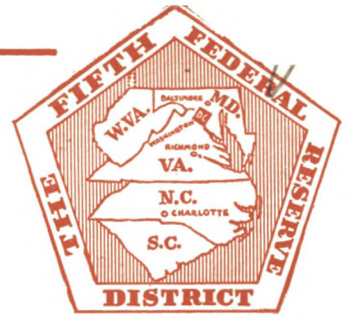
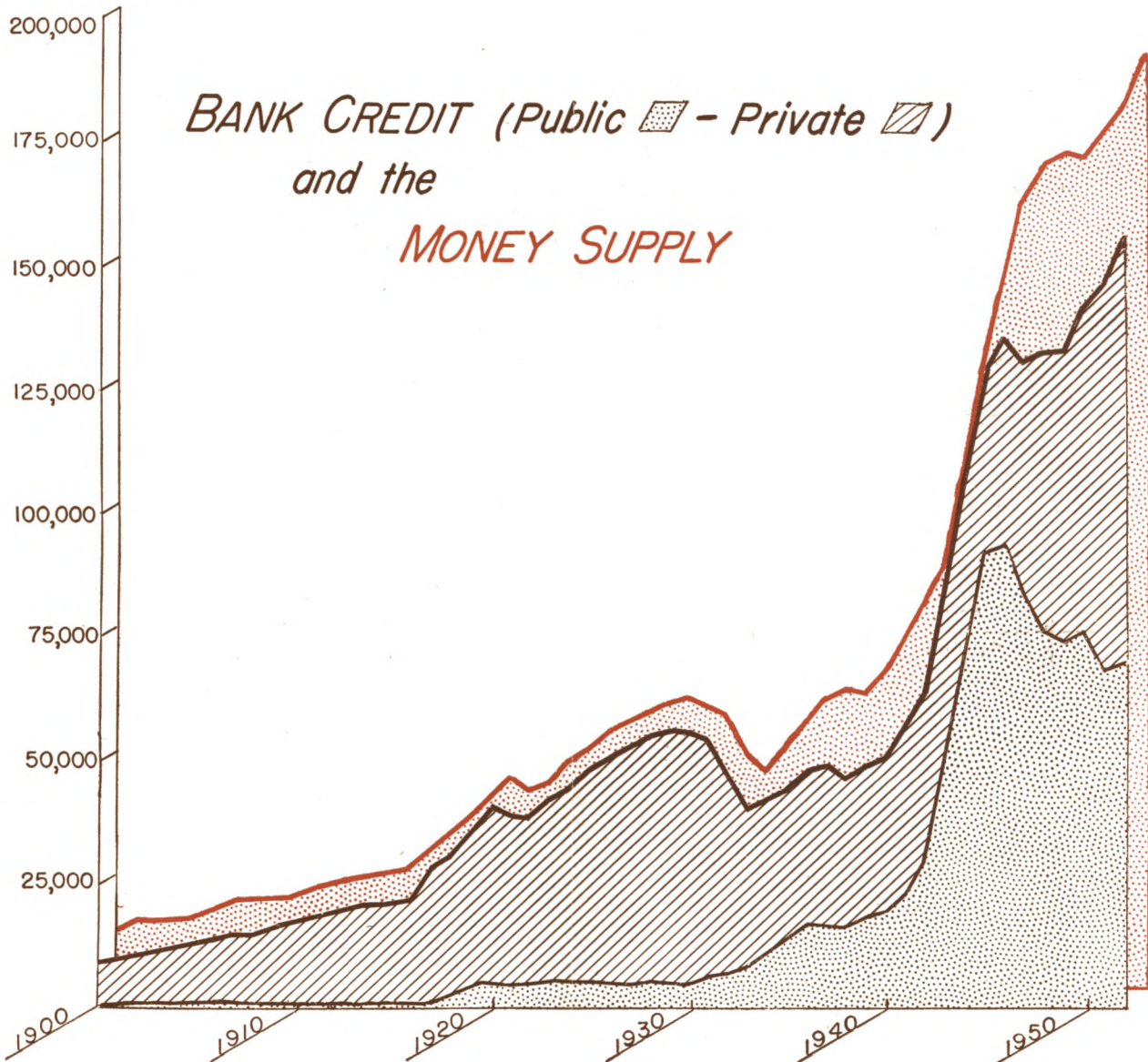


Monthly Review



November 1952

Millions of Dollars



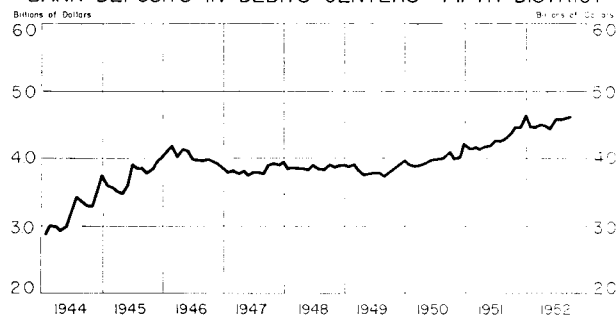
CHANGES in the nation's money supply are very closely related to changes in banks' assets which stem mainly from "Public" (Federal Government) or "Private" borrowing. The article beginning on page 3 explores this relationship and examines principal changes in demand deposit money from 1900 to date.

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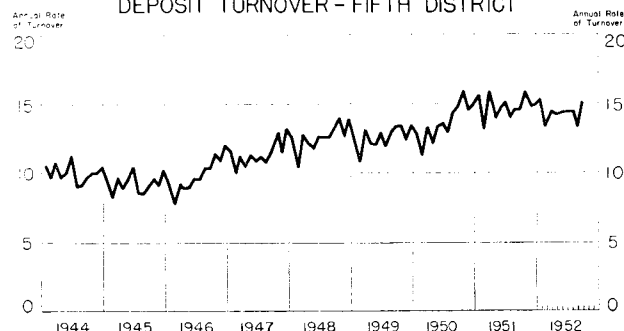
FIFTH DISTRICT TRENDS

BANK DEPOSITS IN DEBITS CENTERS - FIFTH DISTRICT



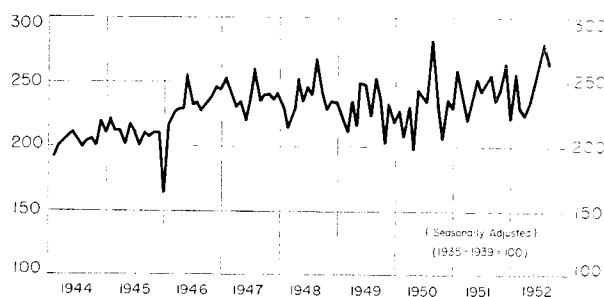
Bank deposits of those banks reporting debits have been moving higher since May with the September figure establishing a new record slightly higher than the previous record of December 1951. Rises have been marked in Norfolk, Newport News, Columbia, and Charleston, S. C.

DEPOSIT TURNOVER - FIFTH DISTRICT



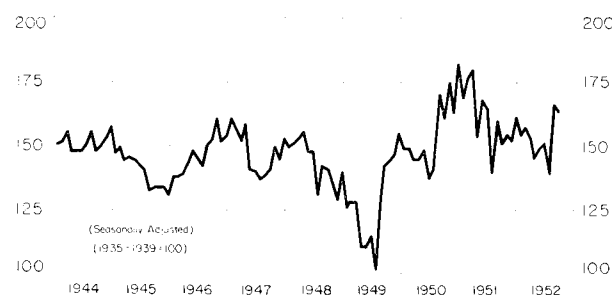
Turnover of deposits shown on opposite chart was considerably more rapid in September than in August and at the highest level for the year with the exception of January. September turnover exceeded all months in 1951 except January, March, June and October.

CIGARETTE PRODUCTION



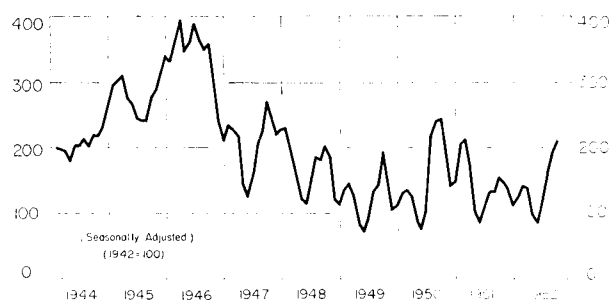
Cigarette production in August dropped 5% from the July level but ran 3% ahead of August 1951. Following a moderate slump in the early months of the year, cigarette production has since been a rising trend. Accumulated output for 8 months was up 2% from last year.

COTTON CONSUMPTION



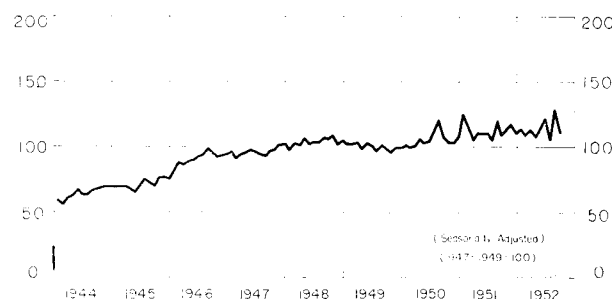
September consumption (adjusted) dropped 5% from the post war August level but was 8% ahead of last year. Accumulated consumption for 9 months of 1952 was 6% under last year. Industry outlook for the next several months would point to an average monthly consumption level considerably above that of September.

DEPARTMENT STORE OUTSTANDING ORDERS



Outstanding orders of department stores (adjusted) have been rising steadily since May. September orders were 9% above August and 38% ahead of a year ago. September orders were highest since February 1951 and attest an inadequate inventory and a favorable sales outlook.

DEPARTMENT STORE SALES



After having established a new high record in August, department store sales (adjusted) dropped 13% in September with that month 3% higher than September 1951. Adjusted inventories dropped 3% during September and were 1% under last year.

Demand Deposits in the Money Supply

It has been estimated that over 85% of all payments made in the United States today are in the form of checks drawn against demand deposit accounts. Scarcely one hundred years ago, the use of demand deposits as a medium of exchange in the United States was on so limited a scale that they were scarcely recognized as money. Demand deposit money today makes up over half the total money supply* (currency and coin, demand deposits, and time deposits in the hands of the public). If time deposits are excluded, demand deposit money comprises three-fourths of the total.

As in the case of currency and coin,* demand deposit money accounts for about the same percentage of the total money supply today as it did a half-century ago. In 1900 it made up 50% of the total money outstanding; at the end of July of this year it was just short of 52% of the total. Demand deposit money reached its highest relative position in 1943 accounting for 55% of the total, and its lowest relative position (since 1900) in 1932 being 34% of the total.

The Importance of Demand Deposits

The proportion of the total money supply which is in the form of demand deposit money is shown by the red line in the chart on page 4. The chart also shows the importance of demand deposit money if time deposits are excluded from the definition of the money supply (black line). In the latter comparison there appears a persistent tendency for demand deposit money outstanding to increase as a per cent of the total except during periods of unusual economic stress. Following World War I, for example, demand deposit money climbed from 82% of the total (1918) to 87% in 1930. During the depression which followed it fell to 75% (1933), then climbed back to 83% just prior to our participation in World War II. By 1945 demand deposit money had dropped to 73% of the total. It has climbed steadily since then to the present 79%.

In the comparison with the total money supply (red line) there appears a downward movement in the relative importance of demand deposit money until 1930, which is contrary to the movement when time deposits are excluded (black line). This resulted from an increase in the relative importance of time deposits in the total money supply. Time deposits rose from 34% of the total in 1900 to 55% in 1931. The opposite is true from 1931 to 1943. Time deposits increased in dollar amount outstanding by less than 4% during this period, while demand deposit money increased almost threefold

and currency and coin increased nearly fourfold. As a result, time deposits fell from 54% of the total money supply to under 30%.

At \$95,750 million in August 1952, demand deposits (adjusted as explained in the August *Monthly Review*) were over twenty-one times greater than in 1900. On a *per capita* basis, they rose from \$58.16 in 1900 to \$611.42 in August of this year. Although the largest dollar increase in amount outstanding occurred during World War II (an increase of \$37 billion) the growth since 1945 has been spectacular—\$27 billion from June 1945 to August 1952. The *per capita* amount outstanding in 1940 was \$242.74. This jumped to \$522.59 by mid-1945 and has continued to increase since.

When discussing the monetary role of demand deposits, it should be clearly understood that we are speaking of the demand deposit itself—the bank's promise to pay—not the check which is conventionally used to pass title to a demand deposit. It is well recognized that checks in general are not readily accepted without question in exchange. The recipient must assure himself that the check does in fact give him legal claim to the deposit behind it. This means that there must be no doubt as to the authenticity of the signature and the adequacy of the deposit against which it is drawn.

Demand Deposits and Legal Tender Money

Why are demand deposits so readily accepted in exchange for goods and services? Demand deposit money has not been endowed with legal tender qualities. It is, however, convertible on demand into legal tender money. So long as confidence in this convertibility is maintained, the value of demand deposit money will remain equal to that of legal tender money. The question is: What factors tend to maintain confidence in the convertibility of demand deposits into legal tender money?

Banking experience over many decades has shown that although deposits are put on a "withdrawal on demand" basis, on balance, only a small portion will be withdrawn in a given period, the total of withdrawals being closely matched by the total of deposits. Assuming no major distortions such as war or depressions, the people generally elect to hold a certain proportion of their money in the form of currency and coin and the remainder in the form of deposits, and this proportion changes only slowly over time. So long as the relationship holds, the total withdrawals of deposits in the banking system as a whole will be matched by total deposits. It is only when we have a major disturbance of the economic pattern that the ratio between deposit money and legal tender money is upset and bankers are faced with large net withdrawals of deposits.

*The August and October issues of the *Monthly Review* of the Federal Reserve Bank of Richmond presented articles defining money and analyzing segments of the money supply.

For the individual banker, however, the situation is somewhat different. He is concerned with the ability of his bank to attract to it sufficient deposits to offset or to overbalance the demands for withdrawals which confront him as he expands his loans and investments. This is the area of most intense competition for the banker—to build up a deposit structure of such a nature as to assure that a large enough proportion of the deposit money used by the people of the community for transactions will be deposited in his bank to offset (preferably to outweigh) the normal drain of withdrawals which his bank must stand.

The prudent banker, in addition to aggressively driving to build up his deposit structure, will make provision for his daily needs (although withdrawals may be matched by deposits over a period of time, from day to day there will be net withdrawals or net deposits) in the form of a primary, that is, a cash reserve, and in addition will provide for unforeseeable contingencies with a secondary reserve consisting of assets which can be converted into cash on very short notice and without significant loss. These actions are, of course, based on a thorough knowledge of the particular bank and the community it serves and differ from institution to institution.

Legislators, first as a measure contributing to sound banking and later as a credit control device, have established laws requiring that reserves equal to a given percentage of deposits be maintained at all times. The principal legal reserve requirements that concern us here are those of the Federal Reserve System which are applicable to all member banks (approximately 85% of the country's demand deposits are held in member banks). These reserves must be kept on deposit at the Federal Reserve Bank of the District in which the member bank is located.

Demand Deposits and Reserves

The foregoing has dealt primarily with the maintenance of convertibility of demand deposits into legal tender money (currency and coin) through equating inflowing and outflowing deposits and through properly maintained reserves. This latter concept can now be turned about and examined from a point of view which becomes basically important in a consideration of the behavior of money and prices—that is, a considera-

tion of the value of money. With a system of required reserves, reserve funds become a sort of "governor" influencing the supply of deposit money. The availability of reserve funds sets a limit to the expansion of deposits in addition to creating situations of ease or tightness for bankers and thus influencing their decisions as to extending new credit. In order to understand clearly this important principle in modern banking, it is necessary to define the relationship between banks' assets (their loans and investments) and their deposits.

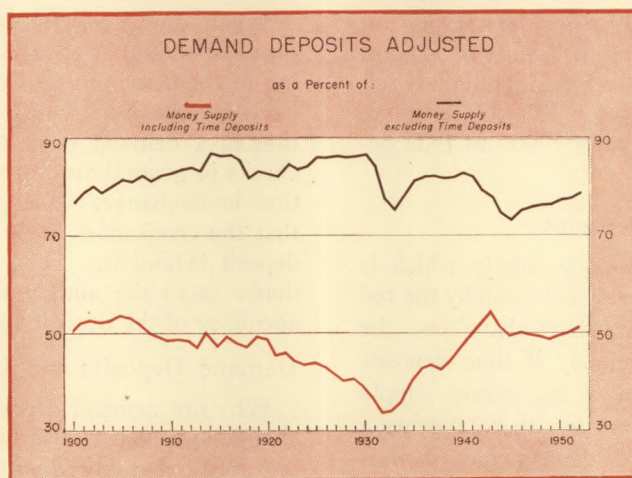
Primarily, changes in demand deposit money outstanding stem from the extension of credit by banks (loans to customers and investments) and repayments to them. When a business firm borrows from its bank, it receives the proceeds of the loan in the form of a credit

to its demand deposit account at the bank. The bank receives from the business firm an asset in the form of the firm's promise to pay, secured or unsecured. As a result of this transaction, demand deposits outstanding and the bank's assets (in this case "Loans and Discounts") have increased by a like amount. When the loan is repaid, the business firm will use funds in its deposit account for this purpose with the result that demand deposits will be decreased at the same

time that the bank's assets ("Loans and Discounts") are decreased.

Even when the proceeds of a loan are paid out in currency and coin to the borrower, the final result will still be an increase in deposits unless we are in a period when people are showing an above-"normal" preference for legal tender money. This is true because people go into debt primarily to make needed expenditures (to pay an accumulation of past debts or to make new purchases) and seldom in order to hoard legal tender money. Thus, the borrowers' currency and coin quickly finds its way into the tills of various business firms and, in the normal course of business, is deposited in their checking accounts at their banks. These may not be the banks which originally made the loans providing the funds, but for the banking system as a whole, deposits have increased, after a short time lag, with the increase in banks' assets (customers' notes).

The same principle applies when a bank purchases securities issued by private corporations or by government bodies. The cover chart shows clearly the close correspondence between total bank credit outstanding



and the money supply. "Public credit" in the chart refers only to credit extended to the Federal Government and represented by Government securities held by the banks. "Private credit" includes all loans and discounts and investments other than Government securities held by the banks.

Since banks can lend money by simply increasing their deposit liabilities (that is, by a bookkeeping entry) and since their income is increased by each additional loan, why not continue the process indefinitely? The fundamental answer lies in the maintenance of convertibility of demand deposits into legal tender money, by keeping reserves adequate to meet current demands, which in the final analysis determines the value of deposit money thus leading people to accept it freely in exchange. If expansion continued indefinitely, the holders of deposit money would soon find that they could not obtain legal tender money in exchange for their deposits and confidence in its acceptability would soon be undermined. In actual practice, however, the answer is found in legal reserve requirements which originated in the concept of sound banking practices and have since evolved to include in addition to this concept that of over-all credit control to combat undesirable inflationary or deflationary tendencies, plus cash-on-hand requirements to meet daily needs.

The Creation of Deposits

To what extent will expansion of bank deposits continue? This principle, referred to in sophisticated quarters as "the multiple expansion of deposits under a fractional reserve system," can best be explained by illustration. Assume a new bank has just opened its doors and has paid in capital of \$100,000 in the form of a deposit with its Federal Reserve Bank. Say the legal reserve requirement for this bank is 20% of demand deposits and that it will not receive time deposits. The officers of the new bank, motivated by the desire to run a profitable institution, wish to acquire earning assets in as large an amount as possible. They recognize that, insofar as the law is concerned, their reserve funds of \$100,000 (on deposit with the Federal Reserve Bank) will permit them to have total demand deposits of \$500,000. They also know that when they make loans to their customers many of them will make payments to creditors who are customers of other banks and who will draw funds out of their bank. They immediately recognize the imprudence of making loans (and creating deposits) of \$500,000 because, then, any withdrawal would reduce their reserves below the legal minimum. A \$1,000 withdrawal, for example, would reduce reserve funds to \$99,000 and deposits to \$499,000. Twenty per cent of \$499,000 is \$99,800 while they now have only \$99,000 in reserves.

They may then take the opposite line of reasoning: if we make loans of \$100,000 (and create a like amount of deposits) then, even if the whole amount is with-

drawn, we are still "safe." But the return on \$100,000 is very small. Why not begin with loans of \$200,000 (creating deposits in the same amount)? The legal reserve will be \$40,000. We could, therefore, lose a third of our deposits to other banks and still be within the legal requirements: Say we lost \$70,000. Reserve funds are reduced to \$30,000 which would cover \$150,000 of deposits while our deposits have now been reduced to \$130,000. As a result of this reasoning they extend loans to local customers in the total amount of \$200,000, setting up deposits to their credit for this amount.

To keep the illustration simple, assume that as a result of this experiment the officers of the bank find that new deposits coming into the bank exactly offset deposits lost to other banks so that deposits and reserves remain unchanged. Confidence grows in the continuation of this condition and the officers decide it is safe to expand their loans (and deposits) still further since they have reserves of \$60,000 in excess of those legally required. However, they do need some cash on hand to meet daily needs because, although over a period of time new deposits equal lost deposits, from day to day they either lose or gain on balance. It is decided to maintain cash on hand equal to 5% of total deposits making a total reserve (legal and voluntary) of 25% of deposits. Applying this reserve ratio, the officers of the bank decide to lend to the maximum knowing that if they should begin to lose deposits on balance, they can sell some of their assets to meet the drain or else they may borrow from their Federal Reserve Bank. One hundred thousand dollars is 25% of \$400,000, so the officers of the bank make additional loans of \$200,000 increasing total deposits to \$400,000. Thus, \$100,000 has given birth to \$400,000 of deposit money, \$300,000 of it newly created.

If our bank had suffered losses of deposits, it could not have carried the deposit expansion to its ultimate limit. However, the banks to which these deposits were lost would then be in possession of reserve funds and would themselves have carried the expansion on. We have assumed throughout that there was at all times a ready outlet for loans. The expansion may have been stopped because businessmen were not willing to borrow.

It is clear from this simplified illustration that banks create money when they increase the total of their assets. It follows then that the activities of bankers (but not of bankers alone) is very closely related to the economic stability of the country. The immediate effect of putting new money into circulation is to increase the force of the demand for available commodities and services. If, as a result of the new money, additional commodities and services are produced, then the first inflationary influences are offset and society as a whole is benefited by the increased production. If, as is the case during wartime, new money is created which does not bring additional commodities and services to the markets, the inflationary pressures are crystalized into higher prices. —R. P. L.

SEPTEMBER CALL REPORT---

It Indicated Continued High Business Activity and Increased Bank Borrowing

C ONTINUED stability of general business activity at high levels was reflected in the combined statements of condition of Fifth District member banks as of September 5. Most major items reached new peaks—despite the fact that the fall upturn in business activity was just getting under way—but few items showed the sharp changes characteristic of periods of rapid readjustments.

Member banks in this District increased their loans and investments to new record levels in response to avid customer demand only by resorting to a substantial increase in borrowings, which vaulted from \$2.2 million on June 30 to \$72.5 million on September 5. At this level borrowings were almost three times as high as the previous postwar peak for a call report date—\$25.7 million, reported on March 31 of this year.

Two factors account for the sharp increase since June 30. First, banks are reluctant to have substantial borrowings show up on their statements, a fact which normally leads to reduction of borrowings on usual call dates (such as June 30 and December 31) to a nominal level. Since the September 5 call date was not known in advance, no opportunity for adjustments was afforded.

The second and more important factor is the pressure to rely more on borrowings and less on sales and run-off of Government securities as a means of making short-term adjustments in reserve position, a pressure which has built up rapidly within the past year and a half.

In recent years, banks generally have placed principal reliance on sale or run-off of short-term Government securities to supply reserves needed to make new loans and higher yielding investments. The yield on Treasury Bills was usually well below the Federal Reserve rediscount rate; it was, therefore, cheaper to forego the smaller return on the Bills than to keep the Bills and pay the higher rediscount rate. To the extent that securities sold to acquire reserves were ultimately purchased by the Federal Reserve System, member bank reserves were correspondingly increased, and the base was laid for a multiple expansion of bank credit. To the extent that such securities were bought by other

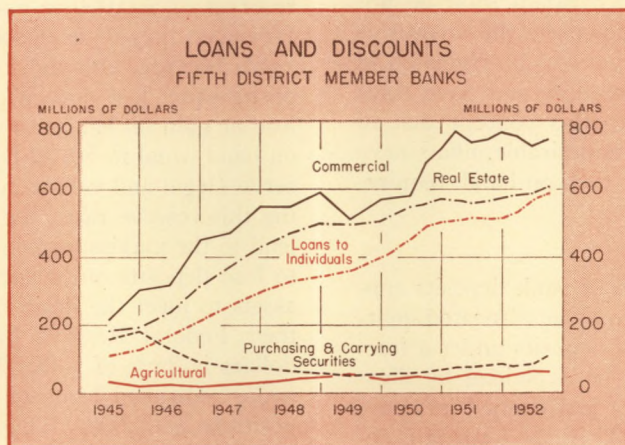
banks, or by nonbank investors, no increase in total reserves resulted; there was a transfer of existing reserves between banks.

In recent months the yield on Bills has been at or near postwar highs, while the rediscount rate has remained constant at $1\frac{3}{4}\%$. Actually, the yield on new Bills has been above the rediscount rate throughout the entire third quarter of this year, with the exception of the last week in September.

With the yield on Bills moving above the rediscount rate, it has become relatively expensive for banks to adjust their reserves by the sale or run-off of Bills, and borrowing has become the less expensive source of additional reserves. Banks have, therefore, resorted increasingly to the use of borrowed funds, particularly during the third quarter of this year. It is estimated that Fifth District member bank borrowings were at a peak of more than \$105 million at the end of August.

Acquisition of reserves through the sale of securities may be looked upon as a temporary expedient from the point of view of the individual banks, but the reserves thus acquired are more apt to be of a permanent nature. This is true because the bank is not under pressure to buy back similar securities, except as it is felt that the bank's secondary reserves have been reduced below desirable levels.

On the other hand, banks generally dislike the prospect of relying on the use of borrowed money for any extended period of time, and feel under pressure to hold loan expansion to a minimum when such loan expansion is dependent on the use of borrowed funds. Thus the increased reliance on discounting (as opposed to purchase of securities by the Federal Reserve System) has served to dampen loan expansion, and has served to lessen inflationary pressures which would otherwise have been fed through bank loans. In contrast to both, if individual banks had acquired reserves through the sale of securities outside the Federal Reserve System, no increase in total reserves would have been involved, and the pressure to hold down loan expansion would have been even greater.



Loans

In spite of the restrictive effects of tight reserves, Fifth District member bank loans continued to move up rapidly from midyear levels. At \$2,180 million on September 5, net loans were at a new high, 6.8% above year end 1951. If adjustment is made for seasonal movements in loan volume, net loans are now well over 10% above last year end.

Loans for purchasing and carrying securities rose substantially for the first time since the end of the war, and were at the highest level since mid-1946. Loans to brokers and dealers actually declined during the period; the entire increase was in other loans for purchasing or carrying securities.

Commercial and industrial loans rose only slightly more than seasonally. (The September call, however, came just before the fall spurt in these loans—commercial, industrial, and agricultural loans of weekly reporting banks jumped by more than \$27 million or almost 5% in the first four weeks after the call.) Indications are that commercial and industrial loans, now at \$747 million, will cross \$800 million by year end, for the first time on record.

Loans to farmers showed little change from June 30, again primarily because of the early call date. These loans usually decline substantially in the last few months of the year as farmers sell crops and pay off debts.

Real estate loans showed about the usual seasonal increase while crossing the \$600 million figure for the first time. By far the greatest part of the increase was in conventional loans on residential properties. FHA residential loans continued to drop off slowly; VA home loans increased slightly. Evidently, many banks are still making GI loans to established customers, although there is an obvious reluctance to accept the relatively low yield on this type of loan. Real estate loans on farm land and on other properties showed little change.

Instalment lending continued to increase at about the same rapid rate that has prevailed since spring. Automobile loans and instalment cash loans slowed their rate of increase slightly, but instalment repair and modernization loans and other retail instalment loans continued to grow rapidly. All categories of instalment loans continued to move to new records, and total instalment loans passed \$300 million for the first time.

Single payment loans to individuals rose slightly, with all of the increase in the larger loans. Loans of less than \$3,000 declined slightly.

Investments

Holdings of Government securities of Fifth District member banks increased slightly from June 30 through September 5. There was a general lengthening of aver-

age maturities, principally the result of a substantial reduction in holdings of Bills, and of a sizeable increase in holdings of bonds maturing in more than five but less than ten years. (The latter reflects principally cash subscriptions to the 2½% Treasury Bonds of 1958).

Portfolios of non-Government securities continued the rapid rate of increase characteristic of virtually the entire postwar period. Although the rise was not so pronounced as in late 1951, it was a fairly substantial 3.5%, and holdings of these securities totaled more than \$439 million on September 5.

Liabilities

Total deposits on September 5 were at \$6,452 million, a level exceeded only at year end 1951 (\$6,533 million) and were 1.3% above June 30. Demand deposits of individuals and businesses accounted for most of the gain since June 30. Time deposits (up 1.4%) held the same steady rate of increase of the past year and a half.

Good earnings were reflected in a 2% rise in capital accounts. On September 5 total capital accounts of Fifth District member banks had reached \$472 million.

—G. W. McK.

ASSETS AND LIABILITIES Fifth District Member Banks (Dollar amounts in millions)			
	Sept 5, 1952	June 30, 1952	
ASSETS			
Loans and investments	5,199.6	5,051.8	
Loans and discounts (including overdrafts)	2,180.3	2,095.4	
U. S. Government obligations	2,580.2	2,531.9	
Other securities	439.2	424.5	
Reserves, cash, and bank balances	1,760.3	1,746.9	
Reserve with Federal Reserve Bank	902.6	811.1	
Cash in vault	126.1	134.8	
Balances with banks	412.5	424.1	
Cash items in process of collection	319.1	377.0	
Other assets	90.4	86.9	
Total Assets	7,050.3	6,885.5	
LIABILITIES			
Demand deposits	4,983.4	4,922.8	
Individuals, partnerships, and corporations	3,878.8	3,728.9	
U. S. Government	168.9	233.4	
States and political subdivisions	356.8	396.5	
Banks	502.0	474.9	
Certified and officers' checks, etc.	77.0	89.2	
Time deposits	1,468.3	1,447.7	
Individuals, partnerships, and corporations	1,317.5	1,302.4	
U. S. Government and Postal Savings	55.1	54.1	
States and political subdivisions	77.8	73.6	
Banks	18.0	17.6	
Total deposits	6,451.7	6,370.5	
Borrowings	72.5	2.2	
Other liabilities	53.9	50.2	
Total Liabilities	6,578.2	6,422.9	
Total Capital Accounts	472.1	462.6	
Total Liabilities and Capital Accounts	7,050.3	6,885.5	
Demand deposits adjusted	3,993.5	3,837.6	
Number of banks	476	475	

¹ Preliminary.

Note: May not add to totals because of rounding.

Department Store Sales As a Forecasting Aid

IN good or uncertain times, the businessman can hardly content himself with a general awareness of how business *is*—he needs to know how business is likely to be some months hence. In other words, he has to be something of an economic analyst. There exist economic analyses and commentaries which he may read, but the businessman has to make his own decisions, and needs to have some analytical tools.

Among the useful tools in the analyst's kit are the familiar reports on department store trade, compiled and published by the Federal Reserve Banks with the cooperation of hundreds of stores in principal cities in all parts of the country. Reports of department store sales (available weekly, monthly, and cumulatively) are useful as business indicators—they are timely and they are detailed and may be made to answer a lot of questions about the state of things to come.

Economic analysis is concerned not only with recorded history but also with the use of that history to understand changes currently taking place in the economy of the community, the area, and the nation. Analysis of these changes provides a perspective, gives an idea of where business has been and a clue as to where it is going.

Economic analysis concerns itself with all of the factors which enter into the value of production and distribution of goods and services. Retail trade is a major consideration in the analysis of sales and inventory developments and their effects on total value of goods and services. Last year, for instance, it accounted for two-thirds of all personal consumption expenditures and 43% of the total value of all goods and services.

A rising level in the value of goods and services means either that there is an increase in the quantity produced and distributed, or that prices are rising, or both. It further means that more jobs can be expected, that wages can be increased, that more bank loans will be needed—in general, that business is improving.

Significance is in Variety

Department store sales in themselves are not a particularly important segment of total retail trade. Over the past sixteen years they have accounted for an average of only 7 to 9% of total retail sales. Their significance from an analytical point of view, however, is considerable, for they deal in such a wide variety of the many things consumers buy and are prompt reflectors of whim or change.

To return to the artisan's analogy, department store sales are not a precision tool for measuring total trade. The reason is plain—department stores are of minor importance in such lines as automobiles, building ma-

terials, gasoline, and food, which take a sizeable portion of every consumer-spent dollar. Most of these latter commodities are subject to either wide cyclical changes in amount of sales or, as with groceries, to rather substantial price variations, in contrast to the relatively more moderate sales and price changes in most non-durable goods lines which are the major segments of the department stores' business.

The degree to which department store sales give an indication of the total trade level is better from the short-run approach than from the longer-run. For example, from 1935 to 1936, department store sales rose 13.9%, while all store sales rose 16.9%. In the recession from 1937 to 1938, department store sales dropped 7.7%, while all store sales dropped 9.7%. In the boom years, 1945-1946, department store sales increased 29.5%, while the all-stores total rose 31.3%. In the recession of 1949, however, department store sales decreased 5.9% from 1948, whereas total store sales, due to unsatisfied demand for such things as motor cars and houses, showed a rise of 0.2%. Total store sales, between 1935 and 1951, rose 359%, while department store sales were rising 241%.

Redistribution of income, which has gone on for many years, raising incomes of the lowest income earners and reducing those of the highest, has been accompanied by an increase in the cost of living. Greater spending by lower income groups has tended to keep the prices of nondurable goods high, relative to those of durable goods; thus, the tendency for sales of both durable and nondurable goods to move up at a reasonably commensurate rate. Short-run distortions in the sales growth of the two types of goods have been due mainly to two factors: First, the war-induced shortage of durable goods and the rapid replacement of those shortages by rising postwar production; and, second, the vast accumulation of war-time savings which enabled a large volume of durable goods purchases in the postwar period.

Interpretation is an Art

To interpret current trends in department store sales is more of an art than it is a science. The wild gyrations that appear in seasonally adjusted department store sales since the summer of 1950 make it difficult to discern their trend. Much is made of the year-to-year changes shown in this period, and this leaves the inexperienced observer confused as to trend. But if the sales graph is observed carefully, the viewer will see a persistent upward trend, despite short-run moves upward, downward, and sideways. This observation, if coupled with a correct appraisal of the trend of overall income, provides a useful clue to the trend of retail business.

—B. P. C.

Business Conditions and Prospects

SOME temporary backing away from the peaks established in August in cotton textiles, department and furniture store sales was witnessed in the September figures but this has not changed the improving business trend in the District. Construction put in place is running at the highest level ever experienced and should continue at this level, given suitable weather conditions, even though new contract awards in September declined sharply from the August (adjusted) level.

Employment trends in private shipyards have again turned upward but budgetary problems have caused some drop at naval shipyards. Bituminous coal output recovered sharply in September but October brought wage disputes, a shut down of some days, then resumption.

Bank debits (adjusted) have recovered moderately from their August setback but still run slightly below the July peak. Business loans of the weekly reporting banks established a new high level in October and a super-seasonal rise is still continuing. August employment levels were at a new postwar peak, within 2% of the wartime peak of 1943. Adjusted hosiery output nationally in the same month was the highest on record except for August 1950 and July 1941. Cigarette production thus far in 1952 has run 2% ahead of 1951. Gasoline consumption is 7% ahead of a year ago. Practically all types of wholesalers show a better than seasonal rise in September sales; changes from a year ago were mixed.

Trade

District department store sales rose 4.6% from September a year ago, but this was insufficient to maintain the average daily seasonally adjusted index at the August level. Consequently, September sales declined 13% from August. In view of the conservative inventory position maintained by stores, the rise was sufficient to reduce store inventories (adjusted) 3% from August to a level 1% below a year ago.

Of greater interest at this time is the stores' outlook for the trade level and this can be seen in their outstanding order policy. In September outstanding orders of department stores (adjusted) rose 9% from August to a level 38% ahead of last year. No change was shown in adjusted instalment credit sales from August to September but other credit sales rose 2% in this period.

Furniture store sales in September (adjusted) declined 15% from August but were still 1% ahead of September 1951. Business is still good and this has found its reflection in furniture manufacturers' orders. Inventories of furniture stores in September dropped 5% (adjusted) from August and were at the same level as a year ago. The furniture end of the business is making a better showing than total store sales as indicated

by a drop in household appliance store sales in September of 14% under a year ago.

Automobile and truck sales in August were substantially below a year ago with passenger cars down 55% and commercial cars down 26%. Part of this was due to low dealers' stocks and part to the general lethargy of the market. Anticipating new model introduction, dealers are making attractive trade-ins on 1952 models.

Textiles

Moderate back-away from August levels occurred in cotton textile production during September. Adjusted cotton consumption in September declined 5% from August and spindle hours operated declined 1% though each was 8% ahead of a year ago. New business has been in the doldrums in recent weeks and prices of some principal constructions at second hand have eased moderately. The industry, however, has practically sold up its production through the remainder of the year and these tendencies are not too meaningful.

Sales at the retail level continue to improve and prospects are that the industry will hold around present production levels through the first quarter of 1953.

After recovering to near peak levels in August, rayon and acetate shipments in September dropped 4½%. Despite this drop, production was below shipments, and stocks recorded a further small decline. Rayon yarn producers in the District have recalled most of their previously laid off workers and the industry was operating in September at 86% of capacity. Several plant expansions have been announced in the past two months.

Profit margins continue narrow in the hosiery industry despite the fact that production in August, the latest month available, was, with two exceptions, the highest on record. Many mills are behind on deliveries and some orders for fall delivery will be carried over into 1953. Prices are still unsatisfactory but indications point to a moderate firming. A few mills have advanced prices in the seamless division and have received few complaints.

Further softening in full-fashioned prices occurred late in September by one unbranded producer. Some mills have experienced labor shortages and, thus, some limitation on production; but it has hardly been sufficient to give needed strength to prices.

Bituminous Coal

Production of bituminous coal in September picked up sharply from August following the resumption of operation of the steel mills. Output in the District in September rose 30% on an adjusted basis from August and was 2% ahead of a year ago. September adjusted output was still nearly 9% below the 1951 high established in October.

Aside from the production problems—and the vig-

Federal Reserve Bank of Richmond

orous debate over new wage terms—the domestic outlook for coal demand is quite favorable, and the export market, if supplies are available, may show improvement over existing levels.

Construction

September construction contract awards (adjusted) dropped sharply from those in August, with the September level 8% below a year ago. Only commercial construction showed better than seasonal performance between August and September. The steel strike and availability of materials may have contributed, though materials availability should have been equally applicable to commercial construction.

Relative to a year ago commercial construction, public works and utilities, and one- and two-family houses showed gains—all other types were below last year. Factory construction (adjusted) dropped two-thirds from August to September and was 59% under a year ago. Certificates of necessity for this type of construction has slowed down substantially in this District.

Between August 13 and September 25 certificates of necessity were issued for construction in the amount of approximately \$23 million, less than half the amount in the spring months. Defense contract awards announced during September in the District were valued at only

\$7 million, a substantial drop from awards prevailing in the past four or five months. Again the materials situation may in part be responsible.

The construction volume in the District is still high by any standards except those in the past three years, and there is reason to believe that a sufficient volume of one type or another will remain high for some time to come. Evidence is accumulating that residential volume is having difficulty maintaining existing levels, in part due to present tight money conditions.

Demand deposits, excluding interbank, of all member banks rose 1.6% between August 27 and September 24 and were 5.9% ahead of a year ago. Time deposits also continued to rise during September with a gain of 0.4% to a level 7.4% ahead of a year ago. Total loans and investments rose 0.7% during September with loans up 1.7%. Holdings of Government securities were off 0.2% and other security holdings were up 1.2%. Relative to a year ago loans were up 10.1%, Government securities up 4.1% and other securities up 26.7%. Although other securities constitute a small percentage of total security holdings, their rise has been spectacular.

In the weekly reporting banks, commercial, industrial, and agricultural loans set a new high in mid-October and the better-than-seasonal expansion continues. "Oth-

Continued on page 11

DEBITS TO INDIVIDUAL ACCOUNTS (000 omitted)

	September 1952	September 1951	9 Months 1952	9 Months 1951
Dist. of Columbia				
Washington	\$1,095,730	\$1,043,040	\$ 9,802,677	\$ 9,504,632
Maryland				
Baltimore	1,341,740	1,147,727	11,615,884	11,040,874
Cumberland	26,833	24,326	239,599	228,342
Frederick	22,242	21,546	204,898	188,878
Hagerstown	35,482	30,819	319,309	289,966
North Carolina				
Asheville	68,768	59,042	557,831	533,571
Charlotte	372,162	344,938	3,117,427	3,020,990
Durham	182,614	176,177	1,130,885	1,015,906
Greensboro	111,859	95,717	968,298	898,489
Kinston	56,981	57,964	222,627	202,268
Raleigh	194,633	175,931	1,606,023	1,496,432
Wilmington	51,061	44,572	416,058	384,597
Wilson	59,636	62,231	209,328	213,731
Winston-Salem	190,175	171,413	1,572,610	1,488,392
South Carolina				
Charleston	84,786	74,536	739,398	670,492
Columbia	157,936	128,437	1,309,273	1,129,019
Greenville	118,325	107,513	949,250	987,490
Spartanburg	89,129	74,803	626,416	600,309
Virginia				
Charlottesville	29,097	28,231	250,596	242,648
Danville	49,408	42,787	318,342	303,781
Lynchburg	47,951	43,895	411,591	409,737
Newport News	46,880	43,622	436,203	377,718
Norfolk	253,959	231,567	2,202,096	1,951,598
Portsmouth	28,227	23,633	255,537	223,366
Richmond	673,334	658,178	5,266,755	5,039,352
Roanoke	115,235	120,652	1,035,532	1,025,433
West Virginia				
Bluefield	44,260	47,109	432,124	421,063
Charleston	162,294	145,338	1,512,922	1,356,365
Clarksburg	32,280	32,304	318,892	305,609
Huntington	67,685	66,059	644,502	593,831
Parkersburg	29,397	30,174	273,500	275,896
District Totals	\$5,836,599	\$5,354,281	\$48,961,383	\$46,420,775

50 REPORTING MEMBER BANKS—FIFTH DISTRICT (000 omitted)

ITEMS	Oct. 15, 1952	Sept. 17, 1952	Oct. 17, 1951
Total Loans	\$1,306,582**	+ 24,346	+131,276
Bus. & Agric.	609,949	+ 19,417	+ 38,349
Real Estate Loans	254,194	— 111	+ 19,668
All Other Loans	458,364	+ 5,078	+ 74,647
Total Security Holdings	1,894,538	+ 29,953	+100,839
U. S. Treasury Bills	278,631	+ 37,626	+ 36,145
U. S. Treasury Certificates	137,263	— 38,095	+ 7,762
U. S. Treasury Notes	301,089	+ 35,394	— 9,392
U. S. Treasury Bonds	941,277	+ 3,579	+ 15,841
Other Bonds, Stocks & Secur.	236,278	— 8,551	+ 50,483
Cash Items in Process of Col.	354,973	+ 40,815	+ 51,035
Due From Banks	206,804*	+ 3,488	— 11,429
Currency and Coin	80,004	+ 1,445	+ 3,177
Reserve with F. R. Banks	582,033	+ 12,980	+ 4,958
Other Assets	54,840	+ 466	+ 1,401
Total Assets	\$4,479,774	+113,493	+281,257
Total Demand Deposits	\$3,480,486	+107,885	+199,423
Deposits of Individuals	2,514,547	+ 44,838	+ 95,137
Deposits of U. S. Government	190,187	+ 42,922	+103,098
Deposits of State & Local Gov.	174,363	+ 3,407	+ 6,128
Deposits of Banks	540,493*	+ 17,255	— 5,102
Certified & Officers' Checks	60,896	— 537	+ 162
Total Time Deposits	663,326	+ 3,493	+ 29,158
Deposits of Individuals	583,669	+ 4,830	+ 16,955
Other Time Deposits	79,657	— 837	+ 12,203
Liabilities for Borrowed Money	37,550	+ 1,750	+ 37,550
All Other Liabilities	34,702	— 791	+ 3,467
Capital Accounts	263,710	+ 1,156	+ 11,659
Total Liabilities	\$4,479,774	+113,493	+281,257

* Net figures, reciprocal balances being eliminated.

**Less losses for bad debts.

FIFTH DISTRICT STATISTICAL DATA

SELECTED INDEXES

Average Daily 1935-39=100—Seasonally Adjusted

	Sept. 1952		Aug. 1952		Sept. 1951		% Change Latest Mo.	
	1952	1951	1952	1951	1952	1951	Prev. Mo.	Yr. Ago
Automobile Registration*	451	441	430	420	+2	+5		
Bank Debits	135	119	152	136	+30	+2		
Bituminous Coal Production	386	599	420	36	—	8		
Construction Contracts	47	49	50	4	—	6		
Business Failures—No.	265	235	—	5	+3			
Cigarette Production	161	162	149	—	1	+8		
Cotton Spindle Hours	111	127	108	—13	+3			
Department Store Sales**	378	354	—	1	+7			
Electric Power Production	158	156	+6	+1				
Manufacturing Employment*	210	246	208	—15	+1			
Retail Furniture: Net Sales	347	329	272	+5	+28			
Life Insurance Sales								

*Not seasonally adjusted. Back figures available on request.
**1947-1949=100.

WHOLESALE TRADE

Lines	Sales in Sept. 1952 compared with Sept. 1951		Stocks on Sept. 30, 1952 compared with Sept. 30, 1951	
	1951	1952	1951	1952
Auto supplies (7)	+32	+35	+3	—2
Electrical goods (5)	—7	+21	—8	—4
Hardware (21)	+20	+15	—14	—1
Industrial supplies (6)	—13	+25	—6	+2
Drugs & sundries (12)	+11	+16	—1	+4
Dry goods (10)	+24	+13	—2	—4
Groceries (48)	+9	+7	+8	+7
Paper & products (6)	—6	+1	—	—
Tobacco products (9)	+14	—2	+2	+1
Miscellaneous (86)	+6	+5	—4	—3
District Totals (210)	+9	+9	—4	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, Sept. '52 vs Sept. '51	+ 8.8	+ 5.6	— 2.1	+ 5.3	+ 4.6	
Sales, 9 mos. '52 vs 9 Mos. '51	+ 4.1	+ 2.6	— 1.7	+ 5.4	+ 2.6	
Stocks, Sept. 30, '52 vs '51 ..	— 4.2	— 2.8	— 0.8	— 2.7	— 2.2	
Outstanding Orders, Sept. 30, '52 vs '51	+36.1	+53.0	+48.5	+25.5	+44.4	
Open account receivables Sept. 1 collected in Sept. '52	26.9	45.9	42.9	38.7	39.8	
Instalment receivables Sept. 1 collected in Sept. '52	14.2	13.8	15.2	17.5	14.7	
	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, Sept. '52 vs Sept. '51	+2.6	—2.1	+4.9	+6.1	+4.4	+6.3

BUILDING PERMIT FIGURES

	September 1952	September 1951	9 Months 1952	9 Months 1951
Maryland				
Baltimore	\$ 3,721,640	\$ 2,710,080	\$ 42,310,575	\$ 66,038,420
Cumberland	70,675	270,175	258,456	1,844,564
Frederick	98,250	35,625	2,017,723	1,716,880
Hagerstown	99,075	234,927	1,157,133	3,662,379
Salisbury	137,729	132,058	1,060,945	1,371,203
Virginia				
Danville	250,007	522,943	4,138,816	2,327,821
Lynchburg	94,850	38,486	1,829,492	2,497,615
Newport News	195,335	301,246	6,371,962	1,324,953
Norfolk	1,636,985	984,250	14,820,380	20,240,971
Petersburg	491,676	195,223	1,783,774	2,812,712
Portsmouth	303,625	541,051	6,395,230	4,837,522
Richmond	2,831,911	2,202,887	15,401,673	22,068,708
Roanoke	710,728	791,929	7,663,493	14,058,856
West Virginia				
Charleston	440,650	859,685	10,676,908	4,938,960
Clarksburg	212,488	130,142	1,059,480	1,029,121
Huntington	3,191,385	218,545	6,300,466	6,990,702
North Carolina				
Asheville	494,095	1,893,954	2,643,303	6,066,034
Charlotte	1,547,910	2,290,185	15,658,841	17,321,835
Durham	467,032	3,312,175	8,074,590	7,003,163
Greensboro	737,441	906,029	7,125,534	6,857,247
High Point	296,195	224,380	2,725,505	2,667,359
Raleigh	1,192,720	1,099,140	12,882,894	9,942,699
Rocky Mount	157,084	653,644	2,283,872	3,280,075
Salisbury	147,300	92,720	1,805,950	1,008,698
Winston-Salem	871,933	892,566	9,560,487	13,216,243
South Carolina				
Charleston	97,746	279,524	1,505,442	1,384,839
Columbia	1,367,525	436,931	8,267,867	10,408,935
Greenville	861,645	620,350	7,291,572	8,221,679
Spartanburg	139,450	245,393	1,770,711	2,260,408
Dist. of Columbia				
Washington	6,346,814	6,873,875	40,750,939	51,107,672
District Totals	\$29,211,899	\$30,040,118	\$245,594,013	\$298,508,273

RETAIL FURNITURE SALES

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

	September 1952	9 Mos. 1952
STATES		
Maryland (7)	0	+2
Dist. of Col. (7)	—7	—7
Virginia (18)	+7	+9
West Virginia (10)	—12	+14
North Carolina (14)	+17	+18
South Carolina (6)	+29	+11
District (62)	+1	+3
INDIVIDUAL CITIES		
Baltimore, Md. (7)	0	+2
Washington, D. C. (7)	—7	—7
Richmond, Va. (6)	+2	+9
Charleston, W. Va. (3)	+5	+22

Number of reporting firms in parentheses.

Business Conditions and Prospects

Continued from page 10

er" loans continue to rise persistently and real estate loans gradually inch upward.

Crop production improved moderately during September and important crops are again being estimated about where they were on July 1. Production of cotton

and tobacco will be lower than last year and tobacco prices are running moderately under last year. Farm prices in Maryland, North Carolina, and West Virginia are near peak levels; those in South Carolina are moderately below the best levels of 1951.

—B. P. C.

National Summary of Business Conditions

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

Industrial output rose to new postwar highs in September and October and construction activity continued close to record levels. Retail sales generally expanded. Wholesale commodity prices declined somewhat further after mid-September, and consumers prices are now slightly below their August peak reflecting mainly lower food prices.

Industrial Production

The Board's index of industrial production in September rose substantially further to 225% of the 1935-39 average, as compared with 214 in August and 218 in September a year ago. In addition to recovery of activity in metalworking industries to earlier advanced rates, output of some nondurable goods and of mineral fuels showed large further increases. In October the total index is likely to rise somewhat further, with gains in many lines partly offset by a substantial decrease in coal mining.

Steel production has continued to rise sharply and in October was scheduled at the record annual rate of about 116 million ingot tons. Passenger auto assembly in October continued at about the high September rates. Output of household durable goods expanded in September, owing mainly to a sharp rise in production of television sets to a rate almost double the curtailed second quarter volume. Activity in industrial and military equipment lines generally increased.

The increase in nondurable goods output in September to a level slightly above a year ago resulted mainly from continued gains at textile and paper mills. Activity at chemical plants reached a new postwar peak and there was a considerable rise in output of rubber products.

Crude petroleum and coal output rose substantially in September and total minerals production was at record levels. In October, petroleum output rose further, while coal mining was considerably reduced, owing in part to work stoppages in the latter part of the month.

Construction

Value of construction contracts awarded increased sharply in September reflecting two large awards for atomic energy projects totaling \$923 million. Value of work put in place was maintained at the close-to-record summer level. Housing starts totaled 98,000 as compared with 99,000 in August and 96,000 in September 1951.

Agriculture

Cattle marketings have expanded further in recent weeks, in part influenced by drought in some areas, and hog marketings have also risen seasonally. Total meat production in October has been almost 15% above the same month last year. Crop prospects have improved and on the basis of October 1 conditions were forecast at 3% above the 1951 level.

Employment

The labor market strengthened further in September. Seasonally adjusted employment in nonfarm establishments rose to a new high of 47.1 million, 500,000 above

the spring level. Substantial gains in employee working time in both durable and nondurable goods industries brought the average work week at factories to 41.1 hours, the highest level for the year; average hourly earnings rose more than 2 cents to \$1.69. Unemployment declined in early September to 1.4 million, the lowest of the postwar period.

Distribution

Following a decline in September, seasonally adjusted sales at department stores increased in the first half of October and were close to the high August level. Automobile sales showed substantial recovery in September and in early October were at a high level for this season of the year; dealers' stocks rose further. Total department store stocks, seasonally adjusted, continued to show little change in September according to preliminary estimates; however, for furniture, television, and household appliance departments a marked rise in stocks is indicated.

Commodity Prices

The average level of wholesale prices declined somewhat in October as a few basic commodities—notably lead, zinc and cotton—developed new weakness and prices of livestock and meats continued to decrease. Prices of such basic commodities as hides and wool, which had dropped sharply some months ago, have recently been sustained, and prices of apparel and household goods have increased somewhat.

The average level of consumers prices has declined slightly since mid-August, reflecting decreases in retail food prices partly offset by rising tendencies for other consumer goods and services.

Bank Credit

Total credit outstanding at banks in leading cities increased considerably between mid-September and mid-October. The major part of the increase reflected bank purchases of Treasury tax anticipation bills offered in early October. Bank loans to businesses also expanded, primarily for seasonal needs. Food processors, commodity dealers, trade concerns, and metal manufacturers were important borrowers.

Interest rates charged by commercial banks on short-term business loans averaged 3.49% in the first half of September compared with 3.51% in the first half of June. Rates rose very slightly in New York City but declined elsewhere.

Bank reserve positions, which had eased temporarily in mid-September, again tightened somewhat in late September and early October. Required reserves of member bank increased sharply in early October as deposits expanded in connection with bank payments for Treasury tax bills.

Security Markets

Influenced by an active nonbank demand for short-term issues, yields on most U. S. Government securities declined substantially during the first three weeks of October. Yields on high-grade corporate bonds increased somewhat. Common stock prices continued to decline from their August highs.