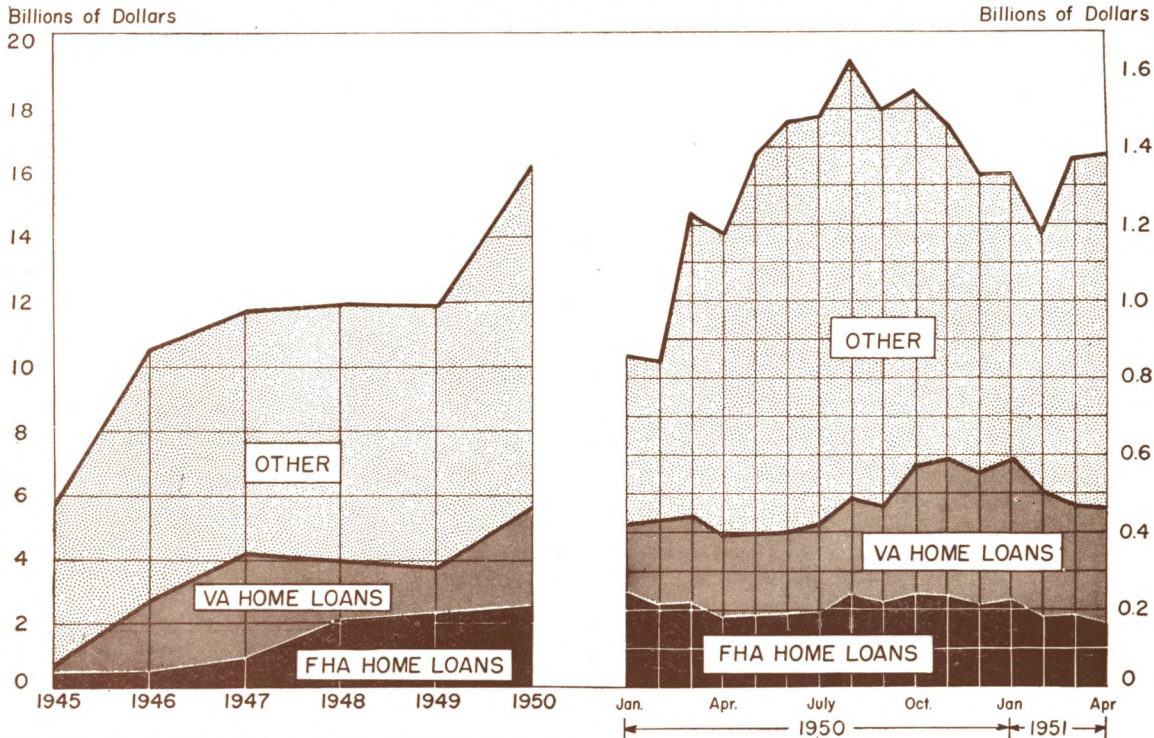


AUGUST 1951

FINANCING THE HOME BUILDING BOOM



THE ABOVE CHARTS ARE FOR NONFARM MORTGAGE RECORDINGS OF \$20,000 OR LESS

SOURCE: ALL YEARS AND JANUARY 1951 FROM *HOUSING STATISTICS*, FEBRUARY-MARCH 1951, HOUSING AND HOME FINANCE AGENCY, WASHINGTON, D. C.
FEBRUARY, MARCH AND APRIL 1951 FROM *SURVEY OF CURRENT BUSINESS*, JUNE 1951



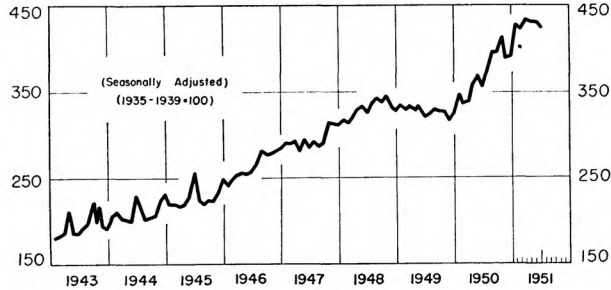
*F*ederal Government agencies have had a very important part in the postwar housing boom. The charts above compare FHA and VA home loans and other nonfarm mortgage trends in recent years. The article on page 3 discusses activities of Federal agencies participating in the home mortgage market.

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FIFTH DISTRICT TRENDS

BANK DEBITS



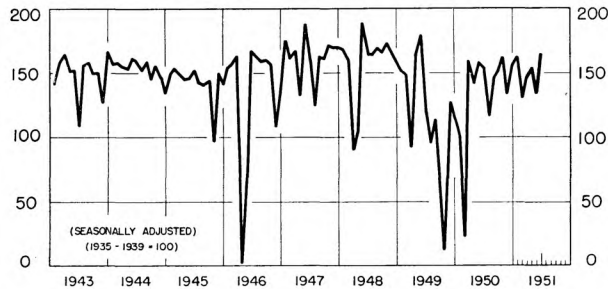
June witnessed a minor break in the upward trend in bank debits which has been under way since November 1949. The drop from the preceding month was small, only 2%, which leaves the level 19% ahead of a year ago. Since November 1949 there has been a rise of 33%.

G. I. HOME LOANS



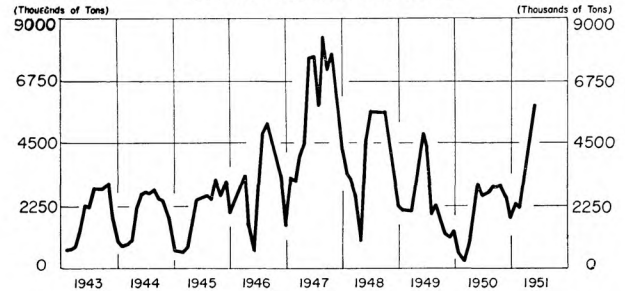
The amount of G. I. home loans guaranteed and insured in the Fifth District reached its peak in November 1950. The trend has been downward since with May down 45% under that level. The drop in the Fifth District has been more than twice that in the nation as a whole.

BITUMINOUS COAL PRODUCTION



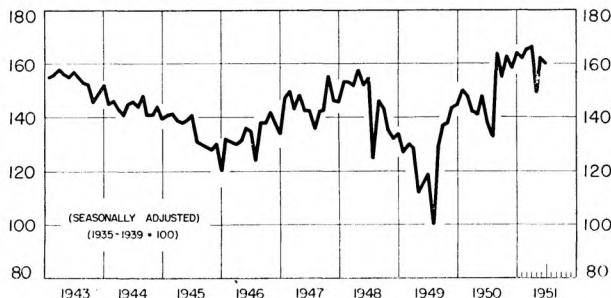
June output in the District rose 23% from May, after adjustment for seasonal. This output is 7% higher than in June a year ago and is up among the high production months of all time. Miners' vacations in July will cut that month considerably and result in a considerable reduction in stocks on hand.

EXPORTS-BITUMINOUS COAL



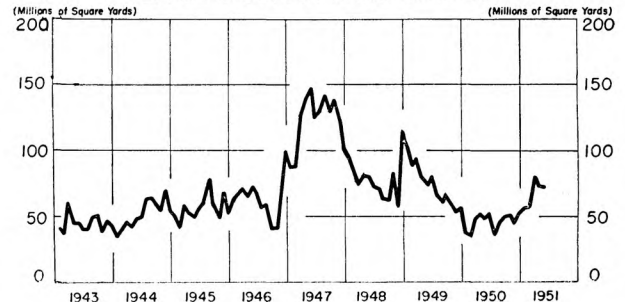
Bituminous coal exports from the United States in the first five months of 1951 are nearly 18.5 million tons, compared with only 6.7 million tons a year ago. This period last year, however, was the lowest amount of exports since before the second World War. Indications are that the volume of exports for the year 1951 will run in excess of 30 million tons.

ACTIVE COTTON SPINDLE HOURS



Despite the continuance of new business in the doldrums, mill activity in June was only 1% below that of May on an adjusted basis and continued 16% ahead of a year ago. July, however, will witness a rather substantial drop as extended vacations, cutbacks, and shut-downs have been announced this month.

EXPORTS-COTTON MANUFACTURES



1950 witnessed the lowest level of cotton manufactures (cotton cloth, duck, and tire fabric) of any year since 1943. There has been a substantial pickup in the exports of these goods this year. Indications now are that the year will run over 800 million yards and may approach the 880 million yards of 1949.

Federal Activity in Residential Mortgage Lending

{ Recent credit developments have focused attention not only on commercial banks' lending but on other institutions as well. This is the fourth in a series reviewing briefly the operations of leading lenders outside the commercial banking field. The fifth and last article, *Real Estate Financing*, will appear next month. }

ONE of the prime factors in the postwar housing boom has been Federal Government activity, largely concentrated in insurance and guarantee of home loans and provision of a secondary market for selected Government underwritten mortgages. Last year about one-third of the dollar amount of nonfarm mortgage loans made on one- to four-family properties represented loans insured by the Federal Housing Administration or guaranteed by the Veterans' Administration. More than two-fifths of the outstanding home mortgage debt is FHA insured or VA guaranteed.

Of the \$7.8 billion increase in nonfarm home mortgage debt outstanding during 1950, \$520 million—almost 7% of the total—was accounted for by one Federal agency, the Federal National Mortgage Association. At year end 1950 FNMA held a total of \$1.3 billion in mortgages—mostly VA guaranteed—and this increased to almost \$1.6 billion by the end of June of this year.

In recent months, Federal loan insurance and guarantee activity has been running below the high levels of late 1950, and in the case of FHA insurance, well below a year ago. In the first five months of 1951, total insurance written by FHA was off 17% from the same period of 1950 while home loans insured in May totaled \$165 million, compared with \$178 million a year earlier. Although VA guaranteed home loans are off from late 1950, they are up substantially from the spring of last year; in the first five months VA home loan guarantees were 50% above the comparable period of 1950. In May VA guarantees totaled \$292 million as contrasted with \$218 million in May 1950. Applications for home loan insurance and guarantees are substantially down from 1950, and indicate a considerable decline in home insuring and guaranteeing activities later in the year. FHA home loan insurance applications through May were off about 50% from the first five months of 1950. VA applications show a smaller decline; for the first five months they were 23% below the same period in 1950.

Mortgage guarantees and insurance in recent years have been important factors in the real estate market. The low interest rates, long amortization periods, and generally smaller down payments (in some instances virtually 100% VA loans were committed on by FNMA) naturally lead to increased demand for loans. They permit buyers to enter the market who would otherwise be unable to purchase housing. Other buyers are brought into the market earlier; still others can purchase higher priced housing.

On the lending side, protection of lenders through guarantee and insurance increases the supply of credit available for mortgage loans. Further affecting the sup-

ply of mortgage funds is the relative inflexibility of interest rates which are permitted under VA and FHA guarantee and insurance. When other interest rates are low, guaranteed and insured loans are relatively more attractive, and a greater flow of insured and guaranteed mortgage credit is encouraged. When other interest rates rise, the maximum rates permitted by VA and FHA become less attractive, and lenders are more reluctant to make these loans.

FNMA purchases of mortgages encourage the expansion of real estate credit in two ways. First, purchases of mortgages by FNMA serve to release funds of private lenders which can be reinvested in new mortgages. Second, to the extent that FNMA stands ready to buy insured and guaranteed mortgages, a primary lender will be more apt to expand his purchases of mortgages, on the assumption that he will be able to sell them when pinched for funds. Recently FNMA announced a new policy of purchasing only mortgages insured after March 1, 1951 and making ineligible for purchase mortgages of \$10,000, or under, unless held for two months after date of insurance and not more than one year.

Loan guarantee and insurance in conjunction with the purchasing activities of FNMA have led to a widespread market for insured and guaranteed loans. The insurance and guarantee features minimize the possibility of loss, and FNMA provides some assurance of resale if desired. As a consequence, funds can flow more easily from centers where mortgage money is available to areas where the funds are in greater demand.

The Federal Housing Administration

The FHA makes no direct loans, its sole function being to act as insurer of mortgages on various types of residential property. Mortgages insured by FHA must meet certain minimum requirements. Loans are insured on small residential properties only if the rate of interest charged does not exceed a prescribed maximum, in general 4¼%. Mortgages insured on multi-family properties generally carry an interest rate of 4%. (The FHA commissioner has the right to increase this rate to 5% for most home mortgages and 4½% for most multi-family projects.) Maximum maturities of loans are prescribed, as are minimum down payments and the maximum amount of mortgage. Certain physical standards must also be met.

The most important activity of the FHA is insuring mortgage loans on one- to four-family homes under provisions of Section 203, Title II of the National Housing Act. In 1950 \$2,469 million of Section 203 mortgages were insured, covering 283,000 dwelling units, about one-fourth of the total number of one- to four-family dwelling units completed.

Second in importance in the last couple of years have been loans on rental projects for veterans, insured under Section 608, Title VI. These loans totaled \$1,010 million in 1950. Authority to insure this type of loan expired in March 1950, except for outstanding application.

FHA Title I mortgages (home repair and modernization loans) account for the third largest share of FHA insuring activity in recent years, and totaled \$701 million in 1950. Other important insuring activities of the FHA include insurance under Title VIII, which provides for insurance of mortgages on new rental housing on or near military installations, and insurance of multi-family rental projects under Title II, Section 207. The total of all types of FHA insurance written in 1950 was \$4,341 million.

Separate insurance funds are maintained for each type of insurance written. Administrative expenses are allocated to each of the funds. The insurance premium charged by FHA to the borrower generally amounts to $\frac{1}{2}$ of 1% of the outstanding balances of loans on single family residences and $\frac{1}{4}$ of 1% on multi-family residences.

In general, payment of insurance in the event of default is not made immediately. If the mortgagee chooses not to take over the property, FHA takes title to the property, giving in exchange $2\frac{1}{2}$ % FHA debentures maturing in three years after the defaulted loan was to mature. These debentures, guaranteed by the Treasury, are negotiable, and are callable by FHA at any time before maturity. Currently there is a very small volume of such debentures outstanding.

The Veterans' Administration

The Veterans' Administration currently guarantees up to 60% of the amounts of home loans to veterans, but not to exceed \$7,500. As in FHA insurance, conditions under which loans will be guaranteed are prescribed. Terms are generally easier; the maximum rate of interest permitted by VA is currently 4%. (Under present authority this rate may be increased to $4\frac{1}{2}$ %, upon the recommendation of the Veterans Administration with the concurrence of the Secretary of the Treasury.)

Funds needed to meet the cost of guaranteeing GI loans are provided by Congress. No premium charge for guarantee of loans is made to either borrower or lender. If the lender desires, the VA will insure up to 15% of total amounts of VA loans held in portfolio instead of guaranteeing up to 60% of the amount of each loan.

Mortgages guaranteed by the Veterans' Administration rose rapidly after the end of the war to a peak at year end 1946, but declined in favor with lenders until they reached a low point in the spring of 1949. From that level they rose fairly consistently throughout early 1951, when a new peak was reached. Guarantees have fallen off somewhat from this high level in recent months, but are still running well above last year.

Many factors have contributed to the ups and downs of this type of mortgage, one being the 4% interest rate which has been maintained on VA guaranteed loans. When the initial postwar surge of demand for VA guaranteed mortgages fell off, and as alternative outlets for funds became increasingly available, the volume of these loans made fell sharply. Anticipation of an increase in the rate (which was never realized) also served to deter lenders.

In the last half of 1949 mortgage funds were more available, other interest rates were at a low level, and the VA guaranteed loan became relatively more attractive. FNMA purchases of VA guaranteed mortgages contributed importantly to the increase, as did FNMA's practice of making commitments to purchase virtually 100% VA loans—a practice which led primary lenders to make loans with no intention of holding them. Another factor was the reduction of the FHA rate to $4\frac{1}{4}$ %, narrowing the difference in rates between FHA and VA loans.

Further impetus was given to the use of VA guarantees by the Housing Act of 1950, although it prohibited further issuance of commitments by FNMA. The maximum percentage of loan covered by VA guarantee was increased from 50% (not to exceed \$4,000) to 60% (not to exceed \$7,500). Among other provisions, \$150 million of direct loans to veterans was authorized in cases where 4% financing was not available from local private financing institutions. This authority to make direct loans expired on June 30, 1951, and was not widely used.

The Federal National Mortgage Association

With a few exceptions, FNMA does not make direct loans. Its primary function is to provide a secondary market for Government underwritten loans by purchase and sale of certain FHA insured and VA guaranteed loans. Currently FNMA holdings cannot exceed \$2,750 million. Mortgages held at the end of December were \$1,347 million; by the end of June they had grown to almost \$1.6 billion. At this level FNMA holdings of mortgages are almost double the level at year end 1949, and are more than \$500 million above holdings at the beginning of the Korean conflict, despite an active selling campaign over the past year and a half.

Authorized in 1934 by Title III of the National Housing Act, FNMA was not organized until 1938. During the early years of its existence, FNMA was relatively inactive. However, its very existence bolstered the position of FHA insured mortgages and greatly widened the mortgage market.

In the postwar period, FNMA activities became more extensive. When Congress expanded FNMA authority to include the purchase of VA guaranteed loans in 1948, and as FNMA's authorization to purchase was progressively stepped up, holdings increased rapidly. In March 1950 FNMA's authorization of \$2,500 million was used up in mortgage holdings and commitments to buy addi-

Savings Trends in the Fifth District

SAVING in the Fifth Federal Reserve District declined sharply in 1950 with net new savings amounting to little more than one-half of the amount saved in 1949. Two reasons stand out—scare buying and the inflating cost of living—which presumably caused residents of this area to spend a larger portion of their income than previously had been the case.

Precise measurement of savings is difficult since dollar amounts of demand deposits, money in circulation, securities, businesses, property, and life insurance are not available on a regional level. Those forms of savings which can be measured are, however, thought sufficient to indicate the trend. Measurable savings include the outstanding shares of savings and loan associations of the Federal Home Loan Bank System (accounting for 88% of the shares of all savings and loan associations in the Fifth District at the beginning of 1950), changes in time deposits of all banks, and the net sale or redemption of United States savings bonds. Subsequent discussion of savings will rest on the above mentioned indicators.

Savings Since 1945

District savings in these forms totaled \$921 million for the postwar years, 1946-1950, and this was equal to 4.0% of similar national savings in the same period. During this time, income payments in this area were about 8% of the national total. Since average per capita income in the Fifth District is less than the national average, it is not surprising to find that a smaller portion of income is saved in this District than in the rest of the country.

While total savings amounted to only 4.0% of the national total, those in savings and loan associations amounted to 8.5% of the national figure for these institutions. Net purchases of F and G savings bonds in the Fifth District amounted to 4.1% of the national net purchase of these bonds and savings in the form of time deposits, to 3.3% of the national total. On the other hand, dis-saving through encashment of A-E savings bonds was rather high in this area, amounting to 11.4% of the national net redemption of these bonds for the years 1946-1950.

Savings and loan associations appear to be the most popular among the measurable media for saving in this District. They accounted for \$548 million (or 58%) of the total from December 31, 1945 to December 31, 1950. An additional \$364 million was put into time deposits and net purchases of F and G savings bonds totaled \$363 million during the same period. Here the savings were partially offset by net redemptions of \$354 million in A-E savings bonds, making a total of \$921 million for the Fifth District during this period.

Savings During 1950

Significant changes took place in the Fifth District in 1950. As shown in Table 1, a net of \$78 million was

Share capital in Federal Home Loan Bank System savings and loan associations	+	406	+	131	+	142
Time deposits of all banks	+	346	+	58	+	18
Net redemptions of Series A-E savings bonds	-	221	-	80	-	133
Net purchases of Series F and G savings bonds	+	312	+	36	+	51
Total	+	834	+	145	+	78
United States	+	20,354	+	3,131	+	2,634

saved in the above mentioned forms, or 46% less than the \$145 million saved in 1949. For the preceding four years 1946-1949, Fifth District savings averaged 4.1% of the national total and only 3.0% in 1950. Savings and loan shares continued to be the largest medium and those operating in the Fifth District accounted for 9.5% of national savings of this type in 1950, compared with 8.2% for the preceding postwar years, 1946-1949.

Growth of time deposits in the Fifth District was only 2.0% in 1950 compared with 3.5% of the national growth for the years, 1946-1949. Net purchase of F and G savings bonds in the area was 3.4% in 1950 compared with 4.3% of the national net purchase in 1946-1949. Some improvement occurred in the balance of sales and redemptions of A-E savings bonds—the District accounted for 10.5% of the national net redemptions in 1950 as compared with 12.1% for 1946-1949. Apparently the improvement relative to the rest of the nation has not been due to a decrease in net redemptions in the Fifth District during 1950 (since net redemptions increased from \$80 million in 1949 to \$133 million in 1950) but to a much larger national net redemption. Net encashment of A-E savings bonds for the entire country was \$325 million in 1947, \$81 million in 1948, and only \$77 million in 1949, but the total increased to \$1,266 million in 1950.

Increases in total shares of savings and loan associations in this area amounted to \$142 million for 1950, net purchases of F and G savings bonds totaled \$51 million, and the net increase in time deposits was \$18 million for the year. Partial offsets were net redemptions of \$133 million in A-E savings bonds, reducing total Fifth District savings in the above mentioned forms to \$78 million last year.

Savings by States

During the period 1946-1949, North Carolina led the Fifth District states and accounted for 29% of total new savings. Maryland was second with 21% of the total, followed by Virginia with 18%, the District of Columbia with 13%, West Virginia with 10%, and South Carolina with 9%. (See Table 2.)

Table 2
GROWTH IN SELECTED TYPES OF SAVINGS
IN THE FIFTH DISTRICT
(millions of dollars)

	1946-49	1949	1950
Maryland	+ 176	+ 24	+ 28
District of Columbia	+ 114	+ 18	+ 24
Virginia	+ 150	+ 18	+ 1
West Virginia	+ 84	+ 8	+ 2
North Carolina	+ 244	+ 64	+ 17
South Carolina	+ 75	+ 13	+ 10
Total	+ 843	+ 145	+ 78
United States	+20,534	+3,181	+2,624

A shift in this distribution occurred during 1950. Maryland, previously in second place, advanced to first, accumulating new savings of \$28 million in 1950. The District of Columbia rose from fourth to second place with new savings of \$24 million. North Carolina dropped from first to third place, with \$17 million. South Carolina rose from sixth to fourth place with new savings of \$10 million, while Virginia fell from third to fifth place with savings of \$1 million. West Virginia with a decline of \$2 million was the only state in 1950 to show a net reduction.

Savings in Series E Savings Bonds

Since the A-E savings bonds have been the major factor in the declining savings of this area, an analysis of their position should be interesting. Total sales (except through post offices) and redemptions are available by denominations for Series E savings bonds. Lack of post office sales figures probably makes redemptions of smaller denominations seem slightly larger than is actually the case. It seems logical to assume that the rank and file use savings bonds of \$200 or less while large investors use the \$500 and \$1,000 bonds. On this basis Table 3 indicates that, for the years 1946-1949, these savers redeemed more bonds than they purchased, while investors purchased more of the \$500 and \$1,000 denominations than they redeemed.

Table 3
NET SALES OR REDEMPTIONS* OF
SERIES E SAVINGS BONDS IN THE FIFTH DISTRICT
(millions of dollars)

Denomination	1946-49	1949	1950
10's	- 5	- 1	- 1
25's	-220	-34	-33
50's	- 88	-14	-16
100's	- 92	-14	-19
200's	+ 11	+ 2	+ 2
500's	+ 7	**	+ 8
1,000's	+142	+26	- 2
Total	-245	-35	-77

* Redemptions calculated at issue price.
** Less than \$500,000.

The trend in 1950, however, was completely reversed with regard to the larger denominations. Net redemptions of all denominations in the District rose from a \$61

million annual average for the period 1946-1949 to \$77 million in 1950. The change came largely in the \$500 and \$1,000 denominations, where average annual net purchase was \$40 million for the 1946-1949 period. In 1950 redemptions of the large denominations exceeded sales by \$10 million.

As shown in Table 4, the smaller denominations (\$10 through \$200) have accounted for a decreasing portion of total redemptions. The situation is not altogether a matter of the small denomination owners retaining and owners of \$500 and \$1,000 denominations redeeming their bonds—presumably, the small denomination holders had fewer bonds to redeem. At the beginning of 1946, 63% of the bonds outstanding (excluding accrued interest) in the United States were in denominations of \$200 and smaller. By the close of 1950, the proportion had decreased to 50% of the bonds outstanding.

Table 4
PERCENTAGE OF SALES VALUE OF
SERIES E SAVINGS BONDS—FIFTH DISTRICT

	10's	25's	50's	100's	200's	500's	1,000's	Total
1946.....	1.1	27.3	9.5	11.8	2.4	12.8	35.1	100.0
1947.....	.2	19.3	8.5	12.7	2.1	14.7	42.5	100.0
1948.....	.1	19.3	9.3	13.6	2.3	14.0	41.4	100.0
1949.....	.1	21.8	11.0	14.6	2.6	12.8	37.1	100.0
1950.....	.1	23.8	12.2	15.8	2.8	11.9	33.4	100.0
1946-1950.....	.3	22.5	10.0	13.6	2.4	13.3	37.9	100.0

**PERCENTAGE OF TOTAL VALUE OF REDEMPTIONS*
OF SERIES E SAVINGS BONDS—FIFTH DISTRICT**

	10's	25's	50's	100's	200's	500's	1,000's	Total
1946.....	1.2	42.7	15.6	17.4	.5	8.4	14.2	100.0
1947.....	.7	35.5	14.9	18.5	.8	10.5	19.1	100.0
1948.....	.4	31.4	14.4	18.9	1.1	11.5	22.3	100.0
1949.....	.3	32.1	14.8	17.9	1.6	11.2	22.1	100.0
1950.....	.2	29.2	14.6	18.3	1.5	11.4	24.8	100.0
1946-1950.....	.6	34.8	14.9	18.2	1.0	10.4	20.1	100.0

* Redemptions calculated at issue price.

Available statistics on savings during the first five months of 1951 do not show any distinct trend. Time deposits of member banks in the Fifth District have increased \$11 million or 0.8% during this period, shares of savings and loan associations (Federal Home Loan Bank System) in this area were up \$94 million or 8.6% and net purchases of F and G bonds totaled \$2 million. On the other hand, there has been no increase in the deposits of the mutual savings banks in Maryland and a net redemption of \$71 million in A-E savings bonds in the whole District, leaving a net savings of \$36 million for the first five months of 1951.

Should savings during the remainder of the year continue at this rate, savings for the twelve months of 1951 would about equal those of 1950. Psychological factors, such as prospects for peace, fears or lack of fears of shortages, and the course of inflation, clearly are governing—along with the tax load, actual or prospective, and the trend of salaries and wages.

Two Important Developments in the Municipal Bond Market

Municipal Financing of Corporate Plant and Equipment

THE recent voter-approved plan of a small Tennessee city to build and equip a textile plant for lease to a private corporation is a novel and interesting development in the numerous efforts of communities to attract new manufacturing establishments. Not only will Elizabethton, Tennessee, acquire land and build a nylon tricort mill according to specifications of the lessee, Textron, Inc., but it will also equip it with knitting machinery.

Funds for the \$7.8 million project are to be obtained from \$4 million of tax-exempt revenue bonds issued by the municipality and from the rent paid by Textron for the use of the plant. The annual rental is estimated to cover interest and principal payments on the bonds and, after the third year, to net the city \$35,000 annually. The bonds will be secured by a deed of trust against the land, building, and machinery and will have no claim against the credit of the city itself.

Although revenue bonds have been used for financing municipal improvements for only a few years, a bewildering variety of issues bearing this designation has already developed. Consequently, it is no longer sufficient to define this type of security as a bond payable solely out of revenues derived from a publicly owned income-producing property. In this case, payment of the bonds rests upon income from a publicly owned property—but one that will be operated for profit purposes by a private corporation.

This latest innovation in revenue bonds may alarm those who have viewed with concern the growing tendency of municipalities to use revenue bonds to finance projects only indirectly related to regular local-government services. Cities and states have been reaching out farther and farther to bring into the income-producing category projects to be financed with supposedly self-supporting revenue bonds. Entering the lists have been schools, hospitals, government office buildings, and penal institutions. Due to the dependence of revenue bonds on the income from the project they finance, some feel that they lie closer to corporate bonds than to "municipals." This view is strengthened by the use of municipal bonds for financing the construction and equipment of factories for lease to private concerns.

The Elizabethton bond issue was recently approved by voters 2,060 to 17 in a referendum conducted under the authority of the Industrial Buildings Revenue Bond Act enacted by the 1951 General Assembly of Tennessee. The act specifically permits the issuance of bonds by municipalities to help finance industrial plants, provided the issue is approved by the electorate. The Elizabethton issue is the first under the new law and was immediately taken to court in a friendly suit, at the request of firms interested in acquiring the issue, to test the validity of the law.

The Chancery Court ruled in favor of the city, holding that the act permitting municipalities to issue bonds for industrial purposes is constitutional, and that the State Constitution "does not prohibit the lending of credit of the municipal corporation to a private corporation where there is a specific act of the Legislature authorizing the proposed lending and there has been a proper election by the people of the municipal corporation approving it."

The reference to "lending of credit of the municipal corporation to a private corporation" needs careful interpretation in at least two respects. First, in issuing revenue bonds the city is *not* putting its own credit directly behind the bonds and the court noted that the Elizabethton bonds will not obligate the taxpayers but will be paid out of rental receipts from Textron.

Rapid Amortization and Tax Reduction

Also, in this case there is no direct extension of credit from the municipality to the private corporation. The manufacturing firm is obtaining the use of city-provided facilities which it would otherwise have had to construct with funds secured on its own credit rating. There is an interesting angle here: according to the reported agreement, Textron will lease the plant for a period of five years and pay an annual rental of \$1,560,000. Payments over the five-year period are expected to be sufficient to amortize the cost of the plant. If Textron were to construct the plant itself and desired to write off its cost in such a short period of time, it would have to obtain a certificate of necessity from the Defense Production Administration enabling it annually to charge against income and deduct for tax purposes one-fifth of the cost.

As it is, the city does not have to concern itself with the problem of securing permission for rapid amortization of 100% of the cost. Nevertheless, under the terms of the agreement with Textron, there will have been a complete write-off of plant cost after five years, the bonds will have been retired, and the city will have a cost-free plant that can be rented under extremely favorable conditions and terms. Actually, following the termination of the first lease period, Textron has nine options of five years each to continue renting the plant at a rental of \$35,000—as compared with the initial annual rental of \$1,560,000.

Another feature puts the Federal tax collector on the short end—possibly two short ends: first, the recipient of the rental income is a city—a tax-free corporation. Here the transaction is similar to the ordinary purchase-lease transaction whereby a taxpayer sells property to a tax-free institution, say, a college, and then immediately leases it from the new owner. In fact, Textron, Inc. has just sold its rayon weaving mill in Charlotte,

N. C., to Vanderbilt University with an eleven-year lease agreement and an option to renew. Ordinarily, tax revenues suffer in another respect in such arrangements since rental payments constitute tax deductions on the part of the lessee. It is difficult to say in this case whether Textron will be allowed to deduct the full amount of the rental. In view of the short term of the initial lease, the consequent large rental, and the options for renewals, the Federal Government might argue that the rent paid in the first five years is in the nature of a prepayment on a lease that should be interpreted to extend over a long period and the rental for tax deduction purposes adjusted accordingly. Also, in view of the small renewal rent and extended period covered by the nine options, it is possible that the Federal tax authorities might contend that the term of the lease for tax purposes should be closer to the depreciable life of the plant.

\$171 Million of New Type Tax-Exempt Bonds Reach Market

The long awaited new Federally-assisted local housing authority bonds finally reached the market—and scored an immediate success. On July 17 bids were announced for \$171,319,000 of the new tax-exempts representing 58 different issues offered by local authorities from Hawaii to Asheville, N. C., and from Alamo, Texas, to Worcester, Mass., and ranging in size from \$17.3 million to \$161,000. The successful bids produced an average net interest cost on the lot of 2.073% and a range from 1.98% to 2.18%. Indications immediately following the sale pointed to a very successful distribution—as dealers expressed it, the bonds were “going out the window” in a buying spree that evidenced wide acceptance, with investors showing little discrimination between issuing names and maturities. Initial yields ranged from 1.05% on the shortest bonds to 2.10-2.25% on the 1988-92’s.

In some respects these new housing bonds are unlike any other investment securities. Although individual issues are obligations of local housing authorities, they have the appearance of Federal Government bonds. They are not, however, guaranteed by the United States, and this fact has caused some confusion in the minds of nonprofessional investors. What is guaranteed is the annual contribution of the Public Housing Administration to the local housing authorities for the payment of principal and interest. Authority for these payments is found in the following paragraph in the Housing Act of 1949:

The faith of the United States is solemnly pledged to the payment of all annual contributions contracted for pursuant to this section, and there is hereby authorized to be appropriated in each fiscal year, out of

Textron, Inc. is also reported to be negotiating with local officials in Mississippi for a similar deal. If consummated, it would shift 55,000 spindles from its New England mills. If a mutually satisfactory agreement can be reached, no legal difficulties should be encountered inasmuch as a law (known as BAWI—Balance Agriculture with Industry), first enacted in 1936, revised and re-enacted in 1946, specifically authorizes Mississippi municipalities to vote bonds for industrial sites and buildings.

The Tennessee project is not the first time municipal funds have been used to attract new industry, but with the novel features described, it is a more advanced step than any taken hitherto. Apparently none of the laws of Fifth District states now permit municipalities to issue bonds for the purpose of obtaining or constructing industrial plant and equipment.

any money in the Treasury not otherwise appropriated, the amounts necessary to provide for such payments.

For practical purposes this arrangement should be as satisfactory to the investor as though the bonds were Government guaranteed. So far, little concern has been expressed over the requirement that Congress make annual appropriations to cover the PHA contributions. In addition, the bonds are secured by the pledge of the net revenues of the housing projects.

Interestingly, the Housing Act provides that these obligations, to finance low-rent housing or slum clearance projects, be exempt from Federal income taxes. Some analysts feel that this exemption by act of Congress is more secure as to the new housing bonds than it is on ordinary state and local issues. The new bonds are exempt also, with a few exceptions, from state income taxes imposed within the state of issue, and a particular advantage they enjoy over regular municipal bonds in a few states is exemption from certain local taxes.

Another attraction that these bonds hold for investors is, of course, their high quality. With tax exemption and Federal Government backing they will compete with the highest grade state and municipals. Lacking the direct guaranty of the Government and the superior marketability of Treasury bonds, they will have a yield differential over Treasury obligations. Still another feature is the geographic and maturity diversification they afford investors. For example, all housing authorities in the Fifth District participating in this issue, offered serial maturities extending from 1953 to 1991. Fifth District cities represented were Aiken and Spartanburg, S. C. and Asheville, Concord, and Kinston, N. C.

Business Conditions and Prospects

DIVERGENT trends are occurring in the industrial activity of the Fifth District. Durable goods industries based on metals and located largely in Maryland and West Virginia have continued an uninterrupted rise up to late July. Nondurable goods industries and the durables based on wood products, located mainly in the Carolinas and to some extent in Virginia, have been trending downward. Thus the northern portion of the District is showing a rising trend of activity, while the southern portion exhibits a downward trend.

Manufacturing employment levels continued to rise through May, the latest month of record, but there has been a setback during June and July, resulting from cutbacks in textile, hosiery, apparel, and bituminous coal. These setbacks may well be temporary and tied in with the uncertainties engendered by the debate over extension of the Defense Production Act, the large cotton crop and lower staple prices, and the timing and extent of the retail trade recovery.

June department store trade (adjusted) held at May levels and current indications are that July will show a considerable rise, again on an adjusted basis. This is an important development at this present time, for much of the inactivity in the soft goods industries of this District has resulted from the downward adjustment in the trade level experienced in the early part of the year. A rising trade level would create new business for the textile industries of this District and produce fuller operations.

Bank debits adjusted declined slightly (2%) from May to June and thus interrupted one of the sharpest rises in this measure of economic activity ever witnessed. In contrast with this performance business loans dropped \$54 million or 8% between April 18 and July 18. This loss, however, was more than offset by a rise of \$87 million in Government security holdings. In this period of declining loans adjusted demand deposits have increased \$90 million and time deposits of individuals, etc., are up \$2 million.

Bituminous coal output in June more than regained the loss experienced in May, while construction contract awards receded substantially from their all-time peak in May. Cotton consumption fell 2% more than seasonal but continued 20% ahead of a year ago. Department store sales held at May levels, retail furniture sales in June continued the improvement indicated during May, and wholesalers' sales, except for dry goods, showed little change from May adjusted levels.

Trade

Department store sales (adjusted) in this District held at the same level in June as recorded in May and were 1% ahead of June 1950. Weekly reports to July 21 make it doubtful that total sales for the month will equal

those for July 1950. It must be noted that in July a year ago there was a very substantial rise in the adjusted department store trade level. June sales relative to a year ago showed increases in women's and misses' coats and suits, silverware and jewelry, floor coverings, radios, television, etc., and basement sales. Principal offsets to these gains were declines in major household appliances, women's and misses' dresses, and women's accessories.

Department store stocks, seasonally corrected, rose 4% from May to June to a level 24% ahead of a year ago. Heavy stock positions continued to be maintained in women's and children's shoes, corsets and brassieres, furniture, major household appliances, housewares, and radios and television.

Passenger car registrations in the District during May declined 5% from April to a level 10% below a year ago. This was about in line with declining production. May registrations were higher than any other years of record except 1950 and 1941. Commercial car registrations rose 7% from April to May but were 3% below a year ago. May figures were the same as in that month in 1947, though 8% smaller than in 1948 and 3% smaller than in 1950.

Retail furniture store sales adjusted rose 10% from May to June but were 2% lower than in June 1950. Cash sales declined 8% during the month while credit sales rose 13%. Receivables held steady, collections rose 4% and inventories declined 3%.

Sales of dry goods by wholesalers dropped 14% on an adjusted basis from May to June but were still 5% ahead of a year ago. This dollar decline resulted from the uncertainties which have been injected into the textile pricing picture and the pending adjustments necessitated by the prospect of a large cotton crop. Other lines of wholesale trade from May to June showed either small rises or small losses with practically all lines running well ahead of June last year.

Construction

Contract awards in June dropped 82% from their all-time peak in May to a level somewhat below the seasonally adjusted April figure. Total awards in June were 25% ahead of June 1950. Residential awards continued their downward trend by dropping 9%, on an adjusted basis, from May to a level 7% below a year ago. Congressional committee action calls for a relaxation in credit controls on housing and, if these relaxations are enacted into law, they may halt the decline in residential construction.

Numerous new plants and expansions were announced during June, of which the most prominent are a \$5.8 million expansion of Halifax Paper Company, Roanoke

Federal Reserve Bank of Richmond

Rapids, North Carolina; \$2 million office addition, Virginia Electric and Power Company, Richmond, Virginia; \$1 million improvement program of Chesnee Mills, Chesnee, South Carolina; \$1 million research laboratory of R. J. Reynolds Tobacco Company at Winston-Salem, North Carolina; \$2 million textile plant at Kilburn Mills at Tryon, North Carolina.

Low rent housing projects, running from \$3 to \$4 million each, have been announced, two in Norfolk and two in Richmond, and numerous expansions in military facilities have likewise been announced. Expenditures on military facilities should bulk large during the next twelve months and materially augment the overall construction level in this District; and the same result will occur if relaxation in housing credit takes place.

Lumber and Furniture

Good weather and less intense demand in the lumber market have caused lumber production in this District to run well ahead of shipments; these, in turn, have run ahead of new orders for the past two months. Both hard woods and soft woods are in a weaker position, though relaxed housing credit could change this situation quickly. If controls are maintained, some further softening would probably occur in lumber prices and some mills go out of production.

Shipments of furniture from Southern factories dur-

ing May (latest month of record) declined 4% after seasonal adjustment from the April level. New orders during the month rose 21% but were still insufficient to prevent a drop of 21% in unfilled orders. Considerable improvement in business written at the New York Furniture Show was surprising in view of the substantial letdown witnessed at the Chicago Shows. Furniture sales at retail in this District may still be considered at a good level and some downward adjustment has been made in retail furniture inventories. Accounts receivable are trending downward and collection ratios are improving. Prospects for the furniture industry now appear better than indications of a month or two ago.

Textiles

Although the June level of cotton consumption in District mills declined only 2% (seasonally adjusted basis) from May to June and were still 20% ahead of a year ago, the situation in July changed substantially. Proposed temporary extension of the Defense Production Act has left the price control situation hanging in mid-air. As a consequence, new business which began to appear late in June, has since practically dried up, pending a clarification of the pricing situation. The cotton goods inventories situation at the retail level is hardly as burdensome as many reports would seem to indicate.

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DEBITS TO INDIVIDUAL ACCOUNTS					51 REPORTING MEMBER BANKS—5TH DISTRICT			
	(000) omitted				(000 Omitted)			
	June 1951	June 1950	6 Months 1951	6 Months 1950	ITEMS	July 18, 1951	June 13, 1951	July 12, 1950
Dist. of Columbia					Total Loans	\$1,159,368**	-20,143	+199,678
Washington	\$ 1,097,041	\$ 925,305	\$ 6,385,810	\$ 4,942,236	Business & Agricultural	551,077	-24,480	+126,512
Maryland					Real Estate Loans	234,021	- 6,543	+ 1,764
Baltimore	1,252,493	1,113,489	7,410,070	6,023,316	All Other Loans	388,715	+11,105	+ 73,785
Cumberland	26,418	25,555	148,913	130,512	Total Security Holdings	1,660,799	+89,593	- 96,482
Frederick	22,767	19,604	123,987	104,538	U. S. Treasury Bills	176,367	+57,472	+ 79,254
Hagerstown	34,982	29,934	194,102	161,056	U. S. Treasury Certificates	46,395	+46,395	- 36,689
North Carolina					U. S. Treasury Notes	356,171	-11,504	+ 42,182
Asheville	62,833	52,576	357,499	292,325	U. S. Treasury Bonds	913,568	- 6,477	-192,320
Charlotte	331,191	280,467	2,023,938	1,584,199	Other Bonds, Stocks & Secur.	168,298	+ 3,707	+ 11,091
Durham	100,196	90,110	586,880	481,661	Cash Items in Process of Col.	242,007	-24,530	+ 514
Greensboro	104,447	86,612	611,434	480,865	Due from Banks	183,972*	-41,762	- 1,565
Kinston	16,583	12,171	95,692	74,438	Currency and Coin	70,781	- 3,666	- 1,297
Raleigh	227,776	142,067	1,005,902	814,064	Reserve with F. R. Banks	542,109	- 1,969	+ 95,092
Wilmington	46,572	35,670	253,976	195,175	Other Assets	53,148	- 2,821	+ 1,250
Wilson	16,430	13,035	108,374	82,514	Total Assets	3,912,184	- 5,298	+197,190
Winston-Salem	177,314	143,425	991,818	803,863	Total Demand Deposits	3,017,145	-16,395	+180,717
South Carolina					Deposits of Individuals	2,256,310	-34,897	+ 90,882
Charleston	76,767	64,751	446,661	365,859	Deposits of U. S. Government	110,075	+16,880	+ 23,985
Columbia	129,786	109,124	751,968	614,299	Deposits of State & Loc. Gov.	174,153	- 4,029	+ 25,305
Greenville	116,792	92,918	673,902	515,367	Deposits of Banks	425,466*	+ 6,537	+ 30,365
Spartanburg	66,197	49,119	401,020	288,688	Certified & Officers' Checks	51,141	- 886	+ 10,180
Virginia					Total Time Deposits	617,928	+ 9,862	+ 1,703
Charlottesville	28,081	24,290	161,530	138,973	Deposits of Individuals	555,295	+ 3,353	- 14,504
Danville	31,052	24,528	179,185	141,395	Other Time Deposits	62,633	+ 6,509	+ 16,207
Lynchburg	47,419	41,420	280,323	229,252	Liabilities for Borrowed Money	500	- 1,300	- 3,700
Newport News	43,832	31,191	251,332	171,349	All Other Liabilities	28,670	+ 2,730	+ 6,774
Norfolk	228,256	190,299	1,285,505	1,236,767	Capital Accounts	247,941	- 195	+ 11,696
Portsmouth	26,709	22,570	150,658	124,422	Total Liabilities	\$3,912,184	- 5,298	+197,190
Richmond	595,192	495,588	3,272,601	2,886,848				
Roanoke	118,477	108,502	678,563	569,155				
West Virginia								
Bluefield	49,058	46,169	282,999	238,241				
Charleston	155,883	131,978	910,171	738,924				
Clarksburg	34,026	31,381	207,404	171,767				
Huntington	67,030	59,852	400,080	336,641				
Parkersburg	32,475	28,353	182,976	151,123				
District Totals	\$ 5,364,075	\$ 4,522,053	\$30,815,273	\$25,039,832				

* Net figures, reciprocal balances being eliminated.

** Less Losses for bad debts.

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

	June 1951	May 1951	April 1951	June 1950	% Change—Latest Month	
					Prev. Mo.	Year Ago
Automobile Registration ¹ .....	.....	202	213	275	— 5	— 10
Bank Debits	423	430	430	355	— 2	+ 19
Bituminous Coal Production	165	134	154	154	+ 23	+ 7
Construction Contracts Awarded	508	2773	558	408	— 82	+ 25
Business Failures—No.	86	45	62	86	+ 91	0
Cigarette Production	242	253	233	239	— 4	+ 1
Cotton Spindle Hours	160	162	149	138	— 1	+ 16
Department Store Sales	331	331	326	327	0	+ 1
Electric Power Production .....	.....	330	332	300	— 1	+ 10
Employment—Manufacturing Industries ¹ .....	.....	150	149	140	+ 1	+ 7
Furniture Manufacturers: Shipments .....	.....	326	341	293	— 4	+ 2
Life Insurance Sales	289	289	281	290	0	0

¹ Not seasonally adjusted.
Back figures available on request.

WHOLESALE TRADE

LINES	Sales in June 1951 compared with		Stocks on June 30, 1951 compared with	
	June 1950	May 1951	June 30 1950	May 31 1951
Auto supplies (10)	—15	— 7	+32	— 1
Electrical goods (4)	+16	+15	—	—
Hardware (12)	+ 4	— 9	+47	+ 3
Industrial supplies (6)	+26	—10	+29	+ 8
Drugs & sundries (11)	+10	— 5	+14	+ 2
Dry goods (14)	— 6	—15	+28	+ 6
Groceries (50)	0	— 4	+18	— 3
Paper & products (4)	+37	+ 5	—	—
Tobacco & products (10)	+11	— 1	+24	+ 3
Miscellaneous (91)	— 3	+ 3	+48	+ 4
District Totals (212)	+ 1	— 2	+38	+ 3

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

RETAIL FURNITURE SALES

STATES	Percentage comparison of sales in periods named with sales in same periods in 1950	
	June 1951	6 Mos. 1951
Maryland (7)	— 5	— 3
District of Columbia (7)	— 5	+ 9
Virginia (18)	—11	— 2
West Virginia (10)	— 6	— 4
North Carolina (14)	— 5	— 5
South Carolina (6)	+42	+ 1
District (62)	— 4	+ 1
INDIVIDUAL CITIES		
Baltimore (7)	— 5	— 3
Washington, D. C. (7)	— 5	+ 9
Richmond, Va. (6)	—23	—10
Charleston, W. Va. (3)	— 7	— 8
Charlotte, N. C. (3)	+ 3	—13

Number of reporting firms in parentheses.

DEPARTMENT STORE OPERATIONS
(Figures show percentage change)

	Rich.	Balt.	Wash.	Other Cities	Dist. Total	
Sales, June '51 vs. June '50	+ 4	+ 1	+ 1	+10	+ 5	
Sales, 6 Mos. '51 vs. 6 Mos. '50	+11	+ 8	+ 7	+ 8	+ 8	
Stocks, June 30, '51 vs. '50	+20	+28	+24	+15	+23	
Orders outstanding,						
June 30, '51 vs. '50	+24	+27	—13	— 4	+ 6	
Current receivables June 1						
collected in June '51	26	47	44	37	39	
Instalment receivables June 1						
collected in June '51	11	16	19	16	16	
Sales June '51 vs. June '50						
	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
	+ 1	+ 1	+ 7	+ 2	+ 7	+25
Sales, 6 Mos. '51 vs. 6 Mos. '50	+ 8	+ 7	+10	+10	+ 4	+11

BUILDING PERMIT FIGURES

	June 1951	June 1950	6 Months 1951	6 Months 1950
Maryland				
Baltimore	\$ 6,377,255	\$ 6,212,440	\$ 41,448,400	\$ 45,851,580
Cumberland	56,800	49,950	434,285	641,740
Frederick	157,625	107,205	968,260	1,337,155
Hagerstown	145,550	173,505	991,150	948,085
Salisbury	73,555	173,060	948,099	811,977
Virginia				
Danville	198,203	305,351	1,443,925	1,781,703
Lynchburg	197,819	684,935	2,050,747	2,296,530
Newport News	84,431	144,789	781,960	1,023,055
Norfolk	863,440	1,167,045	10,239,148	7,764,250
Petersburg	675,992	326,288	2,238,100	2,064,983
Portsmouth	173,765	209,510	3,843,280	1,672,419
Richmond	1,373,697	3,126,918	9,892,949	12,755,489
Roanoke	3,616,960	1,670,467	11,474,858	10,517,974
West Virginia				
Charleston	421,698	640,761	2,654,134	8,257,074
Clarksburg	186,057	68,575	650,547	846,848
Huntington	625,836	610,640	4,136,430	3,176,943
North Carolina				
Asheville	432,587	358,373	3,853,775	2,298,669
Charlotte	1,336,153	3,550,364	11,883,564	15,238,424
Durham	260,560	683,981	2,862,063	9,689,268
Greensboro	630,623	1,646,828	4,361,719	6,641,114
High Point	236,680	329,280	1,781,394	2,057,852
Raleigh	472,869	596,144	6,654,394	8,641,785
Rocky Mount	78,974	265,732	1,503,160	2,515,618
Salisbury	90,940	256,228	782,531	1,896,574
Winston-Salem	6,334,188	1,620,778	11,518,612	6,563,349
South Carolina				
Charleston	103,265	238,544	905,724	1,717,727
Columbia	3,346,565	524,481	8,517,017	5,898,277
Greenville	407,150	609,020	6,529,379	3,740,949
Spartanburg	178,700	213,099	704,940	1,916,046
Dist. of Columbia				
Washington	3,749,273	8,770,481	33,931,271	37,811,664
District Totals	\$32,887,210	\$35,339,779	\$189,980,815	\$208,375,121

ADDITION TO PAR LIST

The Bank of Dahlgren, Inc., Dahlgren, Virginia, a newly chartered nonmember bank located in the territory served by the Richmond Head Office, has agreed to remit at par, effective July 18, for checks drawn on it when received from the Federal Reserve Bank. The combined A.B.A. transit number-routing symbol of the bank is 68-737-514.

Federal Activity in Residential Mortgage Lending

Continued from page 4

tional mortgages. At that time the authorization was increased to \$2,750 million, and further advance commitments to purchase were prohibited. Since then, FNMA has in general limited acquisitions to over-the-counter purchases of mortgages held by investors for at least two months, on which insurance was written within twelve months of the time of purchase. On June 29, 1951, FNMA further restricted purchases to mortgages insured on or after March 1, 1951. Outstanding commitments, which amounted to only about \$53 million at the end of June, are still being met. These commitments were almost entirely on multi-family mortgage loans.

Other Federal Agency Activity

No other Federal agency handles nearly the volume of residential mortgages that are insured or guaranteed by FHA or VA, or purchased and sold by FNMA. Next in importance are the direct lending and subsidy activities of the Federal Government, largely concentrated in the Public Housing Administration.

The PHA centers its activity in the low-rent public housing program which has been in operation since 1937, and which was expanded materially by the Housing Act of 1949. The PHA makes loans with a maturity of as much as sixty years to local housing authorities, and in addition provides annual contributions which serve to keep the rents within the means of low-income families.

The PHA is also responsible for the management and disposition of Federally-owned war housing, certain

temporary housing accommodations for distressed veterans, and other similar programs.

The only Federal agency apart from FNMA which holds any sizeable volume of home mortgage loans is the Reconstruction Finance Corporation, which held \$92 million of home mortgage loans at year end 1950. This represents mortgages bought by the RFC Mortgage Company (taken over by the RFC in 1947) and are now being liquidated.

As part of its lending activities, the RFC makes loans to financial institutions, which in the case of primary mortgage lenders serve to provide funds for home financing. During the last twelve years very few requests for RFC assistance have been made by financial institutions; most of the advances in this category were made prior to 1939, and have been in the process of liquidation since that date.

Several other Federal agencies hold small amounts of home mortgages or contribute in other ways to the flow of home mortgage credit. One of the more important is the Federal Home Loan Bank System, which makes advances to primary mortgage lenders (principally Savings and Loan Associations). The net increase in such advances in 1950 was \$383 million and the amount outstanding at year end was \$816 million. Although advances by the Federal Home Loan Banks declined during the first quarter of 1951, new advances made in the second quarter brought the level to \$816 million on June 30, showing no net change for the first half of the year.

Business Conditions and Prospects

Continued from page 10

If the trade level resumes its upward trend, a substantial volume of new business can be confidently expected. Numerous mills have recently cut back as much as 50% of their previous working time and others are closing down completely for specified periods.

The new cotton crop should be at least 16 million bales and may run considerably higher, and cotton prices may drop to support levels, around 33¢ a pound. This gives an additional impediment to nearby sales of cotton goods and yarns since spot cotton has been about 4¢ a pound above this level. These, however, are temporary factors and should be out of the way during the current month.

The price structure in the hosiery industry is still soft and operations have been cut back considerably. As early as May the full fashioned hosiery industry in North Carolina was operating on a 34.4-hour week, and the seamless industry was operating only 29.7 hours. While employment levels have been cut back seasonally, they are still about even with a year ago. Retail hosiery stocks are about normal in this District and sales are holding up well. It seems likely that the industry's

cutback has about run its course and higher operations should be witnessed in the remaining months of the year.

Apparel manufacturers in the work clothing division have reduced operations pending a better level of demand at the retail level. Increased demand should be forthcoming in the months ahead and bring forth a better volume of business to the manufacturers. Lower costs occasioned by the reduced prices of cotton will be a further stimulating factor.

Bituminous Coal

Production in the District, after seasonal correction, rose 23% from May to June and was 7% ahead of June 1950. This 7% increase in production was accomplished with 4,400 fewer workers than a year ago.

Export demands are rising and indications are that exports will total more than 30 million tons during the current year. The tense oil situation in the Middle East and the sharp rise in the domestic price of Bunker C oil have caused and will cause further shifts from oil to coal consumption. The outlook for the coal industry is favorable.