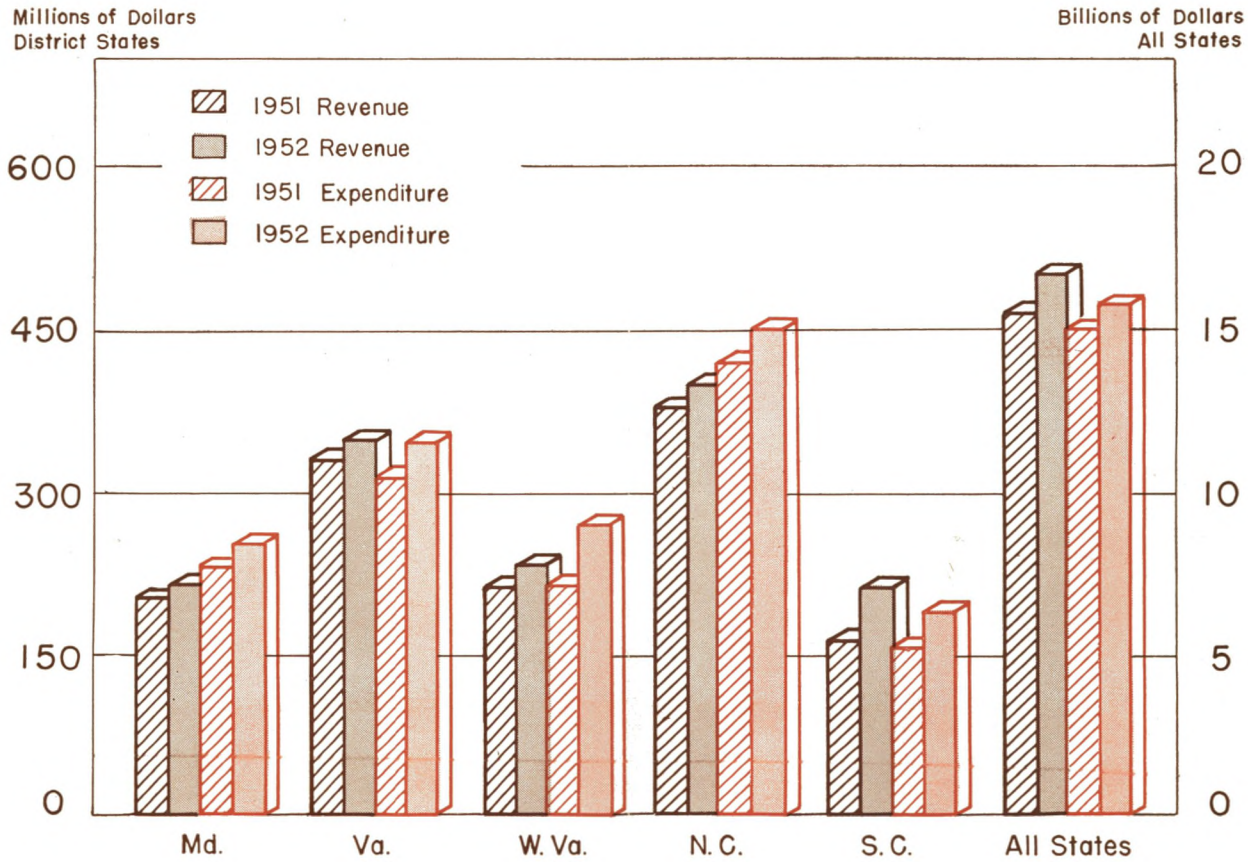
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

August 1953

STATE REVENUES AND EXPENDITURES

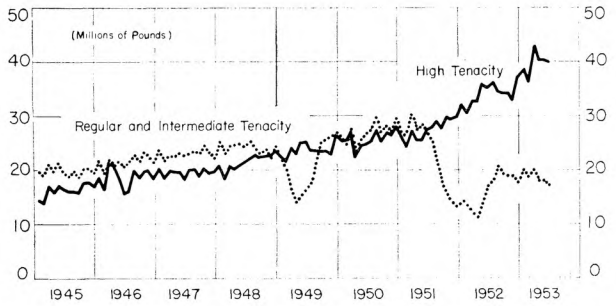


There have been large increases in state revenues and expenditures since the end of World War II and these changes are discussed in the article on page 3. The cover chart points up the change in the dollar amounts in revenue and expenditures of the Fifth District states and for all states for fiscal 1951 and 1952.

Also In This Issue - - -

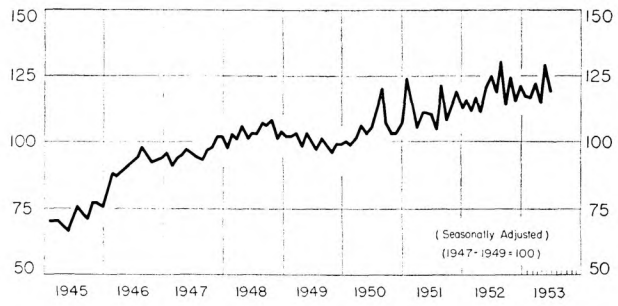
FIFTH DISTRICT TRENDS

RAYON–VISCOSE FILAMENT YARN



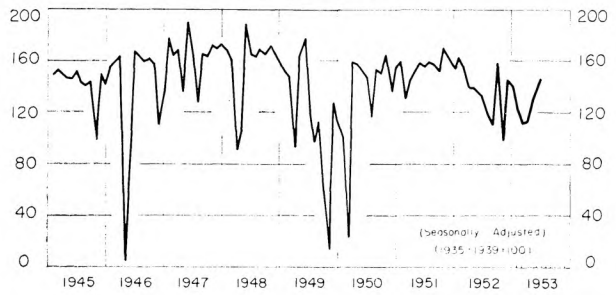
National output of viscose filament yarn in June up 8% from year ago. Tire yarn up 12%; textile yarn no change. As chart shows, level of viscose filament shipments are sustained by tire yarn (HT). Textile yarns, though equal to last year, are still depressed from peak levels.

DEPARTMENT STORE SALES



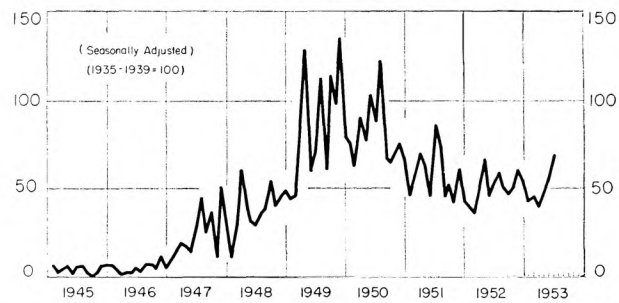
Maybe it was the hot weather, maybe it was something else, but sales of department stores, seasonally adjusted, in June dropped 8% from May and were 5% under June 1952. It is interesting to note that instalment sales and open credit sales declined more than cash sales.

BITUMINOUS COAL PRODUCTION



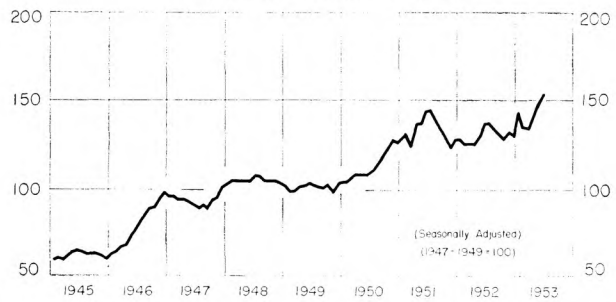
June adjusted output rose 8% above May and 11% above June 1952. District thus far faring worse than nation. Possible improvement in export outlook, and a colder Winter would necessitate higher domestic consumption.

BUSINESS FAILURES



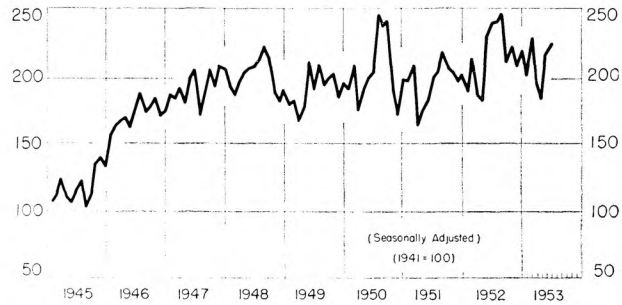
A rising level of business fiailures has occurred many times in history some time prior to a downturn in business volumes. Failures in June, adjusted, were up 25% from May and 28% ahead of a year ago.

DEPARTMENT STORE STOCKS



Department store stocks continued to move higher. June, adjusted, up 5% from May and 12% above a year ago. June department store stocks were at an all-time high with practically all departments in the store showing gains over a year ago. Most lines of women's and misses' apparel and accessories departments showed largest increases.

RETAIL FURNITURE STORES NET SALES



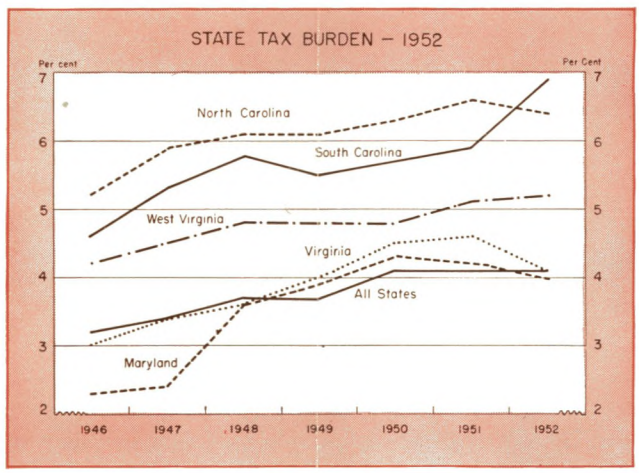
Furniture store sales after seasonal correction in June rose 2% from May but fell 6% below June 1952. The June level of sales was still good by comparison with sales earlier in the year and could hardly be expected to approach the very high levels that were established a year ago.

Recent and Prospective Changes In State Finances

THE prodigious pecuniary requirements of the Federal Government and the magnitude of its actual and prospective budgetary demands tend to "steal the show" from the less expansive and forbidding figures on fiscal operations of the states. As a matter of local interest, however, and because of both parallel and divergent trends, the picture of state government taxing and spending is surely worth a good look from every taxpayer, personal or corporate.

Actually, the 48 states in the aggregate have fallen into line with the times and expanded their expenditures to match the booming economic activity characterizing the national scene since 1946. In 1952, for example, they spent nearly $16 billion—a record total that represented a 153% increase over the 1946 level.

The state governments also set a new high on the tax take or income side—in fiscal 1952 they gathered in nearly $17 billion. By contrast with the deficit-incurring Federal exchequer, they showed an over-all excess of total revenue over total expenditures of $1 billion. Interestingly, 40 of the 48 states last year operated "in the black."



Tax paying individuals and corporations are quite naturally interested in how such sums are extracted—and where the money is spent. Complete breakdowns are impractical in a brief overview such as this. Suffice it to say the much more than doubled state government expenditures have in the postwar period gone chiefly for education (29%), highways (24%), and public welfare (17%).

State governments depend, for most of their tax revenue, on personal and corporate income taxes (18%), motor fuel taxes (19%), and sales taxes (23%). Since income taxes (33 states levy corporate income tax, 31 levy personal income tax) are also a favorite instrument for Federal taxation and are usually limited to 4 or 5% maximum rates in the states, it is only natural that the states should turn, as they have, to other lucrative sources. The sales tax, for example, is one of the current favorites—31 states were using this levy in 1952, and it was a potent contributor to a record revenue total that stood 8% above the previous year.

The proportion of the national output of goods and services purchased by the state governments is small when placed alongside the more massive fraction taken by the Federal Government. Yet the trend since 1946 is unmistakable—it has risen from just over 3% to nearly 5%. And the outlook is for continuation of both current and prospective needs—new schools and equipment to match the fast growing kiddie-crop, new and improved highways to match expanding road traffic, more hospitals and other public plant, equipment and services. These indicate both the need for and possibility of substantial increases in state spending in coming years. Such increased spending is frequently stressed as a relatively useful means of "taking up the slack" that would develop from any future decline in private spending by individuals and business firms.

Fifth District States

The fiscal side of state government activities in the Fifth District affords some interesting similarities—and dis-similarities—to the national resume sketched above.

In 1952 aggregate spending by the five Fifth District states stood at $1.5 billion, an increase of 207% over 1946 (the all-state figure was 153%).

On the income side, every Fifth District state has, in the period under survey, pushed up its totals, and in the aggregate the five states showed an increase of 155% over 1946 (for all states the revenue increase in this period was 132%).

Incidentally, nearly a third of total state expenditures in the nation in 1952 reflected payments to other governments, principally subsidiary political units, in support of specific functions, an amount twice the 1947 figure and more than three times the total for prewar 1939. In the Fifth District, intergovernmental expenditures are a smaller proportion of state expenditures, amounting to only 23.5% or $356.7 million for 1952.

In a majority of the states in the country during this postwar era revenue gains have been lagging behind steadily rising expenditures. During 1952 South Carolina was the only Fifth District state where revenues increased by a greater percentage than did expenditures, although this was true for all states combined. On the point of general revenue versus general expenditure, there were 29 states not "in the red" and South Carolina again was the lone representative of the District. (General revenue and general expenditure cover all state funds except liquor store and insurance trust funds.)

Total revenue for all states increased 8% in 1952 over the previous year, and in the five states of the Fifth District only South Carolina (29%) and West Virginia (9%) exceeded this percentage. The large increase in revenue in South Carolina was due in the main to the new 3% retail sales tax which, in its first year, accounted for 26% of total tax collections.

Sales Tax Most Productive

The sales tax provided more than one-fifth of total state tax yields in the nation in 1952 against 18% in 1946. A productive and therefore popular tax with revenue officials, it has a degree of cyclical sensitivity second only to the income tax.

In the Fifth District 21% of total tax receipts came from this tax, with Virginia the only District state not using it. In South Carolina all sales tax revenue is used for educational purposes, mainly new construction. The consumers sales tax and gross sales tax are particularly important in West Virginia together accounting for 53% of total state tax collections.

Individual and corporation income taxes are highly important in state tax structures. In the Fifth District they rank second in importance, in all states third. West Virginia is the only District state and one of 13 in the nation not levying either an individual or corporate income tax. The varying prominence of this tax can be seen in the accompanying table.

LEADING SOURCES OF STATE TAX REVENUE AND THEIR ORDER OF IMPORTANCE
1952

	Sales	Motor Fuel	Ind. & Corp. Income	Motor Vehicle Licenses
Maryland	2 (19)	3 (18)	1 (24)	.....
Virginia	.....	1 (30)	2 (28)	3 (9)
West Virginia	1 (53)	2 (16)	.....	3 (9)
North Carolina	3 (19)	2 (25)	1 (28)	.....
South Carolina	1 (26)	2 (25)	3 (20)	.....
Fifth District	3 (21)	1 (23)	2 (22)	.....
All States	1 (23)	2 (19)	3 (18)	.....

Note: First figure gives relative importance of tax; figures in parentheses give tax as a percentage of total state tax collections.
Source: *Summary of State Government Finances in 1952*, Bureau of the Census.

Rising Tax Burden

As a yardstick of relative tax burdens, per capita figures are a better measure than actual dollar amounts, but in using per capita figures, note that only state taxes are included and the total non-Federal tax burden is, therefore, not reflected.

Per capita state taxes have surged upward during the postwar period. For all states the increase was 70% from 1946 to 1952—a figure below the percentage rise in each of the Fifth District states. Maryland registered the highest with 133%, South Carolina 113%, Virginia 91%, North Carolina 72%, and West Virginia 71%. South Carolina's sales tax increased the per capita figure 41% over the past year and made its $69.20 the highest per capita tax in the District and 19th in the nation. The average for all states was $64.61. Three District states were under this—Virginia $49.21, West Virginia $61.57, and Maryland $62.82.

The tax burden is probably best measured by ability to pay. During the past six years, the trend has been one of an increasing tax burden, although in the past year or two there has been a slight decline in three of the Fifth District states—Maryland, Virginia, and North Carolina. The accompanying chart, depicting the tax burden for Fifth District states and all states combined, relates all state tax collection figures for fiscal years to state income payments (income payments to individuals) for the preceding calendar year, as computed annually by the U. S. Department of Commerce. Note that all District states except Maryland have a greater proportion of their income taxed than the average of all states. These states are among the least able to pay and nationally are in the low per capita income group.

Greater Borrowing Needed

Increased tax intake in some instances has failed to bridge the gap between income and outgo, and a good many states have resorted to increased borrowing. Reflecting this situation total all-state long-term debt rose 163% from 1945 to 1952. In Maryland the increase was 434%, West Virginia 245%, North Carolina 147%, Virginia 54%, and South Carolina 52%. By comparison, consumer indebtedness (nationally) rose 354% and long-term corporate debt increased 84%.

Virginia and North Carolina were among 13 states that floated no bonds during the past fiscal year. In Virginia's case, it reflected the "pay-as-you-go" policy adhered to for a number of years. As a result, Virginia had the smallest total and per capita debt of any of the Fifth District states and there were only 11 states in the nation with a smaller per capita net long-term debt. The average per capita debt for all states was $36.84—Virginia's was only $7.94.

Maryland and South Carolina both sold a smaller amount of bonds in 1952 than in 1951. West Virginia's borrowing rose 701%, but this represented two exceptionally large issues—$96 million Turnpike bonds and $67.5 million veterans' bonus bonds. The net effect was to increase West Virginia's total long-term debt to $245.8 million, 192% over the previous year. West Virginia's per capita debt was second largest in the nation and stood at $118.42 in 1952.

Demand Deposits--Downtrend in the First Half

DEMAND deposits at member banks in the Fifth Federal Reserve District declined $425 million during first half 1953—a drop exceeding substantially that of any comparable period since World War II. This 8% dip was, to be sure, from the record high of $5.3 billion reached at the end of 1952 and left the present level just about equal to that of a year ago. Yet, it raises some interesting questions as to cause and implication.

Depositors reduced their demand balances at the District's member banks by $546 million or 10.3% during the first five months of 1953. Since the beginning of June, however, they have increased these accounts by $120 million, and available data indicate a continuing increase through the first half of July.

Bankers reduced the amount of funds they held on deposit at member banks in this District by $135 million over the first half of 1953. This reduction is not out of line with withdrawals in the first half of 1951 and 1952 when $131 million and $125 million, respectively, of bankers' demand balances were pulled down. Nevertheless, these withdrawals accounted for one quarter of the total during the first half of this year, and one half the total in the first six months of 1951 and of 1952. The fact that this year's withdrawals did not greatly exceed the amounts drawn down in earlier years is in part explained by two factors. First, by the nature of correspondent accounts. Bankers generally agree to hold certain minimum balances with their correspondents and if they fall below the agreed level the accounts are immediately rebuilt. Second, although banking centers in this District attract a large volume of correspondent funds, they are much more stable than the bulk of the funds sent to the larger money centers which are generally called down in considerable volume when tighter than normal conditions develop.

Transfer of United States Government balances from the commercial banks to the Federal Reserve Bank accounted for $61 million of the $425 million decline during the first six months of 1953. The Treasury increased its balances at District member banks during the first half of each of the years 1950, 1951, and 1952. The 1953 experience, therefore, was a reversal of the pattern of recent years. Although Treasury withdrawals from commercial banks, when considered by themselves, represent a drain which the banks must meet with reserve funds, the Treasury's immediate expenditure of these funds (to the extent that they occur in this District) restores not only the reserve balances but also the private demand deposit balances of the commercial banks.

The Treasury spent in this District considerably more in the first half of 1953 than it withdrew from demand deposit accounts at commercial banks. In fact, it transferred over $475 million (net) into this District from other areas. The first effect of these Treasury activities was to increase privately held demand deposit balances here. Some of these funds, of course, found their way into deposit accounts at nonmember banks. Furthermore, when those who received funds from the Treasury spent them again, a portion was undoubtedly transferred to other sections of the country. Thus although there is a close relationship between changes in Treasury deposit balances at commercial banks and privately held balances, it is not revealed by the figures because of subsequent actions taken by deposit holders.

Time Deposits Have Increased

Time deposits at member banks both in the Fifth District and in the country as a whole have persistently increased throughout the postwar years, and now stand at the highest level ever achieved. In the District time deposits at member banks rose $58 million (4%) during the first half of 1953. This brought the total amount outstanding at the end of June to over $1.5 billion, 33% above the amount on deposit at the end of 1945. Data reported by 50 weekly reporting member banks indicate a continuation of this upward trend in time deposits through the first half of July, both for the District and for the nation as a whole.

Banking Patterns and Business Behavior

Changes in the principal assets and liabilities of Fifth District member banks over the first half of each of the postwar years are shown in the accompanying table. Fairly definite patterns can be traced: total demand deposits have declined in the first half of each of the years shown, although the magnitude and composition of the drop differ. In every year but one, time deposits have increased. In each period cash, bank balances, and U. S. Government securities have been reduced, following a pattern consistent with the demand deposit decline. In each half year period but one (1949) loans and discounts have expanded.

That the District's member banks experienced a decline in deposits and in their more liquid assets in the first half of this year is not surprising. The decline this year, however, is unusually large—twice the decline of 1952 and 1951, and four times that of 1950. Because of its size, this year's deposit dip raises questions as to whether it portends a general falling off in business and is thus evidence of coming recession.

There has been no general business decline over the past six months—the statistics show that America's biggest boom has continued right on through June and that the District has shared in the general prosperity. For example, District bank debits in the first half of 1953 were 6% above the corresponding period in 1952, department store sales were 2% higher, construction

CHANGES IN PRINCIPAL ASSETS AND LIABILITIES
Fifth District Member Banks
First Half of Each Year
(Millions of dollars)

	1946	1947	1948	1949	1950	1951	1952	1953*
ASSETS:								
Reserves, cash and bank balances	−152	−103	−134	−168	− 98	−103	−162	−171
Loans and discounts (incl. overdrafts and less reserves for losses)	+ 64	+114	+ 71	− 62	+117	+ 61	+ 54	+ 66
U. S. Government securities	−204	−241	−153	− 15	− 91	−152	− 66	−228
Other securities	+ 41	+ 14	+ 9	+ 7	+ 4	− 8	+ 23	− 2
All other assets	+ 2	− 2	+ 1	+ 3	+ 3	+ 1	+ 2	+ 5
Total	−248	−213	−206	−235	− 64	−201	−148	−330
LIABILITIES:								
Demand deposits	−363	−262	−213	−300	−107	−232	−225	−425
Individuals, partnerships, and corporations	+132	− 76	−163	−146	− 3	−171	−183	−230**
U. S. Government	−407	− 91	+ 21	− 31	+ 7	+ 76	+117	− 61
Banks	−114	− 96	− 99	− 76	− 98	−131	−125	−135
All other	+ 26	− 2	+ 28	− 47	− 14	− 7	− 34	.....
Time deposits	+ 92	+ 32	− 4	+ 46	+ 25	+ 15	+ 63	+ 58
Borrowings	.....	− 1	+ 1	+ 3	+ 3	+ 3	.....	+ 20
Other liabilities	+ 3	− 1	+ 2	+ 4	+ 1	+ 2	.....	− 3
Capital accounts	+ 20	− 15	+ 10	+ 12	+ 14	+ 12	+ 14	+ 20
Total	−248	−213	−206	−235	− 64	−201	−148	−330

* Preliminary.
** Demand deposits other than interbank and Government.

contract awards in the first five months were 9% above the 1952 figure, and the already high employment moderately increased. It seems unlikely that the deposit decline over the first half reflects a general decline in business activity.

The Whys of Declining Deposits

An examination of the changes in other assets and liabilities at the District's member banks may give some clue as to the *why* of the deposit decline. Deposit changes are closely related to asset changes. For the banking system, an increase in earning assets—loans and investments—is generally accompanied by a similar change in deposits. When banks make loans or purchase securities, they make payment by a deposit credit. Changes in bank assets, therefore, will provide the key to changes in deposits.

In the first half of 1953, the District's member banks increased their loans outstanding by $66 million. Loan increases generally result in deposit increases by similar amounts, though in a particular District deposit balances realized from loans may be transferred to other Districts in payment for purchases made there or transferred to nonmember banks either in or outside the District. A portion of the District's decline in demand deposits can be attributed to payments made to business firms and individuals in other Districts. Results of the System's interdistrict clearing of checks through June 30 reveal a net loss of funds from this District on account of private commercial and financial transactions of over $570 million.

For the country as a whole, however, transfers of funds from one District to another would be offsetting and would not bring about a deposit decline. Since deposits actually declined, both nationally and in this District, other factors offsetting the normal influence of increased loans must have been operating.

An increase in currency in circulation would cause a decline in deposits if there were no other offsetting factors. Currency in circulation, however, declined seasonally from January through May and should have increased rather than reduced deposits.

Actually the major factor responsible for the larger than usual contraction of demand deposits was the heavy liquidation of "Governments." Sale of Government securities to nonbank holders is matched by a dollar-for-dollar contraction in deposits. During the first half, commercial banks experienced almost continuous pressure on their reserve positions—pressure resulting from heavy credit demands from the end of World War II up to the present. Having expanded loans considerably in response to customer demands, the banks thereby expanded deposits so that funds available for reserves were considerably reduced. This necessitated more and more sales of assets—primarily Government securities—to ease tight reserve positions.

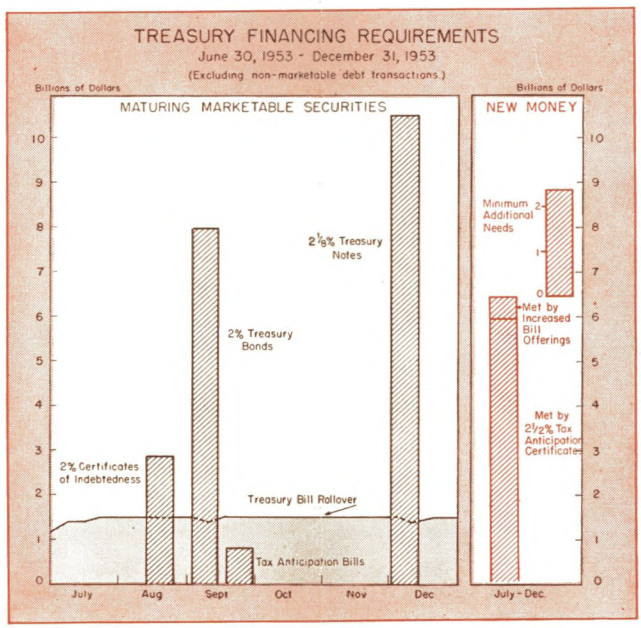
Another major factor supporting (but not causing) the decline in demand deposits has been a reduction in interbank balances. Historically, banks have permitted their balances with other banks to decline over the first five or six months of the year. The first six months of 1953 were no exception, though interbank balances shrank considerably more than in other postwar years. Member banks in this District followed the national pattern.

Thus, far from reflecting declining business activity, the heavier than usual deposit decline in the review period reflects a continuing high demand for credit, accompanied by tighter credit conditions and less excess reserve funds available to support loan expansion.

Treasury Financing Needs for Fiscal 1954

DESPITE record tax collections, which exceeded the previous all-time high of 1952 by about $3 billion, the Treasury ended fiscal 1953 with the biggest budget deficit in its peacetime history—$9.4 billion. This sent the public debt to $266 billion, $9 billion short of the current debt limit of $275 billion. (Actually, authority for the issue of almost $9.5 billion face amount of Treasury obligations remained at mid-year, as a small part of the debt is not subject to the statutory limitation.)

Present indications are that when this fiscal year ends next June, the Treasury's story will again be written in red ink. Official estimates of the cash deficit for fiscal 1954 are just under $3 billion, with a $9 billion deficit in the last half of calendar 1953 partly offset by a surplus of about $6 billion in the following six months. It is the initial $9 billion deficit which will push outstanding debt uncomfortably close to the $275 billion statutory debt limit that has aroused speculation as to the possible need for an increase in the limit. Borrowing in the first half of July had already increased the debt beyond $272 billion.



July-December Needs

The Treasury financing burden is concentrated largely in the first six months of the fiscal year—July through December 1953. Total Treasury needs during this period are expected to run about $32 billion, apart from the weekly rollover of bills. Maturities of marketable issues which will require refunding in this period total $21.4 billion, not including bills. The first refunding is the smallest: the $2.9 billion of 2% certificates maturing August 15. On September 15, $8.0 billion of 2% bonds mature. The third and largest refunding, on December 1, is the $10.5 billion of 2⅛% notes. On September 18, $800 million of 107-day tax anticipation bills mature, and $20 billion of 91-day bills must be rolled over twice by the end of the year—$40 billion in rollover of 91-day bills alone.

Secretary of the Treasury Humphrey has estimated minimum "new money" needs at $8.8 billion, assuming no tax reductions before the end of the calendar year. Additional cash needs of as much as $3 billion may arise, depending upon the Treasury's experience in its refunding operations and in the sales and redemptions of nonmarketable bonds. For example, cash needs of approximately $700 million are anticipated to retire F and G savings bonds which were not exchanged for the new 3¼% 30-year bonds and are presumably being held for cash redemption at maturity in the first half of fiscal 1954. The Treasury must also constantly take into account net redemptions of savings bonds and notes which may necessitate refinancing beyond that currently planned. This problem has been lessened by revision of savings notes with a new and more attractive Series B to supplant Series A, and by the fact that sales of savings bonds exceeded redemptions for several months.

Some attrition on the three large marketable issues maturing in the period is to be expected. Approximately $13 billion of these issues are held outside of the Federal Reserve Banks and Government investment accounts, and some part of this amount will be presented for cash redemption.

In addition to new money needs and the refunding of debt maturing during this period, four issues of bonds totaling $16.5 billion are callable on December 15 and could be refunded at that time.

The size of the Treasury's financing problems in the first half of the fiscal year is largely attributable to the unevenness of its receipts. Under the Mills plan 80% of corporate income taxes for 1952 has already been paid, leaving only 20% to be collected in the July-December period. In the period January-June 1954, 90% of corporate income taxes for calendar 1953 will be received. Because of this fact, Treasury new money needs are concentrated in the current half year.

Business Demand for Credit

A Treasury financing program of this magnitude obviously puts pressure on the money market. As a further complicating factor, this borrowing will parallel the seasonal increase in business activity, always felt in the money market. The size of this Autumnal expansion in business borrowing, usually under way by late July or August, is difficult to estimate accurately,

since such traditional seasonal influences as the carrying and processing of harvest yields and the stocking up by wholesale and retail concerns for the Christmas season are only part of the picture. The varying market conditions facing major industries, as well as technical financial factors, alter the pattern of each Fall credit expansion.

In most of the postwar years the seasonal increase has been dwarfed by the year-to-year increase in these loans. For example, the $2.9 billion increase in business loans of the nation's banks in the second half of 1952 was considerably larger than seasonal. For these loans to increase enough to carry increased business activity due to seasonal factors only, a credit expansion of $1.5 to $2 billion is usually needed.

In addition it is expected that there will be some further "growth" needs for credit. This normal secular expansion of the economy involves additional demand for credit.

The substantial credit demands arising from the joint needs of business and Government would bring about considerable additional tightness in the market, if the supply of loanable funds was not also increased. To prevent such tightening of bank reserve positions and of the credit market, the Federal Reserve System began purchases of Treasury bills in early May to furnish banks with reserves needed to meet heavier demands for funds. By mid-July, $1.2 billion of reserves had been furnished through open market operations.

Nearly $1.2 billion of additional member bank reserves were released through reduction of reserve requirements—by two percentage points in central reserve city banks and one percentage point at reserve city banks, effective July 9, and by one percentage point at other banks effective July 1.

July Financing

The first Treasury financing of fiscal 1954 was the highly successful offering announced on July 1 for cash subscriptions of $5.5 to $6 billion 2½% tax anticipation certificates dated July 15, 1953, maturing March 22, 1954, and receivable at par plus accrued interest to maturity in payment of income taxes due on March 15, 1954. (These tax anticipation certificates differ from the more familiar tax anticipation bills in that the Treasury announces the rate of interest it will pay on the certificates, whereas the bills are offered at a discount and are generally sold at competitive bids.) Although subscription books were open for only one day, almost $8.7 billion of subscriptions, including more than $2 billion from nonbank sources, were received. Subscriptions of $100 thousand and less were allotted in full, allotments on other subscriptions were 67%. A total of $5.9 billion was allotted.

Much of the banks' share of this issue involves in effect an underwriting; commercial banks are expected to hold the certificates only temporarily, pending ultimate absorption by other investors. This initial bank purchase of certificates created deposits which tied up more than two-thirds of the reserves made available by the reduction in reserve requirements. In coming months, however, as the Treasury spends these funds, ownership of the deposits will be transferred to private holders. Part of the funds thus acquired by individual business concerns will be used to meet their own seasonal requirements; part will go into their tax reserves and will be used to buy tax anticipation certificates from commercial banks. To the extent that these certificates are transferred from commercial banks to nonbank investors, some of the reserves needed for seasonal credit expansion will be freed. A lively market among corporations for the tax anticipation certificates is expected, since under the Mills plan 45% of corporate income taxes for calendar year 1953 will be due next March 15, and may be paid with these certificates.

The $5.9 billion of new money raised by the tax anticipation certificates is intended to take care of the Treasury's cash deficit in the July-September quarter. The Treasury will still need to go into the market for its weekly rollover of bills in the amount of approximately $1.5 billion, and also for the refunding of nearly $11 billion in August and September maturities. Nevertheless, $5.9 billion of the $8.8 billion new money needs announced by Secretary Humphrey for the half year have been met by this one issue. An additional $0.5 billion of the remaining minimum cash needs of $2.9 billion have already been raised through increased offerings of 91-day bills in the first three weeks of July.

The Rest of the Year

There is still at least $2.4 billion of new money to be raised in the October-December quarter. If expectations are realized that attrition on refundings and net redemption of nonmarketables will be less than $3 billion, total cash needs of the Treasury in the next quarter will then range between $2.4 and $5.4 billion.

Treasury problems in the second half of fiscal 1954 should be somewhat easier than in the first half. Present estimates are that the period January through June 1954 will see a surplus of cash receipts over expenditures of about $6 billion. Fixed maturities of marketable issues (excluding 91-day bills) falling due in this period are less than $25 billion, of which about $6 billion can be met from the expected cash surplus for the six months. Further, refunding operations next Spring will roughly coincide with the usual seasonal slackening in business activity, which will release funds to the market, in contrast with financing activities of the current half year which are in competition with seasonal credit demands of business.

Business Conditions and Prospects

THE fundamental tone of business in the Fifth District continues strong but some of the overtones are beginning to suggest a change in theme. Although output by major industries continues at high level, there have been moderate cutbacks in such durable goods lines as primary and fabricated metals, transportation equipment, lumber, furniture and machinery. It may be that these are only temporary adjustments, but at least they indicate an easing of the pressure.

Employment by the Federal Government has turned downward with the Executive Departments in District of Columbia showing a 5% decline so far this year. Since Federal Government employment in this District has risen more than in the nation as a whole, cutbacks may be more adverse here than elsewhere.

Over-all construction took a rather sharp tumble during June, and registrations of new passenger automobiles for two states began to back away from the high levels of the Spring months. June furniture sales (seasonally adjusted) were above May but 6% under a year ago. Retailers' purchases of furniture during the Summer shows were disappointing.

The Korean truce will have some adverse effect on District activity, probably before the year is over, in such areas as powder manufacturing and in supply depot employment. It may have further belated effects on the size of the military and Naval establishments and their proposed construction outlays if the current policies continue.

Business loans of the weekly reporting banks in this District have continued their sharp decline through the middle of July. On the other hand, bank loans to consumers have shown little interruption in their steep rise. Real estate loans, which had shown a moderate backdown in late Spring, are again moving moderately upward but the upward move is considerably slower in this District than in the nation. The approaching seasonal rise in business loans seems likely to be considerably more moderate this year than last. The crop outlook is not one of abundance, drought has been a problem, and prices have softened.

On the favorable side most of the soft goods industries are operating at reasonably full time employment. Department store sales (adjusted) were down in June both from May and a year ago but have not yet given indication that the upward trend has been broken. The paper board industry has held steady for some months at a high level of production. The bituminous coal industry is doing considerably better than a year ago and there are some indications that overseas exports may be larger than was considered possible earlier this year.

Textiles

There is reason to believe that the cotton textile industry may go through the Fall with a level of production, aside from the July vacation periods, comparable to that in the first half of the year. Order books are fairly well filled, cutters and converters, as far as can be ascertained, are in a conservative inventory position, and the retail demand for goods is showing slow but steady improvement.

District cotton consumption in June was 1% higher than in May (after seasonal correction) and 10% ahead of a year ago. Cotton spindle hours operated slipped 1% (adjusted) in June from the previous month but remained 11% ahead of a month ago. Prices of important goods construction have shown a firmer tone in recent weeks and there is nothing to cloud a moderately favorable outlook.

New business in the hosiery industry had been anticipated following the vacation shutdowns but thus far it has not appeared. It should be borne in mind that the trend toward distribution in chain grocery and drug stores has required considerable production for inventory purposes, and that this demand will be continued to the extent to which grocery and drug stores adopt this practice. As far as sales of women's and children's hosiery in department stores are concerned, the trend has not been favorable for the past two years.

High tenacity rayon filament yarn shipments in June receded moderately from May but continued in a high area. Rayon textile filament yarn shipments, however, dropped further during June to the lowest level of the year and to less than half of their peak established late in 1950 and early 1951. Acetate filament yarn shipments have continued to improve during the first half of 1953, but they too have been well below their peak levels. Rayon staple and tow shipments in June were very near their all-time peak, but acetate staple and tow shipments were considerably below their peak levels.

Apparel manufacturing industries are flourishing in this District, output is at peak levels, and Fall business looks favorable for a continued expansion. New apparel concerns continue to move into the area, and this group of industries, employing more than 80,000 people, shows a gain of about 6,000 in 12 months.

Bituminous Coal

Production of bituminous coal in this District in June was up 8% (adjusted) from May and was 11% ahead of June 1952. During the first six months of 1953, coal output in this District dropped 12% from the same period 1952, considerably more than the 7% national decline.

Unless the coming Winter turns out to be very mild in European countries, current indications point to a larger demand from these countries than appeared probable earlier. Coal production in Great Britain has not

met expectations and exports to the continent may be reduced to protect domestic needs.

Bituminous coal stocks in domestic hands have again turned upward. It may be that they will continue to rise until the miners' contract is settled in October. Southern commercial mines are hard pressed under the present price structure and there have been hints that a reduction in wages and a lower contribution to the welfare fund would be sought by these mines.

Latest consumption figures (May) show a moderate gain over last year, but in the first five months, the total was about three million tons under a year earlier. Maintenance of operations in steel and other industries and continued expansion in electric power output seem likely to produce gains over a year ago in coal consumption during the remainder of this year, possibly bringing the year's total somewhat ahead of last year.

Trade

Department store sales (adjusted) in the Fifth District dropped 8% from May to June and were 5% below June 1952. Store stocks continued to rise by 4% on an adjusted basis from May to June and 11% over a year ago. These stocks in June were at an all-time high level, though this did not deter the stores from increasing their new commitments substantially. Outstanding orders at the end of June were 31% higher (adjusted basis) than May and 13% higher than a year ago. Indications are that the sales level in July will show a further drop from June after seasonal correction. Reports from the field seem to indicate that merchandise is getting harder to sell without price concessions. Clearance sales in many cases store wide, are coming in July this year, earlier than usual.

Furniture stores found a slight improvement in sales during June over May (adjusted basis) but the level failed by 6% to equal June a year ago. This, however, was not a poor performance since June sales last year were very close to an all-time peak. Furniture stocks, which had been running a bit high in the first five months of the year, dropped 5% from May to June but still remained 7% ahead of June 1952. Although receivables are 12% ahead of a year ago, collections are keeping pace.

Household appliance stores increased sales 6% from May to June but June sales were 13% under a year ago.

Passenger car registrations (available for all District states for May) showed a 2% increase over April and a 34% increase from May 1952. Two states reporting for June showed declines from May.

Fifth District Banking Statistics

Debits to Demand Deposit Accounts*
(000 Omitted)

	June 1953	June 1952	6 Months 1953	6 Months 1952
Dist. of Columbia				
Washington	$1,187,607	$1,057,656	$ 6,407,773	$ 6,375,606
Maryland				
Baltimore	1,560,927	1,325,377	8,439,629	7,601,340
Cumberland	28,349	27,924	153,303	149,982
Frederick	25,699	22,326	140,530	132,194
Hagerstown	39,316	33,848	223,408	207,374
North Carolina				
Asheville	65,064	57,956	364,268	357,181
Charlotte	376,935	334,568	2,178,911	2,039,214
Durham	94,359	94,031	527,433	487,266
Greensboro	126,238	103,683	715,069	631,607
High Point	46,812**	NA	NA	NA
Kinston	22,956	19,587	122,277	113,161
Raleigh	189,898	158,517	1,156,992	1,035,352
Wilmington	48,269	43,666	272,001	263,664
Wilson	17,058	16,700	99,646	104,123
Winston-Salem	156,152	155,235	872,225	800,476
South Carolina				
Charleston	78,821	84,286	479,937	467,463
Columbia	160,380	133,515	952,165	842,011
Greenville	114,733	106,105	674,340	624,907
Spartanburg	63,051	64,015	386,999	401,895
Virginia				
Charlottesville	30,638	25,237	159,693	146,601
Danville	35,927	29,382	219,994	189,001
Lynchburg	51,070	46,174	290,640	265,755
Newport News	49,221	47,618	291,037	278,225
Norfolk	263,616	249,802	1,532,277	1,452,491
Portsmouth	32,928	31,460	185,413	163,727
Richmond	628,481	570,211	3,608,662	3,363,901
Roanoke	127,260	111,175	724,082	676,556
West Virginia				
Bluefield	44,705	47,041	262,534	296,551
Charleston	176,790	159,466	1,004,054	967,099
Clarksburg	33,990	32,879	203,430	212,384
Huntington	71,295	61,831	425,853	420,651
Parkersburg	31,288	28,964	177,893	176,406
District Totals	$5,933,021	$5,280,185	$33,252,468	$31,244,164

* Interbank and U. S. Government accounts excluded.
** Not included in District totals.
NA Not available.

50 Reporting Member Banks
(000 Omitted)

Items	July 15, 1953	Change in Amount from June 17, 1953	Change in Amount from July 16, 1952
Total Loans	$1,356,211**	− 14,892	+138,752
Bus. & Agric.	602,220	− 17,614	+ 40,992
Real Estate Loans	262,240	+ 1,188	+ 13,208
All Other Loans	508,023	+ 1,569	+ 84,925
Total Security Holdings	1,826,100	+150,261	− 94,225
U. S. Treasury Bills	147,368	+ 29,034	−159,837
U. S. Treasury Certificates	287,181	+103,641	+ 62,055
U. S. Treasury Notes	283,975	− 7,115	+ 10,210
U. S. Treasury Bonds	930,357	+ 26,281	+ 1,615
Other Bonds, Stocks & Secur.	227,269	− 1,580	− 8,268
Cash Items in Process of Col.	317,322	+ 23,633	+ 33,804
Due From Banks	194,869*	− 6,493	+ 9,926
Currency and Coin	74,212	− 2,409	− 272
Reserve with F. R. Banks	522,649	− 63,904	− 57,929
Other Assets	56,937	+ 903	+ 2,792
Total Assets	4,348,300	+ 87,099	+ 32,848
Total Demand Deposits	3,340,052	+ 96,084	+ 7,003
Deposits of Individuals	2,433,555	− 28,958	+ 19,466
Deposits of U. S. Government	192,068	+113,533	− 20,195
Deposits of State & Local Gov.	188,277	− 6,448	− 7,555
Deposits of Banks	468,215*	+ 33,857	+ 10,343
Certified & Officers' Checks	57,937	− 15,900	+ 4,944
Total Time Deposits	678,422	+ 2,649	+ 24,835
Deposits of Individuals	599,447	+ 2,638	+ 25,470
Other Time Deposits	78,975	+ 11	− 635
Liabilities for Borrowed Money	16,750	− 12,500	− 22,350
All Other Liabilities	40,628	− 27	+ 9,459
Capital Accounts	272,448	+ 893	+ 13,901
Total Liabilities	$4,348,300	+ 87,099	+ 32,848

* Net figures, reciprocal balances being eliminated.
** Less losses for bad debts.

FIFTH DISTRICT STATISTICAL DATA

SELECTED INDEXES

Avg. Daily 1935-39=100—Seasonally Adjusted

	June 1953	May 1953	June 1952	% Chg.—Latest Mo. Prev. Mo.	% Chg.—Latest Mo. Yr. Ago.
Automobile Registration*	----	222	190	+ 2	+34
Bank Debits	481	490	452	− 2	+ 6
Bituminous Coal Production	147	136r	133	+ 8	+11
Construction Contracts	393	604	516	−35	−24
Business Failures—No.	69	55	54	+25	+28
Cigarette Production	----	231	262	+ 2	− 6
Cotton Spindle Hours	165	166	148	− 1	+11
Department Store Sales**	119	130	125	− 8	− 5
Electric Power Production	----	419	373	+ 1	+11
Manufacturing Employment*	----	157	149	0	+ 5
Retail Furniture: Net Sales	224	219	239	+ 2	− 6
Life Insurance Sales	----	388	341	0	+14

* Not seasonally adjusted.

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

WHOLESALE TRADE

LINES	Sales in June 1953 compared with June 1952	Sales in June 1953 compared with May 1953	Stocks on June 30, 1953 compared with Jun. 30, 1952	Stocks on June 30, 1953 compared with May 31, 1953
Auto supplies (7)	− 9	+ 3	− 1	+ 3
Electrical goods (4)	− 3	+14	----	----
Hardware (9)	− 9	−27	+ 5	+ 4
Industrial supplies (9)	+30	+14	+ 3	− 1
Drugs and sundries (11)	+11	+ 4	+ 5	− 1
Dry goods (14)	− 6	−15	+10	+16
Groceries (44)	+ 7	+ 6	− 4	− 2
Paper and products (6)	+ 9	+ 3	----	----
Tobacco products (8)	+12	+ 5	0	+ 4
Miscellaneous (95)	− 1	− 9	+25	+ 9
District totals (207)	+ 2	− 4	+13	+ 7

Number of reporting firms in parentheses.
Source: Department of Commerce.

DEPARTMENT STORE OPERATIONS

(Figures show percentage changes)

	Rich.	Balt.	Wash.	Other Cities	Dist. Totals
Sales, June '53 vs June '52	− 3.4	− 1.6	− 5.0	− 1.4	− 1.3
Sales, 6 Mos. ending June 30, '53 vs 6 Mos. ending June 30, '52	+ 1.1	+ 0.5	− 1.3	+ 3.6	+ 2.0
Stocks, June 30, '53 vs '52	+ 9.4	+ 9.3	+ 9.6	+10.7	+ 9.8
Outstanding orders June 30, '53 vs '52	− 3.4	+28.4	+13.1	+30.6	+16.9
Open account receivables June 1 collected in June '53	29.5	48.9	43.5	34.2	40.5
Instalment receivables June 1 collected in June '53	11.3	13.5	13.4	14.1	13.2

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, June '53 vs June '52	−1.7	−5.0	−1.2	+4.4	−1.4	+6.4

BUILDING PERMIT FIGURES

	June 1953	June 1952	6 Months 1953	6 Months 1952
Maryland				
Baltimore	$10,891,065	$ 6,045,185	$ 39,815,525	$ 32,136,305
Cumberland	78,815	50,249	370,215	179,124
Frederick	750,660	173,950	1,788,182	1,372,423
Hagerstown	141,650	205,545	1,360,963	843,633
Salisbury	226,886	174,843	776,837	762,199
Virginia				
Danville	420,065	507,797	2,367,301	3,367,057
Lynchburg	432,520	380,118	2,783,350	1,410,698
Newport News	411,925	239,026	1,305,473	5,893,516
Norfolk	1,046,150	881,427	9,441,568	11,483,265
Petersburg	176,900	126,007	1,148,800	903,001
Portsmouth	311,138	330,343	1,946,716	5,437,340
Richmond	2,446,702	1,142,260	8,873,135	8,934,119
Roanoke	758,122	906,148	6,698,215	5,265,418
Staunton	124,400	151,650	1,207,920	764,130
West Virginia				
Charleston	648,445	5,848,140	3,922,975	8,824,324
Clarksburg	223,716	111,160	1,497,731	471,357
Huntington	356,473	542,806	2,412,461	2,314,981
North Carolina				
Asheville	205,319	219,792	1,459,568	1,716,627
Charlotte	1,673,870	935,541	15,882,850	11,312,012
Durham	418,721	660,092	3,554,990	4,586,660
Greensboro	701,950	1,425,185	6,276,588	4,403,853
High Point	281,562	340,115	2,855,996	1,776,345
Raleigh	1,001,225	1,558,636	16,370,295	9,094,919
Rocky Mount	241,109	340,763	2,760,522	1,868,176
Salisbury	216,010	69,167	953,824	1,126,335
Wilson	131,340	106,800	1,203,630	1,518,950
Winston-Salem	1,266,494	943,878	4,677,970	5,052,983
South Carolina				
Charleston	323,886	188,871	3,564,690	827,508
Columbia	603,602	588,154	4,981,268	6,077,398
Greenville	500,575	505,163	3,243,892	4,897,968
Spartanburg	77,576	114,800	465,249	1,455,767
Dist. of Columbia				
Washington	8,918,072	3,987,466	38,314,219	24,153,346
District Totals	$36,006,943	$29,801,077	$194,282,918	$170,231,737

RETAIL FURNITURE SALES

STATES	Percentage comparison of sales in periods named with sales in same periods in 1952: June 1953	6 Mos. 1953
Maryland (6)	+ 6	+ 5
Dist. of Col. (7)	− 6	−11
Virginia (17)	− 8	− 1
West Virginia (10)	+17	+ 2
North Carolina (14)	−10	− 2
South Carolina (6)	−12	+ 2
District (60)	− 3	− 3
INDIVIDUAL CITIES		
Baltimore, Md. (6)	+ 6	+ 5
Washington, D. C. (7)	− 6	−11
Richmond, Va. (6)	− 5	− 3
Charleston, W. Va. (3)	−10	+ 5

Number of reporting firms in parentheses.