FEDERAL RESERVE BANK OF RICHMOND

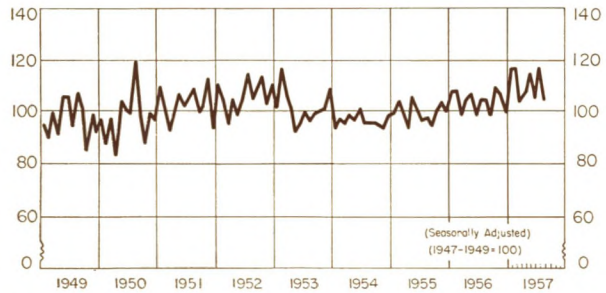
Monthly Review

November 1957

BRIGHT TOBACCO MARKETS GLOOMY AS CASH RECEIPTS SLUMP

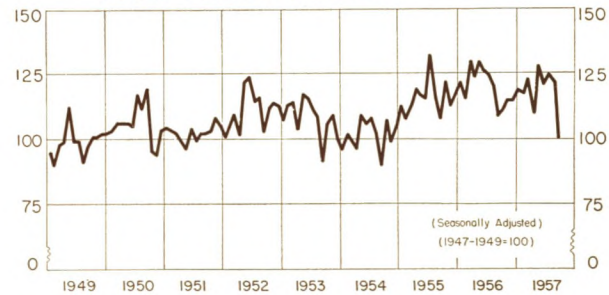
FIFTH DISTRICT TRENDS

CIGARETTE PRODUCTION



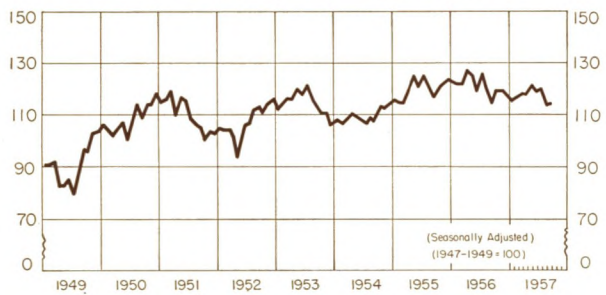
Latest production figure (August) dropped 10% from July (after seasonal correction) and stood at the same level as a year ago. The first eight months were up 6% from last year; Richmond, Virginia, September output down contraseasonal from August.

RETAIL FURNITURE STORES NET SALES



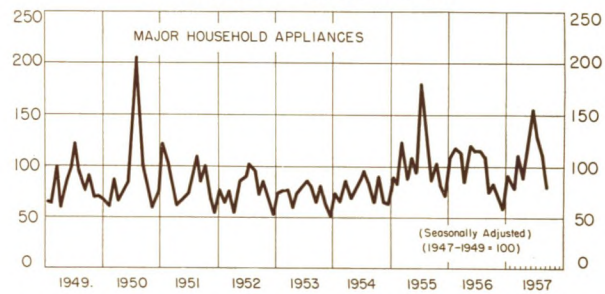
September sales in Fifth District furniture stores dropped a sharp 18% from August on a seasonally adjusted basis. The September level was 7% under last year and the nine months' total was down 3% from last year.

ACTIVE COTTON SPINDLE HOURS



Adjusted spindle hours in District cotton textile mills rose 1% from August to September, was at the same level as a year ago, and the nine months' total was down 4%. Cotton consumption (adjusted) dropped 1% from August to September.

DEPARTMENT STORE SALES



Sales of major household appliances in department stores rose quite substantially in the first half-year up through June, with the June level surpassed only twice previously in history. July, August, and September were in a downtrend, with September (adjusted) 26% under August but 8% ahead of a year ago.

DEPARTMENT STORE SALES

A September drop of 7% in adjusted department store sales brought the level 1% under a year ago and breaks out of the bottom range prevailing thus far this year.

EMPLOYMENT - GOVERNMENT

Governmental units in the Fifth District employed 847,000 persons in September 1957 which was a gain of 2.4% over August. The September level was 2.3% higher than in September 1956.

Smokey Outlook for Bright Leaf Tobacco Farmers

THOUGH American smokers puffed a record-breaking number of cigarettes in the past year, District producers of flue-cured—the principal cigarette-type tobacco—are faced with a 27% drop in cash receipts from this year's bright tobacco crop as price increases only partially offset a one-third cutback in production. Not since 1940 have producers of the "golden weed" so important to the agricultural economy of the Carolinas and Virginia been confronted with so sharp a drop in cash receipts from flue-cured marketings.

The story behind this development is another important chapter in the history of American tobacco production. It is a story worth looking into since farmers in the Carolinas and Virginia produce about 90% of all flue-cured leaf grown in this country and roughly 45% of total world production. With such an important role in not only the nation's flue-cured economy but also the world's, it is natural that what happens to flue-cured supplies, demand, and prices has a direct bearing on their welfare.

Just how direct a bearing is indicated by the flue-cured leaf's relative contribution to total cash receipts from farm marketings. Bright tobacco in North Carolina, for example, produces more cash for farmers than does any other source of farm income—50 cents of each dollar of cash receipts from farm marketings, in fact. In South Carolina the bright leaf contributes 25 cents to every dollar of cash farm income, and Virginia farmers, on the average, find that 16 cents of each of their cash farm dollars comes from that "bewitching vegetable" with the bright leaves. Naturally these averages conceal a host of variations: some farmers in the three-state tobacco area lean heavily on the crop, while outside these belts flue-cured is of no importance.

What has given rise to the present dilemma of the 176,000 farmers and their families who depend on bright leaf tobacco for a share of their income? There is no one answer, nor can the factors that have led to this situation be stated simply, because each bears a relationship to the others. Briefly, the causes are: sharply increased yields per acre, decreased domestic use, a declining export market in relation to total world trade, and consequent rising supplies.

Higher Yields per Acre

The present system of flue-cured acreage controls, in effect continuously since 1940, has intensified the efforts of farmers to grow more pounds of tobacco on their "allotted" number of acres. They have planted new higher yielding varieties, spaced plants closer together, used larger amounts of fertilizer, and irrigated their fields. And they have been successful, for the number of pounds harvested per acre has risen strikingly until in 1956 the average yield was nearly 60% above 1940's.

But the most marked upturn in yields occurred in 1955 and 1956 when a vast proportion of the District's flue-cured farmers planted three very high-yielding, disease-resistant varieties. Record yields of bright leaf were produced in all belts, with those in the Old Belt in 1956 averaging nearly one and a half times the per-acre poundage of the 1953 crop.

Until the 1955 and 1956 crops, farmers had apparently been able to increase yields without lowering the market appeal of their leaf. But these two crops contained unusually large quantities of pale colored leaf—leaf which buyers, both domestic and foreign, felt lacked the customary flavor and aroma associated with United States flue-cured. Partially as a result of this turn of events, disturbing price patterns developed on flue-cured markets in 1955 and continued in 1956. Prices for the so-called low and medium grades—the more aromatic heavier-bodied leaf historically known as "export grades"— rose sharply. Buyers for both the home and foreign market turned "thumbs down" on the thinner-bodied leaf. Result: Prices for the thinner-bodied tobacco declined, quantities of tobacco placed under the Government's loan program in 1955 and 1956 jumped dramatically, and so did stocks. In fact, flue-cured stocks on July 1, 1957, were 36% above the 1953 figure.

All the while total supplies of flue-cured—carry-over stocks plus production—continued to mount, reaching a record-smashing 3.7 billion pounds in 1956. At this point, supplies were 3 times prospective annual domestic use and exports, whereas a more normal relationship is one in which supplies are about 2½ times prospective disappearance.

It was here that the wheels of the Government's price-support program really began to turn. In an attempt to bring supplies more in line with demand, acreage allotments had been cut 12% in 1956, but the entire 1956 crop of United States flue-cured was only 4% lower than in 1955, with production in the Carolinas and Virginia down only 2%. So, taking still stronger action, the Department of Agriculture announced a 20% further cut in 1957 allotments and gave notice that the high-yielding varieties of flue-cured which tended to produce tobacco lacking in flavor and aroma—generally the light-bodied leaf tobacco buyers did not want—would be supported at 50% of the regular support rates.

Declining Domestic Consumption

Higher yields per acre have not caused all the trouble. In addition, the mounting supplies have been faced with a declining domestic demand as the quantity of flue-cured tobacco used by cigarette manufacturers shrank.

It is at this point that 1953 enters the picture. Cigarette output and consumption here at home had reached an all-time high in 1952. And then came the "cancer scare"—in the Fall of 1953. The effect of this scare was felt immediately. Some smokers cut down on the

number of cigarettes smoked per day; a few stopped completely. The net result was that American smokers consumed 7 billion fewer cigarettes in 1953, and 25 billion fewer in 1954, than during the peak year 1952. Gradually people began smoking more cigarettes in 1955, and the uptrend in the number produced and consumed has continued.

But in light of all the publicity linking cigarettes and health, many smokers began to change their smoking habits, switching from regular cigarettes to the filter tip brands. Popularity of the filter tip cigarettes, which comprised only 3% of total domestic consumption in 1953, has grown by leaps and bounds and, according to trade sources, may account for 40% of all cigarettes sold this year. This swing to filter tips has had pronounced effects on flue-cured tobacco growers, for it has changed the leaf requirements of the cigarette manufacturers. It has not only changed the tobacco characteristics sought by the cigarette companies, but also aided in reducing the quantity of leaf used.

Through the years, farmers had worked to produce a light-colored, light-bodied tobacco for use in regular cigarettes. This type leaf—the primings, lugs, and cutters grown on the bottom of the stalk—usually sold for premium prices and was purchased almost entirely by domestic buyers. The darker, heavier-bodied, more aromatic tobacco types—the leaf and smoking leaf grades produced at the top of the stalk—were considered to be of low and medium quality, commanded a lower price, and were bought almost exclusively by buyers for the export trade. But to produce the filter tip brands—to get flavor through the filters—cigarette companies needed the more aromatic types of leaf. Hence, domestic and foreign buyers began competing for the same grades of tobacco. This situation, compounded by the unusually large amounts of pale-colored leaf produced in 1955 and 1956, gave rise to the disturbing price patterns mentioned earlier.

Filter tip cigarettes generally require less tobacco than nonfilter tip brands because of the space occupied by the filter. The length and circumference of some brands have also been reduced. More efficient machinery and more complete use of the tobacco leaf itself also make it possible to get more cigarettes from a given quantity of leaf tobacco. With these factors operating, the experts estimate that manufacturers are now producing 10% more cigarettes per pound of farm-sales-weight tobacco than they were 3 years ago.

And so the paradox goes on! Cigarette output has risen steadily for the past 3 years, but the domestic use of leaf tobacco has continued to decline and is now 15% below the 1952 peak.

An Unfavorable Export Situation

Bright leaf tobacco producers in the Carolinas and Virginia have a big stake in the export market, for 33 cents of each dollar of cash income derived from the flue-cured leaf comes from exports. The share was even larger during the prewar years.

But United States flue-cured exports since World War II have faced an increasingly competitive world market. Growers in this country during the years immediately preceding the War produced nearly two-thirds of the world's flue-cured, and their 1947-51 average accounted for more than three-fifths of world production. Today, however, they produce less than half of the world total. Keenest competition comes from the main exporting countries—the Rhodesias and Nyasaland, Canada, and India—countries whose 1956 production totaled 448 million pounds, 19% higher than in 1955, and 65% above the 1947-51 average. Many of the flue-cured importing countries are also boosting domestic production of flue-cured as are the Philippines, Pakistan, Indonesia, and Australia.

Thus world production and international trade in flue-cured have increased during the postwar years. Yet in spite of these facts, and despite the assistance given foreign countries under special programs sponsored by the U. S. Government, this country's share of world flue-cured exports in recent years has ranged from 60 to 70% as contrasted with 85% in the prewar period.

For a number of years, particularly since World War II, higher prices for United States leaf, a scarcity of dollars, high import duties, guaranteed purchase arrangements, and other regulations have made it increasingly difficult for this country's flue-cured to compete in world markets. Adding to this difficulty in recent years has been the growing use of bilateral trade agreements in the sale of flue-cured by other producing countries—agreements by which foreign countries are assured of markets for their products in exchange for tobacco purchases. And among the most adverse developments of all in the past couple of years have been the high prices for the traditionally known export grades and the production of large quantities of flue-cured which buyers felt lacked flavor and aroma.

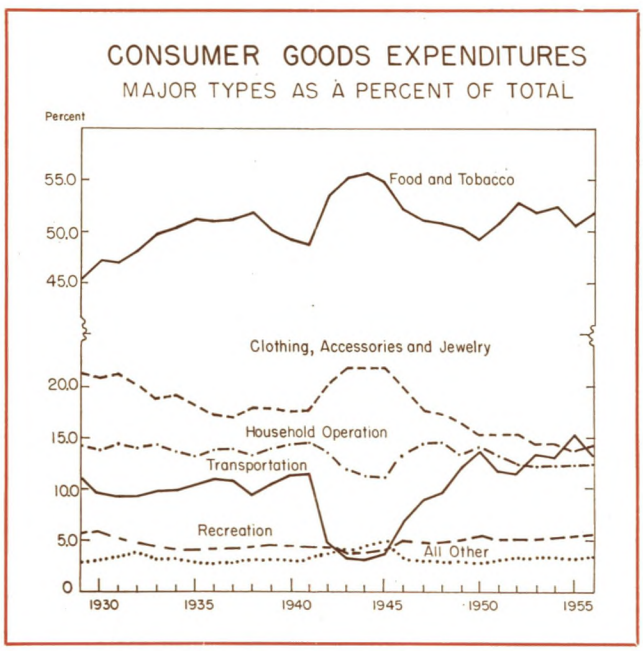
A Perplexing Dilemma

So, despite acreage controls, supplies of bright leaf tobacco have become excessive. The Department of Agriculture's attempts this year to reduce supplies and bring them in line with demand have been aided in some areas by drought and disease. Operating together, these factors have cut the District's 1957 flue-cured production nearly 33% below 1956. Though prices have averaged higher—were at record levels on the Border Belt markets—it appears that this year's cash receipts from flue-cured marketings in North Carolina and Virginia will be down as much as 30% from last year. Those in South Carolina promise to be about 16% under the year-ago level. Soil bank payments and some shifting to other type enterprises will, of course, reduce the full impact of this loss in tobacco income. How much remains to be seen.

Changes In the Strength of Consumer Expenditures

THE economic spotlight is currently focused on the "man in the street," reflecting a prevalent opinion that an unusually important factor in the 1958 business picture will be the extent to which consumers keep playing a merry tune on retail cash registers. After the war and until fairly recently, markets for consumer goods and services were characterized by the fact that in general consumers stood ready, willing, and able to buy all and more of the goods and services produced by insufficient productive facilities. In such a situation past patterns of consumer behavior were of academic interest more than they were of practical importance.

This situation no longer exists, and once again historical trends in consumer spending are being studied for practical purposes along with such other analyses as the structure of consumer demand and the relationship between changes in consumer spending and incomes.



Forecasts of business activity in the year ahead are quite likely to take into consideration the fact that since the depths of the Great Depression in 1933, personal consumption expenditures have risen every single year but one. Other major spending areas of the economy have waxed and waned over the period, but consumer spending has just kept "rollin' along." Short of a severe recession or a depression that cripples the entire economy, evidence thus far indicates that personal consumption outlays move upward with virtually no interruption.

Obviously, this is not to be taken as a forecast of consumer expenditures for 1958. It is indicative, however, of the importance of checking the record in this area before attempting to estimate future activity.

Personal Income Is for Spending

Personal consumption expenditures absorb, of course, the bulk of the total income of consumers, ranging from 98% in 1932—when there were relatively few families that could make both ends meet, much less save anything—to 66% in 1944 when pocketbooks were full but store shelves were empty. During the past 6 years, consumers have spent, on the average, about 82% of aggregate income for goods and services. Taxes have accounted for 12% of personal income in this period—substantially higher than the 3% back in 1931 when tax rates were much lower than they are today (as was, it hardly needs to be added, income).

The remaining share of personal income, if any, after expenditures for goods, services, and taxes, goes into savings. As a percentage of income, personal savings has fluctuated widely, ranging from a small deficit in 1933 to a record 22% in the war-year 1944. It has held fairly steady at around 6% over the last six years.

Currently, about 62% of total consumption expenditures goes for goods and the remainder, 38%, for services of all kinds. Fairly substantial changes have occurred in these percentages. In 1932, for example, outlays for goods, durable and nondurable, comprised a little more than one-half of total consumption expenditures. From that low point the figure rose almost steadily until it was slightly more than two-thirds in 1947. Since then there has been a steady decline to the current level of around 62%.

Nondurables Bulk Large

Similarly, there have been wide fluctuations in the shares of consumer expenditures as between durable goods and nondurables. Purchases of nondurable goods accounted for about one-half of total personal consumption outlays back in 1930. This proportion declined a bit in the two following years before beginning a moderate climb that carried to the 53% mark in 1938. As a consequence of rising incomes and shortages of autos, household appliances, and other durable goods during World War II, the precentage of total consumption outlays for nondurables rose sharply to 60% by 1945. The ratio has trended mainly downward since 1945 and was back to the 50% level in 1956. The average for the last six years since 1951 was 51%.

At the end of the decade of the "Roaring Twenties," purchases of durable goods accounted for 12% of total personal consumption expenditures. The depression years saw this knocked down to the point where it was almost halved by 1933. A rise ensued at that point, and by the opening of World War II the ratio was back to 12%. As already indicated, allocation of war materials and consequent suspension or sharp curtailment of production of civilian durable goods caused a

drop in the share of total consumption spending going for durables to 6% in 1944. Following the decline of war production and with cars and appliances once again rolling off assembly lines, durable goods expenditures rose somewhat irregularly to an all-time high of 15% in 1950. In the succeeding six years this share declined, sashaying around an average of 13%.

Outlays for Services

One of the significant developments in the period since the end of World War II has been the straight-line increase in consumer outlays for services. In fact, the record of consecutive annual dollar increases extends back to 1939. For 18 successive years—1957 will be the 19th—consumers have spent increasing amounts for haircuts, transportation, medical services, shoe shines, movies, and for the many other items in this category.

As a per cent of total consumer outlays, however, expenditures for services have been rising only since 1947 when a low point of 31% was reached after a long decline through depression and war years. An almost unbroken rise since then brought the figure up to 37% last year. It is somewhat surprising to note that despite the sizable postwar growth of services, consumers are still spending less, relative to their total outlays, on services than they did back in 1929 when such outlays constituted a little over two-fifths of total consumer spending. In fact, despite the postwar surge of services, their relative share of consumer expenditures has averaged lower since 1947 than the average for the entire period since 1929.

Shifts in Consumer Preference

With so many demands for income allocation, the channeling of available funds to consumption goods reveals choices born of necessity, custom, and desire. Long-range shifts in consumer preferences have indeed shown some interesting trends, as the accompanying chart illustrates.

Food expenditures, as a percentage of total goods outlays of consumers, have been in a rising trend since 1929. They are, except for the war years, generally at the highest proportion of total expenditures thus far experienced.

During the war years, the shortage of new automobiles, furniture, and appliances turned consumer attention to other areas of expenditure. This is reflected in the percentage of total outlays flowing into purchases of clothing, accessories, and jewelry during that period. The introduction of the "casual look" associated with suburban living and the growing informality of dress in metropolitan areas could be in part responsible for clothing's decreasing percentage of total goods expenditures.

Expenditures for furniture, appliances, china, and other necessary household articles (such as cleaning preparations, paper products, fuel other than gas and electricity) dipped during the war period, when some items were in short supply, and then rose sharply immediately after the war when replacements for the freezer-less refrigerator, the burned-out iron, and the sputtering radio became available. Except for the war years, they have been characterized by relative stability in their place in the total, with evidence of a slight decline over the years.

Less pronounced in prewar years and more pronounced in postwar years, expenditures for new and used automobiles and accessories, gasoline and oil—the "goods" portion of transportation purchases—have shown a rising trend in the percentage of total consumer goods expenditures.

The proportion of consumer outlays for goods used in recreational activities, both within doors (books, magazines, music), and out-of-doors (pleasure aircraft, boats, and—for the person with the "green thumb"—flower seeds and potted plants) has remained almost constant since 1929. Likewise, items constituting the "all other" category—toilet articles, drug preparations, ophthalmic products and orthopedic appliances (the "goods" portion of medical care), and expenditures for foreign travel and remittances—have remained without trend in their percentage of the total.

The above trends give no substantial clues as to imbalances or possible returns to what may have been considered normal proportions of expenditures in other years. The standard of living has obviously been rising, and it is logical to expect a rise to take place in the quality and degree of preparation of food purchased —and a possible rising trend in the relative importance of this category of expenditures for consumer goods. A similar situation applies to transportation goods where the automobile bulks so heavy. Rising living standards, and particularly suburban living, seem also to put a good deal of logic behind the rising proportion of this type of expenditure.

The Federal Budget—

Important Determinant of Business Conditions

With Federal taxes taking a bigger dollar chunk out of the nation's income than ever before, Uncle Sam's financial activities are affecting our lives more and more every day. The average citizen feels the tax effects quite strongly as he digs deep into his pocket every time he files his tax return. But these are only the more obvious effects. Government spending also has quite an important impact upon Mr. John Q. Taxpayer despite the fact that he's rarely conscious that the spending affects him at all. In fact, the relationship between Government spending and taxation may at times spell the differences between inflation and deflation; between boom or bust.

A Budget Is A Budget Is A Budget

Recently, the news releases reported that the Budget Bureau now estimates fiscal '58 budget receipts at $73.5 billion and payments at $72 billion. It has also been announced that the Treasury plans to collect $85.9 billion from the public and spend $82.8 billion during the *same* period! How can there be such wide differences between responsible sources? Naturally, most people are puzzled.

Actually, there's a rather simple explanation as to why these figures don't seem to jibe; there are *two* budgets—an administrative budget and a cash budget. The first figures—$73.5 billion and $72 billion—refer to the administrative budget; the other set of estimates comes from the cash budget.

The administrative budget shows the cash and noncash expenses and income (tax receipts, customs receipts, and the like) the Government expects during a fiscal year. The cash budget differs in two main respects: (1) It includes only *cash* Government transactions with the *public,* eliminating some intragovernment receipts and payments contained in the administrative budget, and (2) it covers not only the transactions of the Government proper but also those of both the Government trust funds (special funds such as the Federal Old Age and Survivors' Trust Fund and the Railroad Retirement Trust Fund) and certain Government sponsored corporations (Federal Deposit Insurance Corporation, the Federal Home Loan Banks, and the Federal Land Banks, for example).

It's Cash That Keeps The Economy Humming

In estimating the total impact of the Government budget upon the economy, one should use the cash budget. The administrative budget gives an incomplete picture, excluding as it does the important operations of trust funds and Government corporations. Such institutions affect the economy pretty much like regular taxation and spending since they withdraw money from people's pockets when they collect receipts and return it when they make expenditures.

Even more important than the planned cash budget are the receipts and expenditures that actually occur. A budget estimate can affect spending only through any effects it has upon people's expectations, but actual Government spending and taxation operations generally directly change the amount of money people have available for spending.

The differences between actual and estimated budgets would, of course, be academic if actual budgets always hit the levels forecast. In practice, "there is many a slip 'twixt the cup and the lip"; actual operations rarely turn out to be the size forecast. Difficulty arises from both sides of the budget. Sudden changes in activity, for example, can upset tax estimates completely since income taxes vary with business ups and downs. Equally important, the Government can vary within limits its rate of spending from that planned. If the administration decides to slow down expenditures after budget estimates are made, it can do so. If it desires to step up outlays, it can tap its backlog of unused appropriations at a faster clip or possibly secure deficiency appropriations from Congress.

The Circular Flow of Economic Activity

The problem of fitting the budget into proper prospective becomes easier if one thinks of economic activity as a circular flow in which individual, business, and Government spending creates income, which in turn generates more spending and more incomes. So long as spending continues to be as great as income, the size of the circular flow will remain constant and there will be little change in business conditions.

Actually, the level of income seldom remains constant because factors are continually injecting new spending into the income stream at one rate and siphoning it away at another. Certain developments, such as a rise in business spending on plant and equipment or increased consumer purchases of automobiles, obviously boost the level of national income. Others—the piling up of cash or inactive bank balances by individuals or businesses, for example—withdraw money from the income stream and tend to depress business activity.

Government taxation and spending affect the income stream in a similar manner. The collection of taxes and other Government revenues takes away a portion of income, leaving less for outlays on goods and services. Conversely, Government spending creates incomes for those from whom the Government buys. Thus, in general, Government taxes tend to depress business activity, and Government spending tends to boost it upward.

Income Effects of Federal Spending and Taxation

Obviously, no categorical answer can be given as to

the exact effects of the Federal budget upon national income, since the kinds of taxes collected, the types of expenditures made, the manner in which any deficit is financed, the use to which a surplus is put, and many other factors will affect the results. Nevertheless, there are certain general principles that apply to balanced budgets, deficit budgets, and surplus budgets.

When The Budget Is Balanced . . .

Even though taxes equal expenditures when budgets are balanced, tax effects seldom exactly offset those of Government spending. Taxes—the drain on the income stream—reduce people's "spendable incomes," causing them to hold both their consumption and saving at lower levels. This cuts the incomes of those who sell consumption goods and services and keeps their consumption and savings also at lower levels. Their suppliers, too, have less to spend, as do others whose incomes are affected by the slower rate of consumption. Because of the reduced demand, business outlays on plant, equipment, and inventories are also likely to be smaller, further lowering income and consumption.

The Government spending—the injection into the income stream—raises the dollar incomes of those from whom the Government buys and causes them to consume more. Their suppliers also buy more consumer goods and services, as do most people whose incomes are affected by either the Government spending or by the consumption it stimulates. In the process, the higher demand is likely to induce additional business spending on plant, equipment, and inventories, which in turn produces more income and stimulates consumption.

Chances are the Government's operations will keep the dollar spending stream at a higher level than it otherwise would have been. Partly this is because our tax system redistributes income in favor of lower income groups by putting a relatively deeper tax bite on those who earn more. This tends to raise the total level of consumption spending (and consequently business spending, too) since lower income groups ordinarily spend higher percentages of their earnings on consumption than do those with greater incomes. A second reason is that Government outlays inject more into the spending stream than an equal amount of taxes takes away. Total spending rises by the full amount of Government expenditures, but taxpayers don't cut consumption outlays by the full amount of taxes since they pay taxes partly out of *savings*. This means that the higher consumption and business outlays induced by Government spending are also likely to exceed the declines resulting from taxes.

What impact does all this spending have upon the economy? It depends, obviously, upon conditions at the time. In periods of relatively full employment, even balanced budgets aggravate inflationary pressures by increasing demand when production cannot expand very rapidly. Prices are also bound to rise when spendings are concentrated on goods in short supply, even though there may be no general shortage of goods at the time. On the other hand, during periods of recession, balanced budgets can act to reduce unemployment and expand production and real incomes by increasing the total level of demand.

When There Is A Budget Deficit . . .

A deficit budget—the kind most of us remember so vividly from the Great Depression—ordinarily exerts a much stronger stimulative effect upon the economy than does a balanced budget. Deficits return more money to the income stream than they pull away, thus increasing the consumption of those receiving income from Government spending. Just as in the case of the balanced budget, these effects spread throughout the economy, causing further rises in consumption and business expenditures.

Such spendings are almost certain to push upward on prices. The amount of pressure, of course, will depend (as in the case of the balanced budget) upon the conditions in the economy. If there is little unemployment, the budget will have strong inflationary implications. If there is considerable unemployment, it will act mainly to increase employment, production, and real income and will cause relatively small price increases.

When There Is A Budget Surplus . . .

A surplus budget generally has roughly the opposite effects of a deficit budget, although even a surplus budget can be inflationary if the surplus is small. In most cases, however, Government spending injects less into the income stream than taxes drain away, thus reducing both consumption and business outlays. A large surplus budget is likely to reduce total spending less than a smaller budget with the same size surplus, however, since large budgets redistribute more income in favor of high consuming groups.

If there are inflationary pressures present, surplus budgets generally exert a stabilizing influence upon prices by keeping total spending at lower levels. During periods of unemployment, however, surplus budgets generally tend to make matters worse by reducing the volume of spending.

Conclusions

Because of the tremendous impact of the budget upon the economy, the Government has to plan its tax and expenditure policies carefully in order to avoid creating economic instability. If the budget is to be used to counteract cyclical swings in the economy, this calls for substantial cash surpluses—not just balanced budgets—during periods of high employment when inflationary pressures are present. Conversely, if the Government wishes to offset the effects of a major depression, it can stimulate spending most by running deficits in its cash budget.

Business Conditions and Prospects

BUSINESS activity in the Fifth District during September fell on balance into the minus column. Building permits recovered from their August dip, life insurance was in demand, passenger automobile registrations held at the August level—a substantial gain over last year.

Output of manufacturing industries, normally rising from August to September, seems a bit less than usual this year. Bituminous coal output weakened, largely as a result of slackening domestic consumption. Cigarette production was reduced, cotton consumption was off a bit, the employment level did not make its customary seasonal rise, and the trade level was the weakest sector in the District economy.

Early marketings of the tobacco crop were responsible for a 14% gain in cash farm income in August over last year. This gives a false impression of the outlook for farm income in this District for the crop season—it is likely to be off substantially from last year. Estimated reductions in cotton and tobacco crops will cause approximately a 10% drop in over-all farm income in 1957 as compared with 1956.

The rise in deposits of District member banks between August and September was smaller this year than last year, but larger than in 1955. Total loans and investments this year rose considerably more between August and September than either last year or the year before.

Trade

Some say it was the weather, some the Asian flu, but whatever the reason, sales of department stores, furniture stores, and household appliance stores dropped notably from August to September. Department store sales in September (after seasonal correction) were 7% smaller than in August and slipped 1% under a year ago. Furniture store sales (adjusted) dropped 18% to a level 7% under a year ago, while household appliance store sales were off 12% in the month to a level 6% under a year ago. These are rather sharp changes and temporarily, at least, indicate difficulties at the trade level.

New passenger automobile registrations did quite well during September by holding at the August level —some 16% higher than a year ago. Registrations of new commercial cars dropped 3% between August and September, but these were 8% higher than a year ago. The September sales level of cars and trucks naturally gives little clue to the sales outlook for the new models now available. Substantial discounts have been used to move a larger inventory of cars than was held a year ago.

Based on the response of department stores in three weeks of October, there does not appear to have been any improvement in the trade level for that month.

Bituminous Coal

Production of bituminous coal in the Fifth District declined 4% (average daily basis) from August to September, but the September output was at the same level as a year ago and the nine months' total was up 4%. Part of this production has gone into domestic inventory and may overstate the current strength of demand.

Foreign cargo shipments of coal through the Hampton Roads and Baltimore ports in September declined 3% from August, but the year's total through September was a hefty 25% above a year earlier.

Reports thus far indicate that the lowered price of fuel oil has not yet had any material effect on coal consumption in markets where the two fuels are competitive. There has been some shift in public utilities to greater consumption of oil, but the demand for coal is still running ahead of a year ago, even though not as far ahead as kilowatt-hour output.

Building Permits

Interestingly, building permits in 35 Fifth District cities rose 22% (after seasonal correction) on a value basis from August to September and stood 20% ahead of a year ago. Nineteen cities showed increases between September this year and last and 16 cities showed reductions. Permit valuation for the first nine months of the year was, however, 2% under a year ago. This is a much smaller loss than was indicated earlier in the year. September employment in the contract construction industry dropped from the August level but was running slightly above last year.

Manufacturing

Activity in the manufacturing industries of the Fifth District (measured in man-hours) rose between August and September, but the rise was of somewhat smaller than normal proportions and the total was about 1% smaller than last year. The August-September rise was caused by seasonal activity in nondurable goods industries; the durable goods industries showed a small decline. The latter, however, showed larger man-hours than a year ago, whereas nondurables used fewer man-hours. Weakness continued in the lumber industry, no progress was made in the stone, clay, and glass industries, and some deterioration took place in the output of machinery. Food products man-hours rose somewhat less than usual due in part to the short crops available to canneries. Cigarettes receded moderately and textile mill products, in general, slipped still lower.

Some improvement in operations occurred in the chemical, paper, and furniture industries.

Cotton consumption in Fifth District mills (average daily, seasonally adjusted basis) was off 1% from August to September, but September was 1% ahead of a

year ago. Clearly this level of production was too high since further weakening in the price structure of goods and yarns took place. Summertime hopes for improvement in the industry have not occurred and the price level has fallen to a point where the "men will be separated from the boys" if voluntary curtailment is not effected shortly.

Employment

Nonagricultural employment (incomplete figures for September) shows a gain of 1% over August or a little over 1% above a year ago. Manufacturing employment was 1.0% higher in September than August and 0.3% above a year ago. Nonmanufacturing employment was up 0.7% from August to September and 1.7% ahead of a year ago.

Employment at the trade level picked up 0.8% from August to September and was 2.2% ahead of a year ago. Government employment, with the re-opening of school, rose 4% from August to September and was 1.6% ahead of a year ago. All other types of nonagricultural employment declined between August and September. Contract construction was down 2.4%; transportation, communication, and public utilities down 0.2%; finance, insurance, and real estate down 0.7%; service and miscellaneous down 0.2%.

Insured unemployment dropped in the District as contrasted with a rise nationally between the third weeks of September and October. District unemployment, however, was 44% higher than a year ago, while the national level was up 39%.

Agriculture

Farm prices nationally declined 1.2% between August and September but remained 3.8% ahead of a year ago. They dropped again from September to October (2.0%), but were 2.6% higher this October than last. All states in the Fifth District showed September prices down from 1.1% to 2.2%, with the exception of North Carolina which rose 5.3%, and West Virginia which showed no change. All District states showed farm prices ahead of September a year ago (ranging from 2.1% in West Virginia to 4.6% in Maryland) with the exception of Virginia which showed no change in this period.

Cash income from farm marketings in August increased 14% over a year ago, with livestock income up 2% and crop income up 19%. But this gain in crop income was due to earlier maturity of the crop and faster marketings of tobacco. The estimated value of the tobacco crop is substantially smaller this year than last and will be reflected in the months to come.

The estimated decline in income from cotton and tobacco in the Fifth District this year, as compared with last year, is sufficient to cause total farm income for the year to run about 10% smaller than in 1956, even if all other types of income hold at the same level.

Banking

Total loans and investments of all member banks during September rose $48 million from August, which compares with a $9 million increase last year and a $36 million increase in 1955. Loans and discounts rose $30 million during September this year compared with a decline of $12 million last year and a gain of $21 million in 1955. Security holdings increased $18 million in September this year compared with an increase of $21 million last year and an increase of $15 million in 1955.

Total deposits of all member banks increased $105 million between August and September this year; last year they rose $113 million; and in 1955 they rose $87 million. Time deposits increased $15 million in September this year compared with a drop of $8 million last year and no change in 1955. Gross demand deposits increased $90 million this September compared with a $121 million gain last year and $87 million in 1955.

Seasonally adjusted bank debits slipped 2% further in September from August, but September was still 9% higher than a year ago, and the nine months' accumulation was up 7%.

FIFTH DISTRICT STATISTICAL DATA

FURNITURE SALES*

(Based on Dollar Value)

STATES	Percentage change with corresponding period a year ago: Sept. 1957	9 Mos. 1957
Maryland	+ 2	— 3
Dist. of Columbia	— 6	— 7
Virginia	— 7	— 5
West Virginia	+15	+ 3
North Carolina	—13	— 3
South Carolina	—11	— 3
District	— 5	— 4
INDIVIDUAL CITIES		
Baltimore, Md.	+ 2	— 3
Washington, D. C.	— 6	— 7
Richmond, Va.	— 1	— 3
Charleston, W. Va.	+44	+14
Charlotte, N. C.	— 8	+ 1
Greenville, S. C.	— 7	— 6

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

WHOLESALE TRADE

LINES	Sales in Sept. 1957 compared with Sept. 1956	Sales in Sept. 1957 compared with Aug. 1957	Stocks on Sept. 30, 1957 compared with Sept. 30, 1956	Stocks on Sept. 30, 1957 compared with Aug. 31, 1957
Auto supplies	— 14	— 5	+ 3	— 7
Electrical, electronic and appliance goods	—34	— 1	—23	+ 4
Hardware, plumbing, and heating goods	— 1	+ 5	+ 7	+ 1
Machinery equipment supplies	+12	— 6	+ 4	— 4
Drugs, chemicals, allied products	+ 6	+ 1	+19	+ 4
Dry goods	NA	NA	NA	NA
Grocery, confectionery, meats	+ 2	— 7	+ 5	+ 4
Paper and its products	+10	— 5	+ 4	+ 1
Tobacco products	+ 5	— 2	— 9	+12
Miscellaneous	+ 1	+ 9	— 6	— 2
District total	0	0	+ 1	+ 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, Sept. '57 vs Sept. '56	— 3	+ 3	— 5	— 1	— 3
Sales, 9 Mos. ending Sept. 30, '57 vs 9 Mos. ending Sept. 30, '56	— 2	+ 9	+ 4	+ 2	+ 3
Stocks, Sept. 30, '57 vs '56	+ 5	+ 6	0	— 1	+ 2
Outstanding Orders, Sept. 30, '57 vs '56	— 2	—23	—27	+13	—20
Open account receivables Sept. 1, collected in Sept. '57	30.8	52.3	39.1	36.6	39.8
Instalment receivables Sept. 1, collected in Sept. '57	10.8	12.7	12.7	17.2	12.9

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, Sept, '57 vs Sept. '56	+ 2	— 5	— 2	— 2	— 8	— 9

BUILDING PERMIT FIGURES

(37 Cities)

	Sept. 1957	Sept. 1956	9 Months 1957	9 Months 1956
Maryland				
Baltimore	$ 1,901,985	$ 1,392,523	$ 48,599,300	$ 53,789,717
Cumberland	73,650	108,666	918,366	1,221,916
Frederick	344,353	210,825	1,716,985	4,067,045
Hagerstown	95,313	1,088,085	5,802,599	2,014,740
Salisbury	246,003	80,775	1,152,330	1,427,097
Virginia				
Danville	211,921	414,153	4,603,319	6,153,449
Hampton	460,334	568,093	11,105,128	5,960,884
Hopewell	77,017	79,770	2,237,690	1,680,567
Lynchburg	498,598	411,910	6,736,212	7,688,485
Newport News	119,037	185,813	1,957,808	1,633,861
Norfolk	1,251,979	1,961,235	8,043,291	20,664,418
Petersburg	561,300	359,200	2,492,264	2,706,150
Portsmouth	751,695	717,276	3,135,101	4,493,545
Richmond	2,962,798	1,185,548	28,032,890	20,527,620
Roanoke	737,126	1,253,594	9,616,674	17,126,956
Staunton	616,818	132,220	2,625,794	2,163,110
Warwick	1,060,185	409,361	8,079,080	5,803,958
Winchester*	48,500	NA	1,402,758	NA
West Virginia				
Charleston	420,590	668,517	6,512,676	7,009,927
Clarksburg	195,074	161,845	1,460,062	1,583,843
Huntington	258,950	426,726	3,634,771	3,898,261
North Carolina				
Asheville	215,457	659,743	2,574,013	5,564,048
Charlotte	1,870,335	1,386,941	15,668,952	22,208,820
Durham	346,734	388,999	6,663,018	6,547,939
Gastonia	504,000	640,825	5,278,550	4,854,775
Greensboro	1,346,081	560,680	10,841,740	11,947,643
High Point	428,445	217,453	3,926,811	5,452,983
Raleigh	1,418,179	1,266,503	10,875,766	12,194,060
Rocky Mount	238,835	176,552	5,109,726	2,634,574
Salisbury	235,555	605,425	2,010,108	2,132,775
Wilson	194,350	158,150	1,725,910	3,450,203
Winston-Salem	942,770	1,124,403	14,322,401	12,725,963
South Carolina				
Charleston	NA	145,783	NA	2,638,799
Columbia	591,549	733,494	11,006,307	7,908,418
Greenville	454,845	296,750	4,134,642	4,790,800
Spartanburg	291,464	284,828	3,238,312	4,047,317
Dist. of Columbia				
Washington	14,468,043	9,842,463	64,140,222	47,791,380
District totals	$36,391,368	$30,305,127	$319,978,818	$328,506,046

* Not included in District totals.

NA Not available.

Note: September 1957 figures for District not comparable with last year because Charleston, S. C. figures are not available.

FIFTH DISTRICT INDEXES

Seasonally Adjusted: 1947-1949=100

	Sept. 1957	Aug. 1957	Sept. 1956	% Chg.—Latest Mo. Prev. Mo.	% Chg.—Latest Mo. Yr. Ago
New passenger car registration*	.....	154	126	— 2	— 6
Bank debits	192	196	176	— 2	+ 9
Bituminous coal production*	108	115r	108r	— 6	0
Business failures—number	254	238	311	+ 7	—18
Cigarette production	.....	105	98	—10	0
Cotton spindle hours	114	113	114	+ 1	0
Department store sales	139	150	140	— 7	— 1
Electric power production	.....	210	200	— 1	+ 3
Manufacturing employment*	.....	114	115r	+ 3	— 1
Furniture store sales	100	122	108r	—18	— 7
Life insurance sales	295	278	226	+ 6	+31

* Not seasonally adjusted.

r Revised.

Due to revision in construction series 1956 figures are revised.

FIFTH DISTRICT BANKING STATISTICS

DEBITS TO DEMAND DEPOSIT ACCOUNTS*

(000 omitted)

	Sept. 1957	Sept. 1956	9 Months 1957	9 Months 1956
Dist. of Columbia				
Washington	$1,530,978	$1,332,193	$14,067,044	$13,301,806
Maryland				
Baltimore	1,720,977	1,558,839	16,759,391	15,513,902
Cumberland	29,041	26,452	268,311	250,674
Frederick	26,405	25,131	246,696	232,824
Hagerstown	45,082	41,911r	414,765	397,807r
Salisbury	39,911	34,898	345,631	326,748
Total 5 Cities	1,861,416	1,687,231r	18,034,794	16,721,955r
North Carolina				
Asheville	95,712	72,688	741,381	660,566
Charlotte	463,872	434,104	4,056,413	3,967,132
Durham	102,810	107,407	845,430	814,043
Greensboro	184,631	160,355	1,631,360	1,461,010
High Point	58,042	52,843	516,784	494,819
Kinston	56,037	58,131	262,008	245,305
Raleigh	264,816	265,512	2,304,739	2,147,393
Wilmington	58,070	56,965	500,532	489,079
Wilson	70,859	68,161	266,398	245,807
Winston-Saiem	209,530	247,167	1,764,476	1,785,529
Total 10 Cities	1,564,379	1,523,333	12,889,521	12,310,683
South Carolina				
Charleston	98,182	90,723	922,649	828,786
Columbia	200,761	187,595	1,879,709	1,750,997
Greenville	153,021	146,930	1,345,875	1,288,007
Spartanburg	68,382	73,812	641,368	638,988
Total 4 Cities	520,346	499,060	4,789,601	4,506,778
Virginia				
Charlottesville	44,676	41,289	394,707	350,691
Danville	57,067	54,843	431,400	395,801
Lynchburg	60,463	57,866	553,832	550,595
Newport News	64,245	55,313	576,117	556,772
Norfolk	314,057	281,051	2,983,712	2,786,126
Petersburg	28,394	24,328	248,803	252,233
Portsmouth	36,698	34,143	351,778	336,341
Richmond	846,432	732,825	7,035,085	6,403,010
Roanoke	174,818	149,014	1,487,061	1,385,952
Total 9 Cities	1,626,850	1,430,672	14,062,495	13,017,521
West Virginia				
Bluefield	56,836	58,060	551,348	514,318
Charleston	183,221	166,019	1,756,631	1,618,504
Clarksburg	41,733	38,693	385,982	362,705
Huntington	90,651	81,927	829,030	763,060
Parkersburg	39,800	37,191	354,900	332,068
Total 5 Cities	412,241	381,890	3,877,891	3,590,655
District Totals	$7,516,210	$6,854,379r	$67,721,346	$63,449,398r

*Interbank and U. S. Government accounts excluded.
r Revised.

WEEKLY REPORTING MEMBER BANKS

(000 omitted)

Items	Oct. 16, 1957	Change in Sept. 11, 1957	Amount from Oct. 17, 1956
Total Loans	$1,964,260**	+ 2,036	+114,035
Bus. & Agric.	920,780	+ 1,123	+ 54,171
Real Estate Loans	346,735	+ 2,972	+ 9,912
All Other Loans	729,197	— 1,943	+ 55,841
Total Security Holdings	1,565,861	+ 34,322	— 85,775
U. S. Treasury Bills	47,030	— 6,922	— 34,775
U. S. Treasury Certificates	116,987	+ 12,061	+ 67,301
U. S. Treasury Notes	182,197	+ 33,071	—112,525
U. S. Treasury Bonds	957,123	— 609	— 3,047
Other Bonds, Stocks, & Secur.	262,524	— 3,279	— 2,729
Cash Items in Process of Col.	412,927	+ 29,079	+ 15,010
Due from Banks	175,271*	— 11,724	— 5,567
Currency and Coin	81,457	— 6,144	+ 1,796
Reserve with F. R. Banks	549,327	+ 7,943	+ 17,127
Other Assets	81,878	+ 1,389	+ 1,328
Total Assets	$4,830,981	+ 56,901	+ 57,954
Total Demand Deposits	$3,576,904	+ 63,226	— 17,397
Deposits of Individuals	2,666,201	+ 8,401	— 1,218
Deposits of U. S. Government	92,793	+ 38,522	— 17,270
Deposits of State & Local Gov.	211,137	+ 8,257	+ 9,637
Deposits of Banks	546,023*	+ 727	— 7,574
Certified & Officers' Checks	60,750	+ 7,319	— 972
Total Time Deposits	811,037	+ 7,898	+ 52,287
Deposits of Individuals	763,679	+ 10,300	+ 69,575
Other Time Deposits	47,358	— 2,402	— 17,288
Liabilities for Borrowed Money	22,450	— 15,150	— 1,350
All Other Liabilities	63,686	— 1,092	+ 7,963
Capital Accounts	356,904	+ 2,019	+ 16,451
Total Liabilities	$4,830,981	+ 56,901	+ 57,954

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