FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

THE FIFTH FEDERAL RESERVE DISTRICT

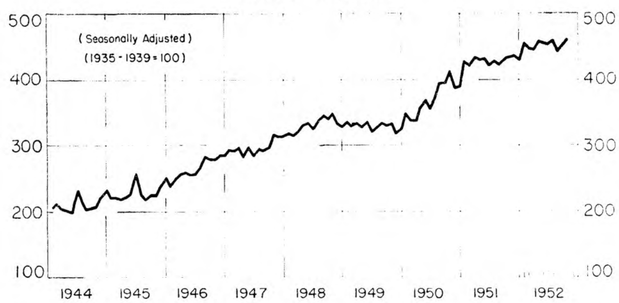
December 1952

New savings in the Fifth Federal Reserve District in institutions and in savings bonds have amounted to nearly 2-1/2 billion dollars in the postwar period through June 1952. This was equal to 5.2% of a comparable national total. In the first half of 1952, new savings were nearly as large as in the full year 1951 and equal to 7.1% of the national total, as is shown in the article beginning on Page 3.

Also In This Issue - - -

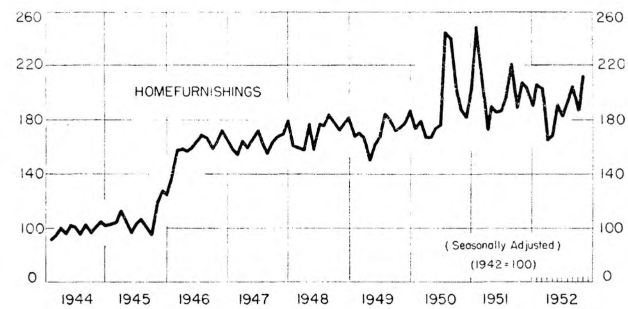
FIFTH DISTRICT TRENDS

BANK DEBITS



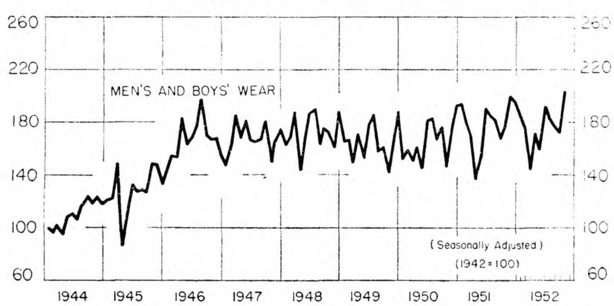
The adjusted index of bank debits in October rose 2% from September to a level 6% ahead of a year ago. The index for October came back to the peak level which was established in July. Deposit turnover in October was at 16 times on an annual basis compared with 15.1 in September and 15.8 in October a year ago.

DEPARTMENT STORE SALES



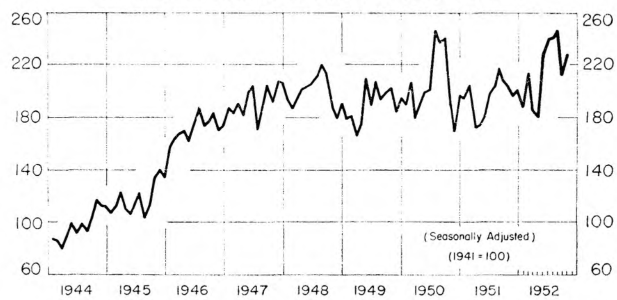
October sales of home furnishings in department stores rose 16% above September, after seasonal adjustment and were at the same level as in October 1951. Sizeable drops occurred in sales of major household appliances and in linoleum, but good gains were reported in radios, televisions, and musical instruments.

DEPARTMENT STORE SALES



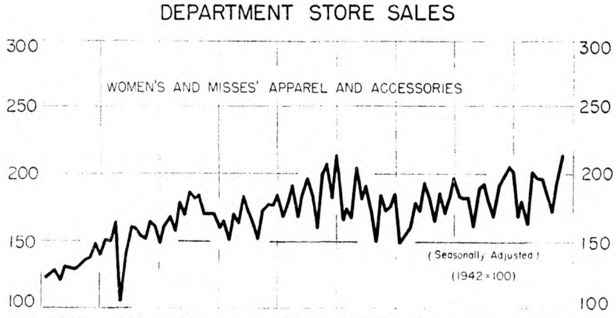
Sales of men's and boys' wear in department stores in this District rose 17% on an adjusted basis between September and October. October sales were 12% above last year and at the highest level ever attained in these stores, showing outstanding gains over last year.

RETAIL FURNITURE STORES NET SALES



Retail furniture store sales in this District rose 11% after seasonal correction during October to a level 11% ahead of October 1951. Although adjusted sales in October were lower than in each of the months from May through June, they were considerably higher than in all other months since September 1950. Store inventories were at the same adjusted level as in September and 1% below last year.

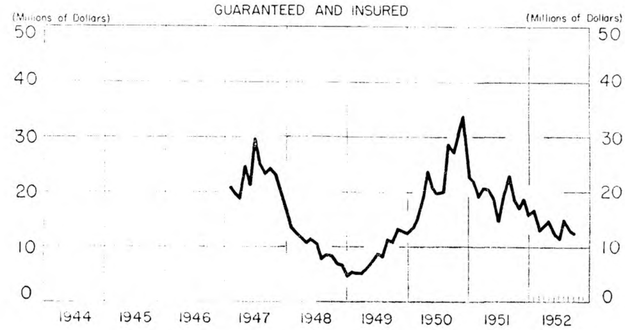
DEPARTMENT STORE SALES



This District came within less than 1% of establishing a new high record in October. Seasonally adjusted sales were 10% higher than in September and 9% higher than a year ago. Women's and misses' coats made a particularly good showing, as did blouses and skirts.

G. I. HOME LOANS

GUARANTEED AND INSURED



In the first eight months of 1952, G. I. home loans, guaranteed, dropped 32% from the same period of a year ago. During October, the latest figures of record, the decline from a year ago was 45%. The trend of these loans is still downward and will probably continue downward unless the interest rate on G. I. mortgages is raised or the market rate of mortgage interest falls.

Fifth District Savings

The evolution of mankind from a primitive state into a well-developed economic order and the growth of cultural pursuits have been due to man's ability to produce a surplus and use that surplus to further expand output and advance cultural pursuits. Savings are inherent in the production of a surplus and savings is the subject of this discussion.

Much of the contemporary discussion of savings is confined to their immediate influence on production and distribution of economic goods, but of far greater importance is their influence on the growth of the tools of production which has been primarily responsible for making man's economic activity dynamic rather than static.

Types of Savings

It is not possible to measure all savings at the regional level, but it is possible to show the amount that has been saved in the major savings institutions such as savings and loan associations, banks, and life insurance companies, and in United States savings bonds.

During 1951 net new savings in the Fifth Federal Reserve District amounted to $377 million in these forms, compared with $258 million in 1950. During the first six months of 1952 new savings were $350 million, nearly as large as in the full year 1951. Fifth District net savings in 1951 in the mentioned forms were 5.7% of the national total compared with 4.7% in 1950. In the first half of 1952 the amount saved in the District accounted for 7.1% of the national total.

New savings in banks, savings and loan associations, and insurance companies during 1951 totaled $518 million which were in part offset by reductions in holdings of United States savings bonds of $141 million; in the first six months of 1952 new savings in these institutions amounted to $411 million, offset in part by a drop of $61 million in holdings of United States savings bonds.

In the postwar period from the end of 1945 through the first half of 1952, new savings in institutions and in savings bonds in the Fifth District amounted to $2,494 million or 5.2% of the national total. In the entire postwar period, savings in the form of life insurance made the largest single contribution to the total, amounting to $1,150 million; this was followed closely by those in savings and loan associations, with an aggregate postwar total of $933 million. Time deposits rank third with a total new saving of $604 million, and series F, G, J, and K savings bonds fourth with a total of $346 million. Offsetting these new savings to some extent has been a reduction of $539 million in holdings of A-E and H savings bonds. (Series H bonds were first issued June 1, 1952, and hence were not redeemed during the period covered. Sales are included here, however, because of the similarity of this series to series A-E.) These figures are shown in Table I.

Table I
CHANGES IN SELECTED TYPES OF SAVINGS
Fifth District
(Millions of dollars)

	Jan. 1946-Jun. 1952	1950	1951	Jan.-Jun. 1952[1]
Share capital in all operating savings and loan associations	+ 933	+ 149	+ 198	+ 161
Time deposits in all banks	+ 604	+ 18	+ 121	+ 119
Net purchases of series A-E and H savings bonds	− 539	− 133	− 131	− 54
Net purchase of series F & G (J&K) savings bonds	+ 346	+ 51	− 10	− 7
Reserves of major legal reserve life insurance companies	+ 1,150	+ 173	+ 199	+ 131
Total—Fifth District	+ 2,494	+ 258	+ 377	+ 350
Total—United States	+48,179	+5,449	+6,570	+4,947
Dist. % of U. S.	5.2	4.7	5.7	7.1

[1] Partly estimated.

Percentage Growth by Type

Whatever the effect of the interest rate may be on the total volume of saving, it is important in determining the form that saving takes. In this connection, it is of particular interest to note that share capital in savings and loan associations from the end of 1945 until June 30, 1952, increased 142% in the Fifth District, compared with a gain of 30.4% in time and savings deposits and 54.9% in the reserves of policy holders in life insurance companies.

On a national basis share capital in savings and loan associations rose 142.3% in the same period, time and savings deposits 34.5%, and policy holders' reserves in life insurance companies 52%. In view of the fact that savings in the form of life insurance are motivated by different reasons than those in savings and loan associations and in banks, the test of the effects of higher interest rates on the distribution of savings among institutions can best be made directly between banks and savings and loan associations.

Rates paid by savings and loan associations were considerably higher than those paid by banks during the entire period, and liquidity of funds in the two types of institutions was on a parity. It therefore seems clear that the substantially higher rates in the savings and loan associations were the dominating influence in attracting savings.

During 1951 the savings in the Fifth District in savings and loan associations rose 16% while those in banks rose 5.2% and in life insurance companies 6.8%.During the first six months of 1952 savings in the savings and loan associations rose 11.3%, in banks 4.8%, and in life insurance companies 4.2%. Fifth District percentage gains in each type of institution, both in 1951 and the first half of 1952, were greater than in the United States as a whole.

Maryland and North Carolina have vied for first position in the amount of new savings in the postwar period, each occupying top position in three years. In the first half of 1952 first honors go to Virginia. In the entire period from 1946 through the middle of 1952, Maryland ranked first in new savings with a total of $598 million; North Carolina second with $574 million: Virginia third with $513 million; District of Columbia fourth with $319 million; West Virginia fifth with $283 million; and South Carolina sixth with $207 million.

New savings in the states of the Fifth District and the District of Columbia in savings and loan associations, in banks, in life insurance companies, and in savings bonds during the postwar period are shown in Table II.

Table II
SELECTED TYPES OF SAVINGS[1]
Fifth District
(Millions of dollars)

	1946	1947	1948	1949	1950	1951	Jan.-Jun. 1952[2]
Maryland	+148	+ 77	+ 44	+ 68	+ 75	+110	+ 76
Dist. of Col.	+ 92	+ 62	+ 17	+ 39	+ 40	+ 27	+ 42
Virginia	+123	+ 80	+ 39	+ 72	+ 48	+ 71	+ 80
West Va.	+ 61	+ 43	+ 48	+ 24	+ 23	+ 38	+ 46
No. Carolina	+110	+ 88	+ 61	+ 90	+ 50	+ 98	+ 77
So. Carolina	+ 36	+ 36	+ 24	+ 27	+ 22	+ 33	+ 29
Fifth Dist.	570	386	233	320	258	377	350
Dist. % of U. S.	5.7	5.0	3.0	5.4	4.7	5.7	7.1

[1] Includes changes in share capital of all operating savings and loan associations, time deposits at all banks, and reserves of major legal reserve life insurance companies, adjusted for net purchases or net redemptions of U. S. Government savings bonds.

[2] Partly estimated.

United States Savings Bonds

Despite the fact that the rate of interest has been higher on savings bonds (if held to maturity) than in any form of institutional saving, there was a net redemption in holdings of these bonds in the Fifth District in each of the postwar years as well as in the first half of 1952. Net cashing of series A-E bonds amounted to $45 million in 1946, $24 million in 1947, $72 million in 1948, $80 million in 1949, $133 million in 1950, $131 million in 1951, and redemptions in the first six months of 1952 exceeded sales of E and H bonds by $54 million.

Series F and G bonds were on a net purchase basis in each year through 1950, but during 1951 and in the first half of 1952 these series showed net redemptions. This was due to a change in the interest rate on marketable Government bonds which for a time made the F and G series less attractive for investment purposes. The change to the J and K series on May 1, 1952, has placed these bonds more in line with the market rate of interest, and their purchases for several months after their introduction have run considerably better than F and G bonds a year earlier.

In order to throw some light on the source of redemption of the series A-E bonds—whether large or small holders—the numbers of pieces sold and redeemed have been multiplied by the issue price of each denomination. The figures given do not represent a true picture of the changes, since redemptions are based on issue price and do not include interest accrual, but current figures by denomination including redemption prices are not available.

Table III shows net sales or redemptions by denomination in each year of the postwar period and the first six months of 1952. It reveals that over most of the period the major portion of redemptions came in the denominations $100 and under, and that net purchases were made in most of the period in denominations of $200 and over. This would seem to indicate that the small holders had considered these investments as temporary and that they had used them for transactions purposes in the post-war period while at the same time investors were accumulating them because they were the best interest bearing obligations in the market at the time.

There has, however, been a gradual downward trend in the net redemptions of the denominations of $100 and under throughout the entire postwar period, with the first six months of 1952 showing a closer balance between sales and redemptions than any year in the postwar period. On the other hand, beginning in 1950 when the yields on Treasury marketable bonds began to rise, investor redemptions of $500 and $1,000 bonds exceeded purchases for the first time. This trend has continued through the first half of 1952.

There has been a strong upward trend in the sales of the $25 and $50 bonds for several years, while redemptions of these bonds have held at a fairly constant level in the same period. The excess of redemptions of these bonds over this period is probably in the nature of shaking out the the weak holders. On the other hand, the sales of series E-H savings bonds in the higher denominations have been trending down for quite a number of years while their redemptions continue to increase. This seems to indicate that large holders find other types of investment more desirable than these series.

Table III
NET SALES OF SERIES E-H SAVINGS BONDS
Fifth District
(Millions of dollars)

Denominations	1946	1947	1948	1949	1950	1951	Jan.-Jun. 1952
10's	− 2	− 2	− 1	− 1	− 1	**	**
25's	−85	−58	−43	−34	−33	−20	− 8
50's	−32	−24	−19	−14	−16	−13	− 5
100's	−32	−24	−21	−14	−19	−20	−10
200's	+ 5	+ 2	+ 2	+ 2	+ 2	+ 1	+ 1
500's	+ 4	+ 3	**	**	− 8	−11	− 6
1,000's	+44	+41	+32	+26	− 2	−20	−10
Total	−98	−62	−50	−35	−77	−83	−38

**Less than $500,000.

Notes: 1. Redemptions calculated at issue price.
2. Minus sign indicates excess of redemptions over sales.

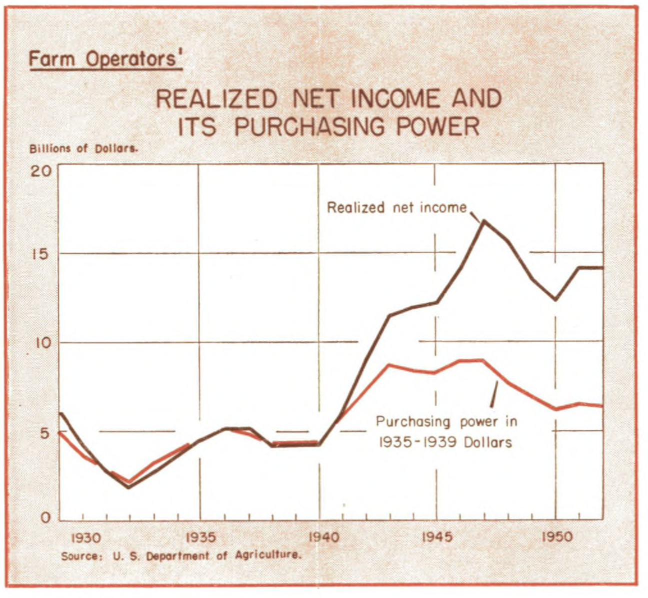
Farm Financial Outlook

At the Agricultural Outlook Conference held recently in Washington, D. C., agricultural outlook workers from all over the nation spent a week examining farming prospects for 1953. This article treats both the national agricultural outlook as it was developed at that conference and the significance of this outlook to the states of the Fifth Federal Reserve District.

THERE is general agreement among economists that business activity will be very high in early 1953 with some of the leading business indexes establishing new record highs in both the first and second quarters. There apparently is less agreement as to exactly when they will reach their peaks and either level off or start dipping downward. Some look for a slight slipping to become evident in the third quarter, whereas others think it will not come before the fourth quarter of 1953 or the first quarter of 1954. The United States Department of Agriculture estimates presuppose that the peak in general business activity will come in the third quarter of 1953 and that only a very slight dip will be evident in the fourth quarter.

Domestic demand for farm products is expected to continue at a high level during most of 1953. National employment may continue to increase moderately and disposable income will be higher next year than this.

Foreign demand for U. S. farm products—an important segment of demand, particularly for such products as cotton and tobacco— is likely to be substantially below 1952 levels. Several factors are contributing to this reduced export demand. Among them are a general increase in foreign supplies of wheat, cotton, and some fruits. Also, the continued tight dollar situation will reduce American sales to some countries that normally are important customers for American farm products. They, as well as other importing countries, are taking advantage of exportable supplies in other surplus-producing countries, some of which are also cheaper than American products.



Income Prospects for 1953

If growing conditions are about average next year, the volume of farm marketings in 1953 may be as large or slightly larger than in 1952. However, with slightly lower farm prices in prospect as a result of heavy marketings of some products—for example, cattle—and some slackening in the over-all demand for farm products, both cash returns from farm marketings and gross farm income are likely to be slightly below 1952 levels. Commodities for which cash receipts are most likely to be higher, according to the Bureau of Agricultural Economics, are dairy products, chickens and eggs, corn, and oil-bearing crops. Receipts are likely to be smaller from wheat and tobacco.

Present indications are that cash returns from farm marketings in 1953 are unlikely to exceed this year's expected level of $33.5 billion and are more likely to be slightly smaller. In addition to the cash receipts, gross farm income also includes the value of home-consumed farm products, the rental value of farm dwellings, and Government payments to farmers. These other items in gross income probably will be about as large in 1953 as in 1952. Consequently, gross farm income appears likely to be only moderately under the estimated 1952 level of $37.6 billion.

The total cost of farm production has risen in 13 of the past 14 years and is expected to rise again slightly in 1953. This increase in expenditures will result both from higher prices of the things farmers have to buy and from larger quantities bought. No crippling scarcities of the type that would cut farm production are anticipated, although wire fencing is likely to continue scarce through most of next year.

As a consequence of the slightly reduced farm income and slightly higher production expenses, net farm income may be about 5% lower in 1953 than the $14.2 billion expected for 1952. In view of the expected further small increase in prices paid by farmers, indications are that the smaller realized net income in 1953 will have the smallest purchasing power of any year since 1941 and only about one-third more than average during the 5 years 1935-39.

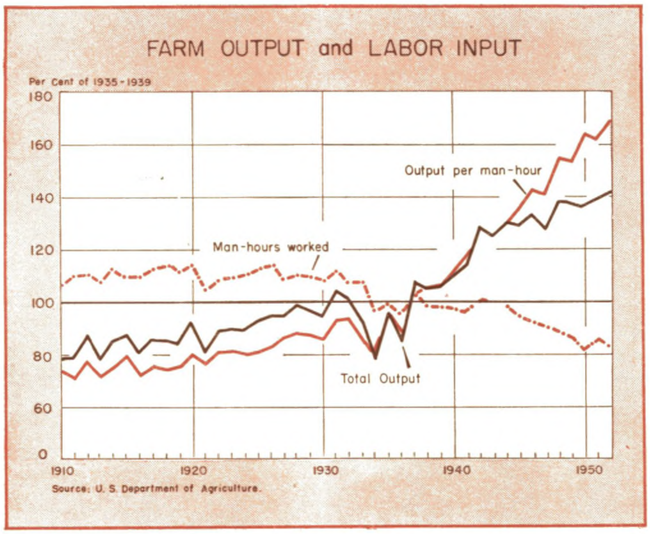
Significance to Fifth District

The high level of domestic demand for farm products generally will be a very favorable factor in the Fifth

District. Prospects are for substantially smaller exports of both cotton and tobacco, but despite the lower export demand, it appears that both crops will continue generally profitable. Tobacco acreage will be reduced substantially in 1953 as a result of the smaller 1953 acreage allotments for flue-cured tobacco. It is to be expected that income in flue-cured tobacco areas will decline, since most farmers will be unable to make other changes in their farm business which will offset the drop in tobacco income.

Cotton acreage will be uncontrolled in 1953 and the price will be supported at 90% of parity. Present indications are that the carry-over next August 1 will be some one-half million bales larger than in 1952.

The increase in national cattle slaughter in 1953 is expected to push total meat production moderately above that in 1952 despite the expected slight reduction in hog slaughter. Heavy marketings of cattle in 1953 may force some further reduction in prices for live animals. The abundance of beef will tend to prevent any increase in hog prices and may depress lamb prices moderately.



Consumer demand for milk will continue at a high level during 1953, and until the 1953 pasture season begins, prices will remain above the levels of corresponding months of this year. Dairy farmers will continue to feel the cost-price squeeze, however, and will thus be under pressure to increase production efficiency. The BAE foresees a more favorable outlook for egg producers than a year ago, but expects possible further decline in profits for broiler producers.

Any attempt to relate the national agricultural outlook for 1953 to the states of the Fifth Federal Reserve District would be incomplete if it failed to take into account the seasonal nature of income in this area. Nearly one-half of all cash farm income—well over one-half of the cash income from the sale of crops—is received during the three months, September, October, and November.

If it is assumed that there will be some softening in business activity in the third and fourth quarters of 1953, its effect on farm prices could vary sharply, depending on what the prospects for 1954 then appear to be. If prospects should be for a sustained high level of economic activity only moderately below the 1953 level, the impact on agriculture would more than likely be moderate. If, however, it were to appear that 1954 is to be a year of continuous decline in economic activity, the depressing effect upon farm prices would be more severe. While it is assumed that any decline will be of more nearly minimum proportions, the effect upon farm income may tend to be accentuated because of the large share of the income received in the latter part of the year.

In view of the outlook for a further shrinking of net farm income in 1953, farmers are under increased pressure to reexamine their farm business for opportunities to increase production efficiency. For some years now, farmers have been increasing their production efficiency in terms of output per acre, per animal and per man. Much of the increased production efficiency that has been achieved has come about by the substitution in the production process of an increasing amount of goods and services produced off the farm and thereby involving cash expenditures.

Indications are that over the past several years, the farmer's average cash cost of production per unit of farm product has tended to increase, even when an adjustment is made for the effect of price increases. In fact, one analysis indicates that the "increasing efficiencies about which we talk—increased yields per acre and per animal unit and increased output per man—have been achieved in part by the substitution of almost 15% more off-farm goods and services per unit of farm production." This increased commercialization of agriculture is, of course, reflected in the higher cash cost of farm production and the more than doubling of farm debt since 1946.

Tobacco Study Published

The Federal Reserve Bank of Richmond has published a study entitled *Flue-Cured Tobacco — An Economic Survey*. It covers the production of flue-cured tobacco, its marketing, and the factors affecting the demand for the product. Copies of the publication are available upon request to the Bank.

Tax Anticipation Bills---A Buy For Bankers

On September 24 and again on November 5, 1952 the Treasury invited tenders for Treasury bills designated as Tax Anticipation Series. The offer of September 24 was for approximately $2.5 billion of 161-day bills maturing March 18, 1953, and that of November 5 was for approximately $2 billion of 210-day bills maturing June 19, 1953. Aside from the difference in maturity, these tax anticipation bills differ from the conventional 91-day Treasury bills in two important respects: (1) The new bills will be accepted at face value in payment of income and profits taxes due March 15, 1953, in the case of the first issue, and June 15, 1953, in the case of the second. (2) Qualified depositary banks were permitted to make payment for the new bills by crediting their Treasury Tax and Loan Accounts.

The acceleration of tax payments by corporations under the "Mills plan" has accentuated the differences in the timing of Treasury receipts and expenditures over the fiscal year. The Treasury will incur a sizeable cash deficit over the first half of fiscal 1953, while a cash surplus is probable for the latter part of the fiscal year. The "Mills plan" provided for the payment by corporations in the first half of 1952 of 70% of their 1951 tax bill, 35% on March 15 and 35% on June 15. In 1953, 80% of the 1952 tax must be paid in the first six months, while in 1954, 90% must be paid by June 15, and in 1955 and thereafter, 100%. The first two tax dates (March 15 and June 15) are therefore becoming increasingly important in the Treasury's fiscal plans. The desirability of providing for the lean months by selling issues designed to attract accumulating tax reserves is apparent. The tax anticipation bill is well adapted to bridge this gap in the timing of Treasury expenditures and income.

The point of particular interest to bankers in the offerings of tax anticipation bills was the provision for making payments through the Treasury Tax and Loan Accounts at the individual banks. A review of the conventional method of purchasing Treasury bills will aid in the explanation of the special features of the present offering which bankers have found so attractive.

Some Characteristics of Bill Financing

The Treasury bill was first used in the United States as a regular instrument of Government finance in 1929. By the end of 1934, it had completely replaced the certificate of indebtedness, the principal other means of short-term Treasury financing, although by 1942 unprecedented war needs resulted in the reintroduction of the certificates.

The bill's advantage over other short-term financing instruments lies in its easy adaptability to competitive money market needs. It is offered on a discount basis, the price being established by competitive bidding. Each week the Treasury invites tenders for a specified amount of Treasury bills. Tenders may be on a competitive or noncompetitive basis, the noncompetitive tenders being accepted by the Treasury in amounts of not more than $200,000 from any one bidder at the average price of the accepted competitive bids. Noncompetitive bidding was introduced in 1943, primarily to help widen the market for Treasury bills among small banks. In 1944 the maximum on noncompetitive bids was raised from $100,000 to $200,000 and in 1947 the principal of accepting noncompetitive bids at the average of the accepted competitive bids was established, replacing the "posted rate" set during the war years. By 1952 noncompetitive bidding had grown to over 10% of the weekly offerings.

Since 1942 settlement for accepted tenders for Treasury bills has had to be made at the Federal Reserve Banks by the issue date in cash or other immediately available funds. The Treasury, on several occasions in the past, has permitted qualified depositary banks to make payment by a credit to the Treasury's account on their own books. The purpose of this provision was to faciliate the marketing of new offerings at times when member bank reserves were subjected to abnormal pressures.

Today, the majority of the conventional 91-day bills issued are in exchange for maturing issues. The Treasury, however, occasionally turns to bills to raise new money by offering an issue in an amount exceeding that needed to refinance the maturing issue; or it may raise new money by a special bill offering such as the current tax anticipation series.

When payments are made at the Federal Reserve Banks in cash or other immediately available funds for bills providing the Treasury with new money, the result for the banking system as a whole is a reduction in member bank reserves by the amount of the payments. When the Treasury spends the funds thus received, member bank reserves are restored by this amount. The over-all effect on member bank reserves of the sale of the bills and the expenditure by the Treasury of the funds realized is to leave their level unchanged. For the individual bank, however, reserves may be lost or gained according to the extent that purchases of bills are made by or through it and that the funds disbursed by the Treasury are deposited in it.

Special Features of Tax Anticipation Series

By permitting payment for the new tax anticipation series in the form of a credit to the Treasury Tax and Loan Account, the Treasury, in effect, gives the qualified banks the use of these funds until it calls down its deposit. The banks, of course, must provide the required legal reserve against the newly created deposit but reserve funds are not lost as a result of the transaction (as in the case of cash payment) until the Treasury calls down its Tax and Loan Account balance. A Reserve City bank, for example, would have to tie up reserve funds in an amount equal to 20% of the purchase price of the securities it bought. But, it will earn an interest return on the total purchase price of the securities. When this interest return is related to the funds actually tied up by the transaction (the reserve funds securing the newly created deposit), it is found that these funds may have earned an uncommonly high return for such short-term employment—high enough, in fact, to permit the profitable sale of the securities at a considerably lower price than that at which they were purchased. The profitability of the transaction rests on two fundamental factors: (1) the average length of time the Treasury leaves the Tax and Loan balance at the bank, and (2) the difference between the purchase price of the bills and the price for which they are sold.

Bankers have shown such a keen interest in this type of transaction, which made its first postwar appearance in October 1951, that a detailed explanation seems desirable. If a Reserve City bank (legal reserve requirement 20%) bids for $100,000 of tax anticipation bills and the bid is accepted by the Treasury at a price to yield 1.72%, the amount which the bank pays to the Treasury by crediting the Tax and Loan Account is $99,230.78, which is simply a book entry. Against this deposit the bank must set reserve funds in the amount of $19,846.16 (20% of $99,230.78). This is the total amount the bank has tied up at this point by the transaction. For simplicity, let us say that the bank sells its bills just prior to meeting the first call the Treasury makes against the Tax and Loan Account balance. If the bank is able to hold the bills for 20 days and sells at a price to yield 1.82%, it will receive $99,287.18, which is $56.40 more than the amount it credited to the Treasury's account in payment for the bills. This $56.40 is the dollar return from investing $19,846.16 (the reserve funds securing the credit to the Treasury Tax and Loan Account) for 20 days. That is, the bank has earned 5.19% (annual rate) on the funds it invested in this transaction. The accompanying table shows the dollar gain if the bills are sold at 1.82% on the 10th, 15th, 20th, or 25th day after purchase and the rate of return this represents on the reserve funds thus invested by a Reserve City bank and by a country bank.

It is unrealistic to assume that the Treasury will call 100% of its Tax and Loan Account balance at one time. Nevertheless, the principle applies as well in the case of a series of smaller calls in terms of the average length of time the Treasury leaves its balance with the bank and the average time the bills are held by the bank, that is, assuming the bank sells tax anticipation bills in amounts sufficient to meet each call. The smaller dollar return from bills held only a very short time will be offset by the larger dollar return from those held a longer time so that, on the average, the rate of return on the reserve funds invested will be comparable with the above arithmetic illustration.

The difference between the purchase price of the bills and the prices at which successive lots are sold, and the average length of time that the bills are held are the two crucial factors affecting the profitability of the transaction. An appraisal of the former by bankers in deciding whether or not to engage in this sort of transaction rests on competent market analysis; appraisal of the latter rests on the probable average length of time the Treasury will leave its Tax and Loan Account balance at the bank.

No attempt at market analysis can be undertaken here, but it may be noted that past experience shows an increase in yield (drop in price) on tax anticipation bills on the day following the auction of from .10 to .15 basis points. The average of the accepted bids for the October 1951 issue was 1.55%. The mean of the bid and asked prices on the following day was 1.64%. For the November 1951 issue, the price paid by noncompetitive bidders was 1.497% while on the following day the mean of the bid and asked prices was 1.59%. Tenders for the October 1952 issue were accepted at an average yield of 1.72%. On October 6, the mean of the bid and asked prices was 1.86%. The average of accepted bids for the latest issue of tax anticipation bills was 1.846% while on November 14 the mean of bid and asked prices was 1.93%. Past experience has been, in general, that the market price on a yield basis for tax anticipation bills will range around .10 basis points higher than the price on conventional Treasury bills with nearest maturity to the tax bills.

The Treasury by making these issues of tax anticipation bills especially attractive to banks assures an effective "underwriting" of a large portion of the amount offered. In turn, the resale of the bills by the banks is facilitated by their acceptability in payment of taxes which makes them an especially attractive outlet for accumulating corporation tax reserves. In sum, the tax anticipation bills are convenient instruments for bridging the gap between Treasury receipts and expenditures during months of lean tax receipts.

TRANSACTIONS IN TAX ANTICIPATION BILLS BY QUALIFIED DEPOSITARY BANKS

Assumed Purchase Price 1.72%=$99,230.78

			Rate of return on reserve funds involved	
Days after Purchase	Selling Price	Dollar Gain	Reserve City Bank	Country Bank
	(1.82%)			
10	$99,236.62	$ 5.84	1.07	1.53
15	99,261.90	30.12	3.82	5.45
20	99,287.18	56.40	5.19	7.41
25	99,312.46	81.68	6.01	8.58

Business Conditions and Prospects

Business continues on the upgrade in the Fifth District. The October trade level recovered notably from the temporary setback in September, with adjusted department store and furniture store sales up 8%. Industry in the District generally is active. Employment in manufacturing industries rose moderately; working time was further expanded, and higher employment is expected for the first quarter of 1953. Coal output dropped as a result of another work stoppage, and the miners' wage issue was still pending late in November. The cotton textile industry withstood the half-million bale increase estimated in output without serious repercussion.

Non-manufacturing employment showed mixed trends but in the aggregate remained little changed. Reductions in Federal budgets have caused a drop in Government employment in a number of cities, and in other local areas construction employment has turned down seasonally.

Wholesalers' adjusted sales were less active in October than in September except in drugs and electrical supplies.

Trade

Department store sales, adjusted, recovered 8% from the September setback, moving to a level 7% ahead of a year ago, and within 5% of the year's peak established in August. Department store inventories, adjusted, dropped 2% during October. Stores are still exercising a conservative inventory policy—with sales up 7% over a year ago, inventories have risen only 2%.

Instalment sales in department stores rose 12% on an adjusted basis from September to a level 22% ahead of a year ago. Other credit sales were more in line with total store sales. Receivables (both instalment and other) showed larger gains over a year ago than did sales. Outstanding orders at the end of October were at the same adjusted level as a month earlier and 40% ahead of October last year.

Women's and misses' coats and suits, men's clothing, furniture and bedding, and radios and televisions were outstanding in the October sales gains.

Sales of furniture stores in October, adjusted, rose 8% from September to a level 11% ahead of a year ago. Cash and credit sales of furniture stores were in marked contrast to those of department stores. While increases in cash sales of furniture stores exceeded those of credit sales in both the month and year comparison, just the reverse was true in department stores. Furniture store inventories, at the same adjusted level as a month earlier and 1% below a year ago, were equivalent to 3.8 months' supply compared with four months' in October 1951.

Household appliance store sales in October, without seasonal adjustment, rose 29% from September and were 23% ahead of a year ago. This contrasts with major household appliance sales in department stores during October, which were down 20% from the corresponding month last year.

The persistent upward trend in the trade level during much of this year is one of the strong factors in the District's economy. Continuation of this trend is expected.

Textiles

Consumption of cotton in the District's mills in October was at the same adjusted level as in September and 6% greater than last year. The November 1 cotton crop estimate was up approximately a half-million bales, causing the price of cotton to weaken further. Goods and yarns, however, held quite firm in the face of the raw material decline. The price situation late in November appeared to have settled and expansion in new business seems to be getting under way. Due to continued lack of demand in low count yarns and heavyweight goods, however, the extent of the recovery potential in the cotton textiles industry is somewhat restrained.

The District's October shipments of rayon and acetate yarns were 7% lower than in September but still in excess of 100 million pounds, and 22% ahead of a year ago. In the first ten months of 1952, filament yarn shipments were off 6% from a year earlier, with high tenacity up 25%, regular and intermediate tenacity rayon off 35% and acetate off 11%. Staple and tow shipments were off 7% in the first ten months, with rayon shipments up 5% and acetate shipments down 27%. October production exceeded shipments in all segments of the industry except in rayon filament yarn. As a consequence, total inventories rose nearly six million pounds during the month.

Two companies recently reduced prices on staple and tow, a move which has been attributed to foreign competition. Prices of rayon and acetate cloth have been firmly maintained and the retail trade level and apparel items using these constructions have been showing good increases over a year ago.

The hosiery industry in the Fifth District has been producing at near record levels, with seamless doing somewhat better than full-fashioned. Although profit margins are still low in both types, the large sales volume has done a great deal to make these low margins more tenable. Some slackening in output in some of the smaller seamless mills has been noted in recent weeks, but the larger mills are fairly well booked into the first quarter of 1953. It seems likely that if the present rate of demand continues into Spring, a firmer price structure could very well result.

Bituminous Coal

October adjusted production dropped 35% from the September level as a consequence of a work stoppage resulting from the accompanying wage dispute. The outlook for domestic demand is considerably improved, with the rising level of industrial output. Exports in 1953, however, at this time seem likely to be less than half those of 1952.

Banking

Banking statistics verify the rising business activity in the District. During October loans and discounts of all Fifth District member banks rose 1.5% to a level 11.6% above that of a year ago. Demand deposits, excluding interbank, rose 0.9% and were 3.5% ahead of last October. Time deposits increased 0.8% to a level 6.9% ahead of last year. Member bank reserves were $36 million higher than a year ago, but borrowings from the Reserve Bank and others were up $76 million. The 50 weekly reporting banks showed a continued rise in loan volume during November.

Bank debits, adjusted, rose 2% from September and were 6% ahead of October 1951. The October adjusted level was again back to the peak which was established in July of this year.

FIFTH DISTRICT BANKING STATISTICS

DEBITS TO INDIVIDUAL ACCOUNTS

(000 omitted)

	October 1952	October 1951	10 Months 1952	10 Months 1951
Dist. of Columbia				
Washington	$1,148,785	$1,199,192	$10,951,462	$10,703,824
Maryland				
Baltimore	1,425,514	1,321,338	13,041,398	12,362,212
Cumberland	28,059	28,440	267,658	256,782
Frederick	24,691	24,292	229,589	213,170
Hagerstown	39,161	33,026	358,470	322,992
North Carolina				
Asheville	62,116	61,042	619,947	594,613
Charlotte	393,057	370,749	3,510,484	3,391,739
Durham	183,781	122,247	1,314,666	1,138,153
Greensboro	119,848	109,798	1,088,146	1,008,287
Kinston	54,411	59,618	277,038	261,886
Raleigh	231,609	184,246	1,837,632	1,680,678
Wilmington	49,007	45,333	465,065	429,930
Wilson	71,360	110,889	280,688	324,620
Winston-Salem	217,290	204,507	1,789,900	1,692,899
South Carolina				
Charleston	87,971	84,140	827,369	754,632
Columbia	167,199	138,670	1,476,472	1,267,689
Greenville	116,127	112,818	1,065,377	1,100,308
Spartanburg	85,595	84,428	712,011	684,737
Virginia				
Charlottesville	29,731	28,463	280,327	271,111
Danville	77,781	63,762	391,123	367,543
Lynchburg	54,168	46,857	465,759	456,594
Newport News	51,257	46,864	487,460	424,582
Norfolk	262,700	232,421	2,464,796	2,184,019
Portsmouth	29,458	26,669	284,995	250,035
Richmond	716,939	713,126	5,983,694	5,752,478
Roanoke	128,053	122,745	1,163,585	1,148,178
West Virginia				
Bluefield	49,984	49,719	482,108	470,782
Charleston	180,844	165,708	1,693,766	1,522,073
Clarksburg	35,004	36,272	353,896	341,881
Huntington	78,724	68,811	723,226	662,642
Parkersburg	32,026	34,641	305,526	310,537
District Totals	$6,232,250	$5,930,831	$55,193,633	$52,351,606

50 REPORTING MEMBER BANKS

(000 omitted)

ITEMS	Nov. 12, 1952	Change in Amount from Oct. 15, 1952	Change in Amount from Nov. 14, 1951
Total Loans	$1,322,245**	+ 15,663	+142,297
Bus. & Agric.	627,622	+ 17,673	+ 59,351
Real Estate Loans	256,831	+ 2,637	+ 20,675
All Other Loans	453,726	— 4,638	+ 63,632
Total Security Holdings	1,861,376	— 33,162	+ 16,253
U. S. Treasury Bills	265,763	— 12,868	— 11,823
U. S. Treasury Certificates	140,409	+ 3,146	+ 12,826
U. S. Treasury Notes	294,751	— 6,338	— 21,678
U. S. Treasury Bonds	932,968	— 8,309	+ 2,409
Other Bonds, Stocks & Secur.	227,485	— 8,793	+ 34,519
Cash Items in Process of Col.	365,982	+ 11,009	+ 30,046
Due From Banks	214,981*	+ 8,177	+ 1,771
Currency and Coin	84,463	+ 4,459	+ 293
Reserve with F. R. Banks	559,235	— 22,798	— 21,898
Other Assets	57,105	+ 2,265	+ 2,370
Total Assets	$4,465,387	— 14,387	+171,132
Total Demand Deposits	$3,461,457	— 19,029	+117,127
Deposits of Individuals	2,550,498	+ 35,951	+ 83,124
Deposits of U. S. Government	126,213	— 63,974	+ 44,963
Deposits of State & Local Gov.	182,659	— 8,296	+ 15,384
Deposits of Banks	550,700*	+ 10,207	— 19,437
Certified & Officers' Checks	51,387	— 9,509	— 6,907
Total Time Deposits	663,656	+ 330	+ 25,815
Deposits of Individuals	584,495	+ 826	+ 18,464
Other Time Deposits	79,161	— 496	+ 7,351
Liabilities for Borrowed Money	40,300	+ 2,750	+ 12,800
All Other Liabilities	35,376	+ 674	+ 3,613
Capital Accounts	264,598	+ 888	+ 11,777
Total Liabilities	$4,465,387	— 14,387	+171,132

* Net figures, reciprocal balances being eliminated.

**Less losses for bad debts.

FIFTH DISTRICT STATISTICAL DATA

SELECTED INDEXES

Average Daily 1935-39=100—Seasonally Adjusted

	Oct. 1952	Sept. 1952	Oct. 1951	% Change Latest Mo. Prev. Mo.	% Change Latest Mo. Yr. Ago.
Automobile Registration*	......	143	177	+68	—23
Bank Debits	458	451	433	+ 2	+ 6
Bituminous Coal Production	101	155	170	—35	—41
Construction Contracts	549	385	390	+43	+41
Business Failures—No.	49	47	42	+ 4	+17
Cigarette Production	......	264	244	0	+12
Cotton Spindle Hours	159	161	145	— 1	+10
Department Store Sales**	121	112	113	+ 8	+ 7
Electric Power Production	......	400	368	+ 6	+13
Manufacturing Employment*	......	159	155	+ 1	+ 2
Retail Furniture: Net Sales	227	210	204	+ 8	+11
Life Insurance Sales	380	374	329	+ 2	+16

*Not seasonally adjusted.

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

WHOLESALE TRADE

Lines	Sales in Oct. 1952 compared with Oct. 1951	Sales in Oct. 1952 compared with Sept. 1952	Stocks on Oct. 31, 1952 compared with Oct. 31, 1951	Stocks on Oct. 31, 1952 compared with Sept. 30, 1952
Auto supplies (8)	— 7	— 8	— 5	— 4
Electrical goods (6)	— 5	+12	+11	—10
Hardware (18)	+ 2	+ 5	—13	+ 3
Industrial supplies (7)	—16	— 3	— 1	+ 1
Drugs & sundries (13)	+ 9	+ 2	— 3	— 1
Dry goods (13)	+ 9	— 3	+ 2	—12
Groceries (49)	+ 3	+ 6	+ 2	0
Paper & products (7)	— 9	+ 9	......	......
Tobacco products (11)	+ 4	+ 2	+19	0
Miscellaneous (86)	+ 7	— 2	— 1	+ 1
District Totals (218)	+ 4	+ 1	— 1	+ 1

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, Oct. '52 vs Oct. '51	+ 5.7	+ 8.9	+ 1.1	+ 8.9	+ 6.6
Sales, 10 Mos. '52 vs 10 Mos. '51	+ 4.3	+ 3.3	— 1.4	+ 5.9	+ 3.1
Stocks, Oct. 31, '52 vs '51	— 4.3	+ 1.8	+ 0.4	+ 3.4	+ 1.2
Outstanding Orders Oct. 31, '52 vs '51	+31.7	+55.8	+38.0	+10.3	+38.0
Open account receivables Oct. 1 collected in Oct. '52	30.7	50.1	45.1	40.9	43.0
Instalment receivables Oct. 1 collected in Oct. '52	11.9	15.0	16.8	17.6	15.3

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, Oct. '52 vs Oct. '51	+8.7	+1.1	+6.5	+10.6	+7.9	+11.8

BUILDING PERMIT FIGURES

	October 1952	October 1951	10 Months 1952	10 Months 1951
Maryland				
Baltimore	$ 5,125,815	$ 7,145,835	$ 47,436,390	$ 73,184,255
Cumberland	27,800	186,689	286,256	2,031,253
Frederick	66,179	343,975	2,083,902	2,060,855
Hagerstown	213,625	193,241	1,370,758	3,855,620
Salisbury	244,095	79,355	1,305,040	1,450,558
Virginia				
Danville	294,682	1,078,800	4,433,498	3,406,621
Lynchburg	363,825	220,034	2,193,317	2,717,649
Newport News	167,574	269,194	6,539,536	1,594,147
Norfolk	2,449,780	824,000	17,270,160	21,064,971
Petersburg	112,598	177,745	1,896,372	2,990,457
Portsmouth	218,230	233,565	6,613,460	5,071,087
Richmond	2,052,282	2,673,965	17,453,955	24,742,673
Roanoke	870,712	652,787	8,534,205	14,711,643
West Virginia				
Charleston	334,737	555,341	11,011,645	5,494,301
Clarksburg	71,175	68,932	1,130,655	1,098,053
Huntington	441,513	211,410	6,741,979	7,202,112
North Carolina				
Asheville	430,726	208,210	3,074,029	6,274,244
Charlotte	1,286,817	1,216,261	16,945,658	18,538,096
Durham	736,146	331,895	8,810,736	7,335,058
Greensboro	431,000	626,067	7,556,534	7,483,314
High Point	263,220	203,210	2,988,725	2,870,569
Raleigh	2,147,509	484,055	15,030,403	10,426,754
Rocky Mount	143,335	279,457	2,427,207	3,559,532
Salisbury	84,610	63,340	1,890,560	1,072,038
Winston-Salem	801,982	391,652	10,362,469	13,607,895
South Carolina				
Charleston	164,058	173,823	1,669,500	1,558,662
Columbia	550,859	617,360	8,818,726	11,026,295
Greenville	769,630	456,070	8,061,202	8,677,749
Spartanburg	104,225	173,807	1,874,936	2,434,215
Dist. of Columbia				
Washington	6,448,678	3,637,505	47,199,617	54,745,177
District Totals	$27,417,417	$23,777,580	$273,011,430	$322,285,853

RETAIL FURNITURE SALES

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

	October 1952	10 Mos. 1952
STATES		
Maryland (6)	+ 20	+ 5
Dist. of Col. (7)	— 3	— 7
Virginia (18)	+ 6	+ 8
West Virginia (10)	+ 17	+14
North Carolina (13)	+ 6	+14
South Carolina (6)	+ 29	+13
District (60)	+ 7	+ 3
INDIVIDUAL CITIES		
Baltimore, Md. (7)	+ 20	+ 5
Washington, D. C. (7)	— 3	— 7
Richmond, Va. (6)	— 1	+ 8
Charleston, W. Va. (3)	+ 50	+26

Number of reporting firms in parentheses.

National Summary of Business Conditions

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

INDUSTRIAL production in October and November was slightly above the sharply advanced September level. Average wholesale prices of industrial commodities remained steady, while prices of farm products and foods eased further. Consumers' prices showed little change in October at a level slightly below their summer high. Bank loans to business increased sharply after mid-October.

Industrial Production

Reflecting mainly continued gains in durable goods industries, the Board's index of industrial production rose 1 point further in October to 227 per cent of the 1935-39 average. In November a similar gain is likely. Since September, output at factories and mines has averaged about 3 per cent above the levels prevailing during 1951 and early 1952.

Steel ingot production in October and November was at a record rate of 106 per cent of rated capacity as of the beginning of this year. Activity in most metal fabricating industries also advanced further. Television production rose to the near-record annual rate of about 10 million sets in late October and continued at this level in early November. Passenger automobile assemblies were maintained at the high September-October rates until mid-November but subsequently declined owing mainly to model changeovers. Aluminum production was reduced further in October as a result of electric power shortages and was about 9 per cent below the very high August level.

Nondurable goods production showed a slight decline in October, as textile mill activity was reduced somewhat following marked recovery in the summer and early fall. Output of paper and paperboard, however, advanced further. Meat production was maintained in October and the first three weeks of November at levels well above those in the corresponding period a year ago. Output of most other nondurables continued at about the levels of the preceding month.

Minerals output declined in October and rose again in November, owing mainly to fluctuations in coal output. Crude petroleum production rose throughout the period and output of metals was maintained in large volume.

Construction

Value of new construction work put in place, seasonally adjusted, during October was larger than in other recent months. Value of contract awards was below the near-record September total, which included a large volume of atomic energy awards, but was about one-fourth larger than in October 1951. Housing starts in October rose to 101,000, as compared with 98,000 in September, and were at a seasonally adjusted annual rate of 1, 156,000.

Employment

Seasonally adjusted employment in nonagricultural industries in October was maintained at the record September level of 47.2 million. Employment in manufacturing rose slightly to a new postwar peak of 16.2 million, and average hours of work and hourly and weekly earnings increased further. Unemployment declined again in October, to a new postwar low of 1.3 million.

Distribution

Retail sales rose sharply further in October to a level 9 per cent above a year earlier. Both durable and nondurable goods shared in the October advance, with the rise in automobile sales especially marked. Department store sales in the first half of November were running below their high October level, on a seasonally adjusted basis. Stocks at department stores are estimated to have continued little changed through October after seasonal adjustment.

Commodity Prices

Wholesale prices continued to decline in November, largely reflecting further decreases in prices of cotton, livestock, and meats. Cotton has declined to about 34 cents per pound since release in early November of a substantially larger crop estimate, and is now 8 cents below a year ago and 2 cents above the Federal support level. Prices of some industrial materials strengthened and prices of finished goods other than foods generally changed little.

The consumers price index was about unchanged in October. Small decreases in foods and textile products were offset by advances in rents, fuels, and services.

Bank Credit

Business borrowing from banks expanded sharply in late October and the first three weeks of November. This expansion was more widely distributed than the earlier rise which had been concentrated in such industries as food processing, commodity dealing, and trade where loans normally increase at this season of the year. Consumer and real estate loans also continued to rise. The Treasury's issue of $2.5 billion of tax anticipation bills in October was bought at first largely by banks, but subsequently was purchased in substantial volume by corporations. Most of a second issue of such bills amounting to $2 billion in mid-November was also taken up initially by the banking system.

Member bank reserve positions tended to be fairly tight during the mid-October to mid-November period. Reserve drains resulted principally from a currency outflow and an increase in Treasury balances at the Reserve Banks. In addition, Federal Reserve System holdings of Government securities were reduced somewhat. The average level of member bank borrowings exceeded $1¼ billion over the period.

Security Markets

Common stock prices rose steadily in the first three weeks of November. Yields on high-grade corporate bonds receded to the levels of early September. Yields on Treasury bills and other short-term Government securities increased substantially. In addition to tax anticipation bills the Treasury announced the offering of an additional amount of 2 per cent certificates of indebtedness maturing August 15, 1953 in exchange for the $1.1 billion of 1⅞ per cent certificates maturing December 1, 1952.

Monthly Review Index
For The Year 1952
FEDERAL RESERVE BANK OF RICHMOND

The first number denotes the issue and the second number the page of the issue. The issues are numbered from 1 to 12, starting with January.

AGRICULTURE

BANKS AND BANKING

BUSINESS CONDITIONS

CONSTRUCTION

FINANCE, PUBLIC

MONTHLY REVIEW INDEX FOR THE YEAR 1952