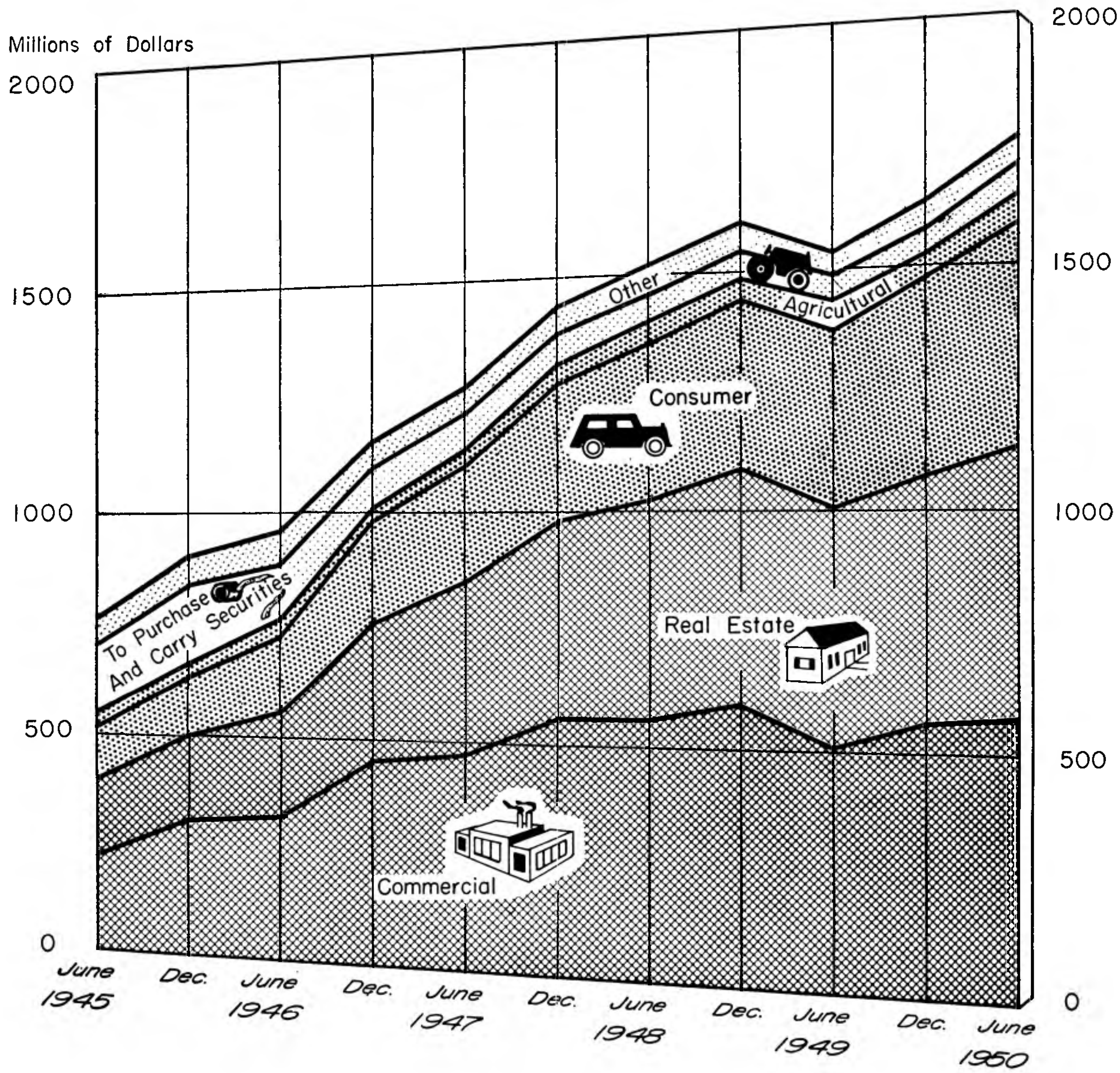
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

FIFTH FEDERAL RESERVE DISTRICT

AUGUST 1950

FIFTH DISTRICT MEMBER BANK LOANS

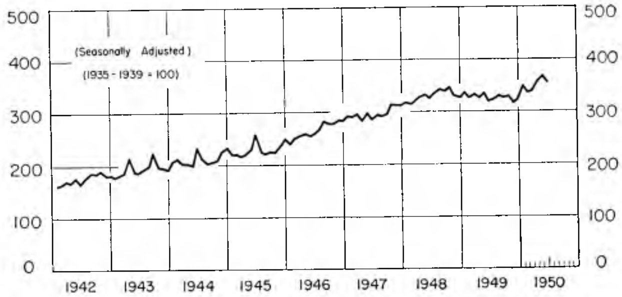


Fifth District member bank loans continued upward in the first half of 1950, with further expansion in consumer, real estate, and business loans. The above chart traces loan trends since 1945, and the article beginning on page 5 discusses monetary and banking developments and the outlook in view of the Korean crisis.

Also In This Issue:

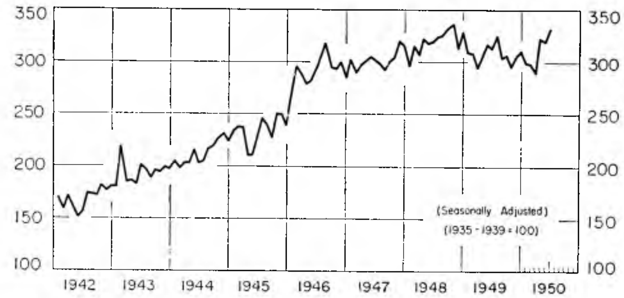
FIFTH DISTRICT TRENDS

BANK DEBITS



The District's index of bank debits declined 3% from May to June. Appreciable declines were witnessed in Virginia and North Carolina which together more than offset moderate rises in West Virginia and South Carolina. With the exception of the month of May the District's bank debits index is the highest for all time.

DEPARTMENT STORE SALES



Seasonally adjusted daily average department store sales in June were 4% higher than in May. June came within 2% of the all-time peak of October 1948. Department store inventories gained 2% from May to June but were 8% above a year ago compared with a gain of 6% in sales.

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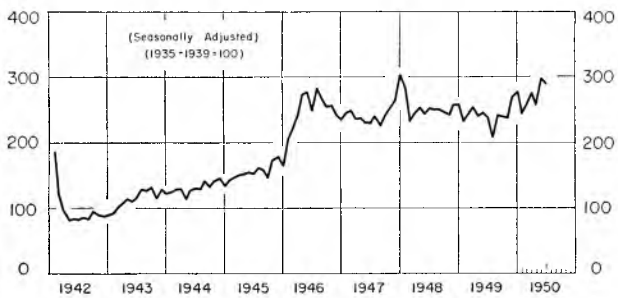
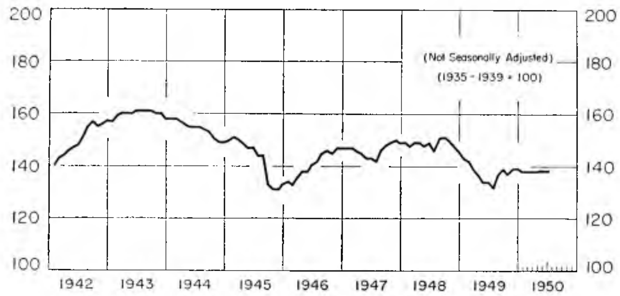
LIFE INSURANCE SALES



Life insurance sales, which had been in a strong upward trend since the middle of 1949, experienced a moderate setback from May to June on an adjusted basis. Sales in the District of Columbia and West Virgnia went contrary to the District trend.

MANUFACTURING EMPLOYMENT



Employment in manufacturing industries of the Fifth District, which had remained steady in the first five months of the year, showed a moderate pickup in June. Up trends since March have been in evidence in Maryland, the District of Columbia, and West Virginia with the other states slightly down or steady.

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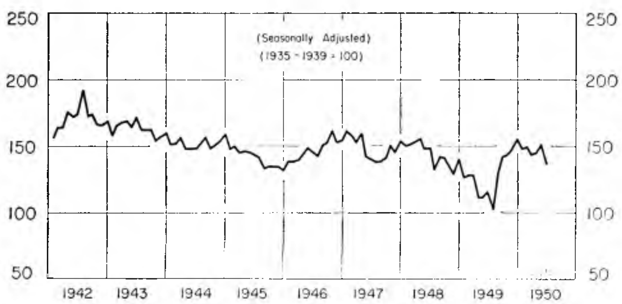
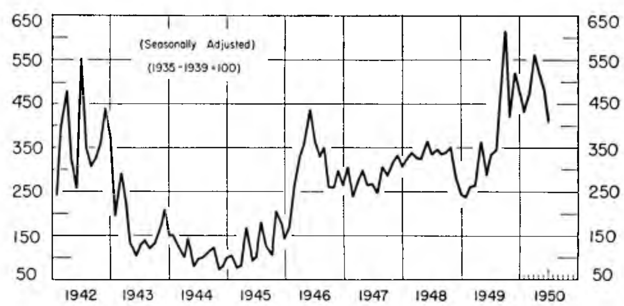
COTTON CONSUMPTION



Average daily cotton consumption, corrected for seasonal variation, declined 9% from May to June in the Fifth District with North Carolina and South Carolina showing somewhat larger drops than Virginia. Much the same pattern was also shown in spindle hours run in each of the states.

CONSTRUCTION CONTRACTS AWARDED



Some of the edge was taken off of the building boom in June when total contract awards in the Fifth District dropped 15% on a seasonal basis from May. Total awards, however, were still 23% ahead of a year ago, and indications are that the first half of July will likewise show a substantial increase.

Business Conditions and Prospects

Paramount in the minds of the American people at this time are the consequences of the reentry into a partial war economy. The basic issues involved in the Korean conflict are certainly bigger, broader, and deeper than the mere upsetting of domestic demand and supply. But the American people also learned the hard way —in World War II—that a period of armed conflict could be severely upsetting to the economy and that national success in such a conflict was heavily predicated both on rapid adjustment of the economic base and on keeping it at maximum strength.

Business men are therefore asking at this time what are the expectable consequences of national reentry into even a small-scale or partial war environment. Obviously, no well-rounded answer can now be presented since the Korean situation, now a limited operation, is an extremely fluid one and could be expanded or duplicated elsewhere. The following economic changes, however, seem probable in the immediate future:

(1) Expanded Federal Government outlays—superimposed upon a deficit-financing program which had already gone on for two years—set the stage for renewed price inflation;

(2) Relatively rapid upward adjustment of prices will surely meet renewed efforts to stem these changes through either voluntary action or Governmental fiat against the sources and use of credit;

(3) Durable goods production for civilian use will be reduced by the demands made on steel, aluminum, copper, and zinc for military purposes.

(4) In non-durables considerable slack has existed and it may well be that purchasing power will be diverted to some extent to these industries and products.

(5) We are again entering a period when income received by people will exceed, at present prices, the volume of goods available for purchase;

(6) Employment and wages—both at record high levels as the Korean conflict began—will continue to rise, the latter particularly unless restricted by agreement or by the twin freeze of wages and prices;

(7) Costs of the conflict—to individuals and business—will be heavy, and definite decisions should be made as to how to meet the costs—by increased taxation now, or later, by increased public debt and payments thereon, or both as in the period 1941-1945.

The progress of the Korean conflict, the speed with which the new $10.5 billion military budget is used, and the stability and temper of the American public will determine how rapidly important economic readjustments take place—and what shortages develop, particularly in the durable goods industries. For some months, it may be that no important effects will be witnessed in this sector, but it is almost certain that, since materials were proving inadequate to cover peace-time demand for durable goods, cutbacks will appear shortly.

Significantly, new demands for war and defense purposes are to be essentially a diversion from civilian supplies; thus, current high incomes will put pressure on the price level and exert more pressure if additional wage demands become general and are met by industrial and other employers. Fortunately, aid in holding down price rises can be forthcoming when people realize that it is unnecessary to hoard food products (because of their relative abundance) and inimical to the national interest to hoard other commodities.

The wholesale price level has risen quite sharply since the end of June. Price rises have taken place chiefly in farm and food products, building materials, and the basic raw materials. Some prices may already have overshot the level which could be expected to hold under current demand conditions, if "scare" buying is eliminated.

Though prices of commodities other than farm and food products have risen sharply, the rise thus far has not been spectacular, and it is probable that under voluntary controls and allocations every attempt will be made by producers of many of these commodities to hold the price line.

Farm and food products, which have shown the greatest rises, are in no way threatened with shortages, and these prices may be expected to tone down considerably when this situation is generally realized. It is highly improbable that we shall see the restrictions on food supply which World War II required.

The building boom, which at mid-year was still booming in this District, may continue at high level for a few months—strongly aided by the favorable seasonal factor and the heavy momentum which it had acquired. Rising building material prices may be stabilized by the recent restrictions inaugurated in Federal housing credit. If these restrictions do not restrain building sufficiently, it is clear that further controls will be effected to free materials for war and defense purposes.

Although the trend of Fifth District business in the first half of 1950 has been mainly upward, June was a month of irregularities. On a seasonally adjusted basis, building continued to rise, department store sales rose to within 5 percentage points of the all-time high in October 1948, and sales in the wholesale trades were mostly up. Cotton consumption rose in every State in the District, due to more working days—actually, daily average use declined slightly. Bank debits were also down and cigarette production, household appliance sales and life insurance sales fell, while bituminous coal output held at May levels.

Output of the cotton mills for the third quarter had been sold prior to the outbreak of the Korean war, and since that time inquiries have been extremely heavy with prices all along the line rising substantially. These price increases, however, are mainly nominal quotations as mills have largely withdrawn from the market. They have not over-extended their bookings, and have hesitated to fill completely their fourth quarter bookings. This has been due mainly to the low cotton acreage report and the uncertainties regarding raw cotton prices with a forecasted crop of 10 million bales. Until such time as the price of cotton and military requirements for cotton goods are determined, mill sales will probably not be materially further extended.

The hosiery industry, which had been moving at fair production levels with an easing price structure, was confronted by an avalanche of inquiries following the outbreak of the Korean war. These inquiries arose chiefly from "scare" buying on the part of the consumers. Some diversion of nylon to military uses will occur (10% reduction already announced) but it is probable that voluntary allocation will be used, essential hosiery requirements will be met, and diversion will come mainly from the broad woven trade.

Bituminous coal weekly output has been expanding even though the monthly figures in June were the same as in May. Further expansion of the coal output should be seen in the last half of the current year. Prices are holding, and it is probable that a greater amount of consumption as well as stockpiling, both at the residential and industrial level, will be seen.

Rayon industries, operating at peak levels, will probably be called on for still greater production. It may be that greater effort will have to be exerted and capacity expanded in the high tenacity yarns. A few companies have increased prices selectively within the past month.

The shipbuilding industries laid off fewer workers in June than they had anticipated would be necessary. Some business may be forthcoming in reconditioning part of the mothball fleet.

Food products industries in the overall have improved operations. Livestock slaughter in most States was running ahead of a year ago, and ice cream production was about the same as a year ago.

BUSINESS INDEXES—FIFTH FEDERAL RESERVE DISTRICT

AVERAGE DAILY 1935-39=100—SEASONALLY ADJUSTED

	June 1950	May 1950	Apr. 1950	June 1949	% Change—Latest Month Prev. Mo.	Year Ago
Automobile Registrations[1]	......	225	214	180	+ 5	+ 14
New Commercial Car Registrations	......	216	205	168	+ 5	+ 17
Bank Debits	355	366	356	320	— 3	+ 11
Bituminous Coal Production	152	152	143	120	0	+ 27
Building Contracts Awarded, Total	410	485	517r	334r	— 15	+ 23
Commercial Construction Contracts	285	414	456	266	— 31	+ 7
Manufacturing Construction Contracts	369	742r	493	138	— 50	+167
Public Works and Utilities	311	384	323	303	— 19	+ 3
Residential Construction Contracts	517p	603	697	440	— 14	+ 18
Apartments and Hotels	500	398	1131	1145	+ 26	— 56
One and Two Family Houses	586	675	630	285	— 13	+106
Building Permits Issued	430	407	379	479	+ 6	— 10
Business Failures—No.	86	102	76	69	— 16	+ 25
Cigarette Production	237	244r	197	249	— 3	— 5
Cotton Consumption	137	151	145	115	— 9	+ 19
Cotton Spindle Hours	138	148	141	119	— 7	+ 16
Department Store Sales[3]	332	320	323	313	+ 4	+ 6
Department Store Stocks[3]	337	331r	329	311	+ 2	+ 8
Electric Power Production	......	299	296	255	+ 1	+ 16
Employment—Mfg. Industries[1]	139	138	138	134	+ 1	+ 4
Furniture Mfrs.: Orders[3]	......	364	271	129	+ 34	+103
Furniture Mfrs.: Shipments[3]	......	324	301	158	+ 8	+ 62
Furniture Mfrs.: Unfilled Orders[3]	......	752	764	199	— 2	+195
Furniture—Retail: [3] / [4]						
Net Sales	199	199	188	189	0	+ 5
Cash	258	252	202	260	+ 2	— 1
Credit	174	172	167	163	+ 1	+ 7
Receivables	140	139	138	111	+ 1	+ 26
Collections	182	176	178	166	+ 3	+ 10
Inventories	153	164r	162	134	— 7	+ 14
Gasoline Consumption	......	......	221	209	+ 1	+ 9
Household Appliance Store Sales	125	133r	98	112	— 6	+ 12
Life Insurance Sales	290	299	257	239	— 3	+ 21
Wholesale Trade:						
Automotive Supplies[2]	671	609	515	380	+ 10	+ 77
Drugs	280	254	257	270	+ 10	+ 4
Dry Goods	175	202	184	128	— 13	+ 37
Electrical Goods[2]	63	75	63	73	— 16	— 14
Groceries	270	253	244	259	+ 7	+ 4
Hardware	161	153	134	122	+ 5	+ 32
Industrial Supplies[2]	278	229	271	296	+ 21	— 6
Paper and Its Products[2]	159	150	158	135	+ 6	+ 18
Tobacco and Its Products[2]	68	65	63	82	+ 5	— 17

[1] Not Seasonally adjusted

[2] 1938-41=100

[3] Revised Series—back figures available on request

[4] 1941=100

Monetary and Banking Developments

Future effects of military expenditures and domestic mobilization are admittedly not clear and are difficult to assess, but they may well alter considerably the monetary and banking trends operating prior to midyear. Increased Federal deficits, a revised tax structure for both corporations and individuals, renewed price inflation, a slowing-down of deposit turnover, introduction of credit controls of one type or another, a stiffening of credit terms—all of these are significant elements and potentials and could check the loan expansion and reverse the declining holdings of Governments which have been important aspects of the banking picture up to Korean developments of late June.

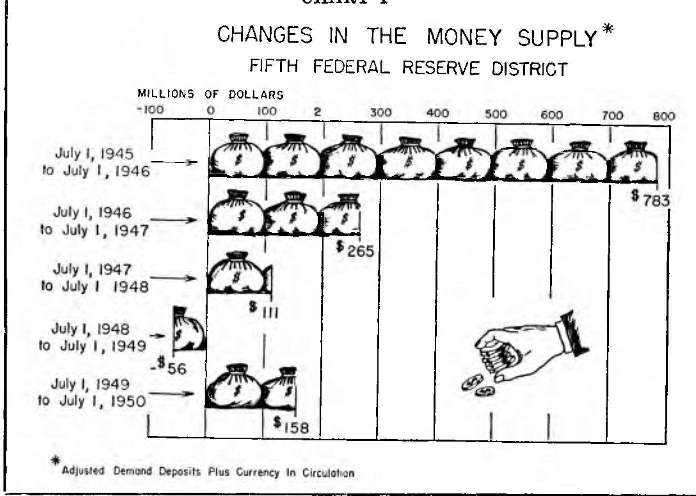


CHART I

Had the domestic economy continued its expansion unhampered by international developments, it seems a certainty that the upward trend of bank loans would have paralleled an expansion of business activity throughout 1950. Current developments arising out of the Korean crisis will, however, modify the direction of extension of bank credit. The President has already directed Federal mortgage agencies to restrict credit in the housing field; real estate financing will thus be less liberal and construction will decline, cutting back the supply of new mortgages available to banks.

At the same time, the Defense Production Act of 1950 proposes controls over real estate credit, consumer credit, and credit used for commodity speculation, as well as provision for a system of priorities and allocation over essential materials. Establishment of these controls would presumably check the expansion of loans in these fields.

The method of financing the outlay occasioned by the crisis will certainly influence the composition of bank assets in the future. Already $10.5 billion of additional funds have been requested, and the President has asked for immediate tax increases to provide a part of these funds. To the extent that new outlays are not met by taxes, the Treasury deficit will increase, and the new securities will go into bank portfolios or those of other investors.

The Korean crisis will leave its mark on a Fifth District banking system already in the process of expansion. Rising levels of business activity in the District brought a substantial loan increase during the first half of 1950— more than 7% as compared with a 14% contraction during the same period last year. The increase came principally in business, real estate, and consumer loans, while the seasonal increase of farm production loans added to the total.

Fifth District banks liquidated Governments by $111 million, or 4.3%, in order to supply the expanded demand for loans and to meet a loss of reserves. The money supply increased slightly, and businessmen and consumers used funds at an increasing rate of turnover—velocity of demand deposits in June stood at a new high since the outbreak of World War II. Interest rates on bank loans to business firmed somewhat during the six months, as yields on Treasury bills rose from their lows of 1949 to 1.175 in June 1950.

Bank Loan Expansion

Paced by business, real estate, and consumer loans, total loans of Fifth District member banks continued to parallel the rising trend of business, construction, and trade during the first half of 1950. This expansion began in the last half of 1949 and gathered such momentum that, by midyear 1950, total loans of the 478 member banks in the District stood at 107.2 per cent of their December 1949 level—while deposits were relatively constant.

The growth of business loans reflects the generally prosperous condition of the District's economy during the period. Basic industries had shown increased activity in the later part of 1949, and this subsequently spread into other lines this year. Higher levels of activity increased working capital requirements for financing inventories and receivables, and led to increased demands for bank credit. Interestingly Fifth District member banks outstripped those of the nation as a whole in extensions of business credit up to July—reports from the larger banks of the country indicate an actual decline in commercial loans during the period.

Viewed against previous years the increase is even more significant. In the first half of 1948, Fifth District member bank loans to business showed virtually no net change, while in the first six months of 1949 there was a decline of nearly 14%. This year's 2.4% gain brought the total near the all time peak of December 1948.

The current very high level of construction resulted in increases in total real estate loans in the Fifth District. Residential construction remained high throughout the winter and spring, and additional new mortgages resulted in a 10% gain in loans against residential real estate. Loans against farm lands and "other"—commercial and industrial—properties also increased, raising total real estate loans to a new peak for the member banks of the District.

The greatest increase in member bank outstandings during the first half of 1950 was made in the young giant of postwar banking, consumer credit. Renewed vigor in the sales of automobiles and other durable consumer goods was reflected in the 26% increase in retail auto instalment paper held and the 38% increase in similar paper covering other types of goods. Single-payment loans to individuals showed a substantial gain—9% since December.

These three broad categories of loans—business, real estate, and consumer—accounted for virtually the entire increase of outstandings taking place in the six-month period. Production loans to farmers showed their usual spring increase, 40% over the year-end figure, and accounted for $15 million of the $117 million increase in total loans. Contrary to the national trend, loans to brokers and dealers contracted, although the bullish securities market was reflected to some extent in a $3 million increase in loans to others than brokers for the purpose of purchasing or carrying charges.

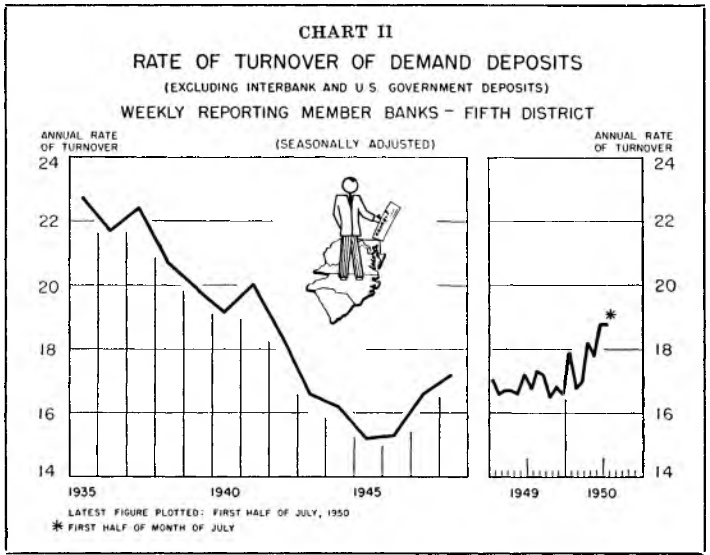


CHART II
RATE OF TURNOVER OF DEMAND DEPOSITS
(EXCLUDING INTERBANK AND U. S. GOVERNMENT DEPOSITS)
WEEKLY REPORTING MEMBER BANKS – FIFTH DISTRICT

LOANS AND DISCOUNTS
FIFTH DISTRICT MEMBER BANKS
(Dollar Amounts in Thousands)

	June 30, 1950p	Dec. 31, 1949
Commercial and industrial loans including open-market paper	580,930	567,328
Loans to farmers directly guaranteed by the Commodity Credit Corporation	2,556	5,094
Other loans to farmers (not secured by real estate)	52,382	37,434
Loans to brokers and dealers in securities	12,479	14,634
Other loans for purchasing or carrying securities	44,843	41,563
Real estate loans:		
On farm land	43,409	42,771
On residential property	375,973	341,516
On other properties	129,192	125,327
Other loans to individuals:		
Retail automobile instalment paper	106,019	84,077
Other retail instalment paper	36,276	26,372
Repair and modernization instalment loans	22,597	22,013
Instalment cash loans	69,973	65,154
Single-payment loans	219,250	200,718
Loans to banks	3,373	2,052
All other loans (including overdrafts)	50,604	56,801
Loans—gross	1,749,856	1,632,809
Reserves	18,762	17,311
Loans—net	1,731,094	1,615,498

p—Preliminary.

Figures from the weekly reporting member banks of the Fifth District indicate that the loan expansion has carried over into July. Business, real estate, and consumer loans have all shown continued growth in the chasing or carrying securities.

Fifth District member banks increased their holdings of securities other than U. S. Governments during the first half of 1950 by $5 million. The increase, which amounted to less than 2% of portfolios at the beginning of the year, actually occurred during May and June, a small decline having been shown during the four preceding months. Indications are that much of the gain came in state and municipal securities issued to obtain funds for expansion of physical plant by state and local governments

Continuing Decline in Bank Reserves

During the first half of 1950, there was a continuing decline in Fifth District member bank reserves, reflecting both the mildly restrictive Federal Reserve credit policy and the District's relatively unfavorable position on commercial and financial account with other districts. However, an increasing excess of Treasury expenditures over Treasury receipts in the Fifth District during the same period served to cushion the net loss of reserves.

The sharp upturn in business activity, paralleled by an upsurge in bank credit, brought about the modification of Federal Reserve credit policy from the 1949 policy of monetary ease to one of mild restraint, marked chiefly by sales of long-term Government bonds from the System's portfolio. In the first half of 1950, Federal Reserve Bank holdings of restricted Treasury bonds declined by $1.4 billion, affecting bank reserves both in the District and in the United States. During this period, Fifth District member bank reserve balances were reduced $55.4 million, or 10.2%. This compares with a decline of only 3.5% in the reserve balances of all member banks in the United States during the same period. Thus, Fifth District member banks have been losing reserves both relatively and absolutely.

FIFTH DISTRICT MEMBER BANK RESERVES
As a Per Cent of United States Reserve Balances, 1939 and 1945-50

	Per cent
End of year, 1939	2.43
1945	4.57
1946	4.54
1947	4.38
1948	4.15
1949	4.12
June 28, 1950	3.98

Brief analysis of the losses in member bank reserve balances indicates that they are attributable primarily to the flow of funds to other districts as a result of commercial and financial transactions with those districts. Up to midyear 1950, there was an accelerated outflow of reserve funds on commercial and financial account with other districts; and Fifth District member banks lost in these transactions $310.2 million in reserve funds. This was more than 50% greater than the loss in the corresponding period last year and in sharp contrast to a gain in the first half of 1948 of approximately $320 million.

Offsetting, in large part, this outflow of reserve funds on interdistrict commercial and financial transactions, there was an excess of Treasury expenditures over receipts in the Fifth District, which added $250 million to bank reserves in the first half of 1950.

Liquidation of Holdings of U. S. Government Securities

To secure funds for the sharp expansion in bank loans, the increase in other securities held, and to meet the outflow of reserve funds, Fifth District member banks sold $111 million, or 4.3%, of their holdings of U. S. Government securities during the first half of 1950. This liquidation of U. S. securities in the first half of 1950 approximately equaled the $115 million increase in bank loans in the period.

Most sales of Governments by District member banks occurred in the four-month period beginning March 1950. In contrast, the liquidation in holdings of Government securities by all member banks in the U. S. was reversed in May and June 1950. Liquidation of holdings by Fifth District member banks presumably represents sales of bonds acquired last year following the reductions in reserve requirements. Strength in institutional and individual demand made possible the shift in Government securities to non-bank investors in early 1950.

Money Supply—Velocity and Cost

During the first half of 1950, the money supply increased slightly in the Fifth District, reflecting higher adjusted demand deposits and time deposits and, since February, an expanding volume of currency in circulation.

Adjusted demand deposits increased slightly in the Fifth District from year-end 1949. At the end of June 1950 they totaled $3.4 billion—$113 million (or 3.4%) above the June 1949 level. Time deposits were up by 1.7% to $1.3 billion. This increase in time deposits was, however, much smaller than the 3.6% increase for the same period in 1949.

Currency in circulation in the District declined seasonally in January, registered increases in four of the five following months and thus reduced the net inflow of currency from circulation to $18.7 million during the period. This contrasts with a shrinkage in the corresponding periods in 1948 and 1949. Chart I shows the *changes* in the District's money supply in the postwar period through midyear 1950.

Although adjusted demand deposits of Fifth District member banks increased slightly during the first half of 1950, the rate at which they were employed increased much more sharply. In June checks were drawn on demand deposits (other than interbank and U. S. Government) at a rate of turnover (debits divided by deposits) of 18.8 times a year. This compares with a rate of 17.2 times in June 1949 and an average for 1949 of 16.9 times. This increased velocity is an indication of the current high level of Fifth District business. (See Chart II.)

Interest rates on short-term bank loans to business weakened in the two Fifth District cities reporting such rates during the second half of 1949, then turned upward during the first six months of this year. This paralleled the trend in 11 southern and western reporting centers, but ran counter to a first quarter 1950 decline in northern and eastern cities.

These increased rates on business loans paralleled increased rates on Treasury bills and certificates. By June 1950 yields on these obligations and the rates charged on business loans by member banks in the 11 southern and western cities exceeded the corresponding yields and rates of a year ago.

SELECTED INTEREST RATES
(Per cent per annum)

Month	U. S. Government Security yields [1] 3-month bills	U. S. Government Security yields [1] 9-12-month c. of i.	Average int. rates on short-term bank loans to business [2] U. S. 19 cities	Average int. rates on short-term bank loans to business [2] 11 South. & West. cities
1949—June	1.158	1.20	2.74	3.17
September	1.062	1.08	2.63	3.07
December	1.097	1.10	2.65	3.03
1950—March	1.140	1.16	2.60	3.12
June	1.175	1.23	2.68	3.22

[1] Monthly averages.
[2] Averages of rates charged during first 15 days of each month.

Fifth District Retail Trade in the War Decade, 1939-48

The Fifth District's retail trade boomed in the war decade, 1939-48, along with the rest of the country, but moved up at a slightly faster rate. The District experienced an unparalleled growth in retail sales between 1939 and 1948. Retail sales aggregated $9.7 billion and provided employment for 564 thousand people. At this level they stood 228% higher than in the prewar year, 1939, and the District gain thus exceeded the national gain, which amounted to 210%. In 1948 District retail sales were 7.5% of the United States total of $130.5 billion, and were thus somewhat higher than the 1939 figure of 7.1%.

Food stores accounted for the largest portion of retail sales in the Fifth District, followed by automotive and general merchandise stores. Drug and proprietary stores accounted for the smallest portion. All Fifth District counties had gains in retail trade for the period surveyed, though the percentage increases varied greatly.

These are but a few of the cardinal facts about a momentous decade revealed by the 1948 Census of Business, recently released. Since retail stores are required by law to report total sales to the Census of Business, the results provide the most accurate statistical measures available on retail trade.

RETAIL TRENDS IN THIS WAR

The outbreak of war in Korea, with the United States once again on the way to at least a partial war footing, has brought abrupt change in the day-to-day economic thinking of the average American. It could, probably will, bring about significant changes in the entire American economy as it existed.

Since the war began, on June 25, what might be termed "scare buying" has brought runs on standard commodities at the retail level. Up to now this has been particularly noticeable in such goods as canned foods, coffee, sugar, pepper, nylon, tires, automobiles, refrigerators, television sets and the like—the things which World War II made scarce.

Some prices—farm products mainly—have gone up, apparently because of wholesalers', jobbers' and manufacturers' anticipation of higher retail price levels and the possibility of scarcities later. Actually, however, there is no real shortage of agricultural commodities. This year's cotton crop is off somewhat, but a surplus of more than 4,000,000 bales from past years remains under government loans.

There were strong indications that soft goods were in an upward trend prior to the outbreak in Korea, and the anticipation of shortages may accentuate that trend. Should it become evident that soft goods are in adequate supply, as is true up to now, some slackening in sales trend could be expected.

Durable goods industries, on the other hand, will be adversely affected, as steel and non-ferrous metals and other materials are allocated to greater war effort and to expanding defense preparations. Steel, operating at capacity for many weeks to meet civilian boom demands, obviously will feel the diversion to military use. Many items made of steel will likely be in short supply.

Since there is clear reluctance to re-introduce price controls at this time, and since demand has been sufficient to take all of the pre-Korean production, prices of durable goods are likely to increase. Setting up consumer credit controls would help prevent such a rise, but would entail difficulties of administration, and doubtless the "gray" or even "black" markets of the past war.

It is probable, however, that, barring an all-out war, the supply of non-durable goods will be enough to permit a continued rise in the trade level.

Up to June, total sales of all retail stores in 1950 rose 3½% over comparable months in 1949. Durable goods stores showed a 15% rise, and non-durable goods sales were off only one per cent. It would seem that the final 1950 trade level, even with a shortage of durable goods, may equal or even surpass the all-time peak year of 1948.

Retail Sales by Fifth District States

As the accompanying chart shows, greatest expansion of retail trade in the District occurred in Virginia, with an increase of 254%. North Carolina showed the second largest percentage increase, 251%. South Carolina was next, with 244%, and West Virginia was fourth, with 224%. The District of Columbia and Maryland had gains of 175% and 209% respectively.

Almost half of the Fifth District retail sales in 1948 were made in the two states, Virginia and North Carolina, each of which accounted for 22.8% of the total. Figures for other states were: Maryland, 19.7%; South Carolina, 11.7%; West Virginia, 11.6%; and the District of Columbia, 11.4%. Some shifting took place between 1939 and 1948—District of Columbia and South Carolina, for example, switched places, and the District of Columbia dropped from fourth to sixth place while South Carolina rose from sixth to fourth place. Maryland maintained third place in the Fifth District in 1948, with a larger portion of the 1939 total. Virginia and North Carolina were also tied for the largest percentage of sales in 1939.

Retail Sales by Kind of Business

The pattern of retail trade by kind of store making the sale was much the same in the Fifth District as in the country as a whole during 1948. In both cases the largest portion of retail sales was made in food stores, followed by automotive and general stores. Fifth District residents made a smaller part of their total retail purchases in eating and drinking places, and in lumber, building, and hardware stores, than United States citizens generally. On the other hand, the general stores accounted for a larger part of total sales in the Fifth District than in the country as a whole.

TABLE I.—RETAIL SALES BY KIND OF BUSINESS
Per Cent of State, District and National Totals

	Md.	D. C.	Va.	W. Va.	N.C.	S. C.	5th Dist.	U. S.
Food group	27	20	23	24	22	24	23	24
Eating and drinking places	9	9	6	6	4	4	6	8
General merchandise group	15	17	14	19	16	14	16	13
Apparel group	6	10	7	7	7	7	7	8
Furniture-home furnishings, appliance group	5	5	5	6	6	6	6	5
Automotive group	14	13	16	16	18	18	16	15
Gasoline service stations	4	3	6	5	6	6	5	5
Lumber-building-hardware group	6	3	7	6	8	8	7	9
Drug and proprietary stores	3	5	4	3	3	3	3	3
All other retail stores	11	15	12	8	10	10	11	10
Total	100	100	100	100	100	100	100	100

Source: 1948 Census of Business.

Distribution of retail sales in the nation's capital showed a marked difference from that of the surrounding states. Due, no doubt, to the relatively high level of per capita income, to the urban characteristics of the area, and to the fact that a large proportion of the working force resides outside the district, a smaller portion of retail purchases in Washington, D. C. are made in food, lumber, buildings, and hardware stores than in any Fifth District state and a larger portion in apparel stores.

Fifth District experience shows that the more rural the state, the larger the percentage of total retail sales made for the purchase, upkeep, and operation of automobiles and the smaller the percentage made for the consumption of food and drink "away from home". Car purchase and upkeep account for 16% of sales in the District of Columbia and 24% in North and South Carolina. Eating and drinking places account for only 4% in the Carolinas and 9% in both Maryland and the District of Columbia.

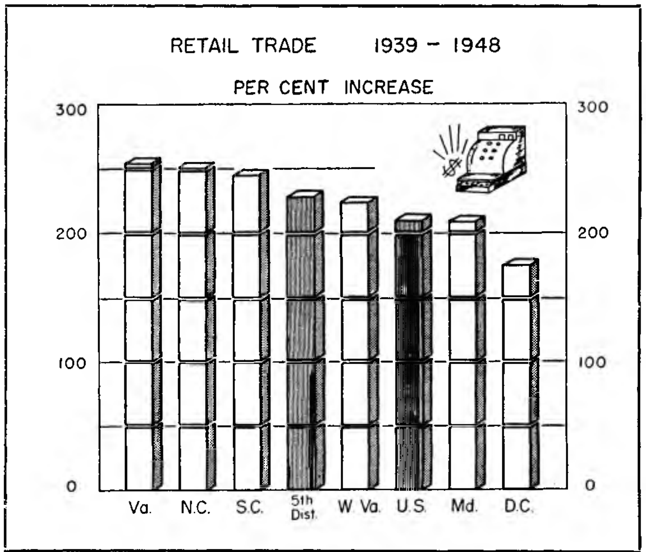
Retail Sales in the Fifth District Counties

Every county in the Fifth District had a larger dollar volume of retail sales in 1948 than in 1939. Apparently, no geographic pattern exists for this area, and the reasons for the growth could be as numerous as the number of counties, but basically the changes have been closely related to changes in income.

Among the 319 counties, the increase in sales from 1939 to 1948 ranged from a low of 100% in Wirt County, West Virginia, to a high of 613% in Onslow County, North Carolina. Gains of 400% or more were made in 12 counties where retail sales ranged during 1948 from $3.5 million in Jasper County, South Carolina to $97.9 million in Fairfax County, Virginia. In the 59 counties where the growth was less than 200% the amount of the sales during 1948 varied from $0.8 million in Highland County, Virginia to $1,169.5 million in Baltimore County, Maryland. Between these counties making relatively low and high percentage gains were 100 counties with an increase between 250-299% and 41 counties with an increase between 300 and 399%.

Only Baltimore County and Washington, D. C. had retail sales of more than a billion dollars in 1948 and both of these areas had gains of less than 200%. As indicated above, size of total retail sales apparently had no relation to amount of percentage increase. While the top two counties had relatively small gains during the period, the next two counties, Fairfax County, Virginia ($97.9 million of sales in 1948) and Arlington County, Virginia ($93.3 million of sales in 1948) had gains over 400%.

Population figures from the 1950 Census are not yet available for all counties in the Fifth District; however, from preliminary releases for Virginia, some relation between growth in population and growth in retail sales can be seen. Arlington County, for example, had the largest percentage increase in population in Virginia from 1940 to 1950 and also the largest increase in the state in retail sales from 1939 to 1948. The two dates available for population figures are not the same as those used for retail sales, but changes in population from 1939 to 1948 probably differ little from the changes, 1940 to 1950.



While population growth seems to be a normal cause for increase in retail sales, no such relation appears to exist in many counties. King and Queen County had a decrease of 20% in population between 1940 and 1950, the largest for any Virginia county; yet it had a 367% increase in retail sales between 1939 and 1948, the seventh largest increase in the state. Henrico ranked 17th among Virginia's 100 counties in percentage increase of population but 89th in percentage increase of retail sales in the above period.

The fact that a county was largely urban seemed to have had little influence on the size of the increase in retail sales. As pointed out before, Baltimore, Maryland and Henrico, Virginia counties had gains below 200%. Other urban counties—Norfolk and Roanoke, Virginia; Kanawha and Cabell, West Virginia; Mecklenburg, Durham, Guilford, and New Hanover, North Carolina; and Charleston and Richland, South Carolina —had gains in retail sales from 1939 to 1948 greater than 200% but less than 300%. Warwick County, Virginia had a gain of 318% and Arlington, Fairfax, and Princess Anne counties in Virginia had gains of more than 400%.

While no specific reason for the varied increases in most of the counties is at hand, causes can be pointed out for several of the counties having exceptional gains. As the activities of the government expanded, many of the workers coming to the District of Columbia set up residence in nearby areas, causing the increases noted in Fairfax and Arlington counties. The opening of a rayon plant during the period being discussed had much to do with the increase of 445% in the retail sales of Giles County, Virginia. The overflow of the expanded population from the Norfolk area and the growth of Virginia Beach as a resort were responsible for the increase of 428% in Princess Anne County. In two North Carolina counties the military was in a large measure responsible for the expansion of retail trade, namely a Marine base at Cherry Point in Onslow County where the increase amounted to 613% and Fort Bragg in Cumberland County where the increase amounted to 416%.

Undoubtedly a detailed study of this changeful decade would include such factors as wages and their distribution, new capital emplacement, and other new income sources as causes for the heavily expanding retail trade of this area.

DEBITS TO INDIVIDUAL ACCOUNTS

(000 omitted)

	June 1950	June 1949	6 Months 1950	6 Months 1949
Dist. of Columbia				
Washington	$ 925,305	$ 788,243	$ 4,942,236	$ 4,454,436
Maryland				
Baltimore	1,113,489	1,011,967	6,023,316	5,651,845
Cumberland	25,555	23,115	130,512	125,114
Frederick	19,604	17,151	104,538	102,533
Hagerstown	29,934	26,385	161,056	155,901
North Carolina				
Asheville	52,576	46,153	292,325	272,417
Charlotte	280,467	220,188	1,584,199	1,342,173
Durham	90,110	80,251	481,661	495,756
Greensboro	86,612	69,208	480,865	426,984
Kinston	12,171	12,968	74,438	77,228
Raleigh	142,067	114,571	814,064	729,391
Wilmington	35,670	30,162	195,175	184,039
Wilson	13,035	12,068	82,514	83,545
Winston-Salem	143,425	128,550	803,863	716,599
South Carolina				
Charleston	64,751	60,555	365,859	351,588
Columbia	109,124	104,105	614,299	580,488
Greenville	92,918	76,423	515,367	461,744
Spartanburg	49,119	41,843	288,688	263,007
Virginia				
Charlottesville	24,290	21,335	138,973	129,720
Danville	24,528	21,846	141,395	133,039
Lynchburg	41,420	34,009	229,252	210,568
Newport News	31,191	31,890	171,349	190,211
Norfolk	190,299	179,024	1,236,767	1,037,612
Portsmouth	22,570	19,993	124,422	114,922
Richmond	495,588	492,118	2,836,848	2,842,936
Roanoke	108,502	95,379	569,155	535,166
West Virginia				
Bluefield	46,169	47,988	238,241	274,110
Charleston	131,978	136,417	738,924	809,022
Clarksburg	31,381	29,971	171,767	173,872
Huntington	59,852	52,713	336,641	337,946
Parkersburg	28,353	25,221	151,123	151,164
District Totals	$ 4,522,053	$ 4,051,810	$25,039,832	$23,415,076

BUILDING PERMIT FIGURES

	June 1950	June 1949	6 Months 1950	6 Months 1949
Maryland				
Baltimore	$ 6,212,440	$ 6,147,350	$ 45,851,580	$ 25,480,625
Cumberland	49,950	19,225	641,740	234,225
Frederick	107,205	70,475	1,337,155	537,422
Hagerstown	173,505	96,385	948,085	736,380
Salisbury	178,060	156,980	811,977	931,761
Virginia				
Danville	305,351	65,156	1,781,703	1,492,287
Lynchburg	684,935	206,224	2,296,530	2,175,442
Norfolk	1,167,045	1,034,005	7,764,250	5,827,151
Petersburg	326,288	208,505	2,064,983	816,283
Portsmouth	209,510	176,705	1,672,419	843,352
Richmond	3,126,918	1,565,911	12,755,489	9,004,764
Roanoke	1,670,467	1,495,280	10,517,974	5,821,072
West Virginia				
Charleston	640,761	451,084	8,257,074	3,386,829
Clarksburg	68,575	142,865	846,848	614,570
Huntington	610,647	441,509	3,176,943	2,215,752
North Carolina				
Asheville	358,373	118,276	2,298,669	1,519,978
Charlotte	3,550,364	4,867,602	15,238,424	12,322,013
Durham	683,981	868,688	9,689,268	3,387,150
Greensboro	1,646,828	1,842,429	6,641,114	6,091,573
High Point	329,280	256,026	2,057,852	1,477,512
Raleigh	596,144	319,265	8,641,785	4,271,280
Rocky Mount	265,732	215,430	2,515,618	802,383
Salisbury	256,228	166,700	1,896,574	616,612
Winston-Salem	1,620,778	767,156	6,563,349	5,000,701
South Carolina				
Charleston	238,544	122,135	1,717,727	1,437,465
Columbia	524,481	437,773	5,898,277	3,602,665
Greenville	609,020	1,043,591	3,740,949	4,128,381
Spartanburg	213,099	104,770	1,916,046	756,452
Dist. of Columbia				
Washington	8,770,481	15,799,114	37,811,664	35,544,556
District Totals	$35,194,990	$39,206,614	$207,352,066	$141,076,636

WHOLESALE TRADE

LINES	Sales in June 1950 compared with June 1949	May 1950	Stocks on June 30, 1950 compared with June 30, 1949	May 31, 1950
Auto supplies (7)	— 3	+ 2	+ 5	— 1
Electrical goods (5)	+ 5	— 6	+ 8	— 1
Hardware (9)	+23	— 8	— 6	—11
Industrial supplies (3)	— 8	+17	....	....
Drugs & Sundries (11)	+10	+ 4	+ 2	— 3
Dry goods (12)	+11	—14	+15	+10
Groceries (53)	+ 6	+ 5	+ 9	+ 2
Paper & Products (6)	+ 3	+ 5	....	....
Tobacco & Products (8)	— 1	+ 7	+ 5	+ 3
Miscellaneous (84)	+15	+ 1	— 3	+ 2
District Totals (198)	+11	0	+ 1	0

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

RETAIL FURNITURE SALES

STATES	Percentage comparison of sales in periods named with sales in same periods in 1949: June 1950	6 Mos. 1950
Maryland (7)	+ 2	+ 5
District of Columbia (7)	+ 5	+ 7
Virginia (19)	+13	+ 4
West Virginia (10)	+ 5	+ 7
North Carolina (12)	+ 9	+ 8
South Carolina (9)	+ 3	+ 9
District (64)	+ 6	+ 5
INDIVIDUAL CITIES		
Baltimore, Md. (7)	+ 2	+ 5
Washington, D. C. (7)	+ 5	+ 7
Richmond, Va. (6)	+15	— 1
Lynchburg, Va. (3)	+17	+ 7
Charleston, W. Va. (3)	+23	+ 1
Charlotte, N. C. (3)	+11	+10
Columbia, S. C. (3)	+ 3	+ 7

Number of reporting stores in parentheses.

DEPARTMENT STORE OPERATIONS

(Figures show percentage change)

	Rich.	Balt.	Wash.	Other Cities	Dist. Total
Sales, June '50 vs. June '49	+ 3	+ 3	+ 2	+ 7	+ 4
Sales, 6 mos. '50 vs. 6 mos. '49	+ 1	— 4	— 1	+ 4	0
Stocks, June 30, '50 vs. '49	+ 9	— 5	+ 8	+ 3	+ 3
Orders outstanding, June 30, '50 vs. '49	+29	+ 8	+ 7	+20	+12
Current rceivables June 1 collected in June '50	29	48	48	42	43
Instalment receivables June 1 collected in June '50	13	16	18	16	17

COTTON CONSUMPTION AND ON HAND—BALES

	June 1950	June 1949	Aug. 1 to June 30 1950	1949
Fifth District States:				
Cotton consumed	428,527	311,982	4,272,869	3,752,871
Cotton Growing States:				
Cotton consumed	764,347	538,109	7,485,953	6,570,959
Cotton on hand June 30 in consuming establishments	1,228,663	896,342		
storage & compresses	5,247,422	4,386,553		
United States:				
Cotton consumed	841,227	600,651	8,258,956	7,340,978
Cotton on hand June 30 in consuming establishments	1,429,178	1,052,134		
storage & compresses	5,268,258	4,409,962		
Spindles active, June 30, U.S.	20,221,000	19,464,000		

Source: Department of Commerce.

FEDERAL RESERVE BANK OF RICHMOND

(All Figures in Thousands)

ITEMS	July 12, 1950	Chg. in Amt. From 6-14-50	7-13-49
Total Gold Reserves	$1,080,570	— 11,965	+ 3,257
Other Reserves	12,377	— 22	— 4,848
Total Reserves	1,092,947	— 11,987	— 1,591
Bills Discounted	6,455	+ 2,365	— 4,210
Industrial Loans	121	— 8	+ 95
Gov. Securities, Total	1,181,884	+ 38,821	— 27,723
Bills	247,607	— 17,334	— 5,080
Certificates	182,903	—130,059	—251,626
Notes	401,765	+203,606	+378,840
Bonds	349,609	— 17,392	—149,857
Total Loans & Securities	1,188,460	+ 41,178	— 31,838
Uncollected Items	236,678	— 50,305	— 2,791
Other Assets	20,322	— 2,514	- 3,470
Total Assets	$2,538,407	— 23,628	— 39,690
Federal Reserve Notes in Cir.	$1,514,977	+ 13,877	— 28,958
Deposits, Total	761,115	— 2,453	— 9,270
Members' Reserves	668,334	— 8,464	— 58,228
U. S. Treas. Gen. Account	28,380	+ 8,244	+ 13,428
Foreign	58,740	+ 5,365	+ 34,166
Other Deposits	5,661	— 7,598	+ 1,364
Def. Availability Items	213,360	— 35,862	— 4,141
Other Liabilities	521	— 319	— 25
Capital Accounts	48,434	+ 1,129	+ 2,704
Total Liabilities	$2,538,407	— 23,628	— 39,690

51 REPORTING MEMBER BANKS—5th DISTRICT

(All Figures in Thousands)

ITEMS	July 12, 1950	Chg. in Amt. From 6-14-50	7-13-49
Total Loans	$ 959,690**	+ 13,993	+166,683
Business & Agricultural	424,565	+ 2,825	+ 75,607
Real Estate Loans	232,257	+ 2,459	+ 36,821
All Other Loans	314,930	+ 9,507	+ 57,508
Total Security Holdings	1,757,281	+ 6,086	+ 40,555
U. S. Treasury Bills	97,113	+ 15,534	+ 11,519
U. S. Treasury Certificates	83,084	— 43,613	—127,883
U. S. Treasury Notes	313,989	+ 39,499	+273,490
U. S. Treasury Bonds	1,105,888	— 6,266	—130,658
Other Bonds, Stocks & Secur.	157,207	+ 932	+ 14,087
Cash Items in Process of Col.	241,493	— 9,851	+ 21,688
Due from Banks	185,537*	+ 14,460	+ 6,293
Currency & Coin	72,078	+ 4,208	+ 3,008
Reserve with F. R. Bank	447,017	— 15,645	— 28,911
Other Assets	51,898	— 3,210	+ 3,141
Total Assets	3,714,994	+ 10,041	+212,457
Total Demand Deposits	2,836,428	+ 5,815	+198,451
Deposits of Individuals	2,165,428	+ 9,928	+116,293
Deposits of U. S. Gov't.	86,090	+ 9,938	+ 57,507
Deposits of State & Local Gov't.	148,848	— 14,297	+ 15,217
Deposits of Banks	395,101*	+ 4,565	+ 9,937
Certified & Officers' Checks	40,961	— 4,319	— 503
Total Time Deposits	616,225	— 2,146	— 323
Deposits of Individuals	569,799	— 1,924	+ 1,698
Other Time Deposits	46,426	— 222	— 2,021
Liabilities for Borrowed Money	4,200	+ 3,225	+ 800
All Other Liabilities	21,896	+ 1,275	+ 1,638
Capital Accounts	236,245	+ 1,872	+ 11,891
Total Liabilities	3,714,994	+ 10,041	+212,457

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

PRICES OF UNFINISHED COTTON TEXTILES

	June 1950	May 1950	June 1949
Average, 17 constructions	65.45	64.65	60.22
Printcloths, average (6)	71.69	69.24	63.12
Sheetings, average (3)	57.54	57.72	54.83
Twill (1)	74.79	73.49	62.44
Drills, average (4)	58.46	58.59	55.29
Sateen (1)	83.17	84.16	80.34
Ducks, average (2)	59.05	59.21	58.30

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 production and construction activity increased further in June to new peacetime peaks. Following the outbreak of hostilities in Korea near the end of the month, buying showed a marked upsurge and commodity prices generally rose considerably in both wholesale and retail markets. Common stock prices declined sharply for a time. Prices of U. S. Government securities generally showed little change. Bank credit continued to expand. On July 19 a large-scale Federal program was proposed for expanding defense production and curbing inflationary developments.

Industrial Production

The Board's production index rose another 4 points in June to 199. Although output of steel and some other basic materials had been at or close to capacity levels in May, continued strong demands resulted in further increases in production of most major groups of manufactures and minerals in June. In early July output declined temporarily owing to holiday and vacation influences.

Production of durable goods increased substantially further in June, mainly because of gains in the automobile and machinery industries. Automobile assembly, which had been at a new record rate in May, increased 23 per cent further in June, and activity in machinery industries continued the marked rise which began in early spring. Steel production was maintained in June at the capacity level reached in April. Refinery output of nonferrous metals expanded considerably further, but supplies available, after increased takings for Government stockpiles, continued substantially below industry demands. Mine production of copper and iron ore also expanded.

Output of nondurable goods increased somewhat further in June, reflecting mainly continued gains in rayon and woolen textiles, paper, petroleum, rubber and chemical products. Tire production was at a new record, and a substantial expansion in output of synthetic rubber was initiated. Activity at cotton mills declined somewhat.

Construction

Value of construction contracts awarded in June was maintained at the spring peak level reflecting continued expansion in awards for public work which offset further small declines in private awards. The number of housing units started in June was maintained at the record May level and for the first half of the year totaled 687,000 units, as compared with 449,000 units started during the first half of 1949.

Employment

Employment in nonagricultural establishments rose by about 300 thousand persons in June, after allowance for seasonal changes. About one-half of this increase occurred in industries producing durable manufactures; there were also gains in employment in construction and transportation activities.

Agriculture

Total crop production this year, according to July 1 estimates, is expected to be 6 per cent less than last year when stocks increased and exports were somewhat larger. Considerably small cotton and wheat crops are in prospect, but feed crops may approach last year's large harvest. Marketings of meat animals recently have been in about the same seasonally low volume as a year ago, while production of milk and eggs has been larger.

Distribution

Consumer buying increased considerably beginning in the latter part of June, influenced largely by international developments. Sales at department stores in mid-July were 24 per cent larger than in the corresponding period a year ago; sales in the preceding 2 weeks were 9 per cent larger. New automobile sales increasd further and the volume was limited only by the supply available. Anticipatory buying was also evident for various other durable and semidurable goods and such foodstuffs as coffee and sugar. Distributors' stocks of most consumer goods, except passenger cars, had previously been rising following the recovery in production last summer.

Commodity Prices

Wholesale prices have generally risen considerably during the past 4 weeks, following earlier marked advances in April and May. The sharpest increases have been in prices of farm and food products, particularly livestock, meats, imported foodstuffs, and cotton. Cotton prices on July 21 were about one-fourth above the Federal loan level.

Prices of most industrial materials have advanced further in recent weeks, with especially marked increases in building materials, textiles, rubber, and tin. Prices of most metals have been maintained at earlier advanced levels.

Prices of some additional finished industrial products have been advanced during this period and with retail food prices increasing sharply, a substantial further rise is indicated in the level of ocnsumers' prices.

Bank Credit

Loans to real estate owners and consumers and holdings of corporate and municipal securities showed further substantial increases at banks in leading cities during June and the first half of July. Loans to businesses also expanded. Holdings of U. S. Government securities fluctuated considerably but declined somewhat over the period.

Treasury deposits at the Reserve Banks which had been built up through tax payments in the latter part of June were drawn down during the first three reporting weeks of July, supplying reserve funds to members banks. These funds were absorbed by reduction in Federal Reserve holdings of U. S. Government securities. The System continued to sell Treasury bonds and also sold bills and certificates, and these sales were offset in part by purchases of notes.

Security Markets

Common stock prices fell 13 per cent from the latter part of June to the middle of July, reflecting developments in Korea, but recovered part of the decline during the third week. Demand for U. S. Government securities broadened throughout this period. With virtually no change in prices of long-term Treasury bonds, a moderate decline in the prices of high-grade corporate obligations resulted in some widening of the narrow spread between yields of these securities.