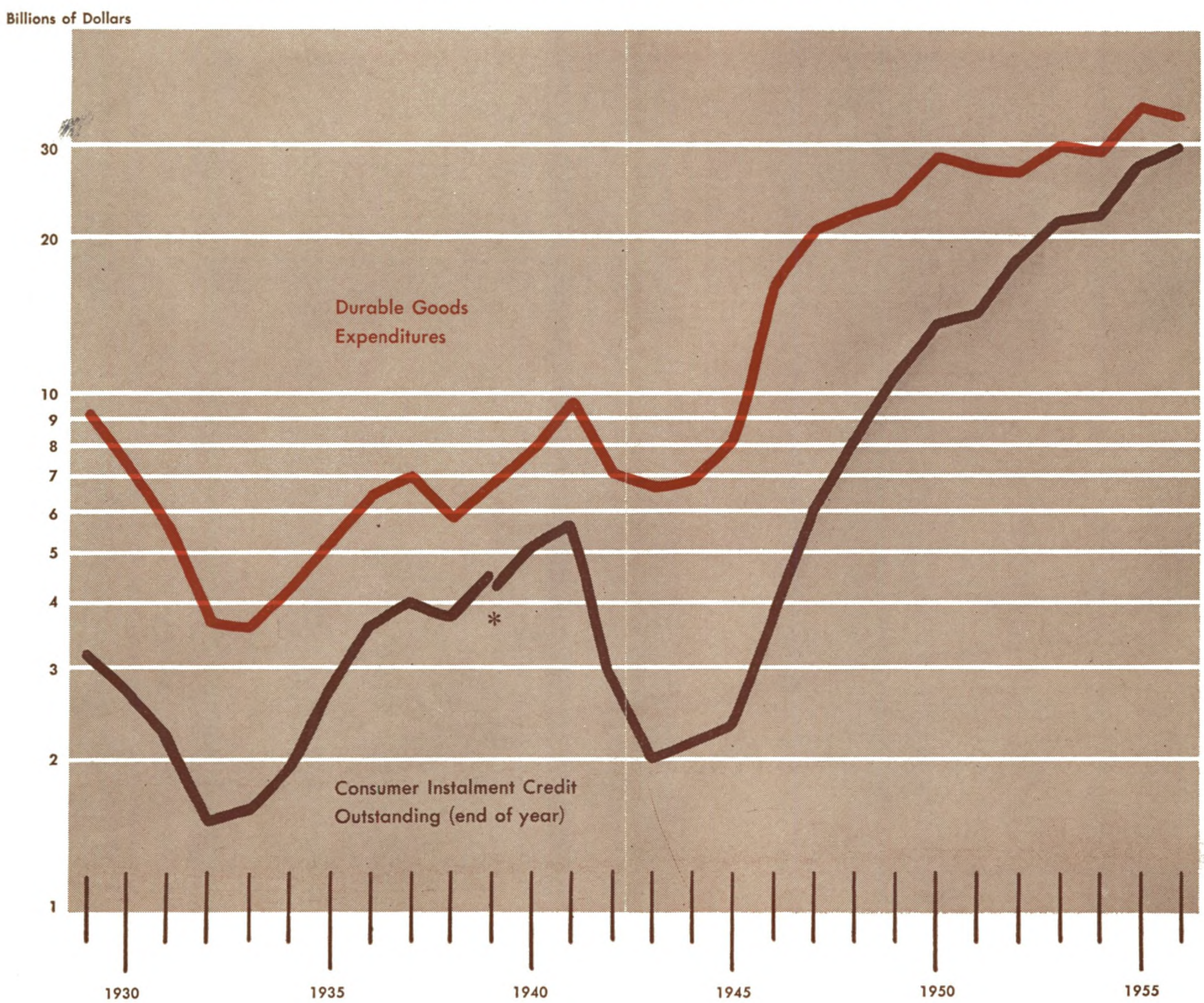
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

THE FIFTH FEDERAL RESERVE DISTRICT

May 1957

CONSUMER CREDIT OUTPACES DURABLE GOODS SALES



* 1939-1956—Excluding repair and modernization loans held by financial institutions.

CONSUMER durable goods sales have become much more important to the economy in postwar years than ever before. Their sales level has also become more closely aligned with the availability of consumer credit. (See page 3)

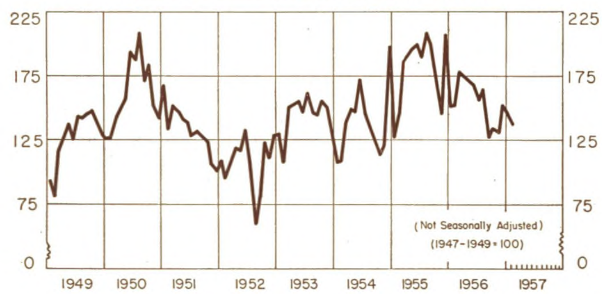
Also In This Issue - - -

Tobacco Farmers As Bank Borrowers ....Page 5
Financial Developments In Early '57 ....Page 7
Business Conditions and Prospects ....Page 9
Fifth District Statistical Data ....Page 11

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

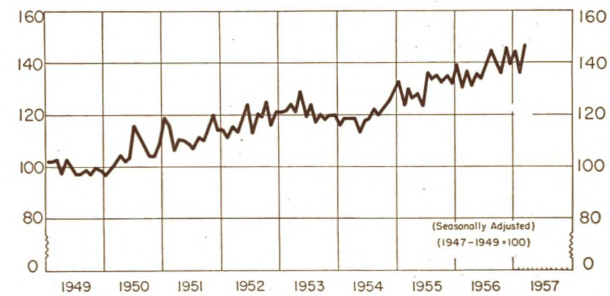
FIFTH DISTRICT TRENDS

NEW PASSENGER CAR REGISTRATIONS



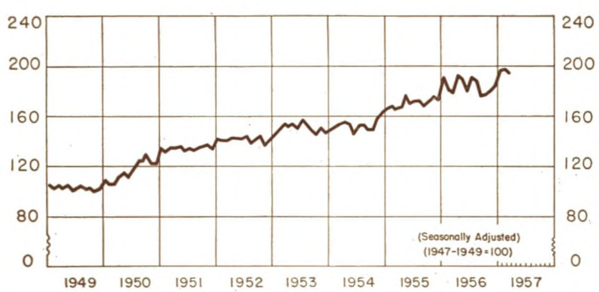
Registrations of new passenger automobiles for all states of the District during February totaled 33,980, off 5% from the January level and 10% from a year ago. Two states in March showed an improvement over February but a larger loss over a year ago.

DEPARTMENT STORE SALES



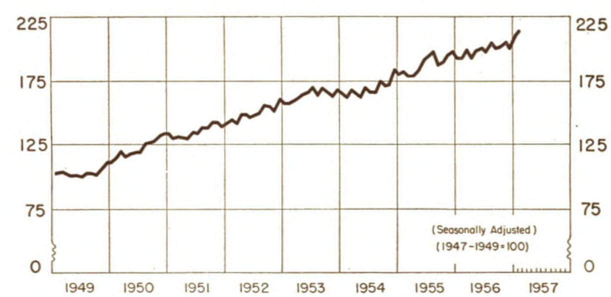
Strength was maintained in the department store sales level during March which rose 7% from February after seasonal and Easter correction. The March level was 7% ahead of a year ago, and the first quarter sales were even with last year.

BANK DEBITS



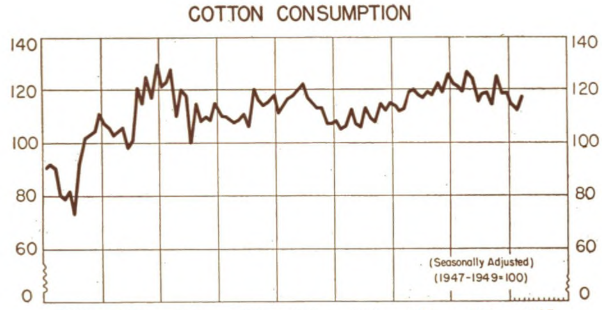
Bank debits (seasonally adjusted) in March interrupted the upward climb in the first two months of the year by declining 2% from February. The March level remained 8% ahead of a year ago, bringing the first quarter up 5% from last year.

ELECTRIC POWER PRODUCTION



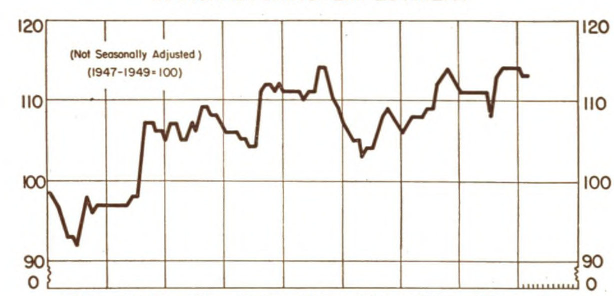
Latest figure (February) was at an all-time high (after seasonal correction), 2% above January, 11% above February 1956; and the first two months were up 8% over a year ago.

COTTON CONSUMPTION



Despite a slow market and an indicated slackening of operations by the trade, cotton consumption in Fifth District mills during March rose 4% (on a seasonally adjusted basis) from February. The March level, however, was 1% under a year ago, and the first quarter was down 5%.

MANUFACTURING EMPLOYMENT



The February employment level held steady with January. Gains in Maryland and the District of Columbia offset losses in Virginia and the Carolinas. Some easing occurred in four states between February and March.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Observations On Consumer Durables

This is a piece about consumer durable goods, ownership of which has increased by staggering proportions in the postwar years. Before looking at some major aspects in their production and sale, particularly their influence on credit requirements and credit-granting, one ought to take a quick look backward. Such an historical look-see can provide some light on the rapid evolution of the American economy during the past 30 years or so. Incidentally, it raises some questions on consumer durables for which we haven't yet conjured up entirely adequate answers.

It is trite but true to say that fundamental and far-reaching changes occurred in the domestic economy between World War I and the present. One of the more important developments has been a marked redistribution of spendable income.

This reshuffling of income clearly has placed larger shares of the spendable total in the middle and lower income groups. Historically, neither the middle nor lower income groups has had sufficient savings to make large-scale purchases of big-ticket items. More recently this meant that if the war-expanded labor force were to be employed, newer and more elastic forms of financing would have to be found to provide an adequate market for consumer durables. The high liquidity position of lending institutions in the early part of the postwar period provided a basis for the extension of consumer credit.

The second significant historical development has been the change in the status of workers—with its most visible economic consequence an almost continuous rise in wage rates, and hence income. This trend has persisted in recession as well as in expansion eras, and has had an important bearing both on consumer anticipations and demand for consumer durables.

The consumer durable goods industry responded quickly to these influences and to the pent-up demand they released. The impact might have been even more pronounced had it not been for the relatively greater rise in the prices of nondurable goods and services—both of which command some priority in consumer outlays.

Consumer Durables in Perspective

Consumer durable goods, perhaps more than any other measure, reflect the improvement in the standard of living of a people. That this standard has improved over time both simple observation and astronomic sales figures readily attest; but they do not show the improvement as clearly as does the rising percentage of expanding incomes expended for these goods. In that lush year of long ago, 1929, people spent 11.1% of disposable income on durable consumer goods—this in a period of ultra-prosperity considered for years thereafter as a goal of attainment. During the depression years, the proportion spent for durables dropped as low as 7.4%. It recovered moderately up to World War II, but dropped as low as 4.6% in 1944 when the exigencies of war and the savings urge held production of consumer durables to minimum levels.

In the postwar period, when the labor force had been substantially expanded by wartime requirements and there was an influx of demobilized servicemen, the problem of potential unemployment provided much concern. The intense demand for consumer durables found these industries rendering Herculean service in solving the job problem. For the entire period 1945-56 (with the exception of 1946, the conversion year), consumers have spent no less than 11.2% of their disposable income for durables; and in two of these years the percentage has been above 13%. Thus, the consumer goods industries have filled an important niche in the economy and have maintained it fairly consistently throughout the postwar years.

The trend of growth in postwar sales of durable goods (dollar basis) has risen at a compound annual rate of 7.9%. This compares with a growth of 4.2% per annum for nondurable goods and 8.1% per annum for services. On a physical quantity basis, sales of durables have risen at a compound annual rate of 4.1%, those of nondurables 2.3%, and services 4.2%. Thus, on a unit basis the growth of consumer durables and services has been almost identical. The rise in prices of services has undoubtedly acted as a retardant on durable goods sales. Between 1946 and 1956 prices of consumer durables rose 19.6%. In the same period prices of services rose 43.6%—and since 1948 the disparity has been even larger. Between 1948 and 1956 prices of consumer durable goods rose 5.8% while the price of services rose 26.0%.

Composition of Consumer Durable Goods Sales

In 1956 durable goods purchases were composed of 42.9% automobiles and parts, 44.1% furniture and household equipment, and 12.9% of all other types. In the postwar years automobiles and parts have been accounting for an increasing proportion of the total, rising from a low of 24.5% in 1946 to 48.2% in 1955. This gain came mainly in the years between 1946 and 1950 and was at the expense of furniture and household equipment as well as other durable goods.

Since 1950, shifts in the proportions have been largely short-run affairs. The general trend of each of the component ratios has been, for the most part, steady. In relation to prewar years, however, automobiles and parts have increased their proportion quite substantially. In the best prewar year, 1929, they accounted for 34.8% of the total, whereas furniture and household equipment in that year accounted for 52.2% and other

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

durables 13.0%. In 1939, automobiles and parts accounted for 32.8% of total durable goods purchases, while furniture and household equipment accounted for 52.2% and other durables 14.9%. Despite the current slowdown in suburban residential construction, the two-car family is presumably still far from the saturation point.

Effect on Capital Outlays

The postwar step-up in the proportion of consumer income spent for consumer durables has been a fundamental factor in the expanding volume of capital spending by consumer durable goods producers.

Between 1948 and 1956, personal consumption expenditures rose at a compound annual rate of 5.5%. In this same period capital expenditures for new plant and equipment for motor vehicles rose at a compound annual rate of 17.6%, more than three times as fast as all personal consumption expenditures and twice as fast as consumer outlays for motor vehicles and equipment. Capital outlays by producers of service and household machinery, radios, and television and related items and electronic tubes between the census years 1947 and 1954 rose at a compound annual rate of 10.1%. (This excludes newly organized firms in both years.) Capital investment by the household furniture industry between the two census dates decreased slightly and remained unchanged in the following industries: phonograph, records, jewelry, silverware, musical instruments, toys, sporting goods, and costume jewelry.

The rate of increase in capital outlays by the consumer durable goods industry has exceeded the rate of growth of the industry's sales. This has been due in part to a greater rise in construction costs and in prices of production equipment than in the sales prices of consumer durable goods. Should this continue it would constitute an increasingly serious profits problem to producers of consumer durable goods.

Consumer Instalment Credit

Before World War II had ended, banks and other lenders were deeply concerned over loan prospects in the postwar period. Individual savings during the war period had been enormous, and business concerns were ultra-liquid. Small wonder, then, that the commercial banks became extremely interested in the instalment loan field. Prior to the war, relatively few banks in the Fifth District were in this field; but shortly afterward, nearly all became anxious to get into it. The high-level demand for consumer durables implemented by expanding consumer instalment credit proved to be highly dynamic for the economy and greatly aided in projecting wartime employment and production levels into the postwar period.

Historically, the relation between sales of consumer durable goods and consumer instalment credit started off as a sort of close companionship. As time progressed, it seemed to result in a marriage and still later developed into polygamy. To illustrate: take the lush year, 1929. Then, outstanding consumer instalment credit amounted to 35% of the total value of durable goods purchased. By 1940 the percentage had stepped up to 71%. The rise halted during the war period when consumer durables were in low supply and in the early postwar period when consumer cash was in abundance. Not until 1952 was the 71% figure exceeded, but by 1956 consumer instalment credit outstanding at the end of the year was equal to 93% of the value of all consumer durable goods purchased during 1956.

True, not all consumer instalment credit is utilized for the purchase of consumer durable goods, but the great bulk of it is. It is also probably true that income tax deductions have given cash buyers an inducement to borrow funds for consumer durable goods purchases but the evidence does not show that this has been an important factor in the credit expansion.

With these exceptions in mind, it is clear that expenditures for consumer durable goods, which rose at a compound annual rate of 7.9% between 1946 and 1956, could only have been made by an expansion in consumer instalment credit. The latter rose at a compound annual rate of 22.4% and has become increasingly important in the more recent years in making a market for consumer durables. The fact that nearly a full year's sales of consumer durables is matched by an equal amount of consumer credit outstanding indicates much reliance on credit.

It is also a fact that on the average outstanding consumer credit is currently the largest percentage of income ever attained; to the extent that many households have no outstanding consumer debt, the remaining debtors' percentage of debt to income is higher than the average shows.

Presumably, there is somewhere a limit to the rise in the proportion of consumer credit to income on a sound credit base. The precise location of this limit is difficult to establish, since such proportions as are current have never before been witnessed. Perhaps this should be given more thought.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Tobacco Farmers As Bank Borrowers*

THE Fifth District encompasses the largest and most concentrated flue-cured tobacco producing area in the world. Production of this type in Virginia and the Carolinas accounts for about 90% of the total production of flue-cured tobacco in the United States and one-half the world's output.

The '56 survey of farm loans conducted by the Federal Reserve System provided quite an array of information relating to banks and their tobacco-growing clients.

This article focuses on part of the survey data—notably bank loans to those farmers who not only receive one-half or more of their cash farm income from tobacco but who also do their banking in counties in which flue-cured tobacco is grown. Characteristics, both of the borrowers and their notes, are examined. Interestingly, the group here under survey represents a sizable number of farmers—some 82,000 or 41% of the 199,000 farm loan customers of District banks as of June 30, 1956. Furthermore, it then accounted for 110,000, or 41% of all farmers' notes, and an outstanding indebtedness to banks of $86 million or 28% of all farm indebtedness to District banks.

Characteristics of Flue-Cured Tobacco Farmers Who Borrow From Banks

Age: Fifth District flue-cured tobacco farmers who borrow from banks average slightly younger than farm customers taken as a whole. In each of the age groupings under age 35 the proportion of tobacco farmers exceeded to a moderate extent the corresponding percentages for all farm loan customers of banks. In both categories—tobacco farmers and all farmers—there is a growing concentration of farmers in successively older age groups. This is illustrated by the fact that 3% of the flue-cured tobacco farmers are under 25; 17% are in the age group 25-34; 33% are from 35 to 44; and the remaining 47% are 45 and over.

Tenure: It is hardly surprising to find that tenancy is more prevalent in the flue-cured tobacco areas of the District than in District agriculture as a whole. Also, as indicated in earlier articles based on the 1956 Agricultural Loan Survey, the ratio of tenants to owner-operators is practically the same among farm loan customers of banks as that existing between the total number of farmers in the two tenure categories. Among flue-cured tobacco farmers included in this survey whose tenure was known, 58% were owner-operators, 35% were tenants and share croppers, and 7% were landlords. These compare with 71%, 23%, and 6%, respectively, for all farm borrowers in the District.

*This is the fourth of a series of articles on the 1956 Agricultural Loan Survey. Earlier articles appeared in the *Monthly Review* for November 1956 and January and March 1957.

Part-time farmers are less numerous among tobacco farmers than is true of District farmers generally. Only 7 tobacco farmers out of each 100 for whom the information was obtainable received a third or more of their gross income from off-farm activities and were thus classified as part-time farmers. This compares with 15% for all farm loan customers of banks.

Net Worth: In a previous article based on the 1956 survey, it was pointed out that 72% of all tenants in the Fifth District who borrow from banks had net worths under $3,000 and an additional 24% had net worths in the $3,000-$9,999 grouping. Because of the smaller number of farmers classed as tobacco farmers, no tabulation by tenure and net worth was made of this smaller group. Nor was one necessary, in the light of the above data, to demonstrate that the higher rate of tenancy among tobacco farmers is one of the important factors associated with the slightly higher proportion of tobacco farmers—as contrasted with all farmers—being in the lower net worth categories.

SELECTED CHARACTERISTICS OF TOBACCO FARMERS WHO BORROW FROM BANKS*

Fifth District Banks, June 30, 1956

Item	Number of Borrowers	Number of Loans	Amount Outstanding	Average Size of Debt	Average Size of Loan
	Thousands	Thousands	Mil. Dol.	Dollars	Dollars
Age of Borrower:					
Under 25	2	3	1	594	490
25-34	13	16	11	822	663
35-44	25	34	27	1,079	791
45 and over	36	50	43	1,216	855
Unknown	6	7	4	607	515
Tenure:					
Owner-operator	46	66	60	1,301	900
Tenant	28	33	11	401	333
Landlord	5	8	12	2,249	1,577
Unknown	3	3	3	993	865
Net Worth of Borrower:					
Under $3,000	24	28	9	367	307
$3,000-$9,999	27	36	21	764	579
$10,000-$24,999	18	27	25	1,355	913
$25,000 and over	9	15	30	3,527	2,055
Unknown	4	4	1	348	314
Total, All Borrowers	82	110	86	1,050	777

*For comparison with all farmers who borrow from banks, see the *Monthly Review* for November 1956.

Actually the data reveal that 30% of all tobacco farmers had a net worth under $3,000, and 35% had a net worth ranging from $3,000 to $9,999. In the $10,000-$24,999 bracket the corresponding percentage is 24%, and 11% had net worths of $25,000 and over. Corresponding percentages for all farmers are 24%, 36%, 27%, and 13%, respectively.

Characteristics of Flue-Cured Tobacco Farmers' Notes

By the very nature of their business, it is natural that loans to tobacco farmers should be somewhat different

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

from loans to farmers on, say, livestock farms. The remainder of this article is devoted to analysis of bank loans to tobacco farmers in counties in which flue-cured tobacco is grown. Certain comparisons are made between these data and corresponding data for all farm loans of Fifth District banks.

Purpose: The outstanding difference—so far as purpose is concerned—between notes of tobacco farmers and the notes of all farm borrowers is the difference in the relative dollar amounts and number of loans used for current operating expenses. In the case of tobacco farmers' notes, 65% of the number and 43% of the dollar amount outstanding are for current operating expenses. This materially exceeds the corresponding percentages—50% of the number of notes and 30% of the outstanding dollar amount—for all farm loans in the District.

Loans for purposes customarily associated with intermediate-term investments accounted for 23% of the loans to tobacco farmers, compared with 33% for all farmers, and 29% of the outstanding amount as contrasted with 33% for all farmers. The four categories of loans in this general classification are for the purchase of: livestock (other than feeder livestock), machinery and equipment, automobiles and other consumer durables, and improvement loans (land and buildings). Only in the case of loans for the purchase of automobiles and other consumer durables did both the number and dollar amount outstanding of such loans to tobacco farmers exceed the corresponding proportions for all farm borrowers.

Loans to buy farm real estate accounted for 4% of the number and 16% of total loans outstanding to tobacco farmers—both somewhat under the 7% and 22%, respectively, for all farm borrowers. Similarly, "other" loans to tobacco farmers were relatively less important, both numerically and in dollar amounts, than was true of such loans for all farm borrowers.

Size of Note: According to the survey data, 58% of all loans to flue-cured tobacco farmers were for amounts less than $500. Those from $500-$999 were far less numerous—accounting for only 19% of the total number—but each of these groups accounted for 15% of the total dollar amount outstanding. Twenty per cent of all notes of tobacco farmers and 45% of the dollar amount were in the size grouping $1,000-$4,999. Thus, only 3% of all notes are in amounts of $5,000 and over, although this group accounts for 25% of the dollar amount. The average size of flue-cured tobacco farmers' notes is $777—far below the $1,151 average for all farmers' notes held by Fifth District banks.

Security: In terms of numbers of notes the leading security classification was the endorsed category, comprising 41% of all notes. This was followed by 29% with chattel mortgages, 18% unsecured, 11% secured by mortgages on farm real estate, and 1% involving other forms of security.

Because of the larger average size of farm real estate loans, those secured by mortgages on farm real estate led the other categories in terms of dollar amount outstanding with 36%. Chattel mortgages accounted for 27% of the dollar amount and the endorsed and unsecured groups each accounted for 17%.

Maturity and Repayment Method: Since 65% of all bank loans to flue-cured tobacco farmers are for current expense purposes, and most production processes on flue-cured tobacco farms are customarily measured in months rather than years, it is not surprising that the average maturity for tobacco farmers' notes is slightly shorter than for all farm notes of banks. Actually, 57% of all notes of tobacco farmers had a maturity of six months or less, and 91% were for less than one year. In the case of all farm loans held by banks, 84% had a maturity less than one year.

SELECTED CHARACTERISTICS OF LOANS TO TOBACCO FARMERS*

Fifth District Banks, June 30, 1956

Item	Number of Loans	Amount Outstanding	Average Size
	Thousands	Mil. Dol.	Dollars
Purpose:			
Current operating expenses	72	37	519
Intermediate-term investments	26	25	957
Buy farm real estate	4	13	3,032
Other purposes	8	11	1,240
Renewal Status:			
Note has not been renewed	94	63	671
Note renewed by agreement	10	17	1,595
Note renewed for other reasons	6	6	1,005
Repayment Method:			
Single payment	98	71	721
Instalment	12	15	1,227
Security:			
Unsecured	19	15	757
Endorsed or co-maker	45	14	324
Chattel mortgage, etc.	32	24	737
Farm real estate	12	31	2,478
Other	2	2	1,214
Maturity:			
6 months and less	63	33	531
6 months to 1 year	37	36	962
1 to 5 years	9	12	1,338
Other (including demand)	1	5	3,791
Size of Original Note:			
Under $500	64	13	196
$500-$999	21	13	621
$1,000-$4,999	22	39	1,709
$5,000 and over	3	21	7,981
Total, All Notes	110	86	777

*For comparison of most of these items with all farm loans of banks, see the *Monthly Review* for November 1956.

All but 11% of tobacco farmers' notes were single payment. Of those on an instalment basis, about half (by number) had interest on the original amount, and half had interest payable on the unpaid balance. On a dollar amount basis, however, those with interest chargeable on the unpaid balance accounted for three-fourths of the instalment business.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Financial Developments In Early '57

Summary

Following a year of intense credit pressures, 1957 began with available funds somewhat in excess of borrowers' demands—and so, some market rates of interest declined. Moderate easing in the securities markets did not stem from any decline in demand for funds there; corporations, states, and municipalities were seeking an unusually high volume of new money. The easing may be traced in part to developments in the banking system—to a heavy volume of currency returned from circulation and a strong reduction in loans outstanding. Net redemption of Savings Bonds and funds accumulated by savings institutions also added to the supply of loanable funds. After mid-February, however, a closer balance was struck between demand for and supply of funds, attributable in the first instance to Federal Reserve's continuing policy of credit restraint which resulted in substantial reduction in bank reserves. Basically, however, it was the product of a continuing high demand for credit bumping against the available supply.

The Security Markets

So far, 1957 has been a year of great uncertainties followed by some surprising solutions. It began with a heavy calendar of corporate and municipal issues overhanging an unpredictable market—a market which had closed the books on '56 under heavy pressure from the demand side. A surprising development in January was the relatively easy absorption of the highest offering of corporate bonds in any month since May 1956 and offerings of municipal securities almost double those in December—all told, an estimated $1.6 billion of securities. In addition, the Treasury's refunding of $1.6 billion of special bills due January 16 for an equal amount of tax anticipation bills to mature June 24 brought forth only a fleeting glimpse of the excess demand specter. By the end of the month the suppliers of funds presented sufficient demand for this issue to pull the yield down to 3.12% from the average issuing rate of 3.305%.

A high availability of funds, relative to demand for them, continued through the first half of February. In spite of heavy Treasury refunding and a large flow of new corporate and municipal securities, yields declined further. The three months' Treasury bills sold in the market on January 31 to yield 3.12%. On February 13 the yield dropped as low as 2.98%. In the last half of the month, however, and in the period since, the supply of funds lagged somewhat behind demand, and yields on many issues moved moderately upward. The amount of corporate bonds placed on the market in February has been estimated at $703 million. New offerings of municipal securities during the month amounted to $497 million. In addition, the Treasury completed two refundings aggregating $12.5 billion and raised $600 million of new money from increased weekly bill offerings. The Treasury refunding operations included $10.7 billion of notes and certificates maturing in February, March, and April, and $1.75 billion of special bills due February 15.

Treasury finance continued to be an important factor in the market in March. $400 million more of new money was raised from increases in the weekly bill offerings, bringing the total acquired from this source this year to $1.1 billion. The Treasury also raised $3.3 billion of new money from the issue of additional amounts of 3½% notes due May 15, 1960 and 3⅜% certificates of indebtedness due February 14, 1958. March offerings of municipal securities amounted to $500 million, and of new corporates, to $1,020 million.

New Money for Uncle Sam

In the first quarter, the U. S. Treasury borrowed $4.4 billion from the public, $3.3 billion of it just after an important tax payment date. The pressures that brought about the need for new borrowings just when the Treasury would normally be running a surplus were unusually great and came from many sources. One receiving considerable public attention was the heavy net redemption of Savings Bonds. Largely because of rising interest rates over the past several months, many holders of Savings Bonds preferred to invest elsewhere, including other Treasury securities.

In 1952, the 2¾% J and K bonds were put on sale as successors to the F and G bonds, which bore an interest rate of 2½%. In mid-February, the Treasury announced withdrawal of the J and K bonds from sale on April 30. And, as a means of relieving immediate pressures, the Treasury requested authority from Congress to increase the rate on Series E and H bonds. Authority to increase the rate to 3¼% was granted toward the end of April and the Treasury announced an increase to this rate effective on all bonds issued after January 31, 1957.

Redemptions for cash of other Treasury securities also provided a heavy drain in March. In the refunding of $10.7 billion of certificates and notes in early February, holders of $875 million of these securities decided in favor of cash. The cash redemptions were mostly of the 2⅞% notes due March 15, the Treasury payments thus coinciding with its period of heaviest receipts. However, a large portion of the March revenues were already committed to repayment of $4.2 billion of tax anticipation certificates and bills sold in 1956.

Another factor which increased the pressure against the Treasury's cash position was the redemption of special noninterest-bearing notes given the International Monetary Fund in partial payment of the original

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

United States contribution to the Fund. The Fund was faced with a heavy demand for dollars at the end of 1956 and in early 1957, largely due to the Suez Canal crisis.

Another pressure was the stepped-up rate of Federal spending. In part stemming from rising prices, Government expenditures have been running at a rate which, if continued, will total close to $70 billion for fiscal year 1957. This compares with an estimate in early 1956 of $65.9 billion for the 1957 fiscal year, and an Administration estimate in January of this year of $68.9 billion.

The Banks and the Financial Markets

As a part of the easier tone in the securities markets in January the nation's banking system also felt a temporary relaxing of tensions. One of the largest returns of currency from circulation ever experienced occurred between December 26, 1956 and January 30, 1957—a total of $1.5 billion. This inflow, which provided reserves to the banking system, was reinforced by a sharp reduction in total loans outstanding, bringing about lower deposits and reduced required reserves.

The Federal Reserve System, continuing its policy of restraint, disposed of $1,072 million of Government securities, thus absorbing a large portion of the excess reserves created by these two factors. This action, however, was not sufficient to offset the funds made available by the return of currency and the reduction in required reserves, and the banks were able to reduce the level of their borrowing from the Federal Reserve. The accompanying table shows the average weekly level of required reserves of member banks and of their borrowings from Reserve banks.

BORROWED RESERVES IN 1957
Member Banks Federal Reserve System
(Weekly Averages of Daily Figures)

Week ending		Total Required Reserves	Borrowed Reserves: Total	Borrowed Reserves: As Per cent of Total Required Reserves
		(million $)	(million $)	(Per Cent)
January	2	19,095	900	4.7
	9	18,948	505	2.7
	16	18,775	323	1.7
	23	18,783	322	1.7
	30	18,603	502	2.7
February	6	18,542	615	3.3
	13	18,337	716	3.9
	20	18,390	552	3.0
	27	18,258	688	3.8
March	6	18,293	730	4.0
	13	18,227	854	4.7
	20	18,601	757	4.1
	27	18,377	819	4.5
April	3	18,526	1,049	5.7
	10	18,541	1,205	6.5
	17	18,559	1,219	6.6

In mid-January, reserves borrowed from Federal Reserve dropped to only 1.7% of total required reserves, the lowest percentage since October 1954. In December, of total required reserves, 3.4% was borrowed from the Fed. For 1956 as a whole, a year dubbed one of "tight money," over 4% of required reserves was supplied through the Reserve banks' discount windows.

In February, with the seasonal return of currency from circulation completed and total bank loans remaining virtually unchanged, continued sales of Governments by Federal Reserve restored a measure of tightness in the banking system. An average of 3.5% of required reserves of member banks was borrowed from Federal Reserve, just about the same as in December.

March saw natural forces of the market place restore the demand pressure against the suppliers of funds—the familiar characteristic of most of 1956. The raising of $3.7 billion in cash by the Treasury and of $1.6 billion by corporations, states, and municipalities represented the big market pressures of the month. The banks also faced an increased demand for credit, much of it to finance corporate income tax payments. Over the two weeks ending March 20, total loans of the weekly reporting member banks (selected banks in principal cities throughout the nation) increased by $1.3 billion. Banks participated heavily in the Treasury bill offerings of March 4 and 11, the last two offerings from which the Treasury raised new money. Payment for these bills was made during the period when loans were rising. With heavy pressure on the banks from both the Treasury offerings and from loan customers, they turned to the Federal Reserve to maintain required reserves. On the average for the month of March, member banks borrowed 4.3% of their required reserves from Federal Reserve. In addition, the System supplied approximately $240 million of reserves to the banking system by the purchase of securities.

During the week ending March 27, total loans at weekly reporting banks were reduced and the banks raised funds by disposing of $859 million of investments. They were, therefore, able to make a substantial reduction in their indebtedness to the Federal Reserve banks. However, because of a special tax situation affecting the customers of the Chicago banks, these banks found it necessary to increase their borrowings from the Federal Reserve Bank of Chicago. The magnitude of their borrowings was sufficient to more than offset repayments by other member banks and to cause the total borrowings figure for the week to increase.

The discount windows of the Reserve banks supplied an average of 6.3% of total required reserves of member banks during the three weeks ending April 17. This is the highest proportion of total required reserves to come from borrowings for any sustained period since early 1953. This was a period of generally declining loans, but the banks were put under pressure by having to make payment (by credit to the Treasury's Tax and Loan Accounts which increases the amount of reserves needed to meet requirements) for the 3½% notes and 3⅜% certificates to which they had subscribed in the March 18 offering. The Federal Reserve supplied approximately $188 million of reserves to the banking system to prevent excessive tightness from developing during the period.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Business Conditions and Prospects

Business activity in the Fifth Federal Reserve District has been moving up, down, and sideways—with the net balance being slightly on the favorable side. During March (latest month statistically) proposed building activity and factory production were on the downside. Slightly overbalancing was higher activity in other segments of the economy, particularly trade, mining, finance, service, and government. Although over-all March activity showed a fractional net gain over February, it was, in general, a sidewise movement.

Net new institutional savings in the District were substantially smaller than a year ago, but the trend seemingly had no adverse effect on business activity. In fact, strength at the trade level implies that larger proportions of incomes are being spent. March bank debits, which provide a useful index of spending, totaled nearly $7.5 billion, and for the first quarter, nearly $22 billion. Both figures were 5% above a year ago.

Bituminous Coal

Spurred by substantial increases in foreign cargo and coastwise shipments other than to New England, bituminous coal output of Fifth District mines rose 8% on an average daily basis (February to March) to a level 9% ahead of a year ago. This placed accumulated output for the quarter 2% ahead of a year ago. It had lagged behind last year in the first two months.

Overseas shipments of coal in this period dropped 10% through the Baltimore port, probably due to the longshoremen's strike. But movement through Hampton Roads rose 11%, making a total through both ports 9% above February and 65% above last year. Coastwise trade through the two ports, other than to New England, was up 84% in four weeks of March and 112% ahead of a year ago. Total coal movement through the two ports in four weeks of March was 8% higher than in February and 46% higher than a year ago.

The heavier than normal drop in domestic coal inventories during January and February was apparently due to inadequate production resulting from floods. The sizable increase in March production may, in part, have reflected an attempt to accumulate inventory before the announced price rise accompanying the second instalment of wage increases to miners.

Trade

The trade level in March evidenced more strength than in either January or February. Automobile sales, for example, after lagging for the first two months, began a Spring recovery.

Department store sales (corrected for the shift in Easter) rose 7% from February to a level 7% ahead of a year ago. Average daily adjusted sales in the first quarter, however, showed no change over last year. The March index (seasonally adjusted) was back at the all-time high level established in November.

Retail furniture store sales during March continued the uptrend in evidence since September 1956 and were up 4% (after seasonal adjustment) from February. The March level, however, was 5% under a year ago and the first quarter was down 3%. These are surprisingly good figures in view of the reduction in new housing construction. They are also better than manufacturing activity in the furniture industry of the District which showed a decrease from February to March and was about 6% under a year ago.

Reports available indicate passenger automobiles made a good attempt at a seasonal rise in March. The February-March change in District registrations in 1955 was up 27%, in 1956 it was up 17%. In 1957, the District of Columbia was up 33%, North Carolina up 11%, and Richmond, Virginia up 42%.

Commercial car sales in four states of the District were up 19% in March over February this year. Last year the February-March change was down 4%, and in 1955 it was 0.

Sales of household appliance stores (without seasonal correction) dropped 11% from February to March but were 1% above March 1956. First quarter sales were 14% above last year.

Construction

Construction contract awards in March dropped 15% (after seasonal correction) from February but were 27% higher than a year ago, and the first quarter was up 36%. The 15% drop during the month of March was a result of declines in residential and nonresidential awards more than offsetting a rise of 130% in awards for public works and utilities. Relative to a year ago, the rise of 27% in total contract awards was caused by gains of 46% in nonresidential and 84% in public works and utilities more than offsetting a drop of 6% in residential awards. For the first quarter, total contract awards were 36% above last year—residential was even, nonresidential up 72%, and public works and utilities up 60%.

The employment level in contract construction during March rose 3.6% in four states of the District and was 7.4% ahead of a year ago. In the year-to-year change, the increase was accounted for by a rise of 21% in Virginia and West Virginia more than offsetting losses of 8% in North Carolina and 1% in South Carolina.

Contract awards or low bids on defense projects in the District during April dropped 31% from March but were 142% higher than a year ago. In the first

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

four months of 1957, defense awards or low bids were 125% higher than in 1956. The dominating factor in the defense expansions this year was family housing and barracks. These accounted for 73% of the total in the first four months of 1957 compared with 34% in the same period of 1956.

Manufacturing

Employment and hours of labor in the manufacturing industries of four states of the Fifth District declined during March. Total man-hours in all manufacturing industries slipped 0.5% during the month to a level 2.5% under a year ago. The drop came in the non-durable goods industries, with durable goods industries man-hours on balance rising moderately.

Among the durable goods industries, selective strength was shown in stone, clay, and glass industries; primary metals; machinery; and transportation equipment. General weakness was pronounced in lumber and wood products industries and in furniture. The nondurable goods industries in March saw some expansion in food and kindred products, cigarettes in North Carolina, full-fashioned hosiery in North Carolina, and chemicals in all states excepting South Carolina. Textile mill products, with the exception of full-fashioned hosiery, declined on all fronts between February and March with the total man-hours down 1%, broadwoven fabrics down 0.6%, yarn and thread mills down 2.5%, and knitting mills down 1.4%. Apparel industries eased slightly in March and were below year-ago levels. Paper mills slowed considerably during the month but remained fractionally above the year-ago levels.

Although market reports indicated the cotton textile industry needed orders during March, the average daily (seasonally adjusted) consumption of cotton by District mills rose 4% over February. Apparently, this output added to inventory and was a factor accelerating cutbacks during April. For the first quarter, consumption of cotton by Fifth District mills was 5% under the same period of 1956.

Except for the flurry of forward coverage last October, the industry has been largely on a spot basis; in fact, it has been nearly a year since sizable forward commitments have been made. Production is probably on—and possibly somewhat less than—a five-day week, while the retail offtake, as far as can be estimated, is holding at or above the year-ago level. This would seem to indicate that the time is not far distant when a better level of mill business can be expected.

Financial

Loans and investments of all member banks of the Fifth District dropped $19 million during the month of March compared with a $29 million gain last year. Loans and discounts during the month rose $44 million, a considerably smaller gain than the $70 million increase last year. Security holdings were off $63 million this year compared with $41 million a year ago.

Total deposits of member banks declined $46 million in March; last year, they rose $59 million. Demand deposits decreased $65 million during March this year, while time deposits rose $19 million. The increase in time deposits during March last year was $27 million, and $32 million in demand deposits.

Net savings in the form of time deposits in member banks, mutual savings banks, and in savings bonds amounted to $18 million during March this year, considerably better than the $11 million during February but 39% smaller than in March 1956. Relative to a year ago, the net increase in mutual savings banks in Baltimore was up 30%. Net redemptions of savings bonds amounted to $7.1 million compared with $2.9 million a year ago. The increase in time deposits of member banks of $18.9 million was 31% smaller than a year ago.

Agriculture

Cash income from farm marketings in the District during February was 12% higher than a year ago, bringing the two months' total 13% ahead. The gains came largely in income from crops up 37%, but income from livestock and products was also up 4%. In the two months' period, crop income was 35% higher than a year ago and livestock income up 3%.

These gains were made largely on a volume basis as prices were only moderately ahead of a year ago. Farm prices in March weakened somewhat from February in Maryland and the Virginias, but strengthened in the Carolinas. Prices in Maryland and the Virginias were above a year ago. They were below a year ago both in North and South Carolina.

Employment

Total nonagricultural employment during March in four states of the District was 0.2% higher than February and 1.5% higher than a year ago. The rise was due entirely to nonmanufacturing employment, up 0.6%, and this was nearly offset by declining manufacturing employment. All nonmanufacturing industries with two exceptions showed some increase on balance between February and March. The largest rise (3.6%) came in contract construction which stood 7.4% ahead of a year ago. Settlement of the longshoremen's strike in northern ports had the effect of reducing South Carolina's transportation employment; West Virginia receded moderately; North Carolina held even, while Virginia showed an increase. Mining employment rose in Virginia, eased in West Virginia, and held steady in the Carolinas.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FIFTH DISTRICT STATISTICAL DATA

FURNITURE SALES*

(Based on Dollar Value)

STATES	Percentage change with corresponding period a year ago: Mar. 1957	3 Mos. 1957
Maryland	— 8	— 5
Dist. of Columbia	+ 2	— 5
Virginia	—10	— 5
West Virginia	+ 2	+ 3
North Carolina	— 3	0
South Carolina	—15	— 5
District	— 4	— 3
INDIVIDUAL CITIES		
Baltimore, Md.	— 8	— 5
Washington, D. C.	+ 2	— 5
Richmond, Va.	— 1	— 4
Charleston, W. Va.	+21	+ 6
Charlotte, N. C.	+ 5	+ 6
Greenville, S. C.	— 2	— 8

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

WHOLESALE TRADE

LINES	Sales in Mar. 1957 compared with Mar. 1956	Feb. 1957	Stocks on Mar. 31, 1957 compared with Mar. 31, 1956	Feb. 28, 1957
Auto supplies	+17	+23	+ 7	+12
Electrical, electronic and appliance goods	—16	—10	—13	+ 8
Hardware, plumbing, and heating goods	— 2	+16	0	— 2
Machinery equipment supplies	+14	0	+ 8	— 6
Drugs, chemicals, allied products	+10	+14	+ 6	+ 1
Dry goods	NA	NA	NA	NA
Grocery, confectionery, meats	— 2	+ 6	— 8	— 3
Paper and its products	NA	NA	NA	NA
Tobacco products	— 9	+10	NA	NA
Miscellaneous	—10	0	+16	+12
District total	— 2	+ 3	+ 4	+ 2

NA Not available.
Source: Bureau of the Census, Department of Commerce.

DEPARTMENT STORE OPERATIONS

(Figures show percentage changes)

	Rich.	Balt.	Wash.	Other Cities	Dist. Totals
Sales, Mar. '57 vs Mar. '56	— 9	— 5	— 6	—13	— 9
Sales, 3 Mos. ending Mar. 31, '57 vs 3 Mos. ending Mar. 31, '56	— 7	+ 6	+ 1	— 4	— 1
Stocks, Mar. 31, '57 vs '56	— 5	+15	+ 9	+ 4	+ 8
Outstanding Orders, Mar. 31, '57 vs '56	— 5	+ 8	— 8	—10	— 4
Open account receivables, Mar. 1, collected in Mar. '57	33.3	55.6	43.0	40.8	43.4
Instalment receivables, Mar. 1, collected in Mar. '57	10.4	14.4	12.9	17.0	13.6

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, Mar. '57 vs Mar. '56	— 5	— 6	—10	— 8	—17	—14

BUILDING PERMIT FIGURES

(37 Cities)

	Mar. 1957	Mar. 1956	3 Months 1957	3 Months 1956
Maryland				
Baltimore	$ 6,366,044	$ 4,767,820	$23,000,909	$15,868,150
Cumberland	93,050	49,525	178,370	132,025
Frederick	186,044	212,950	365,074	302,300
Hagerstown	100,314	275,420	3,398,910	402,795
Salisbury	245,705	206,540	379,909	581,529
Virginia				
Danville	464,329	381,718	1,078,505	1,296,011
Hampton	408,577	1,152,483	5,486,797	2,190,871
Hopewell	195,997	107,618	394,330	442,782
Lynchburg	937,130	3,522,540	2,276,405	4,389,135
Newport News	431,447	458,837	780,962	788,693
Norfolk	712,408	901,968	2,321,304	3,098,681
Petersburg	257,300	290,500	576,534	709,500
Portsmouth	207,420	261,958	777,501	979,158
Richmond	1,128,695	1,399,980	6,297,662	4,843,143
Roanoke	1,219,752	5,223,003	4,554,301	7,779,607
Staunton	161,125	319,316	442,010	770,866
Warwick	1,019,060	854,833	1,866,775	2,000,400
Winchester*	90,490	NA	246,840	NA
West Virginia				
Charleston	594,037	486,781	1,469,612	987,133
Clarksburg	122,300	197,519	434,431	303,257
Huntington	196,700	419,849	684,054	792,536
North Carolina				
Asheville	153,641	1,796,140	837,941	2,377,411
Charlotte	1,363,315	1,735,534	3,962,609	5,890,931
Durham	447,284	1,274,991	3,186,093	1,973,582
Gastonia	435,475	412,725	1,523,225	1,757,500
Greensboro	2,022,753	1,246,685	4,888,482	3,780,510
High Point	259,895	881,905	1,086,274	1,903,719
Raleigh	777,286	754,663	2,747,866	2,607,574
Rocky Mount	349,352	393,376	784,946	1,022,763
Salisbury	188,350	149,070	730,403	507,470
Wilson	156,050	164,400	512,000	1,079,350
Winston-Salem	752,801	1,152,086	3,691,565	3,892,949
South Carolina				
Charleston	377,245	197,132	718,427	580,449
Columbia	284,018	640,476	1,697,051	3,216,430
Greenville	141,450	697,075	540,029	1,843,981
Spartanburg	858,357	422,628	1,333,886	910,558
Dist. of Columbia				
Washington	4,429,171	6,836,673	12,148,963	13,752,730
District Totals	$28,043,877	$40,246,717	$97,154,115	$95,756,479

* Not included in District Totals.
NA Not Available.

FIFTH DISTRICT INDEXES

Seasonally Adjusted: 1947-1949=100

	Mar. 1957	Feb. 1957	Mar. 1956	% Chg.—Latest Mo. Prev. Mo.	Yr. Ago
New passenger car registrations*	----	137	178	— 6	—10
Bank debits	194	197	179	— 2	+ 8
Bituminous coal production*	113	105	104r	+ 8	+ 9
Construction contracts**	228	268	180	—15	+27
Business failures—number	272	205	307	+33	—11
Cigarette production	----	117	99	0	+ 8
Cotton spindle hours	118	116	122	+ 2	— 3
Department store sales	146	136	137	+ 7	+ 7
Electric power production	----	214	198	+ 2	+11
Manufacturing employment*	----	113	112r	0	+ 1
Furniture store sales	123	118	130	+ 4	— 5
Life insurance sales	275	262	219	+ 5	+26

* Not seasonally adjusted.
** Due to revision in construction series 1956 figures are revised.
r Revised.
Back figures available on request.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FIFTH DISTRICT BANKING STATISTICS

DEBITS TO DEMAND DEPOSIT ACCOUNTS*

(000 omitted)

	Mar. 1957	Mar. 1956	3 Months 1957	3 Months 1956
Dist. of Columbia				
Washington	$1,639,527	$1,534,212	$ 4,591,016	$ 4,517,706
Maryland				
Baltimore	1,889,699	1,754,908	5,448,163	5,041,919
Cumberland	27,209	26,994	83,930	77,383
Frederick	30,175	28,068	81,201	74,527
Hagerstown	56,736	50,162	150,645	139,092
Salisbury**	36,932	36,165	107,753	103,971
Total 4 Cities	2,003,819	1,860,132	5,763,939	5,332,921
North Carolina				
Asheville	76,525	72,741	226,938	215,141
Charlotte	454,209	459,348	1,376,622	1,360,593
Durham	82,144	87,877	264,536	258,708
Greensboro	184,070	168,700	544,499	479,328
High Point**	60,055	59,453	175,347	168,424
Kinston	22,859	22,469	74,027	67,928
Raleigh	276,155	257,765	782,700	719,389
Wilmington	52,560	54,299	159,551	156,018
Wilson	19,370	21,196	63,871	64,657
Winston-Salem	195,436	210,451	594,058	586,084
Total 9 Cities	1,363,328	1,354,846	4,086,802	3,907,846
South Carolina				
Charleston	103,096	94,443	299,999	275,582
Columbia	217,454	200,037	631,621	591,855
Greenville	151,030	154,034	442,601	438,282
Spartanburg	70,510	73,193	211,798	215,035
Total 4 Cities	542,090	521,707	1,586,019	1,520,754
Virginia				
Charlottesville	42,580	38,204	125,014	112,199
Danville	48,427	43,002	146,199	133,428
Lynchburg	58,714	62,871	179,010	184,303
Newport News	61,966	62,529	183,992	183,098
Norfolk	329,847	320,997	962,678	917,430
Petersburg**	26,568	34,137	79,777	96,662
Portsmouth	37,045	37,914	112,491	112,288
Richmond	729,159	688,395	2,186,316	2,059,111
Roanoke	153,723	157,237	457,294	449,704
Total 8 Cities	1,461,461	1,411,149	4,352,994	4,151,561
West Virginia				
Bluefield	63,243	56,226	185,117	171,071
Charleston	191,911	183,544	583,556	551,186
Clarksburg	40,626	39,882	127,773	122,810
Huntington	87,223	86,494r	271,018	254,877r
Parkersburg	39,792	36,870	114,645	109,950
Total 5 Cities	422,795	403,016r	1,282,109	1,209,894r
District Totals	$7,433,020	$7,085,062r	$21,662,879	$20,640,682r

* Interbank and U. S. Government accounts excluded.
** Not included in City and District Totals.
r Revised.

WEEKLY REPORTING MEMBER BANKS

(000 omitted)

ITEMS	Apr. 17, 1957	Change in Amount from Mar. 13, 1957	Change in Amount from Apr. 11, 1956
Total Loans	$1,891,394**	+ 24,356	+105,364
Bus. & Agric.	914,127	+ 17,514	+ 96,894
Real Estate Loans	333,587	— 1,202	+ 2,856
All Other Loans	675,153	+ 8,254	+ 11,629
Total Security Holdings	1,603,728	+ 15,067	— 61,089
U. S. Treasury Bills	48,535	— 19,064	— 32,876
U. S. Treasury Certificates	70,992	+ 17,346	+ 53,288
U. S. Treasury Notes	261,809	+ 2,273	— 41,447
U. S. Treasury Bonds	959,131	+ 6,731	— 27,139
Other Bonds, Stocks & Secur.	263,261	+ 7,781	— 12,915
Cash Items in Process of Col.	370,034	+ 12,258	+ 41,669
Due from Banks	177,113*	— 12,354	+ 8,046
Currency and Coin	78,655	— 1,845	— 2,749
Reserve with F. R. Banks	536,232	+ 19,503	— 5,758
Other Assets	76,979	+ 451	+ 4,731
Total Assets	$4,734,135	+ 57,436	+ 90,214
Total Demand Deposits	$3,533,086	+ 45,089	+ 58,982
Deposits of Individuals	2,633,911	— 40,758	+ 32,862
Deposits of U. S. Government	98,261	+ 45,610	— 3,636
Deposits of State & Loc. Gov.	236,705	+ 15,891	+ 16,767
Deposits of Banks	496,408*	+ 13,552	+ 51
Certified & Officers' Checks	67,801	+ 10,794	+ 12,938
Total Time Deposits	768,024	+ 8,203	+ 3,729
Deposits of Individuals	717,110	+ 7,461	+ 32,706
Other Time Deposits	50,914	+ 742	— 28,977
Liabilities for Borrowed Money	32,400	+ 7,400	+ 6,900
All Other Liabilities	53,751	— 2,531	+ 6,252
Capital Accounts	346,874	— 725	+ 14,351
Total Liabilities	$4,734,135	+ 57,436	+ 90,214

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis