)	— 6	+ 2	— 3	+ 6

Source: Department of Commerce.
Number of reporting firms in parentheses.

RETAIL FURNITURE SALES

STATES	Percentage comparison of sales in period named with sales in same period in 1949 Jan. 1950
Maryland (6)	+19
Dist. of Col. (7)	+ 9
Virginia (19)	+ 2
West Virginia (9)	+14
North Carolina (11)	—16
South Carolina (10)	+ 7
District (62)	+ 8
INDIVIDUAL CITIES	
Baltimore, Md. (6)	+19
Washington, D. C. (7)	+ 9
Richmond, Va. (6)	+13
Lynchburg, Va. (3)	+ 8
Charleston, W. Va. (3)	—19

Number of reporting firms in parentheses.

DEPARTMENT STORE OPERATIONS
(All figures show percentage change)

	Rich.	Balto.	Wash.	Other Cities	Dist. Total
Sales, Jan. '50 vs. Jan. '49	+ 3	— 5	— 2	— 4	— 3
Stocks, Jan. 31, '50 vs. '49	+ 2	—10	+ 5	— 8	— 2
Orders outstanding, Jan. 31, '50 vs. '49	— 4	—17	+ 6	—18	— 5
Receivables Jan. 31, '50 vs. '49	+13	+ 6	+ 7	+ 2	+ 8
Current receivables Jan. 1 collected in Jan. '50	30	48	45	43	42
Instalment receivables Jan. 1 collected in Jan. '50	13	17	17	18	16

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, Jan. '50 vs. Jan. '49	—5	—2	—1	—1	—3	—5

COTTON CONSUMPTION AND ON HAND—BALES

	January 1950	January 1949	Aug. 1 to Jan. 31 1950	Aug. 1 to Jan. 31 1949
Fifth District States:				
Cotton consumed	377,283	345,248	2,260,674	2,138,754
Cotton Growing States:				
Cotton consumed	667,814	607,058	3,937,834	3,750,179
Cotton on hand Jan. 31 in consuming establishments	1,554,097	1,412,500		
Storage & compresses	9,949,854	8,196,104		
United States:				
Cotton consumed	734,186	674,283	4,339,725	4,199,792
Cotton on hand Jan. 31 in consuming establishments	1,749,946	1,626,584		
storage & compresses	9,974,867	8,240,107		
Spindles active, U.S., Jan. 31	20,217,000	20,941,000		

51 REPORTING MEMBER BANKS—5TH DISTRICT
(All Figures in Thousands)

ITEMS	February 15, 1950	Chg. in Amt. From 1-18-50	Chg. in Amt. From 2-16-49
Total Loans	$ 884,309**	+ 13,248	+ 28,812
Bus. & Agri.	402,250	+ 1,983	— 9,350
Real Estate Loans	216,997	+ 7,631	+ 17,381
All Other Loans	276,202	+ 3,749	+ 24,089
Total Security Holdings	1,840,361	— 6,306	+171,655
U. S. Treasury Bills	140,713	— 11,703	+ 89,253
U. S. Treasury Certificates	248,592	— 19,017	+ 64,930
U. S. Treasury Notes	147,890	+ 15,954	+103,847
U. S. Treasury Bonds	1,152,797	+ 9,230	— 59,730
Other Bonds, Stocks & Secur.	150,369	— 770	+ 23,355
Cash Items in Process of Col.	226,627	+ 12,266	+ 5,290
Due From Banks	171,671*	— 1,318	+ 24,446
Currency and Coin	61,406	— 2,568	— 89
Reserve with F. R. Banks	455,552	— 1,812	— 95,640
Other Assets	51,173	+ 933	+ 2,773
Total Assets	3,691,099	+ 14,443	+137,247
Total Demand Deposits	2,811,025	— 10,245	+ 91,026
Deposits of Individuals	2,083,985	— 6,236	+ 47,156
Deposits of U. S. Government	106,511	+ 21,365	+ 33,234
Deposits of State & Local Gov.	170,703	+ 5,774	— 12,852
Deposits of Banks	409,875	— 22,290	+ 33,892
Certified and Officers' Checks	39,951	— 8,858	— 10,404
Total Time Deposits	613,965	+ 5,229	+ 26,115
Deposits of Individuals	565,915	+ 4,471	— 296
Other Time Deposits	48,050	+ 758	+ 26,411
Liabilities for Borrowed Money	17,050	+ 17,050	+ 10,050
All Other Liabilities	19,512	+ 1,304	+ 625
Capital Accounts	229,547	+ 1,104	+ 9,431
Total Liabilities	3,691,099	+ 14,443	+137,247

*Net figures, reciprocal balances being eliminated.
**Less reserves for bad debts.

FEDERAL RESERVE BANK OF RICHMOND
(All Figures in Thousands)

ITEMS	February 15, 1950	Chg. in Amt. From 1-18-50	Chg. in Amt. From 2-16-49
Total Gold Reserves	$1,093,298	— 10,035	+ 41,792
Other Reserves	20,359	— 4,723	— 4,496
Total Reserves	1,113,657	— 14,758	+ 37,296
Bills Discounted	19,616	+ 15,115	+ 3,252
Industrial Advances	96	— 5	+ 28
Gov. Securities, Total	1,148,785	— 5,833	—283,013
Bonds	447,093	— 12,907	—194,424
Notes	45,586	+ 10,008	+ 21,156
Certificates	409,011	— 4,368	— 18,494
Bills	247,095	+ 2,342	— 91,251
Total Bills and Securities	1,168,497	+ 9,277	—279,733
Uncollected Items	218,804	— 18,255	— 27,633
Other Assets	27,426	— 8,473	— 23,130
Total Assets	2,528,384	— 32,209	—293,200
Federal Reserve Notes in Cir.	1,531,276	— 18,652	— 60,459
Deposits, Total	764,891	+ 7,428	—196,630
Members', Total	672,016	— 7,780	—165,788
U. S. Treas. Gen. Account	45,218	+ 16,452	— 38,913
Foreign	44,260	— 750	+ 8,808
Other Deposits	3,397	— 494	— 737
Def. Availability Items	185,832	— 22,420	— 39,746
Other Liabilities	497	+ 51	— 123
Capital Accounts	45,888	+ 1,384	+ 3,758
Total Liabilities	2,528,384	— 32,209	—293,200

PRICES OF UNFINISHED COTTON TEXTILES

	Jan. 1950	Dec. 1949	Jan. 1949
Average, 17 constructions	69.07	68.46	65.04
Printcloths, average (6)	79.18	78.22	71.27
Sheetings, average (3)	61.46	60.53	58.26
Twill (1)	71.94	71.73	64.90
Drills, average (4)	58.81	58.03	57.01
Sateen (1)	90.97	91.81	89.52
Ducks, average (2)	58.30	58.66	60.41

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

Source: Department of Agriculture.

Industrial Expansion in the Baltimore Area

Continued from page 3

certain, of course, that the story will unfold with a realization of all the hopes and promises that have been recently publicized. Sparrows Point will surely face increasingly severe competition in what was pointed out as its natural market. Informed sources have refrained from setting a date when construction of the new U. S. Steel plant near Trenton, New Jersey, will be started, and some guesses have set its completion a decade away. It seems logical, however, to expect it to be ready for operation about the time when imports of Venezuela ore attain a volume sufficient to service such a plant.

It should be pointed out these developments will sharpen for Baltimore the risks of highly cyclical heavy industry. The steel industry is not referred to as a "prince or pauper" one in idle jest; it needs no full-blown depression to move it from feast to famine. During the past decade the relatively stable apparel industry lost out as Baltimore's leading employer and its place has been taken over by iron and steel. Should cycle-sensitive heavy industry so expand as to upset the present fairly well balanced industrial structure of the Baltimore area, there could develop serious effects on employment and income.

Finally, notice should be taken of the military angle in the location of new and expanded steel facilities. While there are undoubted advantages favoring the growth of steel centers on the Eastern Seaboard, the argument in this direction must be tempered by an inclusion of all the factors bearing on any important shift in steel-making facilities.