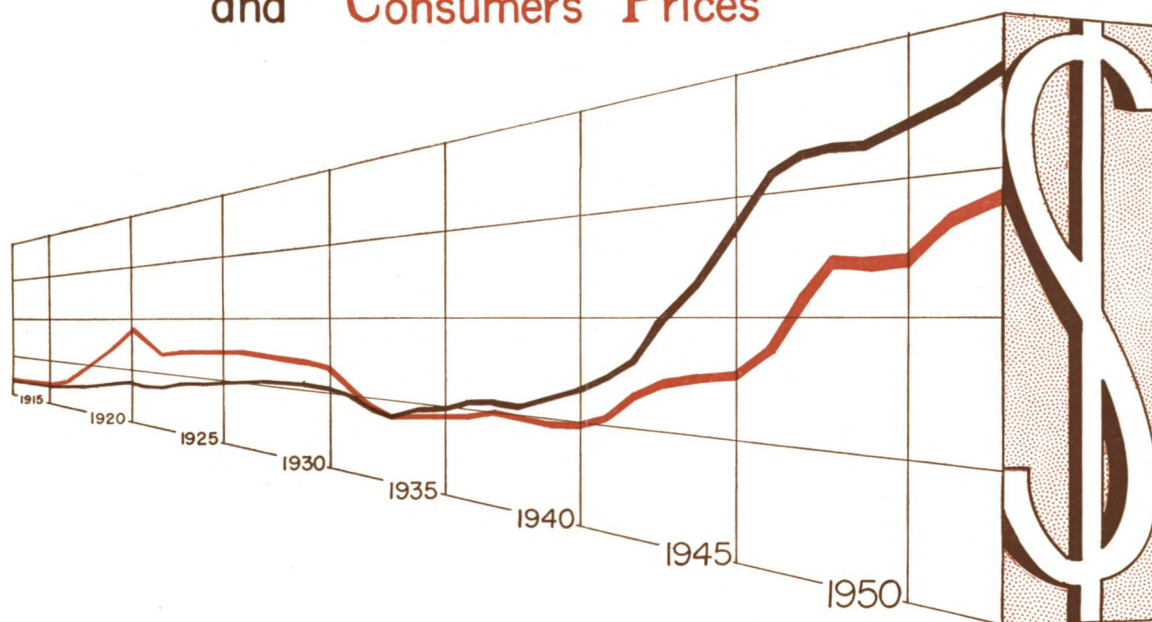




August 1952

## The Nation's Money Supply and Consumers' Prices



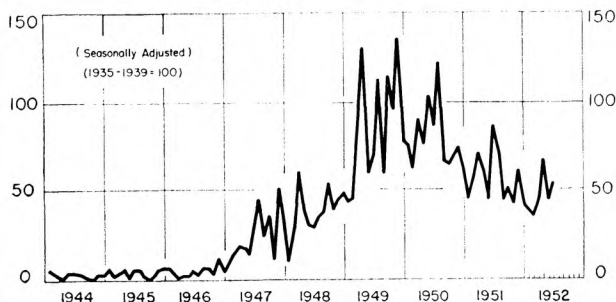
*Although the nation's money supply has been growing rapidly since 1915, the expansion during the last decade has greatly overshadowed all past increases. Interestingly, the movement of consumers' prices over the four-decade period has closely paralleled changes in the money supply. The article on page 3 attempts to clarify the nature and composition of our money supply and recent significant changes in it.*

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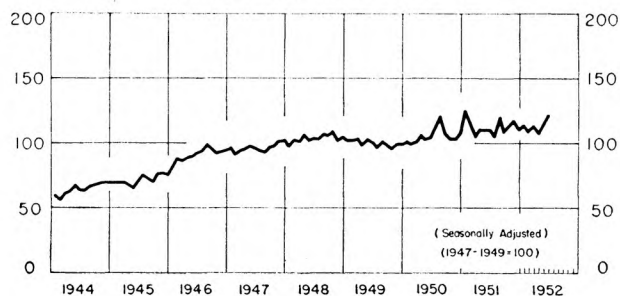
## FIFTH DISTRICT TRENDS

BUSINESS FAILURES



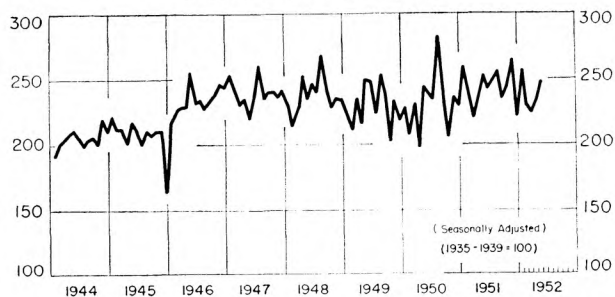
Reduced soft goods production over the past 12 months has not found more than a token reflection in business failures. Failures which have been in a general downward trend since 1949 leveled off thus far in 1952. June failures were 37% under a year ago.

DEPARTMENT STORE SALES



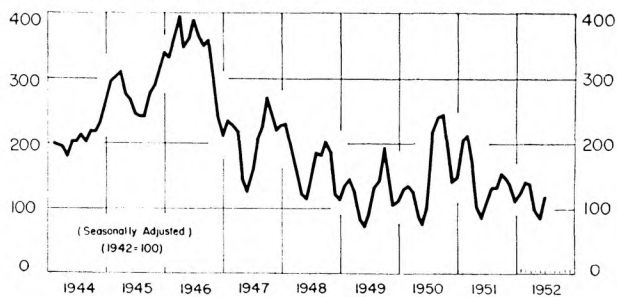
Department store sales in June (adjusted) were up 5% from May and 11% ahead of June 1951. The June figure (adjusted) was within 2.4% of the all-time peak established in January 1951. Substantial recovery in sales of major household appliances, radios and television aided materially in the sales rise.

CIGARETTE PRODUCTION



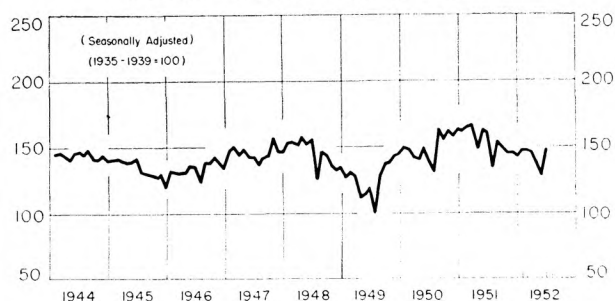
Latest figure, May, which is up 6% from April, but 3% under May, 1951. Five months output down 1%. The trend in consumption to king-size varieties gives an extra filip to the demand for flue-cured and Burley tobacco.

DEPARTMENT STORE OUTSTANDING ORDERS



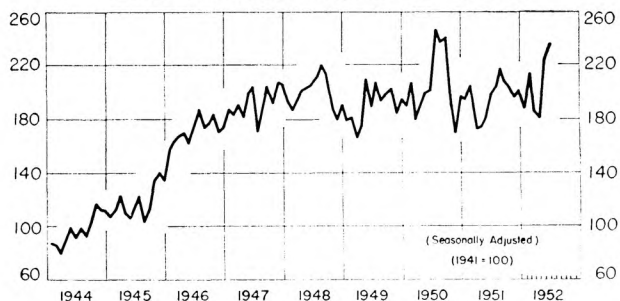
High level June sales in department stores gave considerable impetus to store purchases in that month with outstanding orders (adjusted) up 45% from May to a level 10% above a year ago. Store inventories (seasonally corrected) rose 7% from May to June, but were 3% under a year ago.

ACTIVE COTTON SPINDLE HOURS



Improved sales of cotton goods and yarns late in May and June brought mill operations during June to the highest level of the year. Spindle hours operated in June were 15% higher than in May and within 8% of the high plateau in late 1950 and early 1951.

RETAIL FURNITURE STORES NET SALES



Furniture store sales aided by the improved demand for household appliances (adjusted) rose 4% from May to a level 19% ahead of a year ago. June sales (adjusted) were within 3% of the all-time peak established in July 1950. Store inventories (adjusted) in June rose 2% from May but were 5% under a year ago.

## *Comments on the Rising Money Supply*

**W**HAT is money? Ask Mr. Average Man and the answer is spontaneous and to the point, "It is what I use for payment when I buy things." When pressed to be more specific, he may add "It's cash—paper money and coins." Ask an economist what money is and he will probably identify it by its functions including medium of exchange, measure of value, standard for deferred payments, and store of value. He may then name the things that serve these functions, being careful to give proper qualifications to each.

The Average Man and the economist should not be permitted to go their separate ways each content in his own understanding of money, probably the most important economic tool a modern society possesses. Money is basically important, of course, in its role as a medium of exchange. It may assume even greater importance when changes in the amount available do not keep pace with changes in the quantity of goods offered for sale as, for example, when the supply increased by two and a third times during World War II, a period when the production of many consumer goods had to be sharply curtailed or discontinued altogether.

### **The Nation's Money Supply Since 1939**

The nation's privately held money supply at \$184 billion in May 1952 was almost three times its 1939 level. This spectacular increase may be broken into two major periods based on the nature of money creation. From 1939 through 1945, new money came primarily from expansion in the public debt. Since 1945, additional money was created as a result of growth in private debt.

Money creation through incurring debt is brought about in this manner: The credit of a business firm is generally restricted in its use to the purchase of goods from a limited number of suppliers who are willing to sell to the firm on time. When the firm needs immediate purchasing power outside the limited range of its own credit, it seeks to convert its credit into money. It may do this by borrowing from its bank, that is, asking the bank to give money in exchange for the firm's credit. The money so received is generally in the form of a demand deposit, which is simply a credit entered on the books of the bank representing a legal obligation to pay on demand. Thus, the firm's credit has been exchanged for the bank's credit which is very widely accepted in exchange and is, therefore, classed as money. Private debt has increased and with it the money supply. Similar principles are invoked when Government borrowing (public debt) is substituted for private borrowing.

The financing of the war effort was by far the most important of the factors which caused increases in the money supply since 1939. As shown in the accompanying chart, the total money supply at the end of 1945 was two and one-third times its 1939 level. Commercial

bank's holdings of Government securities increased during the period from \$16 billion to \$91 billion, fivefold.

From December 1945 to May 1952, loans and securities other than Governments at all commercial banks increased from \$33 billion to an estimated \$72 billion, a twofold increase, while holdings of Government securities declined sharply. As seen in the chart the money supply during the postwar period increased by \$34 billion, to a level 22% above 1945. Private economic activity over the period has thus been the cause of a significant increase in the money supply.

The public may at times decide to hold a larger share of its money in the form of currency and coin and a smaller share in the form of demand or time deposits. The factors influencing the extent to which different types of money are used may be of a seasonal nature, such as the increased use of currency and coin during the Christmas season, or they may represent longer range influences related to the level and nature of economic activity. The increased use of currency and coin during the war years illustrates this latter influence. At the end of 1939 currency and coin in circulation made up only 10% of the total money supply. At the end of 1945 this proportion had jumped to 18%. This may be accounted for in part by the greater mobility of the population in war-time as compared to more normal periods and the use of cash to pay military personnel during the period.

During the war years demand deposits increased in importance from 47% to 50% of the total money supply while time deposits declined from 43% to 32%. By May of this year, currency and coin had declined from the high point of 18% in 1945 to 14% of the total. Demand deposits had continued their increase and in May were 52% of the total money supply while time deposits had climbed only slightly to 34%.

We have been speaking of the money supply as though it consists of currency and coin, demand deposits, and time deposits. The nature of these three components and the question as to whether all three should be classed as money need to be explored in some detail.

### **Business Activity and Spendings**

The spending or the flow of money is closely related to business activity. As a matter of fact it varies directly with changes in the level of business activity. In the United States today almost every business transaction is expressed in terms of money and completed by the use of money. Thus, the total flow of money in the nation is an important indicator of the level of business activity and changes in the flow may well reflect the trend of coming economic events. A foreknowledge of the effects of changes in the money flow provides the basis for monetary and fiscal actions to combat undesirable



inflationary or deflationary developments.

Because of the close relationship between the flow of money spendings, the flow of goods and services to the market place, and the prices which result from these two flows, bankers and businessmen have a strong and valid interest in the nature of money, its origins, its uses, and its influences on economic behavior. The amount of money that an individual spends is affected by many factors. One important factor is the amount of money he has on hand. More important than his supply of money is the individual's income, the periodic money flow to him which he expects to continue uninterrupted for some time. So it is with the nation as a whole—the total money spendings in the nation will be determined in part by the supply of money available and by the rate at which money is being used. This article is designed to throw light on an old but ever interesting question: What is the basic nature of money and exactly what serves this purpose today?

### What is Money?

There is some difference of opinion as to just what things should be included in a definition of money. Two of the most commonly used definitions, however, include the following: (1) Demand deposits and currency and coin in the hands of the public. (2) Demand deposits, currency and coin, and time deposits in the hands of the public.

Cut-and-dried definitions by themselves, though useful, hardly explain. To understand the role of money, one needs to know the characteristics peculiar to money, those things which place it in a category by itself.

Any article which is widely accepted in exchange for goods and services is in a limited sense money. Definitions of money, however, usually attempt to identify the most readily exchangeable things. The term liquidity is applied to this concept of ready exchangeability. Thus, the most liquid assets are those which are most widely acceptable in exchange. All assets can be listed in the order of their liquidity, say, from the most liquid to the less liquid, e. g., from coins to houses. The problem is to draw a line, in terms of liquidity, which separates money from non-money. Since interest is primarily in the effects of changes in the money supply on prices, employment and production, we also need to identify that portion of the money supply which is available for spending by consumers and business firms.

Currency and coin in the hands of the public are ac-

cepted without question as meeting liquidity requirements. At present, they are universally and immediately accepted in exchange for goods and services. To determine the supply of currency and coin held by the public, holdings by the Treasury, by the Reserve banks, and by private banks, for the reasons given below, are deducted from the total outstanding.

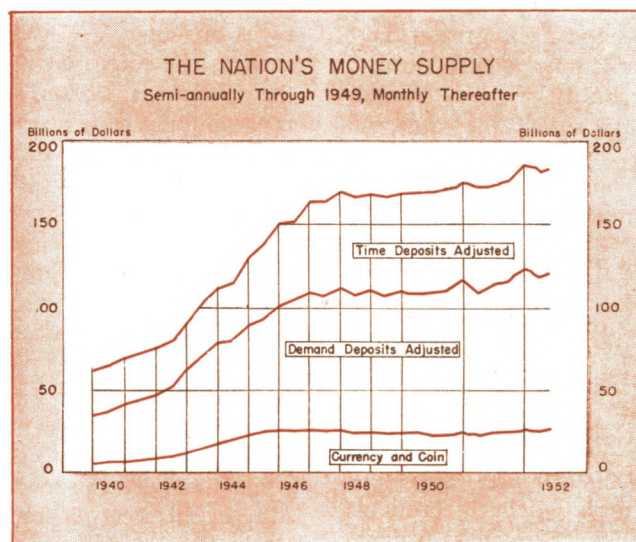
More than 85% of all payments in the United States are estimated to be made by checks drawn against demand deposits in commercial banks. Because of their ready acceptability, demand deposits give immediate purchasing power to their owners and, therefore, must be included in a definition of the money supply. To arrive at demand deposits held by the public, all interbank deposits, United States Government deposits, and items in process of collection are deducted from total demand deposits of commercial banks.

Interbank deposits are deposits by one bank in another bank and are, therefore, bankers' deposits. They are excluded because they fall in the same category as money not yet created. Banks create deposit money when individuals or business firms borrow from them. They also create deposit money when they make payments on their own account with checks drawn against themselves. Since the banks can and do create deposit money (within limits prescribed by law) amounts actually on hand have no more sig-

nificance than any possible amount they may create. The distinction is between actual money and potential money. Potential money is excluded from the nation's money supply. The same reasoning applies to currency and coin held by banks.

Interbank deposits serve a number of functions which cannot be readily foregone. They serve as clearing accounts and must be adequate for this purpose. In the case of non-member banks, a portion of their interbank deposits serve as reserves required by state law. Interbank accounts provide correspondent relationships which many banks find essential to efficient operations. Such factors tend more or less to freeze these deposits in place, making them unavailable for immediate use.

Items in process of collection are excluded to avoid double counting. When a check is deposited by an individual in his bank a certain interval elapses between the time when his account is credited with the amount involved and the time when the deposit is reduced in



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## Farm Production and Income Prospects

FARM income in this District was running well ahead of last year in the early months of 1952. The smaller production of some crops coupled with slightly lower farm prices suggests, however, that the lead over a year ago may not be maintained in the remaining months of 1952.

In view of the changing situation, it may be well to review these and other agricultural developments in some detail as a basis for anticipating what may be ahead.

### Marketings and Income Higher—Prices Lower Than in 1951

Through June of this year American farmers received about \$13.2 billion from the sale of farm products. This was 3% more than in the corresponding period last year. The physical volume of farm products sold was 7% larger, but prices averaged a little lower. Meanwhile, prices paid by farmers for production items, interest, taxes, and wage rates have averaged about 3% higher than during the first half of 1951.

During the six-month period, January-June, receipts from livestock and livestock products for the country as a whole totaled \$8.9 billion, or 4% less than a year ago. Crops, on the other hand, produced receipts totaling \$4.3 billion, or 21% more than from January through June 1951. Sharp increases in receipts from wheat, cotton, and potatoes accounted for most of the increase.

State income data are not available on as current a basis as are data for the entire country. Up to May 1, however, income from livestock and livestock products in Fifth District states was up 4%, income from crops was 25% greater, and total cash receipts from farm marketings were running 11% ahead of the corresponding months of 1951.

As an aid in interpreting these data, it is helpful to bear in mind the composition and seasonal pattern of farm income. While there has been a long-time upward trend in the relative importance of livestock and livestock products, farmers in this District still receive nearly two dollars from crops for each dollar received from their livestock enterprises.

Care should be exercised in projecting the gains in farm income in the early months of 1952 over the corresponding levels in 1951. Livestock income is distributed rather evenly through the year, whereas there is a strong seasonal movement in the income from sale of crops. Normally, Fifth District farmers receive only about one-fifth of the income from crops in the first half of the year. In contrast, they receive nearly one-half of the income from livestock and livestock products by mid-year and just over one-fourth of the total income from

the sale of all farm products. On the other hand, the months of September, October, and November account for 57% of the income from crops and 47% of the total from all sources.

The best sources of basic information for assessing the prospective level of farm income this fall are to be found in the monthly crop and farm price reports issued by the Bureau of Agricultural Economics (BAE). The prospects for 1952 crop production and farm prices are developed in the following sections.

### Crop Production Below 1951

Most of the income from crops received by farmers in

this area in early 1952 resulted from sale of crops produced in 1951. Income from crops during the remainder of 1952 will, for the most part, however, represent this year's production.

Tobacco leads all other products as a source of farm income in Fifth District states, accounting for 48% of the total income from crops and 31% of the total income from both crops and livestock during 1945-49.

As of July 1, prospects in Fifth District states were for a smaller total production of tobacco than in 1951. According to estimates of the BAE, flue-cured production in Fifth District states is down 3%, Burley production is off 4% and Maryland 18%. Estimates for Virginia fire-cured are 20% smaller, and Virginia sun-cured is 8% below 1951 levels. These reductions are attributable to lower yields, since acreage is the same or larger than in 1951 for all types except Maryland.

Cotton ranks second to tobacco as a source of farm in-





come among Fifth District crops and, together with cottonseed, accounts for 18% of the income from crops and 12% of the total income from farm marketings. Since the first official estimate of cotton production (due August 8) is not available as this is written, the best indication of the size of the 1952 crop available at the time of writing is the estimated acreage in cultivation on July 1. Fifth District cotton acreage on that date was 5,000 acres larger than in 1951 with Virginia accounting for most of the increase. For the country as a whole, cotton acreage is 7% below 1951.

*Peanuts*, though tremendously important in certain

year compared with 38% of the total during the decade of the 1940's.

*Feed crops* production will be nearly as large this year as last in the Fifth District. Indications as of July 1 were that corn production would be about 3 million bushels, or 2% lower than in 1951. Smaller crops of barley and rye also were indicated. The oat crop, on the other hand, is about 5% above 1951 and the sorghum acreage, though comparatively small, is somewhat larger this year. Total hay production is expected to be a little smaller this year, but slight increases are expected in alfalfa and lespedeza.

While the actual outturn of the various crops may be

### **Drought—The Bankers' Problem**

**N**ATURE, which has a way of upsetting the most carefully calculated of man's plans, has done it again. Withering drought and abnormally hot weather over much of the Fifth District during late July played havoc with crops on many farms and, in spite of scattered rains toward the end of the month, it appears that over-all crop production will be below the estimates in the July crop report, on which the accompanying article was based.

A spot check of several sections of the Fifth District on August 1 brought discouraging news: Many corn fields are too far gone for later rains to revive. Tobacco fields in some areas have smaller crops and the quality of the leaf has been hurt. Dry pasture land has caused some dairymen to begin feeding their meager supplies of hay to the cattle, making it sure

that they will have to buy hay in quantity during the winter months. Vegetable crops have been hurt in both quantity and quality. Many fruit growers report unusually small fruit with consequent lower yields.

The drop in production will mean that many farmers will have lower incomes this year than in several recent years. Not all of the area's farmers have been unlucky, of course, and, with lower over-all production, some will doubtless get higher prices for the fruits of their labors. But the farmers who fail to make a crop will benefit little from higher prices, and many who usually grow enough feed for their own livestock, with some left over for sale, may have to buy feed this winter—an unhappy combination of lower income and greater outlay. Some entire com-

Continued on page 11

areas of the District, accounted for only 4% of the income from crops and 3% of total cash farm income for the District during 1945-49. The sharp cut in peanut acreage allotments in 1952 largely accounts for the 15% reduction in Fifth District peanut acreage.

*Wheat* production in the District was estimated in July as 1% larger than in 1951. This aggregate increase, however, fails to reveal that production in South Carolina increased more than enough to offset the substantial decline in Maryland and the moderate reductions in Virginia and North Carolina.

It is worthy of comment that Maryland, Virginia and West Virginia are currently producing less wheat than during the decade of the 1940's. North and South Carolina, on the other hand, are producing substantially larger quantities of wheat. As a consequence, these latter two states produced 48% of the District total this

quite different from that indicated on July 1, there is the possibility that marketings from 1952 farm production in the last half of this year may run somewhat below the corresponding level a year earlier. Whether marketings of livestock and livestock products will continue to run ahead of last year, and thus offset such weakness as may be found in crops, remains to be seen.

### **Prices Received and Paid**

Prices received by farmers in June were about 3% below the level a year ago for the country as a whole. The decline of 9% in the prices of livestock and livestock products was partially offset by a 5% increase in the price of crops.

The price of Maryland tobacco has been running substantially under that in 1951 despite the improved quality

Continued on page 11

## *Recent Developments in Municipal Bond Financing*

Public Credit Finds New Uses and Volume Reaches New Highs

**A**N all-time record year of state and municipal bond financing is in the making. In 1950, when the full-year record for new issues was set, offerings throughout the nation reached the \$2 billion level by the end of the first six months. This record was erased during the first half of the present year by a volume that raced past the \$2 billion mark and reached \$2.5 billion. This huge total was attained despite the exceptionally heavy flotations of the past five years and the restrictive influence of the Voluntary Credit Restraint Committee during the first quarter of 1952.

With West Virginia leading the way with two unusually large issues—\$96 million of turnpike bonds and \$30 million of veterans bonus bonds—the Fifth District states and municipalities offered investors \$298 million of new bonds in the first half of this year, the largest amount ever borrowed by these public bodies in a comparable period. This was 34% greater than the previous record-amount for the first half of 1950 and well above the corresponding national gain of 21%.

Indications are that the annual volume of tax-exempt securities in the nation will be lapping at high-tide marks for some time to come. A recent meeting of the Municipal Forum of New York was told that the backlog of state and municipal capital projects, excluding public housing, for the next decade is estimated at around \$100 billion. It is not likely that all the projects will materialize or that such an amount of new indebtedness will be incurred in this period. Inhibiting factors, it was explained, would likely be found in national defense requirements, inflation control, and limited fiscal resources.

Nevertheless, this tremendous amount of financing requirements can hardly be called imaginary. One has but to observe the crying needs for more and better school facilities, for extensive street and highway improvements, for water and sewerage extensions to suburban areas, for hospitals, housing, and dozens of other public services and facilities to realize what a lot of money is sorely needed to meet growing demands from a social-minded public for more and better services.

There is an important angle to this vast backlog of capital requirements easily overlooked in the shuffle of attention given to defense spending and to the record outlays for corporate plant and equipment. As the impact on business activity of defense spending tapers off and if, as some authorities expect, investment by corporations in plant and equipment declines markedly in the next year, some of the slack could be taken up by increased spending by state and local governments.

### **Revenue Bonds and Turnpikes**

Until a few years ago, the word "turnpike" was familiar only to those who had read early American his-

tory, but since the opening of the Pennsylvania Turnpike in 1940, the forerunner of 20th century toll roads, millions of persons have become familiar with high-speed, continuous-traffic expressways. Although only a small number has been constructed, considerable interest in turnpikes as the answer to chronic problems of congested highways and inadequate highway finances has developed—largely as a consequence of the better-than-estimated success of the New Jersey Turnpike.

Toll roads are presently being constructed in Colorado, New York, and Oklahoma, and plans in Ohio and Indiana are nearing the construction stage. In the Fifth District, West Virginia issued \$96 million of revenue bonds last March for construction of an 88-mile toll turnpike southward from Charleston to Princeton near the southern West Virginia-Virginia line. And in Virginia and North Carolina, legislation was enacted during the past year providing authority for financing future construction of turnpikes with revenue bond issues.

Is all this indicative of another Turnpike Era—with public agencies acting in place of the private interests of the first Turnpike Era? This is a moot point, but even if, as is likely, only a modest number of toll roads is constructed, it would effect a very substantial increase in the amount of outstanding revenue bonds. It has been pointed out that the single record-setting issue of \$326 million of Ohio Turnpike revenue bonds last June nearly equaled the year's total of all revenue bonds issued in the country as recently as 1947. Aside from such giant issues, there has been an increasing resort to revenue bonds for financing a wider range of public projects. In the Fifth District, as in the United States, a larger amount of revenue bonds was issued in the first half of 1952 than in any previous six or twelve-month period.

### **. . . and Municipal-Industrial Projects**

It has been said that the revenue bond is no longer something new and different, but as already indicated, there have been new uses of funds derived from such bond issues. One of the more controversial uses is the construction and equipment of industrial plants for lease to private industry. No permissive laws for such bonds exist in the Fifth District, but several other states—Alabama, Illinois, Kentucky, Mississippi, and Tennessee—have enacted such enabling legislation.

Opposition to such issues came to a head last year when the Investment Bankers Association, the Municipal Finance Officers Association, and the Chairman of the Securities and Exchange Commission registered their objections to the practice. In general, opposition is based on the following points: (1) Municipal bonds, unlike private corporation securities, are not subject to the jurisdiction of the SEC, but if they continue to be

issued to finance property used by private concerns, a plausible argument could be made that they should come under the authority of the SEC for the protection of the investing public. (2) The use of public credit in conjunction with industrial projects may weaken municipal credit in general. (3) If an increasing volume of such tax-free bonds is issued, Federal revenue may suffer and courts may decide that income from these bonds should be taxed. Or, as expressed by the Chairman of the SEC, "if the practice referred to is continued it will be only a matter of time until Congress will attempt to put an end to it"—possibly by adopting legislation removing the tax exemption from municipal-industrial bonds. It has been argued also that once one type of municipal bond is taxed, it will open the door to taxation of all municipal bonds.

### **. . . Raise Important Questions**

A point not spelled out in the preceding statement of objections to the use of revenue bonds for industrial promotion is that generally they are payable solely from the rentals of the property involved. It has been charged that this fact might not always be made known to purchasers of the bonds and that they might not, therefore, be aware that taxes or other revenues of the municipality would not be available for payment of the bonds.

In Mississippi, however, the law permits municipali-

ties to finance industrial projects by issuing general obligation bonds which are backed by the taxing power of the locality floating the bonds. In such cases, any default on the part of the private company leasing public property would become a liability of the community and payable from general funds of the municipality.

Will this practice, if extended to other states, tend to change or lessen the importance of the fundamental point that an industrial project sponsored and financed by a municipality should stand or fall on its own merits and financial strength? And if private investors shun particular municipal-industrial issues, is there a possibility—because of the enthusiasm of the parties to the project and the extent to which negotiations and efforts on the project had already proceeded—that pressure would be exerted to get the state to purchase the bonds? Would this be a favorable or an unfavorable development?

It would be well if these and other questions, along with the basic problem of whether construction and financing of industrial facilities are proper or suitable functions of local governments, could be resolved satisfactorily before too long. States and municipalities have too much at stake to risk developments that might weaken their credit, obstruct the smooth placement of their bonds, or threaten their tax-exemption privilege.

E. M. D.

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## ***Comments on the Rising Money Supply***

Continued from page 4

the bank against which the check is drawn. The check is in "process of collection" during this period and appears as deposited funds on the book of both the banks. These items are deducted to avoid this duplication.

Deposits of the U. S. Treasury are, of course, not a part of the privately held money supply. Although they are immediately available to the Treasury for spending, they are generally excluded from definitions of the money supply on the basis that their level is not a determinant of Treasury spending. Congressional action in the last instance determines this. Furthermore, within limits prescribed by law, the Treasury can create money. The reasoning given above as to bank created money applies here: money in the hands of a money-creating agency is not in any significant respect different from money which may be brought into being. The line is drawn between actual money and potential money.

Up to this point, the discussion has been within the limits of both definitions given above. The second definition, however, includes time deposits which are made up of time (or savings) deposits in commercial and mutual savings banks and Postal Savings deposits. The reasoning for including time deposits in the definition of the money supply is that, in practice, time deposits are almost as readily available for spending as demand deposits or currency. Most banks make time deposits

available to their customers on demand although they may require a waiting period of from 30 to 60 days.

Those who exclude time deposits do so, in part, on the basis that such deposits must be converted into either currency or demand deposits before they can be spent. Many other assets also possess high liquidity, for example, shares of Savings and Loan Associations, short-term Treasury securities, and prime commercial paper. All of these may be converted immediately into demand deposits or cash with little risk of loss. Analysts who exclude time deposits argue that it is illogical to draw the line short of these other very liquid assets.

Whatever definition is used, there need be little confusion if the component parts are clearly stated. An interpretation of the influences stemming from changes in the money supply, however, will be significantly affected by the component in which the change occurs. For example, the interpretation of a given change in the total money supply may be different if the change is found entirely in demand deposits than if the change is entirely in time deposits. The former may indicate increasing business activity, the latter decreasing. The prudent banker and businessman will follow changes in the money supply by its component parts, not as a single figure representing a homogeneous economic factor.

R. P. L.



## *Business Conditions and Prospects*

Improvement both in trade levels and in soft goods production was in evidence during June, but the steel strike put selective crimps in several segments of the District's industrial activity. The primary impact of the strike was in the steel producing plants and in so-called captive coal mines. To a lesser extent it has adversely affected steel fabricating industries and railroads and has slowed down some construction activity.

The steel strike is over, but its consequences will continue to be felt for some months to come with construction and steel fabrication probably being held at lower levels than would hold if ample steel supplies could be expected.

Widespread television coverage of political conventions, together with the extremely high temperatures in many sections of the country adversely affected store traffic in many lines of trade in July. Abnormal temperature, however, markedly improved sales of air conditioners, refrigerators and electrical fans, and the political conventions probably influenced the better level of sales of television sets.

Aside from the industries affected by the steel strike, employment levels in the District improved during June. United Mine Workers have given notice of termination of their contract which will become effective late in September. There are no indications as yet whether another paralyzing strike will take place, but the fact that coal stocks in most users' hands are at a high level would at this time seem to suggest that settlement could be arranged without too much interruption.

The soft goods industries of the District seem ready for recovery, though the amount and speed of that recovery are somewhat contingent on the ability of steel-using industries to get back into full employment. The outlook for the District, even if recovery nationally is slow, is for an improving level of production, employment and trade.

### **Construction**

Total construction contract awards in June (adjusted) were up 3% from May and 2% ahead of a year ago. In the first half of the year, total awards were down 48%, but if the Savannah River Atomic Project is eliminated, the first six months would show a drop of 12% from a year earlier. Residential construction in June rose 11% (adjusted) from May to a level 15% above a year ago and in the first six months of the year was 1% higher than a year ago.

Certificates of necessity were issued between June 13 and July 10 for construction in the amount of \$44 million which was somewhat higher than in several past months. Contract awards for military construction in June were \$38.4 million, and as of July 25 the July total

was nearly \$36 million. Some fairly substantial industrial facilities have been projected in both June and July, amounting in value to nearly \$140 million.

The long steel strike has reduced steel supplies even in plants on defense production, and it is more than likely that defense plants will receive the first steel shipments until their supplies are at workable levels. It is probable, therefore, that further effects of the strike will be witnessed in the construction industry, particularly those projects outside of defense and military requirements.

### **Textiles**

New business in cotton goods is termed slow in trade circles but occasionally a fairly substantial volume of future orders continues to be placed. Expectations are that during August a substantial improvement in commitments will take place, even though recovery in employment levels throughout the country may be slowed because steel pipe lines need to be filled to attain pre-strike employment levels.

Cotton spindle hours operated in the District snapped back substantially in June and have risen 15% on an adjusted basis from May to a level within 8% of a year ago. Cotton consumption, which had not fallen as substantially as spindle hours from April to May, showed an adjusted rise of 1% from May to June to a level also within 8% of a year ago. The June recovery in the industry's operations put it back to the level that prevailed early in the year. Anticipations for fall and winter seem to point to a considerably better level than that prevailing in June.

The hosiery industry is in an optimistic frame of mind. Consensus of opinion is that the price structure on full-fashioned hosiery has reached bottom and hope continues for improvement in the price level in the fall. Interestingly, one producer which had been prominent in price reductions has made its first advance in more than a year and a half. The seamless branch of the industry appears more optimistic than the full-fashioned. Sales of men's and children's hosiery are considered at a good level and still further improvement is anticipated in coming months. Chain stores have been important buyers in the men's hosiery field, as well as in children's anklets.

Business of yarn spinners has picked up notably with knitting yarns accounting for the bulk of the rise. This reflects the improvement in seamless hosiery and in the knit underwear business. Yarn spinners did not profit very much from recent government contract awards, since most of these went to the integrated producers. There has, however, been a good demand from the narrow goods industries, particularly those making webbing.

Work clothing industries are seasonally slack at the present time, but there is a considerably better feeling among the producers, and the outlook is not without promise.

### Durable Goods Industries

Although the lumber industry is operating at levels below a year ago, the price structure is showing moderate firmness. With stumpage and other costs high, many of the small mills remain shut down while those remaining in operation are enjoying a fairly good volume. The housing outlook continues to show substantial strength and, as a consequence, the demand for lumber continues at a good level.

The status of steel inventories at the shipyards is not known, but the length of the steel strike probably left inventories insufficient to continue operations at the high level of the first five months of the year. Firms operating on merchant ship contracts see little business ahead on completion of present contracts. Those working on naval ships, however, will probably continue to expand their employment levels.

Another atomic energy plant is projected for the Ohio River Valley. From the viewpoint of desirable site factors, a river location between Wheeling and Huntington might well be chosen. Ordnance works in the District

are operating at full tilt and expansion in some of these installations is under way.

### Banking Developments

Deposits of member banks continued to rise during June with a gain of 2.9% over May and 8.9% over a year ago. Time deposits during June rose 0.5%—a level 8.1% ahead of a year ago—attesting to the continuing savings trend.

Total loans of member banks were up 1.3% in May to a level 4.5% over a year ago. The weekly reporting banks have shown a less than seasonal decline since spring in their commercial, industrial and agricultural loans. Consumer loans, on the other hand, have shown a rather sharp increase since the spring months and a considerable jump took place during May and June. Loans on real estate have continued their moderate upward trend, and total loans early in July were at an all-time high level. Business loans appear to be bottoming out and the time is at hand for the expected seasonal rise. Trade loans, loans to sales finance companies, public utilities and construction firms have been rising persistently since spring. These gains have been more than offset by decreases in loans to manufacturing and mining concerns and to commodity dealers.

### DEBITS TO INDIVIDUAL ACCOUNTS

(000 omitted)

	June 1952	June 1951	6 Months 1952	6 Months 1951
Dist. of Columbia				
Washington .....	\$1,109,632	\$1,097,041	\$ 6,633,415	\$ 6,385,810
Maryland				
Baltimore .....	1,370,940	1,252,493	7,713,367	7,410,070
Cumberland .....	30,347	26,418	157,606	148,913
Frederick .....	22,785	22,767	135,715	123,987
Hagerstown .....	34,683	34,982	211,740	194,102
North Carolina				
Asheville .....	59,729	62,833	367,885	357,499
Charlotte .....	342,124	331,191	2,076,081	2,023,938
Durham .....	118,317	100,196	631,748	586,880
Greensboro .....	107,798	104,447	647,876	611,434
Kinston .....	19,910	16,583	114,832	95,692
Raleigh .....	164,876	227,776	1,065,863	1,005,902
Wilmington .....	45,972	46,572	271,667	253,976
Wilson .....	17,084	16,430	107,042	108,374
Winston-Salem .....	192,777	177,314	1,026,236	991,818
South Carolina				
Charleston .....	87,206	76,767	481,705	446,661
Columbia .....	140,474	129,786	864,369	751,968
Greenville .....	106,221	116,792	625,467	673,902
Spartanburg .....	65,260	66,197	407,417	401,020
Virginia				
Charlottesville .....	28,909	28,081	166,569	161,530
Danville .....	31,533	34,501	198,655	199,176
Lynchburg .....	48,385	47,419	276,728	280,323
Newport News .....	49,083	43,832	287,359	251,332
Norfolk .....	253,582	228,256	1,476,242	1,285,505
Portsmouth .....	33,186	26,709	173,426	150,658
Richmond .....	586,168	595,192	3,433,525	3,272,601
Roanoke .....	116,757	118,477	697,973	678,563
West Virginia				
Bluefield .....	47,725	49,058	299,870	282,999
Charleston .....	170,782	155,883	1,024,997	910,171
Clarksburg .....	34,411	34,026	220,141	207,404
Huntington .....	64,403	67,030	432,882	400,080
Parkersburg .....	30,223	32,475	182,873	182,976
District Totals .....	\$5,531,282	\$5,367,524	\$32,411,271	\$30,835,264

### 50 REPORTING MEMBER BANKS—5TH DISTRICT

(000 omitted)

	July 16, 1952	June 18 1952	Change in Amount from July 18, 1951
ITEMS			
Total Loans .....	\$1,217,459**	+ 8,246	+ 58,091
Bus. & Agric. ....	561,228	+ 2,399	+ 10,151
Real Estate Loans .....	249,032	+ 2,118	+ 15,011
All Other Loans .....	423,098	+ 8,649	+ 34,383
Total Security Holdings .....	1,920,325	+ 88,724	+259,526
U. S. Treasury Bills .....	307,205	+ 38,401	+130,838
U. S. Treasury Certificates .....	175,076	+ 9,840	+128,681
U. S. Treasury Notes .....	273,765	— 864	— 82,406
U. S. Treasury Bonds .....	928,742	+ 39,256	+ 15,174
Other Bonds, Stocks & Secur. ..	235,537	+ 3,091	+ 67,239
Cash Items in Process of Col. ..	283,518	+ 2,715	+ 41,511
Due From Banks .....	184,943*	+ 3,331	+ 971
Currency and Coin .....	74,484	+ 189	+ 3,703
Reserve with F. R. Banks .....	580,578	+ 8,887	+ 38,469
Other Assets .....	54,145	+ 443	+ 997
Total Assets .....	4,315,452	+ 88,099	+403,268
Total Demand Deposits .....	3,333,049	+ 68,819	+315,904
Deposits of Individuals .....	2,414,089	+ 15,033	+157,779
Deposits of U. S. Government .....	212,263	+ 91,547	+102,188
Deposits of State & Local Gov. ..	195,832	+ 5,775	+ 21,679
Deposits of Banks .....	457,872*	+ 1,654	+ 32,406
Certified & Officers' Checks .....	52,993	+ 15,124	+ 1,852
Total Time Deposits .....	653,587	+ 2,851	+ 35,659
Deposits of Individuals .....	573,977	+ 2,663	+ 18,682
Other Time Deposits .....	79,610	+ 188	+ 16,977
Liabilities for Borrowed Money ..	39,100	+ 17,500	+ 38,600
All Other Liabilities .....	31,169	— 900	+ 2,499
Capital Accounts .....	258,547	+ 171	+ 10,606
Total Liabilities .....	\$4,315,452	+ 88,099	+403,268

\*Net figures, reciprocal balances being eliminated.

\*\*Less losses for bad debts.



## Farm Production and Income Prospects

Continued from page 6

of the crop being marketed. The level of support for flue-cured tobacco will be 50.6 cents per pound this season—practically the same as the 1951 support price of 50.7 cents per pound. According to *The Tobacco Situation*, issued by BAE, the price of flue-cured tobacco is not expected to be much different this year than the 52.4 cent average received for the 1951 crop. This estimate is based on the belief that continued strength in domestic demand will about offset the weaker export demand.

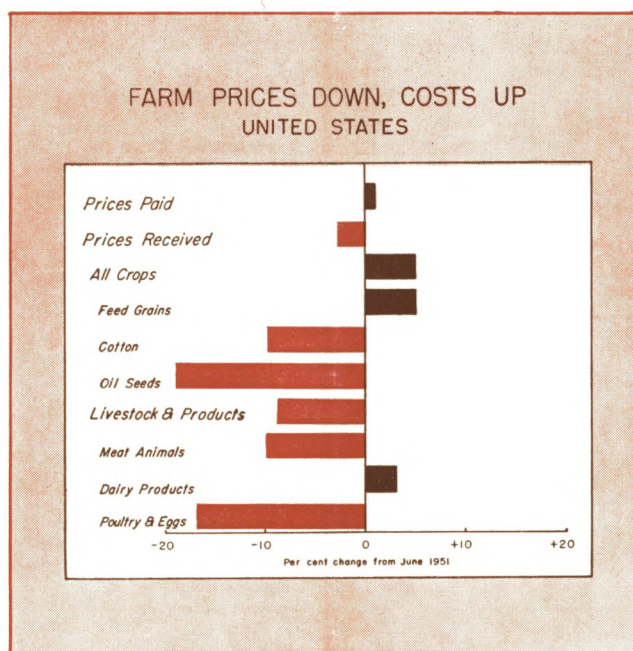
It is rather meaningless to compare the level of cotton prices on any given date in July 1952 with the level on the corresponding date of 1951. Readers may recall that prices fell sharply a year ago when it became apparent that cotton production would be much greater than in 1950. It might be noted that, whereas the acreage estimate in July 1951 was associated with distinct price weakness, this year's acreage report was associated with only moderate price response.

Prices of most other farm products that are important to this area are about the same as, or slightly below, last year. Potatoes are a notable exception being sharply higher than a year ago—though below the recent spectacular levels. Other exceptions are meat animals and poultry and eggs which are well below levels at this time last year.

In summary, it seems unlikely that over-all marketings can continue to run ahead of 1951 for the remainder of the year and thus offset the lower prices that have prevailed this year.

On the basis of current production and price indications, many farmers will sustain rather sharp reductions in gross farm income this year. These and many more are also likely to experience rather marked reductions in net farm income as a result of the increase in the cost of producing this crop. Even so, 1952 probably will be remembered in years to come as a year of favorable farm income.

H. G. P.



## Drought—The Bankers' Problem

Continued from page 6

munities may be hard hit by the drop in farm income.

While the Fifth District states, Maryland, Virginia, North Carolina, South Carolina, and West Virginia, are not likely to turn into a dust bowl, the matter is still one of great concern to many farmers—and to many bankers. For the farmers' problems are frequently the bankers' problems, too.

Bankers know that the hot, dry weather this summer and consequent drought-curtailed income will mean less business on Main Street this fall and winter. Farmer-owned deposits in many seriously affected communities will tend to lag below last year's. Some farmers who in recent years have had enough capital of their own to finance their needs will now find it necessary to borrow before another crop is made. Some who are already

borrowers will find their incomes so reduced that they will have to seek to carry over some of this year's debts into 1953, as well as borrowing more funds for the year ahead.

If this unfortunate situation means added problems for bankers, though, it does not mean problems they are unwilling or unable to tackle. Over the past several years, Fifth District bankers have been giving more and more attention to the special needs of farmers, and consequently are able to help farmers meet the particular difficulties of the drought.

Most of them will agree with the editor of the *Richmond Times-Dispatch*, who wrote on August 1: "It is in the interest of the local banks to keep the farmers solvent."

### SELECTED FIFTH DISTRICT INDEXES

AVG. DAILY 1935-39=100—SEASONALLY ADJUSTED

	June	May	June	% Chg.—	
	1952	1952	1951	Latest	Mo.
				Prev.	Yr.
				Mo.	Ago
Automobile Registration*	166	199	— 2	— 18	
Bank Debits	452	455	423	— 1	+ 7
Bituminous Coal Production	131	136	157	— 4	— 17
Construction Contracts	516	503	507	+ 3	+ 2
Business Failures—No.	54	45	86	+20	— 37
Cigarette Production	278	246	242	+13	+15
Cotton Spindle Hours	148	129	160	+15	— 8
Department Store Sales**	122	116	110	+ 5	+11
Electric Power Production	379	341	0	+15	
Manufacturing Employment*	150	152	— 1	— 0	
Retail Furniture: Net Sales	237	227	199	+ 4	+19
Life Insurance Sales	341	339	289	+ 1	+18

\*Not seasonally adjusted.

\*\*1947-1949=100. Back figures available on request.

### WHOLESALE TRADE—FIFTH DISTRICT

LINES	Sales in		Stocks on	
	June 1952	June 30, 1952	June 30, 1951	May 31, 1952
	compared with	compared with	compared with	compared with
	June 1951	May 1952	June 30, 1951	May 31, 1952
Auto supplies (6)	+28	+11	+ 3	+ 1
Electrical goods (6)	— 2	+11	— 12	— 7
Hardware (10)	+ 4	— 7	— 18	— 1
Industrial supplies (7)	— 6	— 8	— 4	— 3
Drugs & sundries (11)	+ 6	— 4	0	— 1
Dry goods (10)	— 1	— 12	— 20	+ 9
Groceries (54)	+ 3	— 1	+ 7	0
Paper & products (6)	— 13	— 1	—	—
Tobacco products (10)	+ 9	— 3	+ 2	0
Miscellaneous (97)	+ 9	+ 7	— 14	+ 1
District Totals (217)	+ 6	+ 1	— 11	0

Number of reporting firms in parentheses.

Source: Department of Commerce.

### DEPARTMENT STORE OPERATIONS

(Figures show percentage changes)

	Rich.	Balt.	Wash.	Other Cities	Dist. Totals	
Sales, June '52 vs June '51 ..	+ 7.7	+ 5.7	+ 0.2	+ 7.1	+ 4.0	
Sales, 6 Mos. '52 vs 6 Mos. '51 ..	+ 2.9	+ 2.2	— 2.0	+ 1.6	+ 1.7	
Stocks, June 30, '52 vs '51 ..	— 9.9	— 3.3	— 4.9	— 5.9	— 5.4	
Outstanding Orders, June 30, '52 vs '51 .....	+13.9	— 6.2	+12.2	+24.9	+ 8.6	
Current receivables June 1 collected in June 1952 .....	23.1	45.5	42.4	40.2	38.2	
Instalment receivables June 1 collected in June 1952 .....	13.1	17.6	14.9	17.3	15.6	
	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, June '52 vs June '51 ..	+5.7	+0.2	+7.8	+9.6	+9.8	—0.2

### RETAIL FURNITURE SALES—FIFTH DISTRICT

Percentage comparison of sales in periods named with sales in same periods in 1951

STATES	June 1952	6 Mos. 1952
Maryland (7)	+14	+ 6
Dist. of Col. (7)	— 9	— 7
Virginia (18)	+16	+ 8
West Virginia (10)	+21	+21
North Carolina (15)	+20	+15
South Carolina (6)	—23	— 6
District (63)	+ 5	+ 3
INDIVIDUAL CITIES		
Baltimore, Md. (7)	+14	+ 6
Washington, D. C. (7)	— 9	— 7
Richmond, Va. (6)	+18	+14
Charleston, W. Va. (3)	+23	+28

Number of reporting firms in parentheses.

### BUILDING PERMIT FIGURES

	June 1952	June 1951	6 Months 1952	6 Months 1951
Maryland				
Baltimore	\$ 6,045,185	\$ 6,377,255	\$ 32,136,305	\$ 41,448,400
Cumberland	50,249	56,800	179,124	434,285
Frederick	173,950	157,625	1,372,423	968,260
Hagerstown	205,545	145,550	843,633	991,150
Salisbury	174,843	73,555	762,199	948,099
Virginia				
Danville	507,797	198,263	3,367,057	1,443,925
Lynchburg	380,118	197,819	1,410,698	2,050,747
Newport News	239,026	84,431	5,893,516	781,960
Norfolk	881,427	863,440	11,483,265	10,239,148
Petersburg	126,007	675,992	903,001	2,233,100
Portsmouth	330,343	173,765	5,437,340	3,843,280
Richmond	1,142,260	1,373,697	8,934,119	9,892,949
Roanoke	906,148	3,616,960	5,265,418	11,474,858
West Virginia				
Charleston	5,848,140	421,698	8,824,324	2,654,134
Clarksburg	111,160	186,057	471,357	650,547
Huntington	542,806	625,836	2,314,981	4,136,430
North Carolina				
Asheville	219,792	432,587	1,716,627	3,853,775
Charlotte	935,541	1,336,153	11,312,012	11,883,564
Durham	660,092	260,560	4,586,660	2,862,063
Greensboro	1,425,185	630,623	4,403,853	4,361,719
High Point	340,115	236,680	1,776,345	1,781,394
Raleigh	1,558,636	472,869	9,094,919	6,654,394
Rocky Mount	340,763	78,974	1,868,176	1,503,160
Salisbury	69,167	90,940	1,126,335	782,531
Winston-Salem	943,878	6,334,188	5,052,983	11,518,612
South Carolina				
Charleston	188,871	103,265	827,508	905,724
Columbia	588,154	3,346,565	6,077,398	8,517,017
Greenville	505,163	407,150	4,897,968	6,529,379
Spartanburg	114,800	178,700	1,455,767	704,940
Dist. of Columbia				
Washington	3,987,466	3,749,273	24,153,346	33,931,271
District Totals	\$29,542,627	\$32,887,210	\$167,948,657	\$189,980,815

### ADDITIONS TO PAR LIST

The Bank of Man, Man, West Virginia, a newly chartered nonmember bank located in the territory served by the Richmond Head Office, has agreed to remit at par, effective July 15, 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  $\frac{69-448}{515}$ .



The Chatham Bank, Siler City, N. C., including its branches at Goldston and Liberty, has agreed to remit at par effective August 1, 1952 for all checks drawn on it when received from the Federal Reserve Bank. All three offices of this bank are located in the Charlotte Branch territory. The combined A.B.A. transit number-check routing symbols are as follows: Siler City  $\frac{66-266}{531}$ , Goldston  $\frac{66-964}{531}$ , and Liberty  $\frac{66-898}{531}$ .