

MONTHLY REVIEW



Congress spent many hours this summer reviewing the complex problems of debt management.

FEDERAL RESERVE BANK OF RICHMOND

OCTOBER 1959

Congress Looks At Ceilings

Looking at ceilings this last summer was a favorite work-time, if not pastime, of the recently adjourned 86th Congress. No, not the ceilings in the legislative halls, or corridors, or even individual offices, but the self-imposed ceilings both on our national debt and on how much interest the Treasury can pay on longer-term securities it sells in the market or on the savings bonds it sells to individuals. What prompted this not upward nor outward but inward gaze by Congress at the limits it was imposing?

LOOK-SEE SPARKED BY PRESIDENT Early last June the President sent a message to Congress asking it to lift its ceilings, if not its eyes, heavenward in order to "safeguard the public credit" and permit "sound conduct of the Government's financial affairs." In his message the President said that he was asking the Secretary of the Treasury to transmit appropriate legislation to accomplish these resounding phrases—legislation providing principally for three things:

First—An increase in the regular public debt limit from \$283 billion to \$288 billion and in the temporary limit from \$288 billion to \$295 billion.

Second—Removal of the 3.26% interest rate ceiling on savings bonds.

Third—Removal of the present 4¼% interest rate ceiling on new issues of Treasury bonds.

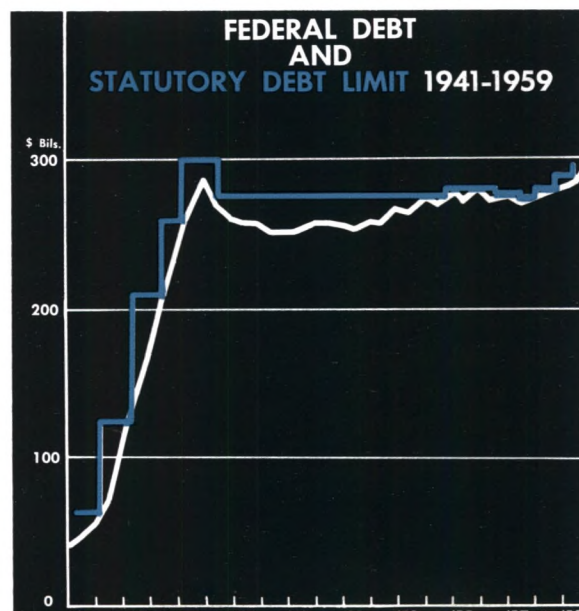
Explanation of the *why* of these proposals, along with drafts of bills, was immediately furnished Congress in more detail by Treasury Secretary Anderson, who testified further on the proposals at public hearings held by the House Ways and Means Committee on June 10. Why were the proposals deemed so vital? The Secretary gave Congress a number of reasons, reviewing separately the debt limits and interest rate ceilings.

DEBT CEILING Historically a fixed limit on the national debt came about rather casually. It dates back to 1917 when the Congress passed the Second Liberty Bond Act. Prior to the Liberty Bond Acts in 1917 Congress usually passed a new law each time the Treasury needed to borrow money and by setting the terms (including amounts) and types of securities to be issued kept close control

over the amount and type of debt issued. To simplify matters, however, as well as in recognition that World War I would involve substantial borrowing, Congress in the Second Liberty Bond Act pulled together some of the unused borrowing authorizations from previous acts and authorized the Treasury to issue bonds "not exceeding in the aggregate \$7,538,945,460." Increases in the authorized debt made necessary by World War I, by deficits during the depression years, by World War II and subsequent events, including the Korean War, were in turn made possible by Congress simply amending the Second Liberty Bond Act each time new debt authority was needed. An amendment to that Act in 1941 lumped the authorization for bonds, notes, certificates, and bills into one debt figure—a ceiling on the *total* outstanding debt—and there has been no subsequent legal change in the coverage of the ceiling although prior to June the limit was increased, in ten steps, from \$65 billion to \$288 billion.

PRO AND CON Over the years since Congress shifted its focus on the public debt from the specific securities to the maximum amount outstanding many arguments have been advanced for and against a debt ceiling. Those favoring a ceiling generally stress that it provides some check on excessive spending, a check that is even more important in view of Congress's difficulties in controlling expenditures under the present budget and appropriation process. The principal argument advanced by those opposed to a debt ceiling is that it may hamper the carrying out of necessary Government programs, such as national defense, in the absence of an adequate tax program. As

Since 1953 the national debt has been pressing closely against the successive statutory limits established by Congress.



evidence they cite experiences such as the cutbacks in national security spending in 1957 to stay within the debt limit, as well as other "manipulative practices," including the 1953 sale to commercial banks by the Commodity Credit Corporation of certificates of interest, representing shares in a pool of price support loans.

THE SECRETARY'S REASONS Secretary Anderson led off his discussion of needed increases in the debt limits last June by noting his general approval of some sort of restriction. "The existence of a restrictive debt limit plays an important part in our struggle for fiscal soundness" because it focuses attention on the part of the public, Executive Department, and the Congress on the problems of sound Government finance. As his predecessor, Secretary Humphrey, had put it, breaking through the debt ceiling is like breaking through a sound barrier: "there is an explosion when you go through it and there ought to be one."

Three main reasons for an increase in the permanent debt limit were advanced by Secretary Anderson. First, the financing of budget deficits engendered by the 1957-58 recession was expected to bring the public debt to approximately \$285 billion on June 30, 1959—\$2 billion over the regular debt ceiling existing at the time of the Secretary's testimony. A second reason advanced was to enable the Treasury to have enough leeway, in terms of its cash balance, to be more flexible in its borrowing operations. Strangely enough, the Treasury has the same problem as many individuals or businesses in maintaining a sufficient cash balance for working purposes so as to avoid too frequent borrowing, or at least to avoid borrowing at inopportune times. To maintain an adequate

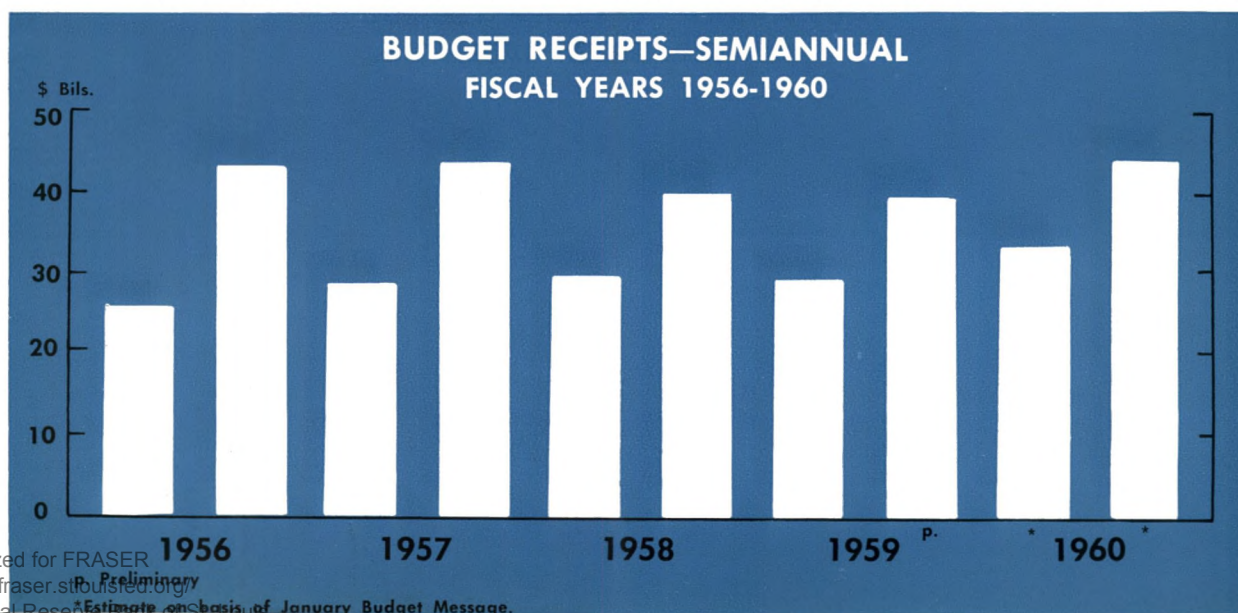
cash balance the Treasury may at times have to sell new issues of securities in advance of the maturing of old securities. This could mean that for a short time the Treasury's total debt might exceed the ceiling. For greater flexibility, therefore, the Secretary called for an increase in the regular debt limit. Finally, the Secretary noted that the \$3 billion debt leeway as a minimum would provide some margin in the event a national emergency occurred when Congress was not in session.

The need for an even higher temporary debt limit was related more directly to the seasonal pattern of budget receipts. Even with a balance between expenditures and receipts for an entire calendar year, expenditures exceed receipts by substantial amounts in the last half of each year. Payments by smaller corporations, payment of the greater portion of total liability by large corporations, and concentrations of individual declarations and final payments result in relatively high tax receipts in the first half of the calendar year and low tax receipts in the second half. These fluctuations, according to Secretary Anderson, might mean that at intermediate points the cumulative deficit might well exceed even the proposed permanent ceiling.

INTEREST CEILING ON SAVINGS BONDS In his message to Congress the President said that improving the terms of savings bonds so as to make them more attractive would "... strengthen the contribution of the program both to habits of thrift throughout the Nation and to a better structure of the public debt." Secretary Anderson spelled out these reasons in testifying before the House Ways and Means Committee.

The Secretary stressed the contribution to thrift

Because Treasury spending exceeds receipts by large amounts during half of the year, a higher debt limit is temporarily necessary.



habits by purchases of E and H bonds on payroll savings plans. Almost half of current sales are accounted for by purchase on payroll savings plans by some eight million Americans. "Many of these savings grow out of the payroll plan, savings which would not take place in such volume if it were not for the savings program." The discipline of paycheck deductions to buy savings bonds has helped many small savers to save regularly. As of last June more than \$42.5 billion of E and H bonds were outstanding.

As to the debt structure, the Secretary pointed out that the savings bond program puts more of the public debt in the hands of long-term investors who hold on to their savings in this form. "Few people realize that the average dollar invested in these bonds stays with the Treasury approximately seven years." This cuts down the Treasury's need to turn to short-term inflationary borrowing.

NEED FOR HIGHER RETURN The need for increasing the interest return to make savings bonds more attractive was related to the fact that cash-ins were outrunning sales in 1959 and by increasing amounts. This in turn reflected the worsening competitive position of such bonds as an outlet for savings. The rate of interest return on E and H bonds had become much less favorable, in comparison with savings accounts as well as with other types of securities—both Government and private.

To improve immediately the competitive position of savings bonds interest-wise the Treasury proposed a higher rate—at least $\frac{1}{2}\%$ per annum more—on new bonds if held to maturity, and on future earnings of outstanding bonds if held to maturity. The Secretary noted this would result in equitable treatment of all bondholders; it would leave present holders little incentive to cash bonds and buy new ones—an operation costly to both the investor and the Treasury.

INTEREST CEILING ON OTHER TREASURY BONDS

Just as in the case of the debt ceiling, the interest ceiling on all new issues of Treasury bonds (other than savings bonds) traces back to the transition from the pre-World War I financing practices in which the Secretary of the Treasury had little discretion to the broadening of the Treasury's authority in the First and succeeding Liberty Bond Acts. The First Liberty Bond Act in April, 1917, set a $3\frac{1}{2}\%$ ceiling on new bonds, the Second Act in September, 1917, increased this to 4%, and the Third and Fourth Acts (April and July, 1918) called for a $4\frac{1}{4}\%$ ceiling. This latter ceiling has held ever since on all new Treasury bond issues,

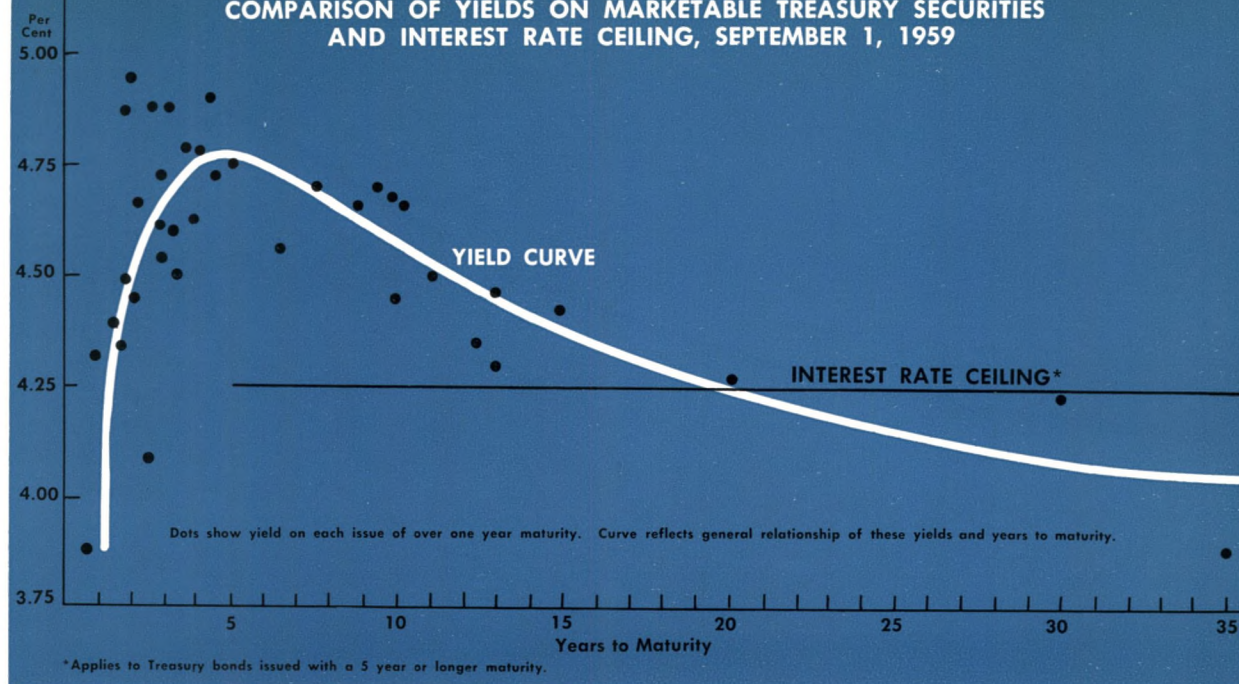
which includes all issues maturing in more than five years.

In discussing the $4\frac{1}{4}\%$ ceiling, Secretary Anderson pointed out, "Until recently, the trend of interest rates in the past 25 years has made the $4\frac{1}{4}\%$ -percent ceiling a somewhat academic problem." Why? Because it should be remembered that interest after all is simply a price—a price determined basically by the supply and demand for credit. In the 1930's the depression-diminished demand for funds on the one hand, and a swelling supply of funds on the other hand, resulting from a substantial inflow of gold into this country, had depressed interest rates to unusually low levels. In the 1940's to assist in the financing of World War II the Federal Reserve System supplied billions of dollars of funds to meet essential demands and kept interest rates at artificially low levels—well below the $4\frac{1}{4}\%$ ceiling. Supplying these funds, however, resulted in additions to the money supply far outrunning the flow of goods and services, with a consequent build-up of inflationary pressures—pressures which erupted in the postwar period.

NO LONGER AN ACADEMIC PROBLEM To try to regain some measure of control over these inflationary pressures, the Federal Reserve, beginning in 1951, ceased supplying all the funds demanded in expansionary periods, such as the present one. As a result interest rates again have been more responsive to free market forces of demand and supply for credit, resuming their more traditional role in allocating resources. As market forces have been marked recently by unusually strong demands for credit by business, Government, and individuals, interest rates have risen sharply—currently to the highest level in many years.

Thus the $4\frac{1}{4}\%$ ceiling is no longer an academic problem for the Treasury. To compete for funds in the market the Treasury must sell securities at attractive rates, and in the present market this means rates above $4\frac{1}{4}\%$. Market conditions have made the $4\frac{1}{4}\%$ ceiling a barrier to borrowing—other than on short-term securities not subject to the ceiling—and, according to the Secretary, a "barrier to effective debt management." It is a barrier to effective debt management since it forces the Treasury to do all of its borrowing on short-term securities where it is not subject to the rate ceiling and can compete interest-wise. This means reliance on borrowing that must be renewed at short intervals; the Treasury must constantly take its hat in hand and ask for funds. Even more im-

COMPARISON OF YIELDS ON MARKETABLE TREASURY SECURITIES AND INTEREST RATE CEILING, SEPTEMBER 1, 1959



On most Treasury securities the market has established yields above the 4¼% rate the Treasury is allowed to offer on longer issues.

portant, it can only ask for short-term funds and this has serious inflationary implications. For issuance of the Treasury's short-term debt generally involves selling such securities to commercial banks—except when nonbank demand is unusually strong—and this in turn means that bank deposit money increases and may press on the market for goods with possible inflationary price rises as a result. In the President's words, "The piling up of an excessive amount of short-term debt poses a serious threat that may generate both the fear and the fact of future inflation at an unforeseeable time."

CONGRESS LIFTS CEILINGS How did Congress respond to the President's appeals and the Treasury's proposals? Congress responded almost immediately to the debt ceiling proposal, took action near the close of the session on the interest ceiling on savings bonds, and made no change in the interest ceiling on other Treasury securities.

During the latter part of June, Congress passed a bill raising the permanent debt ceiling to \$285 billion (\$3 billion less than requested) and raising the temporary debt ceiling to the requested level of \$295 billion, at least for the 1960 fiscal year. The unwillingness to raise the permanent debt ceiling beyond \$285 billion reflected the fact that the public debt was not expected to exceed that amount on June 30, 1959, and that the outlook for fiscal 1960 was for a level of budget receipts sufficient to cover budget expenditures.

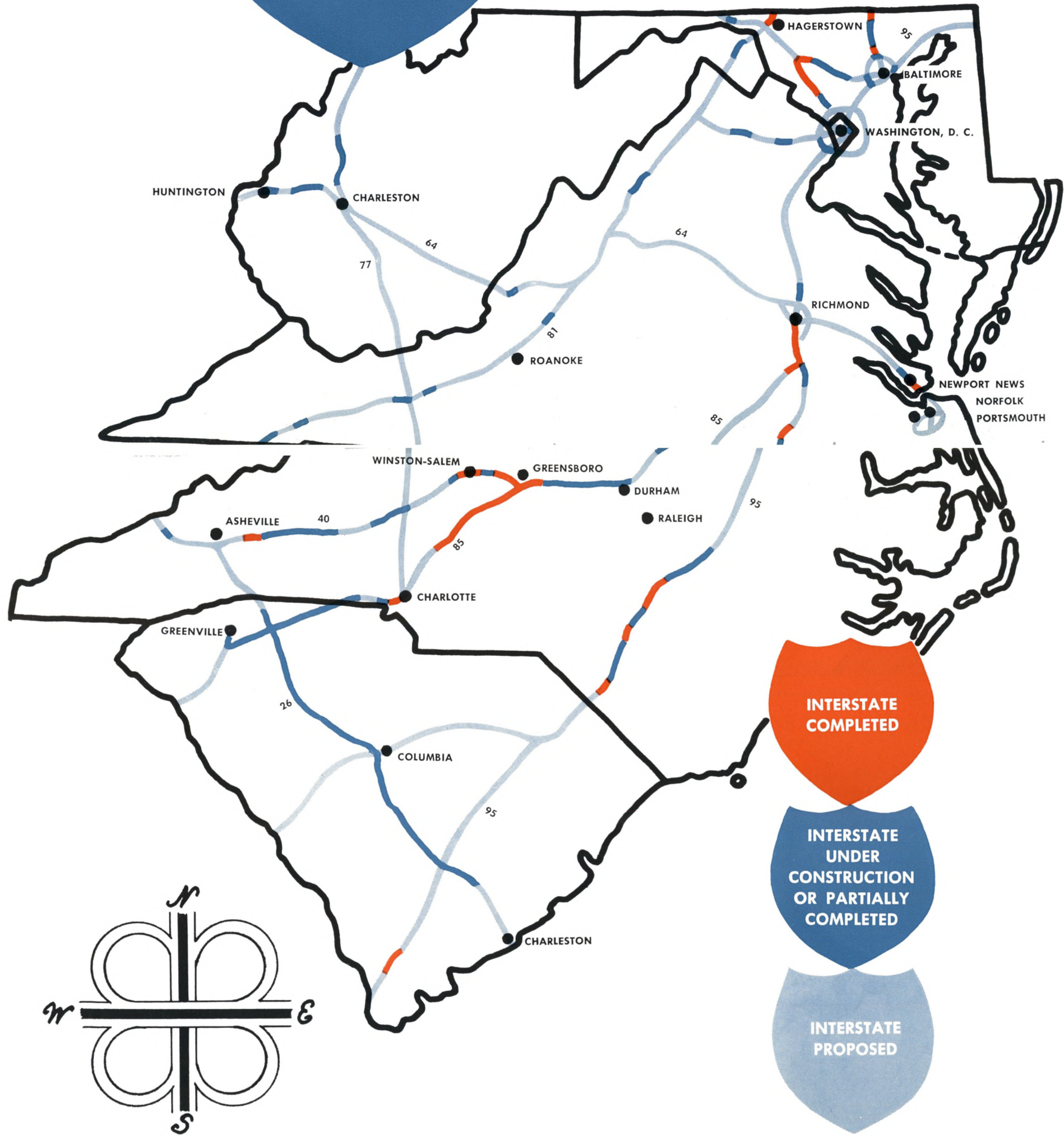
Considerable Congressional debate arose this

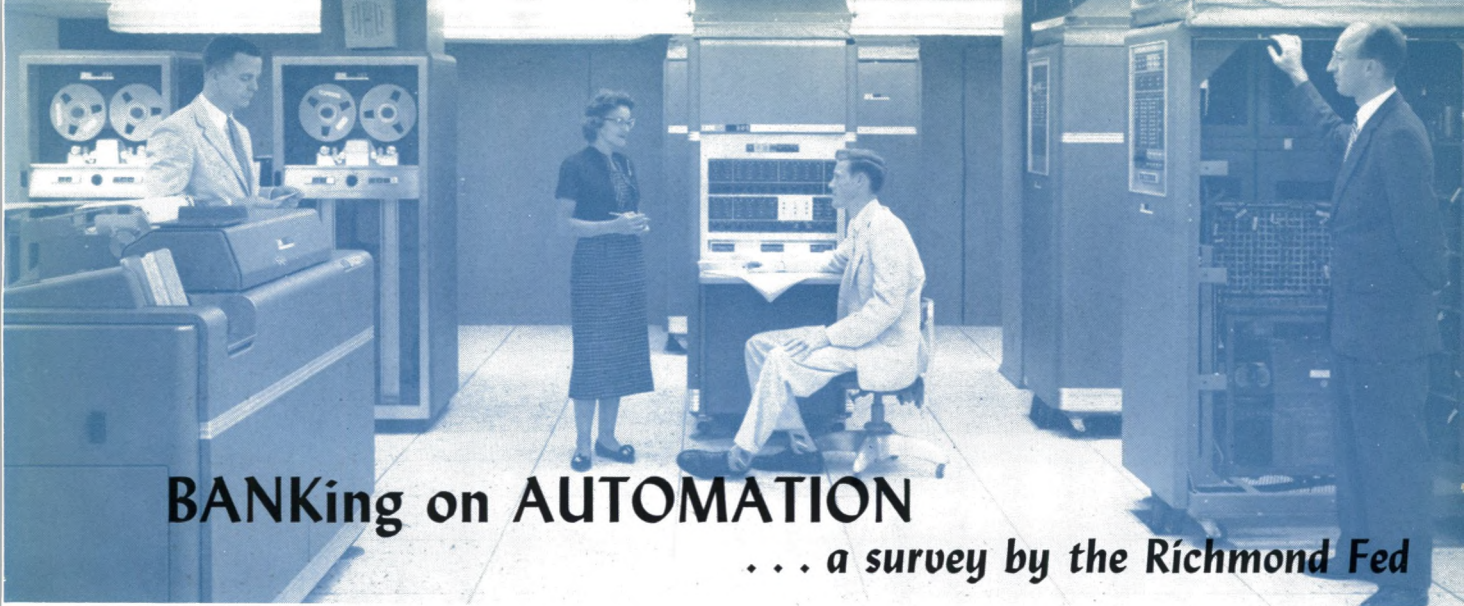
summer over the interest rate ceiling proposals and by late August no action had been taken. On August 25 the President sent another special message to Congress again urging removal of the interest rate limits both on savings bonds and other new issues of Treasury bonds, resting much of his case on the grounds that failure to remove these limits would necessitate excessive reliance on short-term financing with grave consequences to the purchasing power of the dollar. Following the President's plea, Congress voted to permit the Treasury, not unlimited authority to increase the interest on savings bonds, but immediate authority to increase rates up to 4¼% so that the Treasury's proposals in this area could take effect. Despite the President's special plea, the Congress rejected the request for the removal of the interest rate ceiling on longer-term marketable bonds. It did, however, pass a bill permitting advance refunding of outstanding issues with the privilege to the security owner of postponing the tax liability or credit on the swap; this does not solve the Treasury's problem in operating under the 4¼% ceiling but would permit debt lengthening more readily if interest rates decline.

Congress, therefore, concluded its long 1959 session—long in part because of its long look at ceilings—with higher ceilings on the national debt and savings bond interest rates, but with the Treasury still facing the critical problem of borrowing some \$85 billion over the next year—all on a short-term basis unless interest rates decline.

INTERSTATE REDRAWS THE MAP

On August 1 about 10% of the 3,400 miles of interstate highways proposed for the District had been completed and an additional 20% was under construction or awaiting bids. The nation also had 10% of the 41,000-mile program completed and had 13% under construction. The District has spent or obligated \$486 million in Federal and state funds for engineering, right-of-way, and construction since the program started in 1956. New construction of the interstate system had been threatened recently by inadequate funds. Continuation of the program is assured, however, by a one-cent increase on October 1 in the Federal gasoline tax to be used for this purpose.





BANKing on AUTOMATION

... a survey by the Richmond Fed

Electronic computer—Wachovia Bank and Trust Company

Last year 12 billion checks. . . By 1970, 22 billion. To handle this avalanche of paper, the banking industry is banking on automation and particularly on a new revolutionary method of check handling. Other businesses with a back-breaking paperwork load are watching closely the development by the banking industry of MICR—Magnetic Ink Character Recognition. This method provides for reading of the original data by machines as well as by men, and thus has broad significance for all record-keeping jobs. John and Jane Public also are becoming familiar with the MICR language—the strip of specially designed Arabic numerals at the bottom of this page—as more and more banks prepare for mechanization by issuing checks with this type of numbers imprinted in magnetic ink.

The adoption by the American Bankers Association of this common language for checks and a standard location for depositors' account numbers on checks is a major break-through in bank operations. These decisions were not finalized until December 1958 and represent several years of intensive study and research. Equipment manufacturers are producing machinery that automatically will read checks, sort them in any order, and perform bookkeeping tasks. Equipment to meet the needs of varied sizes of banks has been designed—from the semiautomatic electronic bookkeeping machines to systems linked to a high-speed electronic computer.

But bankers have not been sitting on their hands waiting for a common-language-machine

system for checks. Great strides have been made in other procedures for speeding up the handling of checking accounts as well as such areas of bank operations as consumer loans, mortgages, and trust accounts. Banks have used punched card accounting methods for years and were among the first industries to use computers.

Because of the rapid changes taking place in all areas of bank mechanization, the Richmond Fed canvassed the larger District banks on their present status and future plans for automation. Every bank with deposits over \$25 million was asked to fill in a short questionnaire. The usual splendid cooperation of District banks resulted in a reply from every one of the 70 banks surveyed. Here are the results of the survey.

WHO'S AUTOMATED Every shade of bank mechanization showed up in the survey—from the deep hues of a computer now in use and having under consideration the highest powered equipment for reading magnetic ink characters to the light shade of the "wait and see" approach to the problem. The question then arises as to how to define an automated bank. In summarizing the survey results, the word "automated" will be used to describe a bank using semiautomatic bookkeeping machines or the equipment usually pinpointed as data processing—the conventional punched card tabulating equipment or an electronic computer.

As expected, the larger the bank, the higher the degree of automation. Twenty of the 25 banks with deposits \$100 million and over have some





Electronic posting machines—Southern Bank & Trust Company

of this equipment: 3 use an electronic computer; 18, punch card equipment; and 14, the semiautomatic posting machines. Only 2 of the 20 confine their automation to these latter machines. The smaller banks—those with deposits ranging from \$25 to \$100 million—were, of course, less automated, but their showing was nevertheless impressive. Nineteen of these 45 banks have installed electronic posting machines, and 1 bank uses punched card equipment.

WHAT'S USED FOR WHAT Almost all of the records required in performing the services by banks for their customers have been tackled with punched cards. For example, they are used to keep track of loan repayments, trust accounts, Christmas and vacation club accounts. Their use is also popular for internal bank operations—such as in calculating the payroll, in analyzing the bank's securities portfolio, and in performing other cost accounting duties. District banks reported payroll, consumer loans, and trust accounting as the three most popular applications; club accounts and mortgage loans tied for fourth place.

Punched cards are even being used for checking accounts—the No. 1 paperwork job of banks and, currently, the least mechanized. Three District banks use regular punched card equipment and two others an electronic computer for their special checking accounts; and one bank has its regular checking accounts on a computer.

Most banks, however, have left this area of operations to electronic posting machines intro-



Punch card equipment—Union Trust Company of Maryland

duced several years ago. Around 85% of the 39 automated banks and around one-half of all the reporting banks use this equipment for demand deposit accounting, with regular checking accounts having a slight edge over the special checks. Some banks are using this equipment as a step toward further automation of their checking accounts. These machines can be linked to other automated check-handling equipment or to a standard data-processing system. Also these machines require numbering the depositors' accounts—prerequisite for the MICR equipment.

WHAT'S ON THE DOCKET Movement towards a fully automated bank is evidenced by the number of banks with equipment under active consideration. Of the 19 banks with punched card equipment, 9 are considering the installation of an electronic computer and 12 an electronic check sorter. Of the other 20 automated banks, 5 have a check sorter and 1 a computer under consideration. Over half of the nonautomated banks plan use of electronic posting machines; half of these banks are in the deposit size class \$25-\$50 million.

Most District bankers indicated a strong and growing interest in bank mechanization. Their comments pointed out that today is a period in the banking industry for exploring, examining, evaluating, and planning for data-processing systems that will enable it to serve customers and a growing economy still more rapidly and efficiently.

A detailed statistical compilation of replies to the Bank Automation Survey is available on request.

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The Fifth District

Probably the most frequently repeated statement on business conditions in the past three months was: *So far, the effects of the steel strike have been confined to a few industries and to a relatively few cities. The impact on general economic activity has been fairly light.*

The applicability of this generalization to the Fifth District is indicated by the latest employment figures. The number of nonfarm workers on payrolls, which does not include workers on strike, eased downward .9% from the July total when adjusted for seasonal tendencies. The decline was due entirely to the effects of the steel strike on manufacturing, mining, and transportation. Employment in other lines—construction, service industries, government, and finance, insurance and real estate increased. The number on the August payrolls of stores and other trade organizations remained unchanged.

Furthermore, the decline in total employment in the District centered in Maryland and West Virginia, the principal locations of the District's steel plants and bituminous coal mines. There were over 28,000 steelworkers in Maryland and 8,000 more in West Virginia (mostly in Fourth District counties) on strike at mid-September. Over 4,000 more workers in other industries in the former state and 10,000 in West Virginia were

also unemployed at that time as a direct consequence of the steel strike.

Slight gains in employment, on the other hand, occurred in Virginia, North Carolina, and South Carolina. In Virginia, for example, only 500 steelworkers were out on strike, and gains recorded by both manufacturing and nonmanufacturing industries raised total nonfarm employment to an all-time high. Unemployment, as a percent of the Old Dominion's labor force, dropped sharply to 3.6% in August from 4.1% in the preceding month.

MANUFACTURING MAN-HOURS DOWN The mark of the steel strike on economic activity in the Fifth District is more clearly discernible in the record of hours worked in manufacturing plants. The total in August, adjusted for seasonal influences, declined 1.5% below the preceding month's figure. The most severe losses, of course, occurred in primary metals and fabricated metal products. However, declines showed up also in such other durable goods industries as furniture and stone, clay, and glass. Despite favorable order backlogs in the textile and apparel industries, temporary operating adjustments resulted in declines in man-hours worked in August in certain divisions of the industries. In all instances man-

One of the serious effects of the prolonged steel strike has been the slump in carloadings of bituminous coal at District mines.

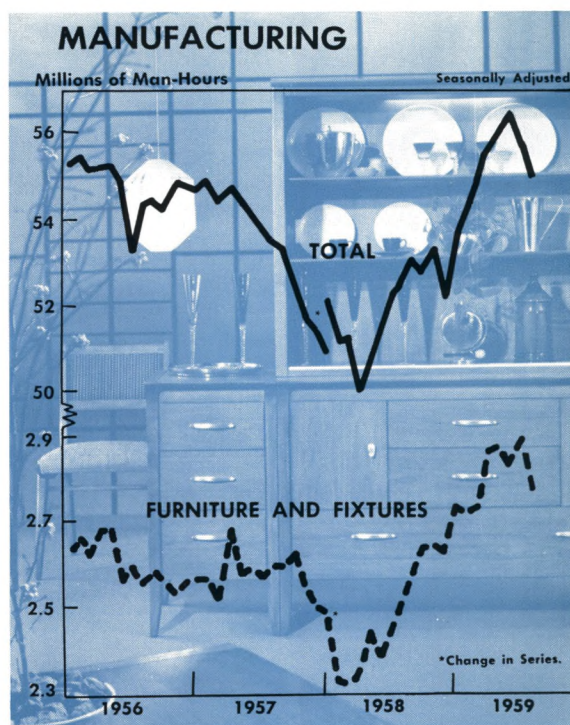


hours exceeded by moderate margins year-earlier figures. The over-all strength of the textile industry, however, was reflected in a rise in total man-hours worked in North Carolina's factories. In this state, where textile mills employ over 50% of all manufacturing workers, the significant economic indicator, man-hours, rose slightly during August contrary to the declines in the other four District states. Contributing to the rise in North Carolina were substantial gains in cigarette factories and in lumber and wood mills.

"CHRONIC LABOR SURPLUS" AREAS The Department of Labor has classified 70 areas in the nation as centers of "chronic labor surplus" because of their relatively large unemployment in the past five years. The list included 17 major industrial centers, two of which—Charleston, W. Va. and Asheville, N. C.—are in the Fifth District. The report pointed out that coal mining, textile, and auto industry towns bear the brunt of chronic unemployment. To be listed, an area must have had at least 50% more unemployment than the national average during four of the past five years. All the areas in the report released by Secretary of Labor Mitchell fared worse than the rest of the nation during the 1957-58 recession and are lagging far behind in the climb up from the bottom of that business setback. Thus, while the country has recovered about 93% of the recession job losses, the report states that the 17 chronic unemployment areas have regained only 31%.

FURNITURELAND, U.S.A. Furniture making has been one of the major pacesetters in the recovery of the District economy from the 1957-58 recession. From the low point of the recession until August 1959 total man-hours worked in all manufacturing plants in the District increased almost 10%. In furniture factories the extent of the recovery, as measured by man-hours, was almost double that—19%. The latest reports indicate that new orders received by District furniture plants in August declined from the record amount booked in July but remained, nevertheless, at a relatively high level. Since they outran shipments, unfilled orders rose to what was probably an all-time high. Orders, production, and shipments were all about one-third greater in the first eight months of this year than they were in the same period last year.

North Carolina and Virginia are the leading producers of wood household furniture in the nation, making almost 50% of all the dining room and bedroom wooden furniture in the country.



District furniture operations have expanded faster since the recession than have operations in all manufacturing industries.

This area is also important in the production of upholstered furniture, North Carolina being the second largest producer among all states, with about one-tenth of total output.

Active interest of buyers at the October Southern Furniture and Rug Market in the High Point Area would help to maintain new orders at the advanced levels attained through the first three quarters. Buyers from all over the nation are inspecting exhibits of the District's furniture makers this month at showings in such other centers of the industry as Drexel, Hickory, Lenoir, Lexington, Morganton, Thomasville, and Winston-Salem in North Carolina and Martinsville in Virginia.

COAL UPTURN ANTICIPATED Daily production of bituminous coal by District mines averaged 450,000 tons in the first nine weeks of the steel strike. This was 20%, about 113,000 tons, below the high point for the year reached in June. Refiring the furnaces in steel mills following settlement of the strike should give rise to an upsurge in coal production. It was reported at mid-September that steel companies were placing some orders for coal in anticipation of the inevitable conclusion of the long drawn out labor-management dispute. In any case there was an increase in carloadings in the week ended September 19 to a high for the period of the strike.

Overseas shipments of coal through District ports for the first eight months of this year were one-third less than last year. This is a major cause of the coal industry's difficulties, since exports accounted for one-fourth of the coal mined in the District in 1958. The over-supply of coal in Europe continues, and 12-15 mines in the Ruhr Valley will close voluntarily over a two-year period in an effort to solve the problem of surplus production. This would close down from 6 to 10 million tons of the Ruhr's annual capacity of 130 million tons.

TEXTILES The most common trade report on the textile markets since early July has been, "Buying continued slow with only limited sales." About the middle of September reports began to change to read, "A pickup in the pace of trading is evident in the textile markets." This increased buying took place especially in print cloths but combed goods and some synthetics also sold well. These sales were for delivery in the first quarter of 1960 and brought mills into a fairly good sold-ahead position on print cloths for that period. Even before this, however, backlogs of unfilled orders had continued through the summer at relatively high levels in most District mills.

The September pickup in mill sales also included synthetic fabrics. Rayon, acetate, and nylon goods sold in moderate quantities for first quarter delivery before the flurry subsided toward the end of September. This market had been very slow and some secondhand goods had sold at prices below mill levels. These mills generally have good backlogs of orders for the rest of this year.

Backlogs of orders at yarn mills are at very high levels. Mills are almost solidly booked for fourth quarter, and carded yarns are in especially tight supply. Prices of carded yarns are, of course, firm as spinning mills find it increasingly difficult to fill orders for early delivery. The Carded Yarn Association in Charlotte reports that on September 5 its members had backlogs of orders equal to 10.61 times stocks on hand. This compares with backlogs that were 5.72 times stocks on hand at the same time last year. Inventories at spinning mills were at low levels—equal to only 1.11 weeks' production on September 5 compared with 2.22 weeks' production last year.

Back-to-school demand for children's clothing and seasonal demand for women's and men's wear have kept knitting mills busy. Backlogs of orders

at most mills are quite large, and some trouble meeting deliveries has been reported. Most mills knitting seamless hosiery are booked for the rest of the year. Seasonal conditions have brought about an improved demand for full-fashioned hosiery.

CONSUMER SPENDING STRONG Seasonally adjusted sales by District department stores in July and August added up to near-record volumes, topped, in fact, only by the total of the peak month of August, 1958. Incomplete weekly figures indicate that sales in September may have fallen off. It is likely, however, that the total for the month was above the year-ago figure. The September decline appeared to be centered in the Baltimore area and undoubtedly was a consequence of the thinning pocketbooks of the 28,000 steelworkers on strike from Bethlehem's giant Sparrows Point mill.

Furniture store sales also displayed considerable strength in August by holding close to the record-high volume of the preceding month. Adjusted for seasonal variations, the August index of District furniture store sales was at the second highest point in 1959. The total for the first seven months of the year was more than one-fourth greater than last year.

BANKING The big news in District banking is the continued boom in bank loan demand. Loans of 20 of the District's largest banks climbed an impressive 1.4% the first four weeks of September—the fastest September rise in many a day. The mid-September loan-deposit ratio—quite a good indicator of loan demand—reached an average of 48% at all District member banks after a 3 percentage point jump in one short year.

Heavy loan pressures have also led the banks to tap the Federal Reserve's discount window relatively frequently and to liquidate substantial amounts of investments. By mid-September, District member banks had cut their Government holdings enough to reduce Government security-deposit ratios to only 29% of deposits. A year before the ratio was over 32%.

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