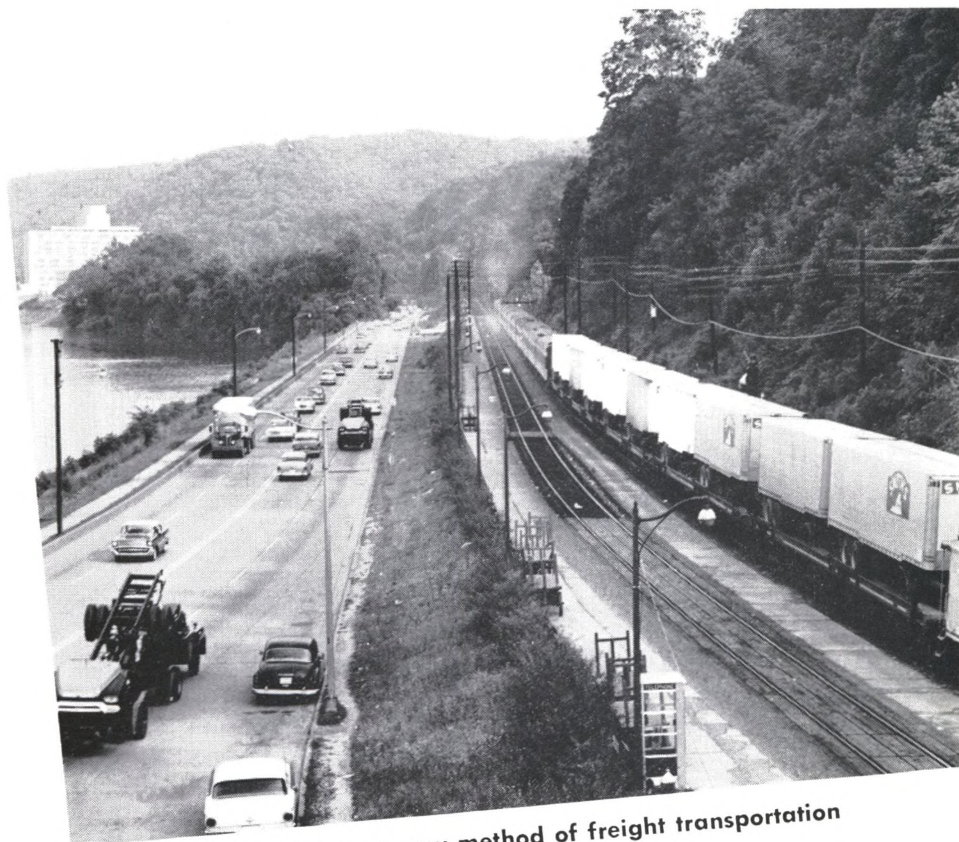
MONTHLY REVIEW



Piggybacking—a new method of freight transportation

FEDERAL RESERVE BANK OF RICHMOND SEPTEMBER 1960

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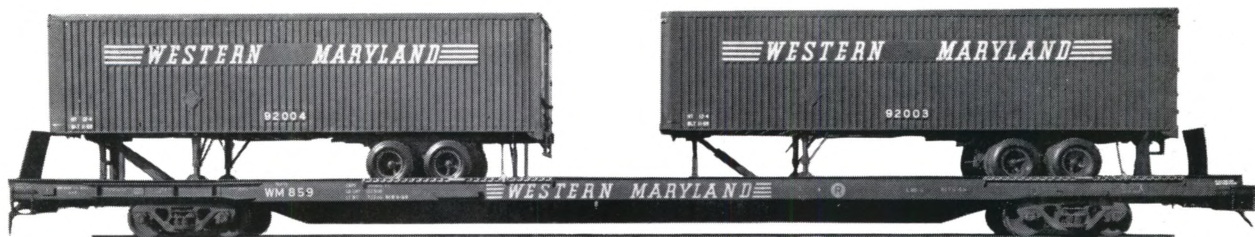

TRAILERS ON TRAINS

How does a railroad move 1,000 of its employees 500 miles to set up a new headquarters? By piggyback, of course. Piggyback, the popular name for the system of carrying truck trailers on railroad flatcars, is being used right now by the Atlantic Coast Line to move its employees from Wilmington, North Carolina, to the line's new headquarters in Jacksonville, Florida. Moving vans packed with household goods are driven onto the railroad's flatcars at Wilmington and carried by the railroad to Jacksonville. There the vans are driven off the flatcars and to the doors of the employees' new homes.

This is an unusual use of piggybacking. There are many other ways in which it is used; in fact, the whole piggybacking field has been growing by leaps and bounds in the past few years. Frequently referred to as "a new concept" in railroading, piggybacking has been heralded by many railroad men as a way of regaining some of the freight traffic that railroads have lost to other means of transportation.

TRAFFIC AND INCOME DOWN The country's railroads have been experiencing declines in income and traffic in the midst of general prosperity. After a recent peak in 1955, net railway operating income has declined in each of the past four years and in 1959 was one-third below the 1955 level. The railroads' share of intercity freight traffic has been in a long decline as railroads have lost out to trucks and barges.

In response to these problems railroads have considered solutions in many different areas. In several cases mergers with other lines have been proposed. Since mergers involve a long series of negotiations before they can become effective, other more immediate solutions have been undertaken. Under this category come various improvements made in equipment and facilities with the expectation of reducing operating expenses. Piggybacking is another solution of this type.

EVEN IN 1880 The history of piggybacking goes back as far as the 1880's when "Farmers' Trains" of produce wagons and teams of horses were carried on flatcars by the Long Island Railroad. More recently, in the 1920's and 1930's, various railroads hauled trailers piggyback though not to any great extent.

The current surge in piggybacking began in 1953. Expansion was fairly moderate at first, but loadings kept increasing and more and more railroads became piggybackers. In mid-1954 during the first week for which statistics on piggyback carloadings were reported, there were 1,646 cars loaded piggyback by six Class I railroads. (A Class I railroad has annual operating revenues of at least $3 million.) In a recent week there were 10,877 loadings by 55 railroads. In 1959 piggyback loadings were up 50% over 1958, and currently they are running about 35% ahead of the 1959 pace. All major Class I railroads now offer some form of piggyback service.

Piggyback trailers ride on flatcars specially equipped for this service. There were 6,835 of these flatcars in use at the end of June 1959—a 63% increase over the previous year—and recent estimates place the present number of piggyback flatcars at over 10,000. Piggyback loadings still account for only a small part of total freight carloadings, about 2% at the present time. They show a substantial increase over last year, however, at a time when total carloadings are lagging behind their year-ago level.

FROM FARM PRODUCE TO MAIL Just what is this new service which railroads are offering? In its most common form truck trailers simply ride on their own wheels on railroad flatcars. In most cases the flatcars are loaded by backing the trailer and tractor up a ramp onto the flatcar and then

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So far, only a few railroads schedule complete piggyback trains.

driving the tractor off. The trailer is fastened in place and rides to its destination where it is driven off the flatcar. Most flatcars being made today are 85 feet long and can carry two 40-foot trailers. Some of the earlier flatcars were not as large and could carry only one trailer at a time.

These piggyback cars are usually run as part of regular freight trains. In a few cases they are made part of a passenger train and run at passenger train speeds. Where volume has become large enough, railroads have scheduled trains made up completely of piggyback cars.

All types of commodities—from farm produce to mail—are carried piggyback. One of the newest developments is automobile piggybacking, carrying automobiles on truck trailers piggyback on railroad cars. This is growing rapidly in many parts of the country.

NEED FOR STANDARDIZATION As with any new and rapidly expanding service, piggybacking has been suffering from growing pains. This has been particularly evident in two areas, the kind of equipment used and the type of service offered. When piggybacking began its recent growth, many railroads acted independently in setting up their particular system and developing equipment on their own. This has resulted in several different modifications of the basic piggyback flatcar and has created problems where cars are interchanged between two railroads. Attempts are being made to standardize flatcars and other equipment.

Another modification of equipment which is developing is the shipment of freight in containers. A container may be thought of as a trailer without wheels which is carried on a railroad flatcar in much the same way as a trailer. At the end of the railroad haul the container is placed on wheels

Flatcars are loaded by backing trailer and tractor up a ramp.

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so that it can be carried on the highway. A container has wider use than in railroading and may be carried by truck, ship, or plane as well as by rail. At the present time container shipment of freight is a relatively unexplored but growing field.

WHICH PLAN TO USE? In addition to owning several types of piggyback equipment, the railroads also offer five different plans for carrying piggyback trailers. Although some railroads operate under only one plan, most offer at least two, and a few offer all five.

When railroads first began carrying piggyback cars, as a rule they carried trailers belonging to motor common carriers, that is, trucking companies. These trailers are loaded and unloaded by the railroads and are carried on flatcars which belong to the railroads. The trucker performs all of his regular functions; the railroad only substitutes for the trucker on part of the haul. This has become known as Plan I. About a year ago the Agricultural Marketing Service of the Department of Agriculture surveyed the 50 railroads offering piggyback service at that time. Eighteen out of the 50 offered Plan I.

In contrast, Plan II is an "all-railroad" plan. The railroad owns both trailers and flatcars, solicits business directly from shippers, performs pickup and delivery services, and charges rates competitive with trucks. The survey of piggybackers reported that 41 out of 50 railroads were offering Plan II service.

NEW PLANS INTRODUCED Plans III and IV were specially designed to appeal to shippers and freight forwarders. A shipper is any private individual or company who moves large volumes of merchandise. A freight forwarder assembles several shipments to make up a full trailer load.

Under Plan III the shipper or freight forwarder owns the trailers and the railroad owns the flatcars. The railroad takes care of loading and unloading the flatcar and charges the shipper a flat rate per mile. Under Plan IV the shipper owns both trailers and flatcars and loads and unloads the cars. The railroad hauls the shipper's trailers and flatcars and charges a flat rate per car. Of the 50 railroads in the survey of piggybackers, 20 offered Plan III; 12 offered Plan IV.

Plans III and IV have just begun to gain importance in the past two years. At the present time the rates published by the railroads for these plans have been challenged by the trucking industry before the Interstate Commerce Commission. As yet the ICC has made no final decision, but reports have been issued by two Commission examiners, one favoring and one opposing these rates.

Plan V is of even more recent origin and at the present time is offered by only a few railroads; the previously cited survey reported that three out of 50 railroads offered Plan V. This may be called a joint operation between the railroads and trucking companies since it operates under joint rail-truck rates. For example, suppose that a railroad runs between points A and B and a trucking company between B and C. Under Plan V they can operate under a joint rate and carry shipments between A and C. This in effect extends the territory of each carrier into that of the other.

DISTRICT PIGGYBACKERS All major railroads which operate in Fifth District states offer piggyback service. These nine railroads have been piggybackers for widely varying lengths of time. About half began the service between 1954 and 1956, making them among the first in the nation to begin piggybacking. The rest joined the ranks of piggybackers in 1959 and 1960.

All except two District railroads, the Southern and the Western Maryland, are members of Trailer Train, a nationwide organization which provides a pool of piggyback flatcars for use by its member railroads. All District railroads run their piggyback cars as part of their regularly scheduled freight trains. The Chesapeake and Ohio also connects piggyback cars to the end of a passenger train. All five plans for piggybacking are offered by District railroads. Plans I, II, and III are the most common, probably because IV and V are comparatively recent developments.

WHAT'S AHEAD? Many authorities see the combining of advantages of both trucks and railroads as the principal reason for the growth of piggybacking. A piggyback load may be picked up by a truck at almost any point, thus utilizing the flexibility of trucking. Since the trailer itself is carried by the railroad, no loading or unloading of the shipment from trailer to boxcar is required. This may result in substantial savings in time and money and reduce the loss of goods through damage or pilferage. In many cases shipments by rail may be faster and cheaper than shipments by truck for long distances on crowded highways.

Piggyback is a term that will continue to be heard in the news. Future developments depend upon such uncertainties as ICC decisions, the growth of containers as a means of shipping, and the extent to which piggybacking can be expanded and adapted to meet changing needs.

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FEDERAL RESERVE HIKES ALLOWABLE VAULT CASH AND CUTS RESERVE REQUIREMENTS

"Federal Reserve Acts to Loosen Strings on Banks' Lending Power" read a caption in a leading New York newspaper on August 9. It made good reading for most Federal Reserve member bankers. The good news came in two parts. First, member banks were authorized to begin counting more of their vault cash as legal reserves. Effective September 1, central reserve city banks—larger New York City and Chicago banks—and reserve city banks—larger banks in 51 other important banking centers—were able to begin including as legal reserves all vault cash in excess of 1% of net demand deposits. Other member banks—the "country banks"—were permitted, beginning August 25, to count all vault cash in excess of 2½% of their net demand deposits. Second, reserve requirements for central reserve city banks were cut on September 1 from 18% to 17½% of net demand deposits, bringing their requirements closer to the 16½% for reserve city banks and the 11% for country banks.

This was the second time the Federal Reserve Board had authorized banks to count a portion of vault cash as required reserves. The first action permitted country banks, as of December 1, 1959, to count all cash in excess of 4% of net demand deposits and central reserve and reserve city banks, as of December 3, 1959, to start including all above 2% of net demand deposits. Prior to these dates banks could meet their legal reserve requirements only with balances on deposit with the Federal Reserve Bank of their District.

WHY THE ADDITIONAL VAULT CASH? An Act of July 28, 1959 amended the Federal Reserve Act by (1) empowering the Board to allow member banks to count all or any part of their cash holdings as legal reserves and (2) as of July 28, 1962, terminating the central reserve city classification and reclassifying Chicago and New York as reserve cities. The cut in reserve requirements was a first step towards eliminating the reserve differential requirements between central reserve and reserve city banks by the cut-off date.

The Board freed additional vault cash in order to reduce further vault cash inequities among member banks. Vault cash is directly "competitive" with member bank balances at the Federal Reserve in the sense that member banks generally draw down their reserve balances to obtain vault cash and deposit any excess cash in their reserve accounts. Banks that must hold large stores of cash either because of their locations or the nature of their business are treated unfairly relative to other banks to the extent that vault cash is not allowable as legal reserves. The recent actions and those of last December go a long way towards remedying these long-recognized inequities.

HOW BIG A STEP? The cut in reserve requirements freed about $125 million in reserves, and the cash release hiked the amount of allowable cash by an estimated $480 million. Prior to August 25 banks had been counting as reserves around $285 million in vault cash—about an eighth of their holdings. The new regulations should raise the dollar amount of allowable cash to approximately $765 million and the proportion to about one-third. Around four-fifths of all member banks are expected to have some allowable cash.

Fifth District banks typically hold more cash in relation to deposits than do other United States banks and consequently benefitted relatively more from the release of cash in both 1959 and 1960. It is estimated that District banks will be able to count as reserves around one-half of their cash holdings. It is expected that about 95% of the banks will receive some benefit. Ony 70% had allowable cash under the old formula.

EFFECTS AND TIMING The new vault cash regulations resemble a reduction in reserve requirements. Technically, requirements remained unchanged, but the counting of additional vault cash increased by a like amount the volume of excess member bank balances at the Federal Reserve. These excess reserves—except to the extent temporarily offset by policy actions—enabled banks to expand loans and investments by several times the volume of cash freed. The new cash regulations will increase the expansion potential of any future additions to reserves because part of the additions to vault cash that banks typically make as deposits rise can also be counted as reserves. The action was deliberately timed to take place at the beginning of the fall season when the Federal Reserve ordinarily supplies additional reserves to meet peak seasonal credit needs. This year, the reduction in reserve requirements and the freeing of additional vault cash will supply around $600 million of those funds.

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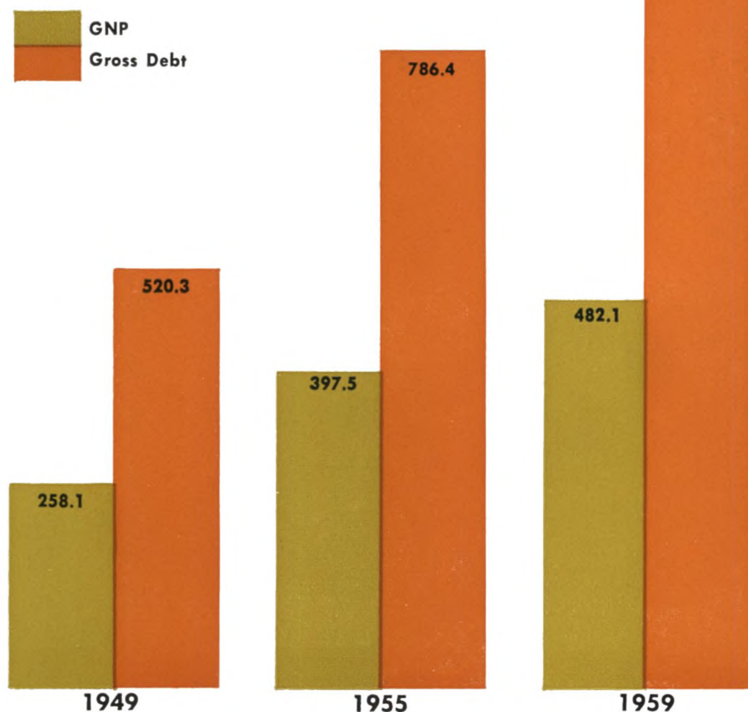
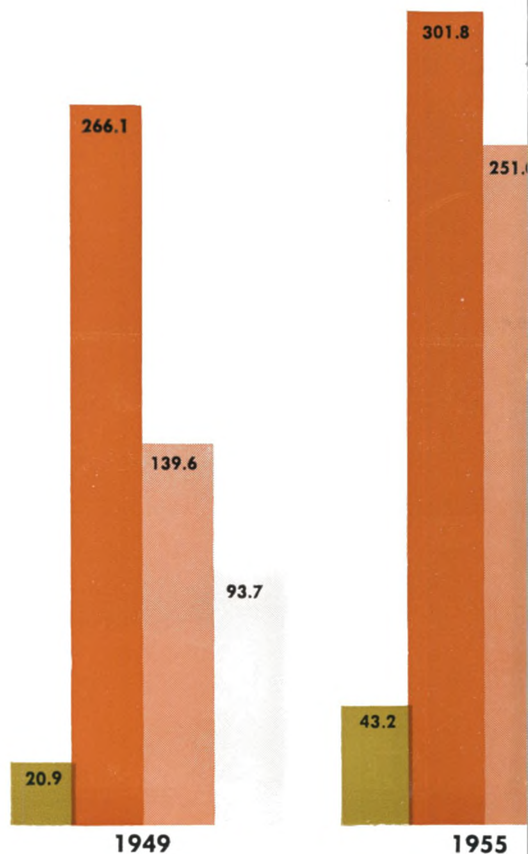
TOTAL DEBT AND GROSS NATIONAL PRODUCT
(Billions of Dollars)



During the expanding Fifties the nation's debt almost doubled, but GNP grew at about the same rate. In 1959 total debt was about twice as large as GNP—the same ratio as during 1949.

THE COMPONENTS OF DEBT
(Billions of Dollars)



Increased borrowing by corporations and heavier demand for credit by individuals—particularly for new housing and durable goods—have pushed private debt to a dominant position in the debt picture.

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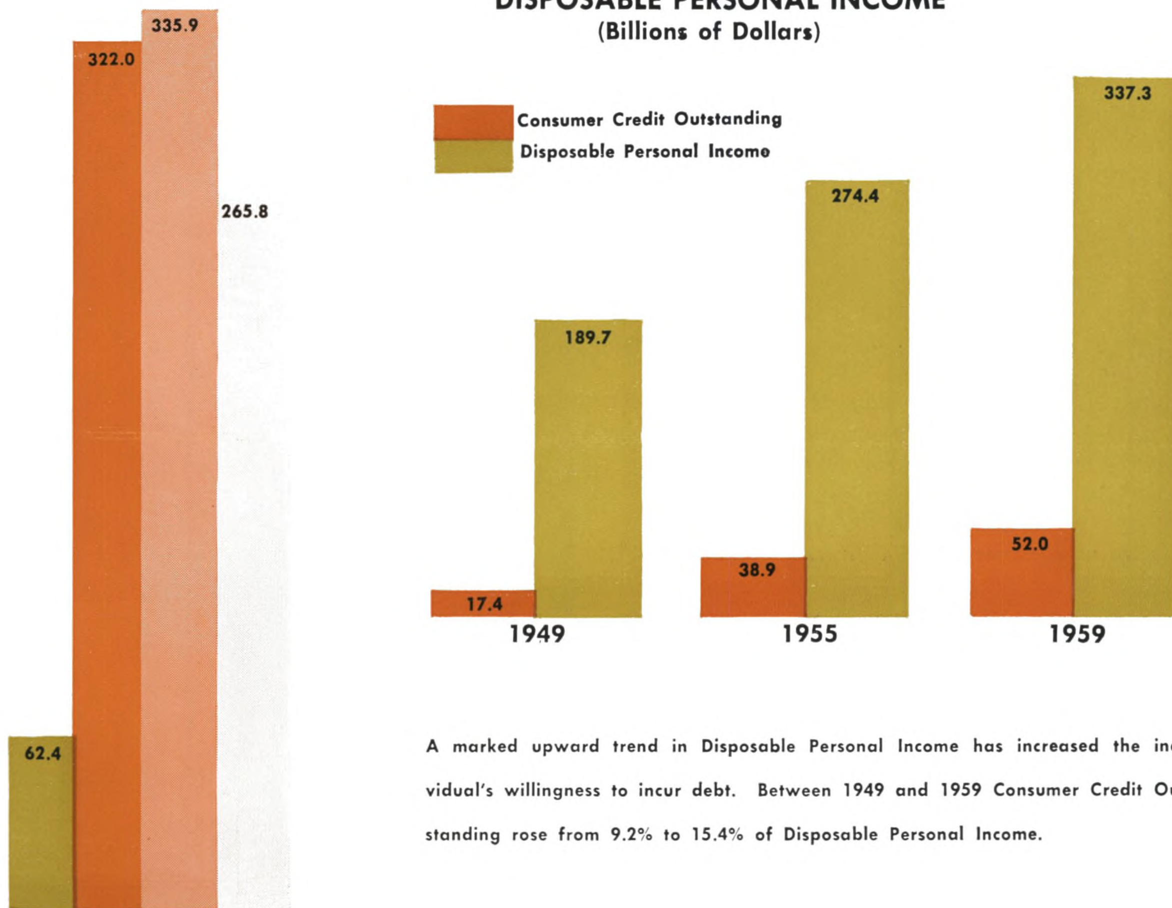
A DECADE OF DEBT CHANGES IN THE UNITED STATES

CONSUMER CREDIT OUTSTANDING AND DISPOSABLE PERSONAL INCOME
(Billions of Dollars)



A marked upward trend in Disposable Personal Income has increased the individual's willingness to incur debt. Between 1949 and 1959 Consumer Credit Outstanding rose from 9.2% to 15.4% of Disposable Personal Income.

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WHY DOES GOLD MOVE?

The United States has about $19.1 billion in gold stacked up at Fort Knox and in several other vaults scattered over the country. Although this is nearly half of the free world's gold supply, it is the lowest gold stock the United States has held in twenty-one years, and in recent months the press has given considerable attention to the possibility that it may be reduced further.

When the United States has a balance of payments deficit, as it does now, it is supplying foreign countries with an excess of dollar receipts from the United States, which may be used to build up dollar holdings in the form of bank deposits or short-term assets or which, if they are held by official institutions, may be used to purchase gold from the United States. Until 1958 the United States payments deficit averaged about $1.5 billion a year and foreigners secured additions to their gold reserves mostly from sources other than the United States. In the 1950-57 period our gold stock decreased by only $1.7 billion, and foreigners increased their short-term dollar holdings by about $7.7 billion.

RECENT EXPERIENCE In 1958 and 1959, however, the United States lost a total of $3.4 billion in gold, in large part because the countries with the largest reserve gains were those that traditionally take additions to reserves in the form of gold. During these two years foreign dollar holdings rose by $2.5 billion. During the first six months of 1960 foreign purchases of gold from the United States ran at the extremely low level of $125 million. Then in July and the first half of August United States gold losses amounted to about $285 million.

During the first half of 1960, when net foreign gold purchases from the United States were exceptionally small, Switzerland lost reserves (and sold gold) and three other countries that traditionally take additions to their reserves in the form of gold (Belgium, the Netherlands, and the United Kingdom) had only small reserve gains. For this six-month period, these four countries combined had an aggregate net reserve gain of $240 million.

In contrast, the combined rise in Swiss and British reserves for the month of July alone was close to $250 million. Given such a sharp addition to the world demand for monetary gold, it is hardly surprising that total foreign purchases from the United States have increased since the middle of the year. The exceptionally large reserve gains of Switzerland and the United Kingdom appear to reflect movements of capital, at least partly in response to interest rate differentials.

Early this year interest rates began a rapid decline in the United States as the Federal Government reduced its marketable debt and business activity expanded more slowly than had been expected. In the industrial countries of Western Europe interest rates continued the rise which had begun during the Fall of 1959 as industrial output increased. Since then nearly every country in Western Europe has taken steps to implement policies of monetary restraint.

In contrast, the discount rate in the United States this year has been reduced twice, following declines in other short-term rates. The first decrease, from 4 to 3½%, was made in early June, shortly before the Bank of England raised its bank rate to 6%. The second reduction, to 3%, occurred in mid-August. Even before these divergent changes in central bank rates were made, the rate on United States Treasury bills was considerably below comparable rates in England. Since mid-1959 United Kingdom bill rates have been over 1% above United States bill rates, after allowing for cost of foreign exchange cover.

HOLDERS OF DOLLAR BALANCES The volume of foreign-held funds which may be shifted out of the United States in response to current interest

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rate differentials depends in part upon who holds the dollar balances. At the end of May when the United States gold stock amounted to about $19.4 billion, there was $20 billion in dollar balances in the hands of foreigners. Over $3 billion was held by international organizations, primarily the International Monetary Fund and the International Bank for Reconstruction and Development. These organizations hold dollar balances to permit them to carry out their functions and do not shift funds in response to interest rate differentials. Of the remaining $16.8 billion in dollar holdings, foreign central banks and governments held $9.3 billion. These official balances are reserves. They are held in United States dollars to the extent they are because the dollar is a reserve currency, not because particular interest rate levels prevail in the United States. Consequently, official balances are not shifted in response to interest rate differentials.

Commercial banks, corporations, and individuals held the remaining $7.5 billion. These private holdings probably consist largely of working balances needed by their holders to finance trade and banking transactions. Since early 1958 private holdings of dollar balances have increased by over $1 billion. This increase, which was largely in European holdings, came about in response to the elimination or relaxation of exchange restrictions by major European nations and the accompanying increase in working balances as well as in response to increased United States yields over much of the 1958-59 period. Lower interest rates in the United States, relative to other markets, could cause an outward movement of that part of private holdings in excess of working balances. Private balances, then, are the only form of dollar holdings which can be expected to shift in response to interest rate differentials.

When private balances are withdrawn from the United States for investment elsewhere, the holder generally sells them to a foreign central bank in return for the currency of the country to which the funds are being transferred. If the central bank decides to hold the dollar assets, a foreign official holder will take the place of a foreign private holder of dollar balances, and the United States will lose no gold. Most countries take part of the additions to their reserves in the form of dollar balances and some maintain very large official dollar holdings. A few other central banks, e.g., those in England, Switzerland, Belgium, and the Netherlands, normally take their reserve gains in the form of gold. These banks might use the dollar balances purchased from the private holders to buy gold, and when the world demand for gold is swelled by heavy total foreign purchases, a large part of the total demand may take the form of purchases from the United States Treasury.

FORM OF DOLLAR HOLDINGS Of the $16.8 billion in foreign dollar holdings, exclusive of international organization holdings, only about $200 million was held on deposit with Federal Reserve Banks. About $8.3 billion was held on deposit with other banks, part of it in the form of time deposits bearing interest. Another $8.2 billion was held in the form of short-term Government securities and other money market paper.

Part of these security and money market paper holdings are sensitive to interest rate changes on various forms of dollar assets. However, funds held in the form of earning assets are not, by reason of this, necessarily to be excluded from the total of working balances. At the end of the second quarter of 1958 when short-term interest rates were at a cyclical low, foreign holdings of United States Government securities fell to $3.7 billion. As the yield on short-term funds in the United States rose during 1959, foreign holdings of United States Governments increased, reaching $6.5 billion at the end of 1959. This sensitivity to interest rates on the part of holders of United States Governments does does not portend any sharp increase in gold outflow as rates here fall. On the basis of past experience it appears that when United States interest rates decline, so that yields on money market instruments offer little competitive advantage over returns on time deposits, foreign holders of dollar balances tend to shift a large part of their holdings to time deposits and to reduce the proportion in the form of short-term Governments and other money market instruments.

SUMMARY When the United States has a persistent deficit in its balance of payments, the result is an excess of United States dollar receipts by foreigners. These may be held in the form of dollar deposits here, invested in Treasury bills and other money market instruments, or, if held by official institutions, used to purchase gold. The extent to which the dollars are used for their various purposes depends upon the size of the payments deficit, the countries which have the corresponding payments surpluses, the percentage of dollar holdings in working balances, and the attractiveness of the United States money market for short-term investment.

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the FIFTH district

Fifth District business is winding up a generally successful summer. Retail trade so far this year, however, has not quite kept pace with last year's consumer buying and has shown considerable divergence from normal seasonal patterns. The seasonally adjusted index of department store sales for July and August was about on a par with last year. District automobile dealers in July experienced little if any more than a seasonal increase in demand for new cars. Used car demand was rated below normal. Sales of appliances this summer, according to trade sources, have generally failed to keep pace with 1959. Sales of refrigeration and laundry equipment have been particularly slow. Cooking equipment is reportedly about even with a year ago. The volume of air conditioner sales is described as satisfactory in view of the kind of weather which has prevailed this summer.

Many scenes like this will have to be enacted this fall if recent moves to reduce textile output are soon to be reversed.

EMPLOYMENT HIGH Indications of strength in District business can be seen in the record of employment. The number of nonagricultural workers employed in the District, seasonally adjusted, edged up again in July and established a new high nearly 1.5% above the level of a year ago. Mining employment showed the only significant year-to-year decline—more than 6%. All of the June-to-July changes were relatively small. Mining employment between the two months decreased nearly 2.5%. The other employment reductions occurred in trade and services, each of which decreased by considerably less than 1%. Current industry and area reports, including the weekly summaries of state unemployment insurance experience, help to round out the incomplete picture afforded by these statistics. Such sources do not indicate any decline from the recent high levels of employment.

More tangible evidence is provided by the scattered reports of new and enlarged manufacturing and commercial facilities going into operation. North Carolina, for instance, has recently announced that industrial growth during the first half of this year has created in that state over 16,500 new jobs which will mean increased annual payrolls of over $50 million. In view of the many such projects which are still under construction, these piecemeal additions to District employment are scheduled to continue for some time and will add up in the coming months to a significant total. Tending to reduce the level of employment in government agencies of the District, economy measures instituted by the Federal government are expected in the next several months to eliminate a few thousand jobs in the Washington, D. C. area.

DECLINES IN MAN-HOURS CONTINUE Seasonally adjusted man-hours in District manufacturing industries declined nearly 1% between June and July. This decrease resulted from man-hour reductions in many durable goods industries and nearly all nondurable goods industries. In the durable goods group the biggest reductions occurred in lumber and wood products (down 3%) and furniture and fixtures (down 1.6%). The most significant decreases among nondurable goods industries (all between 2% and 3%) occurred in tobacco manufacturing, the broad woven and knit-

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ting components of the textile industry, and chemicals and allied products.

Against the general downward movement, significant increases occurred among the durable goods industries in fabricated metals, transportation equipment and the stone, clay and glass group. The only increases registered among the nondurable goods industries occurred in paper and allied products and the printing and publishing industries, each of which established a new record. Despite the decline from June to July, total manufacturing man-hours in July were a small fraction of 1% higher than in July 1959. This resulted from a variety of changes in individual industries The primary metals and machinery industries (hampered a year ago by the steel strike) registered considerable increases as compared with last year. Paper and printing each showed gains of nearly 5% as compared with July a year ago. By the same comparison, decreases of about 3% or 4% occurred in fabricated metals, transportation equipment, the stone, clay and glass category, and textile mill products.

TEXTILES IN PERSPECTIVE As in the case of over-all economic activity, the cotton textile business of District mills is currently marked by uncertainty and divergent conditions. Although the volume of new orders continues to be quite small, the backlog of unfilled orders is still sizable. Stemming from the uncertainties of current and prospective trends, an air of caution is prevalent from soft goods and retailers clear back to the spinning, weaving, and knitting mills. While many producers of cotton textile mill products continue to express optimistic opinions of prospective business, a number of firms have reduced production to avoid undue inventory accumulation. The work week has been reduced at a number of mills, typically to five days, and permission has been requested from some customers to defer delivery dates in order to stretch out production schedules based on the current volume of unfilled orders.

In view of the confusion and uncertainty in the current textile picture, a brief review of what has happened so far this year might provide perspective for a better evaluation of present and prospective developments.

At the opening of 1960 the volume of unfilled orders for broad woven cotton goods, to take a typical example, was very high, amounting to 21.5 weeks of production at the then current rate. Accordingly, no concern was shown by mills over the mere trickle of new orders received during the early weeks of 1960. However, trade reports continued to indicate the receipt by District mills of only a negligible volume of new business. During the entire first half of the year only a couple of flurries of increases in new orders were reported. By July there were questions in some quarters about the optimism with which cloth producers continued to view prospects.

The most recent report of the American Cotton Manufacturers Institute shows that the backlog of orders for broad woven cotton goods declined sharply from a total equal to 21.5 weeks of production in January to an amount equal to 13.3 weeks of output at the end of June. This, together with uninterrupted operations during the 26-week period—save for a couple of days during the March storms—indicates that new orders representing about 17 weeks' production must have been received during the first half of the year. This is in sharp contrast to the "little or no new business" consistently reported. It did, of course, represent a marked decline from 1959. It is estimated that the flow of new orders in the first six months was roughly equivalent to 70% of production as contrasted with a volume equal to about 115% of production in the comparable period of 1959 and to about 160% in the final quarter of that year.

Despite the sharp decrease noted, unfilled orders for cotton broad woven gray cloth are still fairly substantial—probably larger than they were at the beginning of any September in the past 10 years except 1959, 1955, and 1950.

During this long period of steady production, comparatively slow orders, and declining backlogs, broad woven cotton goods inventories moved upward little by little. From a level equivalent to 3.4 weeks' production in January, according to the American Cotton Manufacturers Institute, these inventories reached a level equal to 4.0 weeks' production in June. This was the highest point reached in a year and a half.

The most recent bits of information show a continuation of the tendencies revealed in the statistics of the first half of the year. One new and possibly

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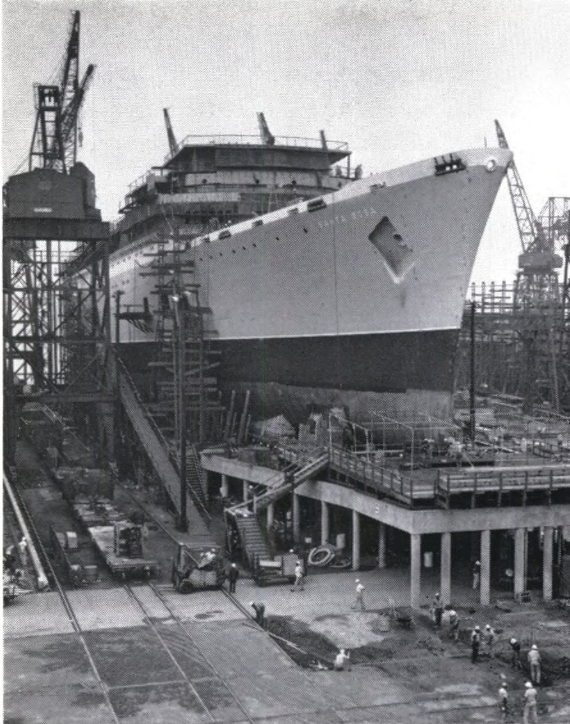

Recent new business for District yards helps maintain their position as one of the nation's major shipbuilding areas.

significant development has recently appeared. Resales of broad woven cottons from the inventories of converters and dealers have increased in volume. Earlier "secondhand" sales occurred typically with little pressure on the seller, frequently resulting from the needs of the buyer to fill a specific gap in his working inventories. Their origin now is generally inventories which are admittedly in excess of needs due to failure of the demand for finished fabric to keep pace with seasonal expectations.

NEW BUSINESS FOR DISTRICT SHIPYARDS Man-hours worked in the transportation equipment industries during July were nearly 16% below their last peak established in November 1958. Declining activity has been almost continuous over this period of nearly two years. On July 1 Merchant Marine shipbuilding and reconversion contracts in process at Fifth District shipyards covered 440,000 tons, down by more than 8% from June 1 and 36% below the figure for July 1, 1959. Judging by recent reports the nearly 7% improvement achieved by this industrial group between June and July, as measured by seasonally adjusted man-hour data, may mark a leveling off of this decline. A recent Department of Commerce release announced forthcoming construction of five cargo ships at one District yard, the total value of which will exceed $52 million, and of four additional cargo ships having a total value in excess of $36 million at another District yard. Plans have recently been announced to build a Polaris submarine at a District yard. Its cost may reach $32 million.

FURNITURE STRENGTHENS SEASONALLY Seasonally adjusted figures for man-hours in the furniture industry for July were lower than for June of this year, and were also below July 1959, in each case by about 2%. More recent information from industry sources, however, indicates that after the quiet July market the efforts of salesmen out on the road again began to bear fruit. The current flow of orders is judged to be about equal to or slightly in excess of normal seasonal expectations. Backlogs which have trended generally downward since early in the year are reported to be expanding again, and are estimated currently to equal from five to six weeks' production for the industry as a whole. Inventories are estimated to be close to normal in size and distribution. The desire of retailers to minimize their inventories, a tendency which was clearly apparent earlier in the year, has apparently lost some momentum as retailers prepare to meet fall and winter demand. In spite of the strong beginning this year factory sales of furniture in the District, cumulative for 1960 to date, are now thought to be running no better than and perhaps somewhat behind 1959. Better than normal fall and early winter sales will be required to establish 1960 as the industry's best year. Weekly reports from trade sources over the last three weeks in August clearly indicate a gradual growth in the sale of home furnishings. Whether this is more or less than the normal seasonal growth cannot currently be determined.

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