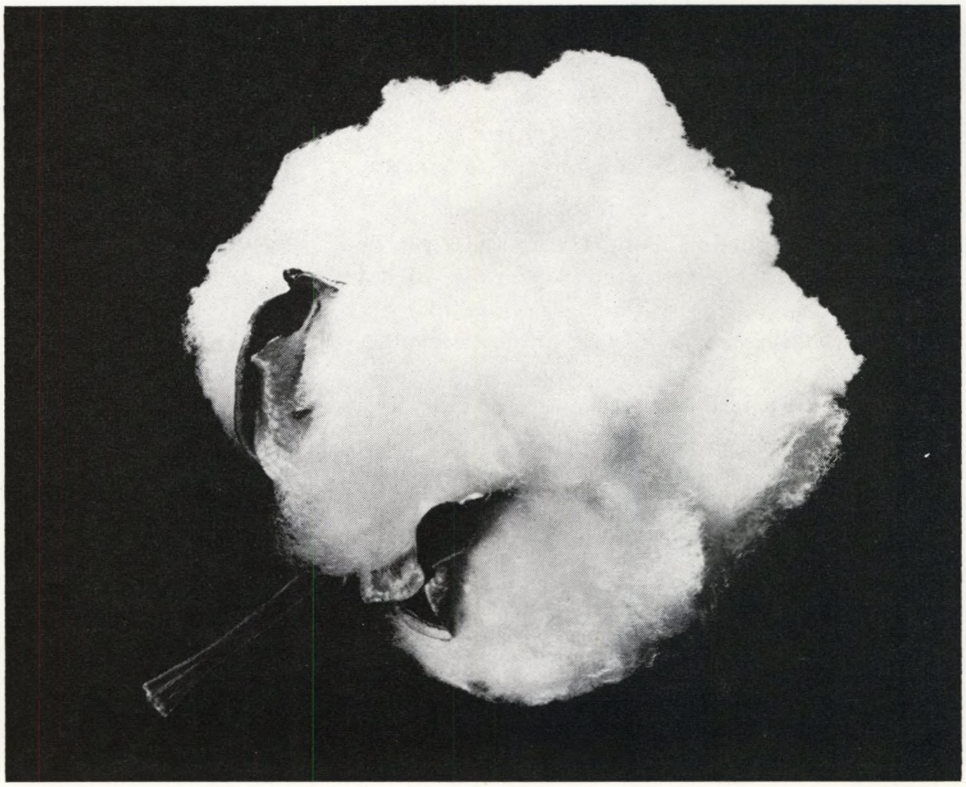
MONTHLY REVIEW



Cotton shows new vigor under the Government's new one-price marketing program.

FEDERAL RESERVE BANK OF RICHMOND MAY 1966

The Textile Industry

"One-price cotton" describes a marketing policy that permits all customers, foreign and domestic, to buy a specified grade of U. S. cotton at the same price. It is, therefore, a normal condition in our kind of economic system. This being the case, anyone not familiar with cotton's recent history might well wonder why a one-price policy has received so much attention. This is the first of two articles in this issue which attempt to explain how a two-price cotton system developed in the United States, how it affected farming and textile manufacturing, and why it was eventually abandoned in favor of a new one-price plan. This article emphasizes manufacturing; the second will deal mainly with cotton production.

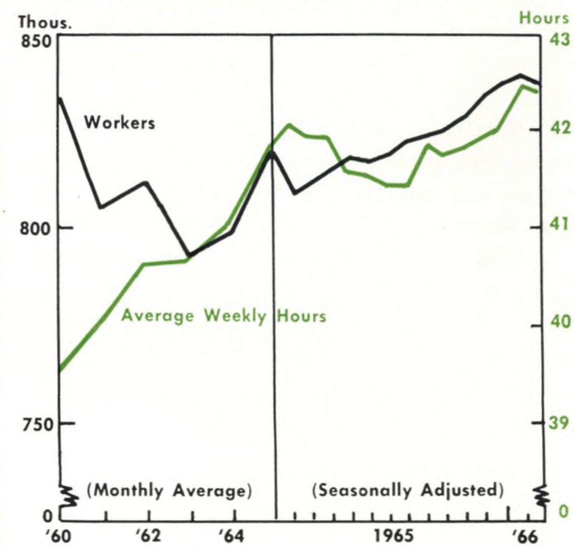
Cotton vs. Man-made Fibers Cotton as a textile raw material cannot be appraised realistically without fully recognizing the ever-widening array of man-made fibers and filaments. These chemically synthesized raw materials have been largely "specialists" in that each has tended to impart a specific characteristic, or a limited variety of characteristics, to the final product. Research, however, is moving man-made fibers closer and closer to the kind of versatility that cotton naturally possesses. Blends of man-made fibers, or of man-made with cotton, already provide a wide variety of fabrics specially suited to a great many uses. A large segment of the textile industry continues to rely on cotton as its principal raw material, but cotton's future success clearly depends on its continuing ability to attract customers with high quality cloth at low prices.

Two-price Cotton Ten years ago Federal law established a dual pricing system for cotton. Surplus production had long been a source of difficulty, and in 1956 Congress decided to reduce the cotton surplus by encouraging exports with a subsidy of eight cents per pound on all cotton sold to foreign buyers. Immediately more U. S. cotton began to go overseas, but unfortunately not all of it stayed there. An advantage of at least eight cents per pound in purchasing the principal raw material, frequently combined with lower labor costs, gave foreign manufacturers a golden opportunity to increase their cotton textile sales in U. S. markets. These imports more than doubled between 1956 and 1960, rising from an average annual level around 400 million square yards to more than 1 billion.

Domestic producers keenly felt the pressure of this competition. Prices of cotton goods declined. Production of broadwoven cotton fabrics dropped unevenly from 10.3 billion yards in 1956 to 8.8 billion in 1963. Net profits before taxes of all textile manufacturing corporations averaged just over 5% of sales in 1955 and the first half of 1956 but dropped to around 4.5% for the rest of 1956 and 1957. Profit ratios dipped further in 1958 and 1959, and even though the general business upswing was gaining momentum between 1961 and 1963, profit rates in textiles did not return to the 1955-56 level until the third quarter of 1964, when one-price cotton had again been established.

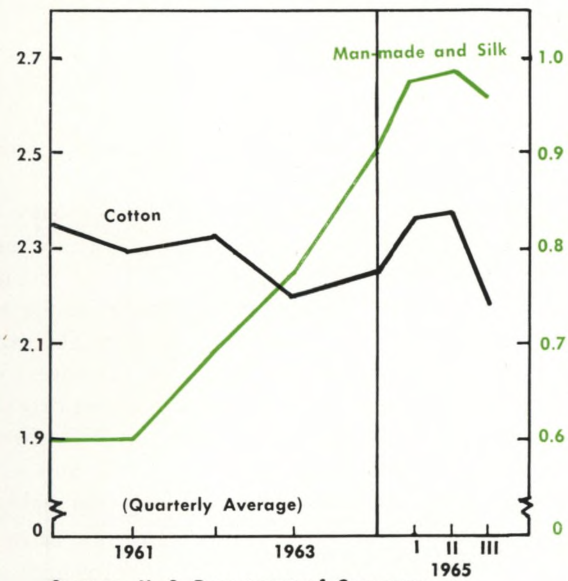
In an effort to compete under the two-price system, domestic manufacturers increasingly turned to man-made fibers and blends of man-made fibers with cotton. Some of the resulting fabrics were designed to compete on a price basis while others were intended to attract customers with special advantages such as eye appeal, extra strength, or resistance to wrinkles and stains.

EMPLOYMENT AND HOURS
TEXTILE INDUSTRY PRODUCTION WORKERS



Source: U. S. Department of Labor.

PRODUCTION OF BROADWOVEN GOODS
(Billions of Linear Yards)



Sources: U. S. Department of Commerce.

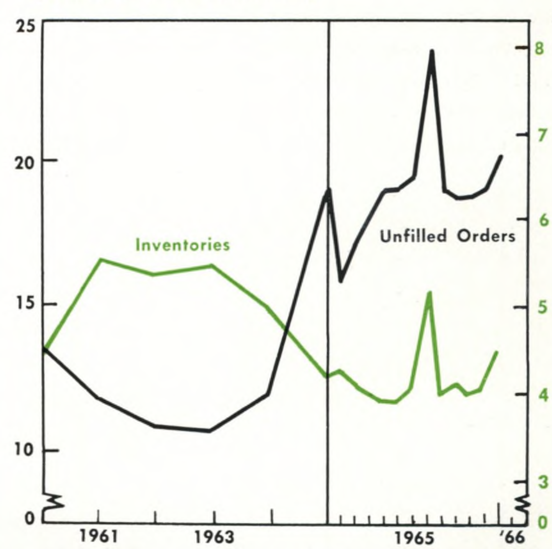
Actually the statistical record for 1956 and subsequent years does not clearly reflect the effects of two-price cotton because the general economy was heading into a recession by the third quarter of 1957, and the upturn did not begin until the second quarter of 1958. Textile manufacturing statistics, however, reflected declining prosperity in 1956, after the export subsidy went into effect and nearly a year before the general business recession began, which strongly suggests that two-price cotton quite promptly influenced the international textile business to the detriment of domestic producers.

Conditions in the cotton textile industry between 1956 and 1964, while the export subsidy was in effect, are aptly described by the old cliche, "the doldrums." Corporate profits were sluggish at around 5% before taxes and 2.5% after taxes. Total textile output rose slowly in response to general economic growth, but most of the rise occurred in the man-made fibers sectors with no noticeable effect on overall profits. The most striking feature of the two-price period was the shift from cotton to man-made fibers. As the volume of cotton broadwoven goods continued to decline, the production of fabrics from man-made and silk rose from 2.3 billion linear yards in 1956 to 3.5 billion in 1964.

Progress in the Two-price Period Some favorable changes of considerable importance developed or picked up momentum during the period of two-price cotton, but these are quite difficult to measure or to document in any definite way. Considerable effort was made to channel more funds into all phases of research and development. Cotton researchers stepped up their efforts to find commercially practical ways to give cotton fabrics special characteristics such as elasticity, permanent smoothness, resistance to stain, and various kinds of visual and tactile appeal. Designers, engineers, and electronics experts pooled their talents to plan bigger, more efficient plants equipped with new machines and automatic controls. Computers were installed in ever-increasing numbers to solve problems of production and inventory control. As a result of all this activity a solid foundation was established for the rapid expansion which took place in the industry immediately after cotton returned to a one-price system.

A second important feature was the added measure of uncertainty attributable to the presence of two-price cotton. At no time during the eight years of the two-price system did cotton's advocates relax their efforts to bring about a change in the law to permit the domestic industry to buy cotton at the same price as foreign buyers. Quite naturally a considerable amount of uncertainty developed as to when, if ever, such a change might be brought about. A general feeling that the two-price cotton situation was only temporary seemed to prevail, but of course textile mill operators could not act as decisively as they might wish on any such basis as this. Consequently many decisions regarding expansion of capacity, es-

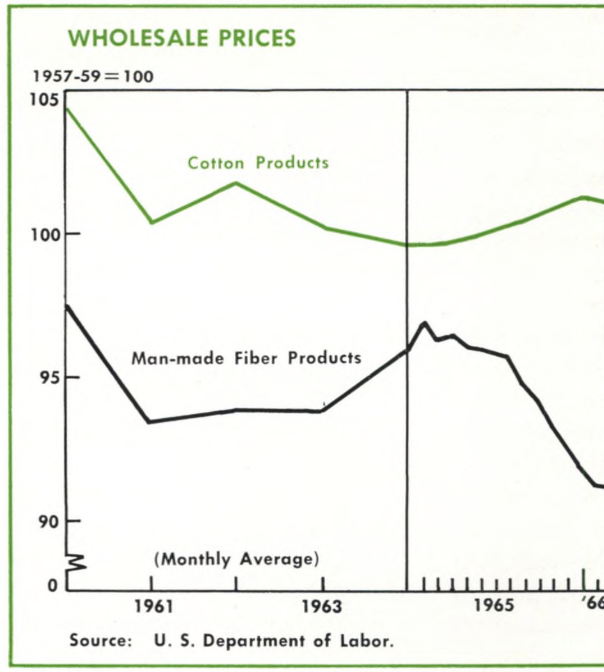
UNFILLED ORDERS AND INVENTORIES
COTTON BROADWOVEN GOODS
(Number of Weeks' Production)



Sources: American Textile Manufacturers Institute Inc., and U. S. Department of Commerce.

pecially for production of cotton goods, were postponed pending more definite knowledge of cotton's future. The net effect of the interim activity was to build a backlog of know-how and technical information while postponing needed expansion of plant and equipment. All helped to set the stage for the textile boom which is currently in progress.

The stresses of the interim period also hastened structural changes within the industry. Some smaller companies fell by the wayside while others merged with larger companies. Textile firms continued to diversify, becoming less vulnerable to specific problems in particular sectors of the industry such as a sharp rise in imports or a sudden shift in consumers' preferences. Larger, more diversified companies were better able to sustain temporary losses and to bear the cost of a changeover from declining products to those that were rising in popularity. Progress in textiles remained beneath the surface during the two-price period, but changes were initiated which eventually developed great momentum after one-price cotton was reinstated in 1964.



One-price Cotton plus Surging Demand The charts that accompany this article show how a number of important textile industry indicators behaved before and after the change which took place in the second quarter of 1964 from two-price cotton back to a one-price system. By early 1964 the entire national economy had moved well along in the period of expansion which is still going strong. The method that Congress chose for ending the two-price system gave the textile industry a stronger boost than would have resulted by simply erasing the export subsidy. Instead of terminating the subsidy and returning the price on overseas sales to some 35 cents per pound, Congress extended the benefit of lower prices to domestic buyers. This was done for the first few months by direct payments to mills on proof of consumption, and later by payment to any cotton handler, except the grower, after proper application and full identification of the relevant bales. Legislation passed in 1965 provided for payments directly to growers beginning with the new crop year.

Credit for what has happened in the textile industry since 1964 is not easily allocated. The growth of the general economy has greatly increased the demand for textile products. Studies have shown that a significant portion of incremental income, especially in the younger age groups, is used to increase wardrobes and to purchase other items, such as automobiles and household furnishings, which use a considerable volume of textile products. More efficiency in production and more imagination in both product design and methods of marketing gave the textile upswing additional vigor. Military demand for textile products has reached sizable proportions in the past year. Granted that the stage was set for a strong surge in textile demand, the return to one-price cotton emerges as a marginal factor of considerable importance, which gave profits a big lift and strengthened the industry's entire financial structure.

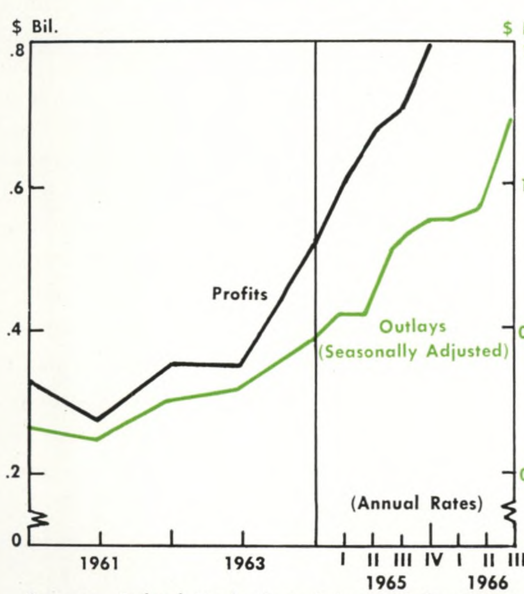
Employment and Production The data in the accompanying charts are plotted annually from 1960 to 1965 and monthly or quarterly from the beginning of 1965 to the present. In the first chart, the efforts of the textile mills to economize on labor while two-price cotton was still in effect can be seen in two series: the number of production workers, which declined sharply in 1961 and again in 1963 for a total drop of more than 40,000 workers; and hours worked per week, which rose as the industry attempted to use its labor force more efficiently, probably concentrating on its best workers for longer hours. In this way plant managers attempted to get maximum production with a minimum work force, anticipating to some extent the greater efficiency of new equipment which would enable the mills to maintain output with fewer workers.

Following the change in the cotton law in 1964, employment reversed its direction and rose with hours worked during 1965 and into 1966. Seasonal declines in the number of production workers and in the length of the workweek occurred in the early part of 1965, but basic trends were, and still are, upward.

The chart at the top of page 3 mainly shows how rapidly production of man-made fiber goods responded to the upturn in business activity which began in 1961. With two-price cotton still in effect, however, production of cotton goods continued to drift downward. The low point for cotton goods occurred in 1963 and was followed by a slight rise in 1964, when the cotton law was changed. During 1965 cotton fabric production returned to levels comparable to those of 1960 and 1962, a considerable recovery from the low of 1963. The drop in the third quarter of 1965, the latest period for which these data are available, reflects a normal seasonal development: most mills close for one week in July for vacations and plant maintenance. Without seasonal adjustment, therefore, textile data show marked deviations from normal behavior in July and similarly for the third quarter.

Cotton broadwoven yardage, charted as an average of quarterly figures prior to 1965, was nearly four times man-made fiber yardage in 1960 but was little more than twice as large by the third quarter of 1965. Indications are that, despite its many desirable natural properties, cotton can no longer count on a major share of the total market. Textile producers are keenly sensitive to demand. They will design products to please their customers and will make those products with the raw materials that contribute the most to profits. Cotton now accounts for about twice as much broadwoven fabric yardage as man-made fibers, but it remains to be seen whether it can hold this margin or possibly increase it again.

PROFITS AND CAPITAL OUTLAYS



Sources: Federal Trade Commission and Securities and Exchange Commission.

Note: 1966 Estimated.

Orders and Inventories One of the cotton textile industry's principal measures of prosperity has long been its backlog of orders usually measured in relation to the rate of production. The chart at the foot of page 3 shows the course of unfilled orders for cotton broadwoven goods before and after the 1964 change in the cotton law. The same chart shows the behavior of inventories, a factor contributing to instability in the past. As the chart shows, the ratio of backlogs to weekly production declined from 1960 to 1963, a period in which the rate of production itself was declining. The rise in unfilled orders relative to output since 1964 is particularly impressive in view of the rate at which output itself increased. The sharp peaks that appear in July 1965 result from the aforementioned custom of closing for one week, reducing the average weekly rate of production while the level of unfilled orders increases or remains the same.

Between 1956 and 1958 the ratio of inventories to production rose quite steadily, largely because of the deterioration then occurring in general economic conditions. After the 1958 recession inventories dropped to an unusually low point in 1959 but, as the third chart shows, rose again in 1960 and 1961. The inventory ratio, however, again leveled out in 1962 and 1963 and began to decline in 1964. Several factors accounted for this. Returning prosperity increased the rate of production and reduced the stock of finished goods held by the mills. Of greater long-run significance, however, was the growing reliance on computerized inventory controls.

Prices and Profits Man-made fibers may have some price advantages over cotton. Like most industrial products, they tend to improve in quality and decline in price, reflecting successful research. The same is true of cotton, but because cotton is a single kind of fiber while man-mades represent an enormous variety, the possibilities for cotton seem more limited. Furthermore, producers of man-made fibers in the past have been able to lower the price to sell additional quantities as capacity increased. This suggests with respect to some man-made fibers the possibility of considerable leeway between cost and price. The same possibility gains support from

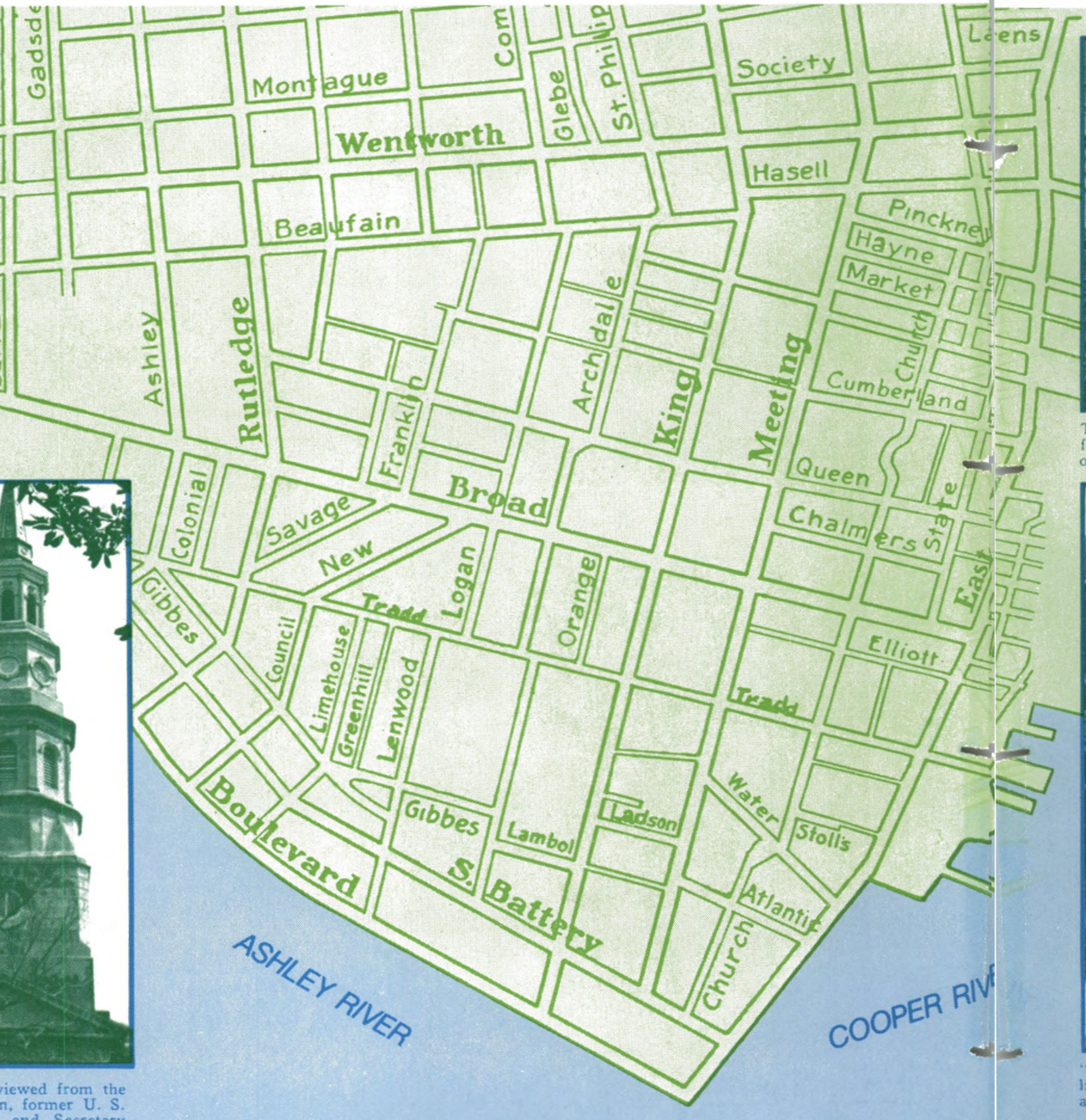
(Continued on page 12)

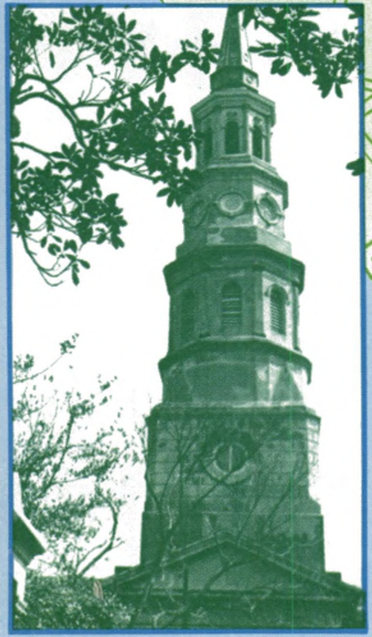
Historic Charleston South Carolina

Charleston is a city of contrast. Rich in historic tradition and old world flavor, it is also one of the most dynamic commercial and industrial centers in the South. The gracious city of formal gardens and ante-bellum homes has recently surged forward economically, stimulated by the rejuvenation of port facilities and increased military expenditures.

Charleston, called Charles Town until 1783, was originally settled by a group of Englishmen in April, 1670. The three century history of South Carolina's oldest city is filled with adventure and romance. It was here that the state's great rice industry began when the captain of a ship from Madagascar gave Dr. Henry Woodward a bag of seed which he planted. It was also here that the War Between the States began, on April 12, 1861, when General Beauregard fired on Fort Sumter.

For many years, tourism has been an important source of income in Charleston. Visitors flock to the city every year to stroll along Rainbow Row where each house is painted an eye-soothing pastel, to drive to Boone Plantation with its half-mile avenue of huge moss-draped live oaks, or to gaze at some of the most beautiful gardens in the world. Cypress is a garden in a water forest where camellias and azaleas are mirrored in the inky black waters. Magnolia's rambling paths and rustic bridges wind among azaleas of unbelievable size, while Middleton is the oldest landscaped garden on this continent. In 1964, travel generated $31.5 million of income, up almost 6% from the 1963 level. Among the major primary income sources, travel receipts rank third, after defense and manufacturing payrolls.

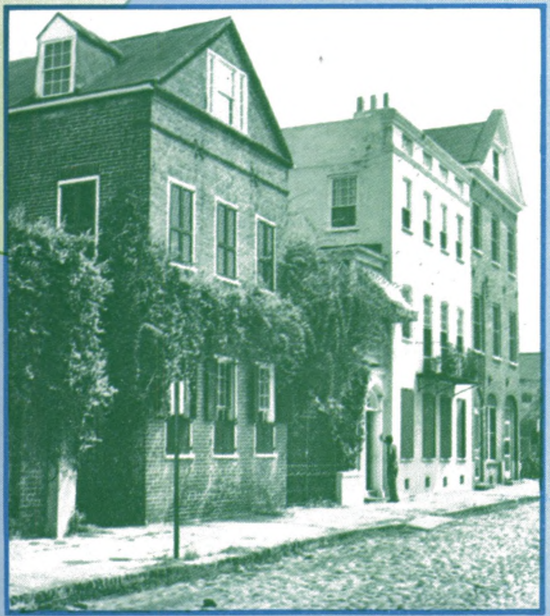




St. Philip's Church, as viewed from the tomb of John C. Calhoun, former U. S. Senator, Vice-President, and Secretary of State.

The Dock Street Theater, originally opened in 1736, was the first playhouse built in the United States solely for the purpose of presenting dramatic productions.

The elegance of the decorative cornices and ceilings and the carving of the mantels and doortrims as seen in the Joseph Manigault House are all typical of the Adam Style of architecture.



"Single" houses, so named because they are one room wide, line this Charleston street paved with cobblestones. Some stand alone while others are built wall-to-wall.

Eleven guns were found during recent excavations at Fort Sumter, a key fortification of the Confederacy. They had been covered with sand for six decades.

Impact on Agriculture

For many years, American cotton growers have produced more cotton than the market will absorb at current prices. Competition from man-made fibers such as Dacron and nylon have limited the growth of private domestic demand while increased foreign production and stiff price competition from abroad have reduced the American share of the world export market.

The Federal Government has attempted to support prices by restricting output, but the program has been only partially successful. Farmers have responded to acreage controls by increasing yields per acre through improved technology and better management so that total supply continued to grow more rapidly than the quantity demanded at current prices.

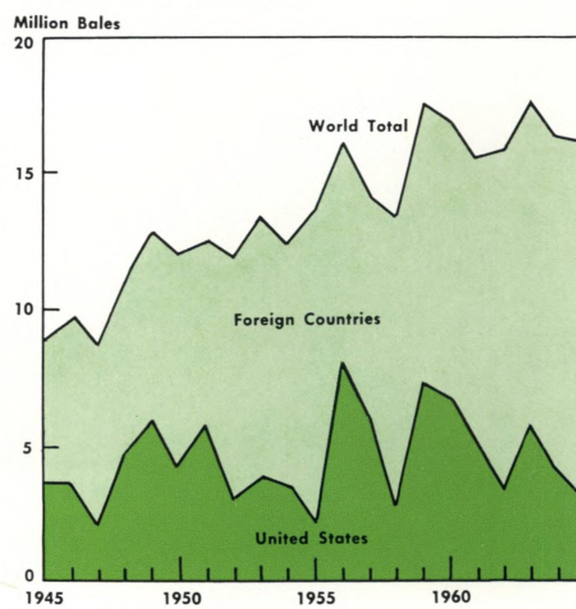
Rather than impose further restrictions on supply, the Government supported the domestic market by purchasing sizable amounts of cotton through the Commodity Credit Corporation, but the price support program accentuated competition in foreign markets. Since the United States is the world's largest cotton exporter, our price support programs have tended to create a floor as well as a ceiling for world prices, encouraging foreign producers to further increase their production. (see chart)

Background Historically, cotton has generally been sold under a one-price system (the same price on the domestic and the export market), but in 1956 Congress enacted a law which provided payment of a subsidy for cotton exports in an attempt to prevent further declines in the United States' share of the world cotton market. No subsidy was paid for sales on the domestic market. Since United States supplies, particularly those held by the CCC, had been rising, the act also provided for creation of a Soil Bank to restrict production, while maintaining farmers' income. It provided for Government payments to farmers for not planting cotton and other crops considered to be in surplus.

The two-price cotton program remained in effect until 1964 when it became apparent that it was creating disparities elsewhere. Cotton on domestic markets was priced high relative to man-made fibers and as a result per capita consumption of cotton declined throughout the period, while consumption of man-made fibers showed a steady increase. Textile mills were also faced with increasing competition from foreign mills, which could buy raw cotton at our lower export price and then sell finished textiles in this country with a competitive advantage. Cotton production in the rest of the world continued to grow, more than making up for the limitations on production in the United States and our share of the export market continued its decline.

Against this background Congress passed legislation in 1964 designed to bring about a return to one-price cotton. The export subsidy was retained, but domestic mills were granted a similar payment to put cotton in a better competitive position with man-made fibers and with imported textiles. Payments of 6.5 cents per pound were made to domestic users of raw cotton through the issuance of payment-in-kind certificates. The average basic price support to growers was reduced about 2.5 cents per pound to 30 cents for Middling 1-inch cotton if they planted their regular effective allotment. The Food and

EXPORTS OF COTTON



Source: U. S. Department of Agriculture.

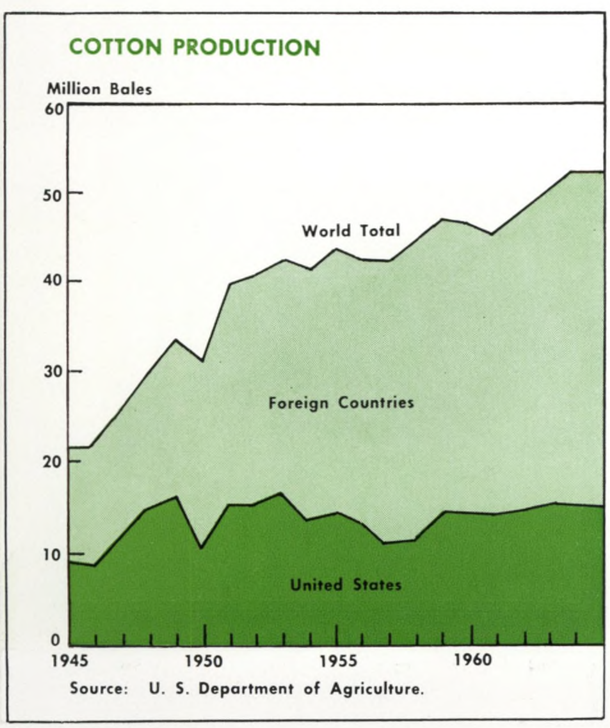
Agriculture Act of 1965, discussed in detail in the March *Review,* brought further changes, especially for growers.

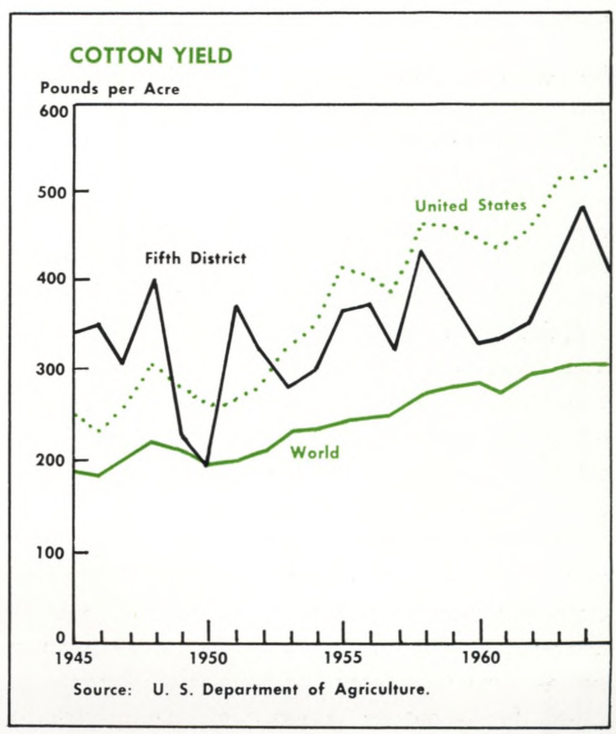
Production United States production has changed relatively little since 1959, but it constitutes a progressively smaller proportion of world production and this trend has not yet been reversed during the brief span of time since one-price cotton was re-established. Some slow-up in the rate of production expansion by foreign countries can be noted for 1965, but whether this is because of the change in United States policy or other factors is open to question. Similar slow-ups also occurred in 1959 and 1961 (see chart), but the expansionary trend of foreign production continued. Meanwhile, total United States carryover of all types of cotton has been increasing and is expected to amount to a record 16.7 million bales on August 1, 1966.

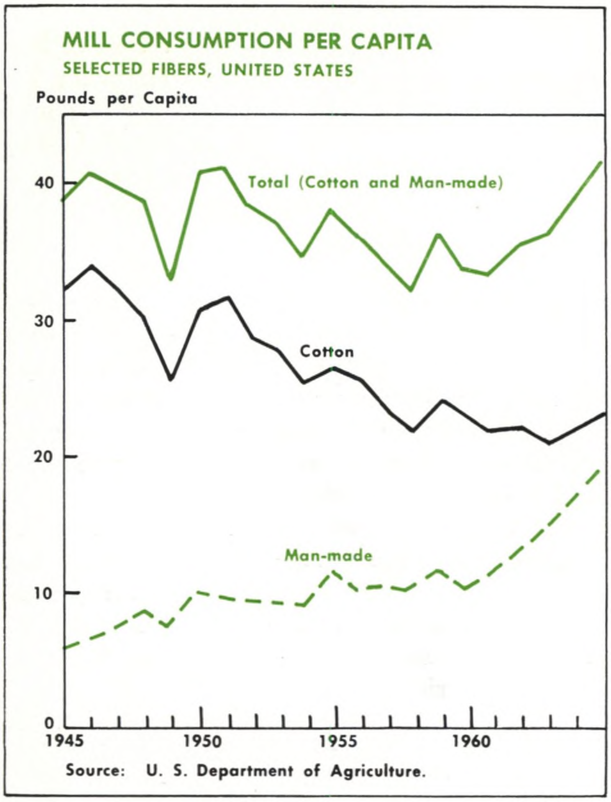
Yields In recent years significant increases in yields per acre have been obtained by cotton farmers in the Fifth District, the United States as a whole, and by foreign cotton producers as a result of improved varieties and technology and of better farm management practices. In the United States these increases have tended to limit the effectiveness of the acreage allotment program as a means of reducing production, but the individual farmer feels that he is forced to increase yields in order to maintain his income. Yields in the Fifth District have not increased as rapidly as elsewhere and this partly accounts for the District's declining share of United States production. Furthermore, District farmers have not planted as large a proportion of their allotments as others in the country and, as a result of the wording of cotton legislation, some of the District allotment has been transferred to other sections of the country.

Exports Cotton exports of the United States have declined sharply since the one-price cotton bill was passed, from 5.8 million bales in 1963-64, the year just prior to its passage, to an estimated 3.2 million bales in 1965-66. Exports in the current year are being affected considerably by provisions of the Food and Agriculture Act of 1965, despite the fact that its export regulations do not go into effect until August 1, 1966. That legislation retained the one-price cotton feature but permits greater flexibility in moving cotton into the export market. Because they anticipate a lower world price, foreign importers have tended to limit their purchases of raw cotton during the current year to their operating needs and are also depleting their stocks.

The first export sales under the new Farm Bill were held in March for delivery after August 1. The price was 22.23 cents per pound on upland cotton







compared with an average price of 24.11 cents per pound at which cotton has been sold recently for immediate delivery. The United States Department of Agriculture "expected that the minimum acceptable price for future sales under the new law will remain at this level through the heavy marketing season this fall," but nevertheless this tends to confirm the expectation of a lower world price. Prospects for improvement in the export picture appear good for the coming year.

Domestic Use Per capita consumption of cotton relative to that of man-made fibers has continued to decline even since the one-price legislation was passed. Total United States cotton consumption, however, has been rising since 1964, whereas prior to this it had been quite stable. Factors influencing the increase in total consumption include rising per capita consumption of both cotton and man-made fibers, population growth and, in the past year, increasing textile use by United States military forces.

Implications The Food and Agriculture Act covers the next four years, so it appears that one-price cotton will be with us at least that much longer. It, therefore, seems appropriate to consider changes that may occur during this period.

Man-made fibers have been gaining rapidly on cotton, on a per capita consumption basis, and may soon become more important if recent trends continue. The cotton industry has, however, made considerable progress in adjusting to consumer demands through the development of wash-and-wear, permanent press and other fiber characteristics that are much in demand. Furthermore, the new legislation provides for flexible price supports, determined through the market mechanism, plus direct payments to farmers rather than the rigid supports of earlier programs. This should enable cotton to be more competitive from the standpoint of price. Population growth may also bring about some increases in total United States cotton consumption.

The trend toward higher yields per acre is likely to continue as a result of continuing development of better varieties of seed and improved farming practices. It was also recently pointed out by an industry spokesman that quality control of the raw product will assume increasing importance. The "push towards computer-controlled, automated spinning and weaving . . . means that raw materials must meet tailored requirements of each stage of processing."

One provision of the Food and Agriculture Act permits sale and lease of cotton allotments. Despite the fact that this program was open for only about seven weeks as it applies to the 1966 crop, over 8% of the acreage in the District and over 6% for the country as a whole was signed up for transfer. Hence more land comes under control of one manager and mechanization will be accelerated if recent trends continue. This may tend to expand production. On the other hand grower intentions of a 23% reduction in planted acreage in 1966 under the land diversion provisions of the Act will tend to bring about a sizable reduction in production.

At a glance the export picture looks much brighter than it has in the recent past because market prices are to be permitted to seek world levels. Several factors could, however, act to dim this outlook. Many foreign importers have been rapidly expanding their production of man-made fibers which has diminished their demand for cotton. Actions foreign exporting countries may take in order to maintain the increased shares of the world market they have recently obtained are also difficult to estimate.

In summary, the one-price system has probably assisted in making cotton more competitive on both the domestic and the foreign markets, but improvements of technology and quality will continue to be needed if cotton is to maintain its position as a fiber and as a crop.

THE FIFTH DISTRICT

The District's statistical record for the past several months suggests two generalizations. First, business gains chalked up in December and January were well in excess of normal growth. Second, although the rate of advance of the District economy remained strong through the first quarter, it may have slowed a little in February and March. Employment indicators in particular reflect this pattern. Data cited are seasonally adjusted unless otherwise specified.

Labor Markets Since September District nonagricultural employment has increased in every month for which data are available, but the rate of growth slowed in February and again in March. Declines, infrequent among major employment sectors so far this year, occurred in mining in January and in trade and construction in March. Employment increases have been accompanied by rising factory man-hours, which gained more than 1% in November and December and 2% in February. In March, however, man-hours declined in several industries, and the rise in the District total was the smallest in six months.

In the Labor Department's February ratings, over half of the District's major labor markets were in the "B" or "low unemployment" classification. Nationally, about one third of the major labor areas were so rated. While no major area in the District or elsewhere has yet been placed in the "A" ("over-all labor shortage") group, evidence of tight labor conditions has continued to mount. In February for example, the National Industrial Conference Board's Help Wanted Index (1957-59=100) reached all-time highs of 357 for Charlotte and 343 for Washington. The February figure for Richmond was 238, down from an all-time high of 275 last December. The national index, an average for 52 cities, was 190 in February. The increase in help-wanted advertising between November and February was 8% for the three Fifth District cities compared to 5% for the 52-city national total.

Construction and Trade Construction employment, after rising steadily from September through February for a total gain of 4% in six months, declined slightly in March. District building permits, up one third in February to a record high, receded slightly in March. The value of new construction contracts, at an all-time high in January, dropped sharply in the second month of the year but was still the highest February total on record. Contract awards have fluctuated as usual but at considerably higher levels than in other recent years.

Employment in trade increased in January and February but dropped slightly in March while holding a 4% margin over a year earlier. District retail sales (not seasonally adjusted) were just under \$1.7 billion in February, up 9% from February 1965. The year-to-year rise was greater in February than in January but not as great as in December. Sales last December were a record \$2.6 billion, up 14% from December 1964 with gains especially strong in durable goods, 37% in automobiles and 15% in furniture and appliances. By comparison, December retail sales nationally were 9% greater in 1965 than in 1964.

Bituminous Coal With demand for coal the strongest in several years, production reached the highest first quarter level since 1957. In the four weeks ended April 2 production rose 2% over the previous four-week period. Mining employment rose in both February and March after declining slightly in January. Later in April, however, a flurry of local strikes, reflecting dissatisfaction with the early results of labor contract negotiations, cut employment and production quite sharply. By the end of April most of the striking miners in the Fifth District had returned to work with the understanding that the new contract would raise their pay \$1 to \$1.32 per day retroactive to April 1. The new contract will run for two and a half years.

Personal Income Total personal income in the Fifth District rose 7.7% between 1964 and 1965 compared to a gain of 7.2% nationally. State totals in the Fifth District were \$10.7 billion in Virginia, up 7.5% from the previous year; \$10.6 billion, up 9.0% in Maryland; \$10.0 billion, up 6.7% in North Carolina; \$4.7 billion, up 9.6% in South Carolina; \$3.6 billion, up 5.8% in West Virginia. The figure for the District of Columbia was $2.9 billion, up 6.2% from 1964.

On a per capita basis, Fifth District personal income rose 6.2% in 1965, to $2,354. This was still well below the national figure of $2,724, although the relative increase in 1965 was greater for the District than for the nation. In the Fifth District, only the District of Columbia with $3,673, the nation's highest, and Maryland at $3,014 topped the national average. The figures for the other District states were $2,392 in Virginia, $2,028 in North Carolina, $2,007 in West Virginia, and $1,838 in South Carolina. Growth of per capita personal income in the District in 1965 ranged from a high of 8.8% in South Carolina to 5.4% in Virginia and the District of Columbia. The national growth rate was 5.8%. Among all 50 states, 1965 per capita personal income ranged from a high of $3,375 in Alaska to a low of $1,566 in Mississippi.

Banking Loans outstanding at Fifth District weekly reporting banks have displayed unusual strength in recent weeks. Total loans, 18% ahead of 1965 at the start of the year, declined less than seasonally in January and early February and then began rising at a faster-than-seasonal pace. Commercial and industrial loans, 17% greater in early January than in the comparable period of 1965, held firm until the spring upswing and by the end of April were more than 18% above the year-earlier level. Real estate loans, recently averaging 20% above corresponding 1965 levels, have closely paralleled last year's pattern of growth. The "all other" (primarily consumer) loan category, on the other hand, has shown less vigor than in any of the previous four years. These loans began the year some 16% above the year-earlier level, but by the end of April the margin had diminished to 13%.

In the first half of January total investments of Fifth District weekly reporting banks were close to the year-earlier level. After the middle of February, however, substantial liquidations occurred and in the last week of April total investments were 2% lower than at the first of the year and 3% lower than in the comparable week of 1965. The reductions were concentrated in Government securities accounts, which in the final week of April were 8% lower than in January and 14% under the year-earlier level. Holdings of other securities, mainly municipals, were up 5% from January and 17% from April 1965. The ratio of other securities to U. S. Governments at weekly reporting banks rose between January and the end of April from 50% to 75% in the District and from 77% to 112% nationally.

one-price cotton

The Textile Industry

(Continued from page 5)

the strong profit margins that have been maintained by the chemical industry.

The chart on page 4 shows that wholesale prices of cotton products and man-made fiber products moved in more or less parallel fashion from 1960 through 1963 with the price level, relative to the 1957-59 base, considerably lower for man-mades than for cottons. In 1964, however, the price of man-made goods rose in response to rising demand while that of cottons declined as the reduced cost of cotton more than offset the effects of increased demand. In 1965 with the textile boom well under way, cotton product prices turned slightly upward in response to demand, while average prices for man-made fabrics resumed their long-run downward trend.

Textile profits, except for cyclical variations such as those associated with the recessions of 1958 and 1960, remained almost unchanged from 1956 through 1963. The last four years of that period appear in the chart on page 5. In 1964 the cost of cotton dropped sharply, and profits began a fast rise, doubling between 1963 and the end of 1965. Profits before Federal income taxes rose to 4.7% of sales in the first quarter of 1964 and to 7.3% by the fourth quarter of 1965. The 1965 profit figures on the chart are quarterly data adjusted to annual rates but are not seasonally adjusted.

The 1965 and 1966 capital outlay figures, however, shown on the same chart with profits, are seasonally adjusted annual rates. During the early 1960's the textile industry spent for new plant and equipment gradually rising amounts averaging less than half a billion dollars per year. The rate of spending increased rapidly after 1964 and reached nearly one billion dollars in 1965. Spending actually passed the billion-a-year rate in the third quarter of 1965. Capital outlays for 1966 are estimated at more than $1.3 billion. Profits, capital outlays, and virtually all measures of textile prosperity have continued to surge upward responding to a prosperous nation's rapidly growing demand for textile products.

PHOTO CREDITS

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