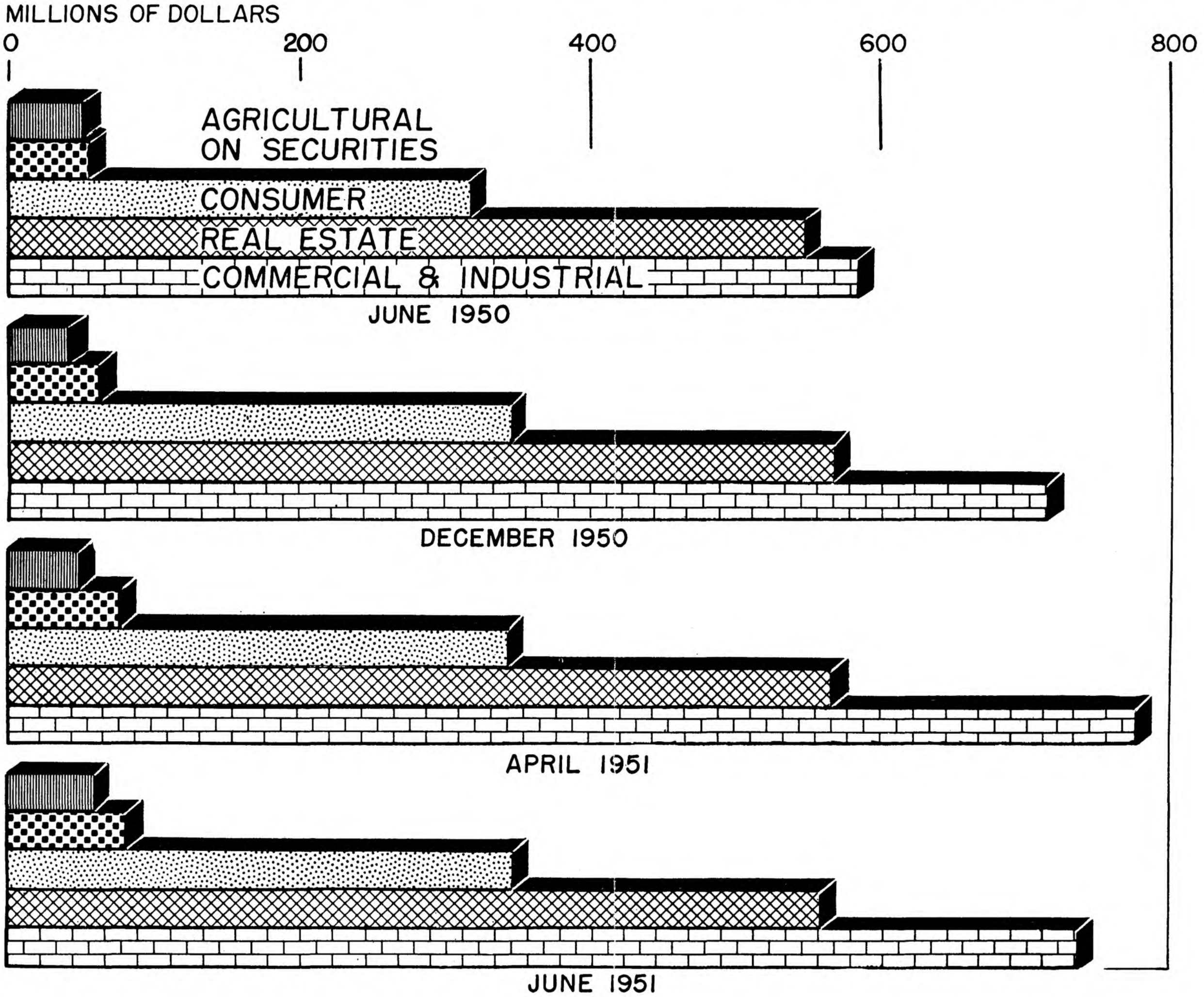
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

SEPTEMBER 1951

FIFTH DISTRICT MEMBER BANK LOANS

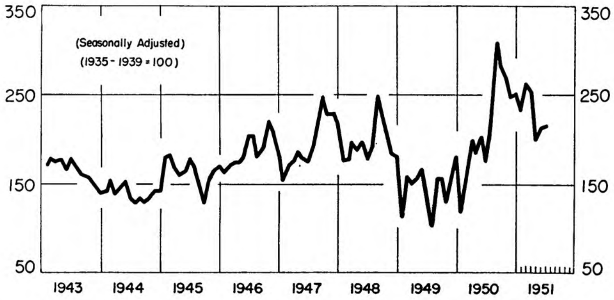


DESPITE the sharp reversal in the trend of business loans in the second quarter, shown by the above chart, net loans at midyear were up 15.5% from a year ago and largely accounted for the record gross earnings of Fifth District member banks. Higher taxes, however, brought net profits after taxes below first half 1950 levels. These and other developments are analyzed in the article beginning on page 4.

Also In This Issue - - - -

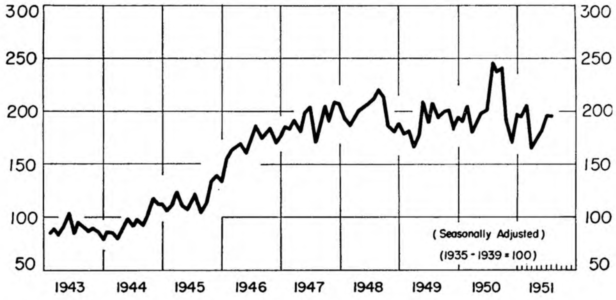
FIFTH DISTRICT TRENDS

WHOLESALE DRY GOODS



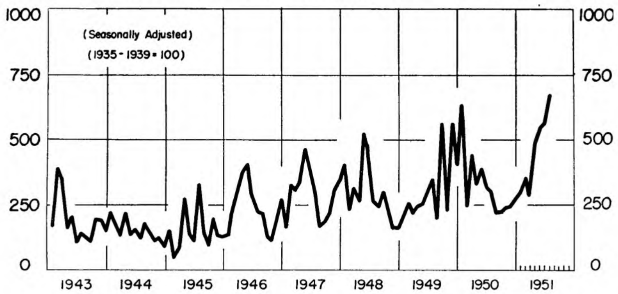
Wholesalers' sales of dry goods rose 17% after seasonal correction during the month of July to a level 3% ahead of a year ago. These sales currently are considerably below where they were last fall, or earlier this year, but they are still what might be termed a high area.

RETAIL FURNITURE SALES



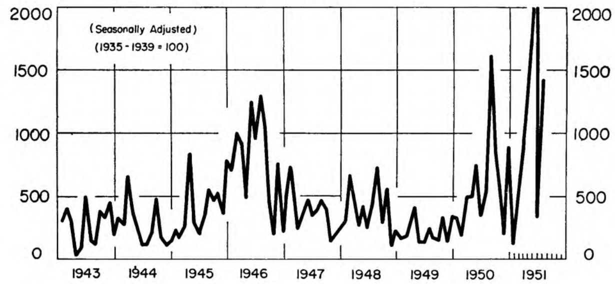
Retail furniture net sales made no gains during July from the previous month after seasonal adjustment but were down 20% from the same month in 1950, the decline chiefly being caused by the scare buying sales of last summer.

BUILDING CONTRACT AWARDS-PUBLIC WORKS AND UTILITIES



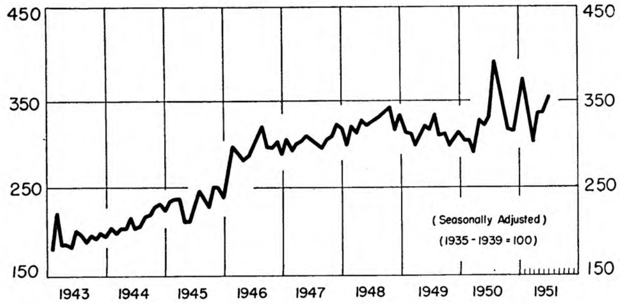
Contract awards for public works and utilities in July rose 19% (adjusted) from June and stood 126% ahead of July, 1950. The bulk of this work is in expansion of public utilities facilities. There has been a sharp upward trend in this type of construction over the past year, and with the tight situation in structual steel, it might be that some slowdown may be necessitated.

BUILDING CONTRACT AWARDS-MANUFACTURING



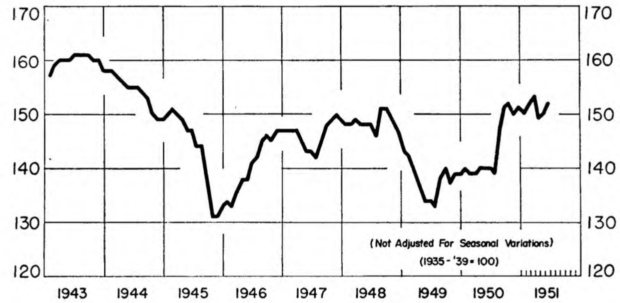
Construction contract awards in July rose 309% above those in June to a level 173% above a year ago. A large backlog of this type of construction exists, and work on these projects will require many employees and continue for many months.

DEPARTMENT STORE SALES



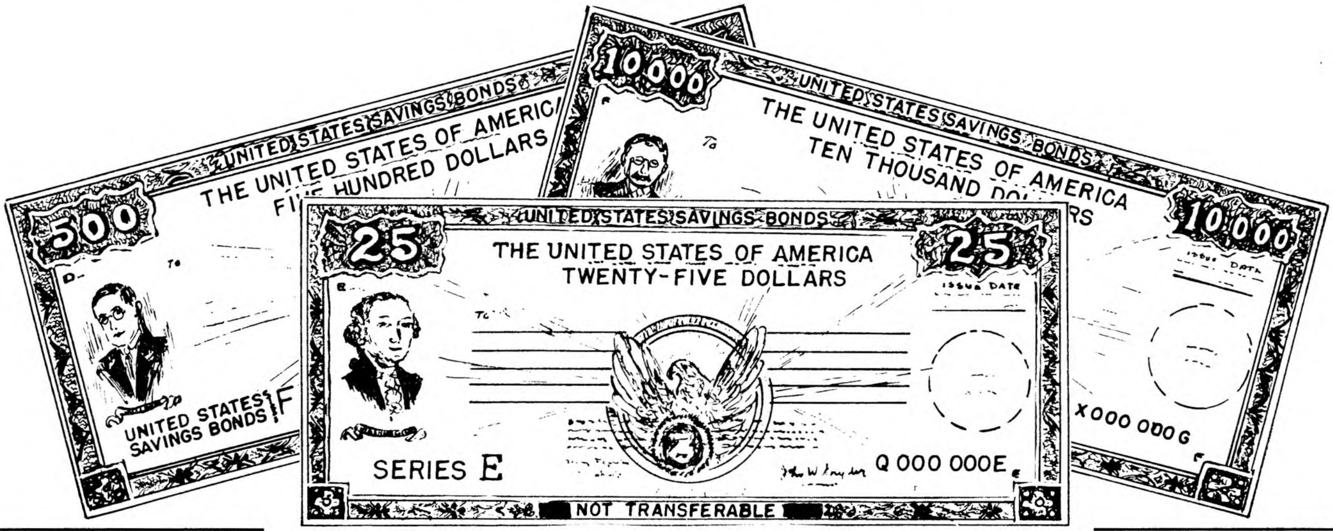
Department store sales in this District rose 6% after seasonal correction from June to July and made a very good showing of only a 10% reduction against July, 1950, when sales were inordinately high because of the scare buying wave. The drop in sales from a year ago and the general downward trend in total retail sales has been due mainly to hard goods.

MANUFACTURING EMPLOYMENT



Manufacturing employment in the Fifth District backed up in June the latest figures available but has in the main been on a flat level during much of the first six months. Non-manufacturing employment, on the other hand, has shown a substantial rise with construction and Government accounting for the greater part.

The Savings Bond Drive



The United States Treasury is again in the midst of a Savings Bond Drive (scheduled dates—September 3 through October 27), the success of which can aid greatly in preventing a resurgence of inflation in coming months, as well as provide funds for the heavy and rising Defense Program.

The Federal Reserve Bank of Richmond not only endorses the fiscal soundness of this Savings Bond Program, placing the debt as it does outside the banking system, but feels that in their own interest bankers, businessmen and the general public should lend their full support to the drive.

The banking system is interested in this program for many reasons, primarily since it can contribute toward relieving inflationary pressures on the economic system occasioned by the large expenditures necessary for rearmament. It is also in harmony with Federal Reserve policies designed to accomplish the same purpose.

Savings Bonds Vs. Inflation

Because of the recent moderate decline in the commodity price level, many have considered that inflation as a national problem has been eliminated. This can hardly be the case. In the current fiscal year, defense expenditures will probably run between $40 and $50 billion, and in subsequent years considerably higher. Their impact on business is likely to be felt strongly in the next two fiscal years.

Since such expenditures dispense income to the people and bring forth no offsetting supply of consumer goods, they will create strong inflationary pressures.

Any measures which can be taken to alleviate these pressures are useful, and the Savings Bond Drive is of primary importance in this respect. Savings Bond purchases, particularly among the rank and file of wage and salaried workers, defer a part of their purchasing power, and thus prevent market-place bidding now for goods and services in relatively short supply. The heavy military expenditures to which the nation is committed might well be spent futilely if the economy is either temporarily or permanently weakened by inflation.

Why Bankers Should Back the Drive

Bankers are certainly interested in a sound currency. The arguments currently advanced against the purchase of Savings Bonds can be applied with equal emphasis to time and savings deposits, currency, checking accounts, life insurance policies, and pension funds. No purpose is served in deploring the "54-cent dollar" while abstaining from the Savings Bond Drive, for to do so could hasten the advent of a "smaller" dollar.

Why Individuals Should Buy Savings Bonds

Financial history indicates that families are in a much better position when they have a "nest egg" to cover adverse contingencies. Here the Savings Bond Program performs in admirable fashion, for it is essentially cash bearing interest; it can provide an investment program for the rank and file of small savers, with a higher yield than other fixed income obligations of similar quality. They can be cashed at any time after 60 days, or may be allowed to run for 20 years, with no need for checking on market values.

In summary, the national defense should and must be provided for—logically both by heavier taxation and intelligent borrowing by the Treasury, with the borrowing done in a manner that keeps the national economy strong and relatively stable instead of by means contributing to the undesirable effects of inflation. Encouraging the sale of these bonds will strengthen the financial position of millions of Americans and place them later in a position to be active consumers when the economy needs consumers.

Banking Developments in the First Six Months of 1951

Higher net earnings from current operations of Fifth District member banks for the first half of 1951, largely due to increased earnings on loans, were more than offset by the heavy impact of higher taxes, which brought net profits after taxes to 3.2% below the same period last year. Net profits of $18.7 million represented a return on capital of 8.6% (on an annual basis) as compared with 9.5% for the first half of last year. For all member banks throughout the nation, net returns averaged 7.8% for the first half of this year as compared with 8.5% for the same period last year.

Taxes on net income of Fifth District member banks were up 46.5%—more than $4 million—from first half 1950. Whereas these taxes took 41 cents of each dollar of profits before income taxes in the first six months of 1951, they took 31 cents in the similar period in 1950. This tax increase was due to a number of factors, among them: larger bank income, increased tax rates, the new excess profits tax, and tax accrual in anticipation of further tax increases.

Gross earnings of member banks in the Fifth District reached their highest peak in the first half of 1951—exceeding $81 million, or 9.4% above the first six months of 1950. Dominant factor in this increase was earnings on loans, which accounted for more than 55% of total earnings for the period. The larger loan volume, which continued to increase from January to mid-April, along with increased rates on loans, accounted for virtually all of the $7 million rise in gross earnings for the first six months.

Interest and discounts on loans rose $6.5 million, or 16.9%, over the same period in 1950. Interest on United States Government securities continued the downward trend in the first half of the year, due to the declining amount of these securities held by member banks, and showed a decrease of 4.3% from the same period of last year. All other earnings increased by 8.7% over the first half of 1950.

Current expenses of member banks in the Fifth District advanced to $48.5 million in the first half of 1951 or $3.9 million above the same period the previous year. Since banks were able to increase total earnings (up 9.4%) at a faster rate than the increase in expenses (8.8%), net current earnings increased more than gross and were 10.3% above first half 1950. Net current earnings before income taxes rose more than $3 million in the first half of 1951 over the same period for the previous year. After a small decrease in recoveries, profits, and transfers from valuation reserves and a larger decrease in losses, charge-offs, and transfers to valuation reserves, profits before income taxes were up almost $3.5 million, or 12.3%.

The increase of more than $4 million in taxes on net income wiped out the entire gain in profits before taxes, with the result that profits after taxes declined 3.2%—from $19.3 million in first half 1950 to $18.7 million in first half 1951.

Cash dividends of almost $6.5 million were declared by Fifth District member banks for the first half of 1951—barely half the amount paid in taxes on net income. Interestingly, banks paid a slightly larger dollar amount in dividends than they did a year earlier and the decrease in profits after taxes was thus reflected in lower retained earnings.

MEMBER BANK EARNINGS, FIFTH DISTRICT
FIRST HALF 1950 AND 1951
(Dollar amounts in thousands)

	First Half 1950	First Half* 1951	Per Cent Change
Earnings	74,443	81,424	+ 9.4
Interest and dividends on U. S. Government securities	20,394	19,529	— 4.3
Interest and discount on loans	38,611	45,118	+16.9
All other earnings[1]	15,438	16,777	+ 8.7
Expenses	44,603	48,513	+ 8.8
Net current earnings before income taxes	29,840	32,911	+10.3
Recoveries, profits, and transfers from valuation reserves[2]	2,291	2,225	— 2.9
Losses, charge-offs, and transfers to valuation reserves[3]	4,074	3,619	—11.2
Profits before income taxes	28,057	31,517	+12.3
Taxes on net income	8,758	12,828	+46.5
Net profits	19,299	18,689	— 3.2
Cash dividends declared[4]	6,190	6,452	+ 4.2
Net profits after dividends	13,109	12,237	— 6.7

[1] Includes service charges and other fees on banks' loans.
[2] Recoveries credited to valuation reserves not included.
[3] Losses charged to valuation reserves not included.
[4] Interest on capital notes and debentures, and dividends on preferred stock estimated and included.
*Preliminary.

Loans

Despite a loan increase of $85 million by Fifth District member banks in the first quarter (to the highest point on record), they fell $24 million in the second quarter and showed the smallest half year percentage gain (3.1%) since the end of World War II, except for first half 1949. Many factors contributed to the decline in the volume of loans held by Fifth District member banks, including: open market operations, high reserve requirements, selective credit controls, the program for voluntary credit restraint, normal seasonal reductions in many lines, and the fact that many businesses which normally would be borrowing were instead liquidating their inventories and paying off loans.

The slackening loan volume in this District after mid-April centered in business loans. Commercial and industrial loans, which showed a counter-seasonal rise of $61 million in the first quarter, declined $40 million from April 9 to June 30. They were, however, up $158 million, or 27.2%, from a year earlier. If the $32 million

LOANS AND DISCOUNTS FIFTH DISTRICT MEMBER BANKS (Dollar amounts in millions)	June 30, 1950	Dec. 30, 1950	April 9, 1951	June 30, 1951*
Commercial and industrial loans	581	718	779	739
Loans to farmers	55	43	54	61
Loans to brokers and dealers in securities	13	12	9	9
Other loans for purchasing or carrying securities	45	57	64	68
Real estate loans:				
On farm land	44	45	45	47
On residential property	376	389	380	375
On other properties	129	136	143	139
Instalment loans to individuals:				
Retail automobile paper	107	117	115	117
Other retail paper	36	46	47	46
Repair and modernization loans	23	24	24	24
Cash loans	70	74	74	74
Single-payment loans to individuals:				
Less than $3,000	81	84	85	88
$3,000 and over	139	158	165	171
Loans to banks	3	2	4	6
All other loans	50	58	61	63
Loans—Gross	1,752	1,962	2,048	2,024
Reserves	19	21	22	22
Loans—Net	1,733	1,941	2,026	2,002
Number of banks	478	477	477	475

Data may not add to totals because of rounding.
* Preliminary.

increase in single-payment loans to individuals of $3,000 and over (which are largely business loans) is included, about 71% of the increase in total loans for the one-year period was in business loans.

Real estate loans, which topped out for Fifth District member banks at year end 1950, continued to decline during the second quarter. The $9 million decline during the first half of the year contrasts sharply with first half increases ranging from $40 million to $60 million for all years since World War II, with the exception of 1949. The mortgage loan decline reflects the effects of recent open market operations, materials allocations, and the fact that Regulation X appears to be taking hold, as well as the fact that for some time many banks have felt that their mortgage portfolios were large enough. All of the decline in real estate loans in the first half year occurred in residential mortgages; holdings of other mortgages showed slight net increases for the first half.

The effectiveness of Regulation W, in conjunction with general credit controls, was reflected by consumer borrowing at Fifth District member banks. Consumer loans (excluding single-payment loans to individuals of $3,000 and over), which had remained constant in the first quarter, rose only $4 million in the second quarter. This moderate rise contrasts with a $44 million increase in first half 1950. All of the first half increase occurred in single-payment loans to individuals, which are not subject to Regulation W.

Loans to farmers rose by 13% to $61 million in the second quarter; the increase for the entire first half was 41.9%. The half year increase ($18 million) was the largest in dollar amount for any half year in the postwar period, although the percentage increase was exceeded in both 1947 and 1948.

Loans for purchasing and carrying securities rose 5.5% in the second quarter to a level of $77 million. All of the increase occurred in other loans for purchasing or carrying securities; loans to brokers and dealers in securities remained constant.

Securities

Holdings of United States Government obligations, which declined $171 million in the first quarter, rose $19 million in the second quarter. At $2,293 million holdings of Governments were down 7.2% from a year ago, and 6.2% below year end holdings. There was no very decided shift during the second quarter in the pattern of maturities, although total holdings of Treasury bills, certificates, and notes increased proportionately more than did the longer term issues. The small rise in Government obligations held by member banks in the Fifth District in the second quarter is the first noticeable trend upward since late 1949. Before the price decline in Governments late in the first quarter, banks had been joining with other investors in switching from Governments to other, higher yielding assets. The lower price of these securities, together with other factors, seems to have imposed a sufficient penalty on the sale of Governments to reverse this tendency to switch into loans. As of April 9, loans comprised 43.8% and Governments 49.1% of total loans and investments; on June 30, the percentages were 43.3% in loans and 49.6% in Government securities.

Holdings of non-Government securities, which had declined $9 million in the first quarter from the record $336 million held at year end 1950, rose $2 million from April 9 to June 30. At $329 million holdings of non-Government securities were 10.8% above holdings on June 30, 1950.

Reserves

Reserves, cash, and bank balances of Fifth District member banks fell by $103 million in the six months' period from December to June, notwithstanding a $63 million increase in the amount of reserves carried with the Federal Reserve Bank. The largest decrease for the period was in balances with banks ($84 million), although cash in vault and cash items in process of collection showed appreciable declines. For the one-year period from June 30, 1950 to June 30, 1951 primary reserves of member banks rose 12.4%, accounted for principally by an increase of $154 million (23.4%) in the amount of reserves held with the Federal Reserve Bank.

Liabilities

Demand deposits rose $11 million (0.2%) in the second quarter, a slightly smaller increase than that shown for the country as a whole. At $4,461 million demand deposits were up $271 million (6.5%) over the past year. Demand deposits of individuals and businesses were up $9 million in the second quarter; deposits of state and local governments and of banks increased by $27 million and $10 million respectively. U. S. Government deposits were down $31 million and miscellaneous demand deposits were off $6 million. Adjusted demand deposits at $3,540 million were virtually unchanged from April 9, but were up $171 million (5.1%) from a year earlier.

Total time deposits were up $11 million in the second quarter, although savings accounts of Individuals continued to decline counter-seasonally, and at $1,231 million were off $26 million (2.1%) from a year earlier. All other categories of time deposits continued to increase during the quarter.

Total capital accounts showed a net increase of $12 million for the entire half year, and at $438 million were up $23 million (5.5%) from a year earlier. At this level total capital accounts were equal to 7.55% of total deposits, up slightly from 7.50% a year earlier. For all member banks in the United States capital accounts at midyear were equal to about 7.7% of deposits, and had declined slightly relative to deposits since June 1950.

ASSETS AND LIABILITIES
FIFTH DISTRICT MEMBER BANKS
(Dollar amounts in millions)

ASSETS	June 30, 1950	Dec. 30, 1950	April 9, 1951	June 30, 1951*
Loans and investments	4,501	4,722	4,628	4,624
Loans (including overdrafts)	1,733	1,941	2,026	2,002
U. S. Government obligations	2,471	2,445	2,274	2,293
Other securities	297	336	327	329
Reserves, cash, and bank balances	1,408	1,686	1,556	1,583
Reserve with Federal Reserve Banks	658	749	780	812
Cash in vault	101	125	133	104
Balances with banks	348	445	369	361
Cash items in process of collection	301	367	275	307
Other assets	77	80	82	81
Total assets	5,986	6,489	6,266	6,288
LIABILITIES				
Demand deposits	4,190	4,693	4,450	4,461
Individuals, partnerships, and corporations	3,278	3,593	3,413	3,422
U. S. Government	136	120	227	196
States and political subdivisions	320	326	324	351
Banks	384	549	408	418
Certified and officers' checks, etc.	72	105	79	73
Time deposits	1,341	1,328	1,332	1,343
Individuals, partnerships, and corporations	1,257	1,235	1,234	1,231
U. S. Government and Postal Savings	30	31	32	35
States and political subdivisions	52	50	54	60
Banks	2	12	13	18
Total deposits	5,531	6,021	5,783	5,804
Borrowings	6	1	6	4
Other liabilities	35	40	39	42
Total liabilities	5,572	6,062	5,827	5,849
Total capital accounts	415	426	439	438
Total liabilities and capital accounts	5,986	6,489	6,266	6,288
Demand deposits adjusted	3,369	3,657	3,542	3,540
Number of banks	478	477	477	475

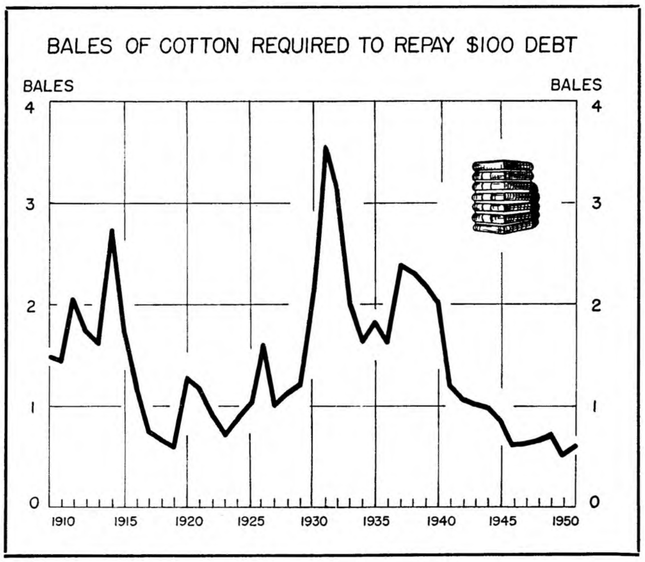
Data may not add to totals because of rounding.

* Preliminary.

Bumper Crops Mean High Farm Incomes In 1951

Fifth District farmers are harvesting a big crop. In some areas adverse weather has made it a difficult year in which to produce a crop. Labor has not been plentiful, and farm wage rates, though low compared with most industrial and other off-the-farm jobs, are, nevertheless, considerably higher than farmers ever before have paid. Other costs in the aggregate also have been higher than ever before.

But, despite these high costs and difficulties, farmers have had a real incentive to do their best in 1951. The slight softening that has recently been in evidence in some parts of the economy has been at least partially offset by continued evidence of strength in other sectors. On net balance the national economy is running in high gear, and appears likely to continue to do so for the foreseeable future. At current prices the gross output of goods and services was running at an annual rate of $329 billion in the second quarter of 1951. During the same period personal disposable income was at an annual rate of $225 billion. Demand for farm and nonfarm products for both domestic use and export is expected to continue strong over all though not uniformly strong for all products.



Thus, with prospects for a sustained high level of economic activity and the tonic of sharply higher prices of farm commodities ever since Korea, most farmers made an all-out effort to expand production in 1951. There has been the patriotic appeal for all-out production and farmers have been told that high-level production would be a genuine contribution to the nation's defense program. Acreage allotments for tobacco and peanuts were raised substantially from previous levels, while those for cotton were suspended for the year.

According to the August crop report, states of the Fifth Federal Reserve District have increased production of cotton by 152%, tobacco by 9%, and peanuts by 5% over 1950 levels. These three cash crops normally account for about three-fourths of the District's income from crops and around 45% of the total cash income from the sale of crops, livestock, and livestock products. A 7% smaller corn crop is in sight for this area. Increased production of other feed grains and hay, however, will about offset the decline in corn so that the total grain and hay production will be substantially the same as in 1950 and much above the 10-year average.

Higher Net Income in Prospect

Although some price weakness has recently been evident—especially in cotton—farm commodity prices generally are 12% higher than a year ago and 4% above parity. Most individual products, however, are still below parity. In fact, only 9 of the 43 commodities for which data are available are equal to or above parity. The larger marketings of crops this year will mean that gross cash income in the District will be considerably higher than last year. Through May cash income from the sale of farm products in Fifth District states was 20% above the corresponding period of 1950. In the case of livestock and livestock products, from which about 40% of the income is normally received in these five months, receipts this year were running 25% ahead of 1950. Although only 14% of the income from sale of crops is normally in hand by the end of May, income, up to that time, was running 13% higher than in 1950.

Indications are that rising gross farm income will materially exceed higher farm costs with a consequent increase in net farm income. Thus, even after repaying production loans, farmers as a group will have a substantial amount of money to use for other purposes. Some will go to repay farm debts or for investment in the farm business. Some also will go for improving the farm home, buying automobiles, major appliances, and other consumer durables and nondurables. It is expected that many farmers will take a substantial share of their larger 1951 net farm income and add it to their present working capital or savings. Both uses would be expected to strengthen their long-run competitive position and their capacity to withstand adversities.

Farm Products Have High Purchasing Power

Much is heard today of the existing 50-cent dollar. Farmers and others have been apprehensive over the general decline in the purchasing power of the dollar. Be that as it may, the economic position of farmers in the economy has improved in numerous respects, including their purchasing power. For example, during the period 1935-39 it would have taken eighteen bales of cotton to buy a one-and-a-half ton farm truck. At the current parity price for cotton, twelve and a half bales will buy the same sized truck. In terms of beef cattle, it would now take only 7,300 pounds of beef to buy the truck—again much less than in 1935-39 when 13,500 would have been required. Not all farmers, however, have been so fortunately affected by price changes—a dairy farmer, for example, would have to pay for a truck about the same amount of milk now as in 1935-39. For comparative purposes it might be noted that in 1939 it took well over a year for the gross wage of a fully employed southern cotton mill worker to equal the purchase price of a new car, whereas at the present time only 60% as many weeks work are required.

Farm commodities also have gained in purchasing power so far as debt repayment is concerned. For example, during the period 1935-39 two bales of cotton were required to repay a $100 debt. Last year only one-half a bale would do the job. Even with lower prices in prospect for 1951, only three hundred pounds of cotton at current parity prices would repay a $100 debt. So far as the twentieth century is concerned, 1919 and 1950 are the only two years in which less than three hundred pounds of cotton would have been required to repay a debt of $100.

Consideration also needs to be given to how much more it now costs to produce a crop than it did some years ago. Costs of things farmers buy have risen by varying amounts and sharp changes have also occurred in the relative importance of certain items.

The cost of fertilizer is currently only 50% higher than in 1935-39 while farm machinery prices are 97% higher than prewar and farm wage rates are nearly four times as high as in 1935-39. These figures partially demonstrate the wisdom of many farmers who have striven for higher yields by the liberal and wise use of fertilizer and who have purchased machinery as a means of reducing the necessary amount of hired labor.

Farm Debt Increasing

Since many farmers normally use borrowed funds to pay a considerable part of their production expenses, it is not surprising that the higher prices for items bought have been reflected in larger borrowings. The non-real-estate debt of Fifth District farmers has risen each year since 1945, when it totaled $61 million. By 1950 it had risen to $110 million and on January 1, 1951 totaled $120 million. Comparable data as of June 30 would show a considerably higher non-real-estate debt. The percentage share held by insured commercial banks has risen from about 40% in 1945 to 58% in 1951.

Farm-mortgage debt also has risen year by year since 1945. In this five- state area the aggregate farm-mortgage debt outstanding January 1, 1951, was $346 million. Insured commercial banks held $85 million of farm mortgages or one-fourth of the total. This compares with $38 million or 16% of the total in 1945.

Although the dollar amount of farm debt has increased, the relationship of debt to value of assets or to farm income has shown a decided reduction through time. For example, on January 1, 1940, the total mortgage and nonmortgage debt of Fifth District farmers was $336 million. This debt was equivalent to 62% of the previous year's cash returns from farm marketings. By 1951 the total debt was up to $465 million or 39% above 1940. However, income had risen at so much faster a rate than debt that the 1951 debt was only 25% of the corresponding 1950 farm income.

CROP PRODUCTION IN THE FIFTH DISTRICT 1951 AND COMPARISONS

Crop	Unit	1951 Production: Indicated August 1, 1951	% Change from: 1940-49 Average	% Change from: 1950
Tobacco:				
Flue-cured	Mil. lbs.	1,242	+37	+ 9
Fire-cured	Mil. lbs.	13	— 6	— 1
Burley	Mil. lbs.	44	+35	+ 9
Maryland	Mil. lbs.	46	+39	+ 15
Sun-cured	Mil. lbs.	4	+33	+ 5
Total	Mil. lbs.	1,349	+36	+ 9
Cotton	1,000 bales	1,489	+14	+152
Peanuts	1,000 lbs.	509,785	— 2	+ 5
Feed Crops:				
Corn	1,000 bu.	184,058	+21	— 7
Wheat	1,000 bu.	29,959	+13	+ 31
Oats	1,000 bu.	42,087	+33	+ 7
Barley	1,000 bu.	7,907	+30	+ 7
Rye	1,000 bu.	1,028	—22	+ 6
Grain Sorghum*	1,000 bu.	1,000	....	+ 15
Hay	1,000 tons	5,095	+ 5	+ 2
Soybeans for Beans	1,000 bu.	9,354	+96	+ 6
Potatoes	1,000 bu.	20,498	—20	— 19
Sweet Potatoes	1,000 bu.	12,500	—27	— 26
Apples	1,000 bu.	18,175	+18	— 7
Peaches	1,000 bu.	13,184	+53	+343

* North Carolina only.
Source: USDA, BAE, Crop Reporting Board.

Outlook in Brief

Fifth District farms are harvesting a big crop. It was difficult to produce and costs were high. Larger crops and generally favorable prices should result in both higher gross and net farm income this year than last. Farm debt is at a higher level but is not considered dangerous, though it is true that a considerable number of individual farmers are so heavily involved that a poor crop or a break in prices could put them in more or less serious trouble. For the most part farmers in the Fifth Federal Reserve District are enjoying a level of living and a degree of prosperity which is approximately equal to the best they have ever experienced.

Business Conditions and Prospects

The retail trade situation has been at the base of the soft industrial activity in evidence for the past few months. It is interesting, therefore, that District department store sales in July and early August did not decrease by the normal seasonal proportions. The adjusted index rose 6% from June to July. Adjusted furniture store sales held at the fairly good level of June, while most lines of wholesale trade either rose by moderate percentages or remained at June levels. There was a fairly substantial increase in wholesalers' dollar sales of dry goods. Similar trends in varying degrees have been noted in other areas of the country, and this indicates possible early resumption of operations at a higher level, particularly in the nondurable goods industries of this District. One optimistic sign is the fact that new business has been written in fairly substantial amounts in the textile industries in the last half of August.

Lumber markets, which have been soft for several months, have shown signs of stabilizing, and new business again is running ahead of production. Bituminous coal production on an adjusted basis held substantially at June levels, though actual output was reduced substantially by miners' holidays and this, in turn, caused a reduction in stockpiles.

Life insurance sales in July, though below the very high figures of last year, are continuing a rather sharp upward trend. Cashing of savings bonds during July continued the downward trend in evidence since January, while new purchases rose moderately above those in June, and may be expected to rise sharply due to the current bond drive.

Nonagricultural employment levels, despite the current lay-offs, have continued to rise in the District, recent gains having been mainly outside the manufacturing fields. Manufacturing industries in both Maryland and West Virginia continued to show a rising level of employment, with other States generally leveling off.

The volume of construction in the District rose notably above the June level, with a gain accounted for mainly by commercial buildings, factories, public works and utilities.

Trade

Although the total trade level in the United States continued to recede through June, the latest date of record, there are some indications that this trend may have begun to reverse during July and August. Department store trade figures in this District have indicated a moderate upward trend since April. The general trade level nationally is not keeping pace with personal income, and it is reasonable to expect that the trade level may soon reverse, since the income level should continue to rise.

Soft goods lines have sold in good volume this summer and some of the hard lines have completed their downward adjustment. Some indicators in mid-August pointed to the fact that sales of such things as household appliances, radio, television, etc., were either gaining or showing smaller percentage losses from the very high figures of August 1950. Sales of automobile establishments, though below last year's very high figures, also have begun to show some signs of holding. Automobile sales in the months ahead, however, will be handicapped by short supplies of materials allocated for their manufacture. Building materials and hardware retailers have also shown a sales decline, along with the reduction in residential building, but these sales likewise are giving evidence of holding at current levels. On balance, it seems that the trade level will again trend upward in the autumn and that the rise will result in higher production levels in this District. If this occurs, many concerns, unfortunately, may find that part of their labor supply has been drained away by defense installations and the military.

Construction

Although contract awards for factory construction rebounded sharply in July from its June decline (May witnessed an all-time high level), there have not been many announcements of intended construction thus far in August. This may be due to the tight situation in structual steel or the fact that there have been some plant construction delays due to inability to secure materials. It is probable that some further delays may be experienced in plants already projected.

Commercial contract awards in July rose sharply from June's adjusted figures, but are still running about one-third below a year ago. These July awards must have been authorized by DPA since this is necessary in most instances of this type of construction. Residential building also rose moderately above seasonal proportions, with the gain mainly in one- and two-family houses. Several large public housing projects were placed under contract in July, but the aggregate of multiple structural dwellings in the District declined sharply on an adjusted basis from June. Public works and utilities awards, adjusted, rose 19% from June to July and were 126% ahead of a year ago. Relaxation in credit terms and an expanded defense housing program should prove a sustaining influence in residential housing in coming months.

The military construction detailed in HR4914 and passed by the House of Representatives on August 14 called for a national outlay of $5.7 billion. Of this amount, $509 million or 9% of the total was scheduled for construction in the Fifth Federal Reserve District. Of this $509 million total, $144 million will be in Maryland; $173 million in Virginia; $120 million in North Carolina; $66 million in South Carolina and $6 million in the District of Columbia.

Banking Developments

Business loans of Fifth District weekly reporting member banks continued to decline contra-seasonally to mid-August. According to reports from selected banks accounting for a large proportion of the District's loan volume, the decline was attributable in large part to reduced loans to manufacturing and mining concerns—principally textiles. Since mid-July, however, loans to agricultural processors and commodity dealers have increased sharply, reflecting largely the opening of the tobacco markets. This seasonal loan upturn resulted in an increase in total business loans in the District in the week ended August 22.

Business loans of weekly reporting member banks in the United States began to rise in late July—thus preceding the District rise by several weeks—with principal increases indicated in loans to agricultural processors, commodity dealers, metals and metal product manufacturers, public utilities, and sporadic increases in loans to sales finance companies.

Another interesting comparison is the currently diverging pattern of trade loans in the District and the United States. Fifth District loans to wholesale and retail trade rose slightly from mid-July through the week ended August 22, while the latest available national data indicate a decline in trade loans.

Loans on defense contracts and defense supporting activities have been trending sharply upward in the United States. In contrast, however, by late August there was still little evidence of any real increase in defense loans in the Fifth District. Nondefense loans, both in the District and in the United States, declined from mid-May through July, and began a belated seasonal rise in August.

Fifth District bank debits (adjusted) were about 1% higher in July than a month earlier, and had recovered approximately half of the 2% loss experienced from May to June. The index was almost 15% higher than in July 1950. Total deposits, which were being turned over at an annual rate of 15.1 times in June, showed a rate of turnover of 14.0 times. This contrasts with an annual turnover of 12.8 times for July 1950.

DEBITS TO INDIVIDUAL ACCOUNTS

(000 omitted)

	July 1951	July 1950	7 Month 1951	7 Months 1950
Dist. of Columbia				
Washington	$ 1,036,625	$ 855,469	$ 7,422,435	$ 5,797,705
Maryland				
Baltimore	1,226,023	1,103,714	8,636,093	7,127,030
Cumberland	29,499	23,744	178,412	154,256
Frederick	21,106	17,737	145,093	122,275
Hagerstown	31,528	28,817	225,630	189,873
North Carolina				
Asheville	58,232	51,996	415,731	344,321
Charlotte	318,779	279,423	2,342,717	1,863,622
Durham	110,750	94,159	697,630	575,820
Greensboro	92,504	85,819	703,938	566,684
Kinston	17,034	13,506	112,726	87,944
Raleigh	143,763	134,849	1,149,665	948,913
Wilmington	40,582	36,035	294,558	231,210
Wilson	15,732	14,086	124,106	96,600
Winston-Salem	158,021	130,342	1,149,839	934,205
South Carolina				
Charleston	74,191	59,478	520,852	425,337
Columbia	124,158	102,008	876,126	716,307
Greenville	104,006	90,302	777,908	605,669
Spartanburg	57,104	47,205	548,124	335,893
Virginia				
Charlottesville	26,810	25,246	188,340	164,219
Danville	25,646	22,803	204,831	164,198
Lynchburg	41,274	40,026	321,597	269,278
Newport News	39,701	31,457	291,033	202,806
Norfolk	216,521	179,850	1,502,026	1,416,617
Portsmouth	24,097	21,690	174,755	146,112
Richmond	534,926	437,575	3,807,527	3,274,423
Roanoke	110,847	106,356	789,410	675,511
West Virginia				
Bluefield	43,506	39,929	326,505	278,170
Charleston	148,196	134,942	1,058,367	873,866
Clarksburg	33,403	31,099	240,807	202,866
Huntington	62,591	62,560	462,671	399,201
Parkersburg	30,710	27,951	213,686	179,074
District Totals	$ 4,997,865	$ 4,330,173	$ 35,813,138	$ 29,370,005

51 REPORTING MEMBER BANKS—5TH DISTRICT

(000) omitted)

ITEMS	August 15, 1951	Change in Amount from July 18, 1951	Change in Amount from August 16, 1950
Total Loans	$1,150,064**	— 9,304	+156,898
Business and Agricultural	545,956	— 5,121	+103,955
Real Estate Loans	233,280	— 741	— 221
All Other Loans	385,333	— 3,382	+ 55,552
Total Security Holdings	1,721,200	+60,401	— 31,487
U. S. Treasury Bills	221,319	+44,952	+135,135
U. S. Treasury Certificates	77,897	+31,502	— 4,322
U. S. Treasury Notes	326,961	—29,480	+ 5,269
U. S. Treasury Bonds	924,208	+10,640	—177,312
Other Bonds, Stocks & Secur.	171,085	+ 2,787	+ 9,743
Cash Items in Process of Col.	258,457	+16,450	+ 820
Due from Banks	182,591*	— 1,381	+ 28,021
Currency and Coin	68,291	— 2,490	+ 3,832
Reserve with F. R. Banks	550,189	+ 8,080	+101,403
Other Assets	53,877	+ 729	— 6
Total Assets	3,948,669	+72,485	+259,481
Total Demand Deposits	3,069,048	+51,903	+233,326
Deposits of Individuals	2,296,875	+40,565	+114,161
Deposits of U. S. Govt.	110,717	+ 642	+ 27,192
Deposits of State & Loc. Gov.	167,819	— 6,334	+ 37,190
Deposits of Banks	443,485*	+18,019	+ 58,461
Certified & Officers' Checks	50,152	— 989	— 3,678
Total Time Deposits	622,837	+ 4,909	+ 10,444
Deposits of Individuals	556,354	+ 1,059	— 9,658
Other Time Deposits	66,483	+ 3,850	+ 20,102
Liabilities for Borrowed Money	12,400	+11,900	— 4,550
All Other Liabilities	30,646	+ 1,976	+ 7,953
Capital Accounts	249,738	+ 1,797	+ 12,308
Total Liabilities	3,984,669	+72,485	+259,481

* Net figures, reciprocal balances being eliminated.

** Less losses for bad debts.

SELECTED FIFTH DISTRICT BUSINESS INDEXES

AVERAGE DAILY 1935-39=100—SEASONALLY ADJUSTED

	July 1951	June 1951	May 1951	July 1950	% Change—Latest Month Prev. Mo.	Year Ago
Automobile Registration[1]	......	199	202	268	— 1	— 28
Bank Debits	427	423	430	372	+ 1	+ 15
Bituminous Coal Production	157	158	161	118	— 1	+ 33
Construction Contracts Awarded	590	507	2773	505	+ 16	+ 17
Business Failures—No.	74	86	45	122	— 14	— 39
Cigarette Production	260	242	253	236	+ 7	+ 10
Cotton Spindle Hours	134	160	162	133	— 16	+ 1
Department Store Sales	351	331	331	391	+ 6	— 10
Electric Power Production	......	341	330	304	+ 3	+ 14
Employment—Manufacturing Industries[1]	......	152	150	139	+ 1	+ 9
Furniture Manufacturers: Shipments	......	249	326	302	— 24	— 15
Life Insurance Sales	314	289	289	317	+ 9	— 1

[1] Not seasonally adjusted.
Back figures available on request.

WHOLESALE TRADE

LINES	Sales in July 1951 compared with July 1950	June 1951	Stocks on July 31, 1951 compared with July 31 1950	June 30 1951
Auto supplies (10)	—32	+12	+ 16	— 2
Electrical goods (5)	—20	— 9	+122	—10
Hardware (13)	—21	+ 2	+ 36	+ 3
Industrial supplies (7)	+15	0	+ 32	+ 4
Drugs & sundries (12)	+10	+ 3	+ 16	— 2
Dry goods (16)	—10	+23	+ 40	+ 4
Groceries (52)	—14	— 4	+ 18	— 3
Paper & products (5)	+10	—10	----	----
Tobacco & products (11)	+ 3	— 4	+ 34	— 4
Miscellaneous (88)	—22	—13	+ 44	— 3
District Totals (219)	—14	— 4	+ 38	— 1

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

RETAIL FURNITURE SALES

Percentage comparison of sales in periods named with sales in same periods in 1950

STATES	July 1951	7 Mos. 1951
Maryland (6)	— 4	+ 2
District of Columbia (7)	— 19	+ 4
Virginia (18)	— 18	— 5
West Virginia (10)	— 21	— 7
North Carolina (16)	— 18	— 7
South Carolina (6)	— 50	— 8
District (63)	— 19	— 1
INDIVIDUAL CITIES		
Baltimore (6)	— 4	+ 2
Washington, D. C. (7)	— 19	+ 4
Richmond, Va. (6)	— 26	— 13
Charleston, W. Va. (3)	+ 5	— 6
Charlotte, N. C. (3)	— 30	— 16

Number of reporting firms in parentheses.

DEPARTMENT STORE OPERATIONS

(Figures show percentage change)

	Rich.	Balt.	Wash.	Other Cities	Dist. Total
Sales, July '51 vs. July '50	— 8	— 8	—19	—16	—14
Sales, 7 Mos. '51 vs. 7 Mos. '50	+ 8	+ 6	+ 3	+ 4	+ 5
Stocks, July 31, '51 vs. '50	+25	+33	+30	+21	+28
Orders outstanding, July 31, '51 vs. '50	—41	—35	—46	—28	—40
Current receivables July 1 collected in July '51	24	46	40	35	37
Instalment receivables July 1 collected in July '51	14	15	18	19	16

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, July '51 vs. July '50	— 9	—19	—10	—16	—15	—19
Sales, 7 Mos. '51 vs. 7 Mos. '50	+ 6	+ 3	+ 7	+ 6	+ 1	+ 6

BUILDING PERMIT FIGURES

	July 1951	July 1950	7 Month 1951	7 Months 1950
Maryland				
Baltimore	$13,431,175	$ 5,184,475	$ 54,879,575	$ 51,036,055
Cumberland	24,945	75,075	459,230	716,815
Frederick	380,325	148,441	1,348,585	1,485,596
Hagerstown	92,130	1,533,155	1,083,280	2,481,240
Salisbury	238,770	135,855	1,186,869	947,832
Virginia				
Danville	138,097	197,110	1,582,022	1,978,813
Lynchburg	158,471	192,743	2,209,218	2,489,273
Newport News	160,785	123,393	942,745	1,146,448
Norfolk	8,315,593	1,098,323	18,554,741	8,862,573
Petersburg	244,299	2,116,130	2,477,399	4,181,113
Portsmouth	181,400	559,595	4,024,680	2,232,014
Richmond	9,201,848	3,034,261	19,094,797	15,789,750
Roanoke	835,097	892,125	12,309,955	11,410,099
West Virginia				
Charleston	569,812	1,519,829	3,223,946	9,776,903
Clarksburg	122,961	265,675	773,508	1,112,525
Huntington	661,490	901,470	4,797,920	4,078,413
North Carolina				
Asheville	152,740	777,151	4,006,515	3,075,820
Charlotte	2,050,681	3,020,470	13,934,245	18,258,894
Durham	408,358	480,720	3,270,421	10,169,988
Greensboro	888,821	947,760	5,250,540	7,588,874
High Point	347,510	349,242	2,128,904	2,407,094
Raleigh	271,420	523,800	6,925,814	9,165,585
Rocky Mount	97,127	564,884	1,600,287	3,080,502
Salisbury	48,700	265,986	813,231	2,162,560
Winston-Salem	349,654	1,089,784	11,868,266	7,653,133
South Carolina				
Charleston	95,657	109,036	1,001,381	1,826,763
Columbia	699,279	773,805	9,216,296	6,672,083
Greenville	627,250	1,039,725	7,156,629	4,780,674
Spartanburg	1,142,300	465,617	1,847,240	2,381,663
Dist. of Columbia				
Washington	4,604,152	5,278,777	38,535,423	43,090,441
District Totals	$46,540,847	$33,664,412	$236,521,662	$242,039.533

ADDITION TO PAR LIST

The Bank of West Virginia, Charleston, West Virginia, a newly chartered nonmember bank located in the territory served by the Richmond Head Office, has agreed to remit at par, effective at once, 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 $\frac{69\text{-}447}{515}$.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

Industrial output in July and August was somewhat below earlier peak rates, reflecting in part the reduced rate of consumer buying earlier this year and consequent accumulation of business inventories. After the early part of July, consumer buying apparently increased more than seasonally. Defense expenditures continued to expand rapidly. Prices of raw materials generally changed little after mid-July, following substantial declines from earlier peak levels. Business loans at banks showed some expansion.

Industrial Production

The Board's index of industrial production declined in July to 213 per cent of the 1935-39 average, as compared with a half-year plateau of around 222 and a year-ago level of 196 per cent. The decline from June was mainly due to plant-wide employee vacations in a number of industries, but there were also more than seasonal reductions in output of automobiles, textiles, and certain other goods. Preliminary indications are that output in August will be above July but still somewhat below the first half level.

Passenger car assemblies in July were curtailed by about one-fifth from the June rate, reflecting mainly the cuts ordered by the National Production Authority for the third quarter. Production declines were less marked for furniture and other household durable goods. Output of producers equipment and of primary metals was generally maintained close to earlier peak levels. Production of lumber was reduced. Among the nondurable goods pronounced decreases occurred in the output of textile and leather products while chemicals production continued to rise slightly.

Mining output decreased from the high June level largely as a result of the coal miners' vacation in early July. Crude petroleum production continued in excess of 6 million barrels daily, as compared with about 5½ million a year ago.

Contruction

Value of construction contract awards, according to the F. W. Dodge Corporation, showed little change in July as decreases in most types of privately financed awards were offset by increases in public awards. Value of work put in place, allowing for seasonal influences, continued to decline from the peak reached earlier this year, reflecting chiefly further declines in private residential building. Business construction activity continued to rise from already advanced levels.

Employment

Employment in nonagricultural establishments in July, after adjustment for seasonal influences, was maintained at about record June levels. The average work-week in manufacturing industries declined somewhat; hourly earnings continued at a peak level of $1.60 per hour. There were about 1.9 million persons unemployed in July, the lowest number for this month since 1945.

Agriculture

Crop prospects decreased slightly during July with overall prospects at the beginning of August indicated to be 6 per cent larger than last year and 3 per cent below the 1948 record. The cotton harvest was forecast at 17.3 million bales as compared with the small crop of 10 million bales last year. Beef slaughter has increased from the reduced level of June and early July.

Distribution

Seasonally adjusted sales at department stores in July and the first three weeks of August were moderately above the level of the preceding three months, reflecting increases in the volume of apparel and household durable goods stimulated partly by extensive promotions. Consumer buying of new passenger cars also expanded moderately after declining in the early part of July. Value of stocks at department stores changed little during July, according to preliminary data, following some reduction in May and June. Stocks of household durable goods continued at high levels.

Commodity Prices

The general level of wholesale commodity prices has continued to decline since mid-July, but at a slower rate than in the preceding month. Prices of most basic commodities have shown little further decrease. Reductions in wholesale prices of consumer goods have become more numerous. Some automobile manufacturers, however, have requested higher Federal ceiling prices. Price increases for machine tools will be permitted under recent Federal action.

The consumers price index advanced slightly in July. Since then retail prices of apparel, housefurnishings, and some other goods have declined somewhat further, while food prices have been maintained at the high level reached in February and rents have increased somewhat further.

Bank Credit and the Money Supply

The total volume of bank credit outstanding has changed only slightly in recent weeks. Business loans at banks in leading cities, however, increased seasonally during late July and early August. Loans to finance direct defense contracts and defense supporting activities, principally loans to metal manufacturers and public utilities, expanded further. Loans to commodity dealers and food manufacturers also began to increase after a steady decline during the spring and early summer months.

Holdings of Government securities by commercial banks and the Federal Reserve Banks have shown little change since June. Increased weekly offerings of bills by the Treasury during July and the first half of August were largely absorbed outside the banking system.

Deposits and currency held by businesses and individuals increased somewhat in July, while Federal Government balances declined. In the first half of August deposits at banks in leading cities declined.

Security Markets

Prices of common stocks in the first week of August reached the highest levels since May 1930 and declined slightly thereafter. Prices of long-term U. S. Government securities and high-grade corporate bonds have risen somewhat since the end of June. Yields on Treasury bills advanced somewhat in July and August, while other short-term rates declined.