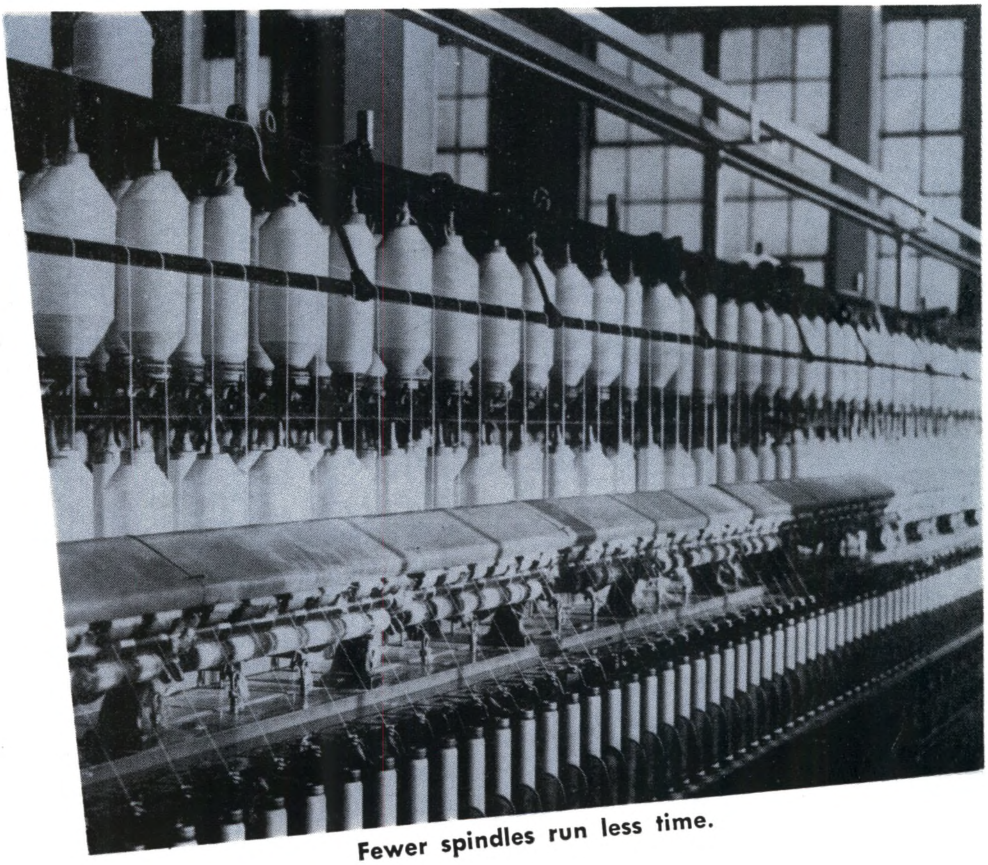
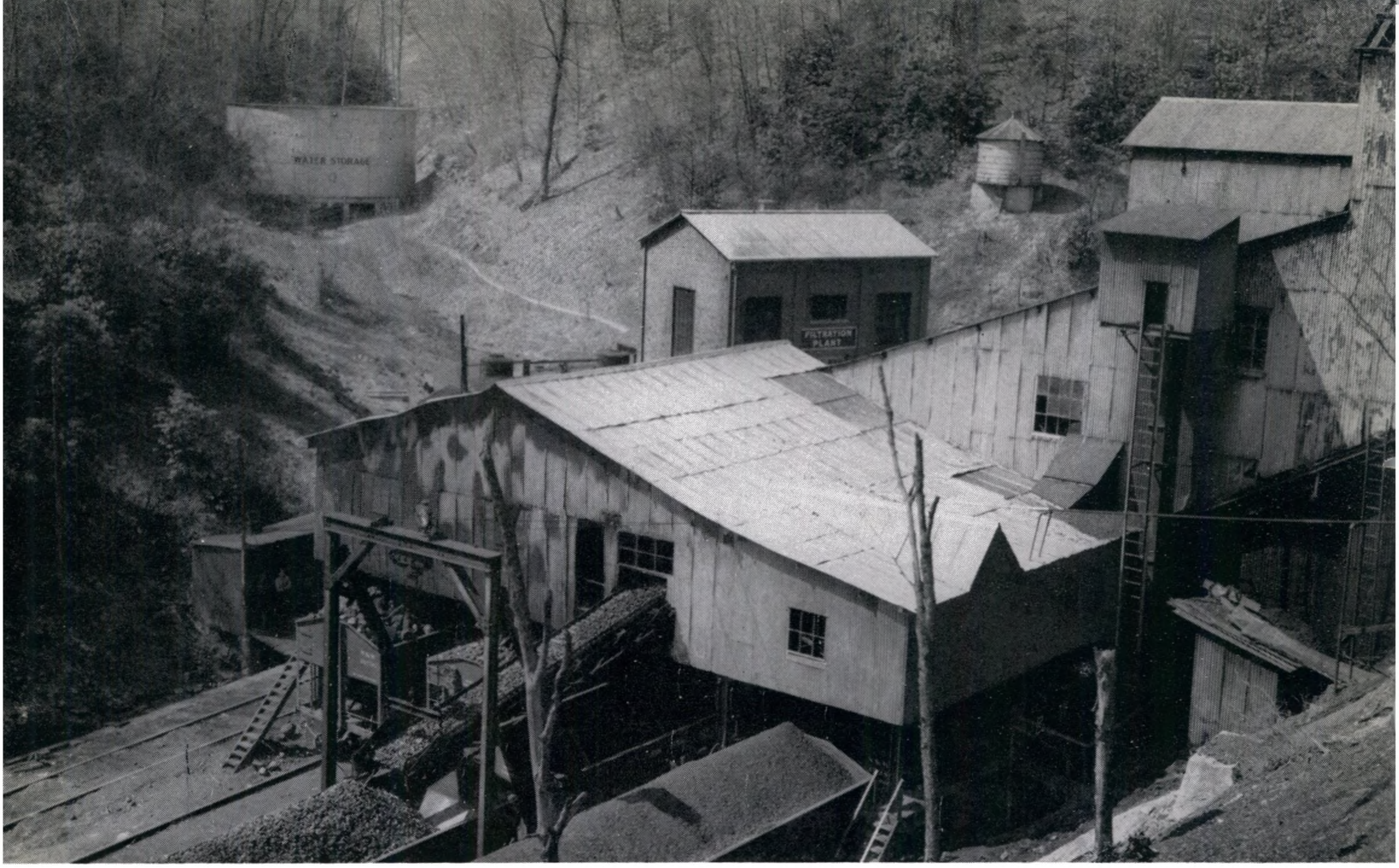
MONTHLY REVIEW



Fewer spindles run less time.

FEDERAL RESERVE BANK OF RICHMOND JANUARY 1958



Overseas coal shipments gained and about offset a drop in domestic use.

Fifth District 1957

Disappointment came to many people in Fifth District states last year. The textile industry started the year hopefully seeking recovery from troubles that started in 1956; only hope was maintained by the year-end, as prices and production moved lower. Bituminous coal mining, though improved over recent years, fell short of the January forecasts of continued large gains. Aircraft manufacturers in Maryland, faced with Defense Department cutbacks, reduced operations in the second half of the year. Farmers of the Carolinas and Virginia, where farming is the chief basis of many local economies, found their January fears confirmed as reduced acreage allotments for key crops brought reduced output with little advance in price.

Fortunately there were gains as well as losses. In the forefront was the construction industry in Virginia and West Virginia. It was joined by the furniture factories of North Carolina and Virginia, which found new strength in the closing months of the year after a sharp drop in the first half. Shipbuilding continued to boom, and cigarette production registered a gain over the year before.

Added to production offsets were increases in employment by state and local governments that more than balanced reductions in Federal payrolls. Trade and service employment also rose, as the output of services continued its growth.

In short, 1957 was a year of plusses and minuses in the Fifth District.

AGRICULTURE Among the minuses of the District's economy, agriculture was hardest hit. Cash income in 1957 underwent a sharp decline from the previous year. The output of most crops in the District was smaller, but the main cause of the drop was the reduced acreage of cotton and tobacco under the acreage control program. Farm prices were moderately higher than the year before but far from sufficient to offset the reduction in quantity of marketings. Soil bank payments amounted to $35-$40 million, perhaps one-sixth of the lost receipts from crop marketings.

MANUFACTURING Aggregate output of manufacturing industries in the District fell short of 1956's level, not seriously but noticeably. Manhours in durable goods industries were a small fraction under a year earlier, but nondurable goods industries were down better than 2%.

TEXTILES The downward trend which got under way in the Fifth District's textile industries in the Summer of 1956 continued in 1957. Feeble attempts at recovery were made in the Spring of 1957, but the rise in production added to producers' inventories and curtailment was the order of the day in the last half-year.

Important areas of the garment trades found business lower in 1957 than in 1956 and reduced their fabric requirements accordingly; in fact, they did worse than this—they reduced their inventories to the bone. As the cotton goods price structure continued to weaken, they made their purchases on a hand-to-mouth basis. The extent of mill curtailment during Thanksgiving and Christmas holidays appears to have changed middlemen's attitudes regarding their inventory position. Several of the large firms placed sizable forward orders through the first quarter of 1958.

FURNITURE Production in the furniture industry of the District underwent a sharper than normal reduction in the Spring of the year, but since that time, output has been on the upgrade.

The retail demand for furniture in 1957 ran somewhat below 1956, with prices up about 2.5%. Possibly the cause of rising production, with no gain in retail sales, was the larger number of patterns which required a greater retail inventory.

Manufacturers' prices in 1957 were a little better than 2.5% above 1956, but the price level held quite steady from January on, after having risen sharply in 1956.

Shipbuilding stayed in high gear.

PAPER Paper production in the nation was down moderately in 1957 compared with 1956, but paperboard recovered in the last half-year and brought the year about even with 1956. The District's paper industry is heavily concentrated in board and, as a consequence, held better than the industry in general. District output receded moderately in the Spring but revived in the last half-year to bring the year somewhat ahead of 1956.

Manufacturers' prices of paper in 1957 rose 3% over 1956 and board prices were marked up somewhat less. At the same time the price of wood pulp was up less than 1% and the price of waste paper dropped nearly one-third.

Weekly figures on paperboard operations show a considerable degree of strength maintained as the year closed.

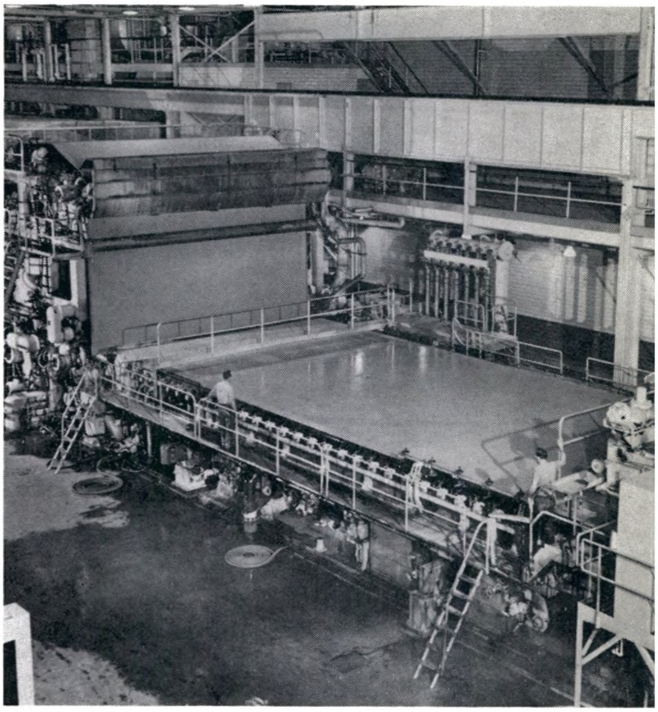
CIGARETTES Cigarette production in 1957 established a new high level, with filtertips making up an increasing proportion of the total. This shift, together with a price rise on regular brands at mid-year, raised manufacturers' realized prices for the year. Several reports linking lung cancer to cigarettes were issued during the year, but apparently smokers were little concerned about them.

SHIPBUILDING Shipbuilding was one of the few manufacturing industries of the District to show a substantial gain in 1957 over 1956. Expansion in billings of the major private yards was phenomenal compared with the year before, while the U. S. Navy yards made modest cutbacks in operations. Gains of several thousand employees more than offset reduction in force at Navy yards. Heavy backlogs assure a high operating level in 1958.

MINING Bituminous coal, which dominates mine products in this area, recorded a small rise in 1957 as compared with 1956. This was due in large part to a sharp increase in export demand and to a lesser extent to inventory accumulation, which more than offset a reduction in domestic demand. As the year 1957 closed, coal production was in a downward trend, with domestic consumption still slipping and exports somewhat easier.

Other types of mineral output in the District, on balance, showed small gains over 1956.

CONSTRUCTION Contract awards were 4% higher in 1957 than in 1956, reflecting a slight gain in physical volume and an increase in costs of a little less than 4%.



Paper proved an element of strength in an easing manufacturing environment.

The construction year got off to a fast start only to back down substantially in the second quarter of the year. The second half-year wound up with contract awards showing a sharp upward trend.

Strength came mainly in the nonresidential area, but a small gain was also shown in residential contract awards. Public works and utilities, which were believed early in the year to be elements of strength, actually declined 14%.

The increase in construction contract awards was mainly in Virginia and West Virginia, and to a lesser extent in the District of Columbia, with declines occurring in other states of the District.

GOVERNMENT Government activities in the District were expanded during 1957 as compared with 1956, and employment increased more than 2%. The gain came in state and local governments, more than offsetting a small reduction at Federal agencies. Construction of schools and other public buildings was at a high level in 1957, and as these were completed payrolls were expanded.

Cutbacks in employment occurred at numerous Federal defense installations in the District. These cuts did not add to any significant total, but they were felt sharply in the areas where the cuts occurred.

SERVICES Demands for the services of transportation, communication, and public utilities were moderately higher in 1957 than in 1956 despite a considerable cutback on the railroads. Communication and public utility services expanded sharply between 1956 and 1957.

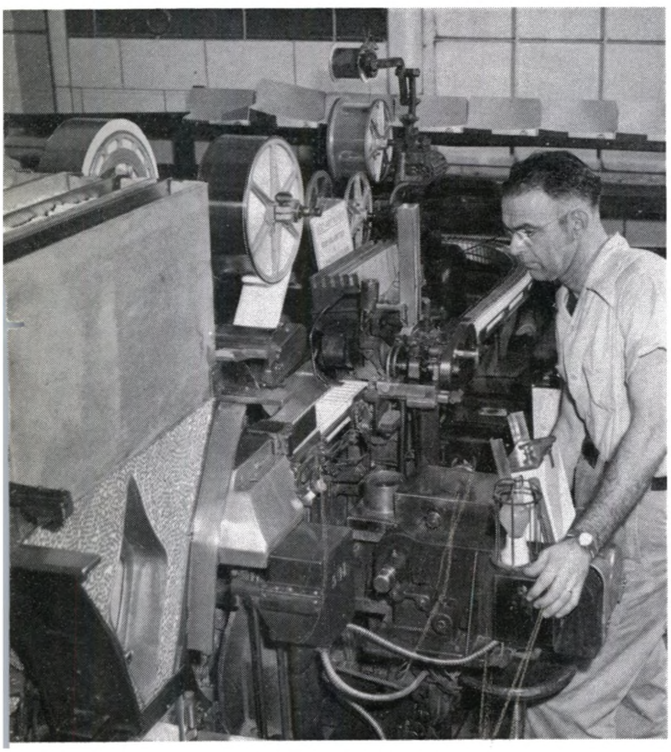
The activities of financial, insurance, and real estate concerns in 1957 required more people than in 1956. Expansion of branch offices was an important consideration in banks and insurance companies—part of the process of catching up with the fan-out in population areas.

Business and personal services expanded in 1957, hiring nearly 3% more people than in 1956. This growth also reflected the expansion of service establishments into new areas as well as the inducement to set up new service organizations because of the rise in price of services.

RETAIL TRADE The results of the Christmas trade have not yet been counted, but early evidence indicates that the year's sales may slightly exceed 1956. Retail trade showed considerable strength in the early part of the year and up to midsummer, but after August, many areas of trade moved downward. Since prices for the year were moderately higher, it is apparent that the physical volume of sales was somewhat lower than in 1956. The expansion of trade facilities into the suburbs, however, required an increase of nearly 3% in employment in 1957 compared with 1956.

New passenger automobile registrations, which had been running even with a year ago through October, fell below in November and apparently in December to bring the year slightly behind a year ago. Commercial car registrations were down about 5%.

Healthy or unhealthy, cigarette puffing ran under forced draft in 1957.



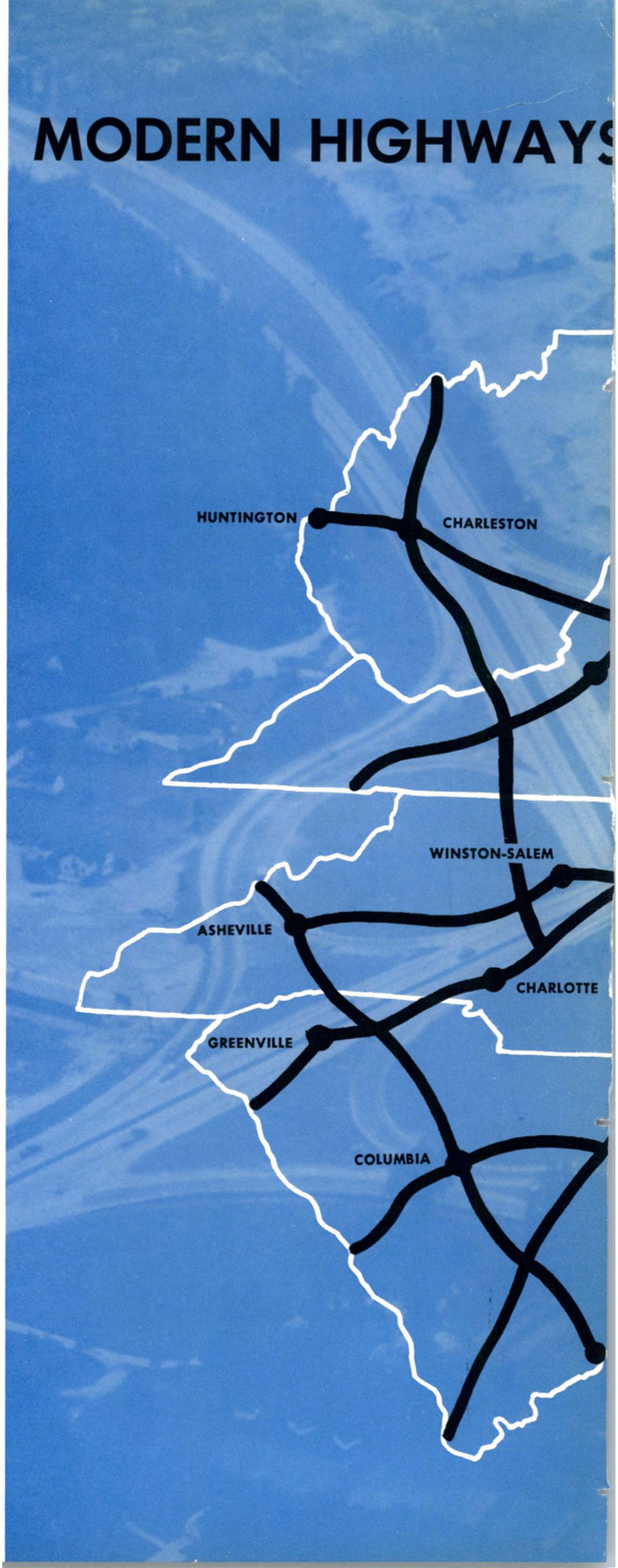
BANKING Total loans and investments of the member banks of the Fifth District rose somewhat more in 1957 than in 1956 due mainly to a substantial increase in holdings of securities other than U. S. The loan rise was considerably smaller than in either of the two preceding years, and the accumulation of U. S. Government securities was less than half as much as the year before.

Total deposits showed a somewhat larger increase in 1957 than in 1956, due entirely to a substantial rise in time deposits. Demand deposits declined during 1957 compared with a small gain in 1956 and a sizable gain in 1955. The gain in time deposits accompanied an increase in interest rates paid on time deposits and was, in part at least, a shift in growth from savings and loan associations to commercial banks.

Seasonally adjusted bank debits in the District rose sharply in the first half of the year but were in a downward trend in the last half. For the year as a whole, debits were about 7% larger than a year ago.

NEW INCORPORATIONS AND FAILURES There was a drop of 1% in the number of new business incorporations in 1957 from 1956. This holds significance only in being a reversal of the upward trend of new incorporations that had been under way since 1951. The drop was not uniform, being concentrated mainly in Virginia and South Carolina. These states' declines more than offset rises in other states, including an increase of 18% in Maryland.

The change in new incorporations was in keeping with the number of business failures, which rose about 1% in 1957 from 1956. The District increase, it may be noted, was considerably smaller than the national increase in this period. Again, failure trends were different among the states, increases coming largely in South Carolina, Virginia, and to a lesser extent in Maryland, with declines in other states.



Work is well under way on the largest public works program our nation has ever had: 41,100 miles of highways—superhighways—expected to cost $38 billion and to require 15 years for completion. Uncle Sam will pay 90% of the cost for the National System of Interstate and Defense Highways, which increases in prices and wages will raise much above the original estimate of $28 billion. The states will pick up the tab for 10%.

The total of $4.9 billion in Federal funds already authorized for the first three years of the program was apportioned to the states on the basis of area, population, and mileage of Federal-aid highways. Future payments will be based on costs of completing each state's share of the 41,100-mile network.

Besides the provision for the interstate super roads, the Highway Act of 1956 has another important facet—Federal funds for primary state highways and farm-to-market roads. Congress has made about $2.5 billion of such funds available for fiscal years 1957-59, which is to be matched on a 50-50 basis by the states. This part of the highway program, if continued at the current rate, would total $25 billion or so in the next 15 years. Contributions by the Federal Government for both systems will be limited to the amount accumulated in a trust fund, which is to be built up chiefly from Federal taxes on gasoline and tires. In addition to these two programs, state and local governments still have to build and maintain many miles of roads and streets without Federal aid.

When all these figures are lumped together, the size of the highway projects exceeds $100 billion. Obviously, this will create no mean financing problems for the states, and for cities as well, since they will have to spend more than the Federal-aid funds they receive for access roads and other hookups with the highway system.

No one should regard the Interstate Highway Program as a cure-all for present and future traffic problems. Nevertheless, it is a vital program of modernization for a nation that might otherwise be strangled by inadequate highways.

FOR A GROWING ECONOMY

Over 3400 miles of interstate and defense highways will be built or modernized in the Fifth District under the provisions of the 1956 Highway Act. The approximate routes are shown on the map of the District.

DOLLAR IMPACT of the Interstate and Defense System

($ Millions)

	Federal Funds First 3 Years	Work Authorized to Date (incl. States' Share)
Md.	58.4	45.7
Dist. of Col.	30.4	15.4
Va.	98.2	39.8
W. Va.	57.8	5.6
N. C.	123.7	42.7
S. C.	65.4	12.1
Total	433.9	161.3

Of Work Authorized, Money Will be Spent for . . .

	Preliminary Engineering and Right-of-Way	Construction
Md.	12.3	33.3
Dist. of Col.	7.4	8.0
Va.	19.2	20.6
W. Va.	5.6	0
N. C.	10.5	32.3
S. C.	3.7	8.4
Total	58.7	102.6

Construction Contracts. . .

	Awarded to 11/1/57	To be let 1958*
Md.	26.3	7.5
Dist. of Col.	5.6	not avail.
Va.	14.4	75.0
W. Va.	0	23.9
N. C.	26.3	43.0
S. C.	8.4	32.0
Total	81.0	181.4

* Estimated by individual state highway departments, and includes cost of right-of-way. Other data from Federal Bureau of Public Roads, as of Nov. 1, 1957.

Who Gets The Consumer's Food Dollar?

Eating is expensive. Last year the typical family market basket of farm-produced foods—said to provide for an average city dweller with a family of 3 or 4—cost $1,010. This was $38 more than in 1956 and more than double the average of the prewar years. It was still down, though, from the $1,034 peak of 1952 and less than 1951's cost.

But the money spent for this market basket of foods did not include all the money this urban family spent for food. Not included were seafoods and imported foods such as coffee, bananas, and pineapple. Nor were foods bought in the form of restaurant meals included.

Why does food cost so much? Could the consumer be partly responsible for the high cost of eating? To get at the facts, take a look at the average food dollar to see just where it goes.

THE FARMER'S SHARE With food products in the typical family market basket costing $1,010 at retail in the year just ended, the farmer received $400, or 40 cents out of each dollar. This 40-cent share is the same as in 1935-39. The farmer got a larger share during World War II when farm prices rose sharply compared to relatively moderate increases in marketing costs.

It is significant that farm prices generally are subject to sharper ups and downs than are the costs of marketing. When the farm value comprises only a small portion of the retail price of a specific food product, the farm price can fluctuate widely without producing too much change in the price of the finished product.

The proportion of each food dollar that goes to the farmer depends on how many marketing services are needed to get the finished product to the consumer. Obviously, therefore, the farmer's share is not the same for all foods. When, for example, the housewife bought a dollar's worth of eggs during the Fall of 1957, the farmer got 66 cents. He received 62 cents of each dollar she spent for choice grade beef and 56 cents for ready-to-cook frying chickens. By contrast, the farmer received only 33 cents of the average fresh fruit and vegetable dollar and just 20 cents of each dollar spent for bakery and cereal products.

MARKETING SYSTEM'S SHARE Charges for assembling, processing, and distributing the foods in the family market basket have increased steadily since World War II. By 1957 this farm-to-retail price spread stood at an all-time high and accounted for $610 of the total market basket value of $1,010. Marketing costs actually have gone up all along the line. Labor costs, which in many instances amount to more than half the total costs of food marketing firms, are now 30% higher per unit of output than in 1947-49. Transportation charges for rail shipments of farm produce have risen by a similar amount. Rents, costs of fuel, electricity, containers, supplies, and other costs are also higher.

In addition, more and more marketing services are being added to foods sold at retail. Refrigeration and longer transportation hauls mean more fresh foods are available the year round. More foods are being packaged. Some are being packaged in smaller sized containers. Production of the principal frozen foods doubled between 1946 and 1950 and has since tripled. Output of other "convenience" foods, such as flour mixes, canned baby foods, ready-to-cook cereals, and potato chips, has also increased. Such services naturally add to the cost of these foods.

Consumers are buying more and more marketing services with their foods.

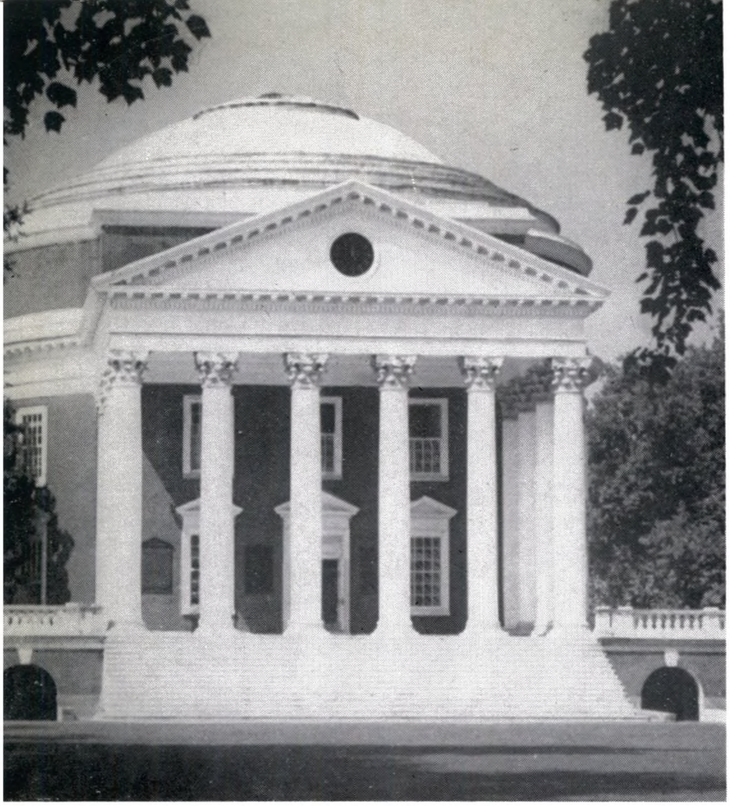
The growing importance of marketing services points up the need for recalling some of the basic facts concerning the behavior and influence of marketing costs. These costs—such items as wages, rents, taxes, freight rates, electricity and other utilities—tend to be much more stable than farm prices. They rise more slowly than farm prices on the upswing and decline even more slowly on the downswing. Sometimes they continue to climb while farm prices slide off. Thus, when marketing charges make up the largest proportion of the retail price of farm-produced foods —for example, 84% in the case of bread—the price at retail is much more sensitive to changes in marketing costs than to changes in prices at the farm level.

FOOD COSTS AND INCOME Retail food prices are now more than double their 1935-39 level. Surprisingly enough, however, the average consumer can purchase with a smaller share of his income the same types and quantities of food he bought in the prewar years. If this same market basket of foods and services were bought today, it would take only 16% of his current income after taxes, as contrasted with 23% in the earlier period.

Actually, the average consumer spent a slightly larger share of his income for food in 1957 than during those prewar years. Why? Partly because he ate more meals away from home. Partly because today's homemaker is demanding more processed and more ready-to-serve or ready-to-cook foods—foods with built-in maid services. She buys slightly more food and more expensive foods—meats, poultry, eggs, dairy products (excluding butter), fruits and vegetables—and less potatoes and grain products.

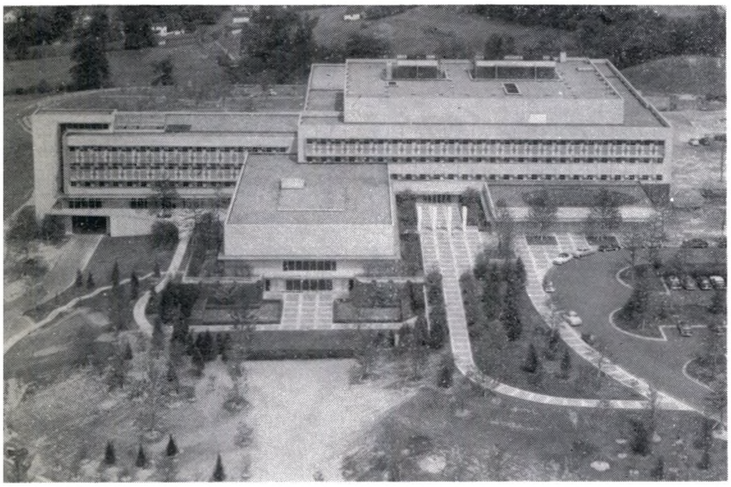
These changes in family eating habits have made for better balanced meals and better nutrition. They have reduced kitchen cooking chores to a minimum, but they have also helped to increase the family's food bill.

The growing number of women working outside the home, rising incomes, and the efforts of homemakers to save time in the preparation of family meals have greatly increased the demand for ready-prepared foods since World War II. As long as Mr. and Mrs. Average Consumer are willing to buy more and more services with their foods, the demand for marketing services purchased with "convenience" foods will probably continue to expand.



(above) Mr. Jefferson's University of Virginia adds to its students through branches in northern and southwestern Virginia.

(below) West Virginia University's new State Medical Center is being financed by a 1-cent per bottle soft drink tax.



College Is Big Business

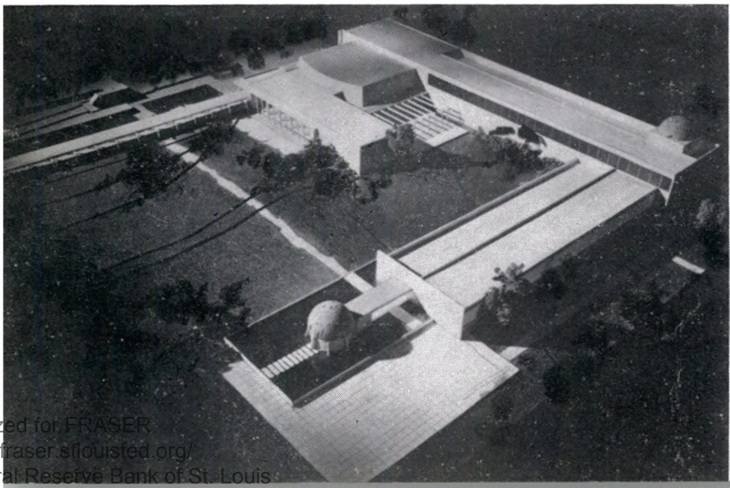
When James Blair founded the College of William and Mary in 1693 at Williamsburg, Virginia, he started an important industry for this region. The 215 colleges, universities, professional schools, and junior colleges of the Fifth District now spend more than a quarter of a billion dollars annually for their operation, plus perhaps a fifth of that amount for buildings, equipment, and stadiums. They are an involved and massive economic operation.

Their employees include some 25,000 faculty members, a substantial fraction of professional employment in the area. Their payrolls, which also list clerks and coaches, cashiers and cleaners, total $120 million annually. Assets—physical plant, endowments, loan funds, and such—total well over $1 billion, more than the capital accounts of all banks in the District.

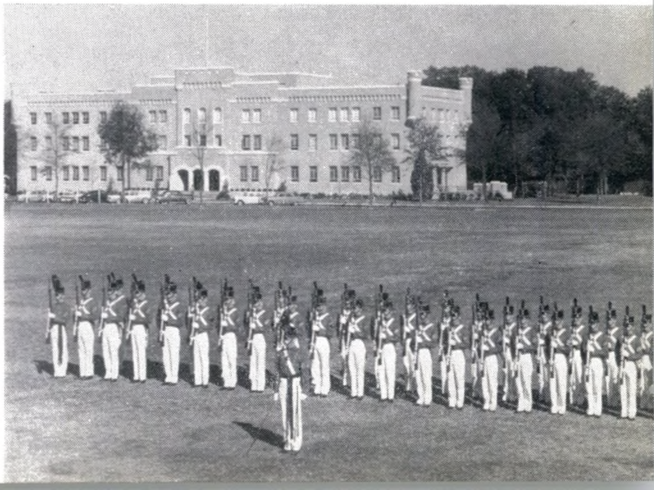
Unlike most industries, higher education views with apprehension the expected doubling in demand for its services over the next few years. Losing money on every customer, it seeks new resources with which to meet increased losses.

INCOME AND OUTGO Behind the $200 million-plus outlays for educational activities, there is no typical college operating statement. Publicly controlled schools, numbering about 60, look to state governments for more than one-half their funds. Private institutions get practically nothing from this source but lean on endowment earnings and gifts for nearly one-fourth their revenues.

St. John's College, Annapolis, provides education in the classics in twentieth century architecture.



The Citadel, presided over by four-star General Mark W. Clark, emphasizes its role as a leading military college.



In neither public nor private schools do the students pay their own way. Tuition fees amount to one-seventh of total income for public schools and one-third for private institutions.

The Federal Government is an important source of revenue for some schools. Research contracts and grants accounted for perhaps three-fourths of the $41 million of Federal funds paid to District schools in a recent year. Appropriations to land-grant colleges for joint Federal-State activities took most of the remainder.

Instruction, libraries, extension work, public services, and closely related activities take about three-fifths of the District's higher educational budget. Organized research, important enough in many schools to be accounted for separately, takes one-seventh, and the overhead of general administration and plant operation accounts for the balance.

In addition to their educational activities, District schools are important providers of lodging, meals, and services. These bring in another $60 million a year, generally enough to cover current costs of operation.

BRICKS AND BONDS Classrooms, laboratories, bedrooms, and dining halls are important to education, even as are gymnasiums and football fields. Total value of this physical plant in the District is estimated at more than $800 million, with new construction running as high as $50 million a year.

Additions for state schools are financed largely with tax funds, although borrowed funds also play an important role. The College Housing Loan provisions of the Housing Act of 1950 enable colleges and universities to obtain from the Federal Government long-term, low-interest loans for construction of student and faculty housing. Private schools look to gifts and grants, as well as utilizing loans and transfers from current funds.

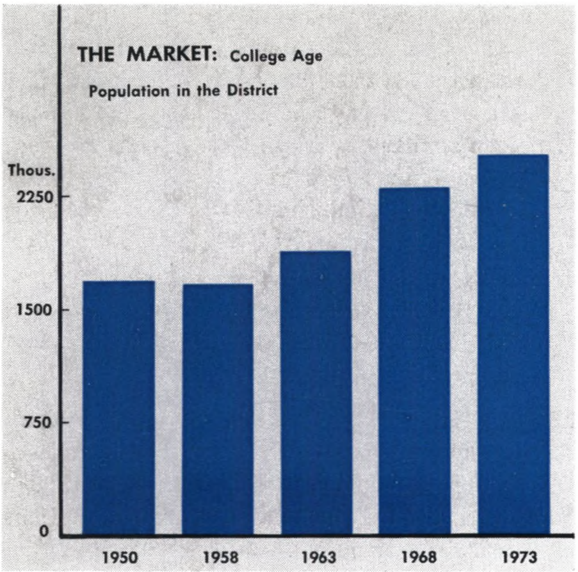
Nationally 1% of higher educational institutions hold 45% of all endowment funds. Within the District a similar disparity holds. Johns Hopkins and Duke Universities currently report endowments of $46 million and $32 million, compared with a District total in 1954 of $254 million. Another large share is held by the University of Virginia, whose reported endowment of $35 million tops total endowment funds held by other state universities of the District.

RESEARCH CENTERS Traditionally the nation's research resources have been centered in colleges and universities. This is still true, even though governmental and business research operations have increased manyfold.

Much of the research expenditure of District colleges and universities takes the form of grants

Catholic University of America looks to gifts from Roman Catholic dioceses for one-third its educational income.

Duke University Chapel is the center of an impressive Gothic plant made possible by the gift of one family.



Educators view with restrained enthusiasm the growing numbers of potential students.

to faculty members and graduate students. The availability of research funds often proves the deciding factor in recruiting and holding capable teachers and students.

A number of new industrial plants have been located near District colleges for the stated purpose of utilizing faculty members for research into related scientific processes. Capitalizing upon a similar theme, the State of North Carolina currently advertises as its secret weapon for attracting industry the "research triangle" defined by the University of North Carolina, Duke University, and North Carolina State College.

THE FUTURE It is estimated that U. S. college enrollment will double by 1970 as the children of the postwar years reach college age and a greater proportion of them actually attend college. Presently this age group is at its lowest point in 25 years.

Thoughtful educators everywhere are concerned with provision for this coming wave of students. A doubling of facilities is said by many to be quite beyond the capabilities of the schools—any acceptable solution must include more effective use of classrooms and other buildings.

Many public and private schools are more or less deliberately limiting their expansion by screening applicants more closely and increasing their fees. State universities—traditionally open to public high school graduates—are setting up entrance examinations and rejecting less well qualified applicants in an effort to upgrade their student bodies. Tuition fees are no longer nominal in many schools and are now substantial in a number of private schools.

Increased pressures have developed for higher salaries for faculty members. Competition from business and government has made better pay a necessity if scholars in some fields are to be retained. Further, the attraction of qualified recruits to the teaching profession is receiving increasing attention as a necessary element in providing instruction for the future. As a result, faculty salaries are increasing and give promise of further gains.

Construction programs and higher salaries require more money, and college and university administrators persistently search for new sources. Most agree that public institutions have an advantage through their access to tax funds for demonstrable needs. Private schools, on the other hand, have more success in drawing on religious organizations—important for many church-sponsored schools—individuals, and business firms.

Corporations contributed about $110 million to educational institutions and student assistance plans in 1956. They are looked upon as potential sources of substantially larger sums, and many schools are actively engaged in selling their needs to industry. Similarly intensive programs go forward to urge alumni to provide more effective help for their alma maters.

Even with substantial increases in private funds, however, many observers conclude that public funds must meet an increasing proportion of needs in the future. Public schools, they say, will likely increase their share of enrollments from the current District level of 48%.

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