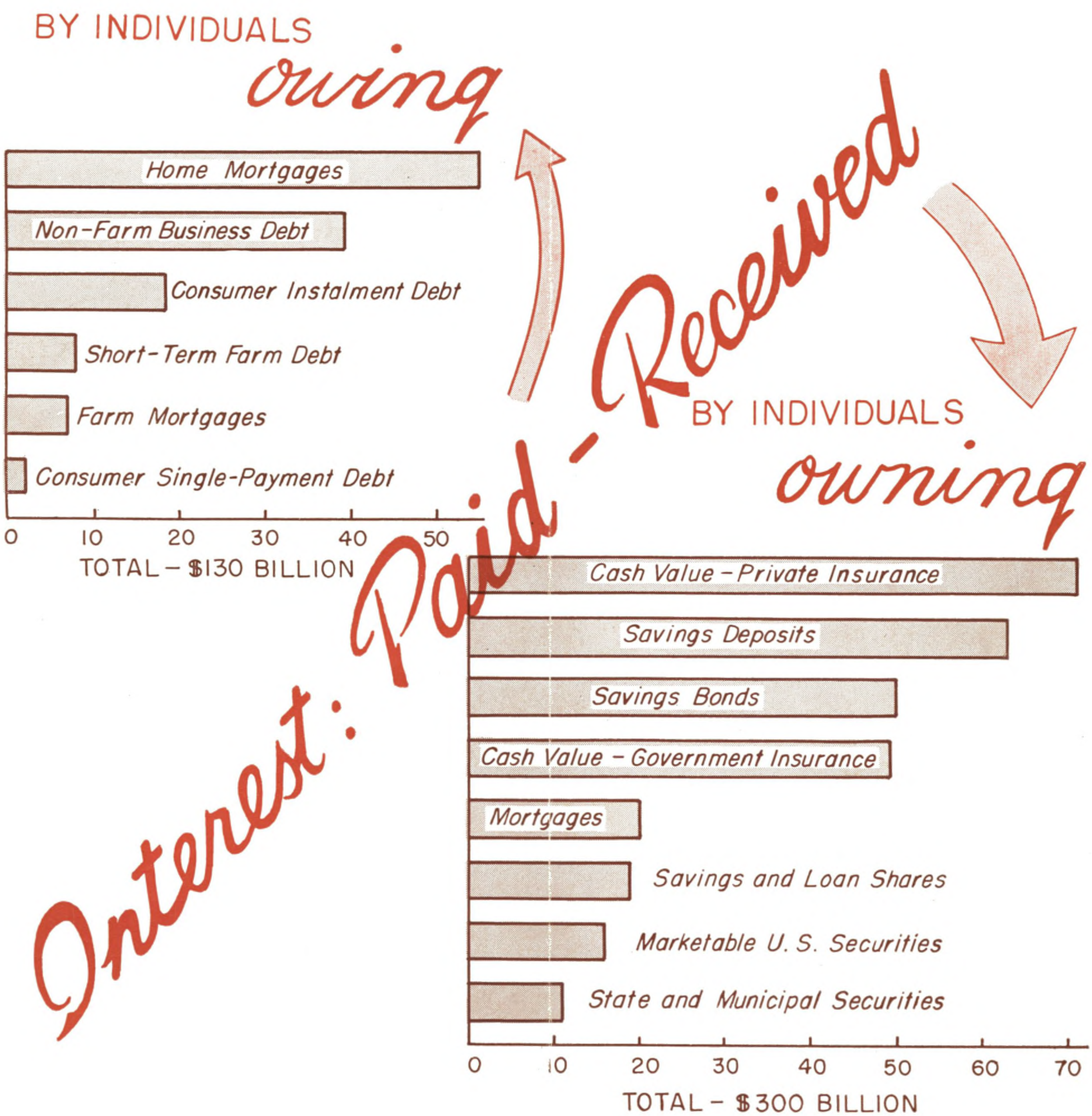
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

THE FIFTH FEDERAL RESERVE DISTRICT

September 1953

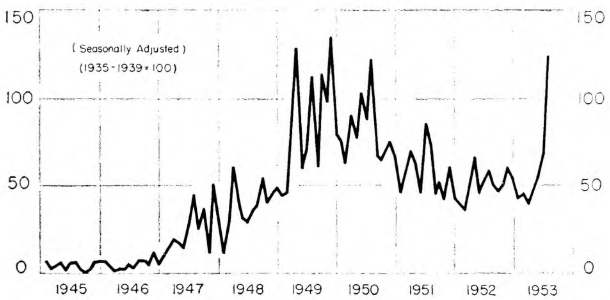


INDIVIDUALS receive more interest than they pay. The dual role of interest highlighted by the above chart is discussed in the article beginning on page 3. The chart omits some business debt owed to individuals—chiefly corporate bonds—for which figures are not available.

Also In This Issue - - -

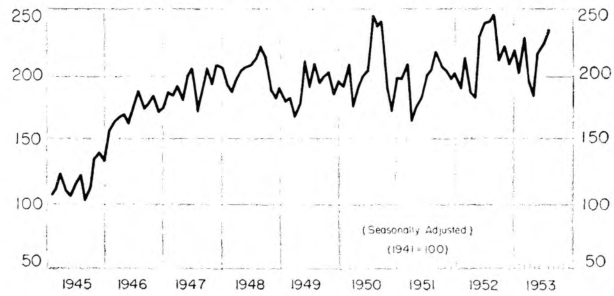
FIFTH DISTRICT TRENDS

BUSINESS FAILURES



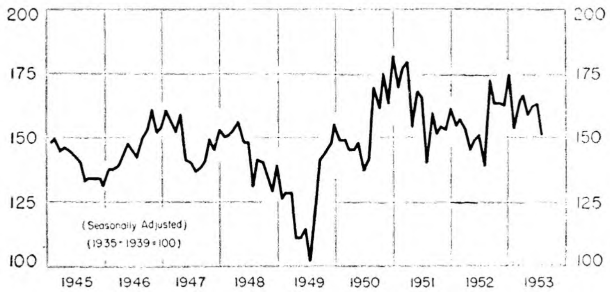
Business failures in this District in July adjusted rose 96% over June to a level 121% ahead of a year ago. July failures were nearly as high as in December 1949 which was the postwar peak for this series. Despite the sharp increase in failures they are still only a fraction of the level experienced during the 1920's.

RETAIL FURNITURE STORES NET SALES



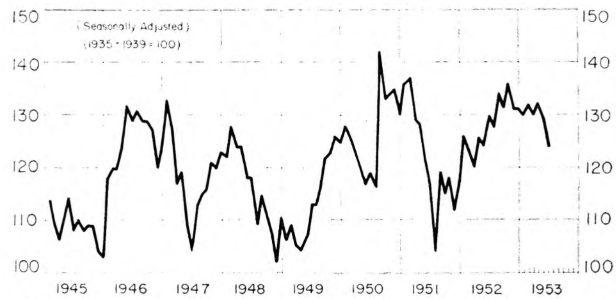
Furniture store sales in July were at a high level based on past performance but they were 3% under the extraordinarily high level of July 1952. The gain from June to July, seasonally adjusted, was 4%. Cash sales showed a larger gain than credit sales.

COTTON CONSUMPTION



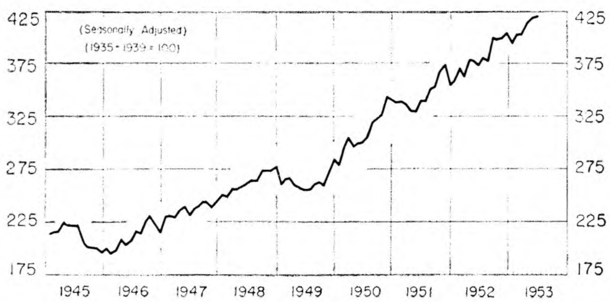
Broadening of vacations among textile concerns and some slackening in demand caused a reduction in cotton consumption of 8% from June on an adjusted basis. July output, however, was 9% ahead of a year ago but it must be remembered that July a year ago was the lowest point since the recession of 1949.

HOSIERY PRODUCTION - UNITED STATES



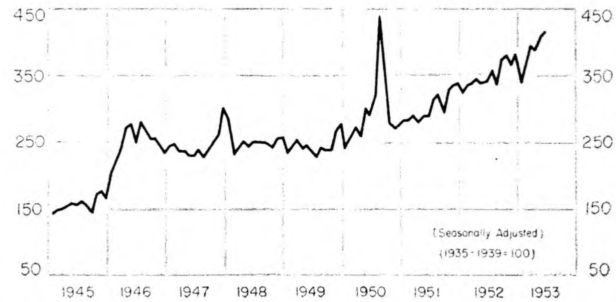
National output of hosiery in June (latest figures) was down 4% from May after seasonal correction and 5% under June 1952. Manufacturers had anticipated an improving volume of business in August but this failed to materialize beyond seasonal expectations.

ELECTRIC POWER PRODUCTION



Latest figures for electric power for June show that month at the same level as in May and 13% ahead of a year earlier. Power output in this District continues to show larger gains than in the nation as a whole, due in part to expansion of industries and in part to the relative improvement in the levels of living.

LIFE INSURANCE SALES



Life insurance sales continued the sharp upward trend which has been in evidence since 1949. July sales were 3% higher than June on an adjusted basis and 17% higher than a year ago. The gain in life insurance sales has been more rapid than other forms of savings.

Interest Rates—A Two-Sided Coin

INTEREST rates have advanced sharply to new post-war highs during the past few months. This has attracted considerable attention to the rise in rates which has been in progress since the Spring of 1951. It has raised questions as to the role of interest rates in our nation's economic activity.

Interest rates are prices—the prices borrowers pay for the use of others' funds. They are also the prices that lenders receive in return for others' use of their funds. Interest, then, is a two-sided coin. The interest paid by the borrower and that received by the lender represent two aspects of the same transaction; neither can exist without the other.

Most people are more aware of their role as borrowers than of their role as lenders and frequently do not realize the extent to which the average American is a lender of funds. Most Americans in their saving activities are in the final analysis lenders. The list of individuals who are lenders includes all those who make direct loans to other individuals and who lend to Government and to corporations through purchasing bonds, notes, etc. The list also includes those savers who participate in private pension plans, who are covered by social security, who have savings accounts or own life insurance policies, hold savings and loan association shares, or participate in credit unions.

The Financial Middleman

Misunderstanding as to the number of people who are lenders sometimes arises because of the presence of financial intermediaries between the borrower and the lender. When we borrow, we generally borrow from a financial institution and do not recognize the extent to which the individual saver is the actual source of the funds.

Everybody is familiar with the more common institutional lenders: banks, insurance companies, savings and loan associations, credit unions, pension funds. The funds lent by each of these lending institutions comes ultimately from savers. Even commercial banks, which create deposit money, can't stay in business unless people are willing to hold their deposits instead of currency. These institutions are essentially middlemen—they serve a basic need of the economy in bringing together the ultimate lender and the borrower.

The individual saver generally would be unable to arrange the most advantageous disposition of his funds in direct negotiation with the borrower. This is done for him by the financial middleman, who pools the many small amounts made available to him by savers, keeps abreast of market developments, diversifies risks by making these funds available to a broad range of borrowers, and performs many of the administrative details required in the saving-lending process. The financial middleman earns an interest return on the funds entrusted to him by individual savers. In turn, he must pay the saver for the use of his funds.

Millions of Americans are channeling a record rate of savings through these financial institutions. The Securities and Exchange Commission estimates that individuals, at the close of 1952, were receiving interest and dividends on $202 billion which they had lent through public and private institutions. In addition, individuals had made direct loans totaling $98 billion—not including individuals' holdings of a large amount of corporate bonds, for which reliable data are not available.

The ultimate source of the more than $300 billion lent by and for individuals includes virtually every family in the United States. For example, three-fourths of all the families in the nation, in their capacity as policyholders, are channeling savings through life insurance companies. The 88,000,000 policyholders include more than half of the men, women, and children in the country. Over $63 billion was lent by the 67,000,000 individuals who own savings accounts at commercial and mutual savings banks. Savings and loan associations invested $19 billion for 13,000,000 share owners. This list can be expanded to include 47,000,000 people covered by the Federal Old Age Trust Fund, 10,000,000 employees covered by private pension funds, 6,000,000 credit union members, more than 3,000,000 postal savings depositors, and millions of holders of savings bonds and other Government and corporate debt. These are the people whose funds earn the interest paid in our economy.

How Individuals Receive Interest

Some individual savers receive interest payments direct from the borrower. The amount and the timing of these payments are clearly stated in the loan contracts. Everyone is familiar with the payment of interest in this manner. When an individual, for example, cashes a $25.00 savings bond, he gets back (at maturity) the $18.75 he paid for it and $6.25 in addition—easily recognized as interest. Holders of mortgage loans generally receive fixed monthly payments of which a portion is designated as interest.

Some individual savers receive interest payments direct from financial middlemen. Here, too, both amount and timing of the payments are clearly stated. An individual who holds a savings account at a commercial bank, for example, receives periodic payments of interest which are entered in his passbook.

Interest earned on loans and investments of life insurance companies substantially reduces the cost of insurance, and provides policyholders with a source of earnings on their savings. The policy owner realizes this interest income through lower premiums, increased cash value of policies, and dividends (on participating policies).

Some individual savers receive interest indirectly through the payments made to them by the mutual financial institutions which they own. These financial middlemen pool the savings of their owners, invest them, and return the interest-income they earn to their saver-owners in the form of dividends. The individual savers are the sole owners of mutual savings banks, mutual life insurance companies, savings and loan associations, and credit unions. All of the income earned by these institutions belongs to the individual savers who own them. As owners, these individuals are subject to the risks of ownership and their income is partly business profit. Nevertheless, these business profits accrue from the lending operations of these institutions, which, in effect, act as agents for the individual owners. Although all the income received by the saver-owners of mutual financial institutions is not interest in the technical sense, it is directly derived from interest and is enough like interest to be in direct competition with it in bidding for the funds of savers.

Who Sets Interest Rates?

Interest rates have already been described as the prices paid for the use of money. Their level is determined by the relation of the supply of loanable funds to the demand for such funds. As in the case of any price in a free economy, interest rates ration the supply of loanable funds among those who would like to use them. It is impossible to furnish potential borrowers with all the funds they would like to have, just as it is impossible to furnish potential consumers with all the automobiles, shoes, housing space, or clothes they would like to have. Human wants are almost literally unlimited and can never be satisfied in full. Since people borrow money to buy goods and services, the desire for borrowed money, like that for goods and services, can never be satisfied in full. A price tag is necessary to ration the supply of loanable funds, just as price tags are needed to ration the supply of consumer goods and services.

If the demand for money expands, it tends to cause the price of money (interest) to rise. Borrowers will compete with each other for the supply of available funds. Similarly if the supply of loanable funds declines, there is a tendency for interest rates to rise. On the other hand, a decrease in the demand for, or an increase in the supply of, loanable funds tends to bring about a decline in interest rates. It is the interaction, then, of the demand for and the supply of loanable funds which sets interest rates.

The market in which these forces of demand and supply operate centers around the financial middlemen. These institutions earn their income by lending money. The level of the income of a financial middleman depends not only on the rates of interest he charges, but also on the amount of money he lends. When interest rates rise, the increased return on funds lent by financial middlemen puts them under pressure to offer individual savers more in order to attract their funds for further investment in a profitable market. In this manner, changes in interest rates are diffused throughout the market for loanable funds. Competition for savings of individuals (through other inducements, as well as interest rates) is intense among financial institutions.

Since early 1951 there has been a continuing heavy demand for funds—both from businessmen and consumers. Savers have added substantially to the supply of loanable funds, in part stimulated by the rising rates themselves. The addition of new money to the supply of loanable funds, however, has been limited, leading to a tighter money market. Keener competition for the limited supply of loanable funds has bid up interest rates.

Why Let Rates Rise?

In the process of financing the Second World War, it was demonstrated that interest rates could be held at artificially low levels. This was done by adding new money to the supply of loanable funds and paved the way for a tremendous increase in inflationary pressures during the war and postwar period.

An individual can buy more goods and services if, by borrowing new money, the funds at his command are increased, but it does not follow the same is true for the nation as a whole. The amount of goods and services which can be bought by the entire people is limited by the nation's productive capacity. Borrowers can spend newly acquired money at a time when the maximum output of the nation is already being absorbed. But the additional spending cannot bring more goods and services to the market. Prices must rise. True, the individual borrower can use the borrowed funds to increase the *share* of the nation's output which he acquires. But in so doing he bids up the prices of the goods and services he buys beyond the reach of someone else who would otherwise have bought them. Among those suffering most from such inflation is the saver. In his struggle to provide security for his family and for his old age, the saver fights a losing battle against the insidious hidden tax of inflation.

Rising interest rates have been an important contributing factor in the struggle against inflation since early 1951. The higher rates have cut out some potential borrowers and kept them from adding to the already heavy flow of spending. In these two and a half years the largest output of goods and services our economy has ever seen has been marketed with little change in over-all price levels. This is the real significance of the increase in interest rates.

Municipal-Industrial Bonds

DESPITE the sharp opposition of such influential groups as the Investment Bankers Association and the Municipal Finance Officers Association, the practice of municipalities issuing tax-exempt bonds in order to acquire industrial facilities for lease to private enterprise continues to spread slowly. The latest entrant in this field is found in the Fifth District. A recent bill signed by the Governor of Maryland authorizes the city of Crisfield (population—3,688) to sell up to $100,000 of general obligation bonds for the purpose of purchasing land and erecting thereon buildings to be leased to new industries. Each expenditure in excess of $5,000 from the bond proceeds must be approved by a referendum. Before seeking such electorate approval the Mayor and City Council are required to make "diligent inquiry concerning the reputation and financial standing of an industry. . . .for which it is proposed to acquire land and erect a building. . . ." Such information is to be made available to the voters.

This is believed to be the first bill of its kind enacted in recent times in the five states of this District. Six states—Alabama, Illinois, Kentucky, Louisiana, Mississippi, and Tennessee—permit municipalities to issue industrial bonds. In Louisiana and Mississippi the bonds must have the full faith and credit of the issuing city behind them. In the other four states municipalities are empowered to issue only revenue bonds—with interest and principal payable solely from revenue received from the rental of the publicly-owned property.

Authorizing municipalities to issue bonds for the specific purpose of financing construction of industrial plants to be leased and operated by private interests is the latest development in the long line of attempts by state and local governments to attract new industry. As early as 1830 states undertook to assist private construction of canals and turnpikes by supplying the necessary capital funds. Later, following the War Between the States, municipalities of mid-western states assumed heavy bonded indebtedness in attempts to secure railroad connections and cash in on the opportunities of the "transportation revolution." A third major period of public assistance to private business developed during the real estate boom of the Fabulous Twenties. It took the form of selling municipal bonds for the purpose of constructing streets, sidewalks, lights, and water and sewerage for residential subdivisions still in the promotional and developmental stages.

Mr. David M. Wood, in the October 31, 1951 issue of the *Daily Bond Buyer*, pointed out that these three periods of public financial aid to private enterprise terminated in widespread defaults on municipal bonds.

A Natural Development

It is too early to say whether the provision of industrial plant and equipment by municipalities for private operation will constitute a fourth major period of public financial aid to private enterprise. To date, only six states have enacted general legislation permitting local governments to issue "municipal-industrial" bonds, but formidable opposition to the practice has already developed.

The modern counterpart of early measures to stimulate manufacturing is the industrial development corporation. Dating from World War I, these organizations have had their most rapid growth since World War II, and currently are being established at an unprecendented rate. These promotional groups differ in details of organization and operation, but in general their funds are supplied through the sale of stock to individuals and businesses in the particular community. Their common purpose is the development of new industry in their localities.

There are, of course, important differences in financing industrial development from the proceeds of municipal bond issues rather than from the private funds of an industrial development corporation. In another sense, however, the former is simply an innovation adopted to accomplish more effectively, it is claimed, the basic objective. That this innovation involves such fundamental issues as the proper sphere of municipal activity and the doctrine of reciprocal immunity from taxation is something else again. The fact remains that there is growing recognition of the advantages, income-wise, of industrialization and an increasing determination to realize those advantages. Census data reveal that all large cities in the highest income bracket have a large proportion of their labor forces in manufacturing. Increasing attention is being given to the cumulative and multiplier effects of industrialization in developing markets and service industries and in increasing total and per capita income. Little wonder is it, then, that some states have permitted communities to attack the problem head-on by using funds from municipal bond issues to speed-up industrial growth.

Serious Objections

So far, criticism of the practice has far outweighed approval. The most potent opposition has been voiced by the Investment Bankers Association: "Operations of this character appear to us to be questionable municipal activities. . . .the use of municipal credit in aid of private industry is unwise." It was along this line of reasoning that the Florida Supreme Court recently disapproved of a municipality's plan to sell revenue bonds to foster industrial expansion. It pointed out that "every new business. . . .which may be established in a municipality will be of some benefit to the municipality. . . . But these considerations do not make the acquisition of land and the erection of buildings for such purposes a municipal purpose. . . .The financing of private enterprise by means of public funds is entirely foreign to a proper concept of our constitutional system."

In a number of instances the charge of socialism has been thrown at the practice. Describing a bill, the Industrial Revenue Bond Act of 1952, introduced unsuccessfully in the Virginia Assembly last year as "socialistic" and "dangerous," the *Richmond News Leader* held that the answer to the financing difficulties of American industry "does not lie in any such devious course. . . .Nothing is to be gained on the weak and rotten crutches of state capitalism." A little over a year ago when Mississippi officials were trying to persuade investment bankers to ignore the stand taken by the I.B.A., Governor White indicated that he would, if necessary, ask the Mississippi legislature to pass a law authorizing the state to buy bonds approved by voters in local communities. A prominent municipal bond attorney criticized this position by stating, "Governor White's argument seems to be that if private capital fails to do the job, the state will. That to me is the basic argument advanced in both socialist and communist philosophies."

Other critics of municipal financing of industrial plant have argued that the failure of a company leasing and operating publicly-owned property would, unless the municipality intervened, result in default in payment of the municipal bonds serviced by rental receipts. The consequent impairment of the local government's credit would be a misfortune of the first order. If the municipality intervened to avoid default by diverting other funds to payment of the bonds, it is likely that taxes would have to be increased. This added burden would accentuate the income difficulties arising from the unemployment caused by the plant shutdown. If the bonds in question were revenue bonds, it is possible that the municipality would be legally enjoined from servicing them with funds from sources other than rental of the industrial property.

Another point that has been raised is that the municipal-private enterprise hook-up might result in the loss of the tax-exemption privilege now accorded all municipal bond issues. Should opposition or abuse of industrial plant financing by municipalities lead Congress to deny it tax exemption, some bond dealers feel that it would be just a matter of time before all municipal bonds would be taxed.

In fact, action in both these respects against a specific issue has recently been initiated. A member of a New Jersey firm of certified public accountants has requested the SEC to assume the jurisdiction and control over the $1.3 million industrial development revenue bonds (convertible into common stock of the private company leasing the property) issued by Florence, Alabama, last September. The petition argued that these and similar bonds should be under SEC regulation "in order to protect the investing public, and in order to inform them properly that these are commercial bonds with a fictional municipal veneer." At the same time the Commissioner of Internal Revenue was requested to rescind a ruling that the interest on the bonds is exempt from Federal income taxation.

Answers to these petitions have not yet been handed down. They are eagerly awaited as either determining or shaping influences in a development of considerable concern to municipalities.

Revision of Indexes of Department Store Sales and Stocks

Two recent revisions have been made in the indexes of Fifth District department store sales and stocks: (1) change to a metropolitan area base (January 1953); and (2) review of seasonal adjustment factors (July 1953).

The first revision required that the sales indexes for the Washington metropolitan area and for Virginia, excluding the Arlington-Alexandria area, be adjusted to new census benchmarks and consequently recomputed from 1940 to date. The sales indexes for Maryland were adjusted in 1951 for stores located in the Washington metropolitan area. The seasonal adjustment factors for Washington metropolitan area and for Virginia, excluding Arlington-Alexandria area, were also revised from 1940 to date.

Since the Fifth District sales index is computed from individual area indexes, the revision in the Washington and Virginia indexes necessitated recomputation of the District indexes from 1940 to date. No change occurred in the District "unadjusted" sales indexes prior to 1949. During this period, however, there were minor changes in the District sales indexes, adjusted for seasonal variation.

The seasonal adjustment factors for the District stocks indexes and for the sales indexes for Maryland, West Virginia, North Carolina, and South Carolina were reviewed from 1949 to date. These indexes, adjusted for seasonal variation, therefore, have been revised accordingly.

The results of the above revisions in department store sales and stocks indexes may be obtained on request to the Research Department, Federal Reserve Bank of Richmond.

District Banking—First Half 1953

The nation's biggest boom was given added impetus over the first six months of this year by unusually successful banking operations. In response to continuing heavy customer demands, bankers pushed their loan totals to new records. Because the high demand for funds has been accompanied by relative scarcity on the supply side (reflected in the liquidation of other bank assets in order to meet the loan demand), interest rates continued to rise over the period. More loans and a higher return in the first half of the year gave member bankers in this District the largest total income ever earned in a similar period.

The District's member bankers realized a net profit after taxes from the half year's operations equal to an annual rate of 8.6% on their total capital accounts. This represents a moderate improvement over the earnings rate in the same period last year, but it is just about the same as the rate in 1951 and is well below the 9.5% ratio of net profits to stockholders' equity in the 1950 period.

The sharp drop from the first half of 1950 in the rate of earnings on stockholders' equity was brought about by the substantial increase in income tax payments dictated by the defense program initiated after the outbreak of war in Korea. In the first six months of 1950, taxes on net income amounted to 29.3% of net current earnings compared with this year's figure of 45.2%. The actual dollar amount of income taxes paid has more than doubled over the three year period: from $8.8 million in the first half of 1950 to $19.9 million in the first half of 1953.

Bankers in this District have maintained, in the postwar years, a rate of earnings on their stockholders' equity well above that for the nation as a whole. The national average for the first half of 1953 was 8.0% as compared with the District's 8.6%.

Lower Costs Per Dollar of Income

Although the District's bankers paid out 10% more this year than last to cover total operating expenses, the proportion of total income used for this purpose was substantially smaller. Operating costs took 57.4 cents of each dollar of total earnings in the first six months of this year. Last year these costs took 59.2 cents, and just five years ago, 61.1 cents. This improvement in the average cost per dollar of income explains an increase of 19% in net current earnings in the first half of this year over the same period last year, while total earnings increased by only 14%. Total operating expenses increased by an even smaller percentage—10%.

As a result of more efficient operations offsetting the heavier tax burden, the District's bankers were able to declare dividends for their stockholders during the half year period in an amount 5% greater than that declared in the same period last year. Retained earnings were also greater, with the result that the stockholders' equity in total assets rose from 6.7% in June 1952 to 7.0% this June.

Sources of Earnings

Customers' loans and discounts provided more than half the total earnings of Fifth District member banks in the first six months of this year. Loans extended by the District's bankers in this period were $59 million greater than repayments made by customers. These new loans raised the total amount outstanding at District member banks to the highest level ever reached—$2,358 million.

Consumers' borrowings were the primary source of new loans for District bankers in the half year period. They accounted for nearly 90% of the net expansion in total loans. Loans for the purchase of automobiles were the most important class in the consumer group, accounting for nearly half the $52 million expansion in consumer loans. Loans for retail purchases were next in importance with a $17 million increase over the period.

The member bankers in the District maintained approximately $236 million more of loans outstanding during the six month period in 1953 than during the same period last year. Not only did they keep a larger volume outstanding, they also realized a larger average return on each dollar loaned than in 1952. In the first half of this year, income earned amounted to 4.96% of the average amount of loans outstanding. Last year, earnings were 4.80% of loans outstanding. A larger

EARNINGS AND EXPENSES
Fifth District Member Banks
(Dollars in thousands)

Earnings	First half 1953	First half 1952	% Change
Interest and dividends on U. S. Government obligations	25,488	22,339	+14.1
Interest and discounts on loans	57,721	50,256	+14.9
All other earnings	20,170	18,256	+10.5
Total earnings from current operations	103,379	90,851	+13.8
Expenses			
Total current operating expenses	59,365	53,775	+10.4
Net current earnings	44,015	37,075	+18.7
Recoveries, transfers from reserves, and profits	1,189	1,777	33.1
Losses, charge offs, and transfers to valuation reserves	4,473	3,231	+38.4
Profits before income taxes	40,731	35,621	+14.3
Taxes on net income	19,896	16,980	+17.2
Net profits	20,834	18,641	+11.8
Cash dividends declared	7,128	6,804	+4.8
Net profits after dividends	13,706	11,837	+15.8

amount of loans on the books and a higher return resulted in $7.5 million more of earnings from this source this year than last—an increase of 15%.

In order to meet the demand for loans during the first half of 1953 and to maintain comfortable reserve positions, the District's bankers sold $228 million of U. S. Government securities, 8.7% of their holdings at the beginning of the year. They relied primarily on Treasury bills to replenish reserve accounts, reducing their holdings by $173 million—49%. These sales reduced bill holdings to only 7.5% of total Government securities. At the beginning of the year, bills made up 13.4% of the Governments portfolio. Moderate purchases of bonds maturing in 5 years or less increased this category to 35.9% of total Governments—from 31.5% at the beginning of the year.

Earnings from investments in Government securities during the six month period this year were $3 million greater—14%—than in the same period last year, in spite of the reduction in total amount held. This was made possible by an increased rate of return on the funds used in this manner. In the District, member bankers realized 2.02% on the average holdings of Government securities during the period. Last year the rate of return was 1.74% on average holdings.

EARNING ASSETS
Fifth District Member Banks
(Millions of dollars)

	June 30, 1953	June 30, 1952	% Change First half 1953	% Change First half 1952
Loans and investments	5,163.0	5,051.8	− 3.2	+ 0.2
Loans and discounts:				
Commercial and industrial loans	795.1	727.9	− 3.9	− 5.1
Loans to farmers	71.5	67.8	+ 31.0	+ 37.0
Loans to brokers and dealers in securities	18.1	13.2	+ 35.1	− 10.8
Other loans for purchasing or carrying securities	87.5	71.6	− 14.6	− 0.3
Real estate loans:				
On farm land	50.1	47.6	+ 5.9	+ 5.1
On residential property	418.7	399.9	+ 0.6	+ 3.9
On other properties	157.5	150.8	+ 3.1	+ 4.4
Instalment loans to individuals:				
Retail automobile paper	175.9	134.1	+ 16.6	+ 15.5
Other retail paper	78.3	49.2	+ 27.9	+ 10.1
Repair and modernization	39.1	29.6	+ 8.9	+ 13.8
Cash loans	100.2	84.5	+ 7.5	+ 12.5
Single payment loans	285.2	277.0	+ 2.8	+ 7.6
Loans to banks	15.3	4.2	+183.3	+110.0
All other loans	65.5	62.9	+ 8.1	− 5.4
Loans—gross	2,358.0	2,120.3	+ 2.6	+ 2.7
Reserves	26.3	24.9	+ 3.1	+ 3.8
Loans—net	2,331.7	2,095.4	+ 2.6	+ 2.7
U. S. Government securities	2,404.0	2,530.3	− 8.7	− 2.5
Treasury bills	180.2	349.7	− 49.0	− 20.1
Treasury certificates of indebtedness	224.2	280.7	− 5.0	− 8.4
Treasury notes	465.1	427.0	− 1.7	+ 0.4
U. S. nonmarketable bonds	141.9	138.5	....	+ 3.4
Other U. S. Bonds—5 years or less	862.0	854.2	+ 4.0	− 0.2
Other U. S. bonds—over 5 years	530.6	480.2	− 11.4	+ 10.1
Other securities[1]	427.4	426.1	− 0.3	+ 5.8

[1] Includes U. S. guaranteed obligations.

ASSETS AND LIABILITIES[1]
FIFTH DISTRICT MEMBER BANKS BY STATES
June 30, 1953
(In millions of dollars)

ASSETS	Md.	D. C.	Va.	W. Va.	N. C.	S. C.	Fifth District June 30, 1953	Fifth District June 30, 1952
Loans and investments	1,017.7	871.5	1,480.1	571.1	820.2	402.4	5,163.0	5,051.8
Loans and discounts (including overdrafts)	411.1	366.1	715.5	221.1	447.7	170.1	2,331.7	2,095.4
U. S. Government obligations	513.8	454.7	640.6	305.2	297.3	194.0	2,405.6	2,531.9
Other securities	92.8	50.6	124.0	44.9	75.2	38.2	425.7	424.5
Reserves, cash and bank balances	353.1	285.6	445.3	176.3	302.0	155.6	1,718.0	1,746.9
Reserve with Federal Reserve Banks	180.8	169.2	192.0	71.1	116.7	62.5	792.4	811.1
Cash in vault	28.1	22.2	41.0	19.7	20.9	15.3	147.2	134.8
Balances with banks	63.5	46.6	104.5	62.4	63.2	47.9	388.2	424.1
Cash items in process of collection	80.7	47.6	107.8	23.0	101.2	29.9	390.2	377.0
Other assets	18.2	20.4	24.8	7.8	15.1	5.9	92.2	86.9
Total Assets	1,389.0	1,177.5	1,950.3	755.2	1,137.3	563.9	6,973.2	6,885.5
LIABILITIES								
Demand deposits	989.1	889.0	1,204.3	509.5	847.0	451.4	4,890.3	4,922.8
Individuals, partnerships and corporations	731.3	788.9	917.1	397.9	616.9	339.2	3,791.4	3,728.9
U. S. Government	31.5	24.4	32.8	10.1	26.4	21.5	146.8	233.4
States and political subdivisions	128.4	.2	97.8	58.2	63.9	69.3	417.6	396.5
Banks	90.6	61.3	136.6	35.6	118.0	14.6	456.7	474.9
Certified and officers' checks, etc.	7.3	14.2	20.0	7.6	21.8	6.9	77.7	89.2
Time deposits								
Individuals, partnerships, and cor-	299.8	205.0	582.2	181.8	188.2	75.4	1,532.4	1,447.7
porations	291.2	170.3	526.6	179.9	140.3	66.3	1,374.5	1,302.4
U. S. Government and postal savings	7.3	17.1	21.4	1.5	5.6	8.3	61.2	54.1
States and political subdivisions	1.3	.1	33.7	.2	41.6	.7	77.6	73.6
Banks	......	17.6	.5	.2	.6	.2	19.1	17.6
Total deposits	1,288.9	1,094.0	1,786.5	691.3	1,035.2	526.8	6,422.7	6,370.5
Borrowings	.7	.2	4.0	.2	1.3	......	6.3	2.2
Other liabilities	7.5	7.1	13.7	3.0	17.5	4.5	53.3	50.2
Total Liabilities	1,297.1	1,101.3	1,804.2	694.5	1,054.0	531.3	6,482.4	6,422.9
Total Capital Accounts	91.9	76.2	146.1	60.7	83.3	32.6	490.9	462.6
Total Liabilities and Capital Accounts	1,389.0	1,177.5	1,950.3	755.2	1,137.3	563.9	6,973.2	6,885.5
Demand deposits adjusted	786.3	755.7	927.1	440.7	601.4	385.4	3,896.6	3,837.6
Number of Banks	72	15	204	97	55	33	476	475

[1] Preliminary.
Note: May not add to totals due to rounding.

Business Conditions and Prospects

SUMMER vacations and somewhat slackened demand combined to reduce productive activity in this District more than the normal seasonal amount in July. Government employment continued to trend downward and employment in contract construction also continued to run below a year ago. On the other hand, employment in the service industries maintained an even keel.

Loans of Fifth District member banks rose $14 million, or 0.6%, in July and were $226 million, or 10.6%, ahead of a year ago, though year to year gains have been growing smaller since May. Total deposits of member banks rose $16 million or 0.2% from June to July, and time deposits accounted for $12 million of the increase. Borrowings from the Reserve Bank, which had fallen to $19.9 million in June, rose $28 million during July to $47.9 million. Business loans of the weekly reporting banks have moved up earlier and faster than usual since their July low point, though due mainly to gains in manufacturing, mining and sales finance companies and not the usual seasonal industries. Bank debits in the District established a new high in July, 4% over June and 9% over a year ago.

Agricultural production was indicated to be moderately smaller in the August 1 crop forecast but continuing drought through August in parts of the District may reduce late maturing crops substantially. Farm prices declined moderately during July in all states of the District except North Carolina. Farm income in the first five months of the year was 3% below a year ago. Based on crop indications, the calendar year will show a larger decline than 3%.

The July trade level improved moderately over June when seasonal factors are taken into account, and the over-all situation in the District may be characterized as moderately below the peak levels of the Spring.

Trade

July trade levels, as noted, improved slightly over June after taking account of the normal seasonal change. Department store sales were up 1%, furniture store sales 4%, and automobile registrations for three states rose from 8% to 16%.

Department store sales, adjusted, rose 1% in June and were 7% higher than in July 1952. Outstanding gains in department store sales in July over a year ago were made in Roanoke and Lynchburg, Virginia; better than average gains were shown in Charleston, Columbia and Greenville, South Carolina. Women's and misses' dresses, men's clothing, furniture and bedding, and women's accessories were prominent among the July gains. However, floor covering, major appliance, radio, phonograph and television sales were considerably below a year ago. Interestingly, department stores in South Carolina established their all-time high level of sales on an adjusted basis in July. July sales in the District were 6% under the year's peak in May while inventories remained at their June all-time peak.

July furniture store sales, adjusted, rose 4% from June but failed by 3% to equal the high level of July 1952. Early clearance sales further reflected a greater rise in cash sales than in credit sales. Cash sales, adjusted, rose 5% from June while credit sales rose only 2%. Furniture store inventories, which had declined rather sharply from May to June, held steady between June and July to stand 7% ahead of a year ago. Fourteen per cent of outstanding receivables on July 1 were collected during the month, the lowest percentage since February 1950. Accounts receivable in furniture stores remained at the all-time high level established in June which was 13% higher than a year earlier.

Registrations of new passenger automobiles were available for all states of the District for June. That month showed a reduction of 5% from May, but 11% over June 1952. Three states available for July showed gains over June ranging from 8% to 16% and over July a year ago of from 14% to 48%.

June new commercial car registrations in the District were down 14% from May but 2% higher than in June 1952. Three reporting states for July showed changes over June ranging from a loss of 27% to a gain of 23%. Relative to a year ago, changes in registrations ranged from 5% below to 8% above.

Textiles

Textile activity in the District is still at a good level but less active in most sectors than last Spring. Operations are most active in the apparel industry and it is apparent that a part of this is due to industry migration. The July level of textile activity dropped substantially because of vacation shutdowns and the tendency seems to be for the vacation period to spread to a larger number of concerns as well as to include more employees.

Cotton consumption in July, adjusted for seasonal variation, dropped 8% from June. This may reflect the broadened observance of vacations but it seems also to indicate an adjustment of production to a lower demand level. Despite the fact that mills are fairly well sold up on print cloths and broad cloths for the remainder of the year, many products such as ducks, osnaburg and industrial sheetings have been in relatively poor demand and the July drop thus reflects this situation. The amount of comeback registered in August will give a clearer picture of the over-all demand situation in the cotton textile industry. Based on the stability of many prices and moderate firming of others, it appears that the industry remains in a fairly strong position.

Domestic shipments in the rayon and acetate industries in July were down 1% from June and 3% from a year ago. Tire yarn shipments rose 1% from June and 11% over a year ago. Rayon filament shipments were up 1% in July but 4% under a year ago. Acetate filament shipments remained at the June level but fell 19% under July last year. The industry's filament yarn business seems to be holding its own, but staple and tow shipments in July fell 4% from June to a level 3% below a year ago. Rayon and acetate staple shipments showed losses in both periods.

Hosiery production in the United States dropped 4% after seasonal correction between May and June and was 5% under June 1952. New business in men's and children's seamless hose has been moderate and below expectations; and in the full-fashioned hosiery industry, new business is slow. Indications are it will be some time before hosiery production will again reach the high level of August 1952.

Bituminous Coal

Bituminous coal output in the Fifth District has been moving upward since February on a seasonally adjusted basis. Preliminary July figures show a 5% reduction from June but a gain of 17% over July 1952. Surprisingly, output in Virginia has risen by a greater percentage since February and stands higher in historical perspective, than in West Virginia. The bulk of the improvement in coal demand from this District has been the movement West rather than East, and West Virginia thus appeared to be in a stronger competitive position to handle this business; the facts are otherwise.

Construction

Construction contract awards increased in July from the reduced June total, reflecting in part several large awards toward the end of the month. The increase occurred in awards for both residential and nonresidential construction. There were still complaints about lack of mortgage money for GI and FHA loans but latest figures (June) showed both number and value of GI home loans, guaranteed and insured, up moderately from May in this District.

Contracts were awarded for military construction in July in the amount of $11.4 million which compares with a figure of $52.5 million a year ago. In the first seven months of 1953 military contracts amounted to $83.9 million compared with $134 million in the same period last year.

Certificates of necessity issued for construction in this District were valued at $77.8 million between July 2 and July 29 which compares with a figure of $82.4 million for approximately the same period last year.

FIFTH DISTRICT BANKING STATISTICS

DEBITS TO DEMAND DEPOSIT ACCOUNTS*

(000 omitted)

	July 1953	July 1952	7 Months 1953	7 Months 1952
Dist. of Columbia				
Washington	$1,108,873	$1,042,013	$ 7,516,146	$ 7,417,619
Maryland				
Baltimore	1,526,524	1,333,564	9,966,153	8,934,904
Cumberland	27,344	29,989	180,647	179,971
Frederick	23,962	22,896	164,492	155,090
Hagerstown	41,437	35,328	264,845	242,702
North Carolina				
Asheville	65,115	59,517	429,383	416,698
Charlotte	364,329	332,351	2,543,240	2,371,565
Durham	110,594	122,423	638,027	609,689
Greensboro	122,800	102,126	837,869	733,733
High Point	43,431**	NA	NA	NA
Kinston	22,095	20,148	144,372	133,309
Raleigh	176,506	154,968	1,333,498	1,190,320
Wilmington	52,190	46,906	324,191	310,570
Wilson	19,533	16,641	119,179	120,764
Winston-Salem	181,834	140,094	1,054,059	940,570
South Carolina				
Charleston	77,202	82,259	557,139	549,722
Columbia	167,241	145,078	1,119,406	987,089
Greenville	113,351	108,133	787,691	733,040
Spartanburg	62,727	60,708	449,726	462,603
Virginia				
Charlottesville	31,008	24,687	190,701	171,288
Danville	35,446	31,111	255,440	220,112
Lynchburg	48,867	42,033	339,507	307,788
Newport News	49,987	45,770	341,024	323,995
Norfolk	267,326	238,429	1,799,603	1,690,920
Portsmouth	31,069	25,846	216,482	189,573
Richmond	619,899	579,405	4,228,561	3,943,306
Roanoke	122,938	109,162	847,020	785,718
West Virginia				
Bluefield	42,425	45,964	304,959	342,515
Charleston	179,033	151,418	1,183,087	1,118,517
Clarksburg	34,224	32,730	237,654	245,114
Huntington	70,874	70,285	496,727	490,936
Parkersburg	31,636	30,164	209,529	206,570
District Totals	$5,827,889	$5,282,146	$39,080,357	$36,526,310

* Interbank and U. S. Government accounts excluded.

** Not included in District totals.

NA Not available.

50 REPORTING MEMBER BANKS

(000 omitted)

Items	August 12, 1953	Change in Amount from July 15, 1953	Change in Amount from August 13, 1952
Total Loans	$1,391,298**	+ 35,087	+162,156
Bus. & Agric.	623,080	+ 20,860	+ 58,220
Real Estate Loans	262,116	− 124	+ 14,843
All Other Loans	522,397	+ 14,374	+ 89,440
Total Security Holdings	1,806,068	− 20,032	− 95,070
U. S. Treasury Bills	157,022	+ 9,654	−112,851
U. S. Treasury Certificates	229,683	− 7,448	+ 51,559
U. S. Treasury Notes	274,669	− 9,306	+ 9,515
U. S. Treasury Bonds	916,292	− 14,065	− 32,738
Other Bonds, Stocks & Secur.	228,402	+ 1,133	− 10,555
Cash Items in Process of Col.	295,933	− 21,389	+ 15,291
Due From Banks	179,121*	− 15,748	− 7,977
Currency and Coin	77,516	+ 3,304	+ 849
Reserve with F. R. Banks	555,786	+ 33,137	− 11,721
Other Assets	58,851	+ 1,914	+ 2,588
Total Assets	4,364,573	+ 16,273	+ 66,116
Total Demand Deposits	3,309,375	− 30,677	+ 18,511
Deposits of Individuals	2,428,986	− 4,569	+ 13,617
Deposits of U. S. Government	158,284	− 33,784	− 9,105
Deposits of State & Local Gov.	198,839	+ 10,562	+ 15,126
Deposits of Banks	465,026*	− 3,189	− 5,926
Certified & Officers' Checks	58,240	+ 303	+ 4,799
Total Time Deposits	680,077	+ 1,655	+ 24,341
Deposits of Individuals	601,520	+ 2,073	+ 25,122
Other Time Deposits	78,557	− 418	− 781
Liabilities for Borrowed Money	56,800	+ 40,050	− 992
All Other Liabilities	43,086	+ 2,458	+ 9,481
Capital Accounts	275,235	+ 2,787	+ 14,775
Total Liabilities	$4,364,573	+ 16,273	+ 66,116

* Net figures, reciprocal balances being eliminated.

** Less losses for bad debts.

FIFTH DISTRICT STATISTICAL DATA

SELECTED INDEXES

Avg. Daily 1935-39=100—Seasonally Adjusted

	July 1953	June 1953	July 1952	% Chg.— Latest Mo. Prev. Mo.	% Chg.— Latest Mo. Yr. Ago.
Automobile Registration*	.....	211	154	— 5	+ 11
Bank Debits	500	481	458	+ 4	+ 9
Bituminous Coal Production	142	149	121	— 5	+ 17
Construction Contracts	577	393	549	+47	+ 5
Business Failures—No.	128	69	58	+86	+121
Cotton Spindle Hours	149	165	132	—10	+ 13
Department Store Sales**	120	119	112	+ 1	+ 7
Electric Power Production	.....	420	381	0	+ 13
Manufacturing Employment*	.....	158	149	+ 1	+ 6
Retail Furniture: Net Sales	233	224	240	+ 4	— 3
Life Insurance Sales	415	402	356	+ 3	+ 17

* Not seasonally adjusted.

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

WHOLESALE TRADE

LINES	Sales in July 1953 Compared with July 1952	Sales in July 1953 Compared with June 1953	Stocks on July 31, 1953 compared with July 31, 1952	Stocks on July 31, 1953 compared with June 30, 1953
Auto supplies (9)	— 7	0	+10	+ 9
Electrical goods (4)	+ 8	+12	......	......
Hardware (14)	0	+ 7	+10	0
Industrial supplies (10)	+ 7	+16	— 5	— 4
Drugs and sundries (10)	+ 8	+ 6	+ 7	0
Dry goods (13)	— 9	+22	+10	+ 4
Groceries (44)	+ 8	+ 5	+ 3	+ 1
Paper and products (6)	+21	+ 1	......	......
Tobacco products (11)	+ 6	+ 1	+21	+11
Miscellaneous (94)	+ 6	+ 7	+22	— 2
District totals (215)	+ 5	+ 6	+14	0

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

DEPARTMENT STORE OPERATIONS

(Figures show percentage changes)

	Rich.	Balt.	Wash.	Other Cities	Dist. Totals
Sales, July '53 vs July '52	+ 4.2	+ 1.8	+ 1.2	+ 2.8	+ 3.9
Sales, 7 Mos. ending July 31, '53 vs 7 Mos. ending July 31, '52	+ 1.5	+ 0.6	— 1.0	+ 3.4	+ 2.3
Stocks, July 31, '53 vs '52	+ 3.1	+10.1	+ 6.8	+ 4.8	+ 6.7
Outstanding orders July 31, '53 vs '52	+ 3.3	+ 2.3	— 2.4	— 7.2	— 1.1
Open account receivables July 1 collected in July '53	32.0	46.0	43.0	35.3	40.2
Instalment receivables July 1 collected in July '53	10.7	13.4	13.2	14.1	13.0

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, July '53 vs July '52	+1.6	+1.2	+5.9	+3.5	+3.4	+14.9

BUILDING PERMIT FIGURES

	July 1953	July 1952	7 Months 1953	7 Months 1952
Maryland				
Baltimore	$13,169,295	$ 4,144,005	$ 52,984,820	$ 36,280,810
Cumberland	33,950	5.177	404,165	184,301
Frederick	58,960	258,550	1,847,142	1,630,973
Hagerstown	293,675	59,755	1,654,638	903,388
Salisbury	17,455	61,820	794,292	824,019
Virginia				
Danville	235,539	307,512	2,602,840	3,674,569
Lynchburg	148,668	149,719	2,932,018	1,560,417
Newport News	153,472	140,003	1,458,945	6,033,519
Norfolk	680,843	766,525	10,122,411	12,249,790
Petersburg	87,000	265,732	1,235,800	1,168,733
Portsmouth	3,859,625	417,245	5,806,341	5,854,585
Richmond	2,692,140	1,886,907	11,565,275	10,821,026
Roanoke	3,081,073	1,175,059	9,779,288	6,440,477
Staunton	190,567	98,500	1,398,487	862,630
West Virginia				
Charleston	5,555,534	524,814	9,478,509	9,349,138
Clarksburg	185,250	181,700	1,682,981	653,057
Huntington	727,870	434,980	3,140,331	2,749,961
North Carolina				
Asheville	311,209	189,729	1,770,777	1,906,356
Charlotte	5,705,274	1,479,363	21,588,124	12,791,375
Durham	381,933	619,043	3,936,923	5,205,703
Greensboro	660,019	1,514,870	6,936,607	5,918,723
High Point	533,405	249,500	3,389,401	2,025,845
Raleigh	531,980	1,475,060	16,902,275	10,569,979
Rocky Mount	279,519	75,789	3,040,041	1,943,965
Salisbury	550,982	108,280	1,504,806	1,234,615
Wilson	76,501	148,600	1,280,131	1,667,550
Winston-Salem	452,512	1,235,367	5,130,482	6,288,350
South Carolina				
Charleston	190,685	392,619	3,755,375	1,220,127
Columbia	573,948	299,511	5,555,216	6,376,909
Greenville	634,400	719,350	3,878,292	5,617,318
Spartanburg	106,425	101,235	571,674	1,557,002
Dist. of Columbia				
Washington	8,051,518	5,982,227	46,365,737	30,135,573
District Totals	$50,211,226	$25,468,546	$244,494,144	$195,700,283

RETAIL FURNITURE SALES

STATES	Percentage comparison of sales in periods named with sales in same periods in 1952: July 1953	7 Mos. 1953
Maryland (6)	+11	+ 6
Dist. of Col. (7)	+ 1	— 9
Virginia (17)	— 3	— 1
West Virginia (10)	— 5	+ 1
North Carolina (14)	— 5	— 2
South Carolina (6)	—14	— 1
District (60)	0	— 3
INDIVIDUAL CITIES		
Baltimore, Md. (6)	+11	+ 6
Washington, D. C. (7)	+ 1	— 9
Richmond, Va. (6)	+ 5	— 2
Charleston, W. Va. (3)	— 7	+ 3

Number of reporting firms in parentheses.

FEDERAL RESERVE BANK OF RICHMOND
FIFTH DISTRICT