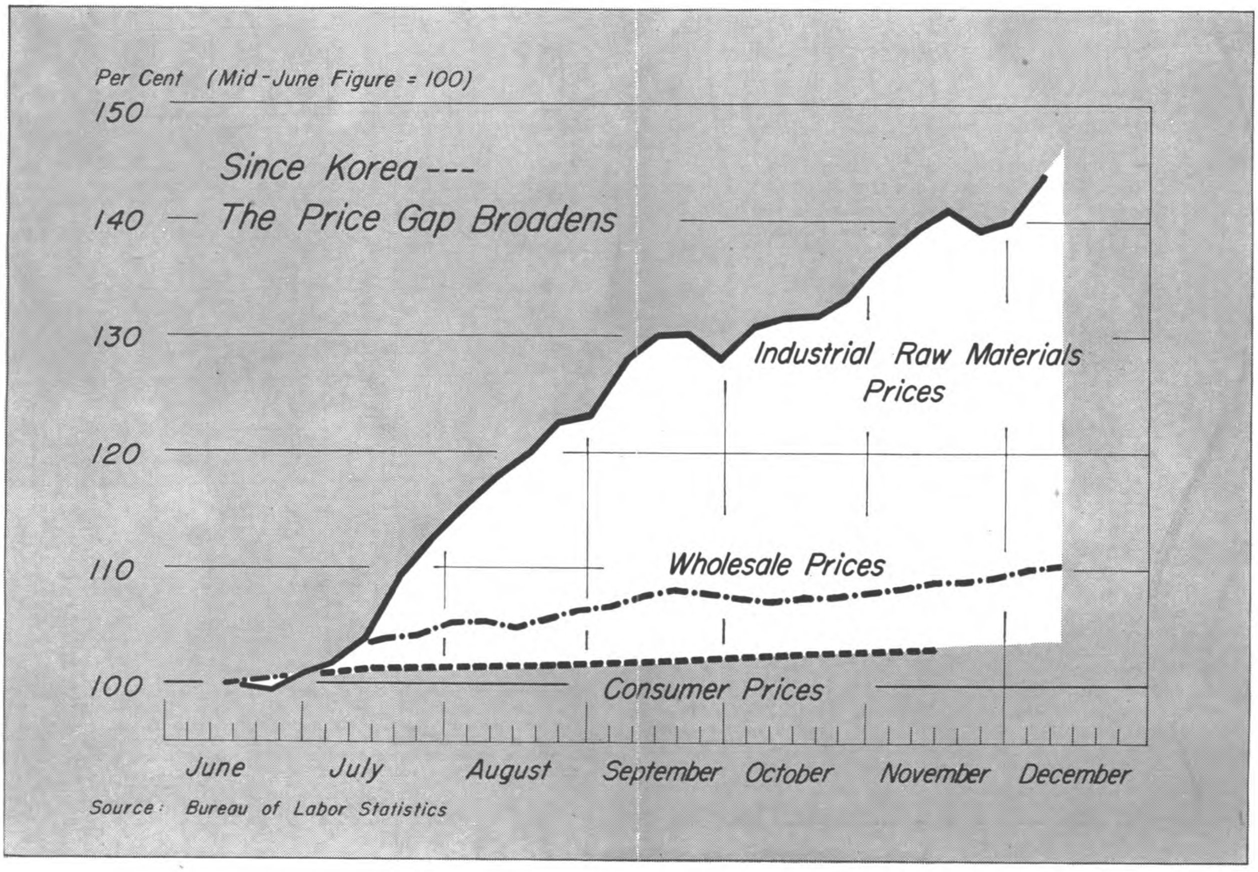
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

THE FIFTH FEDERAL RESERVE DISTRICT

JANUARY 1951

War's Effect on Price Levels



DIFFERENCES in the rates of increase for important price groups since the beginning of the Korean conflict indicate upward pressure exerted on retail prices. The article "Cost of Living" on page 3 attempts a brief analysis of these recent price changes and points out some forces creating further inflationary pressures both nationally and in the Fifth District.

Also In This Issue - -

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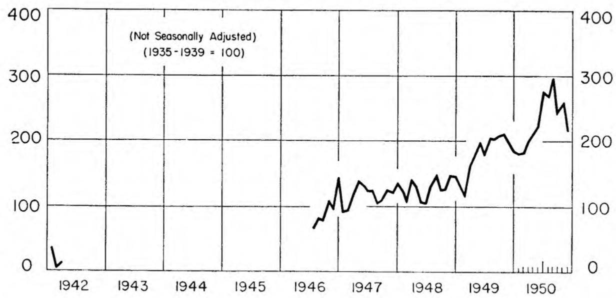
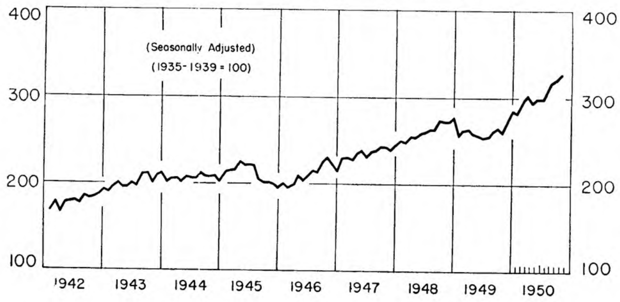
FIFTH DISTRICT TRENDS

AUTOMOBILE REGISTRATION



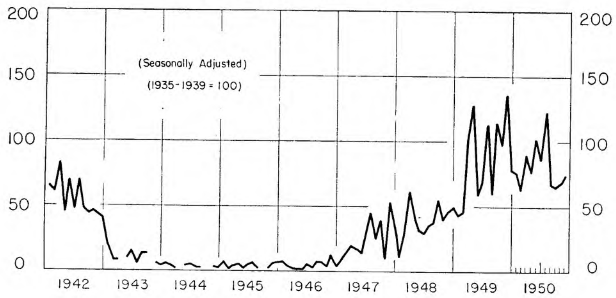
New passenger car registrations in November, partly estimated, were off 15% from October but continued 11% ahead of a year ago. Initial effects of Regulation W were depressing to car sales but business has since improved. Used car prices are somewhat firmer.

ELECTRIC POWER PRODUCTION



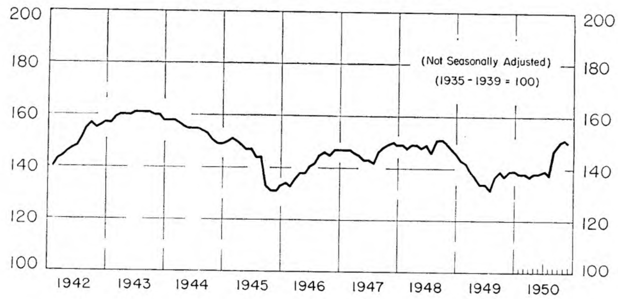
Adjusted electric power production in October was 1% above September and 25% above a year ago. The trend in eletcric power production has been most persistent for many years except for small decline following the end of the war and during the recession of 1949. The trend has been up more sharply since the war period than at any time in its history.

BUSINESS FAILURES



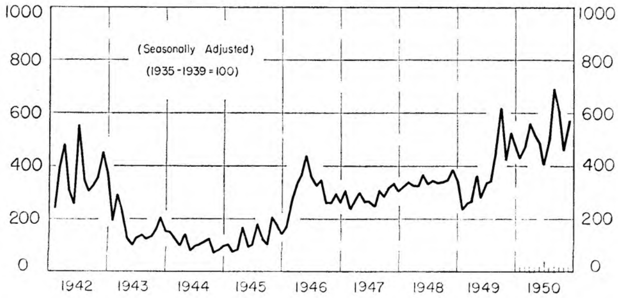
Business failures in November rose 9% after seasonal correction from October and were 45% under November 1949. Failures may remain around the current level for the next month or two but with the favorable business outlook should not be too long before they start tending downward again.

MANUFACTURING EMPLOYMENT



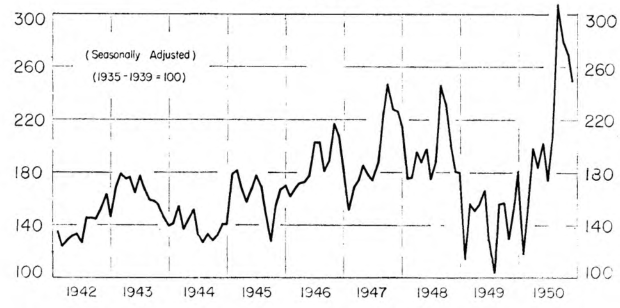
Employment levels in the district in November were 1% below the recent peak in October but were 8% above November 1949. The slight setback in November is mainly seasonal. The supply of skill workers is tight in this area. Man power is being withdrawn to the military services and the demand for labor by Spring will put real tension to the labor market.

CONSTRUCTION CONTRACTS AWARDED



Substantial increases in contract awards for apartments, hotels, one and two family houses and commercial buildings were primarily responsible for raising total construction contracts awards in November 23% above October on an adjusted basis to a level 9% ahead of a year ago.

WHOLESALE DRY GOODS



Sales of wholesale dry goods firms in the district dropped 7% from October but continued 59% ahead of November 1949. Peak sales of these firms occurred in August this year and the trend has been downward since but sales volumes continued higher in November than in any previous period excepting the previous three months.

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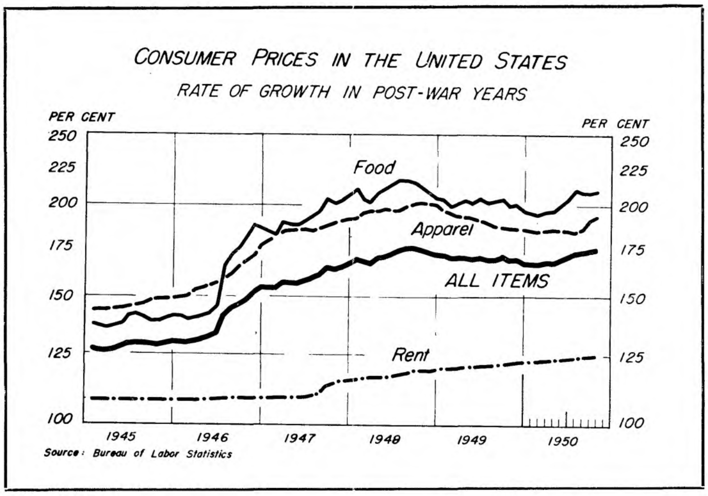
Cost of Living: *Further Rise Indicated This Year*

During the NRA period of the '30's, one of the more emotional exhortations of the NRA administrator, General Hugh Johnson, was: "Keep prices down—for God's sake, keep prices down." No such agitated imprecation has come from official sources in the current inflationary era though there is no doubt that there exists a comparable intensity of feeling with respect to price movements. As defense dollars are added in increasing amounts to civilian dollars in competition for available goods, inflationary forces will indubitably be intensified. An unchecked inflation, however, would be extremely detrimental to the rearmament program and cannot, of course, be permitted.

Within the general price structure the movements of consumer prices attract considerable attention as one of the factors in the standard of living and as a factor in the "vicious circle" of wage and price increases now so obviously operative. It was widely opined at the beginning of 1950 that retail prices would decline during the year. According to the picture in many crystal balls, the drop would be slight, but at least the change would be in the "right" direction, and consumers could look forward to a gradual increase in the value of their dollars. Like many other well-intended prognostications, however, this one ran into a number of unexpected developments, and the results have been at odds with the forecasts.



Recent data released by the Bureau of Labor Statistics show that retail prices reached a record high as of November 15, 1950. On that date, the Consumers' Price Index stood at 175.6% of the 1935-39 average—a rise of 3.2% since the last pre-Korean index (June 1950), 4.2% since November 1949, and 31.7% since June 1946, the last month in which the price ceilings of World War II were operative.

One of the immediate effects of the rise in consumer prices during October was the automatic increase in wages for a million or more workers under escalator clauses, like those in the auto industry, that tie pay rates to the cost of living. In industries where wage raises are not formally tied to consumer prices, rising retail prices (especially foodstuffs) have accentuated upward pressures on the spiraling movement of wages, costs, and prices.

Consumer Prices at New Highs in Fifth District

Indexes of consumers' prices are computed for only four cities in the Fifth District: Baltimore, Washington, Norfolk, and Richmond. Unfortunately for purposes of comparison, the data are computed only quarterly and on different dates for the cities covered. On the basis of the experience of these four cities, it appears that in general the rate of rise in retail prices in the District since the end of World War II has been about the same as the average for all large cities in the nation. There have been, of course, divergences in certain components of the over-all indexes; in Richmond, for example, the percentage rises in rents, fuel and electricity, and housefurnishings were substantially larger than for the United States as a whole. In Washington, on the other hand, rents rose at only half the rate recorded for all large cities. In Baltimore the rise in apparel prices was substantially less than the national increase while the price of fuel, electricity, and ice rose considerably more than it did on the average for all large cities.

As in the case of most large cities in the country, the rise in retail prices since the Korean invasion has lifted the Consumers' Price Index for each of the four cities reported on in this District to record levels for the post-war period. As early as August retail prices in Washington and Norfolk had exceeded the previous peaks set in the fall of 1948. The latest figure for Richmond shows a new high on October 15, and although consumer prices in Baltimore on September 15, the date of the latest release, had not quite reached the 1948 level, it is likely that by year end they, too, will have pushed past the former peak.

In the whole period since the close of World War II, increases in food prices have been the "worst offender" in boosting the cost of living. This was true during 1950 and food increases account for one-half of the total rise in consumer prices in all large cities up to October. As compared with an advance of 6.8% in food prices throuhout the country from January 15 to November 15, 1950, Norfolk had a rise of 8.1%, Richmond 7.2%, Baltimore 6.1%, and Washington 6.4%.

Although food prices are below the peak reached in July 1948, food is the highest major component of the Consumers' Price Index (the other components are apparel, rent, fuel-electricity-refrigeration, housefurnish-

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ings, and miscellaneous). Price increases have raised the food index for the United States to 209.5% of its 1935-39 base, in Baltimore to 219.3, in Norfolk to 210.7, in Washington to 206.9, and in Richmond to 201.8. Contrary to the average experience of all large cities, food prices in Washington and Richmond have not risen as much, in relation to the 1935-39 base, as have prices in two other categories. In Washington the index for apparel is the highest component of the over-all Consumers' Price Index, and in Richmond the highest index of prices is housefurnishings.

Other major price variations in this District are found in the category of rents. Due to the lifting of state controls, Richmond and Norfolk experienced larger-than-average increases in rents last year. In the former the rise during the first ten months of 1950 was 11.7% as compared to an increase of 2% for all large cities. In Norfolk the rise of 7.1% up to November 15 was over three times the rate of increase in all cities.

Prospects: Continuation of Upward Trend

In forecasting a higher cost of living for 1951, the Bureau of Agricultural Economics recently pointed out that how high food prices would climb depended on whether or not the Administration imposed price controls. The latter were ushered in on December 20 when the Economic Stabilization Agency requested a voluntary price freeze on all goods and services, setting December 1 as the effective date of the freeze and in effect asking for a rollback of any price increases made since that date which do not conform to certain "fair standards" set forth by the agency. In issuing the latter, ESA warned that they should meet with "nationwide compliance to avoid the necessity of further mandatory price controls."

It should be pointed out that although the Central Maximum Price Regulation issued April 28, 1942, and subsequent regulations stopped the steep rate at which prices were climbing during 1941 and 1942, consumer prices nevertheless increased 11.5% from May 1942 to August 1945.

In brief, restraining price rises in a military economy comes under the heading of "Neat trick—if it can be done," and so far the prospects are not too bright that the trick will be turned. As recently pointed out by Marriner S. Eccles in *Fortune* Magazine, the purchasing power of the dollar can be successfully defended only when the amount of money available to those who would spend it, including the Government, does not exceed the supply of goods and services available. Even now—before the proceeds of huge military expenditures of the Government have begun to flow into the markets—the amount of money available for spending is excessive, and bank credit has been expanding in recent months at an unprecedented rate. Furthermore, the fact that the economy is already operating at virtual capacity limits severely the possible increase in aggregate output—the prime orthodox check to growing price inflation. Actually, a reduction in the volume of civilian goods will be necessitated by the rearmament program; at the same time the growth of the latter will augment still more the flow of personal income.

The accompanying chart clearly indicates the reasons for anticipating a continued advance in the cost of living and also points up the difficulties in implementing effectively controls on retail prices. The trend of prices of consumer goods is influenced by price movements for raw materials, supplies, and parts used in the process of manufacturing. Two indexes may be used to measure such price changes: The spot market index of 16 of industry's most important raw materials and the index of wholesale prices. Both of these have moved into new high ground since the Korean conflict began—the former as early as August and the BLS wholesale price index in late November. In comparison to the rise of 3.1% in retail prices in the period June 15-November 15, 1950, wholesale prices advanced 8.9%, and spot prices of raw materials skyrocketed 40%, one of the sharpest rises on record.

Although there is no precise arithmetical relationship between these price structures, the widening gap shown on the chart indicates the pressure on retail prices to advance, and it is this situation that will accentuate the difficulties in establishing and administering price controls on consumer goods. Indicative of this is the fact that after Pearl Harbor, retail prices lagged behind sharply rising wholesale prices for some time, then began to climb so fast that by the time price controls were imposed, they had shot ahead of wholesale prices.

A major difficulty in "putting a lid" on the cost of living is found in the legal provision which sets certain minimums for price ceilings placed on farm products. In general, the minimum ceiling price for any farm product is either (1) parity or (2) the June 1950 price, whichever is higher. At the opening of the new year many farm commodities were selling below their parity price or below the June 1950 price and further price rises could occur for these commodities before any price ceiling could become operative. The major commodities which were either above parity or above the June 1950 price included cotton, tobacco, wool, beef cattle, veal calves, eggs and lambs. Price ceilings for these products, if set at the legal minimum, would be from 10 to 25 per cent below present prices. On the other hand, a large number of commodities were selling below the legal minimum price ceiling. Included in this last group were all grains (except rice), peanuts, potatoes, butter fat, milk, hogs, chickens and fruit.

The spread between price increases at the retail and wholesale levels has not been as great for food as it has, say, for apparel and other soft goods. Even so, as of November 15, 1950 wholesale food prices were up 10.6% from a year earlier while food costs in the Consumers' Price Index were only 4.3% higher. Unless restricted by immediate and effective controls, the tendency for this lag to be made up at the retail end will hit the consumer where it hurts most—his breadbasket.

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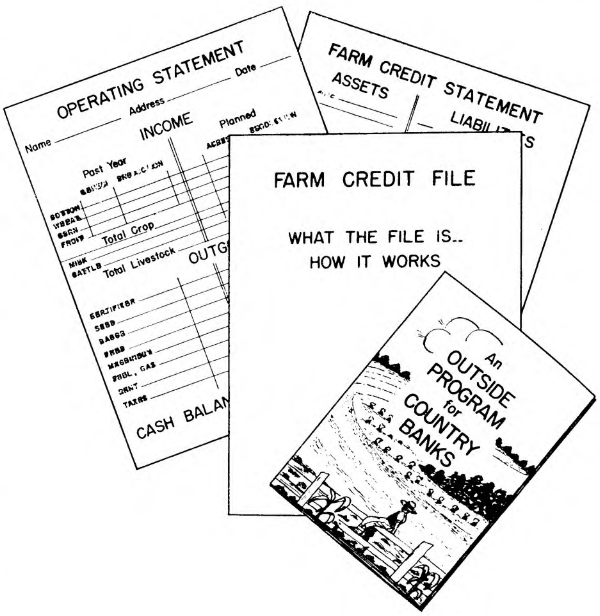
Useful Tools in Sound Farm Credit Extension*

The Agricultural Commission of the A.B.A., in advocating more active farm programs, points out that an outside-the-bank farm program can: (1) increase local farm income, which in turn will increase deposits; (2) encourage frequent personal contact with potential farm customers; (3) improve loan appraisals and encourage more effective consultations concerning farmers' credit needs; (4) mobilize banks' active support of existing programs for raising farm income and improving rural living; and (5) provide credit facilities tailored to farmers' needs.

AGRICULTURE is the largest single industry in the Fifth Federal Reserve District and, since farm credit plays so significant a role in providing the fixed and working capital requirements for farm operation, it is clear that any re-sharpening of the old tools—or introduction of new tools—in farm credit extension is likely to improve the results, both from the point of view of credit grantor and grantee. A large part of agricultural credit is supplied by local banks, but it is widely felt that there is considerable room for improvement both in the quantity and the quality of service rendered.

An increasing number of banks in the Fifth Federal Reserve District are interested in doing a better job of serving their farm communities. Three steps are essential if the best possible job is to be done: *First,* the directors and officers of the bank must be convinced of the worthiness of the undertaking and be willing to modify existing bank policies as needed to facilitate the program. *Second,* the job of developing the program must be entrusted to a competent individual. *Third,* it is important that the bank make use of all available aids for keeping up with developments in agriculture and with the details of the farm business of each of the bank's farm customers—such as the farm credit file illustrated on this page.



Proper Banking Policy Important

Primary responsibility for bank operation rests with the Board of Directors, and it would seem that no Board of Directors properly performs its duties unless it directs the bank's operations so as to furnish complete banking facilities and services for the community, including the bank's farm customers. A proper approach to this problem, and fulfilment of the bank's opportunities and obligations to these customers, cannot be expected of the bank's officers and employees unless proper directions and support are received from the directors.

Any bank embarking on a new or expanded farm program should establish the policy that it is going into the field with the definite purpose of staying in it and plan all of its operations accordingly. To fulfill this requirement, the bank must establish a loan policy which will fix farm loan maturities so as to permit repayment from the operations of the farm business. The practice of offering credit to farm customers, for example, on 90-day notes is unwise and unsound for both the bank and the customer. It still takes two years to raise a two-year-old heifer from a day-old calf, and a three-month note is not much help in financing the buying and raising of dairy calves if the note is to be repaid out of the milk checks.

Outside Farm Representatives

In recent years many of the country banks throughout the nation, as well as other agencies extending agricultural credit, have found it desirable to provide adequate and proper field servicing of their agricultural loans. There is nothing new in this practice—banks making loans to other businesses have been following it for many years. In the larger and many medium-size banks, it is believed that such servicing should be conducted by a separate department and by individuals whose primary duties are to work with farm customers.

In some medium-size and small banks it might be impractical to establish a separate farm-loan department or to hire a professionally trained specialist in agriculture to develop the outside farm program. Quite often, however, banks of this size have designated one of their regular officers to develop their farm program and have relieved him of some of his other assigned duties. Other banks have waited until they needed to recruit a new employee and then hired a young man with a good farm background, expecting to use him both for the agricultural work and for other bank work. Many banks have directors who are successful farmers, and often they can be of real help to the regular staff of the bank in dealing with farm customers.

*This article by H. Ciremba Amick, of the Bank Relations Department, Federal Reserve Bank of Richmond, is designed to stimulate the thinking of banks with farm interests on the old but ever new problem of farm credit.

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Banks large enough to secure the services of a full-time farm representative may choose one who is a recent graduate of a State college of agriculture or one who, in addition to training in agriculture, has had practical experience working with other farmers and farm groups. The fields of Vocational Agriculture, Agricultural Extension, and the Soil Conservation Service provide kinds of experience which often are sought by banks needing an agriculture man.

Outside farm representatives should not only assist in adapting bank loans to fit the needs of farm borrowers, but should spend time with the borrowers on their farms, assisting them in obtaining the kind of credit and other banking services they need, and providing information or management service which the borrowers find helpful. The responsibilities of an outside farm representative would include checking loans, meeting prospective customers, supervising agricultural relations, taking charge of youth promotional work, advising with customers and supervising programs for individuals and, in general, helping farmers individually and collectively to attain greater success through the wider use of capital in their farm businesses.

By making periodic farm visits in checking loans, such a representative safeguards the loan extensions to the mutual benefit of the bank and the customer. Farm visits afford an opportunity to check the management practices being pursued, whether farm machinery is properly cared for and placed under shelter when not in use, whether minor repairs are provided before deterioration becomes a major problem, and whether soil and water conservation practices are being employed. A group of farmers in Pennsylvania were queried recently as to how they felt about the need for a farm loan speciialist. They were asked if they felt it would be of any value for a lending agency to have available a farm loan specialist, trained in farm management, with whom they could talk over the use of borrowed funds. Fifty-seven per cent of the farmers who answered indicated that they thought a man with proper qualifications would be of considerable value to a credit agency. This was two and one-half times the percentage of those who opposed the idea. The majority also said that if credit agencies had this type of employee, farmers would seek his advice. Some of those questioned suggested that banks in particular need to employ this type of specialist. Many of the farmers questioned appeared to be not only willing, but indicated that they would appreciate having some supervision and advice if it were of good quality.

Once a well-organized farm service department, through its outside farm representative, proves satisfactory to even a few of its farm customers, its success is assured. The word of its existence and operation will quickly spread. Its acceptance will mark the beginning of an enlarged banking service to farm customers through various types of loans, including mortgages, loans for production and conservation, and personal instalment credit. A valuable by-product of such a program will be favorable publicity which, in turn, lends itself to enlarged banking service within the community.

There are many things that can be done, by whomever is assigned to develop the farm program of a bank, as a means of keeping up with new developments in agriculture. Among the best ways of doing this is to cultivate a close acquaintance with the professional agricultural workers in the county where the bank is located, and also with farmers whose practices are recognized in the area as among the best. Much also can be learned from some of the chief business enterprises serving farmers, such as dairies, feed stores, and machinery dealers.

Farm Credit Files Essential

In order to promote and maintain a program of sound farm loans, with resultant benefits to both lender and borrower, the banker needs detailed information concerning the farming operations of his customer. Such information is provided by the farm credit file. Although many banks operate successfully without such files, it is clearly in the interest of better banking to maintain adequate records. A suitable farm credit file will permit compilation of a maximum amount of pertinent information in a relatively easy manner. While at first sight most of the credit files now available from various sources may appear unduly long and complicated, actually, they consist basically of a balance sheet and an operating statement, with a few optional supporting schedules showing the detail of some of the principal assets and providing for the insertion of pertinent comments and observations.

Many banks recognize the need for adequate credit information on their farm customers. Some have developed their own forms for recording the information they consider necessary. Others have adopted farm credit files as developed by various institutions. Within the Fifth Federal Reserve District, a number of banks have adopted the one developed by the Federal Reserve Bank of Richmond in cooperation with the Committees on Agriculture of the State Bankers Associations of the five States comprising the Fifth Federal Reserve District. Supplies of this file are presently available to any bank in the Fifth District, free of charge, from the Federal Reserve Bank of Richmond.

In most farming areas, applications for loans are seasonal, and an attempt to prepare complete credit files at the time of loan applications would retard the process of credit extension at the very peak periods of the year when the making of loans should be expedited. Accordingly, the farm credit manager or some other designated person in the bank should begin accumulating pertinent information on customers and prospective applicants for loans well in advance of the seasonal peaks of such business. In other words, the formulation and maintenance of individual farm credit files should be a continuous process with facts and figures revised and added as they become available.

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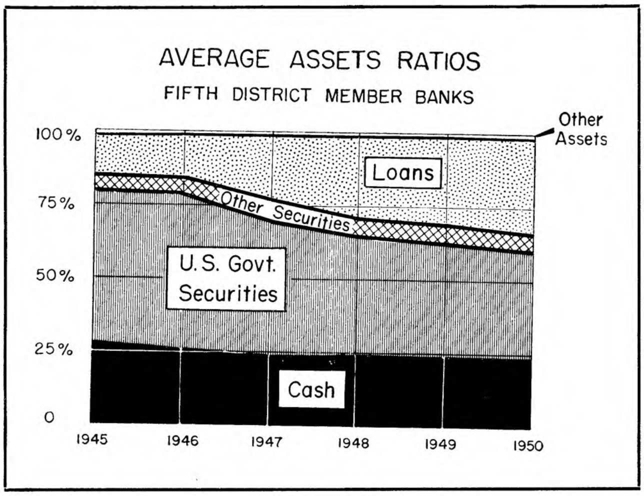
Member Banks Shifted to Higher Yielding Assets in 1950

The "average" member bank in the Fifth Federal Reserve District continued to shift from liquid assets and Government securities to higher yielding loans and non-Government securities during 1950. Its capital position relative to total assets or total deposits continued to improve during the year and the capital/deposit ratio stood at 8.9%. Rapidly increasing loans, however, outpaced the increase in total capital accounts and the ratio of capital to total assets less U. S. Government securities and cash assets continued to fall.

These were the major trends revealed by analysis of 1950 ratios computed on call dates of December 31, 1949, June 30, 1950, and October 4, 1950. These ratios, to be included in the 1950 Operating Ratios statement for release later, are arithmetic averages of individual banks' ratios, and hence differ materially from percentages computed from dollar averages. As each individual bank is given equal weight regardless of size, these ratios are more nearly typical of the ratio of an "average" bank, and more indicative of the action taken by typical banks in the District than the aggregate dollar figures.



Booming business conditions, lower reserve requirements, and anticipation of tax increases served to bring the member banks into more fully invested positions and encouraged the shift from Government securities to other earning assets. Member bank reserve requirements during most of the first half of 1949 were four percentage points higher on demand deposits and 2½ percentage points higher on time deposits than during the same period in 1950, and these requirements were reduced by stages throughout most of the third quarter of 1949. Consequently the average reserves held in 1949 were considerably larger relative to assets than in 1950. This was the principal factor accounting for the decrease in the proportion of cash assets. At 23.3% of total assets, this ratio was at the lowest level for the eleven years during which it has been computed. All size groups reported lower cash assets/total assets ratios for the year, with larger banks reporting larger decreases.

Throughout most of 1950 Fifth District member banks reduced their holdings of Governments absolutely as well as relative to total assets, thus providing funds to meet a rapidly expanding demand for loans, despite the relatively smaller increase in deposits. The average ratio of Governments to total assets has fallen consistently from 53.6% in 1946 to 37.1% in 1950. At this level, the proportion of Governments held by the average bank is lower than in any year since 1942. Only one size group of banks (those with average deposits of from $50-100 million) failed to reduce the proportion of total assets held in the form of Governments in 1950.

Since 1945 Fifth District member banks have been constantly increasing the proportion of assets held in non-Government securities. This average ratio has increased from 4.3% in 1945 to 5.9% in 1950. To some extent the heavy buying of municipals since mid-year, made presumably in anticipation of tax increases, served to increase this ratio. This increase, however, represents chiefly a continued adjustment of investment portfolios to include a larger proportion of non-Government securitiese, which yield a higher return per dollar invested. Although this increase in holdings of non-Government securities was general throughout the District, banks with less than $1 million in deposits and banks with from $25-50 million in deposits reported slight decreases in average holdings of other securities as a ratio to total assets.

The average share of total assets held as loans continued to increase in 1950, as it has in every year since the end of the war. At 32.6% the loans/assets ratio is higher than for any year since 1941. It has not reached the 40% which was typical of the immediate prewar period, nor is it likely to reach this level under conditions confronting the banking system in the near future. Loans comprised a larger share of total assets for each size group of banks in 1950.

Two factors account for most of the shift in the relative importance of loans of average banks—the change from the mild recession of 1949 to the boom of 1950, and the trend away from Governments into loans, which has continued since 1945. Five years ago the average ratio of loans to total assets was 14.1%; in 1950 this ratio had more than doubled.

The average ratio of real estate assets to total assets increased slightly in 1950, to 1.0%. This ratio fell off constantly during the war period as total assets were expanded and building needs were largely ignored, but increased in 1949 and again in 1950.

The average capital/deposits ratio continued to increase, as it has each year since 1946, and, at 8.9%, was higher than at any time since 1943. A number of banks

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have been able to re-establish the traditional 1 to 10 ratio. The capital/assets ratio has similarly increased over the past five years, and now averages 8.1% for Fifth District member banks.

As previously suggested, holdings of loans and non-Government securities have increased more rapidly than have total capital accounts of Fifth District member banks, and the ratio of capital to "risk assets" (total assets less U. S. Government securities and cash assets) again showed a decline in 1950. The average capital/"risk assets" ratio reported was 22.0%, as compared with 26.9% in 1942 (the first year in which this ratio was computed), and 37.9% in 1945.

All size groups with less than $50 million in deposits reported increases in the ratios of capital/assets and capital/deposits in 1950. Banks with $50-100 million reported a decline in each of these ratios, while banks with over $100 million in deposits reported no change in either ratio. All size groups reported a decline in the capital/"risk assets" ratio with the largest declines in banks with over $25 million in deposits, and in banks with less than $1 million in deposits.

The average ratio of time deposits to total deposits showed a very slight increase from 34.1% to 34.2% in 1950.

Techniques of Computation

The ratios presented in this article and in the operating ratios statement (to be released later) are computed from the averages of three call report dates in the case of assets, and from reports of earnings and dividends for the entire year in the case of earnings and expenses. As the earnings for the year are derived from assets subject to frequent change, it is felt that the rates of return are more comparable if computed relative to average assets for the year. The ratios are computed on the assumption that the average of assets at year-end, mid-year, and fall call report dates gives a reasonable approximation of average assets held during the entire year.

Once the ratios for the individual banks have been computed, they are aggregated, and then divided by the number of banks in each group, thus giving the average of the individual ratios. For purposes of comparing ratios of individual banks with those of groups of banks, average ratios are much more satisfactory than if they were computed from the dollar amounts obtained by lumping together all individual bank reports. The reason for this is that if dollar aggregates were used, one bank with deposits of $100 million would influence ratios ten times as much as would a bank with deposits of only $10 million. Thus a banker who wishes to know the ratios of an "average" bank, as opposed to the ratios of the banking system as a whole (which are so largely influenced by the larger banks), will find the operating ratios more useful.

Use of Operating Ratios

Operating ratios presented in the operating ratios statement can be very useful to individual banks for purposes of comparison as to the distribution of assets within their bank relative to the distribution for an "average" bank, or for comparison of earnings from any particular source or expenses on any particular item with those of an "average" bank.

The operating ratios statement is sometimes criticised on grounds that it implies that the performance of the "average" bank is to be used as some sort of "goal of attainment", or as a "standard of achievement". This, of course, is not intended. It is assumed that bankers, as do other businessmen, wish to have available for purposes of comparison the operational records of an "average" bank, of similar size and in the same state. If this record is made available annually, as it is in the operating ratios, annual comparisons of changes in the various items can also be made. It is assumed that indi-

Continued on page 10

AVERAGE ASSETS RATIOS, FIFTH DISTRICT MEMBER BANKS, 1950
(BY SIZE OF BANK)
(All Ratios are expressed in percentages and are in all cases arithmetic averages of individual bank percentages)

Deposit Classification in Millions of Dollars	Under 1	1-2	2-5	5-10	10-25	25-50	50-100	Over 100	All Banks
Number of Banks in Deposit Group	36	94	169	72	64	18	13	11	477
Distribution of Assets									
Percentage of Total Assets									
Cash Assets	24.1	23.0	23.3	23.3	22.3	23.6	24.3	26.6	23.3
U. S. Government Securities	37.1	35.5	35.8	36.4	41.7	35.0	46.2	42.5	37.1
Other Securities	5.4	5.9	6.5	6.7	4.5	5.2	4.2	4.5	5.9
Loans	32.3	34.6	33.3	32.4	30.3	34.4	24.1	25.1	32.6
Real Estate Assets	1.0	.9	1.0	1.0	1.0	1.4	.9	.9	1.0
Other Ratios									
In Percentage									
Total Capital Accounts to Total Assets	10.1	8.9	8.1	7.9	7.2	7.3	6.1	5.8	8.1
Total Capital Accounts to Total Assets Less U. S. Government Securities and Cash Assets	28.8	23.0	21.0	20.8	21.8	19.6	21.9	21.5	22.0
Total Capital Accounts to Total Deposits	11.3	9.8	8.8	8.8	7.8	7.9	6.5	6.2	8.9
Time to Total Deposits	36.5	38.0	36.2	34.9	30.2	26.9	17.5	15.2	34.2

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Business Conditions and Outlook

Business activity in the Fifth Federal Reserve District continues basically strong. Despite the fact that retailers' and wholesalers' inventories the country over are high in relation to their sales volume, there has been no apparent effect evidenced in the soft goods industries of this District. It is obvious that textiles of all types are not going to be in plentiful supply in the months ahead and, as a consequence, fabricators are quite willing to build up inventory at this time. It is probably fortunate in this period of transition from civilian production to military production that this inventory accumulation can be effected. It has, however, had its consequences on the expansion of commercial and industrial loans of the banks and it has kept a rather constant upward pressure under the prices of most of these goods.

Employment Levels

The over-all employment situation in the District appears for the time being to have leveled off due in part to seasonal tendencies in tobacco and food industries and in part to selective reductions in construction employment which have been no more than offset by expansion in the other employment outlets. Even so, the employment situation is tight in the District and undoubtedly some out-migrations are being experienced. The step-up in manpower requirements for the armed services will begin to put real pressure on the labor supply in the spring and it is apparent that a great many more women must be brought into the labor force. Personnel requirements at military installations and in shipyards and aircraft factories are being stepped up and more of the same can be expected in due course.

Trade figures are again expanding after seasonal correction with soft goods in the forefront of the rise and with automobiles, appliances, and furniture holding at a surprisingly good level. Despite the heavy inventory position of retailers, as measured by the department and furniture stores in this District, sales of wholesalers are holding remarkably high, even though modest set-backs occurred in the seasonally adjusted figures from October to November in drugs, dry goods, electrical goods, and hardware lines. Relative to a year ago, sales of wholesalers are up in all lines, with tobacco products up 2%, groceries up 5%, drugs up 29%, and all others more than 40%.

Construction Still High

Although somewhat under its peak level of the summer, the construction industry is still being maintained at a very high level. Building permits in 30 cities of the District in November were 27% higher than the same month a year ago, with 15 cities showing gains and 15 losses. Announcements of new plant construction have been substantial in recent months and every week brings further news of such constructions. Prominent among these are a combed fabrics mill in Greenville, South Carolina, for $4 million; additions to a rayon finishing plant at Old Fort, North Carolina, $1 million; new spun rayon plant in Raeford, North Carolina, $7.5 million; improvements to ore piers at Baltimore, Maryland, $1 million; enlarged plant, Danville, Virginia, $3.5 million; machinery plant at Towson, Maryland, $1 million; meat packers distribution plant, Norfolk, Virginia, $1 million; new machinery mill at Gastonia, North Carolina, $1 million; additional cotton mill facilities, Clinton, South Carolina, $1.25 million; new building and machinery, Greer, South Carolina, $3 million; expansion at Gaffney, South Carolina, $1.2 million; expansion of telephone facilities, $3.6 million. The above does not take into account the expansion of DuPont's plant in Camden, South Carolina, and a new orlon installation at Kinston, North Carolina, nor additional facilities for dynel production by Union Carbide at Charleston, West Virginia, and many others for which details are lacking.

Lumber Firmer

The lumber industry's price structure has firmed up following a considerable weakness in October and November and new orders have established a better relationship with production and shipments. There are indications that some retailers have become somewhat anxious over the future supply situation and have indicated a willingness to add to yard stocks. November weather conditions in this District were not favorable for logging, but for the time being supply and demand seem to be fairly well in balance. The heat has been taken off the hardwood market, but thus far the price structure is still firmly held. Furniture manufacturers have reduced their hardwood purchases to some extent. Pay scales in the lumber industry are such that it may be among the first to find its workers moving into other industries.

Sales of department stores of this District rose more than seasonally from October to November, but those of furniture and household appliance stores show a contrary trend. These latter sales, nevertheless, remain in a high area, despite the fact that they are slightly below last year's level. Department store inventories are high by past standards and this has found its reflection in pre-Christmas clearances. Announcements of clearance sales in the early days following Christmas are quite general, with prices marked to assure their success. The trade outlook in this District is viewed quite optimistically by retailers, despite the fact that smaller and smaller quantities of durable goods will be available for sale.

Apparel Manufacturing Growing

Growth in apparel manufacturing in this District continues with a resolute persistence. In recent years it has been more pronounced in Virginia and the Carolinas than in its old established location in Maryland. It is

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particularly pronounced in South Carolina where the industry in a period of three years has practically doubled.

Loans of all member banks in the Fifth District were at a new high level on November 29. On this date, these loans totaled $1,927 million, a gain of $31 million during the month and a gain of $332 million over a year ago. Total deposits of $5,785 million were down $15 million from a month earlier but $293 million higher than a year ago. The gain came largely in demand deposits, with time deposits showing a gain of only $9 million above last year. The weekly reporting banks show commercial, industrial, and agricultural loans continuing their upward trend. They also show real estate loans and other loans, largely consumer, to be leveling off. The trend of sales of Series E Savings Bonds is still downward, but redemptions have fallen more than sales in recent months.

Outlook Stronger

The change in the fortunes of the Korean war late in November has had its repercussions on the economy of the Fifth Federal Reserve District. Whereas formerly it had not appeared that the impact of defense expenditures would be too substantial on the District, it is now apparent that it is going to be much greater than under the previous conditions. The District's shipyards, military installations, and aircraft factories will, it appears, require a substantially larger number of workers and the soft goods industries, which had shown some tendency to level off, are now likely to be called on for as nearly a full production output as they can deliver. Prices of many of the District's products, which had given some indication of reacting, or at least leveling off, have again firmed and the production outlook the District over seems to point to as near capacity levels as can be obtained.

Member Banks Shifted to Higher Yielding Assets in 1950

Continued from page 8

vidual banks will not only appraise the results of their own operations during the year, but will simultaneously appraise the performance of the "average" bank. Of course no ratio can show the quality and flexibility of assets held, nor the ease with which these assets can be liquidated.

No suggestion is intended that individual banks should be satisfied with an average record, nor that they should use it as a goal of any sort. What is intended is that individual banks should have available for informational purposes records indicating what other banks have been doing during the same period of time.

Each Fifth District member bank receives annually an operating ratios statement, with the ratios for the individual bank computed and enclosed for convenience. It appears that many banks use these ratio statements for purposes of policy determination, and they are discussed at meetings of officers and directors. For banks which desire them, an appropriate number of additional copies of this statement, together with the enclosure giving the individual bank's ratios, can be obtained on request when it is released.

ADDITIONS TO PAR LIST

The First State Bank and Trust Company, Bessemer City, N. C., including its branch at Mount Holly, N. C., has agreed to remit at par for all checks received from the Federal Reserve Bank effective January 2, 1951. Both banking points are in the territory served by the Charlotte Branch of the Federal Reserve Bank of Richmond. The combined transit number-check routing symbol of the Bessemer City office is $\frac{66\text{-}311}{531}$ and the symbol of the Mount Holly Branch is $\frac{66\text{-}925}{531}$.

The Peoples Bank of Iva, Iva, S. C., opened for business on January 2, 1951, and was added to the Federal Reserve par list on its opening date. The bank is in the territory served by the Charlotte Branch of the Federal Reserve Bank of Richmond, and its combined transit number-check routing symbol is $\frac{67\text{-}753}{532}$.

The officers of the new institution are Dr. C. D. Evans, President, J. W. Simpson, Sr., Vice President, and J. P. Patterson, Vice President and Cashier.

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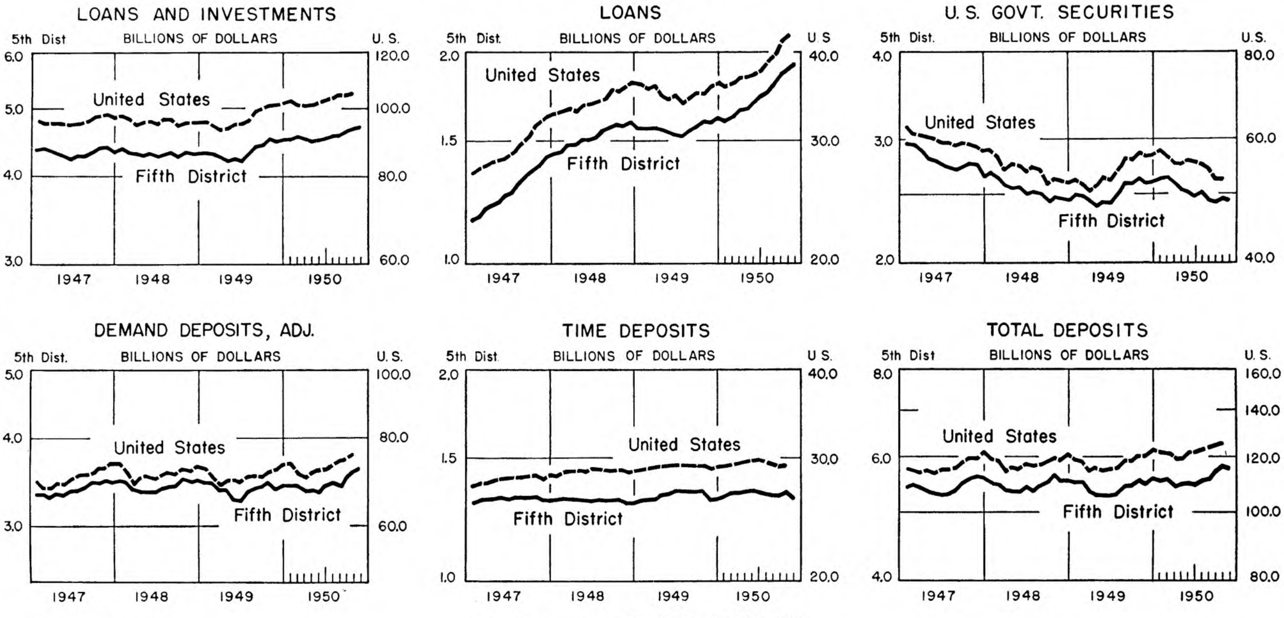
PRINCIPAL ASSETS AND LIABILITIES OF MEMBER BANKS

UNITED STATES AND FIFTH DISTRICT

LAST WEDNESDAY OF MONTH FIGURES



Data Partly Estimated

Latest Figures Plotted — Fifth District, Nov 29, 1950; United States, Oct. 27, 1950

DEBITS TO INDIVIDUAL ACCOUNTS
(000 omitted)

	November 1950	November 1949	11 Months 1950	11 Months 1949
Dist. of Columbia				
Washington	$ 955,058	$ 739,503	$ 9,650,080	$ 8,143,552
Maryland				
Baltimore	1,166,593	977,624	11,807,127	10,486,122
Cumberland	26,220	20,830	256,201	227,058
Frederick	19,118	17,467	199,265	188,765
Hagerstown	30,979	24,564	313,165	284,980
North Carolina				
Asheville	57,523	46,638	569,164	502,209
Charlotte	340,553	262,414	3,290,695	2,609,813
Durham	107,216	104,190	1,191,825	1,140,463
Greensboro	99,666	85,339	963,820	797,577
Kinston	19,464	16,770	235,910	212,556
Raleigh	178,580	127,970	1,598,691	1,386,450
Wilmington	40,096	28,660	394,422	344,113
Wilson	28,658	21,007	312,983	258,436
Winston-Salem	179,532	150,927	1,648,910	1,450,004
South Carolina				
Charleston	67,837	57,276	697,037	635,355
Columbia	110,427	99,926	1,168,340	1,074,931
Greenville	106,383	83,811	1,020,056	857,609
Spartanburg	69,863	51,478	597,753	494,814
Virginia				
Charlottesville	25,949	23,081	267,137	240,282
Danville	52,698	42,398	369,823	311,886
Lynchburg	46,586	36,756	447,647	390,081
Newport News	39,810	27,044	343,074	332,742
Norfolk	196,511	182,821	2,215,378	1,908,150
Portsmouth	24,004	20,091	238,695	215,547
Richmond	534,077	471,603	5,592,287	5,341,382
Roanoke	107,793	87,794	1,111,472	979,180
West Virginia				
Bluefield	42,636	25,286	453,013	435,952
Charleston	149,246	116,759	1,456,452	1,398,463
Clarksburg	31,877	24,748	334,054	305,828
Huntington	64,174	54,397	649,974	600,478
Parkersburg	26,752	22,682	294,497	271,037
District Totals	$ 4,945,879	$ 4,051,854	$49,688,947	$43,825,815

51 REPORTING MEMBER BANKS—5th DISTRICT
(000 omitted)

ITEMS	Dec. 13, 1950	Change in Amount from Nov. 15, 1950	Dec. 14, 1949
Total Loans	$1,129,051**	+ 25,627	+250,385
Business & Agricultural	542,465	+ 21,501	+135,215
Real Estate Loans	244,233	+ 8,224	+ 37,459
All Other Loans	354,574	— 4,057	+ 80,742
Total Security Holdings	1,689,473	— 13,123	—115,906
U. S. Treasury Bills	110,887	— 6,418	— 33,033
U. S. Treasury Certificates	33,888	+ 11,690	—212,276
U. S. Treasury Notes	338,633	+ 7,627	+294,137
U. S. Treasury Bonds	1,031,915	— 28,860	—186,575
Other Bonds, Stocks & Secur.	174,150	+ 2,838	+ 21,841
Cash Items in Process of Col.	282,852	— 40,334	+ 28,781
Due from Banks	207,587*	+ 22,888	+ 26,659
Currency & Coin	79,072	+ 8,961	+ 5,853
Reserve with F. R. Bank	470,881	— 1,865	+ 23,717
Other Assets	56,514	+ 1,629	+ 3,520
Total Assets	$3,915,430	+ 3,783	+223,009
Total Demand Deposits	$3,038,081	+ 8,194	+207,053
Deposits of Individuals	2,293,479	+ 37,198	+165,172
Deposits of U. S. Govt.	62,825	— 15,765	— 16,042
Deposits of State & Loc. Gov.	154,007	+ 11,476	+ 7,027
Deposits of Banks	478,433*	— 18,806	+ 39,486
Certified & Officers' Checks	49,337	— 5,909	+ 11,410
Total Time Deposits	607,620	- 1,390	+ 4,254
Deposits of Individuals	551,682	— 11,191	+ 531
Other Time Deposits	55,938	+ 9,801	+ 3,723
Liabilities for Borrowed Money	1,900	— 3,100	— 5,450
All Other Liabilities	25,921	91	+ 4,459
Capital Accounts	241,908	+ 170	+ 12,693
Total Liabilities	$3,915,430	+ 3,783	+223,009

*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

	Nov. 1950	Oct. 1950	Sept. 1950	Nov. 1949	% Change—Latest Month Prev. Mo.	Year Ago
Automobile Registration[1]	......	259	245	198	+ 6	+ 23
Bank Debits	388	411	395	317	— 6	+ 22
Bituminous Coal Production	139	161	151	127	— 14	+ 9
Construction Contracts Awarded	570	462	606	521	+ 23	+ 9
Business Failures—No.	74	68	65	135	+ 9	— 45
Cigarette Production	234	206	231	233	+ 14	0
Cotton Spindle Hours	158	163	155	144	— 3	+ 10
Department Store Sales[2]	313	312	332	304	0	+ 3
Electric Power Production	......	327	323	274	+ 1	+ 25
Employment—Manufacturing Industries[1]	150	151	150	139	— 1	+ 8
Furniture Manufacturers: Shipments[2]	......	401	387	310	+ 4	+ 44
Life Insurance Sales	271	279	341	269	— 3	+ 1

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

BUILDING PERMIT FIGURES

	November 1950	November 1949	11 Months 1950	11 Months 1949
Maryland				
Baltimore	$ 6,078,195	$ 4,750,580	$ 76,472,075	$ 47,439,030
Cumberland	27,840	24,625	1,055,590	511,015
Frederick	207,050	50,820	1,987,416	825,652
Hagerstown	441,427	143,450	4,308,100	1,993,898
Salisbury	977,525	280,539	2,563,355	1,832,472
Virginia				
Danville	2,759,913	84,057	5,637,263	2,239,011
Lynchburg	229,175	259,217	5,891,572	4,807,958
Newport News	36,803	48,166	1,736,501	1,103,674
Norfolk	930,555	1,415,045	14,764,393	11,337,951
Petersburg	76,483	147,028	5,028,525	1,772,410
Portsmouth	132,650	194,457	3,854,141	1,658,961
Richmond	5,828,536	1,377,152	31,006,694	16,159,711
Roanoke	413,852	2,717,398	16,089,934	13,084,849
West Virginia				
Charleston	590,998	494,267	12,725,810	9,607,860
Clarksburg	62,800	100,023	1,622,048	1,134,131
Huntington	171,000	280,540	6,898,994	5,151,628
North Carolina				
Asheville	121,193	196,055	3,989,895	4,183,204
Charlotte	3,522,861	1,935,991	28,181,336	21,814,365
Durham	487,337	381,240	16,237,867	8,354,940
Greensboro	727,151	809,825	15,364,450	10,154,425
High Point	150,970	784,260	4,156,926	4,765,643
Raleigh	1,127,185	540,425	15,876,235	8,633,640
Rocky Mount	291,384	264,097	3,976,547	1,718,175
Salisbury	53,660	145,380	3,757,747	1,495,988
Winston-Salem	819,763	508,572	11,522,827	7,532,911
South Carolina				
Charleston	276,085	148,882	3,011,163	3,750,394
Columbia	342,960	225,818	9,772,990	6,642,589
Greenville	475,050	1,072,440	10,383,624	9,411,290
Spartanburg	56,015	842,857	5,803,408	4,993,167
Dist. of Columbia				
Washington	4,396,728	4,856,701	65,734,072	73,429,869
District Totals	$ 31,813,144	$ 25,079,907	$389,411,498	$287,540,811

COTTON CONSUMPTION AND ON HAND—BALES

	Nov. 1950	Nov. 1949	Aug. 1 to Nov. 30 1950	1949
Fifth District States:				
Cotton consumed	514,378	401,481	1,843,423	1,507,389
Cotton Growing States:				
Cotton consumed	915,134	702,959	3,278,970	2,605,735
Cotton on hand Nov. 30, in consuming establishments	1,654,418	1,314,058		
in storage & compresses	6,982,528	10,553,647		
United States:				
Cotton consumed	1,008,872	772,216	3,620,351	2,869,475
Cotton on hand Nov. 30 in consuming establishments	1,832,015	1,457,072		
in storage & compresses	6,995,538	10,568,091		
Spindles active, Nov. 30, U.S.	20,751,000	20,315,000		

Source: Department of Commerce.

WHOLESALE TRADE

LINES	Sales in November 1950 compared with Nov. 1949	Oct. 1950	Stocks on November 30, 1950 compared with Nov. 30, 1949	Oct. 31, 1950
Auto supplies (8)	+ 24	0	+ 6	+ 1
Electrical goods (6)	+ 62	— 6	+ 19	+ 11
Hardware (12)	+ 23	— 10	+ 18	+ 6
Industrial Supplies (6)	+ 53	— 12	— 2	— 7
Drugs and Sundries (14)	+ 12	— 3	+ 9	+ 2
Dry Goods (10)	+ 24	— 15	+ 17	+ 3
Groceries (62)	+ 4	+ 4	+ 17	0
Paper and Products (7)	+ 33	+ 6	...	...
Tobacco & Products (10)	+ 6	+ 5	+ 16	+ 5
Miscellaneous (95)	+ 22	— 7	+ 17	+ 4
District Totals (230)	+ 18	— 4	+ 16	+ 3

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

RETAIL FURNITURE SALES

STATES	Percentage comparison of sales in periods names with sales in same periods in 1949 November 1950	11 Mos. 1950
Maryland (7)	— 14	+ 4
District of Columbia (7)	+ 6	+ 12
Virginia (18)	+ 5	+ 10
West Virginia (9)	— 9	+ 16
North Carolina (15)	+ 10	+ 14
South Carolina (5)	— 12	— 7
District (61)	— 3	+ 9
INDIVIDUAL CITIES		
Baltimore, Md. (7)	— 14	+ 4
Washington, D. C. (7)	+ 6	+ 12
Richmond, Va. (6)	— 10	+ 4
Lynchburg, Va. (3)	+ 27	+ 16
Charlotte, N. C. (3)	— 14	+ 8

Number of reporting firms in parentheses.

DEPARTMENT STORE OPERATIONS

(Figures show percentage change)

	Rich.	Balt.	Wash.	Other Cities	Dist. Total
Sales, Nov. '50 vs. Nov. '49	+ 8	+ 3	— 1	+ 3	+ 2
Sales, 11 mos. '50 vs. 11 mos. '49	+ 7	+ 2	+ 2	+ 7	+ 4
Stocks, Nov. 30, '50 vs. '49	+25	+18	+15	+13	+17
Orders outstanding, Nov. 30, '50 vs. '49	+62	+19	+37	+40	+36
Current receivables Nov. 1 collected in Nov. 1950	31	52	50	43	45
Instalment receivables Nov. 1 collected in Nov. 1950	14	18	18	16	18

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, Nov. '50 vs. Nov. '49	+ 3	— 1	+ 6	+ 3	+ 1	+ 8
Sales, 11 mos. '50 vs. 11 mos. '49	+ 2	+ 2	+ 5	+11	+ 4	+ 6

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