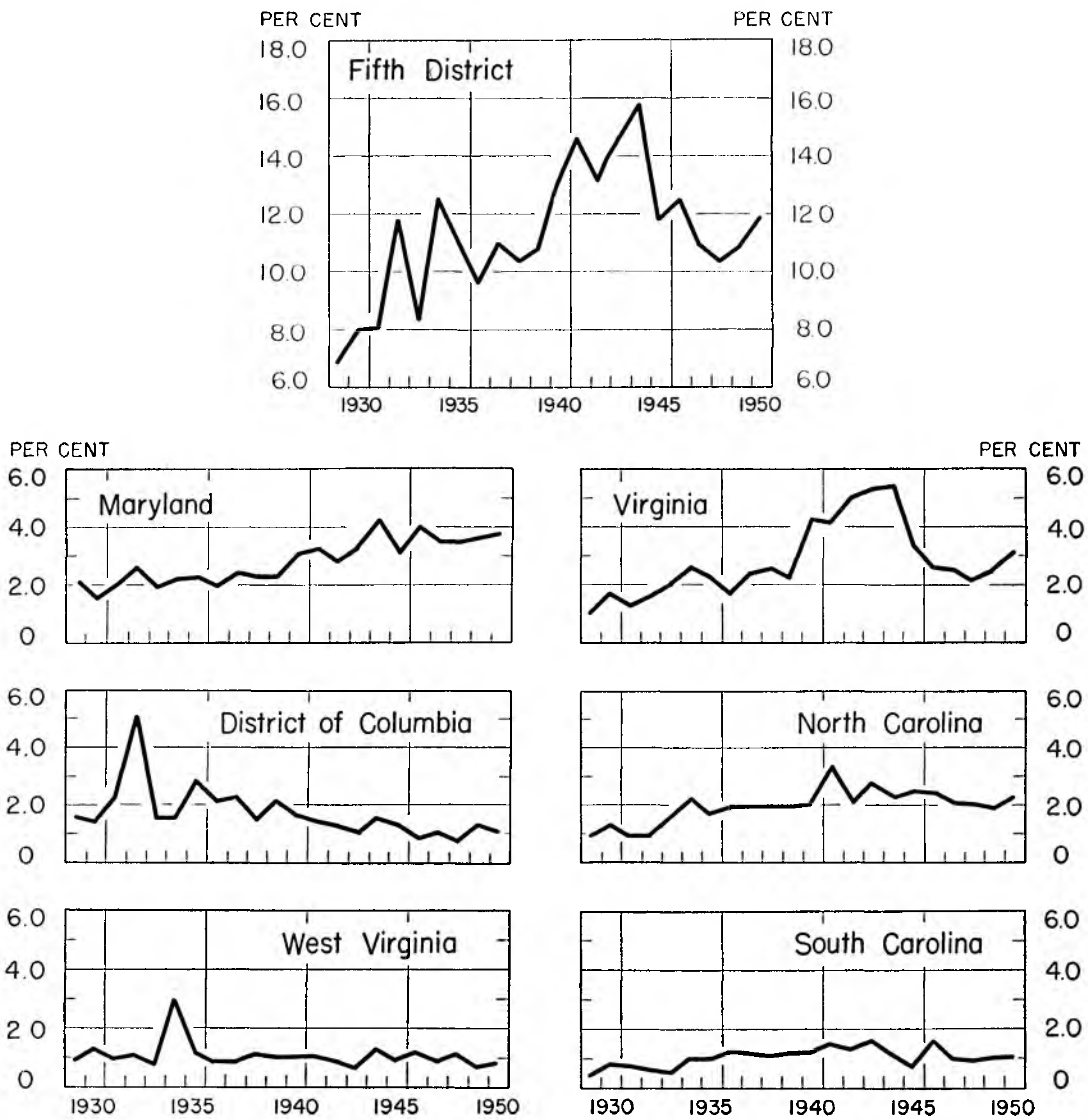
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

THE FIFTH FEDERAL RESERVE DISTRICT

JULY 1950

CONSTRUCTION CONTRACTS AWARDED IN THE FIFTH DISTRICT
(PER CENT OF THIRTY-SEVEN STATE TOTAL)



Fifth District construction is still going strong. The above chart shows relatively better growth in the Fifth District than in the nation. The construction boom, though old in point of time, is strongly bolstered by easy and plentiful credit. Interesting aspects of the industry are discussed in the article which starts on page 2.

Also In This Issue:

Construction High and Rising

Construction is often referred to currently as one of the principal props to the national economy. Such a statement is generally truer if applied on a national rather than a regional basis, since production of construction materials is greater in some areas than in others. Furthermore, if construction was an important prop to the economy in 1949, it is a prime mover in 1950 since total volume is running considerably higher than a year ago, while industrial production is likewise moving upward.

The construction industry derives its basic strength from industrial growth in a given area. Such growth requires added housing for workers operating the added facilities, and this generates a need for construction of sundry trade and service establishments. Industrial growth in turn develops a labor pool possessing specific technical skills, making the area a desirable location for expansion of allied production facilities.

Today's construction boom has in a sense reversed traditional procedure, for postwar growth has been sparked, in the main, by an expansion of residential units. In part this was caused by the long depression of the 30's and the handicaps to residential outlays during the war years as a result of material and labor allocations for war purposes. In large part it is a delayed effect of the vast industrial expansion during the war period. The extraordinarily high levels of residential construction in the first three postwar years were thus largely "making up for lost time."

In the recent past a new factor has entered the construction picture, of great importance in generating strength in residential construction as well as giving a clue to its future possibilities. This new factor is the substantially relaxed terms of financing available, both as regards the rate of interest, the down payment and the time period of the mortgage.

The rate of mortgage interest currently ranging from 4 to 4½% is low by previous historical standards and has been reduced by the policy of holding down the interest rate on long-term Government bonds. More important than the low interest rate has been the impetus given the construction industry by guarantees introduced by FHA and VA, together with reduced down payments and lengthened mortgage terms. Together they have lowered current carrying charges to a point where many more people can purchase housing than ever before in the history of the nation.

It is probably true that more housing space is available today per capita than ever before, but under present financing terms there are still many millions of people who are capable of making home purchases, and barring inordinate rises in home prices, ease of financing is the chief reason to anticipate continued high levels of housing construction for some time to come.

High level construction activity probably has a somewhat greater effect on the Fifth District than in some other areas since, in addition to the direct on-site employment, the Fifth District is an important supplier of lumber—one of the chief construction materials, particularly for residential housing. It is also an important supplier of glass, plywoods, slate, brick, sand and gravel. In fact, the District's relative stability in total employment during 1949 and thus far in 1950 can be attributed in large part to the steadiness in direct construction employment at the site and in construction materials.

Total construction in the Fifth Federal Reserve District for the first five months of 1950, as measured by the F. W. Dodge Corporation contract awards, was running at a seasonally adjusted annual rate of $1.5 billion, which is 28% higher than the whole of 1949. As is always the case, there have been sharp variations within the District. In the first five months of 1950 relative to a year ago. West Virginia leads the District with North Carolina running a close second, followed in order by Virginia, Maryland, South Carolina, and the District of Columbia, as shown in Table 1.

Table 1
TOTAL CONSTRUCTION CONTRACTS AWARDED IN THE FIFTH DISTRICT

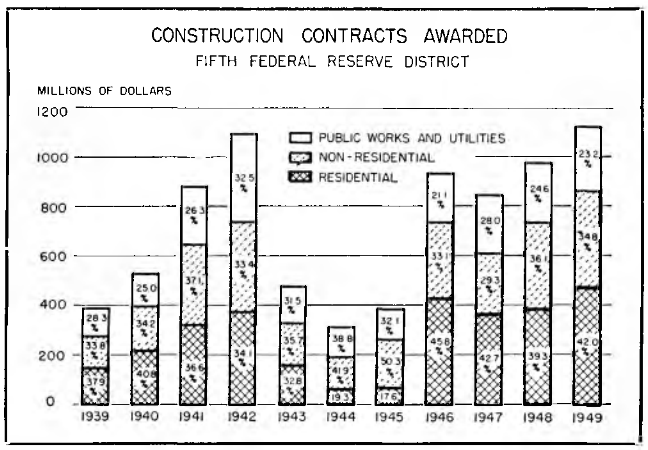
	Jan.-May 1949 ($000)	Jan.-May 1950 ($000)	Per Cent Increase '49 to '50
Maryland	106,246	192,065	80.8
District of Columbia	50,912	46,316	—9.0
Virginia	89,256	168,943	89.3
West Virginia	19,250	39,602	105.7
North Carolina	58,135	116,352	100.1
South Carolina	34,581	61,989	79.3
Fifth District	358,380	625,267	74.5

Source: F. W. Dodge Corporation

Cities showing unusually large increases in building permit valuation in the first five months of 1950 over the same period a year ago were: Rocky Mount, N. C., 283%; Salisbury, N. C., 265%; Durham, N. C., 258%; Petersburg, Va., 186%; Cumberland, Md., 175%; Spartanburg, S. C., 161%; Charleston, W. Va., 159%; Frederick, Md., 144%; Portsmouth, Va., 119%; Baltimore, Md., 105%; Roanoke, Va., 105%; and Raleigh, N. C., 104%. Only two cities show permits for the period below a year ago and the remainder are up from 2 to 65%.

Construction contract awards in the Fifth District had been accounting for an increasing proportion of the 37 state total between 1929 and 1944, but the trend since 1944 has been reversed and the District's proportion has fallen. In the last four years approximately the same percentage has prevailed as in the late 1930's. The District's extraordinarily high proportion of the 37 state total in the years 1940 to 1944 was the result of the inordinately high concentration of wartime construction in this area. That the Fifth District has been able to maintain the improved proportion that it established in the years 1937, 1938 and 1939 has been due to industrial growth as well as changed relationships in the District relative to the rest of the country in commodity prices, wages, and, in turn, income.

West Virginia was the only state of the Fifth District which did not share heavily in the wartime construction boom and, as a consequence, the contribution of that state to the national total has been without trend. In other words, the state's level of construction since 1929 has paralleled that of the nation. The Carolinas have shown a horizontal trend in their proportionate contributions to the national total since the early 1930's. Maryland, on the other hand, has shown a consistent upward trend while the District of Columbia has shown a consistent downward trend. Virginia's contribution to the national total has been in an upward trend with the chief impact of war construction falling in this state and raising its wartime proportion to very high levels. The percentage contribution of the Fifth District and its states to the 37 state total construction contract awards is shown graphically from 1929 to 1950 in the chart on this page, the 1950 figures being percentages for the first five months.



Total Fifth District construction contract awards in the first five months of 1950 were 75% higher than in the same period of 1949. It must be remembered, however, that during the first quarter of 1949 there was a considerable slump in construction activity and percentage comparisons between this year and last year are thus distorted on the high side. Nevertheless, gains shown in many segments of the industry are impressive, and have pushed the absolute levels into new high ground.

Educational buildings have shown the largest increase in this period (168%), the result of a sharp increase in the number of children attaining school age and more yet to come. In addition, the states in this District are building a substantial number of schools to accommodate Negro students under the Supreme Court ruling that facilities should be equal.

Prominent in the gain during this period have been apartments and hotels for which contract awards have run 136% higher than last year. This large gain has been in part due to anticipating the expiration of Title 608 of the FHA on March 31, and high figures since that date have been due to allocation of sufficient funds to cover previously made applications.

One- and two-family houses have risen 129% and this can be attributed to a broadening of the number of people with sufficient income to afford independent housing together with the very easy terms of financing. Public works and utilities awards are up 69% in the first five months from a year ago—a substantial figure, but considerably below the increase in residential or educational awards. The growth in residential construction will require continued expansion in water, power, and gas facilities.

A clearer idea of the magnitude of the current building boom can be had from a comparison of 1949 figures with the widely-used base years 1935-1939. Total Fifth District contract awards in 1949 were 380% of the base years; residential, 435%; apartments and hotels, 712%; one- and two-family houses, 352%; commercial structures, 424%; factory buildings, 223%; and public works and utilities, 317%.

The composition of construction by types has been quite variable over the past decade. Residential construction has ranged from 17.6% of the District total to 45.8%, with recent years showing a somewhat larger proportion than in the two prewar years 1939-1940. Non-residential construction has ranged from 29.3% of the District total to 50.3%, with recent years about in line with the proportionate contribution in the two prewar years. Public works and utilities have ranged in percentage of total from 21.1% to 38.8%, with the last two years considerably below the two prewar years. In the main, the non-residential figures were the largest proportion of the District total during the war years and these were influenced mainly by factory buildings and "other" non-residential construction, such as highways, hospitals, and various military installations. Commercial buildings and educational buildings, however, have shown their largest contribution to the District total in the postwar years.

There was considerable construction of apartments in this District early in the war period for purposes of housing the war workers, and the percentage of total building represented by apartments and hotels rose quite sharply in the year 1942; but it declined to about prewar levels in the remaining war years. It has shown a substantial increase in importance in the postwar period. Many believe that apartment construction has about satisfied the demand for rental space, but it would seem that some excess space would be necessary and that such building will continue until a vacancy rate of something around 4 or 5% is witnessed.

One- and two-family houses were restricted during the war period and the proportionate contribution of this type of building fell very markedly from 29% of total in 1939 to 5% of total in 1944. The percentage of total rose quite rapidly in 1946 but has settled back to approximately prewar averages in the last three years. Indications for 1950, based on five months, show the proportion of this type of housing is again rising.

Public works and utilities made their largest contribution to the District's construction activity during the war years. Their percentage rose consistently from 1940 through 1944 and fell precipitately through 1946. Recent yearly figures have been somewhat better than 1946 but lower than prewar years.

In summary, the construction industry, even after five booming years, appears to be quite strong and will continue so while terms of financing remain easy and if construction costs do not rise sharply to squelch the strong demand. The industry has been sparked in recent years by residential construction in which both apartments and one- and two-family houses have been predominant. Population growth in most major cities has made it necessary to increase the commercial building facilities needed to serve the larger number of people. Educational building has been increasing because of the high birth rate during and following the war, and many more school buildings will have to be erected. There is some indication that, with business at a much higher level than was thought possible last year, some improvement will be shown in the erection of factory buildings—March and April figures seem to point in that direction.

Construction costs are again moving upward in rather disconcerting fashion, but certain innovations in construction techniques have made the actual costs somewhat more favorable to the construction outlook than is evident in the figures on materials and labor rates. Until costs rise more or a general tightening of credit takes place, the outlook for the construction industry appears to be for a continuing high level.

Selling to the Government

Procurement Information Readily Available

In 1949 the Federal Government spent over $25 billion for a wide variety of goods and services. Many of the purchases were made from small businessmen who are best able to produce the goods or perform the services needed by the Government. It is possible, however, that many small enterprises are not aware of the possibility of adding the Government as a customer. In view of the post-war increase in the number of firms in operation—which percentagewise was much greater in the Southeast than in the nation—and the increasing stress of competition, opportunities for selling to the largest single buyer in the world should not be overlooked by Fifth District businesses.

To acquaint businessmen with this market, the Departments of Commerce and Defense, with the General Service Administration, have developed a program whereby accurate and up-to-date information on most of the Government's military and civilian buying needs is made readily available. At the close of each business day summaries of anticipated purchases are sent by airmail to the Commerce Department's 14 regional offices which, in turn, redistribute the synopses to 28 district offices and to approximately 100 cooperating offices where businessmen will have direct access to the information in time to study the lists and submit their bids.

These daily summaries, available at key points throughout the country, include a brief but adequate description of the item to be procured, quantity to be purchased, the invitation number and place and date of bid opening or issuance. The program does not apply to invitations to bids, or awards on classified contracts. This information will be made available only to properly cleared representatives of concerns invited to bid on classified work.

Field offices of the Department of Commerce in the Fifth District are located at 103 S. Gay Street, Baltimore, Maryland; 801 E. Broad Street, Richmond, Virginia; and 18 Broad Street, Charleston, South Carolina. Further information and names and addresses of the cooperating offices can be obtained from any one of these field offices.

New Plan For Freight Car Financing

The Atlantic Coast Line Railroad, which operates one of the main North-South lines through the Fifth District, has become the first railroad to take advantage of a new plan for leasing freight cars from institutional investors. This plan was announced in March of this year by the Equitable Life Assurance Society and calls for the purchase of cars by the insurance company and their rental to the roads under a 15 year agreement. The Coast Line's lease of 1,300 cars may well prove to be the forerunner of a host of similar leases covering equipment of all descriptions.

For some years life insurance companies have purchased plants, warehouses, and stores for lease to operating companies—the well-known "sale-lease back" arrangement.* Equitable expressed its willingness to apply the same plan to freight cars, purchasing them from car manufacturers with 80 per cent of the price paid in cash and the balance to be paid over a period of five years out of rentals received during that period.

The cars are then to be leased to an operating railroad for a period of 15 years, during which time the insurance company will recover its outlay plus an investment yield of at least 3 per cent. At the expiration of the original lease, the railroad may at its option renew it at the nominal rental of 20 cents per day.

Contrast with orthodox financing

This plan stands in sharp contrast to the traditional method of financing purchases of railroad equipment. In the past, manufacturers have received full payment upon delivery, and railroads have customarily paid 20 per cent of the cost at that time, financing the remainder with borrowed funds through the use of equipment trust certificates. These obligations were issued against the security of the equipment and full repayment typically was effected in 10 to 15 years.

Equipment trust certificates constitute a direct lien on strategic assets of a railroad. Further, these assets may be readily mobilized for sale in the event of default upon the obligations. The obligations are issued in serial maturities and offer an attractive return to investors. As a consequence they enjoy a favorable market and are in demand by banks and other institutional investors.

Under this traditional and orthodox financing the railroads were usually required to make a down payment of 20 per cent at the time of the purchase of new equipment. Large amounts of cash were thus necessary and, in the case of some companies, this led to deferment of purchase and replacement of rolling stock, even though maintenance costs increase at a rapid rate as cars become older. Delays in the purchase of new equipment most frequently occurred in times of depressed business conditions and at times when there was heavy inducement to reduce operating costs. During these periods capital goods' markets were weak and equipment could have been purchased on more advantageous terms.

In announcing its new program, the Equitable noted that 30 per cent of the freight cars now in use are over 25 years old, while more than half are more than 20 years old—thus pointing up the fact that the majority of rolling stock of the railroads has an advanced age and is in the stage of high maintenance costs.

Coast Line takes 1,300 cars

The Atlantic Coast Line seized this opportunity to secure new cars, and within a week after Equitable's new plan was proposed, announcement was made of purchase of 1,300 cars for lease to that railroad. Terms of the lease between the insurance company and the road were not officially disclosed, but it was reported that they called for a rental payment of $1.15 per day for the first year, $1.10 per day for the second year, and further rental decreases in successive years.

Action by the Atlantic Coast Line has been followed by other railroads. On June 1, Thomas I. Parkinson, Equitable president, announced that contracts had been signed with six railroads for 14,600 freight cars costing $77,492,000. The Pennsylvania Railroad, largest participator to date, agreed to take 10,000 cars—the largest single car order placed for 25 years. In addition, it was stated that negotiations involving an additional 5,074 cars were in progress.

This announcement was accompanied by a proposal to broaden the program to include the purchase and lease of diesel locomotives on a similar basis. One such transaction has already been reported, with a New York bank and the Northwestern Life Insurance Company supplying funds for purchase of 34 engines.

Lease financing in other fields

Prior to this application of the "Equitable Plan" to diesel equipment, the technique had spread to other transportation fields. ACF Brill Motors Company, manufacturers of buses and trackless trolleys, entered into agreements covering the lease of buses to two traction firms. Details of their agreements were not disclosed but leases were reported to cover 8 to 10 years. The bus manufacturer naturally hopes that through the novel leasing arrangements municipalities and traction firms will modernize equipment at a more rapid rate. The need is clear in many cases and the not-too-strong cash positions of these companies have frequently been a major barrier to desired and desirable modernization programs.

It seems likely that the possibilities in the new purchase-lease plan have not yet been exhausted. There is little reason to look for a complete replacement of more ortho-

Continued on page 8

*For a description of the sale-lease back transaction, see "A New Source of Investment for Life Insurance Companies Provides a New Form of Corporate Financing," this *Review,* October 31, 1948.

Business Conditions and Outlook

Economic activity in the Fifth District during May was mainly in an up trend, with trade levels stronger and production improving. Building activity continued at record levels and employment in general was rising. Manufacturing concerns are again thinking of new plants and expansion and several sizeable projects have been announced in recent weeks. Bank loans continued to move upward with commercial, industrial, and agricultural loans thus far moving contrary to the normal seasonal trend. The cotton textile industry has sold the bulk of its output through the remainder of the year and several constructions are selling into the first quarter of 1951. Bituminous coal output has improved moderately, but the hosiery industry is approaching its period of summer dullness and the shipyards are still experiencing layoffs.

Bituminous coal production in the Fifth District rose 6%, after seasonal adjustment, from April to May, but May was 16% under a year ago. Latest national figures on consumption are for April and show public utilities, cement mills, and steel mills using relatively more coal in their total energy requirements. There has been little further deterioration in railroad utilization and retail deliveries have run well ahead of a year ago. With railroad policy indicating a definite movement to diesel locomotives, it is probable that further decline in railroad consumption will be witnessed.

On the other hand, industrial consumption and that of public utilities seem likely to expand considerably with the prospective rising level of business. In addition to moderately favorable over all consumption trends, April figures indicated that a broad stock-building program is probable. Demand for this purpose alone could easily amount to 50 to 70 million tons this year. The coal price structure has eased somewhat, while the price of Bunker C oil has strengthened. Together these factors would seem to indicate a somewhat brighter outlook in the coal industry than has been current for some time.

The cotton textile industry's cutback was short-lived and was halted in May when Fifth District adjusted figures of both cotton consumption and spindle hour activity bounced back near the peak of December or January. It is interesting to note that this rise came princi-

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

	May 1950	Apr. 1950	Mar. 1950	May 1949	% Chg.—Latest Month Prev. Mo.	% Chg.—Latest Month Year Ago
Automobile Registration*	......	214	201	197	+ 6	+ 20
New Commercial Car Registrations	......	205	175	184	+ 17	+ 19
Bank Debits	366	356	338	335	+ 3	+ 9
Bituminous Coal Production	152	143r	160	180	+ 6	— 16
Building Contracts Awarded, Total	485	517r	561	287	— 6	+ 69
Commercial Construction Contracts	414	456	258	573	— 9	— 28
Manufacturing Construction Contracts	810	493	492	133	+ 64	+509
Public Works and Utilities	384	323	440	252	+ 19	+ 52
Residential Construction Contracts	603	697	700	314	— 13	+ 92
Apartments and Hotels	398	1131	1239	334	— 65	+ 19
One and Two Family Houses	675	630	713	312	+ 7	+116
Building Permits Issued	407	379	442	342	+ 7	+ 19
Business Failures—No.	102	76	89	59	+ 34	+ 73
Cigarette Production	242	197	229	250	+ 23	— 3
Cotton Consumption	151	145	144	111	+ 4	+ 36
Cotton Spindle Hours	148	141	142	115	+ 5	+ 29
Department Store Sales†	320	323	288	317	— 1	+ 1
Department Store Stocks†	333	329	324	303	+ 1	+ 10
Electric Power Production	......	296	305	257	— 3	+ 14
Employment—Mfg. Industries*	......	138	138	134	0	+ 1
Furniture Mfrs: Orders†	......	269	360	179	— 25	+ 53
Furniture Mfrs: Shipments†	......	296	288	200	+ 3	+ 38
Furniture Mfrs: Unfilled Orders†	......	768	832	255	— 8	+155
Furniture—Retail:†‡						
Net Sales	199	188	179	209	+ 6	— 5
Cash	252	202	214	265	+ 25	— 5
Credit	172	167	152	183	+ 3	— 6
Receivables	139	138	139	108	+ 1	+ 29
Collections	176	178	181	170	— 1	+ 4
Inventories	165	162	166	140	+ 2	+ 18
Household Appliance Store Sales	134	100	84	107	+ 34	+ 25
Life Insurance Sales	299	257	275	245	+ 16	+ 22
Wholesale Trade:						
Automotive Supplies**	609	515	575	344	+ 18	+ 77
Drugs	254	257	278	266	— 1	— 5
Dry Goods	202	184	198	166	+ 10	+ 22
Electrical Goods**	75	63	57	90	+ 19	— 17
Groceries	253	244	249	246	+ 4	+ 3
Hardware	153	134	126	139	+ 14	+ 10
Industrial Supplies**	229	271	238	248	— 15	— 8
Paper and Its Products**	150	158	148	129	— 5	+ 16
Tobacco and Its Products**	65	63	56	85	+ 3	— 24

*Not seasonally adjusted
**1938-41—100
†Revised Series—back figures available on request
‡1941—100

pally in South Carolina where few of the mills are engaged in sales yarn business. Mill sales of cotton goods took a flurry around the middle of May and then subsided until the early part of June. When it became evident to buyers that the firmer price structure established in May was holding, additional forward business was written covering a good part of the mill production for the remainder of the year. The third quarter is booked solid and not too many goods are available for the fourth quarter. Some constructions are selling in quantity for delivery in the first quarter of 1951. Mill activity, aside from the probable seasonal consequences of more widespread vacations in July, will probably be in an upward trend during the remainder of the year. These cotton goods sales are supporting evidence that soft goods industries are preparing for a higher level of retail sales in the months ahead.

Automotive sales continued their rising trend in April with passenger cars up 20% from a year ago and commercial trucks up 19%. Selected dealers in the District indicate backlogs of customer orders that will take all of their factory deliveries for the next 60 to 90 days.

Rayon deliveries in May improved somewhat from the April level but have thus far given no indication of moving out of the flat trend prevailing since October. Women's apparel sales' outlook is improving and both retailers and manufacturers are anticipating a considerable revival in the last half year. It is probable, therefore, that rayon deliveries will move into new high ground in the last half of the year.

Furniture Manufacturing

Furniture production is rising. Latest figures for April show shipments 3% ahead of March, after seasonal correction, and 38% ahead of April 1949. Although April orders adjusted were down 25% from the previous month, they were 53% higher than a year ago and this reduction probably was affected by the approach of the Southern Furniture Exposition, during which sales were apparently quite heavy.

Although business booked at the Chicago Furnishings Mart was somewhat less than had been anticipated, due to heavy buying at the earlier session of the High Point Market, nevertheless a good volume of orders was secured. There is little reason at this time to expect other than a high level of operations in southern furniture plants as business already on hand is understood to be sufficient to carry them through the fall season. The substantial housing boom this spring will be felt in the retail markets this fall and it is probable that a further expansion of manufacturers' backlogs will be witnessed before that time. Prices are slightly higher than at the turn of the year, but it is rare that these increases have amounted to more than 5%. For the most part, it appears that they have been less than that figure.

The hardwood lumber market has apparently settled or steadied pricewise. Insofar as this holds in the coming months, it may be unnecessary for manufacturers to make further price advances. Furniture factories are still in the market for substantial quantities of hardwood lumber.

Retail furniture adjusted sales in the Fifth Federal Reserve District in May were 6% higher than April, but 5% under May last year which was the highest month in 1949. Furniture sales at retail are still doing very well in this District and it is a good bet that they will do better in the last half of the year. Retail inventories, however, are higher than they have ever been before and 18% ahead of a year ago.

Expansion in furniture store instalment receivables has flattened off thus far this year, but this appears to be a new seasonal factor as the same situation occurred a year ago. Collections have been steady in the first five months of the year, and the collection-receivable ratio, after several years of decline, has steadied during the first five months this year.

Employment

It is interesting to note that the improved levels of production in the District have not been accomplished by a commensurate increase in employment. Part of this has been due to an increased workweek, but an important part has been apparently an increase in the efficiency of labor. Labor requirements have been growing in the construction industry and in the lumber and building materials business. There has been some increase in cotton textile employment, but mainly hours of labor have improved in this industry. Shipyards are still laying off employees, but the rate of layoff has been much less than had been anticipated and it is believed in some of the yards that current employment levels will hold for some months.

The hosiery industry is in its period of summer slump and no one seems quite certain whether the bare-legged vogue will be larger or smaller than in the past periods. The full-fashioned industry is not expecting much business before fall, but there is considerable optimism for this period. Full-fashioned prices thus far have not shown general weakness, though some in-line reductions as well as promotions have been in evidence. Twenty branded manufacturers announced they will continue present prices for the fall season.

Coal Production

Bituminous coal employment is falling probably due to mine closings, but this is not an indication that the output of bituminous coal is going to fall. The mechanized mines which can operate full time will probably be able to turn out a greater tonnage with fewer employees. Total manufacturing employment in the District, as far as our figures are available this year, has been very stable. Indications from labor market reports show that a slight improvement was witnessed in May and somewhat further improvement in June. Since the larger part of this manufacturing employment in this District is in the soft goods lines, it would seem probable that an improving trend would be in evidence during the last half of the year.

Department store sales in May fell slightly below those of April, on an adjusted basis, but were 1% ahead of a year ago. Weekly reports thus far in June indicate a better level for that month. Hard goods sales continue to be the chief support of department store sales, but there is considerable evidence that apparel and other soft goods are likely to improve, if not currently, in the fall and winter period.

The wholesale trades of the District perked up considerably in May, with all lines showing better than a seasonal rise except drugs, industrial supplies, and paper. Gains in wholesale sales over a year ago are marked in automotive supplies, dry goods, hardware, and paper firms.

In summary, the improvement, both in retail sales levels and the better outlook in the soft goods industries, will probably carry Fifth District business levels into new high ground during the last half of the year.

New Plan For Freight Car Financing

Continued from page 5

dox long-term financing, but there are other types of equipment which can be adapted to lease operation in place of outright ownership. For many years some types of specialized machinery have been available only on a rental basis, and it is not improbable that other producers of capital goods will turn to this means of bolstering sales where would-be purchasers lack the funds required for outright purchase. It is interesting to note that the announcement of the Equitable Plan came after the sharp decline in new car orders that occurred following the postwar rush for new equipment—the backlog of freight car orders at the end of February was 26,055 as compared with 85,974 a year before.

The financial community cannot afford to ignore the potential significance of these developments. Purchase and lease of real estate by life insurance companies and other institutional investors have already displaced a substantial amount of long-term financing for the lessee companies. The figures cited above indicate similar decreases in railroad financing required, although it is probable that some of this equipment would not have been purchased by the roads themselves under more orthodox financing and hence that a portion of these funds would not have been borrowed. Important as this displacement of borrowing has been, it may well be overshadowed by future extensions of the lease device to other fields.

DEBITS TO INDIVIDUAL ACCOUNTS

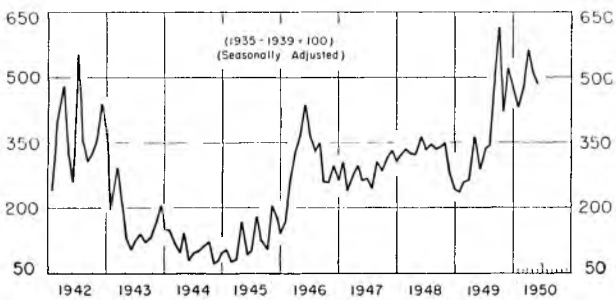
	May 1950	May 1949	5 Months 1950	5 Months 1949
Dist. of Columbia				
Washington	$ 915,581	$ 760,575	$ 4,016,931	$ 3,666,193
Maryland				
Baltimore	1,109,017	940,594	4,909,827	4,639,878
Cumberland	22,419	20,907	104,957	101,999
Frederick	18,665	16,506	84,934	85,382
Hagerstown	27,104	24,961	131,122	129,516
North Carolina				
Asheville	49,978	41,919	239,749	226,264
Charlotte	257,193	217,302	1,303,732	1,121,985
Durham	83,806	87,806	391,551	415,505
Greensboro	83,431	66,091	394,253	357,776
Kinston	12,204	11,730	62,267	64,260
Raleigh	138,256	113,624	671,997	614,820
Wilmington	32,698	30,885	159,505	153,877
Wilson	12,185	10,915	69,479	71,477
Winston-Salem	135,411	116,553	660,438	588,049
South Carolina				
Greenville	60,548	54,022	301,108	291,033
Columbia	103,732	96,036	505,175	476,383
Greenville	85,179	70,794	422,449	385,321
Spartanburg	47,294	39,948	239,569	221,164
Virginia				
Charlottesville	23,706	20,947	114,683	108,385
Danville	22,052	19,211	116,867	111,193
Lynchburg	37,679	32,418	187,832	176,559
Newport News	28,946	29,694	140,158	158,321
Norfolk	213,551	163,778	1,046,468	858,588
Portsmouth	20,745	18,381	101,852	94,929
Richmond	483,271	458,660	2,341,260	2,350,818
Roanoke	95,981	86,509	460,653	439,787
West Virginia				
Bluefield	42,665	43,269	192,072	226,122
Charleston	128,964	133,528	606,946	672,605
Clarksburg	29,793	27,979	140,386	143,901
Huntington	59,039	50,092	276,789	285,233
Parkersburg	25,066	23,513	122,770	125,943
District Totals	$4,406,159	$3,829,147	$20,517,779	$19,363,266

BUILDING PERMIT FIGURES

	May 1950	May 1949	5 Mos. '50	5 Mos. '49
Maryland				
Baltimore	$ 6,722,420	$ 5,841,510	$ 39,639,140	$ 19,333,275
Cumberland	250,395	46,890	591,890	215,000
Frederick	91,075	291,902	1,229,950	466,947
Hagerstown	113,710	297,050	774,580	639,995
Salisbury	218,325	67,413	633,917	774,781
Virginia				
Danville	275,943	420,325	1,476,352	1,427,131
Lynchburg	362,415	419,216	1,611,595	1,969,218
Norfolk	1,357,845	1,772,349	6,597,205	4,793,146
Petersburg	221,228	113,443	1,738,695	607,778
Portsmouth	296,125	143,794	1,462,909	666,647
Richmond	2,721,868	2,136,891	9,628,571	7,438,853
Roanoke	1,333,156	662,193	8,847,507	4,325,792
West Virginia				
Charleston	721,071	379,802	7,616,313	2,935,745
Clarksburg	297,050	150,510	778,273	471,705
Huntington	615,102	436,793	2,566,296	1,774,243
North Carolina				
Asheville	191,073	660,647	1,940,296	1,401,702
Charlotte	2,447,346	1,805,626	11,688,060	7,454,411
Durham	696,900	666,685	9,005,287	2,518,462
Greensboro	1,230,595	672,275	4,994,286	4,249,144
High Point	490,941	611,795	1,728,572	1,221,486
Raleigh	1,040,750	351,225	8,045,641	3,952,015
Rocky Mount	177,509	145,143	2,249,886	586,953
Salisbury	197,258	129,455	1,640,346	449,912
Winston-Salem	1,195,330	2,134,559	4,942,571	4,233,545
South Carolina				
Charleston	595,245	132,580	1,479,183	1,315,330
Columbia	980,733	769,986	5,373,796	3,164,892
Greenville	667,400	982,650	3,131,929	3,084,790
Spartanburg	1,188,241	96,655	1,702,947	651,682
Dist. of Columbia				
Washington	6,282,038	5,388,275	29,041,183	19,745,442
District Totals	$32,979,087	$27,727,637	$172,157,076	$101,870,022

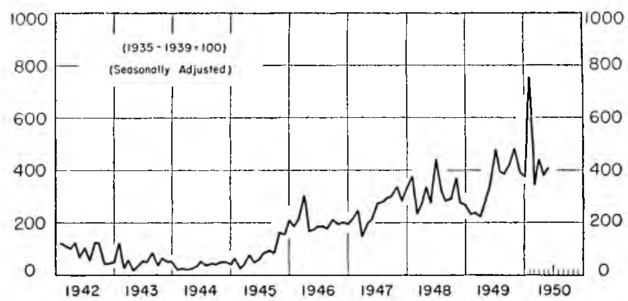
FIFTH DISTRICT TRENDS

CONSTRUCTION CONTRACTS AWARDED



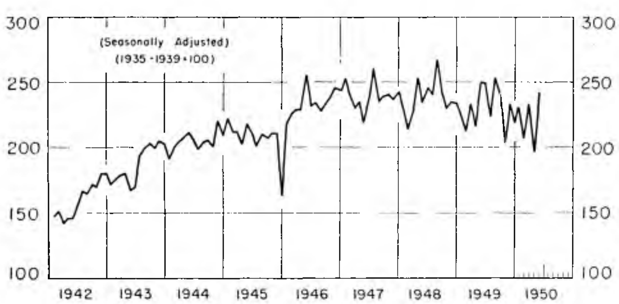
Construction contract awards fell 6% more than the normal seasonal drop from April to May, but May figures were 69% ahead of those last year. Types of construction showing a better than seasonal performance from April to May include factory buildings, public works and utilities, and one- and two-family houses; those showing poorer than seasonal performance were commercial awards and apartments and hotels.

BUILDING PERMITS



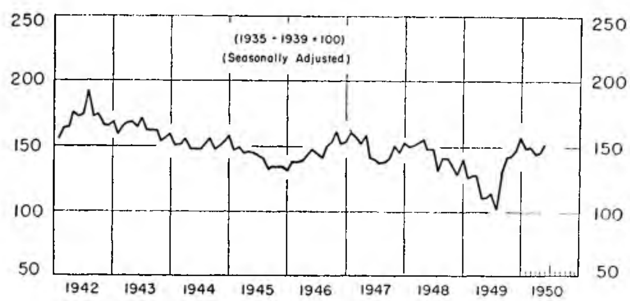
Building permits value, strongly reflecting the up-change in one- and two-family houses, rose 7%, after seasonal correction, from April to May. Of the 29 cities reporting, 21 show permits valuation higher than a year ago and 8 lower. For the first five months of the year permits were valued 68% higher than the same period last year.

CIGARETTE PRODUCTION



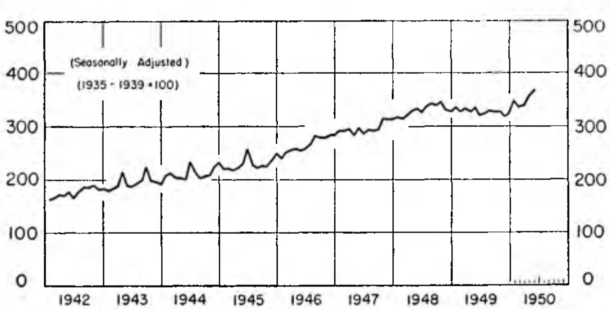
Output in this District rose 23%, after seasonal correction, from April to May, but the latter month stood 3% below a year ago. In the first quarter of the year, U. S. cigarette exports declined 21% from a year ago, whereas domestic consumption rose 3% in this period.

COTTON CONSUMPTION



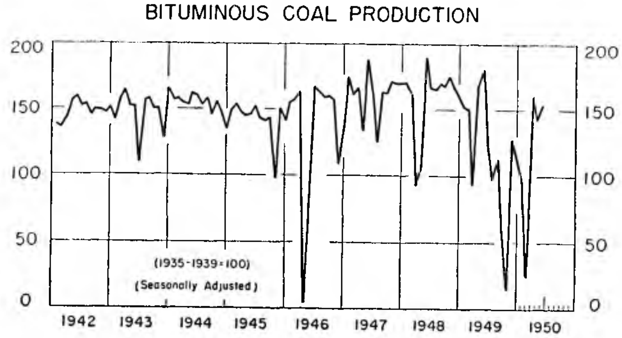
Spring recession in cotton consumption was short-lived with the May figure rising 4% above April, on an adjusted basis, to a level 36% ahead of a year ago. The trend is again upward and markedly so in South Carolina. Enough business has been booked to insure a rising level of operations through the third quarter.

BANK DEBITS



The marked cyclical recovery evidenced in bank debits since December continued strongly upward in May, when the adjusted index rose 3% above April and stood in that month 9% ahead of a year ago. Of the 31 reporting cities 27 showed May debits ahead of a year ago and 4 showed reductions.

BITUMINOUS COAL PRODUCTION



Bituminous coal production in this District rose from April to May, in fact 6% more than seasonally. May production, however, was down 16% from a year ago, but output in May last year was held at a high level in anticipation of work stoppage at mid-year. Weekly figures since May have turned up partly as a result of the improved demand and also in anticipation of July miners' vacations.

WHOLESALE TRADE

LINES	Sales in May 1950 compared with May 1949	April 1950	Stocks on May 31, 1950 compared with May 31 1949	Apr. 30 1950
Auto supplies (9)	+ 6	+ 8	+ 5	+ 1
Electrical goods (5)	+14	+15	....	....
Hardware (9)	+14	+14	+17	— 8
Industrial supplies (4)	+ 4	—10	— 3	— 2
Drugs & sundries (13)	+ 6	+ 2	+ 4	0
Dry goods (13)	+ 7	+13	+ 2	— 7
Groceries (61)	+ 6	+11	+ 2	— 2
Paper & Products (6)	+ 5	+ 3	....	....
Tobacco & Products (11)	+ 1	+12	+ 3	— 1
Miscellaneous (88)	+10	— 3	+ 5	+ 8
District Totals (219)	+ 8	+ 4	+ 6	+ 1

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

REPORT ON RETAIL FURNITURE SALES

STATES	Percentage comparison of sales in periods named with sales in same periods in 1949: May 1950	5 Mos. 1950
Maryland (7)	— 6	+ 6
Dist. of Columbia (7)	+ 6	+ 7
Virginia (19)	+ 6	+ 2
West Virginia (10)	— 8	+ 8
North Carolina (12)	+ 7	+ 8
South Carolina (9)	+ 4	+10
District (64)	+ 1	+ 6
INDIVIDUAL CITIES		
Baltimore, Md. (7)	— 6	+ 6
Washington, D. C. (7)	+ 6	+ 7
Richmond, Va. (6)	— 6	— 4
Lynchburg, Va. (3)	+12	+ 7
Charleston, W. Va. (3)	+ 4	— 3
Charlotte. N. C. (3)	—10	+10
Columbia, S. C. (3)	+10	+ 8

Number of reporting firms in parentheses.

DEPARTMENT STORE OPERATIONS
(Figures show percentage change)

	Rich.	Balt.	Wash.	Other Cities	Dist. Total
Sales, May '50 vs. May '49	+ 5	— 2	+ 1	+ 5	+ 2
Sales, 5 mos. '50 vs. 5 mos. '49	0	— 5	— 2	0	— 2
Stocks, May 31, '50 vs. '49	+ 5	— 4	+ 8	+ 4	+ 3
Orders outstanding, May 31, '50 vs. '49	+13	+11	+ 3	+16	+ 8
Current receivables May 1 collected in May '50	31	49	49	43	44
Instalment receivables May 1 collected in May '50	13	16	18	18	17

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, May '50 vs. May '49	— 2	+ 1	+ 3	+12	+ 3	+ 4
Sales, 5 mos. '50 vs. 5 mos. '49	— 5	— 2	— 1	+ 3	+ 2	0

COTTON CONSUMPTION AND ON HAND—BALES

	May 1950	May 1949	Aug. 1 to May 31 1950	1949
Fifth District States:				
Cotton consumed	377,783	301,619	3,844,342	3,440,889
Cotton Growing States:				
Cotton consumed	661,235	522,023	6,721,606	6,032,850
Cotton on hand May 31, in				
consuming establishments	1,405,110	1,090,243		
storage & compresses	6,351,661	5,054,050		
United States:				
Cotton consumed	728,827	580,476	7,417,729	6,740,327
Cotton on hand May 31, in				
consuming establishments	1,629,269	1,276,475		
storage & compresses	6,378,721	5,080,004		
Spindles active, May 31, U.S.	20,229,000	19,856,000		

Source: Department of Commerce.

FEDERAL RESERVE BANK OF RICHMOND
(All Figures In Thousands)

ITEMS	June 14, 1950	Chg. in Amt. from May 17, 1950	June 15, 1949
Total Gold Reserves	1,092,535	— 24,666	+ 33,438
Other Reserves	12,399	— 951	— 5,723
Total Reserves	1,104,934	— 25,617	+ 27,760
Bills Discounted	4,090	— 600	— 7,259
Industrial Loans	129	+ 8	+ 99
Gov. Securities, Total	1,143,063	+ 18,885	—106,252
Bills	264,941	+ 103	+251,878
Certificates	312,962	— 59,888	—241,888
Notes	198,159	+ 93,536	+254,211
Bonds	367,001	— 14,866	—109,928
Total Loans & Securities	1,147,282	+ 18,293	—113,412
Uncollected Items	286,983	+ 17,004	+ 32,853
Other Assets	22,836	+ 465	— 2,854
Total Assets	2,562,035	+ 10,145	— 55,653
Federal Reserve Notes in Cir.	1,501,100	— 10,097	— 38,273
Deposits, Total	763,568	+ 7,984	— 42,562
Members' Reserves	676,798	+ 6,847	—103,863
U. S. Treas. Gen. Account	20,136	— 11,711	+ 19,623
Foreign	53,375	+ 2,470	+ 30,830
Other Deposits	13,259	+ 10,378	+ 10,848
Def. Availability Items	249,222	+ 10,983	+ 22,089
Other Liabilities	840	+ 197	+ 208
Capital Accounts	47,305	+ 1,078	+ 2,885
Total Liabilities	2,562,035	+ 10,145	— 55,653

51 REPORTING MEMBER BANKS—5th DISTRICT
(All figures in thousands)

ITEMS	June 14, 1950	Chg in Amt. from May 17, 1950	June 15, 1949
Total Loans	945,697**	+ 17,147	+146,141
Business & Agricultural	421,740	+ 1,559	+ 64,455
Real Estate Loans	229,798	+ 5,818	+ 36,930
All Other Loans	305,423	+ 9,803	+ 47,728
Total Security Holdings	1,751,195	— 31,746	+ 77,920
U. S. Treasury Bills	81,579	— 21,052	+ 1,094
U. S. Treasury Certificates	126,697	— 37,466	— 67,148
U. S. Treasury Notes	274,490	+ 39,762	+233,895
U. S. Treasury Bonds	1,112,154	— 15,379	—108,916
Other Bonds, Stocks & Secur.	156,275	+ 2,389	+ 18,995
Cash Items in Process of Col.	251,344	+ 18,171	+ 18,831
Due from Banks	171,077*	+ 9,455	— 274
Currency & Coin	67,870	+ 2,530	+ 4,905
Reserve with F. R. Bank	462,662	+ 9,051	— 56,539
Other Assets	55,108	+ 2,536	+ 6,441
Total Assets	3,704,953	+ 27,144	+197,425
Total Demand Deposits	2,830,613	+ 35,827	+187,487
Deposits of Individuals	2,155,500	+ 64,829	+115,150
Deposits of U. S. Gov't	76,152	— 15,324	+ 43,288
Deposits of State & Local Gov't	163,145	— 6,031	+ 8,500
Deposits of Banks	390,536	— 4,537	+ 18,655
Certified & Officers' Checks	45,280	— 3,110	+ 1,894
Total Time Deposits	618,371	— 2,930	+ 4,702
Deposits of Individuals	571,723	— 2,386	+ 3,121
Other Time Deposits	46,648	— 544	+ 1,581
Liabilities for Borrowed Money	975	— 6,700	— 3,550
All Other Liabilities	20,621	— 8	— 779
Capital Accounts	234,373	+ 955	+ 9,565
Total Liabilities	3,704,953	+ 27,144	+197,425

*Net figures, reciprocal balances being eliminated.
**Less reserves for losses on bad loans.

PRICES OF UNFINISHED COTTON TEXTILES

	May 1950	April 1950	May 1949
Average, 17 constructions	64.65	65.61	61.27
Printcloths, average (6)	69.24	70.02	64.42
Sheetings, average (3)	57.72	58.83	55.65
Twill (1)	73.49	75.67	62.47
Drills, average (4)	58.59	59.84	56.11
Sateen (1)	84.16	85.12	81.06
Ducks, average (2)	59.21	59.27	60.10

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.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

Industrial output rose further in May and June. Production of passenger cars and residential construction activity far exceeded earlier record levels. Retail sales were maintained at advanced levels with increases in the dollar volume in some cases reflecting higher prices. Consumer incomes were somewhat below peak levels reached earlier when heavy veterans' insurance payments were being made. On June 26, following news of war in Korea, prices of common stocks dropped sharply and commodities rose.

INDUSTRIAL PRODUCTION

The Board's production index rose 3 points in May to 193 per cent of the 1935-1939 average reflecting chiefly further increases in output of durable goods. Preliminary indications are that the index for June will equal or slightly exceed the former postwar record level of 195.

Steel production was at a new high in May and has been scheduled at about the same rate in June—101 per cent of this year's larger capacity. Activity in most steel consuming industries continued to advance in May. Automobile assemblies increased considerably, following settlement of a 100-day industrial dispute at the plants of a major producer. In mid-June assemblies were close to 200,000 units per week and nearly 45 per cent greater than in April. Machinery production rose in May for the sixth successive month with increases indicated for both consumer and producer equipment. For certain types of machinery, however, there were indications of some seasonal slackening in activity. In response to strong demands from the construction industry, output of cement, clay, glass, and lumber products was close to current capacity levels. Demand for nonferrous metals from the construction and machinery industries was augmented by large Government purchases for stockpiling purposes.

Following a small decline in textile production in the early part of the year, output increased slightly in May owing in part to continued expansion in demands for industrial uses. Output of rubber and petroleum products reached the highest levels of the year. Production of most paper and chemical products was maintained at capacity levels.

Bituminous coal output declined further in May but stablizied in June, while crude oil production increased steadily in May and June. Iron ore output rose considerably following the latest opening of the Great Lakes shipping season in many years.

EMPLOYMENT

Nonagricultural employment, seasonally adjusted, expanded further by 300,000 in May, reflecting substantial increases in durable goods manufacturing and in construction; the total—43.5—was the highest figure in 15 months. Unemployment declined further to 3.1 million persons in early May which was about one-quarter million less than in the same period a year ago.

CONSTRUCTION

Value of construction contracts awarded in May continued at the very high April total. The number of new houses and apartment units started rose considerably further to 140,000 in May, as compared with 126,000 in April and 95,000 in May 1949. Most other types of construction activity also expanded.

DISTRIBUTION

Department store sales in May and the first half of June have been at advanced levels reflecting some recovery in apparel sales. Sales of housefurnishings have increased less than seasonably from the exceptionally high level reached in the first quarter. Stocks of these goods have apparently risen further, although April figures indicated that they were still not as large relative to sales as during the first half of last year.

Sales of most other retail outlets showed little change in May except for a sharp further increase in sales by building material dealers, reflecting in part a marked rise in prices. Automotive sales showed a somewhat more than seasonal expansion from the record levels prevailing earlier this year.

COMMODITY PRICES

The general level of wholesale prices was higher in the latter part of June than in mid-May despite some decline in the second week. Increases in prices of farm products and foods largely reflected advances in livestock, meats, and imported foods. Prices of some other foodstuffs declined moderately, influenced by seasonal increases in supplies.

Prices of industrial materials generally advanced further by the fourth week of June and prices of some finished industrial products were raised, while television sets were reduced substantially.

The consumers' price index rose .8 per cent in May and some further increase is indicated in June owing chiefly to the higher level of retail meat prices.

BANK CREDIT

Real estate and consumer loans showed their most substantial increases of the year at banks in leading cities during May and the first half of June. Strong demands for business credit were reflected in increased borrowings during early June. Bank holdings of U. S. Government securities expanded during May and the first half of June. Holdings of corporate and municipal securities also increased in June.

A reduction in Treasury balances at the Reserve Banks and an inflow of currency from circulation supplied reserve funds during the first half of June. Member banks reduced borrowings at the Reserve Banks and increased reserve balances. Subsequently, banks lost reserve funds as Treasury deposits at the Reserve Banks were built up through quarterly income tax collections. The Federal Reserve continued to sell Treasury bonds in response to market demand, but purchased a larger amount of short-term issues.

SECURITY MARKETS

Common stock prices declined sharply in the latter part of June, after a marked further rise in the first two weeks, and on June 26 closed at the level of early April. Prices of long-term Treasury bonds declined moderately in June and a lesser decline occurred in prices of corporate bonds.

FEDERAL RESERVE BANK OF RICHMOND
FIFTH DISTRICT