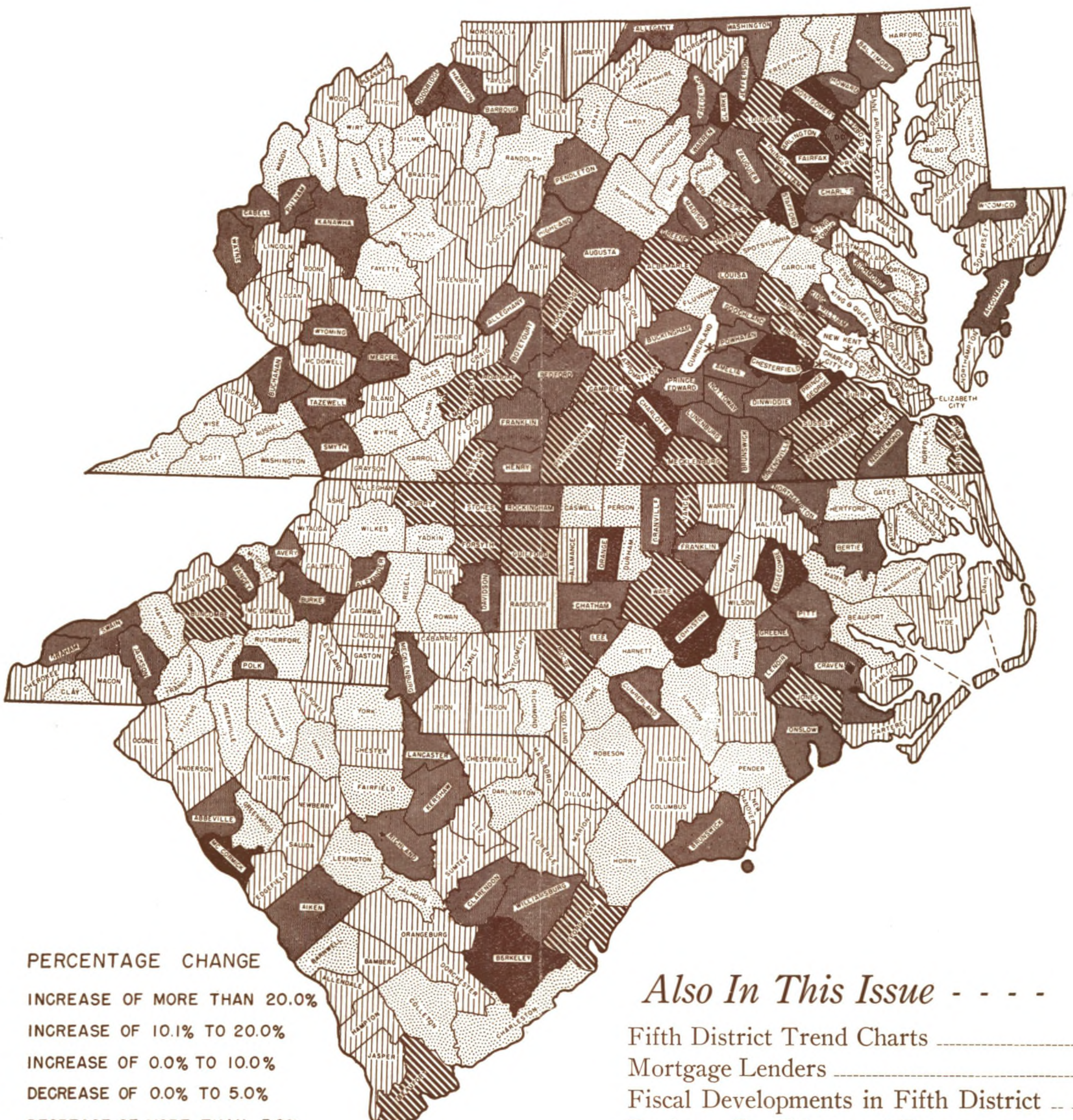
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

October 1951

DEPOSIT CHANGES BY COUNTY

FIFTH FEDERAL RESERVE DISTRICT



PERCENTAGE CHANGE

- INCREASE OF MORE THAN 20.0%
- INCREASE OF 10.1% TO 20.0%
- INCREASE OF 0.0% TO 10.0%
- DECREASE OF 0.0% TO 5.0%
- DECREASE OF MORE THAN 5.0%
- * INFORMATION NOT AVAILABLE

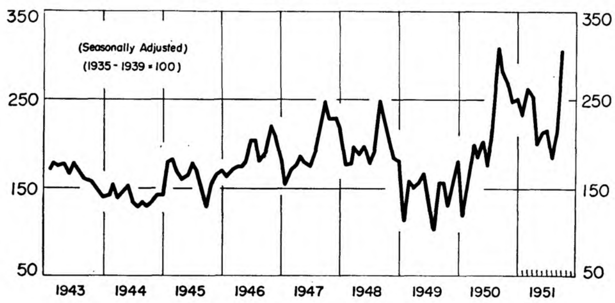
PERIOD COVERED 1947-1950

SOURCE: *DISTRIBUTION OF BANK DEPOSITS BY COUNTIES,* DEC. 31, 1947 and DEC. 30, 1950 BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, WASHINGTON, D.C.

Also In This Issue - - - -

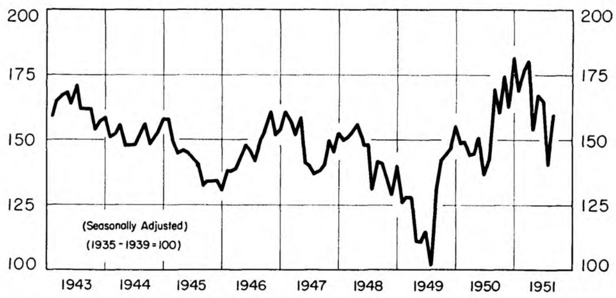
FIFTH DISTRICT TRENDS

WHOLESALE DRY GOODS



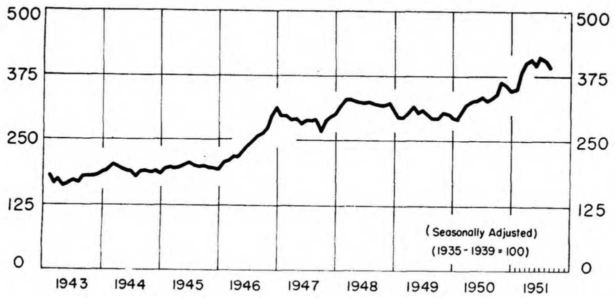
A good omen for the textile industry was given in the August wholesale dry goods sales which rose 41% above July on an adjusted basis to within 2% of the high August figure of 1950. Such a level of sales is indicative of a more satisfactory inventory position among individual retailers.

COTTON CONSUMPTION



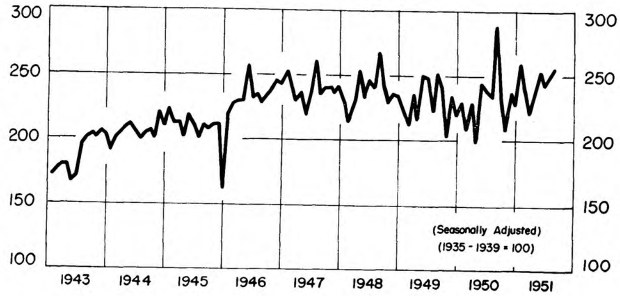
Consumption of cotton in August rebounded from the July level by 14% on an adjusted basis. August output, however, was 6% under August, 1950, but the level compares favorably with most prewar months, excepting the late months of 1950.

DEPARTMENT STORE INVENTORIES



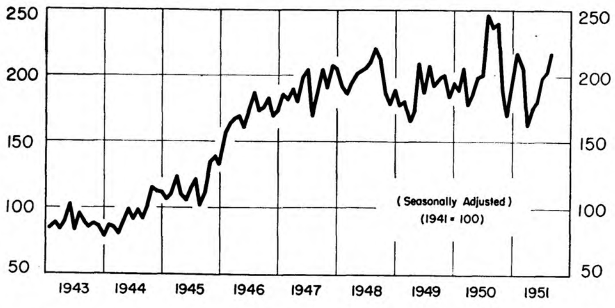
A continued downward adjustment is noted in department store stocks during August. With August sales holding essentially at the July adjusted level, stocks showed a 4% adjusted decline from July and are down to a level only 18% ahead of a year ago.

CIGARETTE PRODUCTION



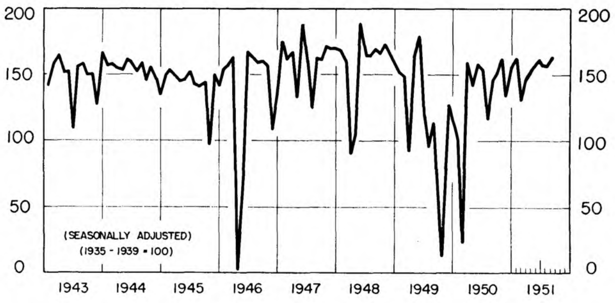
Cigarette output in August rose 2% after seasonal correction from July but ran 9% below the all-time peak output of August, 1950. Cigarette output has continued in a rising trend throughout the year. and further strength may be expected in anticipation of a tax increase.

RETAIL FURNITURE SALES



Strength continued in evidence in the retail furniture trade during August when sales, after seasonal correction, rose 7% from July. August sales, however, were 8% under the inordinately high level of a year ago but compare favorably with the highest other prewar months.

BITUMINOUS COAL PRODUCTION

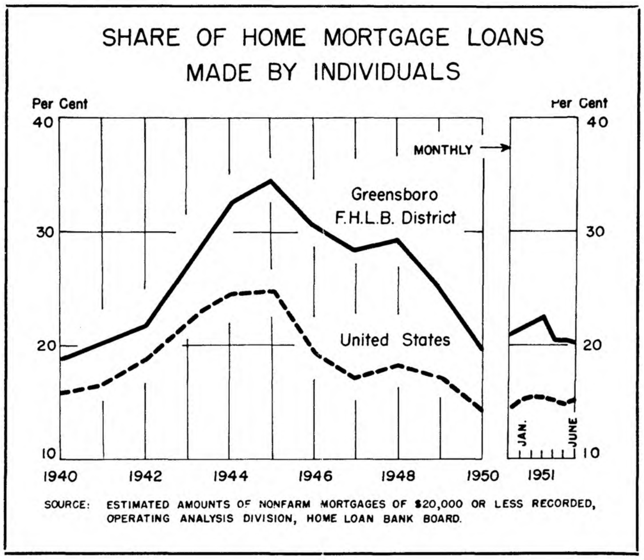


Coal production in the Fifth District rose 4% after seasonal correction from July, and August ran ahead of last year 12%. This is a better showing than the industry has made nationally, due mainly to a substantial rise in exports, which have come largely from this District.

Residential Mortgage Lenders---The Miscellaneous Group

Recent credit developments have focused attention on the activities of leading mortgage lenders. This is the fifth and last in a series reviewing briefly the operations of leading lenders outside the commercial banking field.

MISCELLANEOUS lenders (all those other than the four major institutional lenders — commercial banks, savings and loan associations, mutual savings banks, and life insurance companies) range from mortgage companies and other businesses, which originate mortgage loans on a full-time basis, to individuals. This group of residential mortgage lenders is much more important in the field than is sometimes realized—actually it made more than one-fourth of the record $16 billion of nonfarm residential mortgages recorded in the United States in 1950, and held nearly one-fourth of the outstanding home mortgage debt of $46.9 billion at year end.



In common with other major lending groups, miscellaneous lenders increased their rate of new lending and sharply expanded their portfolios during 1950. Their $4.2 billion of home loans made in 1950 was a third greater than in 1949; the $1.3 billion added to mortgage portfolios during the year was almost four-fifths larger than the 1949 increase and represented the largest annual increase ever recorded.

The major types of lenders that fall in this category include individuals, fiduciaries, trust departments of commercial banks, real estate and bond companies, philanthropic and educational institutions, fraternal organizations, and Federal Government agencies. Activities of Federal agencies were discussed in the August *Review*. Their holdings of home mortgages totaled approximately $1.5 billion at the end of 1950.

Interesting facts regarding the lending activities of many of these miscellaneous lenders were obtained from registration statements required under Regulation X, and summarized in the accompanying table. These data, incidentally, do not indicate total amounts of real estate financing done by each type of registrant. Many small individual and institutional lenders were not required to register, as their mortgage lending activity is not sufficiently large to classify them as persons "engaged in the business of real estate credit" for the purposes of Regulation X. (Lenders are required to register only if they (1) make three or more extensions of real estate credit in a year, or (2) extend real estate credit during the year aggregating more than $50,000.) The data do indicate, however, the *type* of mortgage financing done by each class of lender.

Mortgage Companies

Mortgage companies generally serve as middlemen between large mortgage holders and individual borrowers. Virtually all of their loans are made in their capacity as correspondents or are intended for immediate resale. For example, they originated 27.7% of the $2.5 billion of home mortgages insured by FHA in 1950 but held only 3.4% of the $9.2 billion of such mortgages outstanding at the end of the year. In the Fifth District 49 mortgage companies hold about $20 million of mortgages, but service mortgages totaling more than half a billion dollars.

Usually these companies maintain formal correspondent relationships with insurance companies or other institutional lenders under which a more or less formal commitment to purchase mortgages meeting specified standards is maintained. Mortgages, both individually and in blocks, are also sold to investing institutions or to private individuals. The services of mortgage companies prove advantageous to investing institutions in that they are relieved of many of the details of mortgage retailing—property selections, property appraisal, investigation of title, examination of individual credit ratings and other details. Advantages to individuals in purchasing mortgages from such companies are the same as those for financial institutions and they thus obtain an investment conforming to the degree of risk desired.

On the other side of the lending picture, mortgage companies frequently work hand in hand with realty companies; sometimes they are subsidiaries of large realty firms. The realty firm refers customers to the mortgage company for financing, the mortgage company advances the funds necessary to consummate the purchase (frequently borrowing from commercial banks in order to do so), and then places the mortgage with a long-

Although mortgage companies normally sell the vast majority of the mortgages they originate as quickly as possible in order to turn over their capital rapidly, an inventory of mortgages held for resale is usually on hand at all times. Mortgage companies ordinarily service loans they have sold (collect payments, pay taxes and insurance, etc.) The fee for such servicing typically amounts to ½ of 1% of the outstanding balance of the mortgage.

The volume of mortgages handled by many mortgage companies compares favorably with that of other large financial institutions. The companies, however, are not generally subject to public supervision of their accounts. They are subject to the same regulations as other incorporated nonfinancial businesses, which vary according to the laws of the chartering state.

During the 1920's a substantial part of the financing of real estate was done through sale of securities by mortgage companies which guaranteed payment of interest and principal. Financing was through serial collateral bonds which were sold to the general public. These bonds were secured by blocks of mortgages or single large mortgages held in trust. With the collapse of real estate values in the 1930's, most of these mortgage guarantee companies failed or were closed by state intervention. The modern mortgage company steers clear of this particular type of financing.

Individuals

Separate data on the share of mortgages held by individuals are not available on a current basis. The Federal Home Loan Bank Board makes estimates for a miscellaneous group which includes individuals. Data on mortgage recordings of individuals are available from this source. The 1940 census indicated that individuals held 25.2% of the number and 20.4% of the amount of first mortgages on one- to four-family nonfarm properties occupied by owners.

Interestingly, the share of nonfarm residential mortgage lending done by individuals in the Southeast is somewhat larger than the national average. This is shown by data on mortgage recordings of the Fourth Federal Home Loan Bank (Greensboro, N. C.) whose territory embraces the Fifth Federal Reserve District with the exception of West Virginia, and in addition includes Georgia, Alabama and Florida. In 1950, individuals did 19.5% of the residential mortgage lending (under $20,000) in the Southeast as compared with 14.2% in the nation as a whole.

The Housing and Home Finance Agency during the latter half of 1950 sponsored a survey of residential mortgage activity in Hagerstown, Maryland, conducted by the Bureau of Business and Economic Research of the University of Maryland. This study shows that, percentagewise, individual lenders were predominant in the Hagerstown mortgage market. Almost 42% of the number and 36% of the value of real estate loans made in 1949 were made by individuals.

Many individuals and firms which sell real estate serve as middlemen in finding lenders to take the mortgages on properties they sell. In the Fifth District, 630 real estate brokers and agents registering under Regulation X held for their own account almost $23 million of residential mortgages, and serviced $299 million of mortgage loans held by others.

Activities of the individual mortgage broker or agent parallel those of mortgage companies, although in most instances their resources are somewhat smaller. In the Fifth District, 190 mortgage brokers and agents registering under Regulation X held almost $18 million of residential mortgages, and serviced $340 million of mortgage loans for others.

Fairly active residential mortgage lenders are builders and developers, who sometimes find it advantageous—or necessary—to carry the mortgage on a residence they have constructed, either on a temporary basis intended for eventual placement elsewhere, or on a more permanent basis as an investment. The 161 builders and developers registering in the Fifth District under Regulation X carried $9 million of residential mortgages. As servicing of mortgages is somewhat further removed from their primary activity, builders and developers are not so active in this field; the 161 registrants serviced only $0.7 million of mortgages for others.

Lawyers play a prominent part among individual lenders. Not only do they examine titles when real estate is transferred but their advice is usually needed in making mortgage loans. Such close contact with real estate transactions enables lawyers to search for mortgages fitting their own investment needs, and to recommend mortgage loans to interested friends and clients.

Individuals active in the home mortgage field vary from domestic servants to college professors. These lenders may be as thoroughly professional as any institutional lender, but constitute the "amateurs" in the field. This group includes the individual who makes mortgage loans to another member of his family, or takes a mortgage in partial payment for a property which he has sold. The more professional individual real estate mortgagee advertises through newspapers, or places his funds through mortgage companies or brokers, for which a fee may or may not be charged.

Some individual lenders are as conservative in their lending policies as the large lending institutions, but more typically, individuals will make higher ratio loans. The high return payable on mortgages of higher risks, notably junior mortgages (subject to prior lien of other mortgages), serves to attract a large volume of individual lending into this field, which is largely avoided by institutional lenders.

Increased use of the amortized home loan has served to reduce the share of home lending done by individuals. The periodic reduction of principal makes the repayment of such loans easier for the borrower, as he can pay out income, and provides a sounder loan for the lender since principal declines along with the depreciation of the property. The institutional lender, or the large individual lender, carries several mortgage loans, and makes new loans as the principal is paid down on loans held in portfolio. The small investor with only one or two mortgages is unable to do this, and is faced with a constant reduction in the face amount of his invetment.

Individual lenders are largely restricted to conventional loans since they are not eligible as approved lenders under FHA insurance terms. They may make VA-guaranteed loans, if they are able to meet certain requirements (such as ability to service loans), subject to prior approval by the VA. Individuals may purchase VA loans subject to the same restrictions, or may purchase VA loans without such restriction if the original lender continues to service the loan.

The 183 investors, largely individuals, who registered with the Federal Reserve Bank of Richmond under provisions of Regulation X, held more than $11 million of residential mortgages, and serviced $2.8 million of mortgage loans for others. Individual investors usually service their own loans. Interestingly, lawyers were most prominent among individuals servicing loans for others.

Other Miscellaneous Lenders

Many institutions with large endowment funds, such as universities, colleges, hospitals, and foundations established by wealthy individuals or families, find mortgage loans attractive. Estates, holding large sums of money in trust for heirs, also look upon mortgages with favor. Many states have laws which safeguard the investment of such funds and specify proportions that may be invested in mortgages. Usually these are among the most conservative lenders, as the safety of their funds is of paramount importance.

Real estate loans are frequently made by lending institutions which concentrate primarily on other types of credit. Included in this category are sales finance companies, small loan companies, and in some cases credit unions. These lenders do not service loans for others, but rather hold them as investments for their own account. Credit unions sometimes make small loans secured by real estate to members while mortgage loans of sales finance and small loan companies are typically small consumer loans secured by real estate.

Substantial portions of pension funds are sometimes placed in residential and other mortgages; interest in this field seems to be increasing. Large labor unions which have built up substantial surpluses are another type of mortgage investor. In recent years some large firms have set aside funds to lend to employees at relatively low rates to build or buy homes, largely on the theory that a home owner is a more reliable employee.

Characteristics of miscellaneous lenders are indeed varied, as is obvious from the many classifications which can be made. Individuals and many other miscellaneous lenders are not subject to any specific regulation, and their records are not subject to public scrutiny. Since, however, they comprise an important segment of the real estate mortgage market, their actions and influence must be considered in analyzing real estate trends, to the extent existing information permits.

FIFTH DISTRICT RESIDENTIAL MORTAGE LENDERS

Loans Outstanding—May 31, 1951
(Amounts in thousands of dollars)

Type of Lender	Number of Registrants	Residential Loans: FHA-Insured	Residential Loans: VA-Guaranteed or Insured	Residential Loans: Conventional	Total Residential Loans	Other Real Estate Loans	Loans Serviced for Others
Miscellaneous							
Mortgage Companies	49	$ 4,907	$ 6,659	$ 8,000	$ 19,566	$ 841	$ 552,558
Mortgage Brokers and Agents	190	6,643	6,912	4,255	17,810	1,639	340,391
Real Estate Brokers and Agents	630	2,307	1,826	18,460	22,593	4,078	298,,502
Builders and Developers	161	41	1,363	7,968	9,372	1,784	659
Investors, Including Individuals	183	19	......	11,392	11,411	1,819	2,786
Individual Trustees & Executors	26	......	38	1,956	1,994	338	70
Schools, Foundations, Etc.	12	417	69	5,669	6,155	1,062	......
Trust Departments of Banks	67	7,356	1,893	71,487	80,736	30,496	7,066
Credit Unions	68	20	......	1,216	1,236	227	......
Sales Finance Companies	16	......	......	277	227	118	......
State-Licensed Small Loan Cos.	79	......	......	34	34	2	......
Other Miscellaneous Lenders	176	3,838	2,089	11,576	17,503	9,696	52,504
Total	1,657	25,548	20,850	142,240	188,638	52,101	1,254,537
Commercial Banks	593	79,058	110,707	287,634	477,399	235,294	261,627
Savings Banks	8	7,997	27,754	28,869	64,620	11,523	......
Savings and Loan Associations	535	31,286	205,827	873,264	1,110,377	37,412	62,425
Insurance Companies	55	179,526	88,126	326,824	594,476	204,436	37,642
Total—All Registrants	2,848	$323,415	$453,264	$1,658,832	$2,435,511	$540,765	$1,616,231

Notes: Details may not add to totals due to rounding.
Source: Regulation X Registration Statements Received Through July 27, 1951.

Trends in Individual and Business Deposits

Sharp changes have taken place in bank deposits since year-end 1947, when deposits of individuals and businesses in the United States and in the Fifth District topped out after their rapid wartime increase. From 1941 through 1947 these deposits increased 115% for all banks in the United States. By comparison, the increase for the Fifth District was 145%. From 1948 through first half 1950, deposits fell off slightly in the United States and in the District; the increase in second half 1950 led to a net rise over the three years of 6.4% for all banks in the United States and a 3.5% increase in the Fifth District. The Fifth District gain was therefore only a little more than half the national rate.

Within the Fifth District, divergencies in the trend of deposits of individuals and businesses are as usual apparent. From 1947 through 1950 the District of Columbia and Virginia gained deposits at a rate in excess of the national average rate—the District of Columbia showed a plus 9.5% and Virginia a plus 7.8%. In Maryland these deposits increased by 2.7% and in North Carolina, 1.5%, but these increases were well below the national average and below the Fifth District average rate of increase. In West Virginia and South Carolina banks these deposits actually declined slightly during the three-year period and were off 1.5% and 4.4% respectively. Interestingly, those states which showed the largest gain in these deposits for 1941 through 1947—West Virginia, North Carolina, and South Carolina—are now experiencing something of a "catching up period", and show a substantially lower rate of increase or actual decreases over the last three years. It does not follow that this will continue. Current developments, such as the new atomic energy plant in South Carolina and other defense projects, and expansion of textile and other industries in the Carolinas and of chemical manufacturing along the Kanawha Valley in West Virginia, presage a resumption or continuation of deposit expansion over the immediate future.

The map on the front cover shows the percentage change in demand and time deposits of individuals, partnerships, and corporations for all banks in the Fifth Federal Reserve District on a county by county basis for the three-year period ending December 30, 1950. Interbank and public deposits have been omitted. Deposits of branches outside of the head office county were included in the counties where the branches are located, rather than with the head office county. Deposits of banks located in independent cities in Virginia and in the city of Baltimore are included in the deposits of counties in which these cities are located.

Incidentally, in the period under discussion, banks in this District have lost substantial amounts of reserves on commercial and financial transactions. This loss of reserves is directly associated with the smaller rate of growth in individual and business deposits in this District, reflecting the excess of expenditures outside of the District and the relatively high trade levels within this District. The total outflow of funds in this period was about $290 million, an amount equal to 4.1% of deposits of individuals and businesses at year end 1950.

Data used in preparing the map on the cover of this month's *Review* were prepared by the Board of Governors of the Federal Reserve System, in cooperation with the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the state supervisory authorities. It should be emphasized that all references in this article are to deposits of individuals, partnerships, and corporations only; deposits of banks and Governmental units are excluded.

Although gains and losses in deposits do not follow a consistent pattern in relation to underlying economic characteristics of the various regions in the District, certain generalizations can be made—if it is kept in mind that there are exceptions in each case. In general, gains in deposits have centered in the more populous areas, particularly those which experienced an inflow of population during this period. Interestingly, in some areas deposits increased more rapidly in the surrounding counties than in the area itself. On the other hand, the primarily agricultural areas have, in general, lost deposits over the three-year period.

In the agricultural areas, the most outstanding exception appears to be that of the tobacco and peanut growing sections, which in many cases showed substantial increases in these deposits. Most counties in the Virginia-North Carolina peanut growing area showed moderate to substantial percentage increases. Similarly, a tendency toward increasing deposits is noticeable in the Old Belt flue-cured tobacco area of Piedmont Virginia and North Carolina (producing Type 11 tobacco), and in the Eastern Belt flue-cured (Type 12) area of eastern North Carolina. Deposits in the Border Belt flue-cured (Type 13) region of North and South Carolina did not show a general tendency to increase.

The more industrialized areas generally showed deposit increases. Outstanding exceptions were some North and South Carolina counties with many small cotton textile plants which reported deposit losses. On the other hand, many of the increases reported, particularly in North and South Carolina, are almost certainly associated with industrial expansion in the counties concerned.

Recent Fiscal Developments in Fifth District States

A reduction in taxes these days is definitely "man-bites-dog" news, but the Old Dominion has accomplished this feat. On August 9 Governor Battle proclaimed a 20% reduction in next December's state income tax bills. The official announcement was required under the terms of an automatic tax-reduction bill introduced a year ago by State Senator Harry Byrd, Jr., providing that if Revenues Available for General Appropriations for fiscal 1951 exceeded $100 million, individual and corporation income taxpayers would receive a 10% reduction in their 1950 tax liabilities; if revenues exceeded $103 million, the reduction would be 15%; and if the state's take went beyond $105 million, a 20% reduction would be in order. Taxpayers were joyous when the state comptroller announced that Virginia's revenue for the last fiscal year amounted to $105,664,345.

Another prevalent fiscal trend that Virginia is bucking is the growth of state debts. It has been over a decade since the state has gone to the market with an issue of general obligation bonds, and at the end of fiscal 1950 its per capita net long-term debt was only $7.59—compared with the 48-state average of $28.65. The bulk of the $25 million net debt outstanding consisted of self-liquidating bonds; only $391,000 represented full faith and credit debt—1.5% of the total as compared with the average ratio of 81% of all states.

Virginia, one of 29 states levying both an individual and corporation income tax, derives approximately one-half of all its general fund revenues from these sources. Although its per capita tax collections for fiscal 1950 amounted to only $46.63—against the all-state average of $59.59—the total tax bite was 4.8% of income payments to individuals in the state as compared to 4.6% for the 48 states.

West Virginia Takes Unprecedented Step

An amendment to the Constitution of West Virginia ratified in November 1950 provided for the issuance and sale of a maximum amount of $90 million of state bonds for the purpose of paying a bonus to veterans of World War I and II. Under authority of this amendment statutes were enacted levying additional taxes, effective July 1, 1951, on cigarettes and non-intoxicating beer and directing the West Virginia Liquor Control Commission to increase prices of alcoholic liquors on or before June 30, 1951. It was stipulated that the revenue from these increases was to be paid into the Veterans' Bonus Sinking Fund for the express purpose of paying principal and interest on the bonus bonds.

The first instalment of $67.5 million ($2.5 million more than the total net debt of the state at the end of fiscal 1950) was offered to the market last May. Inasmuch as the National Voluntary Credit Restraint Committee had advised banking groups preparing to bid for the issue that the offering did not conform to the Voluntary Credit Restraint Program, no bids were submitted. At the time, Governor Patteson said the State's citizens had "specifically directed the bonus be paid," and he saw no alternative but to proceed with the financing.

During the summer state officials requested the Eastern Regional Committee of the Investment Bankers Voluntary Credit Restraint Committee to review and approve the proposed bond sale. They were told that the committee did not feel that there had been any change in economic conditions that warranted a reversal of the original findings as to the inflationary nature of the proposed offering.

The next step was a plan outlined on September 12 to more than a hundred bankers in a meeting called by the Governor. Briefly, the proposal was made to sell—with the aid of banks within the state acting as agents during the subscription period—the bonus bonds on the open retail market, with State investment funds "taking up the slack" if an unsold portion remained. It was later reported in the press that in order to provide funds for the latter eventuality—assuming that the proposed plan is carried out—the State is considering selling some $8 million of its holdings of West Virginia municipal bonds. These securities represent obligations of political subdivisions in practically all the counties of the state. West Virginia requires municipalities in the state to offer new bond issues to the State Sinking Fund Commission before any offering.

Sales Taxes—Prime Revenue Sources

Unlike the other four states of the Fifth District, West Virginia has no individual or corporation income tax. Its two basic sources of revenue are a gross sales tax and a consumers sales tax which together provided 75% of the general revenues of the state in the year ended June 30, 1951. The largest single item of gross sales income during the year was the yield from public utilities, including carriers. This one source produced $10.7 million—13% of the total general revenue. As has been the case for many years, coal production was by far the largest single item of tax income from natural resources, yielding one-fourth of all gross sales tax income and 11% of the entire general fund revenue.

West Virginia tax authorities are watching closely the effect of the three-cent hike in the cigarette tax (one cent for bonus bonds and two cents for school support) which became effective July 1, 1951. Although state officials anticipated a temporary sizable decline in volume of sales as a consequence of this substantial tax increase, they are reported confident that no new pattern of reduced smoking will be established and that consumption will be back to normal within a few months.

News of considerable importance to the further industrial development of West Virginia was received earlier this year to the effect that a revenue bond issue in the neighborhood of $100 million would reach the market sometime this year to provide funds for the construction of a north-south express state highway. Engineering surveys of the project convinced the authorities that an express turnpike will overcome many of the traffic barriers of the hilly terrain that have handicapped rapid and economical movement of industrial materials and products in the state. It is hoped that a strategically located super-throughway will revamp the industrial transportation routes from the Carolinas to the Great Lakes—to the benefit, of course, of West Virginia. No recent news on the proposal has been forthcoming.

South Carolina Joins the Parade

The most important fiscal development of the 1951 session of the South Carolina legislature was the enactment of a 3% sales and use tax. Effective July 1, 1951, this new tax is expected to yield $33-34 million a year and boost state income to around $150 million. Both parts of the tax are imposed exclusively on tangible personal property—intangibles and services are exempt. The sales tax is based on gross proceeds of sales with a bracket system of levies to be imposed by the retailer.

The use tax is based on sales prices of tangible property purchased out of state and is also paid by institutions such as hospitals and colleges that do not pay any tax on purchases but must pay 3% on materials and supplies used. No bracket system is prescribed for the collection of this tax, but limits on the amount that may be collected have been set as follows: $25 on single articles not exceeding $1,500; $40 on single articles between $1,500 and $3,000; and $75 on a sales price over $3,000. All persons engaged in making retail sales in the state must secure a license with fees ranging from $5 for one outlet, branch or agency to $150 for each in excess of 29. The constitutionality of the new tax has already been passed upon by the South Carolina supreme court and reaffirmed by the U. S. District Court in Charleston.

Although the emergency taxes on beer and cigarettes have been removed and individual income taxes reduced, the 3% sales tax will boost the per capita state tax above the 1950 figure of $49.03. Despite the favorable comparison of this amount with the national average of $59.59, the net burden on South Carolinians was relatively heavy since tax collections absorbed 6.2% of their income payments as against the all-state average of 4.6%.

Recommends Budget Revision

Maryland's top fiscal officials were recently in Richmond studying that city's "performance" type budget in connection with possible changes in Maryland's budget system drawn up along lines recommended nationally by the Hoover Commission. One of the recommendations made this year by the Committee on Taxation of the Baltimore Association of Commerce is that Maryland's accounting and budgetary methods be revamped and improved so as "to make it possible for the State's revenue and spending program, both current and proposed, to be readily understood, appraised, and compared." Although the Committee found that Maryland's present budget and reporting practices resulted "in data so confusing that it is not possible to make a satisfactory analysis and appraisal of the State's proposals," the condition is by no means peculiar to Maryland. In fact, by making such improvements as prescribing uniform accounting procedures and fiscal reporting methods for local units, the Old Line State has an edge on many other states in fiscal procedures. Nevertheless, anything that will promote knowledge and facilitate an understanding of the collection and spending of taxpayer money is to be applauded.

N. C. Taxes Absorb High Percentage of Income

In its 10-week session this year the General Assembly of North Carolina made no major tax changes, but a substantial increase in state revenue and expenditures is expected this fiscal year. The Tarheel budget, largest in the Fifth District, is set at $506 million for 1951-53—about 16% over the previous biennium. General fund tax collections are expected to reach $161 million in the current fiscal year for a per capita figure of about $63.

For the Fifth District as a whole, per capita tax collections as a per cent of income payments exceed the 48-state average. Maryland was the only state, on the basis of the latest available data, not to have exceeded the national average. Its per capita tax collections for fiscal 1950 as a percentage of its income payments to individuals matched the all-state average of 4.6%. North Carolina was in the least favorable position—so far as this comparison is concerned—among District states, with a ratio of 6.9%. In part this is a consequence of North Carolina's progressiveness, but it is also indicative of the differential between income payments in the South and the national average.

Business Conditions and Prospects

DEMAND for goods and services in the Fifth District, though running somewhat below the high level a year ago, is nevertheless in a rising trend with the soft goods industries in the forefront.

Unemployment in the District is nominal in practically all labor market areas, but many workers in all branches of the textile industry are working on short time owing to poor market conditions.

Total employment in the District is approaching its wartime peak due mainly to expanded demand by Government and the construction industries. Manufacturing employment has receded moderately in recent months, but employers have preferred to retain their working forces and reduce operating time rather than releasing workers. This may prove to be a smart move, since District unemployment is only of nominal proportions. Demand for construction workers has been augmented by the Savannah River project in South Carolina and will be further increased by plans for more than a half a billion of military construction between now and June 30 next year.

The best characterization that can be applied to the markets for textile products is that they are in a price-testing period and that a resumption of buying commensurate with the retail trade level is overdue. The price structure in the textile markets has undergone a rather severe test in the past two months, though indications are that bottom has been reached and a better demand at the producer level may soon be forthcoming.

Seasonal expansion is underway in business loans in this District which is accounted for mainly by loans to agricultural processors, commodity dealers, and trade accounts. Loans to textile and apparel concerns are still in a downward trend and little or no demand is evidenced in defense or defense-supporting loans.

Demand deposits continue in an upward trend and some slight gain has been shown in time deposits. Bank debits in August ran 7% ahead of a year ago but declined 1% from July, after seasonal correction.

Bituminous Coal

Production of bituminous coal in the Fifth District in August rose 4% from July, after seasonal correction, to a level 12% ahead of a year ago. This was a better showing than was made on a national scale, due to a strong export demand largely supplied by the mines of this District. Improvement is expected in domestic coal consumption with the assumed upward trend in industrial production and the highest estimates of exports appear likely to be attained. National coal production will probably reach 530 million tons this year and, owing to the improvement in exports, the District's proportion should be somewhat higher than a year ago.

Construction

Construction contract awards, seasonally adjusted, in August declined 3% from July and were 17% under August 1950. Primarily responsible for the drop during the month were substantial reductions in awards for commercial, factory, public works and utilities construction. Contract awards for residential construction rose 68% on an adjusted basis from July, after having been in a declining trend since February. The August residential level was within 8% of the all-time peak in August 1950. Primarily responsible for this rise in residential construction was a gain in the month of August of 125% in apartments and hotels and one of 37% in one- and two-family houses. Increased awards were chiefly in Maryland, District of Columbia, and Virginia.

In the first eight months of 1951 total construction contract awards in this District are 66% higher than a year ago. Military construction of approximately a half a billion dollars (interestingly, equal to one-third of total construction for all of 1950) will be effected largely between now and June of next year. Such a level will certainly tax available manpower and, since this is high-priced labor, will probably draw workers from other occupations. Awards for factory construction dropped substantially in August as it became evident that many projects already under way would find difficulty in securing materals, particularly structural steel.

Textiles

Cotton consumption in August rebounded 14%, after seasonal correction, above the July level, but was 6% under August a year ago. August consumption of cotton, however, compares favorably with all postwar months excepting those in the latter part of last year. Trade reports indicate that September may well be lower than August's level (on an adjusted basis), since cutbacks are continuing at the weaver level. These cutbacks in weaving operations have necessitated lower spinning activity but by reducing the supply they will hasten the time when buyers will reenter the market for both goods and yarns in a volume commensurate with the offtake at the retail level. Sales at the retail level, though far from spectacular, are steadily improving along with the rise in incomes and the repayment of debts. This improvement is likely to continue in view of the cutbacks that are now in process in the durable goods industries. To the extent that mills have over-accumulated inventories there may be some hesitation in the rate of expansion in cotton textile operations after demand has revived, but it isn't likely that this period will be greatly prolonged.

Rayon yarn producers have announced further cutbacks in operations in September and rayon weavers are likewise making further cuts in operations. These may well be short-lived, since retailers' inventories are being worked down. Rayon yarn producers, however, have accumulated considerable inventories and a resumption of weaver operations would not immediately reflect the same degree of operations at the yarn producers' level.

Hosiery production has been cut back substantially and indications in late September are that this situation has not improved. Market inquiries, however, are improving and the price structure appears to be fairly stable at its present low level. A considerable volume of new business should soon be forthcoming with a higher production level to follow.

Lumber and Furniture

The lumber market, which had been weakening for the past six months, turned firmer in the first half of September. Demand improved considerably, while production in this District continued to trend downward. The industry reports that since they are operating under January price ceilings and are facing rising costs, high cost producers are experiencing increased difficulty remaining in operation.

With the military construction bill already enacted into law, the demand for lumber should be materially strengthened. If the August construction of one- and two-family houses is any criterion of the building demand for residential construction, it would appear that the lumber demand would show improvement for some time to come.

Retail furniture trade in this District continued to improve in August with seasonally adjusted sales running 7% ahead of July but 8% under the very high figures of August 1950. Meanwhile retailers' inventories (adjusted) dropped 7% from July to a level only 8% ahead of a year ago. Furniture manufacturers reduced operations further in August, though a better level of demand has been noticeable and some improvement in this industry's operations should be forthcoming.

In summary, it appears that the worst of the industrial cutbacks in this District has already been experienced and that improvement can be expected in the near future. Manpower requirements will continue to rise in a market where little surplus exists. Consumer expenditures in the District are likely to be more and more reflected in soft goods, since output of hard goods has been considerably restricted. Savings, likewise, will probably expand and this should be reflected in time deposits as well as in savings bonds, life insurance, and other savings institutions.

DEBITS TO INDIVIDUAL ACCOUNTS

(000 omitted)

	August 1951	August 1950	8 Months 1951	8 Months 1950
Dist. of Columbia				
Washington	$ 1,039,157	$ 866,035	$ 8,461,592	$ 6,663,740
Maryland				
Baltimore	1,257,054	1,184,622	9,893,147	8,311,652
Cumberland	25,593	25,894	204,005	180,150
Frederick	22,239	19,643	167,332	141,918
Hagerstown	33,517	28,817	259,147	218,690
North Carolina				
Asheville	58,798	54,909	474,529	399,230
Charlotte	333,335	340,811	2,676,052	2,204,433
Durham	141,952	173,447	839,582	749,267
Greensboro	98,834	96,340	802,772	663,024
Kinston	31,463	32,161	144,189	120,105
Raleigh	170,836	138,743	1,320,501	1,087,656
Wilmington	45,518	40,937	340,076	272,147
Wilson	27,394	39,566	151,500	136,166
Winston-Salem	167,140	165,677	1,316,979	1,099,882
South Carolina				
Charleston	75,104	64,961	595,956	490,298
Columbia	127,846	108,538	1,003,972	824,845
Greenville	102,069	97,467	879,977	703,136
Spartanburg	67,382	53,217	525,506	389,110
Virginia				
Charlottesville	26,884	24,792	215,224	189,011
Danville	29,650	28,185	234,481	192,383
Lynchburg	44,245	40,757	365,842	310,035
Newport News	43,428	33,758	334,461	236,564
Norfolk	218,005	200,652	1,720,031	1,617,269
Portsmouth	24,518	22,206	199,273	168,318
Richmond	573,647	551,513	4,381,174	3,825,936
Roanoke	115,371	105,585	904,781	781,096
West Virginia				
Bluefield	47,449	41,343	373,954	319,513
Charleston	152,660	143,393	1,211,027	1,017,259
Clarksburg	32,498	32,455	273,305	235,321
Huntington	65,101	62,586	527,772	461,787
Parkersburg	32,036	29,549	245,722	208,623
District Totals	$ 5,230,723	$ 4,848,559	$ 41,043,861	$ 34,218,564

51 REPORTING MEMBER BANKS—5TH DISTRICT

(000 Omitted)

ITEMS	Sept. 12, 1951	Aug. 15, 1951	Sept. 13, 1950
Total Loans	$1,150,485**	+ 421	+112,824
Business & Agriculture	551,043	+ 5,087	+ 75,540
Real Estate Loans	232,770	— 510	— 2,742
All Other Loans	381,206	— 4,127	+ 42,395
Total Security Holdings	1,746,078	+24,878	— 17,074
U. S. Treasury Bills	243,441	+22,122	+ 98,790
U. S. Treasury Certificates	86,913	+ 9,016	+ 44,156
U. S. Treasury Notes	316,636	—10,055	— 25,005
U. S. Treasury Bonds	923,676	— 532	—144,709
Other Bonds, Stocks & Secur.	175,412	+ 4,327	+ 9,744
Cash Items in Process of Col.	298,667	+40,210	+ 7,370
Due from Banks	198,938*	+16,347	— 6,402
Currency and Coin	76,840	+ 8,549	+ 3,798
Reserve with F. R. Banks	547,971	— 2,218	+ 97,350
Other Assets	55,428	+ 1,551	— 708
Total Assets	4,074,407	+89,738	+197,158
Total Demand Deposits	3,162,613	+93,565	+166,574
Deposits of Individuals	2,396,057	+99,182	+123,429
Deposits of U. S. Government	62,367	—48,356	— 26,000
Deposits of State & Loc. Gov.	145,538	—22,281	+ 11,678
Deposits of Banks	506,393*	+62,908	+ 55,392
Certified & Officers' Checks	52,258	+ 2,106	+ 2,075
Total Time Deposits	626,464	+ 3,627	+ 15,871
Deposits of Individuals	558,846	+ 2,492	— 5,212
Other Time Deposits	67,618	+ 1,135	+ 21,083
Liabilities for Borrowed Money	6,500	— 5,900	— 1,300
All Other Liabilities	28,209	— 2,437	+ 4,422
Capital Accounts	250,621	+ 883	+ 11,591
Total Liabilities	$4,074,407	+89,738	+197,158

** Less losses for bad debts.

* Net figures, reciprocal balances being eliminated.

SELECTED FIFTH DISTRICT BUSINESS INDEXES

AVERAGE DAILY 1935-39=100—SEASONALLY ADJUSTED

	Aug. 1951	Jul. 1951	Jun. 1951	Aug. 1950	% Change—Latest Month Prev. Mo.	Year Ago
Automobile Registration[1]	......	184	199	296	— 8	— 31
Bank Debits	423	427	423	394	— 1	+ 7
Bituminous Coal Production	163	157	158	146	+ 4	+ 12
Construction Contracts Awarded	572	590	507	689	— 3	— 17
Business Failures—No.	45	74	86	67	— 39	— 33
Cigarette Production	256	250	242	281	+ 2	— 9
Cotton Spindle Hours	153	134	160	164	+ 14	— 7
Department Store Sales	350	351	331	360	0	— 3
Electric Power Production	......	341	341	319	0	+ 12
Employment—Manufacturing Industries[1]	......	151	152	147	— 1	+ 8
Furniture Manufacturers: Shipments	......	......	249	362	......	......
Life Insurance Sales	322	314	289	441	+ 3	— 27

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

BUILDING PERMIT FIGURES

	August 1951	August 1950	8 Months 1951	8 Months 1950
Maryland				
Baltimore	$ 8,448,765	$ 7,440,050	$ 63,328,340	$ 58,476,105
Cumberland	1,115,159	107,585	1,574,389	824,400
Frederick	332,670	151,575	1,681,255	1,637,171
Hagerstown	2,344,172	201,246	3,427,452	2,682,486
Salisbury	52,276	320,959	1,239,145	1,268,791
Virginia				
Danville	222,856	382,383	1,804,878	1,361,196
Lynchburg	249,911	2,801,857	2,459,129	5,291,130
Newport News	80,962	191,146	1,023,707	1,337,594
Norfolk	701,980	1,445,830	19,256,721	10,308,403
Petersburg	140,090	289,018	2,617,489	4,470,131
Portsmouth	271,791	1,038,505	4,296,471	3,270,519
Richmond	771,024	2,226,076	19,865,821	18,015,826
Roanoke	956,972	1,404,537	13,266,927	12,814,636
West Virginia				
Charleston	855,329	656,378	4,079,275	10,433,281
Clarksburg	75,471	176,225	848,979	1,288,748
Huntington	1,974,237	1,286,343	6,772,157	5,364,756
North Carolina				
Asheville	165,565	359,715	4,172,080	3,435,535
Charlotte	1,097,405	2,771,519	15,031,650	21,030,413
Durham	420,567	2,209,958	3,690,988	12,379,946
Grensboro	700,678	1,657,868	5,951,218	9,246,742
High Point	314,075	527,200	2,442,979	2,934,294
Raleigh	1,917,745	3,349,180	8,843,559	12,514,765
Rocky Mount	1,026,144	294,961	2,626,431	3,375,463
Salisbury	84,747	311,177	915,978	2,473,737
Winston-Salem	455,411	1,298,849	12,323,677	8,951,982
South Carolina				
Charleston	103,934	283,800	1,105,315	2,110,563
Columbia	755,708	823,720	9,972,004	7,495,802
Greenville	444,700	3,715,400	7,601,329	8,496,074
Spartanburg	167,775	2,176,162	2,015,015	4,557,825
Dist. of Columbia				
Washington	5,698,374	4,852,791	44,233,797	47,943,232
District Totals	$31,946,493	$44,752,013	$268,468,155	$286,791,546

DEPARTMENT STORE OPERATIONS

(Figures show percentage change)

	Rich.	Balt.	Wash.	Other Cities	Dist. Total
Sales, August '51 vs. August '50	0	— 1	— 2	— 5	— 3
Sales, 8 Mos. '51 vs. 8 Mos. '50	+ 7	+ 5	+ 3	+ 3	+ 4
Stocks, August 31, '51 vs. '50	+10	+20	+18	+17	+18
Orders outstanding, August 31, '51 vs. '50	—39	—48	—49	—39	—46
Current receivables August 1 collected in August '51	26	48	46	36	39
Instalment receivables August 1 collected in August '51	15	17	20	20	18

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, Aug. '51 vs. Aug. '50	— 2	— 2	+ 1	— 2	— 9	— 7
Sales, 8 Mos. '51 vs. 8 Mos. '50	+ 5	+ 3	+ 6	+ 5	0	+ 4

WHOLESALE TRADE

LINES	Sales in August 1951 compared with Aug. 1950	July 1951	Stocks on August 31, 1951 compared with Aug. 31 1950	July 31 1951
Auto supplies (12)	— 9	+ 6	— 1	— 3
Electrical goods (4)	—12	+19	+ 61	— 3
Hardware (14)	—25	+13	+ 32	— 5
Industrial supplies (6)	—18	+ 3	+ 31	+ 1
Drugs & sundries (11)	+ 6	+ 6	+ 11	+ 3
Dry goods (13)	—12	+65	+ 23	—12
Groceries (48)	— 5	— 9	+ 4	— 2
Paper & products (5)	— 3	+11	----	----
Tobacco & products (10)	+ 9	+16	+ 21	+ 3
Miscellaneous (79)	—25	+14	+ 46	— 3
District Totals (202)	—15	+15	+ 30	— 4

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 Aug. 1951	8 Mos. 1951
Maryland (7)	— 3	— 4
District of Columbia (7)	— 16	+ 1
Virginia (18)	— 7	— 5
West Virginia (10)	+ 5	— 5
North Carolina (14)	— 14	— 8
South Carolina (6)	— 23	— 10
District (62)	— 10	— 3
INDIVIDUAL CITIES		
Baltimore (7)	— 3	— 4
Washington, D. C. (7)	— 16	+ 1
Richmond, Va. (6)	— 7	— 12
Charleston, W. Va. (3)	— 21	— 3
Charlotte, N. C. (3)	— 27	— 18

Number of reporting firms in parentheses.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

Industrial production continued somewhat below first-half levels in August and September, reflecting mainly reduced output in consumer goods industries. Consumer buying has been at somewhat higher levels than in early summer and distributors' inventories apparently have been reduced further. Prices generally showed little change after mid-August. Bank loans to business, mainly for defense and agricultural and other seasonal purposes, expanded over this period.

Industrial Production

The Board's index of industrial production in August was 218 per cent of the 1935-39 average, as compared with 213 in July and an average of 222 for the first half of the year. Preliminary indications point to little change in September.

Durable goods production increased in August but remained below the June rate. Activity in munitions and producers equipment industries generally expanded, despite work stoppages in an important machinery industry. Output of consumer durables showed little change from the reduced July rates. In the latter part of September steel mill operations were scheduled at 102 per cent of capacity as compared with a rate of 98.5 per cent in July and August. Output of copper and some other nonferrous metals was considerably reduced as a result of a labor dispute in late August and early September, and in mid-September aluminum production was curtailed somewhat owing to power shortages. Passenger car assembly for the third quarter was close to the authorized level of 1.2 million units.

Output of textiles, leather products, and paperboard in August showed smaller increases than usual for this season. Chemicals production rose further and output of most other nondurable goods continued in large volume.

Bituminous coal mining expanded in August and early September. Peak levels of output of crude petroleum and iron ore continued.

Construction

Value of construction contracts awarded declined somewhat in August, reflecting decreases for most types of public construction. Private awards showed little change. The number of housing units started in August was 85,000, about the same as in July but almost two-fifths below August 1950. Value of work put in place on industrial construction projects continued to rise in August and was double year-ago levels.

Employment

The labor market showed little change during August. Employment in nonagricultural establishments, after adjustment for seasonal factors, continued at the earlier high level of 46.6 million persons. The average work week in manufacturing industries remained at the moderately reduced July level and average hourly earnings were maintained at peak rates. Unemployment declined somewhat in August to slightly less than 1.6 million persons, the lowest since October 1945.

Distribution

Seasonally adjusted value of sales at department stores rose about 3 per cent in August to a level of 319 per cent of the 1935-39 average, but during the first three weeks of September sales showed a less than seasonal rise. Sales at most other retail outlets also increased slightly in August and in early September automobile sales were stimulated by prospects of price advances. Value of department store stocks, seasonally adjusted, declined in August to a point 10 per cent below the spring peak.

Commodity Prices

Wholesale commodity prices have generally shown little change since mid-August. Prices of textile materials have declined further, but during the past 10 days raw cotton prices have advanced as producers have restricted marketings at present prices. Among finished goods, prices of shoes, carpets, and sheets have been further reduced, while wholesale prices of new passenger cars were raised about 5 per cent in mid-September, following revision in Federal ceilings.

The consumers price index in August was unchanged from July. Slight declines in prices of foods and house-furnishings were offset by increases in rents and in prices of apparel and miscellaneous goods and services.

Bank Credit

Bank credit rose moderately during August and the first half of September reflecting some seasonal borrowing by businesses. Loans to food manufacturers and commodity dealers to finance the distribution and processing of crops began in the August-early September period and loans to finance direct defense contracts and defense-supporting activities, particularly loans to metal manufacturers, expanded further.

Deposits and currency held by businesses and individuals increased considerably in August and early September. This reflected both expansion in bank loans and a continuing shift of deposits from Government to private accounts prior to the receipt of mid-September income tax payments.

Security Markets

Common stock prices in the second week of September reached the highest levels since April 1930 and then declined somewhat in the third week. Yields on U. S. Government securities and high-grade corporate bonds showed little change. Holders of the 3 per cent Treasury bonds called for payment September 15 and the 1¼ per cent notes which mature October 1 were offered an exchange into an 11-month 1⅞ per cent certificate of indebtedness.