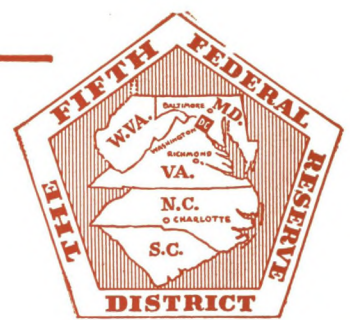
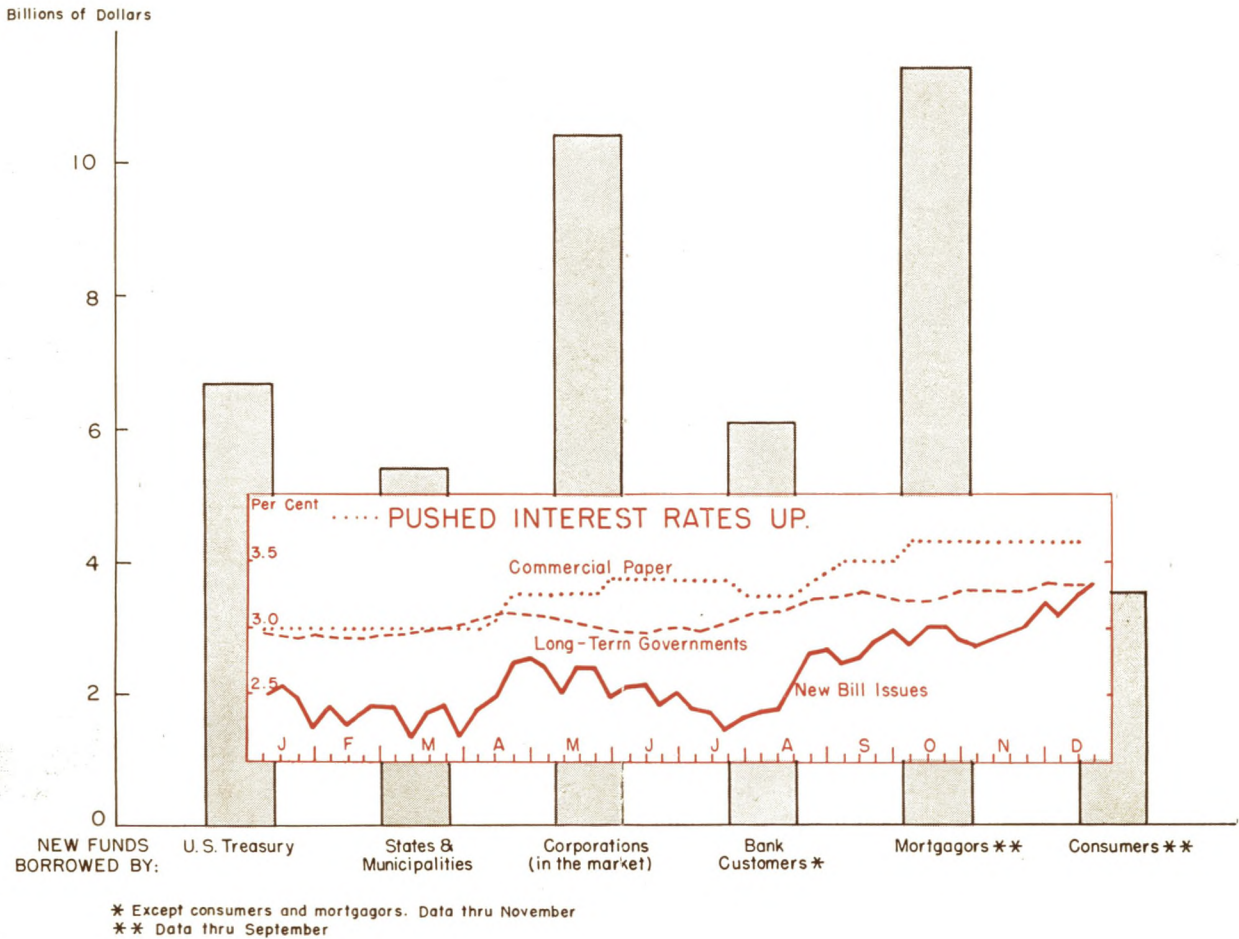


# Monthly Review



January 1957

## A HIGH DEMAND FOR CREDIT IN 1956 .....



Unusually strong credit demands in 1956 pushed the total of outstanding debt to record heights and, by pressing severely on a more slowly increasing supply of loanable funds, pushed up the cost of borrowing. The article on page 3 discusses financial developments during the year.

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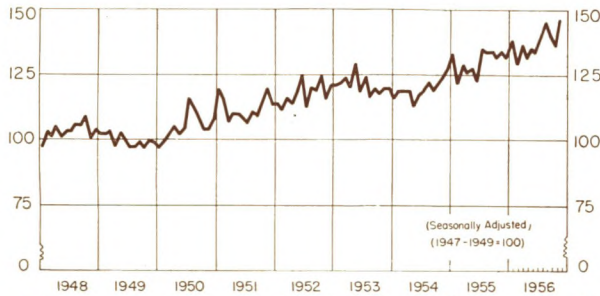
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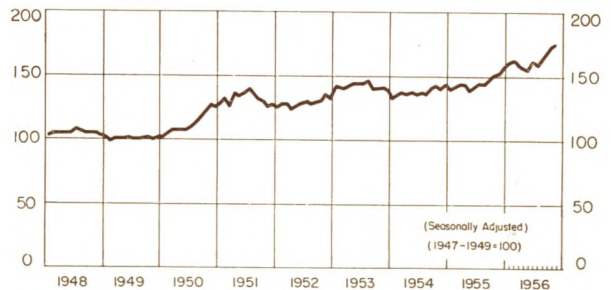
## FIFTH DISTRICT TRENDS

DEPARTMENT STORE SALES



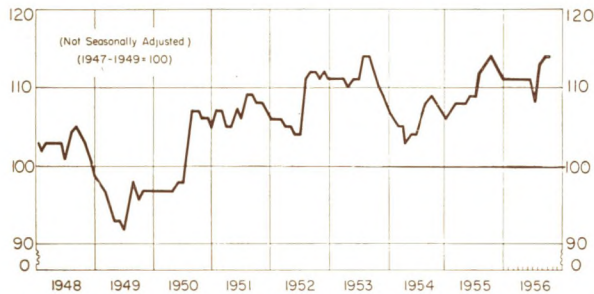
November sales of department stores set a new high record in this District by rising 7% on an adjusted basis from October to a point 8% ahead of a year ago. Early indications are that they did not hold this level in December.

DEPARTMENT STORE INVENTORIES



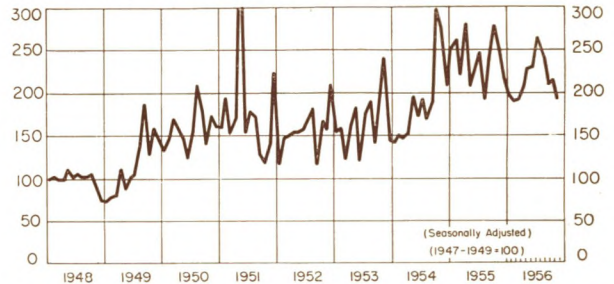
Department store inventories continued their upward move through November, gaining 1% over October (on an adjusted basis), to a new high level. November inventories were 14% higher than a year ago and somewhat out of line with respect to sales.

MANUFACTURING EMPLOYMENT



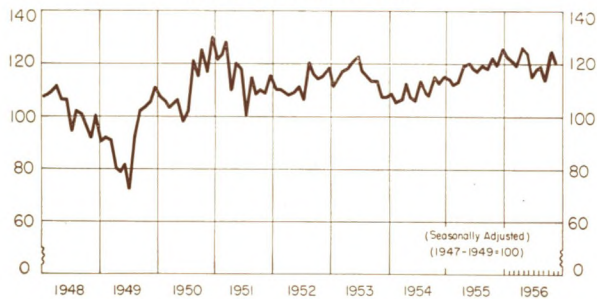
Manufacturing employment in the District during October for all states and the District of Columbia was 0.3% higher than in September and 0.4% higher than a year ago. The gain over a year ago was more than accounted for by rises in Maryland and Virginia. Losses occurred in West Virginia and the Carolinas and the District of Columbia was unchanged.

TOTAL CONSTRUCTION CONTRACT AWARDS



Offsets to a general decline in construction contract awards (adjusted) came in the commercial and factory areas. These gains, however, were insufficient to prevent an overall loss of 10% from October to November. The November total was down 25% from a year ago.

COTTON CONSUMPTION



The average daily adjusted level in the District during November was 6% under October and 1% under a year ago. The eleven months' accumulation was, however, 2% ahead of last year. Forward commitments for goods and yarns have continued on the slow side.

RETAIL FURNITURE STORE INVENTORIES



Furniture store inventories (seasonally corrected) at the end of November were off 2% from October and 2% under a year ago. This is in marked contrast with inventory trends in department store sales which have been accumulating for some time.



## Finance In 1956—High Pressure In the Money Markets

**T**HE economy was straining at the seams throughout 1956. Industrial production, in spite of the month-long steel strike, pushed up to new records in the Fall. Human resources (except for voluntary stoppages) were almost fully and continuously engaged and weekly earnings were at peak levels. Commercial and industrial construction, public works, and other investment plans made exceedingly heavy demands for capital funds. The level of business and consumer spending during the year provided the basis for the highest level of personal income yet reached. The strength of all these forces was reflected in capacity operations in many basic lines; and they exerted upward pressures on prices and reinforced claims for higher rates of pay.

Credit demands associated with this very high-level business activity were not completely matched by the supply of funds available and rising pressures developed in the financial markets. The magnitude of borrowers' demands for new funds is depicted in the chart on the cover and the inset indicates the general pattern of interest rates during the year.

The financial features of 1956 present many and varied contrasts with those of 1955, although they were fundamentally alike in that continuing pressure exerted on financial resources drove interest rates upward and beckoned for a policy of credit restraint by the Federal Reserve. Perhaps the most noticeable difference between the two years is found in the shifting demands for funds. Individual needs for home purchase and for consumer durable goods took the spotlight in 1955. Business demands for construction of commercial and industrial facilities and for machinery and equipment exerted the heaviest pressures in 1956.

Another striking difference is found in the intensity of the pressures in each of the years. The year 1955 began with a ready availability of funds, but carried over into 1956 with the main sources of credit supply under relatively high pressure. In contrast, the financial markets in 1956 began under pressure and lived with a steady intensification of this pressure throughout the year. The full column chart on the next page, presenting banking developments from 1954 through 1956, reveals this pattern of growing financial pressures.

Another variation on the comparison theme is found in changes in our active money supply. Demand deposits and currency held by the public increased about 3% in 1955. It is estimated that the increase in 1956 may be only about half that figure.

### The Demands for Funds

Corporations' demands for funds in 1956 greatly exceeded the unusually large amounts available from internal sources—profits, depreciation allowances, and reductions in cash and liquid asset holdings. Corporate treasurers went to the capital markets for approximately

\$10½ billion, almost a fifth more new capital than they raised with stock and bond issues in the rapid growth year of 1955. Their demand for bank credit also exceeded that in 1955.

Borrowers on mortgages had increased their indebtedness through September 1956 (the latest figure available) by \$1.1 billion less than in the same period in 1955. The smaller increase in mortgage debt in 1956 was caused by a slower rate of growth in that year than in 1955 in mortgages on one- to four-family houses, although in the nine-month period this form of indebtedness had increased by a hefty \$8.5 billion. Farm mortgage debt experienced exactly the same increase in both years, but mortgages on multi-family and commercial properties advanced \$2.3 billion in 1956, \$0.2 billion more than in the same period in 1955.

The residential mortgage market received considerable attention during the course of the year as increasing yields on alternative outlets for funds made FHA and VA mortgages (with their interest rate ceilings) less and less attractive. In response to the publicity given this area of the economy, several actions were taken during the year, first to strengthen demand and later to encourage lenders to make more funds available. Early in the year existing housing credit restrictions were modified by extending maximum permitted maturities. Later FHA removed from lower-priced housing the 2% down payment requirement which it had set in addition to its already established minimum of 5%. The stock subscription required of sellers of mortgages to FNMA was reduced in two steps from 3% to 1% of the outstanding balances of mortgages sold; and FNMA raised its standby commitment price from 92 to 94. Toward the end of the year, the FHA permitted maximum interest rate was increased from 4½% to 5%, and FNMA's purchase price for such mortgages was set near par.

Consumer instalment and single-payment loans outstanding rose by \$2.5 billion in the first nine months of 1956, just over half the increase in the same period in 1955. However, it will be remembered that there was much concern over the rapid advance of consumer loans in 1955, an advance partly induced by widespread easing of credit terms. In 1956, most consumer lenders held the majority of their loans to the more liberal standards reached in 1955 (on new automobiles, 30 months with from 1/3 to 1/4 equity) so that changing lending standards were not a major influence on the demand for this kind of credit. This consideration, coupled with the fact that repayments on existing debt were much higher in 1956 than in 1955, so that a higher level of new loans made was needed to push the total outstanding upward, indicates a relatively strong demand from consumers for credit during the year.



In addition to the high level private demand for credit, the United States Treasury and state and local governments came to the markets with heavy demands. States and municipalities issued \$5.4 billion of new securities, just 10% less than the \$6 billion issued in 1955. Actually, the demand in 1956 was greater than the \$5.4 billion figure indicates because many proposed issues were postponed either because of unsatisfactory rates or the necessary investment funds were not forthcoming at the rates adopted. In the last half of the year, the Treasury issued \$6.7 billion of securities for cash, all to be redeemed in the first half of 1957.

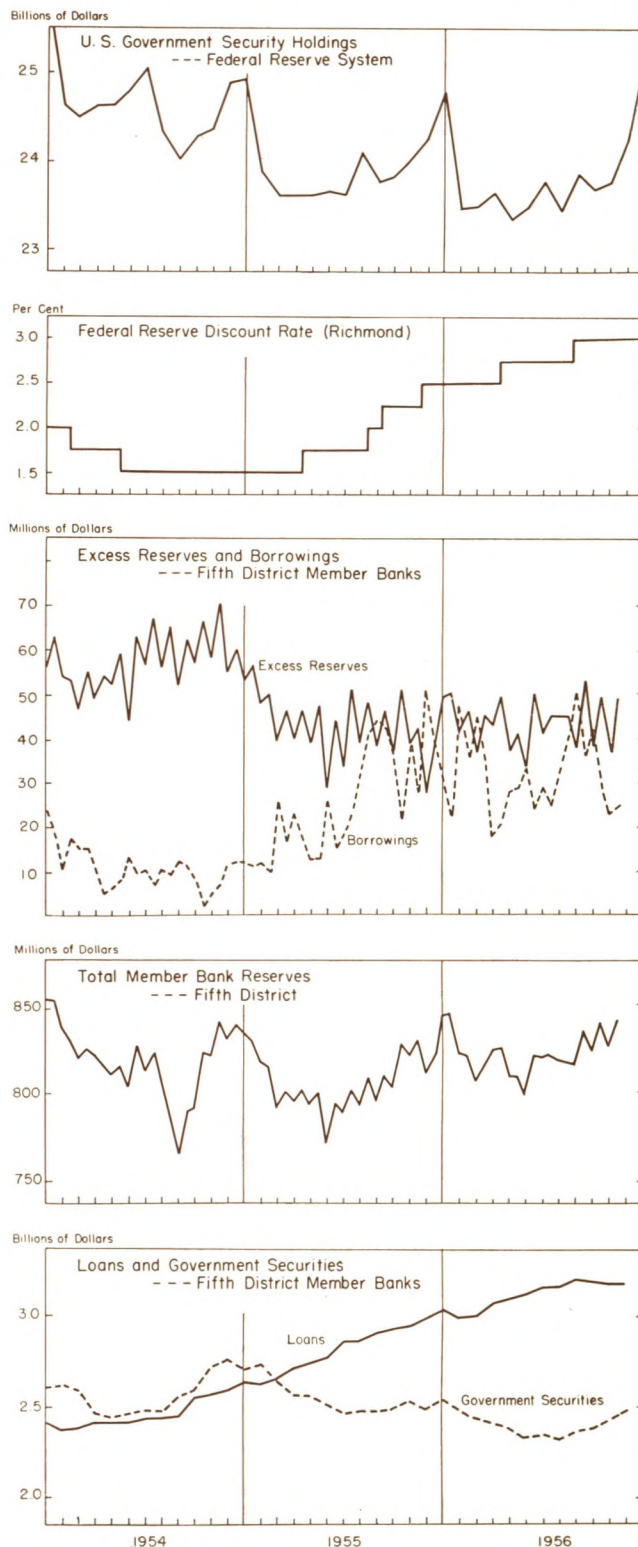
**Interest Rates—The Gauge of Availability**

During the first two months of 1956, in response to the seasonal slackening of credit demands, interest yields in nearly all the markets declined moderately. By early March, however, yields in the corporate capital markets began to advance, resuming the pronounced upward movement of 1955 and reflecting the unusually high demands for funds to finance new production facilities. Rates on corporate bonds advanced rapidly through April, continued to advance at a slower pace through July (in the case of bonds with Moody's Aaa rating, yields remained stable until late Summer), and then resumed their earlier rapid advance.

In the first half of the year, trading in United States Government securities reflected primarily adjustments in liquidity positions by financial institutions and corporations. The behavior of yields in these markets differed somewhat from yields reflecting demands for new capital funds although all yields are interrelated in some degree. The Treasury Bill yield declined through March as corporation treasurers used this medium for the gainful employment of funds accumulating for tax purposes. This pattern was repeated from the end of April through June. Longer-term Government securities yields rose in March and April and again in June and July, reflecting in part the liquidation of Governments by commercial banks and financial intermediaries as a means of meeting a high loan demand. The Treasury itself entered the market for new funds in August, October, November, and December, exerting additional upward pressure on yields already influenced by high private demands for credit.

The expanding demands for short- and long-term credit during the year were not matched by a corresponding increase in savings. The banking system, operating in tight money markets, was supplied with additional reserves from time to time during the year, but not with sufficient reserves to ease the natural tightness resulting from the unusually heavy demands for funds. The result of this intense demand for credit relative to the available resources of financial institutions was an increase in interest rates to levels not seen since the early 1930's.

**SOME IMPORTANT BANKING DEVELOPMENTS**



(Continued on page 12)



## 1957 Prospects For Farmers—

### Nationally: An Improved Position; Districtwise: Continuing Problems

**N**ATIONALLY, realized net farm income is expected to be about 5% higher in 1957 than in the year just ended, with slight additional increases in the average level of farm-product prices and in the prices paid by farmers. Here, in a nutshell, is the outlook as seen by United States Department of Agriculture economists at the recent 34th Annual Agricultural Outlook Conference.

In considering prospects for the year to come, USDA's analysts made three assumptions: (1) that high level business activity would continue, reaching above even record-breaking 1956; (2) that present unsettled world conditions would not deteriorate further; and (3) that the Soil Bank program would be reasonably successful. Obviously, if these are faulty assumptions, the agricultural outlook could be materially affected.

#### Farm Prices, Costs, and Income

Farm prices generally are expected to be slightly higher in 1957 than in 1956, paralleled by small increases in prices paid by farmers. Result: little, if any, easing of the current cost-price squeeze.

According to USDA, farmers' total production expenses in 1957 will differ little from the 1956 level, though unit costs will be higher. More price increases are expected for certain industrial commodities used by farmers. Farm wage rates, interest, taxes, and depreciation charges are likely to be higher. These increasing costs, however, may be offset by the Soil Bank which is expected to reduce the acreage of some crops and therefore reduce, in total quantity, some of the items bought by farmers.

A fairly small decline in total cash receipts from farm marketings seems likely—with reductions probably concentrated in the basic crops where acreage will probably be curtailed under the Soil Bank program and where allotments, as in the case of flue-cured tobacco, will be cut again. Cash receipts from livestock and livestock products may increase, reflecting higher average prices for hogs and possibly cattle and some increase in dairy products. USDA maintains, however, that Soil Bank

payments may well offset reduced crop receipts and thus push gross farm income higher. With production expenses showing little change from the '56 level, realized net farm income—which turned upward slightly in 1956 for the first time since 1951—should show further improvement.

#### Agriculture's Balance Sheet

Despite a 10% rise in farm debt during 1956, the total value of farm assets in the nation increased by a greater amount; and, as of January 1, 1957, proprietor's equities probably reached a new high around \$155 billion. This is 3% above a year earlier and 2% above the previous record set in 1952.

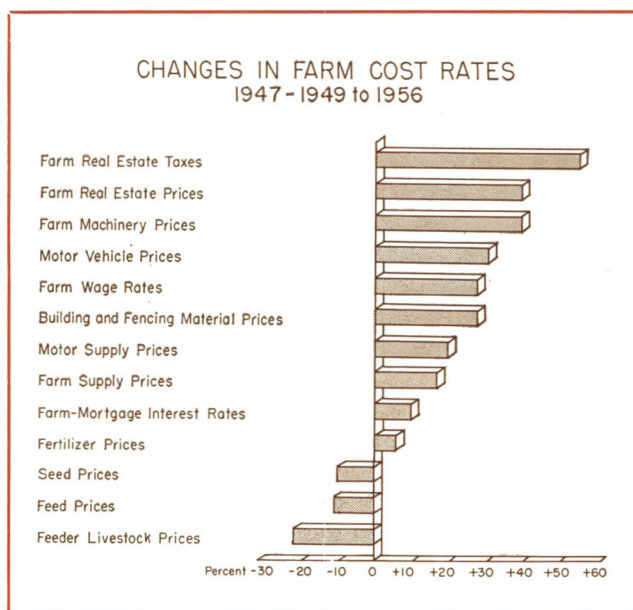
Increased farm realty value was the major cause of the rise in total farm assets during 1956. Despite declining farm income, land values have risen in all but one of the years since 1951. Strength in the farm real estate market over this period reflects: (1) widespread confidence that farms are a good investment; (2) belief that larger farms are necessary for efficient operation and adequate income for farm families; and (3) pressures of suburban de-

velopment and part-time farming.

Prospects are for little change in the over-all financial position of the nation's farmers during 1957. Farm debts and farm asset values probably will continue to rise, even though the rate of gain in land values decreases.

#### Supply and Demand Conditions

One of the most favorable portents is the start toward relieving burdensome surpluses of some products—notably, cotton, wheat, and rice. If the goal materializes, it will be favorable not only for '57 but for the years beyond. From a supply standpoint, some measure of relief should be provided by the combined effects of the acreage allotment programs and the Soil Bank. This latter program assumedly involves 40 to 45 million acres, or that one acre out of every nine will be withdrawn from production.





Food supplies in 1957 will be large, though slightly below 1956 levels. Somewhat higher farm prices of food products are in prospect, and wider farm-retail price spreads will be associated with higher food prices in early 1957 than in the corresponding months of 1956. With further gains in prospect for disposable personal income, personal consumption expenditures should rise, with the increases spread over all three areas of expenditures—durable goods, nondurable goods (including foods), and services. Thus, expenditures for food will be larger in 1957, reflecting both higher food prices and increased purchases of more expensive foods and food services.

Foreign demand for American farm products has expanded steadily for three years and promises continued improvement in 1957. Volume of agricultural exports last year was the highest in 29 years. Significantly, Government programs accounted for about 40% of last season's farm exports.

#### **District Faces Problems and Opportunities**

Fifth District farmers as a group shared little, if any, in the modest income gain realized by the nation's farmers in 1956, nor are they likely to share in the prospective gains for 1957. This picture of "more of the same" is the net result of many separate patterns, some of which are sharply divergent.

Change is the price demanded of those who would take advantage of opportunity—a fact quite applicable to Fifth District agriculture. While local bankers and professional agricultural workers can contribute to plans involving change, final responsibility must rest with the farmer and his family. No one else can take the responsibility for deciding whether to rent or buy additional land; whether to alter current reliance upon various farm enterprises; whether to make shifts in input factors in order to achieve lower costs; or whether to accept part- or full-time employment off the farm.

Clearly, the flue-cured tobacco producers who are confronted with a severe cut in acreage allotments and with possible far-reaching technological developments must decide what further adjustments, if any, to make in 1957. Other farmers may discover real benefits by reviewing present operations in view of the outlook. The goal is, of course, a better income situation for 1957 and subsequent years.

#### **Outlook for Commodities**

Highlights in the outlook for major Fifth District commodities and commodity groups are as follows:

*Tobacco:* Both production and income in 1957 will likely be lower than in 1956. Supplies of the major types grown in the District are large in relation to prospective disappearance, and demand conditions for flue-cured—the dominant type—are less favorable. Even though more cigarettes are manufactured in 1957, it seems unlikely that total tobacco used will increase.

In addition, a significant drop is expected in exports of flue-cured from last season's high level.

In the current supply-demand situation, flue-cured farmers face a 20% cut in acreage allotments—on the heels of the 12% cut in 1956. Burley allotments remain substantially unchanged. For other types—Maryland, fire-cured, and Virginia sun-cured—marketing quotas and acreage allotments will be announced by February 1. Prices of the 1957 crop will be supported on the same basis as in the past.

*Poultry and Eggs:* Production of eggs, broilers and turkeys is expected to be higher than the record-breaking levels of 1956—and prices except for broilers are likely to be lower. If supplies of beef and pork are smaller, as is anticipated, some improvement may occur in 1957 broiler prices. For turkey growers and egg producers, increased production may offset lower prices and leave gross income little different from last year. For broiler growers, slight increases in output and prices could result in higher net and gross incomes in '57.

*Meat Animals:* The 1957 outlook for hogs is fairly good for numbers are well below the 1956 level. Slaughter has declined and is expected to be considerably smaller than last year during most of 1957. With reduced marketings, prospects are that hog prices will average higher during most or all of the year.

Cattle numbers and the rate of slaughter are now essentially stable—that is, almost the same number of cattle are being slaughtered as are being produced. Little change appears likely for the year ahead, although lighter weights are expected to reduce total beef output. Cattle prices should, at least, stay above the lows of early 1956 and may average slightly higher.

*Dairy Products:* Incomes of many dairy farmers improved in 1956, and a further increase may occur. Milk production should be up a little, consumer demand at least as strong as last year, and if price supports are about the same as in 1956, cash income from dairying may rack up a new record. Feed supplies are relatively large and favorable milk-feed price ratios seem assured although some costs will be higher.

*Cotton:* Indications are that a useful start has been made to improve the cotton supply-demand situation. Disappearance may reach 15.5 million bales—the highest in 30 years. This allows for a domestic consumption of about 9.0 million bales, a little less than last season. Exports—stimulated by CCC export sales—are estimated at about 6.5 million bales, nearly triple last season's low level. Despite this favorable disappearance level and an assumed shrinkage of carry-over by some 2.4 million bales during the season, the remaining carry-over will still be some 12 million bales—a level rarely exceeded. With 1957 acreage allotments 1% higher than a year ago, total supply of cotton next season will again be large and prices to producers will continue to hold near the support level.



## Farm Credit—Operating Expense and Mortgage Loans \*

Most Fifth District banks make loans to farmers—in fact, 92% of them were doing so on June 30, 1956, date of the Agricultural Loan Survey. According to the survey's estimates, these banks had 266,000 farm loans totaling \$306 million outstanding on that date. Although this is a modest share of all bank loans, there are many banks in which loans to farmers represent a significant fraction of their total loan volume.

This recent study of a cross section of farm loans reveals a great deal about the every-day policies and practices of banks and the hows and whys of farm credit-granting. Incidentally, it reveals that valuable characteristic of the private banking system, flexibility.

In this article, loan characteristics will receive chief attention, especially two types of loans of basic importance—those for current operating expenses (so-called production loans) and loans secured by mortgages on farm real estate. Since one of these is a "purpose" and the other a "security" classification, the two groups overlap at times. This overlapping is comparatively small, representing only about 2% of the number of notes and 3% of the total dollar amount outstanding. On the other hand, these two categories combined account for two loans out of three. On the basis of the amount outstanding they account for about three dollars out of four of the total farm loans of banks.

In the past there has been some question as to reliability of farm loan information relating to purpose. Reservations expressed have noted that frequently loan proceeds may be used for two or more purposes; that family living expenses are not segregated from business expenses; and that in many cases the banker is not too certain as to purpose.

Although some credence is attached to these reservations, it was, nevertheless, believed that most bankers—from their own knowledge and records—could supply useful information on the *major purpose* of their farm loans. The survey results appear to support this feeling.

### Farm-Mortgage Loans

Bank loans secured by mortgages on farm real estate are in themselves a clear-cut category. They are also an important type of farm loan, accounting for 16% of the total number and 42% of the total outstanding dollar amount of bank loans to farmers in the Fifth District. Despite the fact that these loans, by definition, have a common characteristic—namely, that all are secured by mortgages on farm land—they include a wide variety of features. Actually they cover the full range of purposes for which banks make loans to farmers. Purchase of farm real estate, of course, stands out as the dominant purpose and accounts for 41% of the total number and 50% of the outstanding dollar amount. Purchase-money mortgages average larger in size than any other category of farm-mortgage loans. Since an additional

20% by number and 19% by outstanding amount were made to improve land and buildings, some 61% of the mortgages and 69% of the outstanding amount relate directly to real estate.

SELECTED CHARACTERISTICS OF LOANS SECURED BY FARM REAL ESTATE\*  
Fifth District Banks, June 30, 1956

Item	Number of Loans	Amount Outstanding	Average Size
	Thousands	Mil. Dol.	Dollars
<b>Purpose:</b>			
Buy farm real estate .....	17	64	3,713
Improve land and buildings .....	8	25	2,923
Current operating expenses .....	6	9	1,458
Machinery .....	2	4	2,321
Consolidate and pay other debts .....	5	17	3,349
Other .....	3	10	2,974
<b>Maturity:</b>			
Demand .....	1	8	5,880
6 mos. and less .....	11	29	2,613
6 mos. to 1 year .....	15	36	2,368
1 to 5 years .....	8	20	2,648
Over 5 years .....	7	36	5,223
<b>Renewal Status:</b>			
Note has not been renewed .....	22	74	3,312
Note renewed by agreement .....	17	47	2,813
Note renewed for other reasons .....	3	8	2,568
<b>Repayment Method:</b>			
Single payment .....	27	72	2,672
Installment .....	15	57	3,756
<b>Size of Original Note:</b>			
Under \$500 .....	5	1	269
\$500-\$999 .....	6	4	629
\$1,000-\$4,999 .....	22	46	2,130
\$5,000-\$9,999 .....	6	36	5,565
\$10,000 and over .....	3	42	13,592
<b>Total, All Farm Real Estate Notes</b> .....	<b>42</b>	<b>129</b>	<b>3,062</b>

\*Details may not add to totals because of rounding.

Farmers also use real-estate mortgages as collateral for production and livestock loans, machinery loans, and to consolidate and pay other debts. Unfortunately, the survey data are not always sufficiently detailed to explain some purposes for which these loans are made. There are various possibilities—for example, the loan may be of such a size, relative to the credit standing and availability of other assets which might have been used to secure the loan, as to cause the bank to ask for the loan to be secured by a mortgage on the farm real estate. In some parts of the District, custom also plays a hand in dictating the use of farm mortgages to secure production and other loans which elsewhere would be made on some other basis. Indications are that the borrower sometimes proposes that a loan be secured by a farm mortgage in order to obtain a lower rate of interest or more convenient repayment terms.

Banks' farm-mortgage loans are usually written with shorter maturities than those of other institutional lenders. Sixty-two per cent of these loans and 50% of the outstanding amount had maturities of one year or less. The one to five year maturities accounted for 18% of the number and 16% of the outstanding amount; those having a maturity of over five years represented

\*This is the second article based on the 1956 Agricultural Loan Survey. The earlier article appeared in the *Monthly Review* for November 1956.



17% of all farm-mortgage loans and 28% of the dollar amount outstanding.

The comparatively short maturity of many farm-mortgage loans undoubtedly is related closely to the fact that 47% of the number and 42% of the outstanding amount represent renewals. Most of these renewals were in accordance with a prior agreement that some or all of the loan would be renewed when due. By this combination of notes of fairly short maturity and agreements to renew, banks are actually extending mortgage credit for longer continuous periods than that indicated by the data on maturities.

Farm-mortgage loans are almost all written by the bank itself rather than acquired from others. In 64% of the cases covering 56% of the outstanding dollar amount, they are written as single payment notes. Practically all of the remaining instalment notes provide for interest payment on the unpaid balance.

A look at farm-mortgage loans by original size of note reveals that about one-fourth of the farm-mortgage loans held by banks and 4% of the outstanding dollar amount involved \$1,000 or less. Those having an original amount of from \$1,000 to \$4,999 accounted for 52% of the number and 36% of total outstandings; those of \$5,000 and over for 22% and 60%, respectively.

The average effective interest rate on farm-mortgage loans was 5.5% per annum. As with most farm loans, the larger size loans carried the lowest interest rate. By original size of note, farm-mortgage interest rates averaged as follows: 6.3% for loans under \$1,000; 5.8% for those from \$1,000 to \$4,999; 5.4% for notes of \$5,000 to \$9,999; and 5.0% for those as large as \$10,000 and over.

**Loans for Current Expense Purposes**

Fifty per cent of the number of farm loans and 30% of the amount outstanding were for what might be called current operating expenses. These characteristically have the shortest maturity of any group of farm loans. Actually, 72% were written with a maturity of six months or less and all but 3% were for one year or less.

Nearly 99% of all current expense notes in banks' loan portfolios as of June 30, 1956 and 97% of the dollar amount outstanding were executed subsequent to June 30, 1955; and 91% and 85%, respectively, of the number and dollar amount were executed in the first half of 1956. Instalment loans are seldom employed in connection with loans for current expense purposes—indeed, they accounted for only 4% of the total number and 2% of the outstanding dollar amount.

When notes for current expense purposes are classified by the original amount, it is found that 64% were under \$500 and 82% were under \$1,000. On a dollar basis, notes under \$500 accounted for 18% and those under \$1,000 for 34%. Those from \$1,000 to \$4,999 accounted for 16% of the notes and 39% of the dollar volume; those over \$5,000 represented only 2% of the

notes but 27% of the value.

Average interest rate on current expense notes, as in the case of all farm loans, was lower on large than on small notes. For current expense loans in which the original amount was under \$500, the average effective rate was 6.2%. Average rates for those from \$500 to \$999 was 6.1%; from \$1,000 to \$4,999, it was 5.9%; for those from \$5,000 to \$9,999, it was 5.4%; and for those of \$10,000 and over, the rate was 5.0%.

Item	Number of Loans	Amount Outstanding	Average Size
	Thousands	Mil. Dol.	Dollars
<b>Security:</b>			
Unsecured .....	36	30	831
Endorsed or co-maker .....	60	23	381
Chattel mortgage, etc. ....	28	25	908
Real-estate mortgage (including Government guaranteed) .....	6	9	1,458
Other .....	3	5	1,768
<b>Maturity:</b>			
Demand .....	2	6	2,397
6 mos. and less .....	95	56	586
6 mos. to 1 year .....	32	29	882
1 to 5 years .....	2	2	780
<b>Renewal Status:</b>			
Note has not been renewed .....	105	64	606
Note renewed by agreement .....	21	22	1,029
Note renewed for other reasons .....	6	6	1,027
<b>Repayment Method:</b>			
Single payment .....	127	90	706
Instalment .....	5	2	358
<b>How Acquired:</b>			
Loan made direct to customer .....	111	87	780
Loan acquired from dealer .....	21	5	244
<b>Size of Original Note:</b>			
Under \$500 .....	85	16	193
\$500-\$999 .....	24	15	615
\$1,000-\$4,999 .....	21	36	1,739
\$5,000 and over .....	3	25	8,917
<b>Total, All Current Expense Notes</b> .....	<b>132</b>	<b>92</b>	<b>693</b>

\*Details may not add to totals because of rounding.

Renewals are less of a factor in the case of current expense loans than for loans generally. In fact, only 21% of the current expense loans, representing 31% of the outstanding amount, were renewed, compared with 30% and 39%, respectively, for all farm loans. On both a number and amount basis, renewals of current expense notes are lower than for any other category.

Of the current expense loans, 27% of the number and 33% of the amount outstanding were unsecured. Those involving an endorsement or co-maker accounted for 45% of all notes and 25% of outstandings. Those secured by chattel mortgages, chattel deeds of trust, or conditional sales contracts represented 21% of the number and 27% of the dollar amount.

Banks made loans for current expense purposes directly to farmers in 84% of the cases; notes acquired from third parties made up the other 16%. The most typical intermediaries were insurance agents who took farmers' notes for premiums on hail insurance policies and then discounted them at the bank. To a lesser extent, feed and fertilizer dealers also discounted customers' notes.



## Business Conditions and Prospects

**T**HE trade level was the only sector showing any considerable degree of strength in the Fifth District during November. Material shortages and financing problems accompanied a decline in construction contract awards. Heavy inventories of soft goods at retail stores kept the textile industry from rising by seasonal proportions.

Manufacturing activity in the District was little changed from the October level, with gains in durable goods offset by declines in nondurable goods industries. Nonagricultural employment in the District rose fractionally during the month, due almost wholly to preparation in the retail trades for the Christmas season and to seasonal expansion in Government employment. Unemployment rose seasonally and was ahead of a year ago.

The trade level during November was generally exuberant in most lines. Department store sales (after declining in September and October on an adjusted basis) rose to a new high in November. Furniture store sales in November were considerably below the year's highs in the Spring but were moving upward for the second consecutive month. Sales of new automobiles were hardly feverish—in fact, ran appreciably under a year ago. Inventories of department stores (adjusted) continued to rise during November to an all-time high level. Furniture stores, which have maintained a conservative inventory policy, showed November inventories down from October and considerably below the year's peak.

The rise in the trade level was accompanied by a slight decline (\$39 million) in time deposits of the member banks and an excess of \$5 million in redemptions over purchases of savings bonds. Bank debits, adjusted, rose moderately for the District as a whole between October and November but remained appreciably below levels prevailing in the first half of the year.

### Employment

Employment rose slightly between October and November (0.3%) and was 1.4% ahead of a year ago. A small decline occurred in manufacturing employment both during the month and the year, but the loss was more than offset by gains in the nonmanufacturing industries in both periods. The over-all increase was due to seasonal expansion at the trade level and in Government service. Upward changes were recorded in mining, finance, insurance and real estate, and trade.

Insured unemployment in the week of December 8 totaled 79,400 in the District, about a fourth larger than a month earlier and about a tenth above a year ago. The largest increases in unemployment from a year ago are shown in the Carolinas and in the District of Columbia. Unemployment in other states was under a year ago.

### Manufacturing

Incomplete November man-hour data for the District show no change from October. Gains in some states offset losses in others, and the level was probably 2% under a year ago.

Man-hours in the durable goods industries rose 2% over October but failed to equal November last year by 2.5%. In the nondurable goods industries the level was just under October and 2.0% under last year. Strength in the durable goods industries came mainly from primary and fabricated metals and transportation equipment. Seasonal losses in food industries and tobacco manufacturing were largely responsible for fewer nondurable goods man-hours.

### Bituminous Coal

Above normal temperatures through most of November caused a moderate reduction of 3% in average daily bituminous coal production from October, but it was still 9% ahead of a year ago, and the eleven months' total was up 11%. Gains over a year ago have been decreasing for several months as output appears to be leveling off. Foreign cargo is still giving a substantial pitch to the industry, with the latest available week in December showing an increase of 24% in the Hampton Roads shipments over last year and with Baltimore up 38%. These gains, however, are considerably modified from the gains shown from January 1 through December 8 of 43% in the Hampton Roads ports and 36% through the Baltimore port.

### Construction

The construction industry has been a strong support for the national economy throughout the postwar period. It has been more of a support in the rest of the country during 1956 than in the Fifth District; but even so, it is still by historical comparison at a high level. Some of its perkiness has been missing this year, and a downward trend in the District figures has been in evidence since July. November continued to recede from October (after seasonal correction) and was nearly a fourth under a year ago. The eleven months' total was down more than 10%, with physical volume of contract awards showing an even greater decline because construction costs have risen nearly 5% this year.

Awards for factory buildings and commercial buildings perked up notably during November, but they failed by wide margins to equal their levels of a year ago, and the accumulated eleven months' figures were off 43% and 38%, respectively, from a year ago. Residential construction continued to recede and was substantially under a year ago. Public works and utilities were likewise down during the month and from a year ago, but



the eleven months' total showed a gain of more than 20% from last year.

### Trade

The trade level, as noted, was one of relative strength in November, particularly in department stores. Furniture store sales continued to revive further, and moderate strength was recorded in sales of household appliance stores. Areas of weakness at the retail trade level were in the automotive and lumber-building supply fields, the latter reflecting reduced activity in residential building.

Sales of department stores in the District established a new high level in November after having declined in both September and October on a seasonally adjusted basis. Department store inventories also established a new high level which clearly indicated optimistic preparations for the Christmas trade. Weekly reporting stores, however, through the first three weeks of December hardly found their optimism justified, and inventory problems loom for early 1957. Post-Christmas sales' announcements indicate that stores are tackling this problem aggressively.

Stores reporting departmentally for November found these areas of strength: radio, television, phonograph, furniture and bedding, basement, and women's and misses' dresses. Mild weather through most of the month was probably responsible for weakness in women's coats and suits and in men's clothing which, along with domestic floor coverings, major household appliances, and silverware and jewelry, were down from a year ago.

Registrations of new passenger automobiles for three states of the District and the District of Columbia were off 11% between October and November and 20% from November 1955. This was the first full month for the new models and should, characteristically, have shown a substantial increase. But this happened only in the District of Columbia, where the gain was 22%. Higher prices, exotic styling, inability of marginal buyers to borrow, over-extended debt positions or merely continuation of the year-long downtrend have been offered as explanations. Commercial car registrations also declined in November and were well under a year ago. All told, the new selling season has not started off with the usual exuberance in this District.

Furniture stores showed moderate improvement in their sales between October and November (after seasonal correction) for the second consecutive month.

Sales in District stores, however, were considerably below all previous months of 1956 except September and October. The reduced level of the past three months reflects lower credit sales, and this has pulled down the level of receivables since August. The collection ratio, while at the lowest percentage since 1941, has, nevertheless, remained fairly stable through 1956 thus far. Adjusted furniture store inventories in November were at the lowest level of the year excepting April.

Sales of household appliance stores sometimes rise and sometimes fall between October and November. In 1956 they rose and were at the highest November level for years, a sharp contrast to the experience of major household appliance departments in reporting department stores.

### Banking

Adjusted bank debits in the District rose 2% (after seasonal correction) from October to November and were 2% ahead of a year ago. The eleven months' total, however, was up 8% from last year. The adjusted level of debits in September, October, and November was down appreciably from where it was in the earlier months of the year with much the same pattern in each of the Fifth District states.

Loans and discounts of District member banks rose very moderately (\$6 million) during November after having declined \$15 million during October and \$12 million during September. Meanwhile, investments rose \$39 million during November, following an increase of \$54 million in October and \$21 million in September. Investment holdings in November were \$39 million smaller than a year ago, while loans and discounts were up \$197 million.

Total deposits gained \$99 million during November, with demand deposits up \$138 million and time deposits down \$39 million. The \$99 million increase in deposits and a \$2 million increase in capital accounts was larger than the increase in total assets which permitted a reduction of \$4 million in borrowings.

Commercial and industrial loans of the weekly reporting banks, after showing an unseasonal back-away from late October to late November, moved into substantially higher ground during December. "Other loans" (largely consumer) moved up rather sharply during November but showed a tendency to level out in December. Real estate loans have shown no material change since midyear.





FIFTH DISTRICT STATISTICAL DATA

FURNITURE SALES\*

(Based on Dollar Value)

Percentage change with corresponding period a year ago

STATES	Percentage change with corresponding period a year ago	
	Nov. 1956	11 Mos. 1956
Maryland .....	+ 2	+ 1
Dist. of Columbia .....	+ 1	0
Virginia .....	- 2	0
West Virginia .....	+ 4	+ 8
North Carolina .....	+ 8	+ 4
South Carolina .....	+ 3	0
District .....	+ 3	+ 2
INDIVIDUAL CITIES		
Baltimore, Md. ....	+ 2	+ 1
Washington, D. C. ....	+ 1	0
Richmond, Va. ....	+ 8	+ 3
Charleston, W. Va. ....	+17	+ 7
Greenville, S. C. ....	+ 4	- 1

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

BUILDING PERMIT FIGURES

(36 Cities)

	Nov. 1956	Nov. 1955	11 Months 1956	11 Months 1955
Maryland				
Baltimore .....	\$ 2,943,695	\$ 5,897,345	\$ 60,259,114	\$ 82,337,372
Cumberland .....	43,510	266,025	1,382,566	1,477,186
Frederick .....	281,000	289,090	4,746,945	3,043,405
Hagerstown .....	65,990	248,535	2,150,635	2,253,341
Salisbury .....	93,945	74,660	1,588,926	1,777,878
Virginia				
Danville .....	347,976	410,452	6,806,961	5,730,537
Hampton .....	3,318,210	912,743	10,141,395	13,942,098
Hopewell .....	69,349	258,296	1,870,078	3,341,960
Lynchburg .....	371,975	423,343	8,386,262	9,119,486
Newport News .....	56,232	145,304	2,461,985	9,317,009
Norfolk .....	1,587,832	566,045	23,441,435	12,745,007
Petersburg .....	146,200	81,600	3,044,850	3,240,000
Portsmouth .....	917,083	220,573	5,699,663	4,530,051
Richmond .....	560,359	3,927,536	23,383,548	22,408,642
Roanoke .....	867,816	1,029,737	18,952,253	12,776,880
Staunton .....	231,400	100,815	2,824,110	3,070,625
Warwick .....	1,591,066	672,321	7,831,225	12,083,462
West Virginia				
Charleston .....	1,194,210	462,474	9,476,338	6,900,306
Clarksburg .....	70,378	126,700	1,739,886	1,764,997
Huntington .....	881,700	178,853	5,339,636	5,617,925
North Carolina				
Asheville .....	101,630	132,563	5,937,764	3,306,656
Charlotte .....	1,051,919	1,320,491	25,029,195	25,513,409
Durham .....	733,528	543,704	8,930,698	9,548,681
Gastonia .....	462,225	290,200	6,635,525	6,709,350
Greensboro .....	609,983	501,150	13,119,899	10,403,076
High Point .....	153,315	204,075	6,430,678	6,665,838
Raleigh .....	911,604	1,191,680	13,663,760	18,545,198
Rocky Mount .....	118,410	136,466	3,319,219	3,129,618
Salisbury .....	472,305	127,107	2,741,330	1,408,471
Wilson .....	313,050	238,550	3,926,078	4,223,021
Winston-Salem .....	1,728,659	557,731	15,692,643	12,374,734
South Carolina				
Charleston .....	327,325	68,706	3,120,315	2,908,222
Columbia .....	497,497	553,769	10,443,041	8,365,938
Greenville .....	284,505	426,228	5,533,723	6,871,298
Spartanburg .....	192,474	138,151	4,799,868	2,937,481
Dist. of Columbia				
Washington .....	3,763,938	1,805,380	56,960,712	65,585,148
District Totals .....	\$27,362,293	\$24,528,398r	\$387,812,259	\$405,974,306r

r Revised.

WHOLESALE TRADE

LINES	Sales in Nov. 1956 compared with Nov. 1955		Stocks on Nov. 30, 1956 compared with Nov. 30, 1955	
	Nov. 1956	Oct. 1956	Nov. 30, 1956	Oct. 31, 1956
Auto supplies .....	-22	-10	NA	NA
Electrical, electronic and appliance goods .....	+ 6	-11	+40	- 5
Hardware, plumbing, and heating goods .....	-33	-17	NA	NA
Machinery equipment supplies .....	+15	+ 3	+11	- 3
Drugs, chemicals, allied products .....	+13	+ 5	+ 3	- 2
Dry goods .....	NA	NA	NA	NA
Grocery, confectionery, meats .....	0	- 3	- 2	- 6
Paper and its products .....	+12	- 5	NA	NA
Tobacco products .....	NA	NA	NA	NA
Miscellaneous .....	- 1	- 7	+ 9	- 3
District total .....	+ 1	- 3	+ 8	0

NA Not Available.

Source: Bureau of the Census, Department of Commerce.

FIFTH DISTRICT INDEXES

Seasonally Adjusted: 1947-1949=100

	Rich.	Balt.	Wash.	Other Cities	Dist. Totals	
Sales, Nov. '56 vs Nov. '55 ..	- 1	+12	+ 8	+10	+ 8	
Sales, 11 Mos. ending Nov. 30, '56 vs 11 Mos. ending Nov. 30, '55 .....	+ 4	+ 4	+ 6	+ 7	+ 6	
Stocks, Nov. 30, '56 vs '55 ..	- 1	+15	- 8	+12	+ 6	
Outstanding Orders, Nov. 30, '56 vs '55 .....	- 5	- 8	- 2	- 3	- 5	
Open account receivables, Nov. 1, collected in Nov. '56 .....	37.9	52.7	46.6	41.0	45.0	
Instalment receivables, Nov. 1, collected in Nov. '56 .....	11.4	14.5	13.0	18.8	14.0	
	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, Nov. '56 vs Nov. '55 .....	+12	+ 8	+ 4	+18	+ 4	+ 6

	Nov. 1956	Oct. 1956	Nov. 1955	% Chg.—Latest Mo.	Yr. Ago
New passenger car registrations*	—	133	146r	+ 6	-21
Bank debits .....	180	177	176	+ 2	+ 2
Bituminous coal production*	109	112r	100	- 3	+ 9
Construction contracts .....	190	212r	252	-10	-25
Business failures—number .....	268	264	306	+ 2	-12
Cigarette production .....	—	110	104	+12	+ 9
Cotton spindle hours .....	119	119	122	0	- 2
Department store sales .....	146	136	135r	+ 7	+ 8
Manufacturing employment*	—	114	113	0	0
Furniture store sales .....	114	111	113	+ 3	+ 1
Life insurance sales .....	270	250	227	+ 8	+19

\* Not seasonally adjusted.

r Revised.

Back figures available on request.



FIFTH DISTRICT BANKING STATISTICS

DEBITS TO DEMAND DEPOSIT ACCOUNTS\*  
(000 omitted)

WEEKLY REPORTING MEMBER BANKS  
(000 omitted)

	Nov. 1956	Nov. 1955	11 Months 1956	11 Months 1955
Dist. of Columbia				
Washington .....	\$1,351,463	\$1,428,343	\$16,100,531	\$14,877,861
Maryland				
Baltimore .....	1,690,926	1,743,149	18,817,764	17,466,462
Cumberland .....	29,580	26,383	310,857	283,841
Frederick .....	26,752	26,067	287,507	264,415
Hagerstown .....	54,228	45,553	536,275	484,881
Salisbury** .....	35,504	35,615	400,604	376,823
Total 4 Cities .....	1,801,486	1,841,152	19,952,403	18,499,599
North Carolina				
Asheville .....	77,119	69,646	814,085	749,687
Charlotte .....	462,331	443,903	4,924,299	4,608,966
Durham .....	113,074	99,728	1,065,435	981,761
Greensboro .....	179,671	159,831	1,826,689	1,666,753
High Point** .....	58,987	54,038	611,851	552,256
Kinston .....	29,351	32,691	325,668	337,461
Raleigh .....	263,314	213,915	2,769,960	2,439,812
Wilmington .....	55,576	52,335	604,107	582,545
Wilson .....	41,470	43,219	361,522	359,534
Winston-Salem .....	226,734	216,917	2,235,209	2,001,574
Total 9 Cities .....	1,448,640	1,332,185	14,926,974	13,728,093
South Carolina				
Charleston .....	91,001	88,085	1,019,045	944,922
Columbia .....	207,053	184,705	2,163,056	2,001,957
Greenville .....	150,853	140,754	1,594,951	1,432,750
Spartanburg .....	77,245	75,560	798,846	748,690
Total 4 Cities .....	526,152	489,104	5,575,898	5,128,319
Virginia				
Charlottesville .....	42,456	37,583	434,656	406,950
Danville .....	75,668	71,433	556,331	520,552
Lynchburg .....	61,649	68,597	677,457	626,555
Newport News .....	60,444	62,170	681,265	628,350
Norfolk .....	330,875	322,929	3,447,257	3,219,393
Petersburg** .....	30,436	34,376	313,227	350,493
Portsmouth .....	41,476	38,227	416,970	395,621
Richmond .....	742,526	710,260	7,994,921	7,547,177
Roanoke .....	156,311	155,266	1,707,991	1,494,714
Total 8 Cities .....	1,511,405	1,466,465	15,916,848	14,839,312
West Virginia				
Bluefield .....	56,295	53,360	631,769	506,565
Charleston .....	187,369	189,158	1,988,294	1,872,768
Clarksburg .....	40,105	35,919	444,740	395,902
Huntington .....	88,370	82,828r	940,593	879,217r
Parkersburg .....	36,151	36,934	405,610	366,441
Total 5 Cities .....	408,290	398,199r	4,411,006	4,020,893r
District Totals .....	\$7,047,436	\$6,955,448r	\$76,883,660	\$71,094,077r

Items	Change in Amount from		
	Dec. 12, 1956	Nov. 14, 1956	Dec. 14, 1955
Total Loans .....	\$1,867,848**	+ 1,759	+ 99,411
Bus. & Agric. ....	881,686	+ 19,925	+ 73,585
Real Estate Loans .....	337,696	+ 1,483	+ 5,425
All Other Loans .....	675,316	- 19,501	+ 24,877
Total Security Holdings .....	1,610,389	- 2,641	- 63,033
U. S. Treasury Bills .....	73,596	+ 4,795	+ 40,847
U. S. Treasury Certificates .....	40,577	- 728	- 10,342
U. S. Treasury Notes .....	265,306	- 17,165	- 41,237
U. S. Treasury Bonds .....	964,053	+ 9,247	- 40,010
Other Bonds, Stocks & Secur. ....	266,857	+ 1,210	- 12,291
Cash Items in Process of Col. ..	406,252	+ 8,902	+ 23,339
Due from Banks .....	188,559*	- 4,523	- 3,802
Currency and Coin .....	90,104	+ 5,764	+ 939
Reserve with F. R. Banks .....	543,917	+ 5,010	+ 6,243
Other Assets .....	78,167	- 2,594	+ 5,521
Total Assets .....	\$4,785,236	+ 11,677	+ 68,618
Total Demand Deposits .....	\$3,598,924	- 5,269	+ 34,417
Deposits of Individuals .....	2,733,520	+ 20,713	+ 25,504
Deposits of U. S. Government .....	58,880	- 19,057	- 10,402
Deposits of State & Local Gov. ....	201,896	- 14,399	- 5,922
Deposits of Banks .....	540,862*	+ 1,337	+ 19,365
Certified & Officers' Checks .....	63,766	+ 8,811	+ 5,872
Total Time Deposits .....	737,868	- 9,649	+ 8,545
Deposits of Individuals .....	677,873	- 5,083	+ 19,665
Other Time Deposits .....	59,995	- 4,566	- 11,120
Liabilities for Borrowed Money .....	48,130	+ 27,330	+ 375
All Other Liabilities .....	57,671	- 1,634	+ 5,953
Capital Accounts .....	342,643	+ 899	+ 19,328
Total Liabilities .....	\$4,785,236	+ 11,677	+ 68,618

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

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

Finance In 1956—High Pressure In the Money Markets

(Continued from page 4)

Federal Reserve in a Period of Inordinate Demand

Federal Reserve credit policy during 1956 was one of restraint. The objective of this policy was to hold in check overoptimism and any speculative excesses which might develop when demands for credit and goods are high relative to the supply and continuing price rises are anticipated. Credit policy was administered primarily through open market operations, but the Reserve banks' discount rates were raised twice during the year, in April and again in August. As shown in the accompanying chart, member banks in the District operated with a somewhat higher volume of reserve funds in 1956 than in 1955 (this was also true for the country as a whole), and in general kept their excess reserves as low as possible. Nevertheless, the high loan demand caused a liquidation of Government security holdings, especially in the first seven months of the year, and

frequent resort to the Federal Reserve discount window.

In spite of a policy of credit restraint, in effect through much of 1955 and all of 1956, both consumer and wholesale prices advanced during the past year. Wholesale prices began to move upward at the beginning of the year and consumer prices followed suit, slowly in March and more strongly from April through July. Consumer prices remained relatively stable in August and September, but increased again in October. Although one of the principal objectives of Federal Reserve credit policy is to maintain stability in the purchasing power of the dollar, it is recognized that such policy is not without limitations—it cannot decree that price levels remain unchanged. Its actions are expected, however, over the long run, to prevent conditions conducive to large and continuing price inflation while permitting the normal long-run growth and development of the economy. These expectations still prevail.