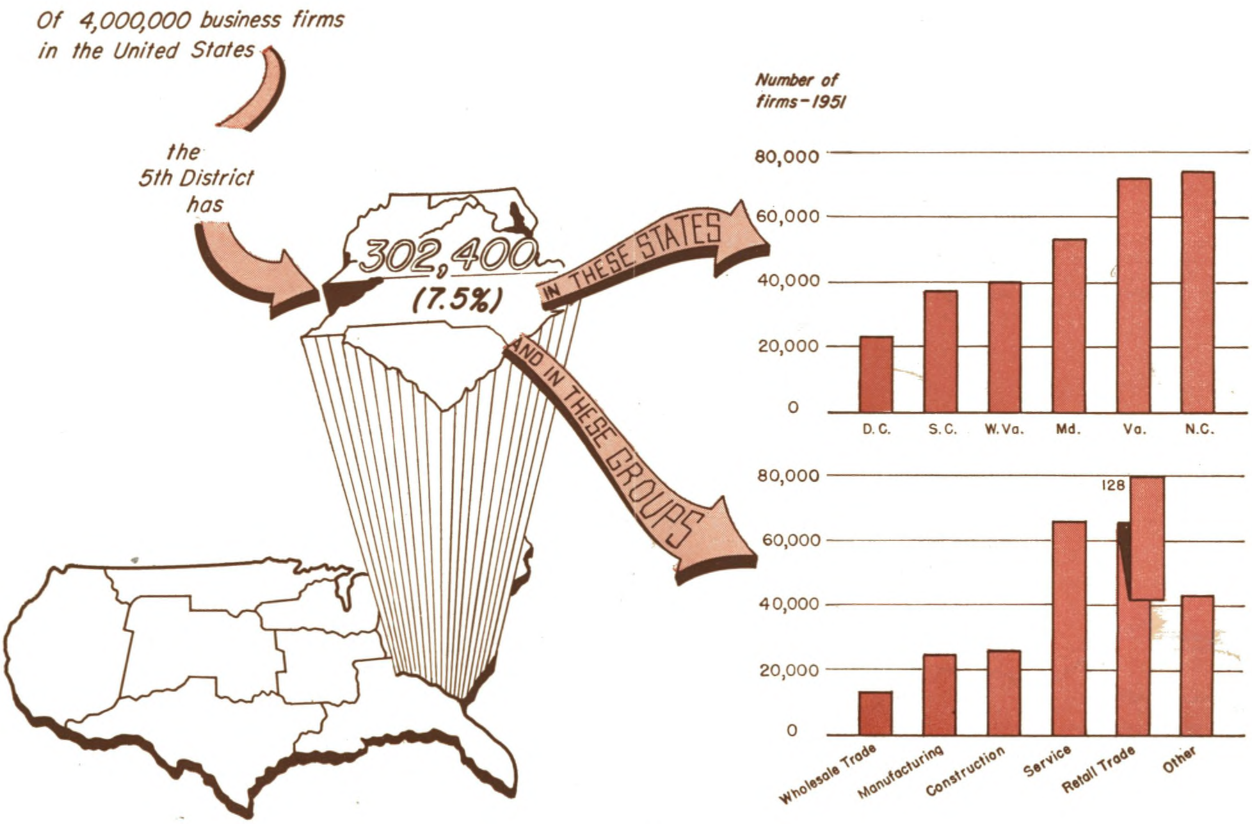
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

THE FIFTH FEDERAL RESERVE DISTRICT

September 1952



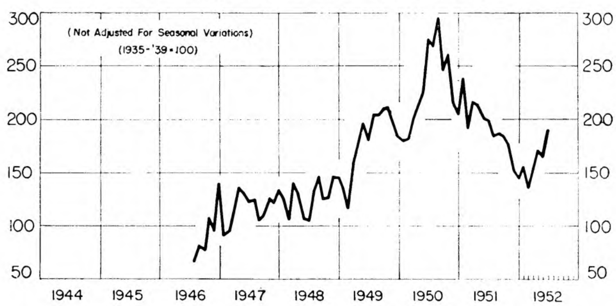
THE combination of a large volume of new business firms and a relatively low level of discontinuances has raised the business population of the Fifth District to a record high figure of 302,400 firms. The article on page 3 points out that the number of active enterprises in this District has increased 41% since 1944 as compared with a gain of 33% for the nation.

Also In This Issue - - -

Fifth District Trend Charts .... *Page 2*
Banking Operations in the First Half .... *Page 5*
Personal Saving: Key to Stability .... *Page 8*
Business Conditions and Prospects .... *Page 10*
Congress Amends Requirements for Membership .... *Page 10*
Statistical Data .... *Page 12*

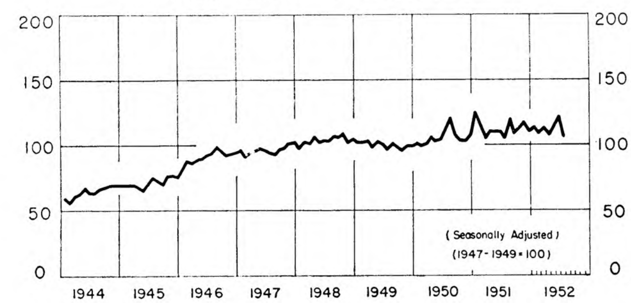
FIFTH DISTRICT TRENDS

NEW PASSENGER CAR REGISTRATIONS



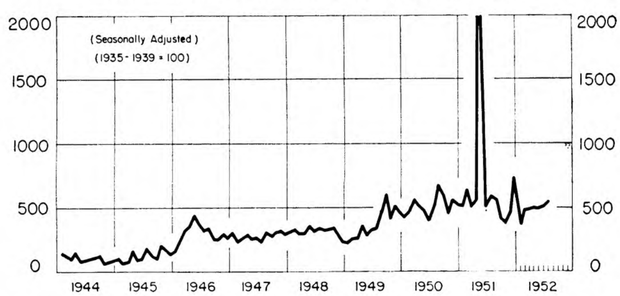
Automobile registrations compare favorably with all previous periods except 1950 and 1951. June registrations were 14% higher than in May but 5% under a year ago, but sales have returned to the rate of growth that was apparent from 1946 through 1948.

DEPARTMENT STORE SALES



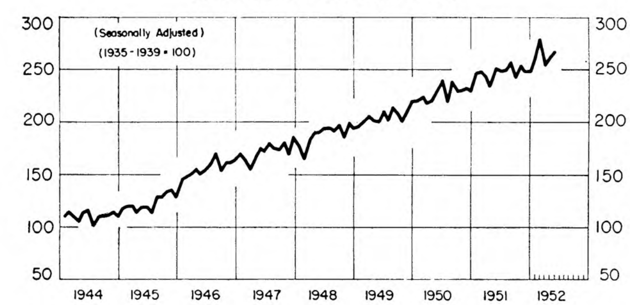
It was hotter than the proverbial hinges during July. Political conventions were also responsible for keeping many people at home and as a consequence, department store sales (adjusted) declined 13% between June and July but continued 1% ahead of a year ago.

TOTAL CONSTRUCTION CONTRACT AWARDS



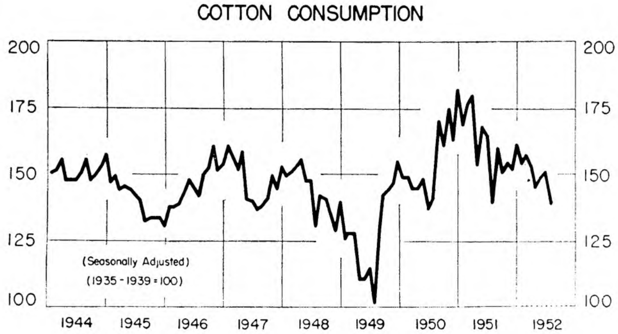
Total awards (adjusted) were up 7% from June to July but July was 7% under a year ago. Most types of building showed more than seasonal declines from June to July, but the total gain was due to a substantial rise in public works and utilities.

GASOLINE CONSUMPTION



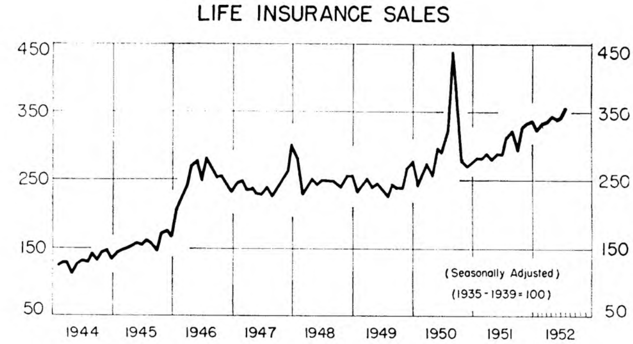
Trade levels in general have their good and bad periods, but gasoline consumption in the Fifth District seems to move in only one direction. Latest figures for May show a gain of 2% (adjusted) over April and 6% over a year ago. This growth has been steady and persistent for years.

COTTON CONSUMPTION



Cotton consumption (adjusted) in July dropped 8% from June to a level 1% under July 1951. This is mainly due to a broadening incidence of vacation shutdowns and does not reflect the rather substantial improvement that has taken place in the cotton textile industry.

LIFE INSURANCE SALES



Depreciation of the dollar has had a rather unexpected effect on sales of life insurance in this District. It appears from the rising sales trend that the people's decision is to give their families equivalent prewar purchasing power protection. Insurance sales in July (adjusted) rose 4% to a level 13% ahead of a year ago.

Fifth District Growth in Business Population Outstrips Nation

One of the marked characteristics of the reconversion period immediately following the close of World War II was the tremendous number of new businesses started. In 1946 an all-time record high of almost 44,000 new firms opened their doors in the Fifth District, followed the next year by 37,000 more. Ordinarily, such an intense period of new business starts is succeeded by one of higher-than-average rates of discontinuances, resulting from the heavy mortality among infant concerns.

Every rule has its exception, however, and despite the record volume of new firms started after the war, the annual number of closed firms in this District has remained at relatively low levels. In conjunction with a continuing high entrance rate—considerably under 1946, however—this has resulted in raising the business population of this five-state area to a record high of 302,400 enterprises.

From March 31, 1944 to March 31, 1951, the earliest and latest dates for which state estimates have been made available by the Department of Commerce, the number of firms doing business in the Fifth District increased by 41%. This was substantially in excess of the 33% gain for the country as a whole.

In fact every year since 1946 the Fifth District's increase has been, percentagewise, greater than the nation's. Where the District had 6.9% of all the business concerns in the country at the close of the war, by March 31, 1951 the 302,400 in operation represented 7.5% of the nation's total.

Close Relation with Population and Income

The total income of the people of a region and the number of its business firms, of course, interact upon each other. New firms generate additional income. Higher levels of income indicate greater opportunities for businessmen and thus induce the organization of new firms. It is, therefore, reasonable to expect a region's income payments and the number of its business firms to grow (or decline) together in some sort of consistent relationship. This is partially supported by comparing each Fifth District state's share of the nation's business firms with its share of the nation's income payments. The comparison is made for the year 1949 in the accompanying table, which also includes human population relative to the United States total.

The table shows that, with the exception of Maryland and the District of Columbia, the number of firms in terms of percentages of national totals is not as closely related to population counts as it is to income. This is characteristic of most states in the Southeast where both firms per capita and per capita income are relatively low. However, the Department of Commerce reports that this region has shown the greatest recent relative increases in business population in the nation.

	Per cents of U. S. Totals		
	All business firms	Human pop.	Total inc. payments
Maryland	1.30	1.57	1.67
Dist. of Columbia	.58	.56	.75
Virginia	1.75	2.22	1.74
West Virginia	1.00	1.30	.98
North Carolina	1.76	2.65	1.70
South Carolina	.88	1.35	.80

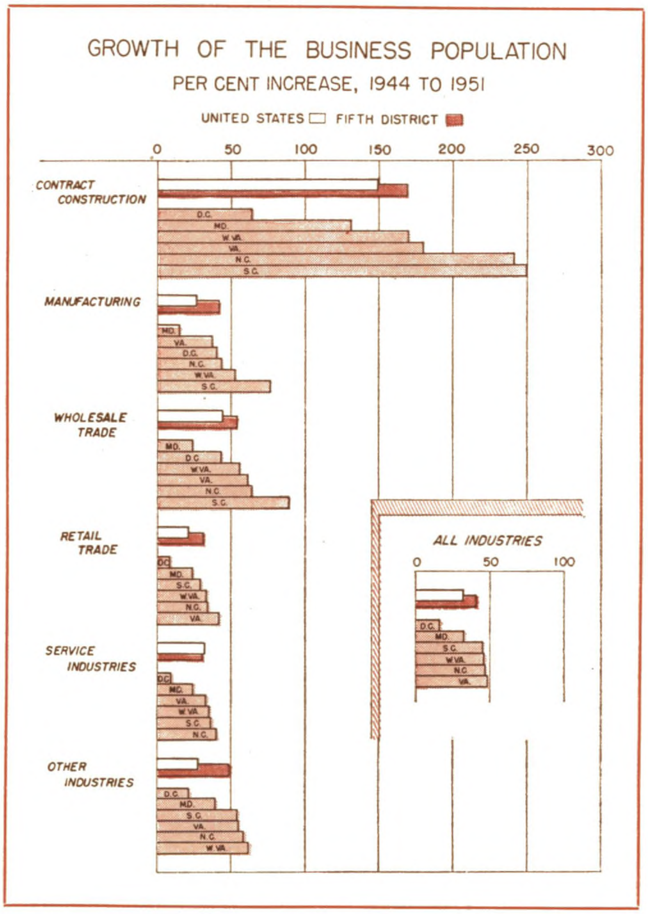
As shown in the chart on the following page, percentage gains in total number of firms from 1944 to 1951 in four of the Fifth District states—Virginia, West Virginia, North Carolina, and South Carolina—approximated or exceeded the 47% increase by the industrially expanding Southeast as a whole.

Recent Growth Impressive

The relatively greater growth of the business population of the Fifth District, as compared with the nation, is more impressive when distributed among the component states and major business activities. Even a casual inspection of the chart brings out the prevalent effects of the increasing tempo of industrialization that has characterized, in common with the South, recent economic developments in the District. In contract construction, manufacturing, wholesale trade, and service industries, four of the five District states enjoyed gains from 1944 to 1951 that exceeded average increases for the country as a whole. In retail trade and in the "Other Industries" group (transportation, communication, utilities, finance, insurance, etc.) each of the five District states had greater growth in business firms than did the nation.

The record is even better for the last three years of the period covered. From 1948 to 1951 every state in the District had a greater growth of its business population in every major industrial division than did the United States. This is particularly significant since business activity in the Fifth District was not stimulated by accelerated defense production in 1950-51 to the extent some other areas were. Naturally, nondurable-goods industries felt the impact of the consumer spending wave that followed the outbreak of the Korean War, but in the absence of many heavy industries there was no special stimulus to the formation of new concerns in this District as a consequence of the defense effort.

The greatest growth in number of operating firms occurred in contract construction, where the number of Fifth District firms, 26,100 on March 31, 1951, was 169% above the 1944 figure—as compared to a growth of 150% in the nation. Only in the service industries did the rate of growth in this District lag behind that of the nation, and then only slightly—31% as compared to the nation's 32.5%. As expected, most firms are in retail trade. The 128,400 retail outlets in this District represent 43% of all business firms. This, because of a gain of 31% over the 1944 retail total in the District and only a 22% increase in the nation, is in line with the national proportion.



Faster Industrializing Tempo

Manufacturing was the first industry division in which the number of operating firms in the country leveled off and then declined after World War II. Between the middle of 1947 and the end of 1949 the number of manufacturing concerns in the United States decreased by nearly 10%. With the renewal of the business boom well under way in early 1950, the number began to increase slightly, showing a rise of 1.3% in the year following March 31, 1950.

Here again, the Fifth District has had the better record. Although the number of manufacturing firms leveled off earlier than it did in the rest of the country, the decline from the postwar peak was not as extended as in the nation—2.5% as compared to 8.6%. Furthermore, the upturn from 1950 to 1951 was greater—6.4% to the nation's 1.3%. And whereas the 1951 national total was well below the postwar peak, the District total reached an all-time high of 25,000. This was 8.1% of the national total as compared to only 7.3% in 1944—a net gain of over 7,000 new manufacturing firms.

The increase from 1944 to 1951 was particularly noteworthy in South Carolina. As compared to the gains of 27% for the nation and 42% for the Fifth District, South Carolina experienced a growth of 76%—exceeded by only three other states, Arizona, Florida, and Oregon. And for the last three years of the period, South Carolina led the nation, its gain of 15% topping changes in the other 47 states that ranged from minus 26% to plus 9%. The fact that South Carolina's percentage gain is measured from a small base does not belittle the achievement.

(Here, as in the rest of this article, no consideration is given to the size of firms. It might be pointed out, however, that of more than 4 million business enterprises in this country, about nine-tenths are classified by the Department of Commerce as small businesses. These concerns account for around 45% of the total employment of all businesses.)

Virginia, West Virginia, and North Carolina have also experienced growth in number of manufacturing firms at higher rates than the national average.

Significance of Growth

That this burgeoning of new manufacturing concerns has many significant implications for the Fifth District goes without saying. The process of building a manufacturing economy has cumulative tendencies and supplementary reactions—as industry expands, so too must transportation, communication, and utility services; so must service industries and financial businesses. New production and management techniques develop, and these provide opportunity for local personnel and local as well as "foreign" capital. Total wages and salaries and other income payments rise and diffuse themselves so as to promote further fields of growth.

The processes of industrialization are already well along in this District, but it is a fact that Virginia, West Virginia, North Carolina, and South Carolina, in common with the rest of the Southeast, lag behind the rest of the country with respect to per capita income. This indicates the need for further industrialization, particularly along more diversified lines —R. P. L.—E. M. D.

ADMISSION TO MEMBERSHIP

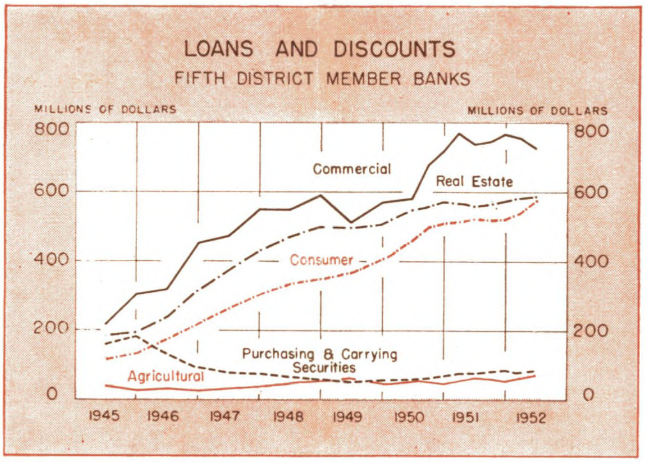
The Richmond County Bank, Rockingham, N. C., with a branch at Ellerbe, N. C., was admitted to membership in the Federal Reserve System on September 4, 1952. Both offices of this bank are located in the Charlotte Branch territory.

Banking Operations in the First Half

Important operating results in Fifth District member banks for the first six months of 1952:

- **Net profits after taxes—unchanged from first half '51.**
- **Current operating earnings—up substantially.**
- **Income taxes—up one-third, offsetting higher profits before taxes.**
- **Loans and investments—up 9.3% from mid-1951.**
- **Total deposits—up almost 10%; time, up 7.8%.**
- **Capital accounts—up 5.5%, to equal 7.3% of deposits.**

Fifth District member banks' net profits after taxes in first half 1952 were virtually the same as in the same period last year, but, because of the continuing rise in total capital accounts, profits after taxes as a ratio to capital dropped sharply from first half 1951. Member banks throughout the United States by contrast reported a small increase in the rate of return on capital.



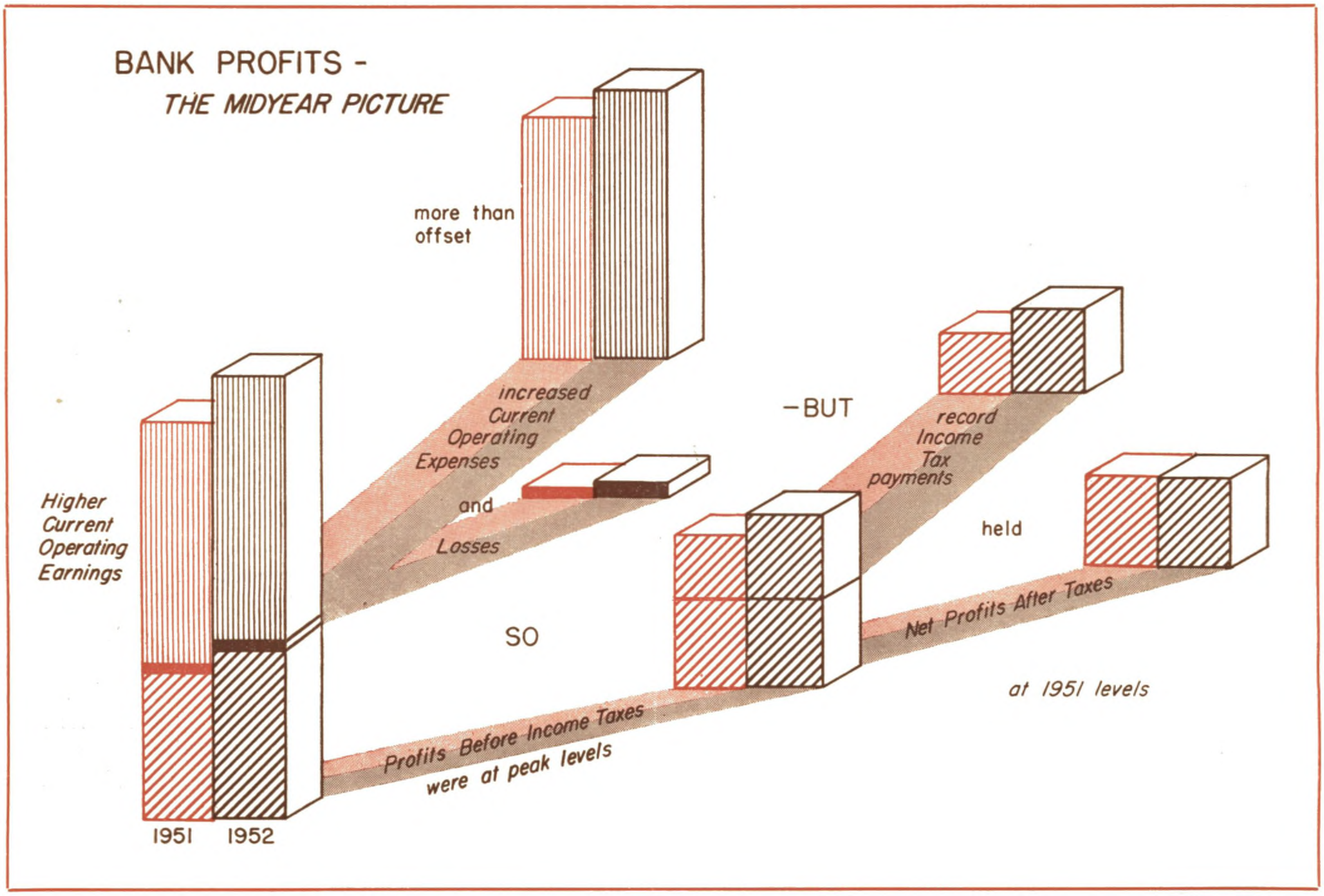
Net profits after taxes were 8.2% of average total capital accounts for Fifth District member banks (on an annual basis), down from 8.6% in the first half of 1951, and substantially below the 9.5% return for first half 1949. By contrast, first half earnings of member banks in the United States as a whole were up from 7.8% to 8.0% of capital. For the past several years, the average return for Fifth District member banks has remained almost 1% above the nationwide rate of return. For first half 1952, this differential was reduced to 0.2%, largely because of a relative increase in net losses reported by District banks.

A more favorable picture was reported in current operating earnings of Fifth District member banks, which were up a substantial 11.6% from the first half of last year, largely because of the increased volume of loans and investments. Also significant was the general increase in interest rates. Although loan portfolios were larger in the first half of this year than in the same period in 1951, the share of earning assets held in this form actually was slightly smaller than a year ago. Holdings of Government and other securities (which yield a lower average gross rate of return) comprised a correspondingly larger share of earning assets, a factor which tended to reduce the average rate of return on earning assets.

The creeping up-trend in costs continued—current operating expenses were up 10.6% from a year ago. This is the largest percentage increase for any first half year since the early postwar period, but it did not offset the higher gross earnings, and the dollar volume of net current earnings was up 13.0%.

The ratio of net current operating earnings to capital continued to increase—it rose from 15.2% in the first half 1951 to 16.2% in the first six months of this year, compared with national figures of 14.2% and 15.2%. Interestingly, the District maintained its differential over the national average rate of net current earnings, but, because of relatively higher reported net losses, the net rate of return after taxes dropped to only slightly above the national average.

Sustained high levels of production and continuing low rates of business failures have served to reduce both reported losses and reported recoveries. The backlog of bad debts from earlier periods has been reduced substantially; consequently, total recoveries were reported down 28.2% from first half 1951 in the District. Reported losses were down 14.6% from a year ago. Other factors contributing to deceased reported losses were smaller changes in prices of Government and other securities (it was in the first half of 1951 that prices of many issues of Governments broke below par), and the fact that many banks have completed their build-up of valuation reserves for bad debt losses on loans. A ruling of the Commissioner of Internal Revenue made in December 1947 provided a fixed formula for determining allowable deductions from taxable income for setting up and maintaining reserves for bad debt losses on loans. The amounts that may be set up are, with certain exceptions, limited to three times the annual allowable deduction. The greater part of these reserves was built up in the three-year period ending in 1950. However, some banks did not start building these reserves until 1949 or later. Further, the subsequent growth in loans has served to stretch the period during which these reserves can be built up. Therefore, substantial transfers to these reserves are still being made. Reported recoveries, it should be noted, do not include recoveries credited directly to these reserves, and reported losses do not include losses charged directly to these reserves.



As reported recoveries fell further than reported losses, reported net losses were larger than in the first half of last year. This increase in reported net losses caused the ratio of net profits to capital in the District to drop relative to the nation; reported net losses for member banks in the United States were down substantially from first half 1951. Even after deduction of larger losses, profits before taxes were up 13.2% in the District.

Taxes on net income, almost a third higher than in first half 1951, ate up the entire increase in profits. Member banks paid out almost half of their profits in income taxes, and net profits after taxes held at virtually the 1951 level (actually, down about 1/50 of 1%).

In line with the action of recent years, banks in the aggregate maintained a fixed percentage dividend on capital. Both dividends and capital accounts were about 5-1/2% above first half 1951. Retained earnings were correspondingly reduced below the same period last year.

Assets.....

Member bank loans and investments were 9.3% higher on June 30 than a year earlier. Almost all this increase was in the last half of 1951, when holdings of Government and other securities jumped substantially. Since year-end 1951, Government holdings were down slightly, but showed a net increase of 10.5% in the past year. Holdings of other securities continued to increase, although more moderately in the first half of this year, and at midyear were 28.8% greater than on June 30, 1951.

Net loans have continued to increase moderately since last fall, and on June 30 were 4.7% up from midyear 1951. They increased more rapidly relative to usual seasonal expectations in the second quarter of this year. This is attributable only in part to relaxations of credit restrictions. Most obvious increases were in consumer loans, which pushed to a new peak level at midyear. After minor revisions earlier in the year, restraints on consumer credit were suspended effective May 7. Further authority for regulation of consumer credit expired June 30.

Each category of loans to individuals has increased substantially since spring. The increase was particularly apparent in retail automobile paper and other retail instalment loans. Cash instalment loans, repair and modernization loans, and single-payment loans continued to increase.

In this District, the effects of the suspension of the Voluntary Credit Restraint Program on May 12, the subsequent lapse of authority for this program at midyear and relaxation of Regulation X on June 11 have been more problematical.

Commercial and industrial loans showed a less than seasonal decline in the first half of the year, with most of it in the second quarter. Except for 1949, these loans have increased in the first half of every postwar year.

Conventional residential real estate loans of member banks in the Fifth District, as well as those insured or guaranteed by VA, continued upward throughout the first half of the year. Interestingly, holdings of FHA insured mortgages declined in the second quarter.

Fifth District member banks reported total reserves, cash and bank balances at mid-1952 up more than 10% from a year earlier. Member bank reserves with the Federal Reserve Bank, although off from year-end, showed little change from mid-1951. However, substantial increases were reported in cash in vault, balances with banks, and cash items in process of collection.

Liabilities. . . . .

Total deposits of Fifth District member banks increased almost 10% during the last year, and on June 30 were up contra-seasonally more than 2% from March levels. Although the largest percentage increases were concentrated in time and demand deposits of Federal, State, and local governmental units, deposits of individuals and businesses were also up substantially. Demand deposits of individuals, partnerships, and corporations were 9% above a year ago. Time deposits of individuals, partnerships, and corporations continued the steady climb which started in the spring of 1951.

Capital. . . . .

Total capital accounts increased at about the same steady rate of recent years. Most of the increase came from retained earnings, but a part was from new capital. At almost $463 million, capital equaled 7.3% of total deposits, as compared with 7.5% at mid-1951.—G.W.M.

ASSETS AND LIABILITIES
Fifth District Member Banks
(Dollar amounts in millions)

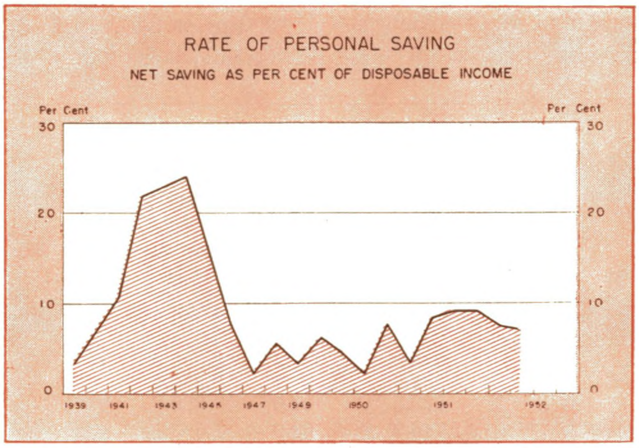
				Percentage Change			
				Dec. 31,-June 30,		June 30,-June 30,	
ASSETS	June 30, 1952	Dec. 31, 1951	June 30, 1951	1951	1952	1951	1952
Loans and investments	5,051.7	5,040.0	4,623.8	+ 0.2		+ 9.3	
Loans and discounts (including overdrafts)	2,095.2	2,041.3	2,002.0	+ 2.6		+ 4.7	
U. S. Government obligations	2,532.9	2,596.1	2,292.9	— 2.4		+ 10.5	
Other securities	423.5	402.6	328.8	+ 5.2		+ 28.8	
Reserves, cash, and bank balances	1,746.9	1,908.9	1,583.1	— 8.5		+ 10.3	
Reserve with Federal Reserve Bank	811.1	855.7	811.7	— 5.2		— 0.1	
Cash in vault	134.8	159.6	103.6	— 15.5		+ 30.1	
Balance with banks	424.1	495.1	361.0	— 14.3		+ 17.5	
Cash items in process of collection	377.0	398.5	306.9	— 5.4		+ 22.8	
Other assets	87.2	85.4	80.8	+ 2.1		+ 7.9	
Total Assets	6,885.8	7,034.4	6,287.7	— 2.1		+ 9.5	
LIABILITIES							
Demand deposits	4,922.9	5,148.5	4,460.6	— 4.4		+ 10.4	
Individuals, partnerships, and corporations	3,728.9	3,911.7	3,422.5	— 4.7		+ 9.0	
U. S. Government	233.4	116.5	195.8	+100.3		+ 19.2	
States and political subdivisions	396.5	414.8	351.5	— 4.4		+ 12.8	
Banks	474.9	599.9	418.4	— 20.8		+ 13.5	
Certified and officers' checks, etc.	89.2	105.6	72.5	— 15.5		+ 23.0	
Time deposits	1,447.7	1,384.6	1,343.1	+ 4.6		+ 7.8	
Individuals, partnerships, and corporations	1,302.4	1,256.1	1,231.1	+ 3.7		+ 5.8	
U. S. Government and Postal Savings	54.1	49.9	34.5	+ 8.4		+ 56.8	
States and political subdivisions	73.6	61.0	59.9	+ 20.7		+ 22.9	
Banks	17.6	17.6	17.5	0		+ 0.6	
Total deposits	6,370.6	6,533.0	5,803.7	— 2.5		+ 9.8	
Borrowings	2.2	2.4	3.6	— 8.3		— 38.9	
Other liabilities	50.4	50.0	41.9	+ 0.8		+ 20.3	
Total Liabilities	6,423.1	6,585.4	5,849.2	— 2.5		+ 9.8	
Total Capital Accounts	462.6	448.9	438.5	+ 3.1		+ 5.5	
Total Liabilities and Capital Accounts	6,885.8	7,034.4	6,287.7	— 2.1		+ 9.5	
Demand deposits adjusted	3,837.6	4,033.6	3,539.5	— 4.9		+ 8.4	
Number of banks	475	477	475				

Note: May not add to totals because of rounding.

Personal Saving: Key to Stability

"The sustained increase in expenditures for national security, with no offsets expected from the private investment sector, will continue to drive personal income upward, and this increase will be reflected in an increase in disposable income. The extent to which it enters the marketplace as active demand for more goods and services will depend upon the decisions of consumers with respect to their individual saving."—Council of Economic Advisers, The Midyear 1952 Economic Review.

"THE decisions of consumers with respect to their individual saving" have undoubtedly played an important role during the past eighteen months in contributing to the relative stability of our economy at high levels of income and employment. Along with various credit restraints and high rates of personal taxes, the high rate of personal saving has clearly contributed much toward producing relatively quiet market prices. In view of underlying inflationary pressures, consumers' decisions to spend or save will undoubtedly have an appreciable effect on prices and, indeed, on the course of economy in the months ahead.



According to data of the U. S. Department of Commerce, personal saving (defined as the difference between disposable personal income and personal consumption expenditures) jumped from 3.4% of disposable personal income in the first quarter of 1951 to 8.4% in the second quarter and to 9.1% in the last half of 1951. Although the rate of personal saving declined in the first half of 1952 to slightly over 7%, this rate is still high in comparison with recent years. If, with incomes rising, consumers should decide to save at a much lower rate in the second half of 1952, the result could be an intensification of the the inflationary pressures known to exist. The chart shows the sharp wartime and postwar fluctuations in the rate of personal saving; it clearly reveals the drop in saving which was associated with the post-Korean scare-buying waves and the sharp upturn in saving after scare-buying subsided.

In appraising the anti-inflationary aspects of current saving, the form and use of saving is of particular importance. For it is a truism to say that no one can save without acquiring an asset (or repaying debt). But the nature of the asset acquired may be an important consideration from the standpoint of adding to or subtracting from inflationary pressures. Personal saving, as measured statistically, in effect includes net investment in residential housing and the net investment of noncorporate business in realty, equipment, and inventories. Obviously, such payments may not have a directly anti-inflationary effect. On the other hand, saving going into idle cash balances or deposit accounts not utilized by the receiving institutions may directly reduce total spendings. Thus, existing measures of saving do not permit any facile generalizations as to the anti-inflationary effect of "saving" but, rather, emphasize the necessity for further analysis.

Statistical Measures

There are two statistical series relating to saving in common use. One of these is the "personal saving" estimate published quarterly by the U. S. Department of Commerce; the other is the quarterly estimate of "individuals' saving" published by the Securities and Exchange Commission. Neither series is fully satisfactory for use in appraising the economic effect of current saving.

The Department of Commerce estimate which is labeled "personal saving" requires further explanation. Although it represents the difference between disposable personal income and personal consumption expenditures, the "persons" include non-profit institutions; private trust, pension, and welfare funds; and owners of unincorporated businesses, in addition to other individual income receivers. As a result, increases or decreases in crops and livestock held by farmers, as well as changes in inventories or purchases of plant and equipment by unincorporated firms, are among the factors accounting for changes in personal saving. Thus, in 1951 the increase in inventories of unincorporated businesses undoubtedly accounted in part for the high Commerce figure on personal saving. And, as indicated, the net investment of individuals in homes is reflected in this saving figure.

Finally, the Department of Commerce personal saving figure is a residual—disposable personal income *less* personal consumption expenditures—and as such is subject to substantial revision. In recent years, as a result of relatively small percentage changes in the estimates of personal income and consumption, relatively large changes have occurred in the remainder; namely, personal saving. In some recent years, the initial figures on personal saving were subsequently revised downward by as much as 20% and at least once by more than 50%. Table I shows the derivation of the Commerce estimate of personal saving for 1951 and the first and second quarters of 1952.

Table I
Personal Income and Disposition of Income[1]
(Billions of dollars)

	1951	1952[2] 1st. qtr.	1952[2] 2nd. qtr.
Salaries, wages, and other labor income	170.7	178.1	178.3
Proprietors' and rental income	50.6	52.1	51.6
Dividends and personal interest income	20.4	20.5	21.5
Transfer payments	12.4	12.5	12.5
Personal income	254.1	263.0	264.0
Less: Personal tax and nontax payments	29.1	32.5	32.5
Disposable personal income	225.0	230.5	231.5
Less: Personal consumption expenditures	208.0	213.2	215.0
Personal saving	17.0	17.3	16.5

[1] U. S. Department of Commerce; Council of Economic Advisers.
[2] Seasonally adjusted annual rates.

The SEC estimate of "liquid saving" gives a detailed breakdown of the specific types of assets acquired which may permit a closer appraisal of the anti-inflationary aspect of the savings flow. However, the SEC saving figure is also calculated as a residual in terms of many of its components and, therefore, is also subject to substantial revision. The SEC definition of "individuals' saving" also includes unincorporated business saving of specified types. Finally, in using either the Commerce or the SEC data to appraise the economic effect of current saving, it should be emphasized that increases in aggregate saving or selected forms of saving may in part reflect the inflationary process. As bank credit expands to finance capital expenditures and government deficits, a part of resultant increases in incomes may be expected to go into saving.

As indicated, the SEC estimates show changes in selected types of assets: e. g., currency and bank deposits, savings and loan shares, insurance reserves, U. S. Government securities, other securities, and repayment of debt. Latest available SEC data reveal that in the first quarter of 1952 individuals saved $2.7 billion in liquid form. Although this is somewhat lower than the figures for the last three quarters of 1951, it is higher than any other first quarter figure of the postwar period. Table II shows the SEC breakdown of this increase in liquid saving for 1951 and the first quarter of 1952.

There are three main differences between the Commerce series on "personal saving" and the SEC series on "liquid saving": (1) Liquid saving includes the increase in reserves of government-administered insurance and pension funds—not part of personal saving. (2) Liquid saving includes net liquidation of mortgage debt on residential dwellings but excludes net acquisitions (after depreciation allowances) of such dwellings. (3) Liquid saving includes the net change in liquid assets of unincorporated enterprises, while personal saving includes the net income less personal consumption expenditures of owners of unincorporated enterprises.

Table II
Saving by Individuals in the United States[1]
(Billions of dollars)

Type of Saving	1951	1952 Jan.—Mar.
Currency and bank deposits	5.8	—2.3
Savings and loan associations	2.1	0.7
Insurance	8.0	2.2
Private	4.2	1.2
Government	3.8	1.0
Securities	3.5	2.1
U. S. savings bonds	— 0.4	0.1
Other U. S. Government	— 0.2	0.8
State and local government	0.8	0.2
Corporate and other	3.3	1.0
Liquidation of mortgage debt	— 5.7	—1.2
Liquidation of debt not elsewhere classified	— 0.4	1.1
Total Liquid Saving	13.4	2.7

[1] Securities and Exchange Commission.

No comparable statistical series is available on either "personal saving" or "liquid saving" of individuals in the Fifth District. Available data reveal sharp increases in time deposits and a steady rise in deposits of mutual savings banks in the District during the past year. District sales of Series E savings bonds also were higher and redemptions lower in the first half of 1952 than in the corresponding period of 1951.[1]

Prospects

In view of anticipated rising defense expenditures and sustained high-level business expenditures during the rest of 1952, the flow of personal saving continues to be an important and integral part of any anti-inflationary effort. The "1952 Survey of Consumer Finances" (*Federal Reserve Bulletin*, July 1952) indicates that a high rate of consumer saving will continue "as long as the attitude prevails that prices are too high." However, it was noted that price declines since the Survey or possible greater-than-anticipated increases in incomes may change the rate of consumer saving.

As to the nature of the assets likely to be acquired, the latest Survey of Consumer Finances explored consumer preferences for placing savings in savings accounts, savings bonds, real estate, and common stocks. It was found that, while most consumers prefer savings accounts and savings bonds (assets of fixed money

[1] A more detailed discussion of trends in Fifth District savings media will be included in a forthcoming *Monthly Review* article on saving in the Fifth District.

Continued on page 12

Business Conditions and Prospects

IMPROVEMENT in new business of textile mills of the District found its reflection in department store trade, particularly in South Carolina where the dollar sales rose 22% over a year ago. This occurred despite the fact that July consumption of cotton dropped 13% from June on an adjusted basis to a level of 1% ahead of a year ago. The drop, however, does not reflect a worsened condition in the industry, but rather is indicative of a continued widening effect of the vacation period.

The effects of the steel strike were most prominently felt in the District during the month of July, and many of the statistics will look poorer than the actual situation at the time. For example, the bituminous coal output that month, in addition to the miners' holiday, was also affected by the steel strike. The average daily output was down 28% from a year ago.

Employment in steel fabricating plants, on the railroads and in shipyards was also adversely affected, but the situation since the termination of the strike late in July has improved markedly. Much of the textile industry is back on a five-day, three shift week, while some plants are operating six days, three shifts.

Construction placed under contract has been a strengthening factor throughout the entire strike period and as late as mid-August, there had been little noticeable adverse effect on this industry as a result of the strike. The stepped-up priority of military requirements, however, will find its reflection in slowing down many construction projects during the remainder of this year and will also slow down construction and repair in shipyards except in case of Naval construction.

Employment conditions are substantially improved in the bituminous coal mining areas. Contract negotiations and the calling of a ten-day memorial holiday, however, are the preliminaries to a work stoppage. In other segments of the economy, the employment level is improving and in this respect, particular note should be taken of the furniture industry.

The agricultural situation, particularly pastures, has improved notably since the rains began in early August, but output of major cash crops will be moderately below last year's level. Prices, however, are firming, and this loss may well be offset.

Bank credit in the District continues to expand. Total loans and investments of all member banks at the end of July were 2.3% above a month earlier and 10.3% ahead of a year ago. Loans rose 1% during the month and 7.1% during the year, while investments rose 3.2% during the month and 12.6% during the year. In the weekly reporting banks, seasonal expansion is under way in commercial loans, while consumer and real estate loans continue to move upward and repeatedly make new high levels.

Construction

July contract awards rose 7% after seasonal correction from June but were 7% under July 1951. The gain during July was accounted for outside the residential field. Residential contract awards in July (adjusted) declined 2% from June but remained 9% ahead of a year ago. In the first seven months of the year, total contract awards were down 47%, while residential awards were up 2%.

Certificates of necessity granted to the firms of this District between July 10 and August 13 cover construction valued at $45.5 million. With structural steel in tight supply, it is doubtful if much can be accomplished on many of these projects this year.

Military construction in the District, announced during July, was valued at $42.5 million and during August through the 23rd of the month, an amount of $21.1 mil-

Continued on page 11

Congress Amends Requirements for Membership

On July 15, 1952, the President approved an Act of Congress amending Section 9 of the Federal Reserve Act and Section 5155 of the Revised Statutes of the United States relating to requirements for admission of state banks to membership in the Federal Reserve System and to the requirements for the establishment of branches by national and state member banks.

The new law would permit a state bank to become a member of the Federal Reserve System when it has capital stock and surplus adequate in the judgment of the Board of Governors in relation to its assets and to its deposit liabilities, except that if the bank does not have capital stock and surplus equal to that required for the establishment of a national bank it must be approved for deposit insurance under the Federal Deposit Insurance Act.

The new law also eliminates the requirement that in order for a national or state member bank to have an out-of-town branch it must have a capital stock of at least $500,000. Such a bank, however, must still have capital equal to the total amount which would be required for the establishment of a national bank in each of the various places where its offices are located and must have the capital stock and surplus required by state law in like circumstances.

In addition, under the new law a state member bank may not reduce its capital stock or establish any new branch in the head office city without the consent of the Board of Governors. (Reprinted from *Federal Reserve Bulletin*, July 1952)

Business Conditions and Prospects

Continued from page 10

lion had been announced. Much military construction authorized by Congress remains to be accomplished in this District, and it should be expected that a large volume of awards would be continuing regularly for many months to come.

Textiles

Improvement in the production levels of all textile products in the District occurred during July, butthis does not show up in the figures available, owing to the spreading custom of taking vacations at this time. All over the District, however, reports of a better level of employment continue to be announced, and this should find its reflection in higher August output. It appears at this time that the month of August would make as good or better a showing as any month thus far in 1952.

New business is being steadily written both at the cotton mills and the hosiery mills in good volume, with some forward coverage being placed as far as late spring 1953. This, however, is not the rule but the exception. Mills are fairly well sold up through September with substantial coverage in both October and November.

Several woolen mills which have been closed for as much as six months have reopened and are operating on a full-time schedule. Prices of most cotton goods and yarns are higher and, while new business is slower than a month or two back, the price structure continues to firm.

Although retail trade trends in textile products lack exuberance, trade outlook points to better levels and retail inventories are badly depleted. It is, therefore, probable that the recovery in the textile industries will carry production levels close to the peaks established early in 1951 and be sustained at least through the spring of 1952.

Bituminous Coal

In spite of the adverse effect on the coal industry by the steel strike and the recessionary trend in many of the nation's industries during the first half of the year, it is still probable that coal consumption during 1952 will reach another 500 million tons a year, that is, providing a coal strike does not effectively reduce industrial activity and, consequently, coal consumption.

DEBITS TO INDIVIDUAL ACCOUNTS
(000 omitted)

	July 1952	July 1951	7 Months 1952	7 Months 1951
Dist. of Columbia				
Washington	$1,093,095	$1,036,625	$ 7,726,510	$ 7,422,435
Maryland				
Baltimore	1,371,789	1,226,023	9,085,156	8,636,093
Cumberland	31,245	29,510	188,851	178,423
Frederick	23,801	21,106	159,620	145,093
Hagerstown	36,270	31,528	248,010	225,630
North Carolina				
Asheville	62,415	58,232	430,300	415,731
Charlotte	341,897	318,779	2,417,978	2,342,717
Durham	147,242	110,897	778,990	697,777
Greensboro	105,017	92,504	752,893	703,938
Kinston	20,477	17,149	135,309	112,841
Raleigh	163,530	143,763	1,229,393	1,149,665
Wilmington	48,369	40,531	320,036	294,507
Wilson	17,486	15,732	124,528	124,106
Winston-Salem	182,627	158,021	1,208,863	1,149,839
South Carolina				
Charleston	85,095	74,191	566,800	520,852
Columbia	149,188	120,768	1,013,557	872,736
Greenville	108,230	104,006	733,697	777,908
Spartanburg	61,858	57,104	469,275	458,124
Virginia				
Charlottesville	28,114	26,003	194,683	187,533
Danville	32,448	28,870	231,103	228,046
Lynchburg	44,686	41,274	321,414	321,597
Newport News	47,368	39,336	334,727	290,668
Norfolk	245,151	216,521	1,721,393	1,502,026
Portsmouth	27,730	24,557	201,156	175,215
Richmond	595,599	534,926	4,029,124	3,807,527
Roanoke	112,477	110,847	810,450	789,410
West Virginia				
Bluefield	46,582	43,506	346,452	326,505
Charleston	163,604	148,196	1,188,601	1,058,367
Clarksburg	38,989	33,403	254,130	240,807
Huntington	72,974	62,591	505,856	462,671
Parkersburg	31,487	30,710	214,360	213,686
District Totals	$5,531,840	$4,997,209	$37,943,215	$35,832,473

50 REPORTING MEMBER BANKS—5TH DISTRICT
(000 omitted)

ITEMS	August 13, 1952	Change in Amount from July 16, 1952	Change in Amount from August 15 1951
Total Loans	$1,229,142**	+ 11,683	+ 79,078
Bus. & Agric	564,860	+ 3,632	— 18,904
Real Estate Loans	247,273	— 1,759	+ 13,993
All Other Loans	432,957	+ 9,859	+ 47,624
Total Security Holdings	1,901,138	— 19,187	+179,938
U. S. Treasury Bills	269,873	— 37,332	+ 48,554
U. S. Treasury Certificates	178,124	+ 3,048	+100,227
U. S. Treasury Notes	265,154	— 8,611	— 61,807
U. S. Treasury Bonds	949,030	+ 20,288	+928,742
Other Bonds, Stocks & Secur.	238,957	+ 3,420	+ 67,872
Cash Items in Process of Col.	280,642	— 2,876	+ 22,185
Due From Banks	187,098*	+ 2,155	+ 4,507
Currency and Coin	76,667	+ 2,183	+ 8,376
Reserve with F. R. Banks	567,507	— 13,071	+ 17,318
Other Assets	56,263	+ 2,118	+ 2,386
Total Assets	4,298,457	— 16,995	+313,788
Total Demand Deposits	3,290,864	— 42,185	+221,816
Deposits of Individuals	2,415,369	+ 1,280	+118,494
Deposits of U. S. Government	167,389	— 44,874	+ 56,672
Deposits of State & Local Gov.	183,713	— 12,119	+ 15,894
Deposits of Banks	470,952*	+ 13,080	+ 27,467
Certified & Officers' Checks	53,441	+ 448	+ 3,289
Total Time Deposits	655,736	+ 2,149	+ 32,899
Deposits of Individuals	576,398	+ 2,421	+ 20,044
Other Time Deposits	79,338	— 272	+ 12,855
Liabilities for Borrowed Money	57,792	+ 18,692	+ 45,392
All Other Liabilities	33,605	+ 2,436	+ 2,959
Capital Accounts	260,460	+ 1,913	+ 10,722
Total Liabilities	$4,298,457	— 16,995	+313,788

*Net figures, reciprocal balances being eliminated.

**Less losses for bad debts.

SELECTED FIFTH DISTRICT INDEXES

AVG. DAILY 1935-39=100—SEASONALLY ADJUSTED

	July 1952	June 1952	July 1951	% Chg.—Latest Mo. Prev. Mo.	Yr. Ago
Automobile Registration*	......	190	184	+14	− 5
Bank Debits	458	452	427	+ 1	+ 7
Bituminous Coal Production	115	131	159	−12	−28
Construction Contracts	550	516	590	+ 7	− 7
Business Failures—No.	58	54	74	+ 7	−22
Cigarette Production	......	262	250	+ 7	+ 8
Cotton Spindle Hours	132	148	134	−11	− 1
Department Store Sales**	106	122	105	−13	+ 1
Electric Power Production	......	373	341	− 2	+ 9
Manufacturing Employment*	......	149	152	− 1	− 2
Retail Furniture: Net Sales	242	239	208	+ 1	+16
Life Insurance Sales	356	341	314	+ 4	+13

*Not seasonally adjusted.

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

WHOLESALE TRADE

LINES	Sales in July 1952 compared with July 1951	June 1952	Stocks on July 31, 1952 compared with July 31, 1951	June 30, 1952
Auto supplies (9)	+21	−3	+ 1	− 2
Electrical goods (5)	+ 6	+ 1	−10	− 5
Hardware (20)	+ 9	+ 6	−15	− 2
Industrial supplies (7)	− 1	+10	+11	+ 4
Drugs & sundries (12)	+ 9	+ 7	0	− 3
Dry goods (15)	+ 9	+27	−16	+ 4
Groceries (55)	+14	+ 7	+ 2	− 5
Paper & products (7)	−12	− 8	....	....
Tobacco products (10)	+19	+ 3	+ 1	− 6
Miscellaneous (84)	+ 2	+ 9	−13	− 5
District Totals (224)	+ 7	+ 8	−10	− 2

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, July '52 vs July '51	+ 7.5	+ 3.0	+ 2.1	+ 9.2	+ 4.7
Sales, 7 Mos. '52 vs 7 Mos. '51	+ 3.5	+ 2.3	− 1.5	+ 4.6	+ 2.0
Stocks, July 31, '52 vs '51	− 8.9	− 7.6	− 1.3	− 5.2	− 4.9
Outstanding Orders, July 31, '52 vs '51	+ 5.8	+12.4	+38.4	+30.0	+24.1
Open account receivables July 1 collected in July '52	24.4	46.2	42.6	38.3	38.5
Instalment receivables July 1 collected in July '52	13.5	13.0	15.3	17.4	14.4

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, July '52 vs July '51	+3.0	+2.1	+6.4	+7.1	+7.9	+21.9

BUILDING PERMIT FIGURES

	July 1952	July 1951	7 Months 1952	7 Months 1951
Maryland				
Baltimore	$ 4,144,005	$13,431,175	$ 36,280,310	$ 54,879,575
Cumberland	5,177	24,945	184,301	459,230
Frederick	258,550	380,325	1,630,973	1,348,585
Hagerstown	59,755	92,130	903,388	1,083,280
Salisbury	61,820	238,770	824,019	1,186,869
Virginia				
Danville	307,512	138,097	3,674,569	1,582 022
Lynchburg	149,719	158,471	1,560,417	2,209,218
Newport News	140,003	160,785	6,033,519	942,745
Norfolk	766,525	8,315,593	12,249,790	18,554,741
Petersburg	265,732	244,299	1,168,733	2,477,399
Portsmouth	417,245	181,400	5,854,585	4,024,680
Richmond	1,886,907	9,201,848	10,821,026	19,094,797
Roanoke	1,175,059	835,097	6,440,477	12,309,955
West Virginia				
Charleston	524,814	569,812	9,349,138	3,223,946
Clarksburg	181,700	122,961	653,057	773,508
Huntington	434,980	661,490	2,749,961	4,797,920
North Carolina				
Asheville	189,729	152,740	1,906,356	4,006,515
Charlotte	1,479,363	2,050,681	12,791,375	13,934,245
Durham	619,043	408,358	5,205,703	3,270,421
Greensboro	1,514,870	888,821	5,918,723	5,250,540
High Point	249,500	347,510	2,025,845	2,128,904
Raleigh	1,475,060	271,420	10,569,979	6,925,814
Rocky Mount	75,789	97,127	1,943,965	1,600,287
Salisbury	108,280	48,700	1,234,615	831,231
Winston-Salem	1,235,367	349,654	6,288,350	11,868,266
South Carolina				
Charleston	392,619	95,657	1,220,127	1,001,381
Columbia	299,511	699,279	6,376,909	9,216,296
Greenville	719,350	627,250	5,617,318	7,156,629
Spartanburg	101,235	1,142,300	1,557,002	1,847,240
Dist. of Columbia				
Washington	5,982,227	4,604,152	30,135,573	38,535,423
District Totals	$25,221,446	$46,540,847	$193,170,103	$236,521,662

REPORT ON RETAIL FURNITURE SALES

Fifth Federal Reserve District

July 1952

STATES	Percentage comparison of sales in period named with sales in same periods in 1951: July 1952	7 Mos. 1952
Maryland (7)	− 6	+ 4
Dist. of Col. (7)	− 9	− 7
Virginia (18)	+ 12	+ 9
West Virginia (10)	+ 35	+23
North Carolina (13)	+ 23	+14
South Carolina (6)	+105	+ 4
District (61)	+ 6	+ 3
INDIVIDUAL CITIES		
Baltimore, Md. (7)	− 6	+ 4
Washington, D. C. (7)	− 9	− 7
Richmond, Va. (6)	+ 11	+13
Charleston, W. Va. (3)	+ 23	+27

Number of reporting firms in parentheses.

Personal Saving: Key to Stability

Continued from page 9

value) to common stock and real estate (assets of fluctuating money value), there has been a moderate shift toward the latter type assets—particularly by the higher income groups.

In considering the possible forms and uses of saving, attitudes toward savings bonds are of particular importance under current conditions. The inflationary effects of bank borrowing and corresponding money creation may be avoided to the extent that Government deficits are financed by genuine long-term saving invested in savings bonds. In the postwar period as a whole, there has been a definite shift away from savings bonds into other forms of savings media. Last year redemption of unmatured savings bonds exceeded sales by approximately $1 billion. In the first half of 1952, however, sales and redemptions of unmatured savings bonds were in approximate balance. Again, the latest Survey of Consumer Finances revealed that in early 1952 consumers planned to retain savings bonds or reinvest in savings bonds a somewhat smaller proportion of the funds received from maturing savings bonds than a year ago, but holders of more than one-third of maturing bonds definitely planned not to cash them.