FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

December 1955

WHAT HAPPENS WHEN MEMBER BANK RESERVE REQUIREMENTS ARE LOWERED

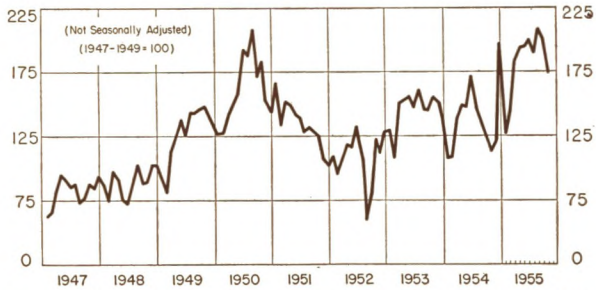
MEMBER BANK RESERVE REQUIREMENTS (PER CENT OF DEPOSITS)

EFFECTIVE DATE OF CHANGE	NET DEMAND DEPOSITS: CENTRAL RESERVE CITY BANKS	NET DEMAND DEPOSITS: RESERVE CITY BANKS	NET DEMAND DEPOSITS: COUNTRY BANKS	TIME DEPOSITS (ALL MEMBER BANKS)
1917 - June 21	13	10	7	3
1936 - Aug. 16	19½	15	10½	4½
1937 - Mar. 1	22¾	17½	12¼	5¼
May 1	26	20	14	6
1938 - Apr. 16	22¾	17½	12	5
1941 - Nov. 1	26	20	14	6
1953 - July 1	22	19	13	5
July 9	21	18	12	5
1954 - June 16	20			
June 24				
July 29				
Aug. 1				

Reductions in reserve requirements, when they occur, supply member banks with excess funds which provide the basis for the extension of more credit to business. Such reductions are generally made to increase the availability of credit. The article on page 3 analyzes Fifth District member bank responses to the reserve requirement reductions of 1953 and 1954.

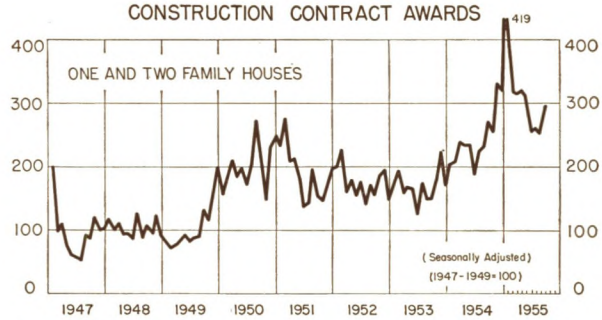
FIFTH DISTRICT TRENDS

NEW PASSENGER CAR REGISTRATIONS



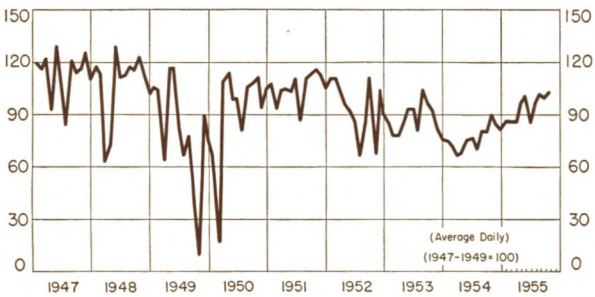
Registrations of new passenger automobiles in three states of the Fifth District and the District of Columbia declined 13% from September to October. They were, however, 53% higher than in October 1954 and the ten month's figure for these states was up 35%.

CONSTRUCTION CONTRACT AWARDS



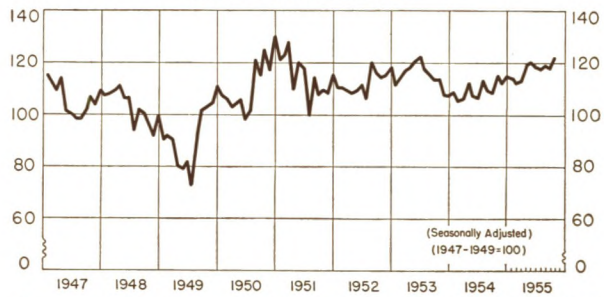
Contract awards for construction of one- and two-family houses after declining persistently all year, rose 17% on an adjusted basis from September to October to a level 17% ahead of a year ago. Despite the declining trend this year, the first ten months awards were 34% larger than a year ago.

BITUMINOUS COAL PRODUCTION



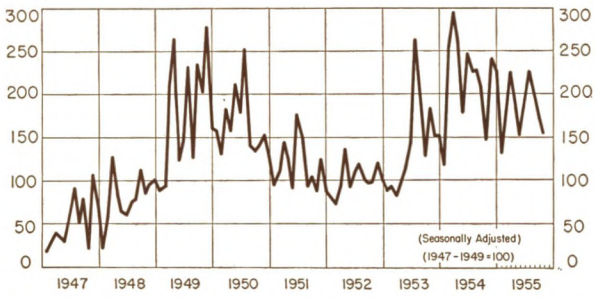
Average daily production of bituminous coal in October rose 3% over September to a level 16% ahead of October 1954. In the first ten months of the year output was up 25%.

COTTON CONSUMPTION



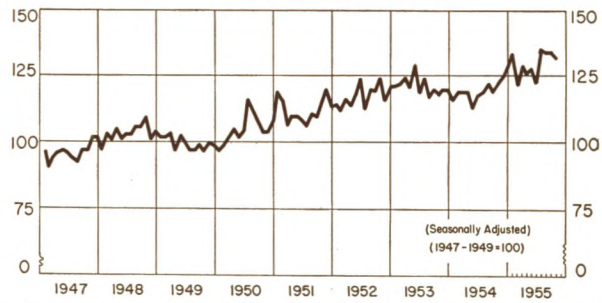
Average daily cotton consumption (seasonally adjusted) in October rose 3% from September to a level 6% ahead of a year ago. In the first eight monts of 1955 consumption was 8% higher than a year earlier. The October level is back to the peak of 1953, but under levels at the end of 1950 and early 1951.

BUSINESS FAILURES



Business failures (seasonally adjusted) in October dropped 10% from September, but were 3% higher than in October a year ago. In the first ten months of 1955 failures were 17% smaller than last year. Although failures in October were down from a year ago the level is still about 50% higher than in 1951, 1952 and early 1953.

DEPARTMENT STORE SALES



Department store sales after seasonal correction dropped 1% from September to October. They were, however, 7% higher than in October 1954 and in the first ten months of the year, a gain of 9% was recorded.

Fifth District Member Bank Responses To Reductions In Reserve Requirements

How do member banks respond to reductions in reserve requirements? To what extent and how do they "use" the freed reserves provided by changed requirements? Answers to these questions are important from the standpoint of both the individual banks and the monetary authorities. So far as the individual banks are concerned, the answers provide an interesting yardstick against which their own reserve management practices may be measured. The answers are equally important for monetary authorities because they provide indications as to the effectiveness of reductions in reserve requirements.

In the absence of indebtedness to other commercial banks or to the Reserve bank, a reduction of reserve requirements will generally encourage banks to expand their loans and investments—the alternative being idle cash which earns no return for the bank. The process is supposed to work somewhat as follows. When reserve requirements are reduced those banks affected will expand loans and investments in order to increase earnings. The owners of the deposits created to acquire these earning assets will then draw down their created balances in order to make payments to their suppliers. These suppliers in turn will deposit the checks with their own banks, thus increasing the reserves of these banks and enabling them to expand their earning assets. The process will continue until all freed reserves have been used up and, as a result, bank deposits will have increased by considerably more than the original amount of the funds freed by the reduction in reserve requirements. An increase in the level of economic activity will probably be induced by the increased spendings occasioned by the expansion process.

Is this theory accurate? Undoubtedly, it is a useful device for thinking through the probable impacts of changes in reserve requirements, but does it really explain banking behavior? Do banks actually consider excess reserves an evil to be eliminated, and, if they do, how closely do they manage their reserve accounts in order to eliminate these idle funds? A study of the reserve management practices of Fifth District member banks before and after the 1953 and 1954 reductions in reserve requirements suggests that the banks do react very much as the theory postulates, although there are many variations in individual practice.* It is the purpose of this article to present some of the response patterns which were developed in this study. It is recognized that the why's and wherefore's of banker reaction to changes in reserve requirements are not revealed by the measures of response presented here—they lie in the numerous economic, sociological, and psychological factors peculiar to a given situation. No attempt will be made in this article to present the findings of the study as to the influences in 1953 and 1954 which caused the variations in response shown here.

One of the principal measures of member banks' response to reductions in reserve requirements is the level of excess reserves maintained relative to deposits subject to reserves. The ratio of excess reserves to deposits is used because it is normally expected that the dollar amount of excess reserves will vary among and within banks according to the volume of transactions, one measure of which is the level of deposits. Thus, a change in the dollar amount of excess reserves held may not in and of itself indicate the employment or lack of employment of additional excess funds made available, while a change in the relationship between excess reserve funds held and deposits will indicate action taken as a result of the changed requirements.

Table 1 shows the relationship between excess reserves and deposits subject to reserves for five semi-monthly periods before and after the reductions in requirements in 1953 and 1954. The table reveals that Fifth District member banks maintained larger excess reserves relative to deposits in all the periods shown than all member banks in the nation as a whole. It also shows that District member banks did not employ quite all of the reserve funds freed by a reduction in requirements, and consequently maintained a higher volume of excess reserves relative to deposits after the reduction than before.

TABLE 1*
EXCESS RESERVES AS A PERCENTAGE OF DEPOSITS SUBJECT TO RESERVES
Before and After the 1953 and 1954 Reductions in Requirements

Half month period ending	1953		1954	
	All member banks	Fifth District member banks	All member banks	Fifth District member banks
Apr. 15			.5108	.9393
Apr. 30	.4184	.6676	.6665	.8882
May 15	.4538	.7963	.5477	1.0128
May 31	.4920	.7112	.5471	.7303
June 15	.5360	.9400	.6478	1.0911
June 30	.7144	.9182		
Average	.5229	.8067	.5840	.9323
July 31	.4677	.8337		
Aug. 15	.5109	1.0564	.6915	1.1244
Aug. 31	.4862	.7809	.5664	.8860
Sep. 15	.5314	1.1031	.5901	1.0578
Sep. 30	.5800	.8776	.5664	.9451
Oct. 15			.5407	1.0684
Average	.5152	.9303	.5910	1.0163

Table 1 further shows that for all member banks in the United States the variation in relative excess reserve holdings from period to period was much smaller than for Fifth District member banks. There were

*The above summarization is adapted from the more comprehensive study by Dr. Robert P. Black entitled *An Analysis of the Impacts of the 1953 and 1954 Reductions in Federal Reserve Member Bank Reserve Requirements* which was developed as a project of the Federal Reserve Bank of Richmond and presented as a doctoral dissertation to the University of Virginia in June 1955.

*See cover chart for the effective dates of the 1953 and 1954 reductions in reserve requirements.

considerable differences in the responses of the individual Fifth District member banks. Generally, those banks holding low percentages of excess reserves before the reduction in requirements also held low percentages after the reduction. Also, they responded more quickly to the change in requirements and kept their excess reserve percentages more stable. Those holding higher percentages of excess reserves responded less quickly and allowed wider fluctuations in their excess reserves.

Tables 2 and 3 highlight the differences in response to reserve requirement reductions among banks of different deposit size. Very similar patterns prevailed in both 1953 and 1954. The large banks (deposits over $75 million) with few exceptions maintained excess reserves at less than 1% of deposits subject to reserve requirements. Small banks (deposits less than $10 million) on the average maintained excess reserves equal

TABLE 2

AVERAGE EXCESS RESERVES HELD BY FIFTH DISTRICT MEMBER BANKS

Before and After the 1953 Reduction in Reserve Requirements

Excess reserves as a percentage of deposits subject to reserves	Number of Banks by Deposit Size					
	Over $75 million		$10-$75 million		Less than $10 million	
	Before reduction	After reduction	Before reduction	After reduction	Before reduction	After reduction
Less than .3	5	8	14	12	30	23
.3-1.0	8	6	42	32	112	88
1.0-2.0	2	1	21	28	97	93
2.0-4.0	1	1	9	10	89	106
4.0-6.0	0	0	0	4	26	36
6.0 and over	0	0	0	0	20	28
Totals	16	16	86	86	374	374

to from 1% to 4% of deposits. Most of the medium-sized banks kept their excess reserves under 2% of deposits.

The difference in the response of each of the three size groups of banks is also apparent in Tables 2 and 3. The large banks tended to reduce excess reserves relative to deposits after the reduction in requirements,

TABLE 3

AVERAGE EXCESS RESERVES HELD BY FIFTH DISTRICT MEMBER BANKS

Before and After the 1954 Reduction in Reserve Requirements

Excess reserves as a percentage of deposits subject to reserves	Number of Banks by Deposit Size					
	Over $75 million		$10-$75 million		Less than $10 million	
	Before reduction	After reduction	Before reduction	After reduction	Before reduction	After reduction
Less than .3	6	11	17	12	27	16
.3-1.0	7	4	36	34	116	80
1.0-2.0	2	0	17	24	91	102
2.0-4.0	1	1	12	7	87	93
4.0-6.0	0	0	3	8	32	48
6.0 and over	0	0	1	1	25	39
Totals	16	16	86	86	378	378

whereas the smaller banks tended to permit them to climb moderately relative to deposits. This difference in reaction to reduced reserve requirements is further illustrated by Table 4, which shows the extent to which changes in the ratio of excess reserves to deposits were permitted within the three deposit-size groups of banks. The large banks after both the 1953 and the 1954 reduction in requirements reduced their average holdings of excess reserves relative to deposits. That is to say, these banks tended to employ their excess funds more vigorously after the reduction than before. The medium-size banks were fairly evenly divided in their responses. About half reduced their excess reserves relative to deposits while the other half increased this ratio. In the small-bank group, however, almost two-thirds of the banks permitted their holdings of excess reserves to increase relative to deposits.

TABLE 4

CHANGES IN EXCESS RESERVES HELD BY FIFTH DISTRICT MEMBER BANKS

Because of the 1953 and 1954 Reductions in Reserve Requirements

Change in the percentage of excess reserves to deposits subject to reserves	Number of Banks by Deposit Size					
	Over $75 million		$10-$75 million		Less than $10 million	
	1953	1954	1953	1954	1953	1954
—1.0 and over	1	0	2	7	28	32
—1.0 - — .5	1	0	4	7	29	33
— .5 - — .1	8	9	27	21	61	60
— .1 - + .1	3	5	15	19	40	38
+ .1 - + .5	1	2	17	16	68	68
+ .5 - +1.0	1	0	11	8	56	63
+1.0 - +2.0	1	0	6	6	50	40
+2.0 and over	0	0	4	2	42	44
Totals	16	16	86	86	374	378

The length of time it takes member banks to respond to a change in reserve requirements is another important facet to this banking problem—and one particularly important to the Federal Reserve System since it has the responsibility for contributing to the maintenance of credit conditions which promote orderly economic growth and stability in the purchasing power of the dollar. The length of time it takes for member banks to respond to changes in requirements will have a vital bearing on the timing and the extent of the changes needed to produce a given effect.

Table 5 depicts the speed of response of Fifth District member banks to the reductions in reserve requirements in 1953 and 1954. In the case of the large banks, three-fourths had reduced their excess reserves as a percentage of deposits subject to reserves to or below the level existing before the change by the end of the second

period. Nearly all of those remaining had completed their adjustments by the end of the third period. In contrast, a substantial number of the medium- and small-size banks did not achieve their prereduction relationship between excess reserves and deposits in any of the five periods analyzed. Table 5 further indicates that the medium- and small-size banks responded more quickly to the reduction in reserve requirements in 1953

TABLE 5

SPEED OF RESPONSE OF FIFTH DISTRICT MEMBER BANKS to the 1953 and 1954 Reductions in Reserve Requirements

Semi-monthly periods following reduction in requirements	Number of Banks by Deposit Size					
	Over $75 million		$10-$75 million		Less than $10 million	
	1953	1954	1953	1954	1953	1954
1st period	4	5	28	19	98	62
1st and 2nd period	6	7	18	13	58	48
1st, 2nd, 3rd period and later	2	3	5	20	28	68
2nd period	3	0	12	8	38	11
2nd, 3rd period, and later	0	0	2	5	10	27
3rd period and later	0	0	4	3	12	14
No response in the 5 periods studied	1	1	17	18	130	148
Totals	16	16	86	86	374	378

than to the reduction in 1954. Of the small banks, over half had completed their adjustments by the end of the second period after the reduction in 1953, while just over a third had completed their adjustments in the same length of time after the 1954 reduction. A similar pattern prevailed among the medium-size banks.

There still remains the question of how the released funds were employed. Were they used to expand the money supply through the making of loans or the purchasing of securities, or were they used in some manner which did not affect the privately held money supply and, consequently, did not contribute to a stimulation of economic activities?

TABLE 6

EXTENT OF CHANGE IN CORRESPONDENT BALANCES Following the 1953 and 1954 Reductions in Reserve Requirements

Change as a percentage of available funds	Number of Banks by Deposit Size					
	Over $75 million		$10-$75 million		Less than $10 million	
	1953	1954	1953	1954	1953	1954
Less than 0%	8	4	24	14	47	26
0% - 15%	4	7	8	40	62	128
15% - 50%	4	3	25	13	83	86
Over 50%	0	2	29	19	182	138
Totals	16	16	86	86	374	378

One use to which member banks may put excess funds which will not directly affect private business activity is the repayment of borrowings from the Reserve banks. In this District, however, repayments to the Federal Reserve Bank did not account for a significant portion of the funds freed by reductions in requirements. Another use of excess funds which will not affect economic conditions locally is the building up of correspondent balances with other banks. True, these other banks will then be in possession of excess reserve funds which they can use to increase their earning assets. Generally, however, the banks receiving these reserve funds will be outside the area of the banks which realized them as a result of the reduction in requirements. The building up of correspondent balances, therefore, becomes an important element in the analysis of member bank responses to reductions in reserve requirements and, accordingly, has been included in this study.

Table 6 shows the extent to which changes in correspondent balances followed the 1953 and 1954 reductions in reserve requirements. The table shows that many more of the smaller banks put a significant portion of their freed funds into correspondent balances than did the larger banks. After the 1953 reduction in requirements, almost half of the banks with deposits of less than $10 million increased their correspondent balances by amounts equal to 50% or more of their freed funds. After the 1954 reduction, almost a third of these smaller banks followed this pattern.

Conclusions

On the basis of this evidence, the conclusion must be that the banks tend to respond in the manner predicted by conventional banking theory even though variations in the practices of individual banks are to be found. The implication seems to be that most banks consider the holding of reserves at the Federal Reserve Bank in excess of those required by law as highly undesirable, and they endeavor to keep them as low as possible. This is not to say that all banks should keep excess reserves at the lowest level, for banks differ widely in their activities and have varying needs for cash. It is also possible in some cases that the cost of such close supervision of the reserve position would exceed the added income that would result from fuller utilization of bank funds. Nevertheless, individual banks might well benefit by comparing their own management practices with those of other similarly situated banks.

Interim Financing of Real Estate Mortgages

WHENEVER the outlook for residential construction is discussed the availability and terms of mortgage funds become the pivot upon which the future hinges. Since only a very small percentage of our population is able to finance home purchases from their own current means, the availability and terms of credit become a primary element in the demand for housing. The terms of credit are readily recognized as affecting the willingness to purchase a home—the size of the initial cash outlay and of the monthly cash payment are directly related to them. But the willingness of lenders to place the funds at the home buyers' disposal is frequently overlooked as a factor of equal importance in the housing demand.

Willingness or unwillingness of lenders to put money into mortgage loans affects the mortgage credit picture in many ways. Their attitude may alter the interest cost to the borrower or the imposition of certain fees sometimes charged the builder or the borrower. It may change the maturity terms of loans currently being made or it may affect the equity the home buyer is expected to have in his property. In short, the availability of funds and the terms under which they are offered are so intertwined as to defy logical separation. Availability, however, has another facet which frequently goes unnoticed until some unusual development calls attention to it: It sometimes affects the mechanics of lending—and, in turn, the mechanics of lending may at times affect the availability of funds.

The making of a mortgage loan is usually regarded as a transaction between the lender and the home buyer. The individual walks into his bank, a savings and loan association, or an insurance company office and arranges directly for the financing of his home. This is common procedure but for years a substantial amount of residential mortgage loans has been made by intermediaries who, acting under prearranged commitments from the ultimate lenders, make the loans and then, according to the commitment, pass them on to other lenders. The principal type of intermediary in this field is the mortgage company which depends to a great extent upon short-term borrowing of funds, primarily from commercial banks. Making an average real estate mortgage loan is a time consuming process, and generally arrangements for payment to the account of the borrower must be made some weeks before the ultimate lender is willing to take up the loan and make payment to the mortgage company. Conventionally, the mortgage company bridges the gap between his payment to the account of the borrower and the ultimate lender's payment to him by borrowing from his commercial bank for a period of from two to six weeks. The technique, generally, is to borrow from the bank on the mortgage company's own note secured by mortgage loans in the final stages of completion or by other collateral. Thus, the short-term credit of banks enters the availability picture.

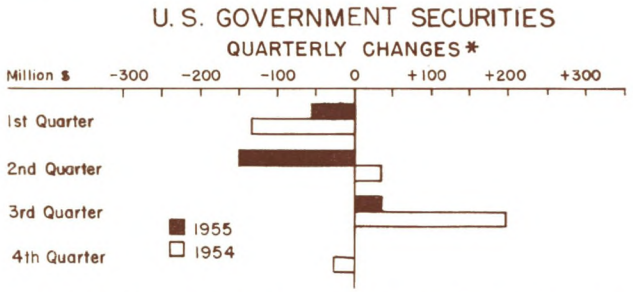
Surveys of the larger commercial banks in the Fifth District (banks accounting for a preponderant share of loans to real estate mortgage lenders) as of August 10, 1955 and November 16, 1955, reveal this to be currently the most important method of interim financing of mortgage loans. The surveys reveal that this method of introducing short-term commercial bank credit between the individual borrower and the ultimate lender of mortgage funds was used to a much greater extent in the late Summer and Fall of 1955 than at the same time last year. Total short-term borrowing for this purpose from the commercial banks in the survey almost doubled from late 1954 to late 1955. Furthermore, considerably larger amounts were borrowed in 1955 than in 1954 from financial institutions other than mortgage companies. Insurance companies borrowed sizeable sums from commercial banks on their own notes secured by mortgage loans. Savings and loan associations were also heavy borrowers in 1955, but their notes were either unsecured or secured by collateral other than mortgage loans. Mortgage companies, however, accounted for approximately 75% of this sort of interim financing of mortgage lending in both 1954 and 1955.

In addition to the increased use of this well established means of financing the flow of mortgage funds from ultimate lenders to home buyers, another interim financing technique also saw intensified use during 1955. This technique is called the repurchase agreement, or in popular jargon, the "warehousing" of mortgage loans. Under this scheme the lender needing short-term funds to bridge the gap between the making of a mortgage loan and its permanent disposition, sells his mortgage loans to a commercial bank under an agreement permitting repurchase within some specified period. Mortgage companies have used this type of interim financing for some time but made no greater use of it in 1955 than in 1954. Intensified use of this method came almost entirely from insurance companies, although some savings and loan associations also employed it. In addition to greater use of the repurchase agreement in 1955, the period for repurchase was also lengthened, running from a year to eighteen months or more. This represents a new development in that it goes beyond the time consuming, interim technicalities in mortgage lending; in effect it is commiting future funds (from normal income sources or from repayments) to the purchase of mortgage loans. As a result, availability of funds for mortgage lending has been increased in 1955 beyond what would normally have come from the income of financial institutions and current repayments. This development has been questioned because, first, of the inflation potential in newly created bank credit in the current mortgage picture, and, second, the possible effects on future availability of mortgage money.

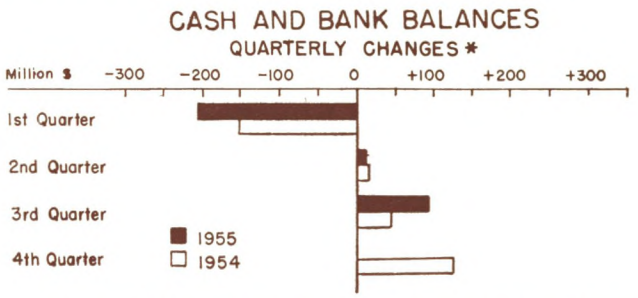
October Call Report

Fifth District member banks held $7,889 million in total resources on October 5, 1955, a record amount for the District. This was an increase of $52 million over the close of 1954, but just a little more than a third of the increase which took place in the corresponding period last year. The accompanying charts show quarterly* changes in principal asset and liability accounts of member banks for 1955 and 1954.

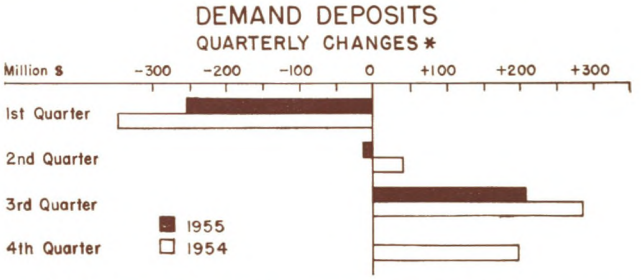
At $2,942 million on October 5, 1955, net loans of District member banks were at a new high, 11.4% above year-end 1954 and 15% above the comparable date a year ago. While the largest share of this year's increase took place in the second quarter of 1955, total loans advanced 3.5% from June 30 to October 5. This third quarter increase was principally attributable to a seasonal rise of 5.3% in commercial and industrial loans and a continued demand for consumer loans which showed only a slightly slower rate of increase than during the second quarter. Real estate loans, which advanced over 4% in the second quarter of 1955, increased only 1.8% during the third quarter. Agricultural loans dropped appreciably in the third quarter.



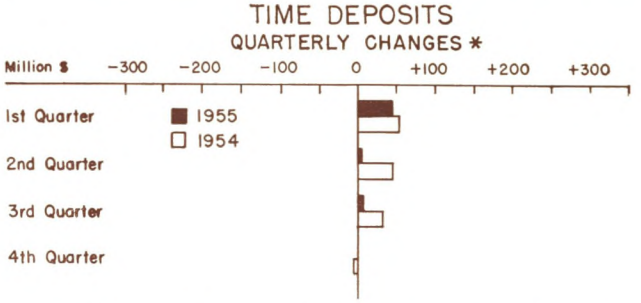
District member banks reduced their holdings of United States Government securities by 6% from the close of 1954 to October 5, 1955. Accounting principally for the drop was an 80% decline in holdings of Treasury certificates of indebtedness and declines in bonds of five years or less and in Treasury bills. Treasury bill holdings declined to June 30 this year but rose appreciably in the third quarter. Short-term bonds also dropped in the first six months of the year and rose after mid-year. Holdings of long-term marketable bonds increased steadily during the current year.



Cash and bank balances at District member banks declined $100 million from year-end 1954 to October 5, 1955; in the comparable period last year the decline was $89 million. Fluctuations in the two years followed a similar pattern—a sharp decline in the first quarter and rises in the second and third quarters. Reserve balances with the Federal Reserve Bank dropped $23 million in the current year as a result of an $83 million decline in the first six months and an increase of $60 million in the third quarter. These reserves declined $8.7 million in the first three quarters of 1954.



District member banks experienced a decline in total demand deposits of $58 million over the first three quarters this year, as compared with a $22 million decline in the same period last year. The current year's loss was chiefly due to reductions in interbank and U. S. Government deposits. Deposits of individuals,



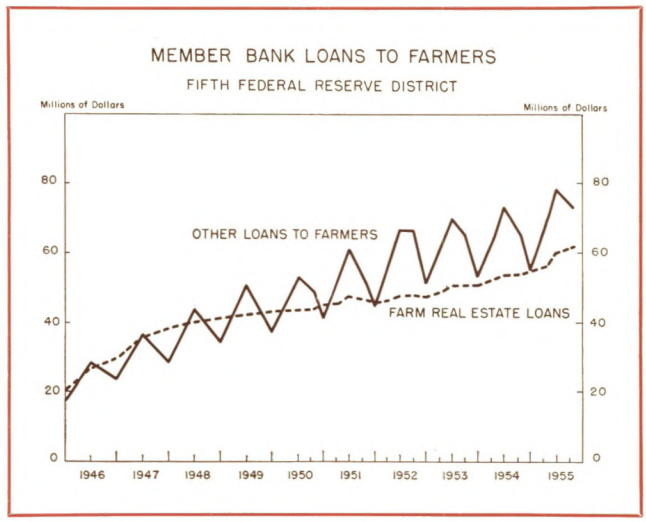
partnerships, and corporations, which declined moderately to June 30, rose in the third quarter to bring their total outstanding slightly above the amount held at the close of 1954.

*Based on quarterly call reports.

Bank Loans To Farmers Increase

FIFTH DISTRICT farmers have found the 1955 crop one of the most expensive they have ever produced. The prices of things they have had to buy in many cases have been at or near record levels, and many have bought larger quantities of some of the items used in farm production. Because of the severe drought in 1954, many farmers in affected areas were faced with heavier than usual expenditures for feed in early 1955. Farm labor continues to be an expensive item on many farms, and there have been frequent reports of forced mechanization because of the general scarcity and high cost of farm labor. Where they were already mechanized, many shifted to larger machinery. These have been the major factors causing Fifth District farmers to increase their total borrowings in 1955.

As of June 30 of this year the volume of non-real-estate loans to farmers by all operating banks in the District was 7% above the corresponding level in 1954 while Production Credit Association loans were up 4%. Farm-mortgage loans of all banks in the District increased 11% during the year ended June 30, 1955. Corresponding data for other institutional lenders are not presently available. Relationships of current loan levels to those in earlier years are illustrated in the accompanying chart which portrays farm loans of member banks of the Federal Reserve System.



Weather: A Key to Current Developments

One of the dominating forces in the current farm financial situation is weather. In large parts of the District farm production was seriously reduced by drought in 1954, and for some areas it was the second or third consecutive year of dry weather. Diminished incomes, associated in part with the drought, led many farmers to carry forward into 1955 debts that would otherwise have been repaid. Continued high operating expenses and the frequent need to make additional capital investment to improve or enlarge their farms, or to buy additional machinery to increase productive efficiency, forced many farmers to go further into debt to produce the 1955 crop. Furthermore, some farmers who had not previously borrowed found themselves in need of bank credit to tide them over the drought period or to make the larger capital investments they considered necessary.

Fortunately, both for the affected farmers and the banks and other credit institutions which "stuck with" their customers in this adverse period, most of the areas which suffered from drought in 1954 and other recent years had good growing weather in 1955. Two examples will illustrate the benefits of 1955's better weather, although it is recognized that other factors were also involved. Flue-cured tobacco acreage was reduced 5% in 1955, but estimated production is up 15%. Cotton acreage was cut 14%, but production is estimated to be up 8%. These crops customarily account for about 25% and 10% respectively of the District's cash returns from farm marketings. Tobacco prices are such that 1955 income from that crop will be appreciably higher than in 1954 and, even with the lower level of prices for cotton and cottonseed, income from the crop should be close to 1954 levels despite the sharp cut in 1955 acreage allotments. The principal areas experiencing severe financial problems this year are the fruit sections which lost their crop because of the late Spring freeze and the areas which suffered extensive damage from the hurricanes this past Summer.

Cost-Price Squeeze Continues

Pressures are being put on farmers by the interaction of generally sustained—or higher—prices for many of the things they buy and lower prices for some of the items they sell. Reports from many parts of the District reveal that these forces are lowering farmers' net incomes and to some extent weakening their financial position. This trend, coupled with drought-curtailed income in past years, has caused short-term debts of many farmers to accumulate. Some farmers are coping with this situation by refinancing part or all of their debt in the form of a farm-mortgage loan, thus spreading repayments over a longer period. This trend apparently is continuing in most parts of the District, except in the flue-cured tobacco areas which are experiencing sharply higher incomes this year and where many farmers are able to retire some or all of their debt carried over from previous years.

Business Conditions and Prospects

THE economy of the Fifth District was clearly on the upside during October with a few adverse factors shown, for example, in certain segments of construction and in a minor dip in department store sales. Attesting to the rapid economic pace are the bank debit figures —up a cool billion dollars, or 17%, in October, over October a year ago. All but one of 27 reporting cities showed plus-signs of 5 to 30%. Man-hours in District manufacturing were at an all-time high in September and, based on operations in Virginia, West Virginia and the Carolinas, it appears that further expansion took place in October.

Contract awards for new construction rebounded sharply in October after having been in a downward trend much of the year, and awards were the third best on record. Output of the District's mines continued to rise, highlighted by a 3% increase in average daily production of bituminous coal during the month. Business failures continued to shrink, the employment level continued to rise, and unemployment continued to fall —in fact, reaching a level lower than at any time in 1953.

The trade level, while high, exhibited mixed trends in October, with furniture store and household appliance store sales showing increases from September (seasonally adjusted basis) while department stores (also adjusted) showed a decline of 1%. Based on three states in the District and the District of Columbia, new passenger automobile registrations in October were down 13% from September. Whether this is more or less than seasonal is debatable.

Bank loans to commercial, industrial and agricultural borrowers continued to rise sharply, but the rate of increase in these loans was exceeded in the "other" loans category (largely consumer loans) while real estate loans have given some indication of leveling off.

Construction

Construction has obviously been an important bulwark to the District economy for some time. Adjusted contract awards, in a downward trend since the end of 1954, rose substantially during October as a result of a 169% increase in awards for factory buildings, a 17% increase in one- and two-family houses, and a 3% increase in public works and utilities awards. Partial offsets were the 68% drop in awards for apartments and hotels and a 42% decline in commercial construction awards. Total contract awards during the month were 15% higher than the previous month after seasonal correction.

Total awards were 7% smaller than a year ago—a decline caused by a 60% shrinkage in awards for apartments and hotels, and a 38% decline in public works construction. These declines were not offset by the 17% increase in commercial awards, 59% increase in factory awards, and a 17% increase in one- and two-family houses.

For the first ten months of 1955 nonresidential contract awards in the Fifth District were 45% higher than a year earlier, compared with an increase of 20% in thirty-seven eastern states. Residential awards were up 29% in the District, compared with a gain of 24% in the thirty-seven states. Public works and utilities awards were up 19% in the District, compared with an increase of 20% for the thirty-seven states. The chief difference between the District and the thirty-seven eastern states was in the nonresidential area. Commercial awards in the District were 72% higher in the first ten months compared with a year ago; in the thirty-seven state area the increase was 32%. Factory awards in this period were up 82% in the District and 43% in the thirty-seven states.

Trade

Adjusted department store sales in October slipped 1% from September but remained 7% ahead of October last year. For the first ten months the increase was 9%. Women's and misses' coats and suits and domestic floor coverings showed good gains over a year ago. Men's clothing, however, fell below last year's levels and furniture in department stores failed to show gains commensurate with furniture store sales. Instalment sales showed about twice the increase over a year ago as total store sales, and instalment receivables were 21% higher than last year, compared with open book accounts up 8%.

Three Fifth District states and the District of Columbia showed October new passenger automobile registrations down 13% from September but a sharp 53% higher than a year ago. Virginia, North Carolina and the District of Columbia showed declines of 11% during the month. One state showed a 24% decline. New commercial car registrations for these same states were off 11% in October from September, with Virginia, West Virginia and North Carolina down from 8% to 20%, and the District of Columbia up 119%.

Retail furniture stores showed an October increase in adjusted sales of 13% from September to a level 14% ahead of a year ago. The first ten months of the year increased 15%. Cash and credit sales each rose about the same percentage during the month, but relative to a year ago cash sales were up 3% and credit sales up 15%. Furniture store inventories (adjusted) rose 2% from September to October and relative to a year ago were up 2%.

Sales of household appliance stores in the District rose 9% from September to October without seasonal correction to a level 17% ahead of a year ago. Sales

of these stores in the first ten months of 1955 were 13% higher than in that period last year.

New information on ten groups of independent retail stores for September indicate this District had the fourth largest gain in total retail sales over a year ago of any of the Federal Reserve Districts. Here the 13.8% gain included increases in all categories except food stores, where a decline of 1.5% was shown.

The general impression has been that automotive establishments have been the bellwether in the trade field this year. September figures indicate the gain over last year was 37.4%. Closely following were the apparel trades and the lumber, building and hardware group. Apparel sales rose 19.2% and the lumber, building and hardware group 19.4%. These were the only groups above the District average increase of 13.8%. Sales of furniture and appliances were up 11.3%, general merchandise 8.9%, gasoline service stations 8.2%, eating and drinking establishments and the miscellaneous list of retailers each up 5.8%, while drug and proprietary stores rose 3.1%.

Manufacturing

Man-hours expended in factories of the Fifth District reached an all-time high in September, 2.6% above August and 8.2% above a year ago. Durable goods industries showed gains of 1.8% over August and 12.1% over September last year, while nondurable goods industries rose 3.1% during September to a level 6.1% ahead of a year earlier.

Based on all states of the District except Maryland, the rising trend of industrial activity continued in October. These states showed increases of 1.3% over September and 7.7% over a year ago. The bulk of the month's increase came in the nondurable goods industries, where a rise of 1.8% was recorded compared with an increase in the durable goods industries of 0.3%. Man-hours in the durable goods industries, however, were 11.2% higher than a year ago compared with an increase of 6.3% in nondurable goods industries.

The September-October rise in nondurable goods industries was aided by seasonal forces—tobacco manufacturing was up 5.0%, knitting mills 4.4%, and apparel 2.2%. Contrary to normal seasonal trend, food and kindred products manufacturing rose 2.6% during the month; gains in Virginia and West Virginia more than offset losses in North Carolina and South Carolina. Broad woven fabric mills showed an increase during the month of 1.3%. The yarn and thread mills held at the September level but a small gain in North Carolina offset a loss in South Carolina. Paper and chemical industries held steady during the month.

Durable goods industries for the most part showed further small increases in man-hours between September and October, but the stone, clay, glass and transportation equipment industries declined.

The textile industry of the District is consuming more cotton—there was a 3% rise on an adjusted basis from September to October which in turn was 6% ahead of October 1954, the highest month of that year. In the first ten months of this year, cotton consumption ran 8% above the same months of 1954.

Forward sales of cotton goods have broadened considerably with most construction pretty well sold for the first quarter of 1956. Yarn spinners' books are pretty well filled through February.

Banking

Loans and investments of Fifth District member banks rose $76 million in the month to October 26. Forty-four million of this increase was accounted for by holdings of United States Government obligations, $13 million by other securities, and $19 million in loans and discounts.

Member banks' reserve accounts increased $44 million during the month and total deposits were up $123 million, with time deposits up $5 million and demand deposits up $118 million. Borrowings from the Federal Reserve Bank rose $38 million, but indebtedness to others declined $20 million.

Demand for business and consumer credit as indicated in the weekly reporting series continued to advance well into November at the rapid rate characteristic of most of this year. Real estate loans, however, have exhibited a much slower pace since Summer.

The book *Flow of Funds in the United States, 1939-1953* is now available from the Board of Governors of the Federal Reserve System. Concerned primarily with the structure of the flow-of-funds accounting system, the book also gives estimates of the amount of financial assets owned and debts owed, as well as a description of the relationship of the flow-of-funds accounts to the national income accounts and other general statistical concepts. The price is $2.75.

FIFTH DISTRICT STATISTICAL DATA

FURNITURE SALES*

(Based on Dollar Value)

STATES	Percentage change with corresponding period a year ago: Oct. 1955	10 Mos. 1955
Maryland	+ 1	+ 3
Dist. of Columbia	+ 4	+10
Virginia	+20	+ 9
West Virginia	+31	+26
North Carolina	+12	+13
South Carolina	— 6	+12
District	+ 8	+11
INDIVIDUAL CITIES		
Baltimore, Md.	+ 1	+ 3
Washington, D. C.	+ 4	+10
Richmond, Va.	+16	+10
Charleston, W. Va.	+29	+26
Greenville, S. C.	—20	+ 7

*Data from furniture departments of department stores as well as furniture stores.

WHOLESALE TRADE

LINES	Sales in Oct. 1955 compared with Oct. 1954	Sales in Oct. 1955 compared with Sept. 1955	Stocks on Oct. 31, 1955 compared with Oct. 31, 1954	Stocks on Oct. 31, 1955 compared with Sept. 30, 1955
Auto supplies	+32	+12	+14	— 1
Electrical, electronic and appliance goods	+ 5	— 6	+ 7	+ 7
Hardware, plumbing and heating goods	+13	+ 5	NA	NA
Machinery equipment supplies	+15	— 3	+10	+ 1
Drugs, chemicals, allied products	+12	— 6	+13	+ 3
Dry goods	NA	NA	NA	NA
Grocery, confectionery, meats	— 7	0	—14	— 5
Paper and its products	+ 2	— 8	NA	NA
Tobacco products	+ 2	— 2	—23	—50
Miscellaneous	+ 7	—17	+ 5	+ 3
District Total	+ 9	—10	+ 5	— 1

NA Not Available.

Source: Bureau of the Census, Department of Commerce.

DEPARTMENT STORE OPERATIONS

(Figures show percentage changes)

	Rich.	Balt.	Wash.	Other Cities	Dist. Total
Sales, Oct. '55 vs Oct. '54	+11	+ 4	+ 8	+ 8	+ 8
Sales, 10 Mos. ending Oct. 31, '55 vs 10 Mos. ending Oct. 31, '54	+ 9	+ 5	+ 8	+10	+ 9
Stocks, Oct. 31, '55 vs '54	+ 6	+ 2	+ 8	+ 6	+ 6
Outstanding Orders Oct. 31, '55 vs '54	+16	+28	+28	+14	+24
Open account receivables Oct. 1, collected in Oct. '55	31.9	49.6	44.8	40.6	42.8
Instalment receivables Oct. 1, collected in Oct. '55	11.3	14.6	14.0	17.4	14.2

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, Oct. '55 vs Oct. '54	+ 4	+ 8	+ 9	+17	+13	+13

BUILDING PERMIT FIGURES

	Oct. 1955	Oct. 1954	10 Months 1955	10 Months 1954
Maryland				
Baltimore	$ 2,779,235	$16,867,688	$ 76,440,027	$ 66,507,993
Cumberland	43,025	37,825	1,211,161	608,676
Frederick	237,840	176,200	2,754,315	1,159,106
Hagerstown	118,426	290,715	2,004,806	2,598,484
Salisbury	152,484	137,600	1,703,218	1,391,251
Virginia				
Danville	332,429	103,618	5,320,085	2,532,824
Hampton	710,549	1,347,542	13,029,355	9,276,380
Hopewell	272,449	114,653	3,083,664	2,087,352
Lynchburg	1,213,445	256,555	8,696,143	8,427,997
Newport News	7,339,823	255,452	9,171,705	2,602,900
Norfolk	1,778,354	493,395	12,178,962	11,832,937
Petersburg	183,600	155,950	3,158,400	1,846,636
Portsmouth	628,403	271,830	4,309,478	5,768,263
Richmond	1,207,601	1,361,584	18,481,106	26,367,182
Roanoke	1,521,384	1,089,623	11,747,143	10,070,363
Staunton	684,365	592,890	2,969,810	2,059,040
Warwick	2,233,806	595,767	11,411,141	6,278,870
West Virginia				
Charleston	832,095	674,335	6,437,832	8,882,661
Clarksburg	71,310	84,335	1,638,297	1,790,227
Huntington	410,435	329,030	5,439,072	6,564,912
North Carolina				
Asheville	330,742	314,238	3,174,093	3,195,459
Charlotte	2,279,876	2,146,680	24,192,918	19,370,438
Durham	182,046	398,158	9,004,977	5,148,191
Greensboro	1,022,356	800,860	9,901,926	9,417,630
High Point	281,430	1,468,427	6,461,763	5,196,342
Raleigh	831,635	460,788	17,353,518	12,013,816
Rocky Mount	262,348	173,404	2,993,152	2,494,698
Salisbury	145,215	95,955	1,281,364	1,643,084
Wilson	410,225	120,000	3,984,471	2,433,950
Winston-Salem	1,418,976	1,584,680	11,817,003	11,042,334
South Carolina				
Charleston	199,276	177,293	2,839,516	2,609,558
Columbia	650,354	1,022,515	7,812,169	8,487,584
Greenville	481,070	853,074	6,445,070	6,937,374
Spartanburg	522,077	168,500	2,799,330	2,318,629
Dist. of Columbia				
Washington	5,358,335	4,184,593	63,779,768	47,050,037
District Totals	$37,127,019	$39,205,752	$375,026,758	$318,013,178

FIFTH DISTRICT INDEXES

Seasonally Adjusted: 1947-1949=100

	Oct. 1955	Sept. 1955	Oct. 1954	% Chg.—Latest Mo. Prev. Mo.	% Chg.—Latest Mo. Yr. Ago
New passenger car registration*	.....	201	110r	— 3	+61
Bank debits	172	168	149	+ 2	+15
Bituminous coal production*	103	100	89r	+ 3	+16
Construction contracts	278	241	299r	+15	— 7
Business failures—number	154	171	149	—10	+ 3
Cigarette production	.....	95	95	— 3	— 1
Cotton spindle hours	121	117	113	+ 3	+ 7
Department store sales	132	134r	123r	— 1	+ 7
Electrical power production	.....	187	171	— 5	+ 7
Manufacturing employment*	.....	113	108	+ 2	+ 6
Furniture store sales	122	108r	107	+13	+14
Life insurance sales	203	202	167	0	+22

* Not seasonally adjusted.

r Revised.

Back figures available on request.

FIFTH DISTRICT BANKING STATISTICS

DEBITS TO DEMAND DEPOSIT ACCOUNTS*

(000 omitted)

	Oct. 1955	Oct. 1954	10 Months 1955	10 Months 1954
Dist. of Columbia				
Washington	$1,346,583	$1,176,997	$13,449,518	$11,597,149
Maryland				
Baltimore	1,618,408	1,373,534	15,723,313	14,186,089
Cumberland	25,878	23,756	257,458	237,511
Frederick	24,950	22,030	238,348	223,156
Hagerstown	45,267	37,079	439,328	360,631
Salisbury**	35,408	33,381	341,209	330,694
Total 4 Cities	1,714,503	1,456,399	16,658,447	15,007,387
North Carolina				
Asheville	72,628	62,596	680,041	618,610
Charlotte	462,173	362,264	4,165,063	3,509,369
Durham	120,772	116,983	882,033	965,675
Greensboro	163,869	133,359	1,506,922	1,201,807
High Point**	46,907	46,375	498,218	427,764
Kinston	57,012	55,537	304,770	283,301
Raleigh	257,164	214,577	2,225,897	1,912,057
Wilmington	55,373	49,688	530,210	472,374
Wilson	74,955	91,123	316,315	314,317
Winston-Salem	226,927	184,312	1,784,657	1,544,814
Total 9 Cities	1,490,873	1,270,439	12,395,908	10,822,324
South Carolina				
Charleston	93,255	73,982	856,837	736,978
Columbia	188,978	179,864	1,817,252	1,663,898
Greenville	143,240	130,366	1,291,996	1,111,246
Spartanburg	79,524	75,985	673,130	642,447
Total 4 Cities	504,997	460,197	4,639,215	4,154,569
Virginia				
Charlottesville	39,242	33,291	369,367	316,361
Danville	86,589	76,844	449,119	408,310
Lynchburg	64,164	49,611	557,958	491,583
Newport News	59,569	46,477	566,180	469,809
Norfolk	289,639	236,976	2,896,464	2,519,616
Portsmouth	35,324	32,806	357,394	320,999
Richmond	847,026	694,597	6,836,917	6,164,609
Roanoke	152,338	122,003	1,339,448	1,166,345
Total 8 Cities	1,573,891	1,292,605	13,372,847	11,857,632
West Virginia				
Bluefield	49,348	38,105	453,205	383,817
Charleston	169,477	163,185	1,683,610	1,656,600
Clarksburg	36,801	30,730	359,983	309,708
Huntington	75,630	73,326	727,864	685,084
Parkersburg	35,003	30,278	329,507	298,967
Total 5 Cities	366,259	335,624	3,554,169	3,334,176
District Totals	$6,997,106	$5,992,261	$64,070,104	$56,773,237

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

WEEKLY REPORTING MEMBER BANKS

(000 omitted)

Items	Nov. 16, 1955	Changes in Amount from Oct. 12, 1955	Changes in Amount from Nov. 17, 1954
Total Loans	$1,740,590**	+ 17,851	+254,111
Bus. & Agric.	781,082	+ 7,637	+106,658
Real Estate Loans	337,138	+ 3,916	+ 43,240
All Other Loans	644,698	+ 6,418	+108,154
Total Security Holdings	1,728,986	+ 3,912	—195,024
U. S. Treasury Bills	60,644	— 11,407	— 49,765
U. S. Treasury Certificates	40,179	— 15,088	— 50,934
U. S. Treasury Notes	344,727	+ 13,141	— 5,501
U. S. Treasury Bonds	1,004,953	— 18,507	— 91,495
Other Bonds, Stocks & Secur	278,483	+ 35,773	+ 2,671
Cash Items in Process of Col.	393,044	— 17,428	+ 50,117
Due from Banks	190,252*	— 2,923	— 6,896
Currency and Coin	78,620	— 4,407	— 1,151
Reserve with F. R. Banks	568,567	+ 35,684	+ 7,250
Other Assets	69,301	+ 1,349	+ 5,967
Total Assets	$4,769,360	+ 34,038	+114,374
Total Demand Deposits	$3,605,357	+ 12,969	+ 58,290
Deposits of Individuals	2,652,436	— 10,645	+150,490
Deposits of U. S. Government	115,925	— 8,993	— 74,520
Deposits of State & Local Gov.	207,461	+ 12,226	+ 4,508
Deposits of Banks	549,423*	— 4,611	— 28,544
Certified & Officers' Checks	80,112	+ 24,992	+ 6,356
Total Time Deposits	738,508	— 8,524	+ 2,398
Deposits of Individuals	663,041	— 13,389	+ 11,386
Other Time Deposits	75,467	+ 4,865	— 8,988
Liabilities for Borrowed Money	48,250	+ 21,275	+ 33,950
All Other Liabilities	53,618	+ 5,639	— 3,335
Capital Accounts	323,627	+ 2,679	+ 23,071
Total Liabilities	$4,769,360	+ 34,038	+114,374

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

Monthly Review Index

For The Year 1955

FEDERAL RESERVE BANK OF RICHMOND

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