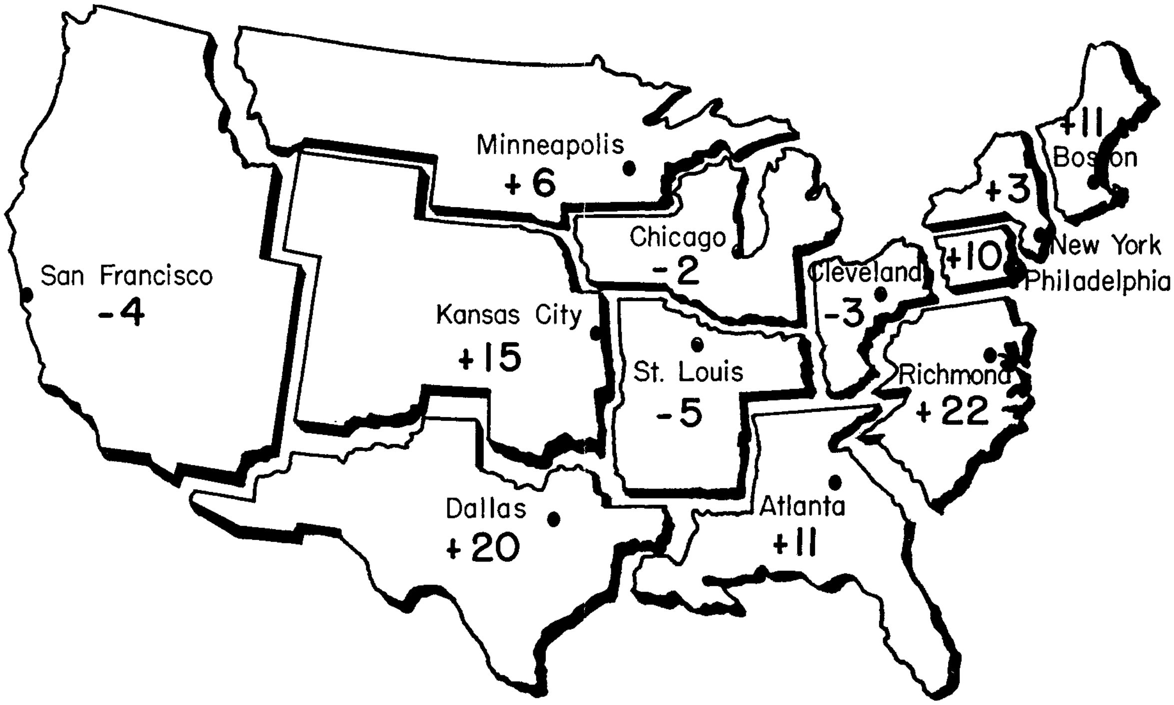
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

NOVEMBER 1950

BUSINESS LOANS OF WEEKLY REPORTING MEMBER BANKS

PERCENTAGE CHANGES - DECEMBER 22, 1948 to OCTOBER 11, 1950



Bank loans have been rising steadily and substantially over the past twelve months. In October national figures were 3% above the previous record high of 1948, with the Fifth District showing the most pronounced increase of all. These changes bear importantly on the inflation and credit control problem discussed in the **Business Conditions article** on Page 3.

Also In This Issue - - - -

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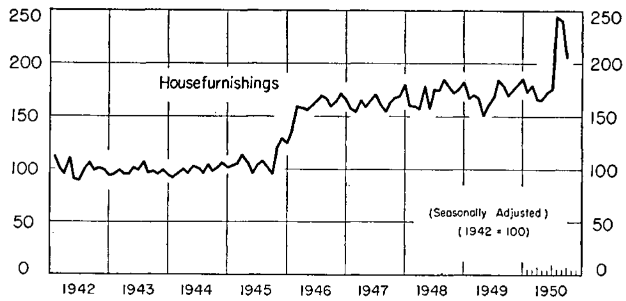
FIFTH DISTRICT TRENDS

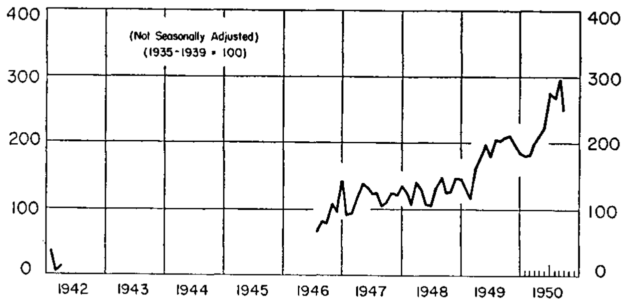
DEPARTMENT STORE INDEXES



Housefurnishings were prominent among the commodities in which scare buying took place in July and August in the department stores. July sales of these items rose 40% from June to a level 44% ahead of a year ago. Much the same rate of buying continued in August, but a return to a more tenable level of sales was under way in September.

✦ ✦ ✦

AUTOMOBILE REGISTRATION



A belated seasonal down-swing took place in passenger car registrations in September, probably as a natural consequence of the approach of new models and a correction from the inordinately high levels of the summer. The modest introductory terms on Regulation W appear to have exerted only a minor effort in the corrections during September, but have been more of a restraining influence under the stiffer terms during October.

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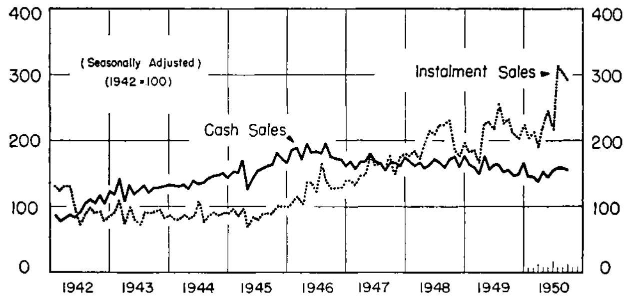
DEPARTMENT STORE INDEXES



In the forefront of the buying rush of durable commodities has been the growth of sales on insalment credit. Although the trends of credit sales, both instalment and charge account, have been rising for some time, they were particularly marked this summer, and the items which had been scarce in the past war joined in the sales rush with durable commodities.

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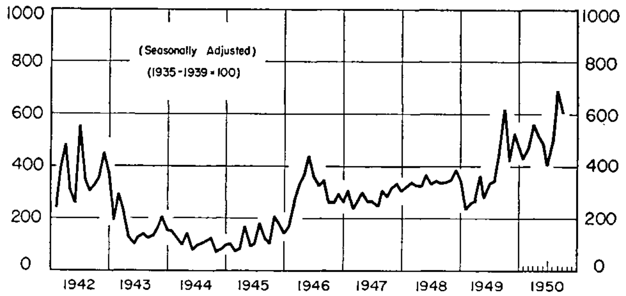
CONSTRUCTION CONTRACTS AWARDED



Construction contract awards declined 12% on an adjusted basis from the high point of August to September, but were still left at boom levels. Real estate controls effected around the middle of October will reduce the residential and certain other segments substantially further from levels that prevailed in September. Trade information during October indicated this transition to be under way during that month.

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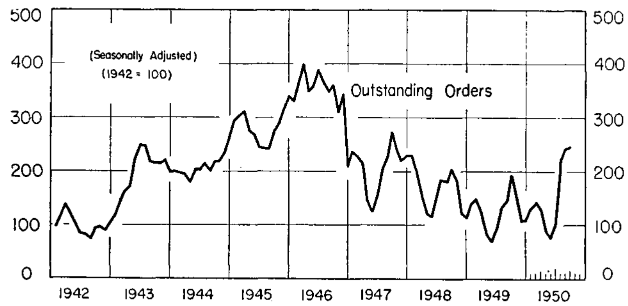
DEPARTMENT. STORE INDEXES



The impact of the consumer buying rush has been felt primarily on the sources of supply since June when these orders rose to a level nearly as high as in 1947 when many scarcities existed. Probable anticipation that consumer purchases in July and August may be at the expense of future months, together with good judgment on the part of store buyers, has caused a flattening out in stores' outstanding orders.

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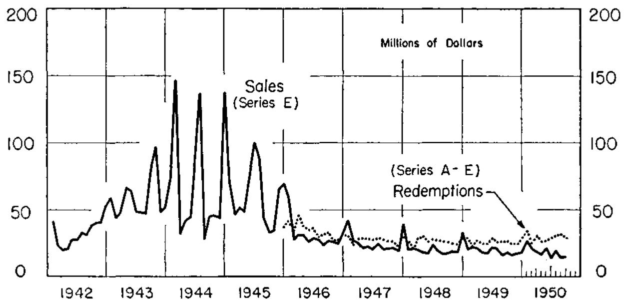
SAVINGS BONDS



Net cashings of savings bonds have been in evidence in the Fifth District, with only minor exceptions, since 1946. This trend was accentuated this spring and summer when the spread between redemptions and sales widened. Savings bond cashings, together with reduced time deposits and some withdrawal of savings and loan investment funds, were used in part to finance the buying boom in July and August, either for outright cash payments or for down payments.

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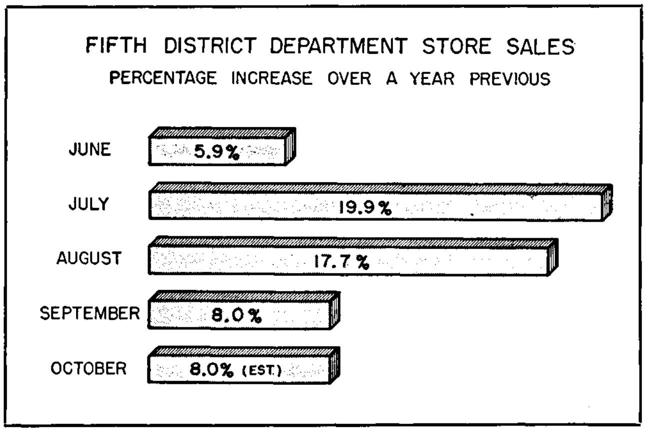
Business Conditions and Prospects

Booming business conditions in recent months have been dominated by the Korean war and its strong implication that expanded military defense preparations both at home and in Western Europe constitute the prudent future policy for this nation. The business outlook is, therefore, one of rising production for the indefinite future with the effect on various industries conditioned by the amount of expansion ultimately determined for national defense.

Since heavy industry was operating near capacity at the outbreak of the Korean war, proposed expansion for the defense program must be at the expense of civilian consumption. Durable goods industries will have to bear the brunt of the diversion since existing capacity cannot produce physical goods to meet booming civilian demands plus the vast amount of defense material contemplated.

Current manifestations in the Fifth District are significant. Consumer credit in Fifth District commercial banks has risen 43% during the past year. Mortgage loans made by savings and loan associations in the Greensboro Federal Home Loan Bank district area (comprising Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, and Virginia) are up 88% over a year ago. Cost of living in Fifth District cities is again crowding 1948 peaks. The trend in department store sales has receded from the inordinately high levels of July and August, but they are running well ahead of last year, as the accompanying chart shows.



Crux of the problem here, as well as nationally, is inflation—already observable and threatening to become more so. Inflationary price rises would not only make the rearming much more costly than necessary, but could create and perpetuate inequities and discontent severely damaging to the free enterprise system. Military procurement itself is no serious problem, but to subtract a vast volume of goods which consumers are able and willing to buy would indubitably accentuate the rising spiral of prices—not only of durables in short supply, but nondurables as well.

As Chairman McCabe of the Federal Reserve Board put it, in a recent address: "At a time when we must mobilize enormous resources for defense, our economy is threatened with the cancerous sore of inflation . . . We must prevent it from eating away the value of the dollar, which to all the world is a symbol of our strength . . . Unrestrained, it will undermine the very existence of our free enterprise economy. If we wish to avoid direct controls and a managed economy, the banking system must exert all its power and influence to prevent undue expansion of the country's money supply. The growth of credit in all directions has been at an alarming rate . . . Bank loans to business expanded at the record-breaking rate of $4 billion in the third quarter and are still increasing. It is my earnest hope that the commercial banks of the country will see the handwriting on the wall and will voluntarily and courageously take action to thwart the menace of inflation in the area in which they have primary responsibility."

Mindful of the inflation problem, Congress in the Defense Production Act of 1950 gave the Federal Reserve Board powers to restrict consumer credit and housing credit, two fields where rampant credit expansion could be tightened, and at the same time provide a diversion of materials for armament.

On September 18 the Board reimposed Regulation W, covering a wide list of durable commodities, and on October 16 sharply tightened its terms. On October 12 the Board imposed Regulation X for the purpose of tightening credit on housing, so that new houses produced would be limited to 800 or 900 thousand units annually—a figure in keeping with the anticipated material requirements by the military.

Interested parties have, naturally, criticized both of these regulations, but the point frequently overlooked is that the prime purpose of the regulations is to eliminate a portion of the huge demand for both durable consumer goods and housing—the only current means of diverting materials to military use and at the same time offering a practicable method of preventing further price rises.

Indications are that the purpose for which the regulations were designed—that is, a dampening of the sharp credit expansion that has been going on for many months—may be having some effect. Some argue that military procurement is not yet large enough to call for much restriction, but the problem yet to be faced is diverting manpower to war plants; with near-full civilian employment, it will be quite a task to move men from present jobs. Both logic and patriotism seem to say that it is better for some slack to be created so that the required manpower for war plants will be provided.

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Proposed defense procurement is not definite, but probably will amount to no more than 15 per cent of goods and services produced. A substantial measure of success could be accomplished through Regulation W to curtail demand for civilian goods, since nearly half of all durable goods are sold on credit.

Similarly, Regulation X appears to impose rather substantial restriction on housing credit. It does not apply to credit advance by any of the Government lending agencies, but the Housing and Home Finance Administrator has tightened financing terms of these agencies. Indications are that the number of building units will be considerably reduced.

Again, this restriction, along with other possible restrictions on commercial building, in addition to the prime function of providing physical materials for defense, appears necessary in order to make room for a considerable expansion of industrial plants and equipment, perhaps as important to the economy in the long run as the current effort to restrain prices through credit control.

As in other durable goods sectors, both materials and manpower hitherto used in the housing industry will be needed for armament production and, until capacity is expanded and the labor force enlarged, the nation cannot have both in the amounts desired. If military procurement expenditures, both at home and abroad, are to be held at a level of $30-$40 billion annually, curtailment of civilian demand through Regulations W and X should aid in holding price rises to a level necessitated by increased wage costs.

If hourly wages continue to rise sharply—as they have in recent months—and at new record highs keep feeding the stream of purchasing power, there can hardly be much optimism for the end-goal of conquering inflation and preserving the purchasing power of the dollar—even through combined efforts of the central banking authorities, the commercial banks, and "regulated" industry.

Bank credit, evidenced by business loans, has been expanding quite rapidly, as the map on the front page of this REVIEW shows. This has been, in part, a consequence of rising prices and expanding business activity. The rate of rise in business loans, however, since the middle of the year, is probably indicative of some undesirable inventory accumulation. Although inventory figures do not yet show such a rise, the rate of industrial buying and retail and wholesale commitments as reported in the trades probably means that higher level of inventories has been committed. In the Fifth District, there must be some accumulation of cotton goods in inventory for the rate of off-take at the retail level has not been commensurate with the output at the manufacturers' level, and similar situations could probably be found elsewhere. In any event, it is hardly desirable for the economy in general that speculative inventory accumulation take place at this time.

Probably the most satisfactory solution to the speculative part of loan expansion can be accomplished by dampening down consumer and real estate credit and thus softening some of the price pressure on commodities. If these efforts are effective, the speculative intent will be eased and price rises slowed except in those raw materials already in extremely short supply—direct controls seem to be the only answer here.

A brief overview of business conditions in the Fifth District in recent weeks indicates a mixture of the favorable and unfavorable. During September there was a continuation of the "back to normalcy" trend in trade figures. Available measures of factory output likewise eased somewhat from the August levels (when seasonally adjusted). This appears to be a temporary situation, for the basic trend is almost certainly upward and should continue in that direction for the long run. Employment and wages are rising and surplus manpower is dwindling rapidly.

Contraction in the construction industry was evident when total contract awards dropped 12% from August to September and, of course, prior to Regulation X. One and two-family houses accounted mainly for the decline, attributable partly to builder anticipation of credit controls, partly to shortages of materials, and partly to uncertainties arising from inductions in the armed services. Contract awards for factory buildings dropped 48% from the August figure, though that had risen to inordinate heights. Even so, this type of construction in September was more than five times as large as a year ago. Awards for commercial buildings in September rose 34% from August, on an adjusted basis, to 153% ahead of a year ago, again probably reflecting fear of future restrictions.

Department store sales, after seasonal correction, declined 7% from August. September dollar sales, however, were still 8% ahead of a year ago. Current indications are that October will run about the same percentage over last year. The decline in department store sales indicates a return to more normal consumer buying, following the scare buying of July and August. There is little reason to believe that the long-term trend of department store sales is down; it is rather to be expected that they will mark time while buyers adjust to the new and stiffer terms, and that future emphasis will shift from durable to non-durable or soft goods.

Furniture stores, on the other hand, have shown a further rise in sales. September was 2% above August on an adjusted basis, with a level 22% ahead of a year ago. Cash sales showed a considerably larger rise from the previous month than credit sales. Inventories rose slightly but were about in line with the rise in sales.

Most lines of wholesale trade followed the consumer buying trend, and receded on an adjusted basis from

Continued on page 6

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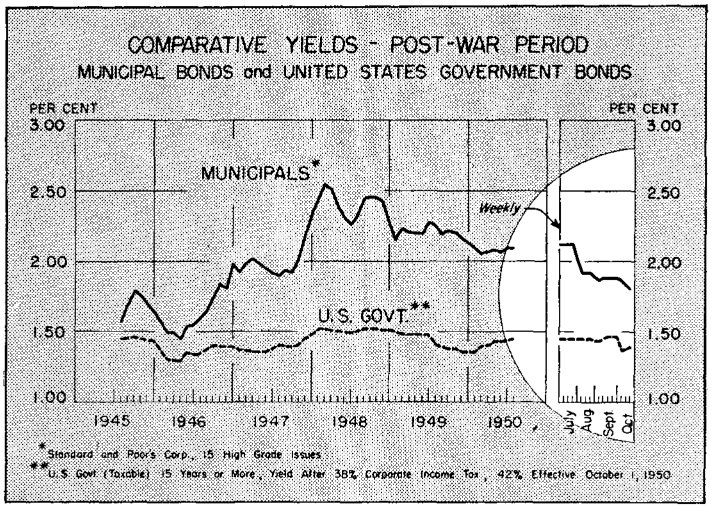
Higher Taxes---Higher Municipal Bonds

Municipal securities, according to many authorities, offer the best hedge in the bond market against war-time inflation. Widespread acceptance of this theory has been indicated during recent months by the extraordinarily heavy sales of state and local securities to investors—and at rising prices and lower yields. This "flight from taxes" was touched off by President Truman's proposal on July 19 that "the greatest possible amount" of a heavily increased military budget be financed by higher taxes.

Since investors can only offset higher taxes by the addition of tax-exempt income, and state and local government bonds are the only completely tax-exempt securities available, municipal dealers were flooded with buying orders immediately following the President's request for higher tax rates. The "boom" in municipal bond demand eased considerably after the initial rush, but prices remained firm at the high levels reached in early August and have even moved up slightly in recent weeks. The average yield on municipals (Standard & Poor's Index) dropped below 2% for the first time in three years, causing the spread between municipals and Treasury bonds to be narrower than at any time in the past four years.



Performance of the municipal bond market in late July was unique even for a market that has had its share of drastic changes in prices and turnover. At the beginning of July security dealers' inventories of tax-exempts were bulging with over $200 million of unsold obligations; at month-end the floating supply had shrunk 58% to $84 million, the lowest level since January 1949. In a fortnight dealers exchanged their worries over heavy supplies of slow-moving municipal obligations for profits on fast-moving sales at marked-up prices.

Concentrated demand resulted in a succession of price advances and raised the municipal bond average to the highest point in almost three years. Just prior to the proposed tax increases, Standard & Poor's yield index was 2.12%—the highest level of the year. The wave of buying that following the Administration's pay-as-much-as-we-can-as-we-go plan depressed current yields by 10 basis points in a week to an average of 2.02%. By August 2 the yield had further receded to 1.92%. Pressure of demand from investors seeking "future tax relief" caused current yields on high-grade municipals to decline 20 basis points—a much greater change than the entire range of fluctuations in the preceding six months.

Savings to State and Local Borrowers

This yield decline meant substantially lower borrowing costs to states and municipalities fortunate enough to have delayed offering new issues. Among the large borrowers in this District "on the right side of the calendar" and realizing savings in the net interest costs were Pulaski County, Va., which sold $2.5 million of 20-year school bonds on July 25 at a net interest cost of 2.16%; Cleveland County, N. C., borrowing $750,000 for 20 years for the same purpose on August 1 at a cost of 1.73% (in June 1948 this county borrowed the same amount for the same purpose and period at a cost of 2.31%); and Bristol, Va., which sold $1.6 million of 29-year serial sewer bonds on August 8 on a basis of 2.28%.

These were the principal borrowers in the Fifth District to whom two weeks difference in offering dates meant interest-payment savings. Prices in the municipal market have, however, held at the relatively high levels of late July and subsequent state and local government borrowers have therefore benefited from the declining cost. In this District recent large issues have included: Wake County, N. C., $2,375,000—net interest cost of 1.73%; Clemson Agricultural College of South Carolina, $2,500,000 at 2.87%; Washington Suburban Sanitary District, Md., $6,625,000 at 2.32% (a substantially lower interest cost than for any of the preceding eight issues of this borrower since 1948 for similar maturities); and Norfolk, Va., $4,895,000—net cost of 1.88% (net interest costs on three previous Norfolk issues since 1948 of similar maturities were 2.53%, 2.58%, and 2.73%).

In late October, three states in the Fifth District announced new issues: North Carolina will sell $32.5 million of school building and port construction bonds; West Virginia is borrowing $6 million for roads, and South Carolina is seeking $5 million for highway construction. In the current market, these states should obtain better terms than at any time in the past three years, and thus save state treasuries many thousands of dollars.

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Upward Trends

With the October increase in income tax rates—and the promise of more to come—the tax-exemption feature of municipals becomes increasingly valuable to higher-bracket investors as well as to a larger number of taxpayers. Both factors should strengthen the up-trend in individual holdings of municipals characteristic of the post-1945 period. Currently, an investor in the 30% Federal tax bracket needs a yield of 2.85% on taxable bonds to match a return of 2% on a municipal obligation, and the differential increases as the amount of taxable income increases so that the equivalent yield in the case cited, to an individual in the 60% tax bracket, is 5%.

Higher tax rates have also enhanced the value of tax exemption to corporate investors. Although the sharp increase in municipal prices after July 22 reduced the spread between yields on municipals and U. S. Government bonds to its narrowest point since November 1946 (see chart), the differential in favor of municipal bonds was 41 points on October 21.

Commercial banks in this District placed large orders during July and August with municipal dealers and extended their buying into relatively long maturities. At the beginning of October, estimated holdings of state and local obligations by member banks of this District amounted to ~~[illegible]~~* of total investments, up from 6% on June 30, 1950 and well above the figure of 5.2% a year earlier. Although this percentage has been increasing steadily from a low of 2.2% in 1945, it is (and has been traditionally) below the figure for all member banks in the United States.

Life insurance companies have also increased purchases of municipals—$162 million worth in the first eight months, 1950, compared with $97 million in the same period, 1949. Of the total acquired this year, $38 million were purchased in August alone. Contrary to some opinions expressed a number of months ago in connection with proposals to revise the tax formula applied to life insurance companies, the provisions of the Revenue Act of 1950 regarding these corporations are not likely to affect their demand for tax-exempt obligations. Nevertheless, such holdings by these companies will probably continue their upward trend, particularly if alternative investment outlets are reduced by restricted mortgage lending.

During September and October the municipal market was characterized by cautious buying and renewed expansion in dealers' inventories. From a low of $83.4 million on August 28, the visible float of tax-exempts rose steadily to a new all-time peak of $203 million in the middle of September. It has since declined, but the market is apparently marking time in the face of such uncertainties as the trend of interest rates, the nature of the rate pattern in the immediate future, the course and magnitude of Treasury financing, and the outcome of the anti-inflation battle.

In view of the record volume of new issues this year and the cautious buying of recent weeks, continued price firmness lends considerable support to the opinions of many specialists in municipals that tax-exempts may go still higher. Unlesss international tension is unexpectedly eased, they point out, World War II experience might well be repeated—with tax increases and a sharp reduction in the supply of new municipal bond issues. Other factors affecting the demand-supply situation in municipals are new restrictions on mortgage loans, the extent to which states and communities may try to initiate and complete capital projects in an attempt to beat restrictions, the prospectively smaller-than-expected flow of tax-exempt public housing bonds, and the broadened market for municipals as a consequence of recent legislation in New York liberalizing investment outlets for fiduciary trusts and trustees.

*6.5%

Business Conditions and Prospects

Continued from page 4

August to September. They are still running substantially ahead of a year ago.

New passenger car registrations in August were 10% higher than in July and 45% higher than in August of 1949. Preliminary estimates for September indicate that month was down 23% from August, though at a level 9% above a year ago. The combination of normal seasonal decline (which had been delayed in July and August but came with unusual force in September) plus the imminent change-over to new models and the more stringent terms of amended Regulation W (on October 18) will make a lot of difference in the new and used car situation for some weeks to come.

Demand deposits of all member banks in the Fifth District held at a steady level during the first six months of 1950, but during the third quarter of the year, these deposits started to move upward and show signs of continuing upward, unless otherwise restrained. At the end of September, demand deposits (excluding interbank) were 3.1% higher than a month earlier and 6.2% above a year ago. These deposits are the significant part of the money supply in this District, and their rise, occasioned largely by the expansion in loans and discounts, is the basic element in inflation, and when these deposits are used more rapidly, as they have been in the last three months, the increase in amount plus the increase in turnover finds its reflection in rising commodity prices.

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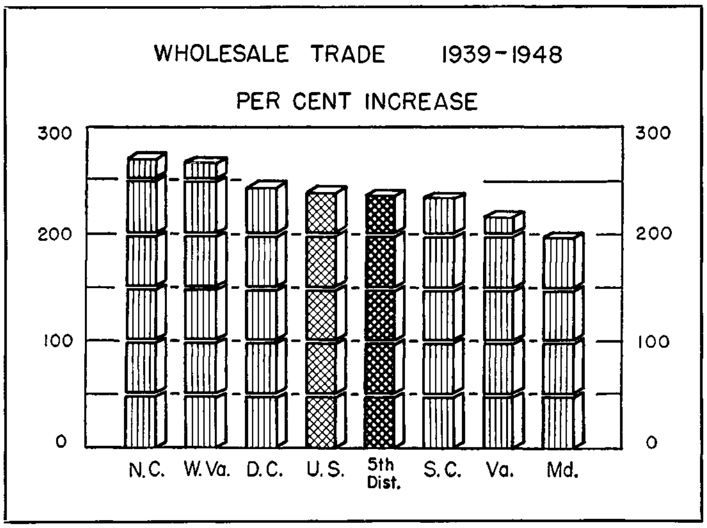
Fifth District Wholesale Trade, 1939-1948

In the past is was frequently asserted that the wholesaler was obsolete. In the '40's, wholesalers demonstrated their ability to continue rendering a necessary service, and their relative importance in the economy was strengthened. Their sales, '39-'48, rose 236% in the Fifth Federal Reserve District, practically the same as the national gain of 238%. Chief developments in wholesale trade in the decade were the increase in the number of firms and the shortening of the territory served.

As part of a booming economy, the wholesale establishments of the Fifth Federal Reserve District made sales amounting to more than $10 billion and gave employment to 162,295 persons during 1948. Preceding years had been characterized by tremendous expansion and sales in 1948 represented an increase of 236% over 1939. The gain percentage-wise was only slightly below the 238% gain realized by the nation as a whole and resulted in a small drop in the Fifth District's percentage of United States wholesale trade. In 1948, this District accounted for 5.57% of the country's wholesale sales and for 5.61% in 1939.



This information and other important aspects of wholesale trade (to be analyzed below) are derived from the *1948 Census of Business,* the most reliable of available sources because all businesss establishments are required by law to report their sales.

Wholesale Trade in Fifth District Sales

North Carolina with an increase of 270% led the Fifth District states in percentage gains made in wholesale trade from 1939 to 1948, followed by West Virginia with a gain of 266%. The increase of 244% in the District of Columbia was also larger than the national increase of 238%. South Carolina, Virginia, and Maryland had gains of 234%, 217%, and 196% respectively, which were all less than that of the country generally.

One-half of the 1948 wholesale business of the Fifth District was conducted in two states—30% in North Carolina and 20% in Maryland. The other half was distributed as follows: 19% in Virginia, 11% in the District of Columbia, 10% in West Virginia, and 10% in South Carolina. Only small shifts between states occurred in the wholesale trade of the Fifth District from 1939 to 1948. Wholesale establishments in West Virginia increased their portion of the Fifth District trade from 9% to 10%; those in North Carolina, from 27% to 30%. On the other hand, wholesale trade in Maryland fell from 22% of the District trade in 1939 to 20% in 1948 and in Virginia the decline was from 21% to 19%. No change occurred in the portion of the Fifth District wholesale sales made in the District of Columbia or in South Carolina.

Wholesale Trade by Kind of Business

The business is conducted by five general types of wholesalers: merchant wholesalers, manufacturers' sales branches and offices, petroleum bulk plants and terminals, agents and merchandise brokers, and assemblers of farm products. As seen in Table I, the first group—merchant wholesalers—account for the largest share of the trade, which amounted to 43% of the total in the Fifth District during 1948. The merchant wholesaler usually deals in some specific type of commodity such as groceries, tobacco, etc. In the Fifth District the largest sales are made by the grocery wholesalers who chalked up 9% of total sales in 1948.

Table I
WHOLESALE TRADE BY KIND OF BUSINESS
PER CENT OF TOTALS—1948

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.	5th Dist.	U.S.
Merchant wholesalers	46	40	49	55	35	47	43	43
Manufacturers' sales branches, offices	30	44	21	19	23	10	25	27
Petroleum bulk plants, terminals	8	....	10	9	9	13	9	6
Agents, brokers (merchandise)	14	13	16	16	26	23	19	18
Assemblers of farm products	2	....	4	1	7	7	4	6
Other types of wholesale	....	3	....	....	....	....	....	....
Total	100	100	100	100	100	100	100	100

Source: 1948 Census of Business.

With the exception of the products distributed through petroleum bulk plants and terminals, the goods of the entire country are distributed by the various types of wholesalers in much the same ratio as in the Fifth Dis-

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trict. In this area 9% of the total wholesale sales and in the country as a whole only 6% were made by petroleum bulk plants and terminals in 1948. This difference probably reflects a greater proportion of independent retailers as well as the distance of the Fifth District from the source of petroleum products which would limit the direct dealings of retailers with the producers and increase the need for wholesalers.

In the country generally and in the Fifth District, largest sales in the merchant wholesaler group were made by the grocery wholesaler; however, the national figure in 1948 was 6% of total sales and in the Fifth District, 9%. The difference can probably be ascribed to the relatively larger number of independent grocers in this area who must deal with the wholesalers as compared with the chain grocers who deal directly with the food manufacturer.

The Fifth District's record indicates that the urban or rural characteristics of an area are factors in determining how large a share of the wholesale trade will be done by the various types of wholesalers. The merchant wholesaler is of prime importance to the individual retailers who purchase quantities too small to be economical either for himself or the manufacturer to handle. An area of few large urban communities, and therefore few large retail stores, would be expected to show a large portion of its retailers purchasing through wholesale houses. This situation is pointed up in West Virginia where 55% of the wholesale trade is conducted by this group. The low percentage of wholesale trade accounted for by the wholesale merchant in North Carolina is not due to the relative lack of small retailers but rather to the fact that many North Carolina retailers are serviced by Richmond and Norfolk wholesale merchants.

Sales branches and offices of manufacturers would logically be located in the cities where larger concerns and even other wholesalers could be served. This condition is obvious from the record which shows that in the District of Columbia 44% of the wholesale trade is carried out by manufacturers' sales branches and offices while in South Carolina the portion is only 10%.

Assemblers of farm products must operate close to the source of supply and therefore it is to be expected that the Carolinas would do a larger part of this trade through wholesalers than other states of the District. Assemblers carried out 7% of total wholesale trade in 1948 in both North Carolina and South Carolina as compared with 4% in Virginia, 2% in Maryland, and 1% in West Virginia.

North and South Carolina firms channelled a larger part of their wholesale trade through agents and merchandise brokers than was the case in any other Fifth District state. Probably the relatively large number of independent manufacturers—particularly textile firms—has created the need for agents and brokers through which to purchase supplies and equipment.

Wholesale Trade in the Counties

The volume of wholesale trade in Fifth District counties varied in 1948, from sales of $463 thousand in Hanover County, Virginia to sales of $1.7 billion in Baltimore County, Maryland. No doubt, among the 83 counties for which no sales were reported there were counties with wholesale trade even smaller than that of Hanover County as these 83 counties accounted for only 1% of total Fifth District sales in 1948.

While a relatively small population is required to support a retail firm, a fairly good-sized community is necessary to maintain a wholesale establishment. For this reason, and because of location and transportation routes, certain areas become centers of wholesale trade. In the Fifth District 16 counties—each with sales over $100 million—accounted for 69% of the District's wholesale trade during 1948. The counties which had sales of less than $10 million during 1948 numbered 135 and made only 6% of the total wholesale sales of the Fifth District. Between these two groups were 36 counties with sales from $10 million to $20 million, accounting for 5% of the total; 36 counties with sales from $20 million to $50 million, accounting for 10%; and 13 counties with sales from $50 million to $100 million, accounting for 9% of the total.

The accompanying table lists the cities located in the 16 counties with the largest volume of wholesale trade and shows that generally the percentage gains in the Carolina cities have been larger than those of the Maryland and Virginia cities. This increased expansion in North Carolina and South Carolina has resulted in some wholesale centers taking on added importance.

Table II
CITIES WITH WHOLESALE SALES GREATER THAN $100 MILLION IN 1948

City[1]	Sales (millions of dollars) 1948	1939	Per Cent Increase
Baltimore, Md.	1,728	581	198
Washington, D. C.	1,195	348	244
Richmond, Va.	634	211	201
Norfolk, Va.	451	115	293
Roanoke, Va.	133	39	244
Huntington, W. Va.	194	n.a.	...
Charleston, W. Va.	246	69	256
Bluefield, W. Va.	105	18	474
Winston-Salem, N. C.	134	42	217
Greensboro, N. C.	348	72	383
Charlotte, N. C.	983	209	370
Raleigh, N. C.	238	36	560
Charleston, S. C.	103	36	185
Greenville, S. C.	176	59	199
Columbia, S. C.	199	47	320
Spartanburg, S. C.	133	25	422

[1] Includes the surrounding county.
n.a. Not available.
Source: 1948 Census of Business.

Among these fast-growing centers is Charlotte, North Carolina, which in 1939 had sales slightly less than Richmond, Virginia, ranked fourth among the Fifth District cities as to size of wholesale trade, and accounted for 7% of the Fifth District trade. By 1948 Charlotte had sales considerably larger than Richmond, ranked third, and accounted for 10% of the total. The expansion in Charlotte illustrates the trend toward expansion

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Charles C. Reed

In the death of Charles C. Reed on October 15 the Federal Reserve Bank of Richmond lost an able and conscientious director who had served continuously for the past eighteen years. He was a member of the Research Committee of the Board at the time of his death.

Born in Richmond on January 13, 1873, Mr. Reed was the son of the late William B. Reed and Mary Larus Reed and was educated in Richmond public schools. He was engaged in the wholesale dry goods business in Richmond for sixty years, having joined the Drewry Hughes Company in 1890. In 1904 he helped organize the wholesale dry goods firm of Williams and Reed, Inc., of which he was president at the time of his death. Meanwhile he conducted extensive farming and cattle-raising operations at his home, "Stanford Hill" in Chesterfield County.

For a number of years Mr. Reed was a director of the Richmond Chamber of Commerce. He also was formerly a director of the Central National Bank in Richmond, a member of the Board of Visitors of the Virginia Polytechnic Institute, and for ten years Chairman of the Board of Supervisors of Chesterfield County. He was a member of the Third Presbyterian Church and the Commonwealth Club.

of wholesale areas and a shortening of their radius of operation. Faced with increased transportation charges, the wholesaler has tended to limit the area in which he operates and to move closer to the retailers he serves. Also important in this change has been the expanded trucking industry, making more North Carolina areas accessible to Charlotte. When supplies were moved largely by railroad, these areas were more easily serviced out of Richmond and Atlanta.

Other Fifth District cities to gain from widening the importance of smaller trade centers are Bluefield, West Virginia; Greensboro and Raleigh, North Carolina; and Columbia and Spartanburg, South Carolina. As a result, Baltimore, Maryland, and Richmond and Roanoke, Virginia, all achieved a smaller portion of total District trade in 1948 than in 1939.

A survey of the percentage change in wholesale sales of all of the counties of this area shows the usual wide range. While the sales of wholesale establishments in Pickens County, South Carolina declined 28% from 1939 to 1948, those in Hardy County, West Virginia increased 2,033%.

Gains of 500% or more were made in 24 counties while no change or decrease was noted in four counties. Neither of these groups was responsible for a major share of the total volume of trade. Those counties with gains of 500% or more made up 5% of the 1948 trade, and those with no increase accounted for less than one-half of 1%. Between these extremes 90 counties with an increase between 1% and 200% accounted for 32% of total 1948 sales; 63 counties with an increase between 200% and 300% accounted for 35% of the total; and 51 counties with a gain between 300% and 500% accounted for 25% of the total 1948 sales. Sales were not reported for 1939 in four counties, but this group, together with those for which no sales were reported, accounted for only 3%.

The wholesaler plays an important part in the complex American economy, serving both manufacturers and retailers. Technically he is responsible for the selling of all goods except those sold directly to the consumer. In practice some of these marketing functions have been taken over directly by the manufacturer and the retailer. Despite the fact that some manufacturers distribute their own production and some retailers buy directly from the manufacturer, the wholesaler continues to be the most economical way to market a large share of the goods.

Since prices are higher at the retail level than at the wholesale level, it is, perhaps, surprising to note that the sales of the wholesale trade are larger than those of the retail trade, both in the Fifth District and in the nation generally. The larger wholesale trade reported is due to duplication. Some of the goods pass through several wholesale dealers before a product is finished, and each dealer reports a sale. The sales of wholesale establishments in 1948 were 42% larger than those of retail establishments for the entire United States and only 5% larger for the Fifth District, indicating less of a turnover of goods and more direct dealings in this area than in the rest of the country.

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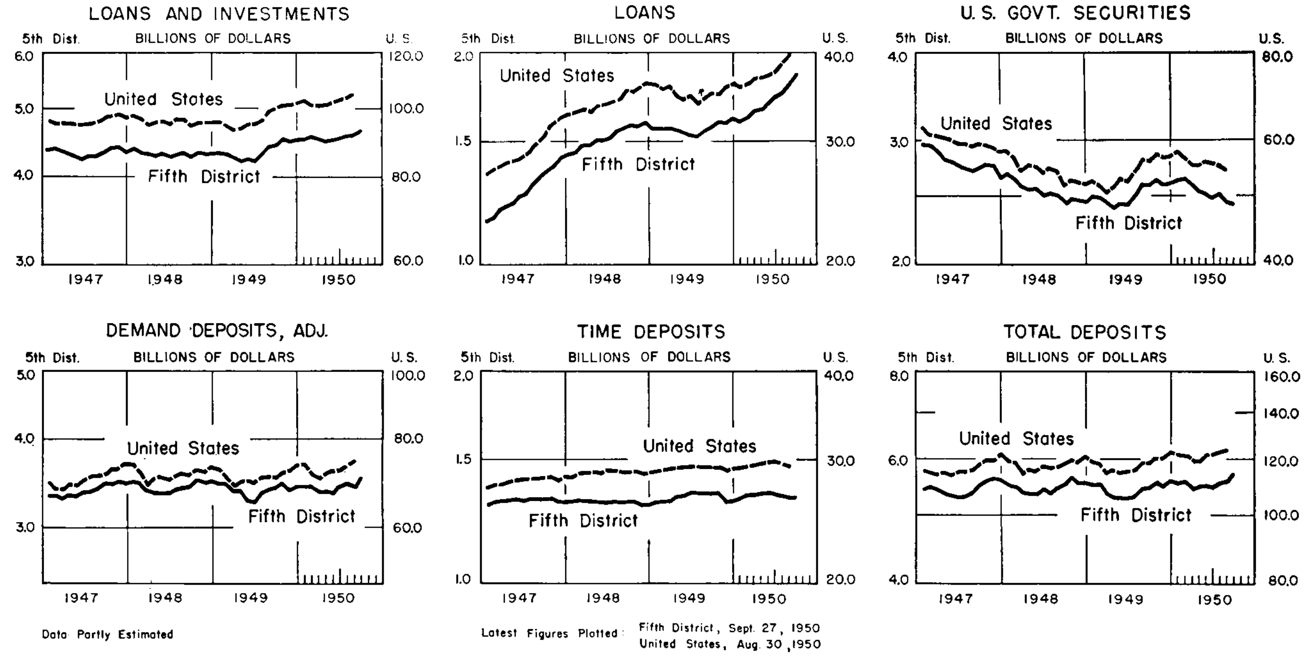
PRINCIPAL ASSETS AND LIABILITIES OF MEMBER BANKS

UNITED STATES AND FIFTH DISTRICT

LAST WEDNESDAY OF MONTH FIGURES



DEBITS TO INDIVIDUAL ACCOUNTS

(000 omitted)

	September 1950	September 1949	9 Months 1950	9 Months 1950
Dist. of Columbia				
Washington	$ 996,337	$ 735,780	$ 7,660,077	$ 6,665,380
Maryland				
Baltimore	1,085,405	979,734	9,397,057	8,515,244
Cumberland	24,000	20,352	204,150	185,033
Frederick	19,458	18,112	161,376	154,292
Hagerstown	31,721	26,045	250,411	234,878
North Carolina				
Asheville	55,988	49,039	455,218	408,460
Charlotte	367,955	255,805	2,572,388	2,076,105
Durham	164,611	154,222	913,878	883,755
Greensboro	96,097	71,770	759,121	632,851
Kinston	51,594	46,004	171,699	159,908
Raleigh	155,210	122,275	1,242,866	1,098,717
Wilmington	42,231	32,299	314,378	284,040
Wilson	71,328	61,203	207,494	185,867
Winston-Salem	175,525	147,209	1,275,407	1,145,709
South Carolina				
Charleston	66,548	56,926	556,846	517,007
Columbia	114,527	102,461	939,373	872,920
Greenville	104,133	80,358	807,269	684,900
Spartanburg	66,579	47,895	455,689	389,115
Virginia				
Charlottesville	25,651	21,889	214,662	192,538
Danville	49,244	39,044	241,627	215,238
Lynchburg	43,745	37,651	353,780	313,567
Newport News	32,681	29,056	269,245	276,128
Norfolk	200,334	184,476	1,817,603	1,554,259
Portsmouth	23,958	20,253	192,276	176,304
Richmond	620,031	547,232	4,445,967	4,336,719
Roanoke	113,104	94,947	894,200	801,558
West Virginia				
Bluefield	46,785	35,488	366,298	381,957
Charleston	143,018	117,480	1,160,277	1,163,035
Clarksburg	33,576	27,438	268,897	255,072
Huntington	58,244	50,658	520,031	494,435
Parkersburg	29,572	23,617	238,195	224,412
District Totals	$ 5,109,190	$ 4,236,718	$39,327,754	$35,479,403

51 REPORTING MEMBER BANKS—5th DISTRICT

(000 omitted)

ITEMS	Oct. 18, 1950	Change in Amount from Sept. 13, 1950	Change in Amount from Oct. 12, 1949
Total Loans	$1,089,230**	+ 51,569	+240,336
Business & Agricultural	511,387	+ 35,884	+121,575
Real Estate Loans	237,085	+ 1,573	+ 36,401
All Other Loans	352,944	+ 14,133	+ 85,498
Total Security Holdings	1,730,041	— 33,111	— 93,676
U. S. Treasury Bills	133,022	— 11,629	— 9,183
U. S. Treasury Certificates	24,298	— 18,459	—241,438
U. S. Treasury Notes	339,859	— 1,832	+297,097
U. S. Treasury Bonds	1,062,516	— 5,869	—184,433
Other Bonds, St'ks & Secur.	170,346	+ 4,678	+ 25,933
Cash items in Process of Col.	288,808	— 2,489	+ 34,752
Due from Banks	182,487*	— 22,853	— 2,671
Currency & Coin	69,812	— 3,230	+ 3,992
Reserve with F. R. Bank	462,096	+ 11,475	+ 10,980
Other Assets	52,425	— 3,711	+ 2,640
Total Assets	$3,874,899	— 2,350	+196,353
Total Demand Deposits	$2,992,240	— 3,799	+178,298
Deposits of Individuals	2,240,101	— 32,527	+140,851
Deposits of U. S. Govt.	70,758	— 17,609	— 3,620
Deposits of State & Loc. Gov.	144,672	+ 10,812	— 8,530
Deposits of Banks	482,177*	+ 31,176	+ 42,071
Certified & Officers' Checks	54,532	+ 4,349	+ 7,526
Total Time Deposits	614,375	+ 3,782	— 2,886
Deposits of Individuals	568,314	+ 4,256	— 650
Other Time Deposits	46,061	— 474	— 2,236
Liabilities for Borrowed Money	1,000	— 6,800	+ 1,000
All Other Liabilities	26,870	+ 3,083	+ 7,760
Capital Accounts	240,414	+ 1,384	+ 12,181
Total Liabilities	$3,874,899	— 2,350	+196,353

*Net figures, reciprocal balances being eliminated.

**Less reserves for losses on bad loans.

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SELECTED FIFTH DISTRICT BUSINESS INDEXES

AVERAGE DAILY 1935-39=100—SEASONALLY ADJUSTED

	Sept. 1950	Aug. 1950	July 1950	Sept. 1949	% Change—Latest Month Prev. Mo.	Year Ago
Automobile Registration[1]	......	296	268	209	+ 10	+ 45
Bank Debits	395	394	372	327	0	+ 21
Bituminous Coal Production	153	146r	118r	58	+ 5	+164
Contracts Awarded	607	689r	505r	617	— 12	— 2
Business Failures—No.	65	67	122	114	— 3	— 43
Cigarette Production	230	281r	236	240	— 18	— 4
Cotton Spindle Hours	155	164	133	137	— 5	+ 13
Department Store Sales[2]	331	359	393	308	— 8	+ 7
Electric Power Production	......	319	304	266	+ 5	+ 22
Employment—Manufacturing Industries[1]	....	147	138	139	+ 7	+ 7
Furniture Manufacturers: Shipments[2]	......	371	306r	286	+ 21	+ 57
Life Insurance Sales	341	441	317	240	— 23	+ 42

[1] Not seasonally adjusted.
[2] Revised Series—back figures available on request.

BUILDING PERMIT FIGURES

	September 1950	September 1949	9 Months 1950	9 Months 1949
Maryland				
Baltimore	$ 6,521,315	$ 6,512,970	$ 64,997,420	$ 38,875,385
Cumberland	99,500	108,125	923,900	450,565
Frederick	39,820	81,525	1,676,991	727,442
Hagerstown	569,190	91,380	3,251,676	1,767,635
Salisbury	282,440	73,250	1,551,231	1,157,061
Virginia				
Danville	362,382	154,053	2,723,578	1,968,690
Lynchburg	186,470	269,780	5,477,600	3,559,238
Norfolk	1,401,475	1,288,445	11,709,878	9,156,811
Petersburg	262,738	182,347	4,732,869	1,234,037
Portsmouth	240,427	96,575	3,510,946	1,210,697
Richmond	5,594,540	1,325,506	23,610,366	13,801,421
Roanoke	1,196,165	1,624,703	14,010,801	9,400,648
West Virginia				
Charleston	520,217	621,843	10,953,498	8,723,132
Clarksburg	58,800	151,150	1,347,548	943,045
Huntington	642,511	498,725	6,007,267	4,481,523
North Carolina				
Asheville	214,957	1,108,268	3,650,492	2,994,669
Charlotte	1,520,440	2,019,142	22,550,853	16,842,207
Durham	1,563,921	309,995	13,943,867	5,991,370
Greensboro	4,534,232	1,543,385	13,780,974	8,791,497
High Point	829,236	949,164	3,763,530	2,929,521
Raleigh	398,600	2,029,760	12,913,365	7,599,085
Rocky Mount	192,875	227,665	3,568,338	1,249,533
Salisbury	110,250	385,349	2,583,987	1,257,886
Winston-Salem	451,769	618,733	9,403,751	6,478,530
South Carolina				
Charleston	149,567	502,357	2,260,130	3,488,978
Columbia	804,165	714,405	8,299,967	5,141,423
Greenville	906,290	420,800	9,402,364	7,696,910
Spartanburg	141,100	241,370	4,698,925	3,053,938
Dist. of Columbia				
Washington	5,743,654	7,551,969	53,686,886	59,189,848
District Totals	$ 35,539,046	$ 31,703,009	$320,992,998	$230,162,725

COTTON CONSUMPTION AND ON HAND—BALES

	Sept. 1950	Sept. 1949	Aug 1 to Sept. 30 1950	1949
Fifth District States:				
Cotton consumed	494,003	376,520	902,993	726,855
Cotton Growing States:				
Cotton consumed	876,088	643,657	1,607,906	1,244,768
Cotton on hand Sept. 30 in				
consuming establishments	1,085,455	639,420		
storage & compresses	4,878,522	6,119,365		
United States:				
Cotton consumed	968,484	708,623	1,776,324	1,371,631
Cotton on hand Sept. 30 in				
consuming establishments	1,237,815	745,482		
storage & compresses	4,890,637	6,134,018		
Spindles active, Sept. 30	20,609,000	19,976,000		

Source: Department of Commerce.

WHOLESALE TRADE

LINES	Sales in September 1950 compared with Sept. 1949	Aug. 1950	Stocks on September 30, 1950 compared with Sept. 30 1949	Aug. 31 1950
Auto supplies (8)	+111	+ 44	+ 12	— 26
Electrical goods (5)	+ 44	— 10	— 14	+ 3
Hardware (12)	+ 31	— 18	— 12	— 11
Industrial supplies (5)	+ 26	— 9	— 11	— 1
Drugs & sundries (10)	+ 13	+ 5	— 1	— 1
Dry goods (14)	+ 21	— 5	+ 7	— 2
Groceries (59)	+ 3	— 10	+ 11	+ 7
Paper & products (6)	+ 20	— 14	.....	.....
Tobacco & Products (9)	— 2	— 12	— 1	— 1
Miscellaneous (83)	+ 44	— 11	+ 11	— 6
District Totals (211)	+ 27	— 9	+ 3	4

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

RETAIL FURNITURE SALES

STATES	Sept. 1950 vs. 1949	8 Mos. 1950 vs. 1949
Maryland (7)	+ 6	+ 9
District of Columbia (7)	+25	+14
Virginia (18)	+26	+12
West Virginia (10)	+52	+18
North Carolina (11)	+45	+18
South Carolina (9)	+19	+11
District (62)	+21	+12
INDIVIDUAL CITIES		
Baltimore, Md. (7)	+ 6	+ 9
Washington, D. C. (7)	+25	+14
Richmond, Va. (6)	+18	+ 8
Lynchburg, Va. (3)	+61	+18
Charleston, W. Va. (3)	+ 2	+ 6
Charlotte, N. C. (3)	+42	+16
Columbia, S. C. (3)	0	+ 9

Number of reporting firms in parentheses.

DEPARTMENT STORE OPERATIONS

(Figures show percentage change)

	Rich.	Balt.	Wash.	Other Cities	Dist. Total
Sales, Sept. '50 vs. Sept. '49	+10	+ 5	+11	+12	+10
Sales, 9 Mos. '50 vs. 9 Mos. '49	+ 6	+ 2	+ 3	+ 6	+ 4
Stocks, Sept. 30, '50 vs. '49	+26	+10	+13	+11	+13
Orders outstanding, Sept. 30, '50 vs. '49	+36	+30	+22	+20	+27
Current receivables Sept. 1 collected in Sept. '50	30	46	48	42	42
Installment receivables Sept. 1 collected in Sept. '50	14	17	19	17	17

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, Sept. '50 vs. Sept. '49	+ 6	+11	+10	+19	+11	+10
Sales, 9 Mos. '50 vs. 9 Mos. '49	+ 2	+ 3	+ 5	+12	+ 6	+ 5

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NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

Industrial activity, employment, and payrolls increased somewhat further in September and early October. Business and consumer demands for goods were less active after mid-September and wholesale commodity prices showed little change. Retail prices continued upward, reflecting in part earlier advances in wholesale markets. Credit to business, consumers, and real estate owners expanded considerably further. Consumer credit regulations, which became effective on September 18, were tightened on October 16 and housing credit restrictions were put into effect October 12.

INDUSTRIAL PRODUCTION

Industrial production showed a small further increase in September and early October, following the sharp advance in August. Reflecting mainly continued gains in output of iron and steel and their products, machinery, and crude petroleum, the Board's seasonally adjusted index rose from 209 in August to 211 in September. In October, a further small increase is likely, as a result chiefly of expanded output of steel and of producers durable goods and military equipment.

Steel production increased in September to a level slightly above the June rate, and in October has advanced about 3 per cent further to a new record. The gain in activity in machinery industries in September was much smaller than in August, mainly because labor disputes curtailed operations in some important plants. Automobile production continued close to the high level of recent months. In view of the growing volume of defense production and the limited supply of metals and certain other industrial materials, the National Production Authority has established a priority system for defense orders.

Output of textile, paper, rubber, and petroleum products in September was maintained at the exceptionally high levels reached in August. Meat production rose much more than seasonally . In mid-October, the National Production Authority announced more stringent measures to curtail consumption of rubber in civilian products.

Output of crude petroleum advanced further to a new record rate in mid-September but subsequently levelled off. Coal output showed little change and production of iron ore was maintained in record volume over this period.

CONSTRUCTION

Contracts awarded in September for most types of private and public construction declined more than seasonally from the record summer level. The number of housing units started in September was estimated to be 115,000. This was 28,000 fewer units than the average number started during the summer months but 12,000 more than in September 1949.

EMPLOYMENT

The total number employed in nonagricultural industries was at an all-time high of about 45 million in September, 2 million more than in September 1949. Unemployment declined moderately further to 2.3 million and was at the lowest level since late 1948.

ADDITION TO PAR LIST

The Pendleton Branch, Easley Bank, Pendleton, South Carolina, opened for business on October 23, 1950, and was added to the Federal Reserve par list on its opening date. This is a branch of the Easley Bank, Easley, South Carolina, and is in the territory served by the Charlotte Branch of the Federal Reserve Bank of Richmond. The combined transit number-routing symbol is $\frac{67\text{-}750.}{532}$

DISTRIBUTION

Consumer buying showed less than the usual seasonal increase in September and early October from the peak rates reached during the summer. Value of purchases, however, remained substantially above year-ago levels, reflecting in part higher prices. Purchases of durable goods continued above the high levels reached during the first half of this year. Distributor stocks of most goods have increased further in this period following a reduction in July. At department stores value of stocks by the end of September was about one-fifth above the relatively low level reached a year ago.

COMMODITY PRICES

The average level of wholesale prices changed little from mid-September to the third week of October, as livestock and meat prices showed seasonal declines and increases in prices of nonfood commodities slowed down. Prices of industrial materials levelled off as buying became less urgent, and increases in finished goods were less numerous.

The consumers price index rose .5 per cent from mid-August to mid-September, reflecting mainly marked increases in retail prices of apparel and housefurnishings. Since that time additional advances in these and other goods have been announced.

BANK CREDIT

Total loans and corporate and municipal security investments of commercial banks showed further sharp increases during September and the first half of October. The expansion at banks in leading cities totalled 1.8 billion dollars and brought the total rise at these banks since June to almost 4 billion. Business loans increased much more than seasonally while loans to real estate owners and consumers continued to rise substantially.

Treasury deposits at Federal Reserve Banks, which were large in late September owing to tax collections, were drawn down in the first three weeks of October, thus supplying a substantial volume of reserve funds. Outflows of currency into circulation and of gold and cash redemption of part of the maturing Treasury bills held by the Reserve Banks absorbed some of these funds. Commercial banks, however, continued to sell Government securities, in part to the Federal Reserve System, and built up their excess reserve balances.

An increase in interest rates to bank customers, initiated in New York City in late September, became more widespread in early October.

SECURITY MARKETS

Common stock prices, after rising somewhat further in the first two weeks of October to the highest levels since September 1930, showed little change during the following 10 days. Yields on most bank eligible Treasury securities increased further in the first three weeks of October, while yields on Treasury bills declined somewhat. There was little change in yields on long-term Treasury and high-grade corporate bonds.

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