the FIFTH district

1960 had an auspicious beginning with employment and production expanding through January and undoubtedly giving income of Fifth District residents another upward push. Significantly, the expansion of business activity has been on a broad front. Plus signs have been shown by most of the District's principal industries, including textiles, cigarettes, furniture, food, primary metals, lumber, and transportation equipment. One of the few downturns reported was in construction contract awards, although the sharp decline here may have been a reaction in part to the equally strong rise in the preceding month.

Although available February reports disclosed no significant signs of current weakness in the District economy and business confidence remained high, there was a tendency of businessmen to moderate earlier estimates of the strength and length of the business upsurge. Whether the change in business sentiment stemmed from the influence of the customary seasonal slowdowns of February or whether it had other origins may possibly be disclosed this month. In any case, developments this month will be examined unusually carefully as possible harbingers of the 1960 economic story.

MAN-HOURS GAIN Man-hours in Fifth District manufacturing industries in January posted a 1.8% increase over December after adjustment for seasonal factors. The gains were widespread, including all District states and all industry groups except electrical machinery and printing and publishing. An especially strong increase was recorded by the transportation equipment industries as automobile assembly plants in Norfolk and Baltimore stepped up production. Sizable gains were also made in fabricated metal products and tobacco manufactures.

Nonfarm employment after seasonal correction rose from December to January in all Fifth District states. The increase for the District as a whole was 0.5%, with West Virginia making the largest gain. West Virginia's January employment total, however, remained below the year-ago level. The industry groups which chalked up gains were manufacturing, both durable and nondurable, contract construction, trade, government, and transportation, communication, and public utilities. Declines occurred in mining, service industries, and finance, insurance, and real estate.

THE TOBACCO STORY Cigarette production in both the U. S. and the Fifth District reached record levels in 1959. This signaled an excellent year for District tobacco factories, which account for 80% of U. S. cigarette output. Production of cigarettes in the District in 1959 registered the fifth consecutive yearly increase with a 7% gain over the 1958 level. In addition to cigarettes the Fifth District is also a center for manufactured tobacco (plug, twist, fine-cut chewing, scrap chewing, smoking, and snuff). Only 6% of the factories in this group are in District states, but they account for about half of U. S. production.

In addition to record output, the cigarette indus-

Machines that produce more than 1200 cigarettes every minute enable supply to keep pace with the growing demand.

try in 1959 saw the introduction of a host of new brands, bringing the total number of sizes, shapes, and trade names to an estimated 117. From this wide range of choices the 58 million smokers in the country could choose regular or king size, filtered or nonfiltered, mentholated or nonmentholated, and even such items as tobaccoless cigarettes. At the end of the year filtered cigarettes appeared to have secured about 50% of the market. Menthols made big gains during the year, and with many new brands introduced, captured about 10% of total sales.

TEXTILE WAGES BOOSTED In confirmation of widespread rumors that had been circulating in the textile industry, many of the District's mills have announced wage increases for their employees. These wage hikes, which became effective February 29, were expected to average 5% although the exact amount of the increase was not made known.

There was considerable speculation as to whether the wage increase would be followed by a rise in the prices of industrial fabrics. This conjecture was based in large part on the fact that these prices have not risen as much as have prices of other cotton fabrics in the past year. Another, and possibly more important, factor was that orders for auto fabrics were reported to be fairly slow. In general, it was not expected that the wage increase would lead to the widespread price increase that followed the wage boost a year ago.

Sales of cotton gray goods by District mills have been very slow so far this year. Orders for certain kinds of cloth have been satisfactory, but there has been no tendency on the part of buyers in general to add to the orders they have already placed with mills. Most mills still have large backlogs of orders, however, and are maintaining operations at a high level. Mills weaving synthetic fabrics have booked orders for delivery as far in advance as the third quarter. This has built up their backlog of orders to its highest level since the Korean War. Cotton yarn mills also have large backlogs of orders as they have sold practically all their production through June.

Man-hours, seasonally adjusted, in District textile mills in January showed a good increase over December. All three categories, broadwoven fabric mills, yarn and thread mills, and knitting mills, bettered their December performance during January. In February mill operations in some scattered areas were affected by outbreaks of flu, which kept employees home and forced rearrangement of production schedules.

COAL TRENDS UPWARD In line with forecasts, bituminous coal production through January and early February ran ahead of year-ago levels. District coal output for the first five weeks of 1960 averaged 4% higher than the same period in 1959 but 11% under 1957.

After being hard hit by the 116-day steel strike last year, it is estimated that the rebound in bituminous coal demand in the nation may raise output to 430-460 million tons this year. Production in 1959, as in recession-bound 1958, amounted to 410 million tons. The expected increase for 1960 is based on expected record consumption by steel mills and electric utilities. Declines are expected in demand from other industrial customers and from retail and export markets. The prospects for improvement in overseas demand remain bleak. European markets for District coal are marked by heavy inventories and by increasing competition from oil and gas. Pithead stocks of coal in the European Coal and Steel Community countries at the last reported date (September 1959) totaled 32.6 million tons, up severely from 22.5 million tons at the same date a year earlier. Current reports indicate, however, some decline in coal inventories in recent months. District coal exports have shown a somewhat improved trend since December 1959 but are still substantially below year-ago levels.

BANKING District banking activity in recent weeks has reflected quite well the recent strength of the District economy. At weekly reporting banks, loans climbed some .7% during February—a much better than seasonal performance. Business borrowing was particularly heavy.

Other indications of continued pressure on banking resources during February included sharp increases in loan-deposit ratios, sizable sales of Government securities, fairly heavy borrowing at the discount window, and net purchases of Federal funds by larger District banks active in the Federal funds market.

PHOTO CREDITS

Cover—Deering Milliken Research Corp. 2 Institute of Textile Technology 4 United States Dept of Agriculture - North Carolina State College - Clemson College 9 Corning and Moore Architects - North Carolina Dept. Conservation and Development 10 First Federal Savings and Loan Association 11 The American Tobacco Co.

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High in the thirties, low in the twenties, and snow toward the end of the week. With that forecast actually materializing in the middle of February and each of the first three weeks of the transitional month of March, the weather has had little competition around the District when it comes to subjects for discussion. What makes the weather an unrivaled topic for conversation is the simple fact that as yet it cannot be blamed on human frailties or foibles in any form, nor are human sensitivities likely to take offense at any opinions which might be expressed about it. If, then, there have appeared some crosscurrents of economic uncertainty, the convenient thing to do is just to blame it on the weather. An explanation needs more tangible support than the mere fact of its convenience in order to merit general acceptance. The mixture of evidence currently available reflecting economic conditions in the Fifth District remains somewhat inconclusive. The District economy, however, has been predominantly strong and tends to give considerable support to an attitude of cautious optimism.

PREVAILING STRENGTH In general, District production continues at a high level. Retail sales and outdoor activities, such as lumber and fishing operations, have been hard hit by the weather. Large backlogs continue to support textile and furniture production in contrast to the rather slow pace of retail sales. Construction contract awards took an apparently better than seasonal upward turn in February (following a rather low January figure). With seasonal factors roughly taken into account, February appeared to be but little lower than the 1959 monthly average. With a good volume of plans and projects already in process the construction industry has remained an element of current strength in the District economy even though the weather has retarded construction schedules. Increases have recently been recorded in the prices of livestock products which compose the bulk of current District farm marketings. These factors suggest that District production and employment have remained fairly stable, supporting a pretty good level of personal income. How people will choose to use this income with the arrival of spring weather and a late Easter season will be a critical development this month.

THE RIDDLE OF RETAIL SALES Retail sales indicate the consumer's final and all-important acceptance or rejection of goods and services offered in the market place. Here a single result, an unexpectedly low volume, has been accompanied by a variety of possible causes. January department store sales, seasonally adjusted, were about even with December at a level which had been exceeded in only three months of 1959, namely, January, July and August. Reports indicate that the downturn in the District came about the middle of January with sales levels declining thereafter over a

Retailers hope that the adverse effects of frequent March snows and unusually cold weather will be largely offset in the month of April.

Although snow retarded normal spring lumber production, inventories remained fairly constant due to a similar slowdown in construction.

period of about eight weeks. Allowing for normal seasonal variations, department store sales in February were about 8% below the December-January level. Even after taking the effects of the late Easter season into account, March sales were still about 20% below January, and 13% below March 1959. Furniture and automobile sales have also been disappointing.

It would appear that two factors in particular suffice to explain much of the recent reluctance of buyers. Certainly the weather has made shopping most unattractive during much of one week in February and three weeks in March. The late date on which Easter falls this year has removed the pressure which would otherwise have been felt by this time to shop for Easter needs. The period between the after-Christmas clearances and Easter has apparently failed to develop any of the special sales stimuli which most other periods of similar duration now possess in some degree. This is a time when buyers can stay home if they choose to do so. This year their freedom of choice has been unduly influenced by bad weather.

MINOR ADJUSTMENTS MARK MAN-HOURS Total manufacturing man-hours in the District, seasonally adjusted, declined about 1.5% between January and February. This development partially offset the 1.9% increase between December and January. Thus February man-hours, after correction for normal seasonal variations, compared favorably with the December data. Lumber and wood products, furniture and fixtures, and apparel were the significant exceptions.

Although total man-hours, seasonally corrected, declined between January and February, primary metals, nonelectrical machinery, stone, clay and glass products, the broadwoven component of textile mill products, and printing and allied industries remained about the same or registered moderate gains. Activity in yarn mills and knitting mills measured by this indicator decreased between January and February by about 3% and 6%, respectively. By the same token, transportation equipment declined about 6% following an increase of more than 17% between December and January. The reductions in the lumber and furniture categories amounted to approximately 5% and 4%, respectively.

LUMBER SLOW BUT PRICES FIRM The lumber industry has plodded along through its winter period of seasonally low demand. District production in January and February measured in man-hours, however, exceeded output in the same months of 1959 by 6% and 1%, respectively. Reports of activity during the first half of March indicate that the unusually bad weather served to reduce the output of building lumber below normal seasonal levels with the result that prices held up and inventories remained fairly low in spite of low consumption. Dealers are showing some reluctance to replenish low inventories pending some indication of a spring pickup in sales. Lumbermen in general, however, appear to be willing to wait for a spell of real spring weather before forming any firm opinions. Furniture lumber remains in good demand at firm prices.

TEXTILE BACKLOGS STILL STRONG The textile industry continues to serve as one of the principal elements supporting the present favorable level of District production and employment. Scattered reports have indicated some lost productive time due to the March weather. The resulting minor

delays in delivery have tended to retard the development of slight downward pressures on prices reportedly being felt as a result of a continuing small volume of goods offered for resale from dealers' and converters' stocks. In general, new orders have been very slow. The declining backlogs have, nevertheless, remained large enough to make price cutting an unrealistic maneuver in the opinion of most producers. Prices increased gradually but considerably during the period of order accumulation and are regarded by the trade as sufficiently firm to permit companies to absorb wage increases which have been averaging about 5%.

Yarn prices are reportedly firm with large orders on the books for April, May and June delivery. Industry reports indicate a good year for knit goods, and there are signs that full-fashioned hosiery is at last showing some strength in competition with seamless. The largest backlogs are still in print cloths and sheetings where unfilled orders are reported equal to from 3 to 5 months of production.

FARM PLANS SURVEYED As the pace of District farm activity quickens with the progress of spring, indications of the level of 1960 farm income have begun to appear. The prices received for most District farm commodities are determined by volume of output and strength of demand on a national scale. Therefore, national developments must be assessed in terms of their impact on prices. Local factors serve as guides to the volume and quality of regional farm output.

A survey made on March 1 by the United States Department of Agriculture confirmed earlier reports that Corn Belt farmers intend to reduce the size of their spring pig crop considerably this year. If this materializes, the reduced supply will exert an upward pressure on prices. Reports indicate that District hog producers plan to reduce the number of sows farrowing, but by less than the national average. This would tend to put District farmers in a relatively good position to benefit from any price increases which may occur.

Broiler production in the nation started out strong during January and February, but March reports showed the decreases relative to last year that had been anticipated as a result of fewer hatching eggs being available this year. Prices should continue at relatively favorable levels for producers if the usual seasonal pickup in demand, absent in 1959, materializes this year.

Declining egg prices have resulted in a marked decrease in the number of chicks being hatched to maintain laying flocks. Corresponding decreases in egg supply are expected to lead to higher egg prices this summer.

Reports from turkey growers indicate that the shift from the small Beltsville to the heavier White and Bronze turkeys is continuing both in the District and in the United States. Nationally, the increase in the number of heavy turkeys more than offsets the reduction in Beltsvilles. This may result in price declines as the new crop is marketed in the late summer. In the District a 14% smaller turkey crop is in prospect, about equally divided between small and large turkeys.

The peak of the current cattle production cycle is fast approaching, and downward pressure on prices, seasonally adjusted, may develop as marketings increase later this year. District dairy farms are continuing their recent role as an element of strength in the District farm situation. Increased production of milk continues to move at prices satisfactory to dairymen.

LATE START MAY ALTER OUTLOOK Late winter storms and wet fields have delayed the planting season. Seeding of tobacco beds is behind schedule and may lead to delays in field plantings with consequent threats to both quantity and quality of the crop. Small grains planted last fall are generally in poor or only fair condition.

A U.S.D.A. survey of farmers' intentions indicates that 1960 plantings of 12 principal crops in the District are expected to total about 14.7 million acres, 2% below the 1959 figure. If farmers carry out their March 1 planting expectations, this year will witness some shifts in the acreage devoted to the various crops. Soybean producers plan the largest District acreage increase—nearly 200,000 acres more than in 1959. Hay, feed grain, and sweet potato acreage will probably be down.

The foregoing summary provides ample evidence that District factories and farms stand ready to do their part in maintaining District prosperity through 1960 if fine weather, Easter and various other seasonal motives can induce consumers to hold up their end of the market.

PHOTO CREDITS

Cover—W. Va. Industrial and Publicity Commission, Charleston 5, W. Va. 3. Baltimore Association of Commerce 4. The Richmond Newspapers, Inc. 5. Chesopeian Builders 6. The Cole Manufacturing Co. - National Cotton Council of America - N. C. State College 7. National Cotton Council of America - Va. Department of Agriculture - National Cotton Council of America 11. Va. Chamber of Commerce.

the FIFTH district

Reinvigorated by the spring pickup in most retail markets and encouraged by the year's first real flurry of new orders for cotton print cloth, economic activity in the Fifth District has continued on a high and generally prosperous level. The soft spots in the over-all business situation, however, have caused businessmen to pursue conservative purchasing and inventory policies and to view prospects with cautious optimism. Accordingly, in many lines inventories are quite low relative to sales. The generally circumspect sentiment stems also from a wait-and-see attitude concerning the March declines in employment and in manufacturing man-hours.

UPSURGE IN TRADE Department store sales in the District and the nation in the week before Easter set a record for any Easter season week. Even after a twofold adjustment (for normal seasonal variation and for the shift in the Easter date) department store sales during the first three weeks of April provided an estimate for that month which exceeds March by around 18% and surpasses April of last year by approximately 4%. In view of distinctly subnormal buying activity in February and March, however, the present spurt might represent in part deferred demand.

FURNITURE MARKET NONCOMMITTAL The Southern Furniture and Rug Market opened April 22 with reports of excellent attendance, probably the best in recent years. This is one of the annual showings of new lines at various centers in Furnitureland that attracts buyers from coast to coast. This market and the one in October cover an area stretching from Martinsville, Virginia, down to High Point, North Carolina, then west to Morganton, including Winston-Salem, Lexington, Thomasville, Drexel, Lenoir, and Hickory.

Manufacturers had many new lines and a wide variety of new designs to show. Early American was reported to be the dominant style with classic

Consumers in the District have responded to the usual stimulus of spring.

themes skillfully adapted to modern tastes. The latest available information indicates, however, that many dealers came to look rather than to buy. With no immediate expectation by the trade of price increases in the near future and with prompt availability of practically any item from factory inventories, retailers are currently carrying minimum stocks and show no inclination to increase them. Furniture makers, however, view prospects optimistically. The furniture industry started fast in January with good backlogs. Retail sales in February and March were disappointing with the result that "fill-in" sales to round out dealers' inventories have been rather slow. Experience indicates that news of the new lines and normal seasonal pickup in consumer interest may provide a fresh impetus next month. Industry sources estimate that manufacturers' backlogs still average between three and four weeks' production.

NEW STRENGTH IN TEXTILES The large backlogs which have kept most textile mills smoothly in operation since the first of the year are still well above normal levels. Buyer interest in print cloths for third and fourth quarter deliveries has recently developed into the first flurry of new orders this year. Mill margins, the spread in cents per pound between cotton cloth prices and the cost of raw cotton, declined slightly in March after rising fairly steadily since the end of 1958. Broadwoven cottons, knit goods and synthetics are all strong. Yarn mills are continuing to operate at capacity levels although new orders are slow. Spring sales of new autos may improve the rather weak demand for industrial fabrics.

In considering the textile industry as a major factor in the District and of considerable importance in the national economy, it is interesting to note that 1959 wholesale prices of textile mill products were about 9% below the average for 1947-1949. Average hourly earnings of textile workers increased in the same period about 40%. In contrast wholesale prices of all manufactured goods increased about 28% during this period, while average hourly earnings rose 67%. Some of the benefits of textile progress have gone to consumers in the form of lower prices.

SUSPENSIVE STATISTICS From an all-time high in February, seasonally adjusted nonagricultural employment in the District declined in March. Employment is checked in the week nearest the 15th of each month and reflects the conditions of that period. These might or might not be characteristic of the rest of the month. The declines in the March figures are largely a consequence of unusually severe snow storms in mid-March. Adjustment for the usual seasonal forces did not fully compensate for the abnormal conditions.

The decreases in employment in March were generally small—about 1% or less after seasonal adjustment, except in the case of contract construction. Actual employment in contract construction dropped 6% between February and March at a time when there is usually a pickup. Except in mining and contract construction the various classifications of nonagricultural employment were higher in March 1960 than in March 1959 by amounts ranging from 1% to 3%.

The unseasonable mid-March weather not only affected the total number employed but caused a drop in the number of average hours worked. The declines in man-hours, seasonally adjusted, were widespread in manufacturing. The total figure combining all manufacturing industries fell 3% to a level 3% below March 1959 and almost 6% below June 1959—last year's high. Decreases between February and March of from 7% to 9% occurred in lumber, furniture and fixtures, stone, clay and glass, and cigarettes. Man-hours in March were below their year-ago levels in all manufacturing categories except in the metals and machinery industries, the broadwoven goods component of textiles, printing, and chemicals.

BANKING Despite some signs of reduced pressures, District member banks remained in relatively tight positions during most of April. Loans of weekly reporting banks expanded more than seasonally, member banks borrowed pretty heavily at the Federal Reserve discount window, and District money market banks were net buyers of Federal funds. The situation eased enough, however, to permit banks to lower their loan-to-deposit ratios and add noticeably to their Government security holdings. Loan ratios of the 20 weekly reporting banks slipped a full ½% the first four weeks of April—from 52.2% to 51.7%, and Government security holdings of these 20 banks expanded rather sharply, apparently largely through purchases of the new 25 month 4% notes.

PHOTO CREDITS

Cover—North Carolina News Bureau 3. Va. State Poultry Federation - U. S. Dept. of Agriculture - Southern States Cooperative 4. N. C. Dept. of Conservation and Development - Va. State Poultry Federation 7. Colonial Studios 9. Federal Reserve Bank of New York 11. Colonial Studios.

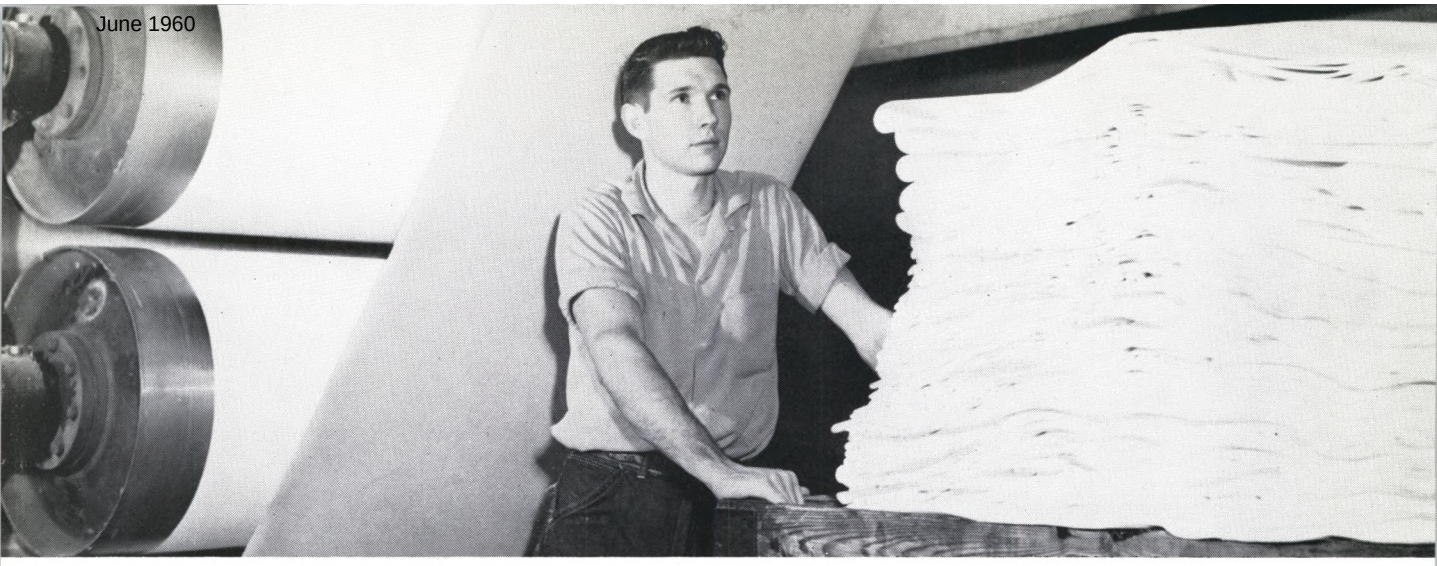
the FIFTH district

Business in the Fifth Federal Reserve District so far this year has had its ups and downs. Statistical evidence confirms the fact that the year got off to a fast start in January and February with record levels of nonfarm employment, near-record levels of manufacturing activity and a good but diminishing volume of consumer spending. Late in February weather became a critical factor, and continued to affect business adversely during the first three weeks of March. Significant declines in employment, man-hours and trade resulted. April statistics show that the economy of the District made a very strong recovery from the March lull. New highs were set for employment. Manufacturing man-hours almost equaled last June's peak level. Spending by District consumers in April, even after adjustment for normal seasonal variations and the late date of Easter, was at a very high level. The District department store sales index, seasonally adjusted, rose to a new high. For the first three weeks of May department store sales again fell below last year's record. In contrast with the March situation, however, there was no evidence of slackening in the District's production industries. The general level of District employment remained high. This gains support from the fact that the number of inactive workers covered by unemployment insurance declined steadily from the first week in April through the second week in May, the latest week for which these data were available as background for the present analysis.

District construction employment is at an all-time high.

As this is written the statistical picture for the month of May is incomplete. Such evidence as is available seems to show that the District economy on balance did not advance in May from the very favorable levels which the April data reveal. Conservative business policies especially with respect to purchasing and inventory control are much in evidence, with the result that speculative expansion appears to be out of the question at present. At the same time, despite frequent shifts in some phases of the business outlook, and lagging enthusiasm in some markets, no evidence of a general business contraction has appeared. Viewed in perspective District developments for the year to date seem to present on average a pattern of moderate growth obscured somewhat by unusually timed, but on balance normally strong, seasonal stimuli.

APRIL STATISTICS STRONG District nonagricultural employment, seasonally adjusted, established a new record in April. This followed a marked decline in March from previous record levels set successively in January and February. March-to-April employment increases occurred in all major industry classifications except mining, durable manufactures and transportation, communication and public utilities. Employment declined slightly in this period in the case of mining, but remained virtually unchanged in the other two industry groups mentioned above as exceptions to the general rule. April employment was higher than it had been a year earlier in all major industrial categories of the District except mining. New highs for seasonally adjusted employment were set during April in District nondurable manufacturing; contract construction; trade; finance, insurance



After twenty months of prosperity, good backlogs still provide a tangible basis for optimism as the textile industry looks ahead.

and real estate; and government. These employment increases were generally moderate and tend to confirm the picture of normal growth with seasonal strength for the Fifth District. Sustained employment also meant sustained income supporting an optimistic attitude toward trade.

Manufacturing man-hour data give added strength to the favorable conditions revealed in the record of April employment. Whereas, for instance, employment in durable goods manufacturing remained virtually unchanged between March and April, the average hours worked per week increased with the result that seasonally adjusted man-hours worked in these industries rose by more than 7%. Because of the unusually low levels of March activity the seasonally adjusted man-hour increases between March and April, though considerable, are difficult to evaluate. Better perspective on April is provided by some additional comparisons. The peak month to date for total Fifth District manufacturing man-hours, seasonally adjusted, is June 1959. April was 0.4% below that peak, but exceeded the figure for 1960's highest month, January, by nearly 1%. April manufacturing man-hours this year were higher than the year before by about 1.4%.

Only in three manufacturing groups were April man-hours lower in 1960 than in 1959. These were fabricated metals, transportation equipment, and the stone, clay and glass group. All other manufacturing groups in April of this year exceeded their year-ago levels of activity (as reflected in total man-hours worked) by amounts ranging from 1% to 14%, with increases from 2% to 3% predominating.

TEXTILE MARKETS MORE ACTIVE Indications of an increasing demand for textile products have become more numerous in recent weeks. Day-to-day reports have varied considerably, but the net results have been firmer prices and a gradual accumulation of new business. Some new orders are being placed to meet immediate requirements, filling in where orders placed earlier for delivery at this time underestimated needs. Earlier in the year these "fill-in" needs could frequently be met by buying goods from other textile users whose deliveries from mills were currently exceeding their needs. These sales from users' inventories had exerted a softening effect on prices. Now fill-in orders are being placed with mills along with some orders to cover anticipated needs six and nine months ahead. Day-to-day changes in prices are the logical result of the current situation. After so long a period of market inactivity buyers and suppliers are feeling their way along, seeking to reconcile differences of opinion as to what constitute realistic prices under the new circumstances.

The latest reports show broadwoven cotton gray goods in a strong position. Just about all of the productive capacity for the rest of the year is sold out. Currently orders for first quarter 1961 delivery, which have been placed sporadically in recent weeks, are reportedly expected to expand to a good volume in the near future. With the principal evidence pertaining to the state of textile prosperity definitely on the plus side, any signs which fail to conform to the generally favorable pattern deserve special attention. Declines since the first of the year in print cloth prices are being viewed with misgivings by some analysts. These prices have recently gained somewhat greater stability, however, at levels which are low only in comparison with the extra-high prices of last

December and January. At that time backlogs were at peak levels and the flow of new orders was just beginning to dry up as a result of the previous heavy buying for delivery months ahead.

Industrial fabrics are still providing the weak spot in the otherwise favorable textile picture. Orders are being placed in relatively small lots as needs arise. Operations in some cases are being curtailed to four days a week to avoid inventory build-ups. Synthetic fabrics have continued to move in good volume with adequate but unspectacular backlogs. Prices have retained a firm tone during the normally slower pace of the spring season. Knit goods are pretty well fulfilling the optimistic expectations expressed for this year by trade sources. Seamless hosiery production and backlogs are reported to be at record highs. Full-fashioned hosiery is in unusually good demand as compared with recent years, and good-to-heavy backlogs are supporting high levels of production in other knitted lines from socks to sportswear. Yarn market conditions have also been quite variable, responding to the changing plans and expectations of yarn users. Recent reports have indicated slower orders, some easing of prices, declining backlogs and, very recently, some inventory accumulation.

VARIED CONDITIONS IN FURNITURE Furniture sales generally are reported to be continuing at a relatively slow pace. The only exceptions to the rule seem to be one or two new lines which have caught on well, plus a few of the old favorites. Manufacturers' backlogs have been steadily diminishing since the first of the year, but are still at a level which industry representatives consider to be fairly good for this time of year. If the seasonal increases in retail furniture sales which are normal for June actually materialize, the resulting new orders are expected to turn the declining backlogs into expanding ones.

BUSINESS BRISK FOR BUILDERS Employment in the contract construction industry jumped back again in April from a very poor showing in March. April employment, seasonally adjusted, was more than 2% above the average level for the first two months of this year, and 6% higher than April 1959. The relatively slower pace of residential building in the District so far this year has been more than offset by increases in industrial and public construction. New construction contract awards have been very low in the District in recent weeks, but the volume of work in process remains high and includes several unusually large projects.

THE UNPREDICTABLE CONSUMER Retail sales in the District ought to be having a good year, better than 1959, if high levels of employment are any indication of consumer buying potential. The District's retail merchants, however, have not developed much optimism as yet. Taking normal seasonal variations into account, the year began about on a par with the last few months of 1959. Then business headed down in February and March to levels which produced in the seasonally adjusted index of District department store sales values which were more than 6% and 7%, respectively, below comparable 1959 figures. The same index recorded a very strong recovery in April, nearly 8% above April 1959. District department store reports for the first three weeks of May show that business has dropped again, and is almost as low relative to last year as it was in the month of March. The response of consumers to new seasonal stimuli this month will be watched with great interest.

FARM PRICES ADVANCE On balance the farm situation in the Fifth District continues to improve. Prices in general moved up in April but remained on average slightly below the levels of a year ago. Maryland tobacco prices, however, are averaging slightly higher than the record highs set last year. Pasture conditions are good as a result of recent rains, and prospects in most areas are very good for a record or near-record peach crop.

Wet fields and cool weather generally have hindered planting and retarded early growth. The most serious note stems from the fact that a considerable acreage of cotton has had to be replanted and reports from some areas indicate a scarcity of seed for this purpose. To the extent that cotton and tobacco crops fail to develop on a satisfactory schedule, other crops which can be planted later—such as corn or soybeans—may be expected to increase.

PHOTO CREDITS

Cover—Colonial Studios 3. Colonial Studios - Baltimore Chamber of Commerce 5. Colonial Studios 6. and 7. Official U. S. Navy Photos 8. American Automobile Association 10. Portland Cement Association 11. American Cotton Manufacturing Institute.

THE FIFTH DISTRICT

The business climate of the Fifth Federal Reserve District continues to produce a variety of weather bulletins. Local reports range from strongly optimistic to moderately pessimistic depending on the fortunes of particular industries or companies. Most of the information currently available, however, clearly shows fundamental strength. With only minor exceptions, nonagricultural employment, seasonally adjusted, remained high during the entire first half of the year. Seasonally adjusted man-hours in manufacturing industries of the District likewise continued on a high level with only minor declines so far since January. Some District industries, among which textile manufacturers were by far the most important, granted their employees moderate wage increases in the course of the first half of the year.

PERSONAL INCOME HIGH It thus appears that a high level of personal income has been the rule in the District in recent months. And yet the experience of retailers has not fully and consistently reflected this high degree of consumer prosperity. While new automobiles have been selling at a significantly faster rate than they did last year, other consumer durables, especially furniture and appliances, are from the dealers' point of view moving rather slowly. On the other hand, statistical comparisons with previous years do not give a particularly unfavorable picture.

In general, merchants appear to be more than normally cautious in placing new orders with manufacturers. The lack of exuberance in retail markets has already been noted. As both dealers and manufacturers seek new ways to woo their respective customers, the intensity of competition grows in both retail and wholesale channels. Many special deals that are offered as a stimulus to sales involve in some form price concessions which shave profits.

SUMMER SLOWDOWN IN FURNITURE Activity in furniture plants is reported to be slowing down in response to declining retail sales. May was a good month and seasonally adjusted man-hours worked in furniture factories reached a new peak. Virtually all plants were working full time, plus some overtime. Many plants are still working a full five-day week, but others now find it necessary to cut the work week to four days. Many factory representatives, who attended the June Chicago furniture market fully aware of that market's declining importance in recent years, found even less buying interest there than they had expected. As this is written the markets in New York and North Carolina are in progress with evidence of good attendance. Because of the disappointing response to new lines last spring, some manufacturers have made a special effort to improve designs, and contrary to the usual practice some new models are being shown now in hopes of developing a good volume of fall sales.

Furniture dealers throughout the country achieved a good volume of sales during the early months of the year. Sales by southern manufacturers for the first five months are reported to be nearly 7% ahead of 1959, itself a good year for furniture. During June, however, business fell well below the 1959 level. Currently, dealers seem somewhat pessimistic about prospects for a really good fall pickup. On the other hand, some industry analysts are inclined to feel that there is a latent demand which could become active in the late summer and fall.

District furniture output has fallen below the January-May rate.

TEXTILE MILLS HUMMING A good portion of the assurance needed to counterbalance impressions stemming from weaker aspects of the District business picture can be gained from a glance at the textile situation. In early June mills were still receiving a moderate volume of orders which added to already ample backlogs scheduled for delivery in the fourth quarter of this year and the first quarter of 1961. In late June the flow of orders had dried up almost completely, a normal development in anticipation of the customary closing of textile mills during the week of July 4. Many southern mills, however, are departing from this custom, scheduling the vacation week for later in July or early in August. The change is deemed desirable in many cases in order to maintain production to meet delivery commitments. Other mills have made the change mainly out of consideration for their employees, many of whom prefer to take vacations which do not coincide with the Fourth of July.

Industrial textile prices have remained steady, strengthened in part by a recent revival of orders from automobile manufacturers. Some slowing up of activity in synthetic fabric markets with corresponding easing of prices has been reported. However, this development is not widespread and does not appear to constitute a threat to the basic strength which has characterized synthetic-fiber textiles all year. Yarn mills have been experiencing some falling off of orders, though backlogs of carded cotton yarns reportedly equal about eleven weeks' output.

OTHER EVIDENCE MIXED Among the District's major industrial categories, only mining revealed a decline in employment between May 1959 and May 1960. Reports of further small reductions in District coal mining employment appeared during June. All other industry groups recorded employment increases ranging from 1% to nearly 5% during the year from May 1959 to May of this year. Between April and May slight decreases in seasonally adjusted employment occurred in mining, trade and government employment.

May statistics of seasonally adjusted man-hours in manufacturing industries also show a generally favorable picture. Total manufacturing man-hours in May reached their highest point in twelve months. These gains resulted from widespread increases in the nondurable goods category. April to May declines in food, tobacco, paper and chemicals were more than offset by gains in other nondurables industries. Durable goods man-hours declined between May 1959 and May 1960 and from April to May this year. The specific industries in which seasonally adjusted man-hour losses occurred between April and May were primary and fabricated metals, nonelectrical machinery, transportation equipment and lumber. Gains in electrical machinery, furniture, and stone, clay and glass industries were not sufficient to offset those losses. District primary metal industries appear to be faring better than those of most other areas. Bethlehem's Sparrows Point Steel Plant in Maryland was reported to be operating at the outset of this month at about 85% of capacity compared with an estimate for the nation of about 60%.

BANKING Loan demand at District banks strengthened during June. In the four weeks ending June 22, loans of weekly reporting banks jumped nearly 3%—a gain which is greater than that achieved in the comparable four-week period of any recent year. Business loan demand was particularly strong.

Despite the additional loan pressures, positions of District banks seem to have eased somewhat in recent weeks. Loan-to-deposit ratios have fallen slightly, the rate of liquidation of investments has slowed a little, and borrowings at the discount window have tapered off markedly. District banks which have been active in the Federal funds market have cut their purchases sharply.

"INDUSTRIAL PRODUCTION—1959 REVISION"
The complete report on the revision of the industrial production index is now available for distribution. The 229 page report provides a detailed description of the new features of the revised index and the methods used in its compilation. The price is $1.00 a copy up to ten copies and 85 cents for ten or more copies in a single shipment. Orders should be addressed to the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington 25, D. C.

PHOTO CREDITS

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the FIFTH district

Business activity in the Fifth Federal Reserve District is coasting along through the summer season on a fairly even keel. Recent developments appear to reflect mainly the usual vacation slowdowns in mines and factories and summer indifference toward certain lines of durable consumer goods.

Retailers report that consumer demand appears to have departed to some extent this summer from the usual patterns. June and July temperatures in many areas of the District averaged several degrees below normal with less than the usual amount of humidity. Dealers cite this as the reason for their inability to sell the anticipated volume of air-conditioners and ventilating fans thus far this season. In a few areas of the District distinctly subnormal rainfall has dealt retailers another blow—lagging sales of lawn and garden equipment, especially lawn mowers. The low level of consumer interest in home furnishings in general has disappointed both manufacturers and dealers. On the brighter side, sales of summer lines of consumer soft goods are reported to be moving well. The demand is good for home entertainment equipment, such as television sets, radios, and record players. Refrigerators, freezers, home laundry equipment, and stoves have been reported to be moving at a fair-to-good pace as compared with last year.

MANUFACTURING SLOWS SLIGHTLY The latest statistics measuring seasonally adjusted man-hours in District manufacturing industries show June down a fraction of a percentage point from the high level reached in May. This mild over-all decrease was the result of some rather sharp declines in certain durable goods industries. Primary metal products and furniture and fixtures decreased 4% and 3% respectively. Man-hours in electrical machinery production, seasonally adjusted, increased 2%. Other categories of durable goods decreased nominally.

Seasonally adjusted man-hours in the District's nondurable goods industries declined very slightly between May and June. Within the group, however, food and kindred products and the yarn and thread component of textile mill products each declined more than 4%. Offsetting the decreases, seasonally adjusted man-hours in both tobacco

Though national coal consumption is expected to exceed that of 1959, District coal output so far has lagged slightly.

manufacturing and the broadwoven fabric component of textiles increased—the former by about 4%, the latter by a mere fraction of a percentage point. Small declines were registered in the other nondurable goods classifications.

Only primary and fabricated metals, transportation equipment, the stone, clay and glass group, and yarn and thread mills failed to make a favorable showing in June when compared with their performance in the same month of 1959. June last year, it should be remembered, was the last month of stepped-up production in anticipation of the steel strike. The record for total manufacturing activity in the District set in that month has since been approached but not equaled.

EMPLOYMENT PAUSES ON UPWARD TREND The chart on page 12 shows clearly the growth of seasonally adjusted nonagricultural employment in the Fifth District during the period of business expansion which began in April of 1958. The June figure was less than one-half of one per cent below the all-time record level which was set in April and maintained in May. All categories of seasonally adjusted nonagricultural employment declined between May and June except trade, and the finance, insurance and real estate classification, each of which made modest gains. The most significant declines occurred in mining, down 2% between May and June, and in government, and contract construction, each down slightly more than 1%.

As the chart indicates, nonagricultural employment stands currently at a substantially higher level than it did a year ago. Only in mining, down 3.5%, and durable goods manufacturing, down less than 1%, have the statistics on employment moved counter to the District's upward trend during the past year.

RECENT EVENTS HELP COAL Residual oil is the thick, black remnant of crude petroleum after removal of commercial grades of gasoline and oil. Depending upon a rather complex set of technical, economic and geographic circumstances, residual oil comes into direct competition with coal as a fuel for the production of steam for electric power and large-scale heating plants. Where natural gas enters the picture as a third competitive fuel, utilities and factories find it to their advantage to be equipped to burn any one of the three.

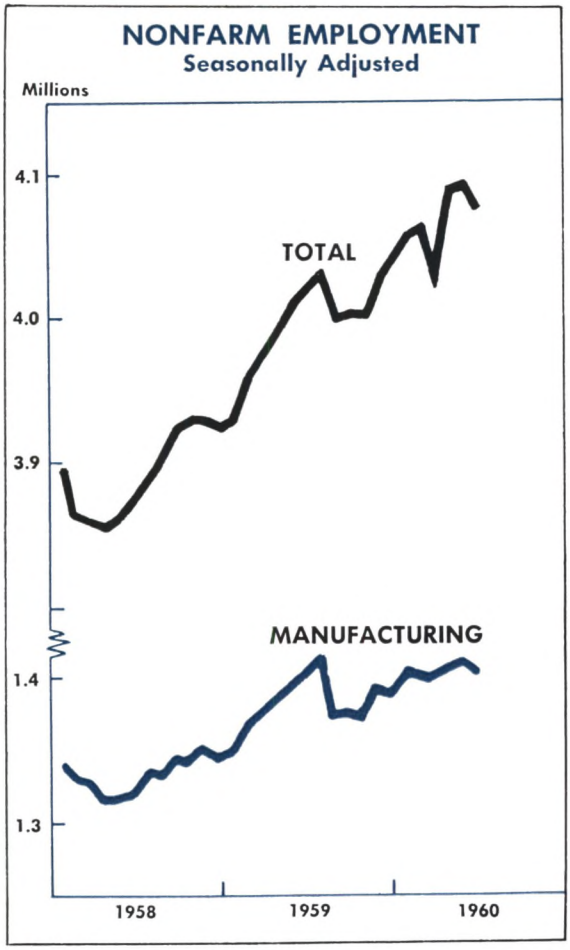
Recent increases in the price of residual fuel oil in east coast markets have ranged up to 20¢ per barrel. The supply is determined largely by import quotas set by the Department of the Interior. These quotas have recently been somewhat reduced while total demand continues to grow. Borderline users of the heavy petroleum fuel find that the cost indicator has moved back in the direction of coal.

Fifth District coal production thus far this year has failed by a very small margin (0.2%) to equal the output achieved during the comparable portion of last year. This can be considered somewhat encouraging, in view of the accelerated activity which characterized the first half of 1959 when the steel strike was anticipated. It is not, however, in keeping with the most recent estimates of 1960 coal consumption as prepared by the Market Forecast Committee of the National Coal Association. This group expects that domestic consumption in 1960 will exceed that of 1959 by 6.3%. This, combined with an estimated 8% decrease in coal exports, will result in an expected over-all increase of 5.2% in consumption of the nation's output of coal.

TEXTILE MILLS MAINTAIN PACE Seasonally adjusted man-hours in the broadwoven and knitting divisions of the textile industry held firm through May and June at the highest levels of the year, just slightly below the records set in the early and middle months of last year. Seasonally adjusted man-hours in yarn and thread mills registered a 4% decline between May and June following levels during the earlier months which compared favorably with the very good average rates of 1959 activity. Backlogs are still large in the broadwoven cotton and yarn divisions of the industry. In the knitting, synthetic fiber goods and industrial textile lines backlogs are not so heavy, but new orders have flowed with sufficient continuity to maintain adequate backlogs and sustain good levels of production. These lines, furthermore, are showing some new strength.

The textile price structure appears to be basically strong. Where large order backlogs exist, as in the case of print cloths, resales of goods out of the inventories of original buyers take place intermittently. These "secondhand" sales of print cloths, which exert a softening effect on prices, are basically a shifting of existing stocks from finishers who overestimated their needs in particular lines to finishers who underestimated them. They do not as yet appear to indicate any basic weakening of final demand, nor any dangerous accumulation of inventories.

FURNITURE MARKETS LIGHT Furniture manufacturers in the District thus far are having a better



Growth of District employment leveled off in May and June.

year than they had in 1959, their previous best year. The large backlog of orders at the beginning of the year, however, has fallen steadily except for a brief period between April and May when the backlog increased slightly. Retail sales have been slow and the summer markets have resulted in only a modest volume of new factory orders, enough apparently to interrupt the decline in order backlogs. Reports from the Southwestern Summer Housefurnishings Market held in Dallas during the last week of July provided a basis for some new optimism but tell the familiar story of cautious buying and stiff competition. Many industry spokesmen, although currently cautious, still believe that a good volume will develop for the fall, and that the second half of the year will be as good as or better than the first.

CONSTRUCTION A good volume of construction, mainly industrial and public, is in process in the District. This is indicated by the fact that construction employment in June, seasonally adjusted, has been exceeded only in the months of April and May of this year, and exceeded June 1959 by more than 4%. The District construction picture gains further strength from a good backlog of contract awards, even though the rate of new awards has recently slowed rather sharply. The total value of construction contract awards in the District declined 13% between May and June to a level which was nearly 8% below the June 1959 figure. June contract awards were below their year-ago levels in all three categories—residential, nonresidential and public works and utilities. In spite of this decrease, the total value of awards during the first six months of 1960 exceeds last year's first half by more than 2%.

AGRICULTURE Growing conditions on District farms have generally been improving as the season has progressed, and continued favorable weather would result in a bountiful harvest. Prospects are especially bright for the District's tobacco growers. Higher yields in North Carolina and Virginia are currently expected by the U. S. Department of Agriculture to boost the important flue-cured crop to almost 10% above last year's production.

Yields of other major crops also appear likely to exceed those of last year, with cotton and hay as the main exceptions. Many farmers had trouble getting good stands of cotton during the cold, wet spring weather, and some acreage intended for cotton was diverted to sorghums and soybeans. The hay crop in many areas was adversely affected by dry spells in early summer. The drought was lifted by timely July rains in most places. More recent rains have alleviated the seriousness of these problems in southern Maryland, central Virginia, and other scattered areas.

Hog and egg prices have risen since last year in response to reduced national production. Broiler prices, on the other hand, have been maintained above those of last year in spite of greater production. Government economists attribute this price strength to greater consumer demand, resulting partly from higher prices of other meat products.

PHOTO CREDITS

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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.

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.

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

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-

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.

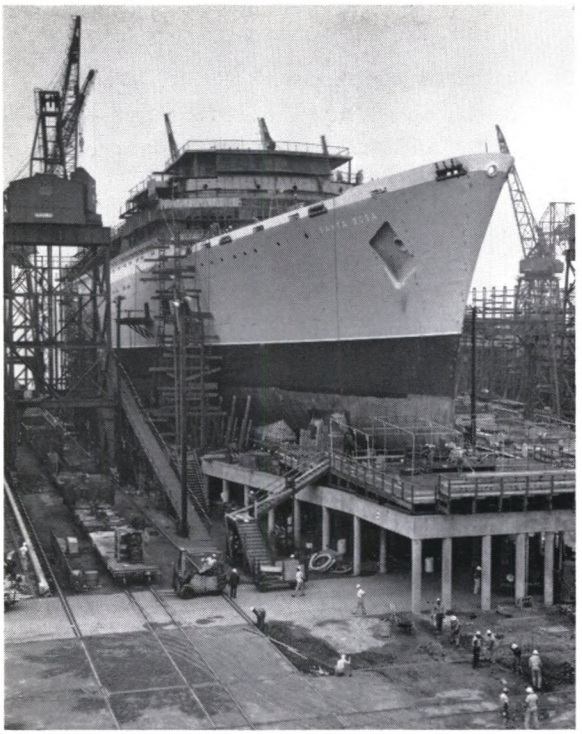
At the opening of 1960 the volume of unfilled orders for broad woven cotton goods, to take a typical example, was very high, amounting to 21.5 weeks of production at the then current rate. Accordingly, no concern was shown by mills over the mere trickle of new orders received during the early weeks of 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



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 Manhours 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 manhour 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.

PHOTO CREDITS

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the FIFTH district

The fall season is here and Fifth District businessmen are still confronted by divergent and conflicting signs when they try to evaluate the strength of demand and the course of future business activity. In the District no less than in the nation there have recently been some conflicting developments. Retail sales have lagged; production has been cut back in the District's largest manufacturing industry, the cotton textile mills; and manufacturing employment in general has shown a moderate decline. But construction, except for residential housing, remains at a high level and farm income prospects are good.

The object of consumer spending which is getting the closest scrutiny during this season is the automobile. A sample of Fifth District dealers reporting on the month of August indicated generally satisfactory results from their efforts to clear out 1960 models. About three-quarters of the reporting dealers said that August was as good as or better than July. About two-thirds considered their August sales to be seasonally normal or better. Lenders reported a stronger-than-seasonal rise in the demand for new car loans. New car inventories in August were judged by about three-quarters of these dealers to be within or below a seasonally normal range.

A good majority of dealers also reported a more-than-seasonal gain in used-car sales between July and August. Even though used-car inventories increased between these two months they were, in the judgment of most dealers, not excessive for that time of year.

RETAIL ROUNDUP Reports from retailers of appliances and other durable equipment indicate that recent sales have been somewhat below the seasonal norm. Consumer expenditures for services and nondurable goods have continued relatively strong. Developments thus far tend to create the impression that fall trade in the District has started at a level slightly below seasonal expectations. This view gains tangible support from the seasonally adjusted index of District department store sales covering the first three weeks in September. A preliminary estimate of the index shows those sales, seasonally adjusted, down about 1% from the August level, 5% below July, 12% below April, which marked the highest level reached by this index, and 4% below September 1959.

Sales of 1961 model automobiles will be watched very closely this year as an indication of the volume of consumer spending.

TOBACCO MARKETS FIRM Gross returns from Fifth District marketings of flue-cured tobacco through September 23 added up to $367,867,000.

Compared with last year District tobacco markets this fall have featured a better quality leaf and higher average prices.

This figure is 10% higher than the figure for the comparable period of 1959. This year's prices have averaged $60.25 per hundred pounds—an increase of 85 cents or more than 1% over last year's average. The volume marketed through September 23 exceeded that of the similar marketing period last year by 8%. In general the higher average prices are a reflection of a better quality leaf than that which was marketed early in the 1959 season. Prices thus far have either held firm or shown some tendency to rise as the marketing season has progressed.

HURRICANE DAMAGE The tropical storm known as Donna did intense damage to crops in areas of the District which lay across her northbound path along the coast. Crop damage in North Carolina alone has been conservatively estimated at almost $17 million. Damage to forests and farm buildings would also have to be taken into account, and the crop damage figure would probably require an upward revision to reflect fully Donna's impact on the farmers of North Carolina.

The greatest losses through northeastern South Carolina, eastern North Carolina, Virginia and Maryland were caused by injury to the corn crop. Cotton in eastern North Carolina was severely damaged. The harm done to peanut and soybean crops was somewhat less severe. The crop of late vegetables in the Eastern Shore region was hit hard, and much of Maryland's ripening crop of apples was blown to the ground and a considerable number of the heavily laden trees were uprooted.

EMPLOYMENT REGISTERS NET DECLINE Seasonally adjusted employment in the manufacturing industries of the District registered a 2% decrease in August. The decline was slightly more pronounced in the durable goods group than in nondurables. Contractions in employment also occurred in mining (down 2.6%), contract construction and the transportation, communication and public utilities group (each down a fraction of a percentage point). Employment in retail and wholesale trade remained virtually unchanged. The remaining major groups (finance, insurance and real estate, services, government) showed minor employment gains. The net effect of these changes was a reduction of about 0.6% in total employment in the District.

All industry groups except mining and nondurable goods manufacturing showed employment higher than last year. Gains in employment between August 1959 and August 1960 must be interpreted with caution because of last year's steel strike. With the exception of the finance, insurance and real estate category and the services and miscellaneous classification, each of which reached a new high, August employment figures for major industry groups were down somewhat from previous peak levels reached earlier this year.

MANUFACTURING ACTIVITY MIXED August was the third month in a row to show a decrease from the previous month in seasonally adjusted manufacturing man-hours. The decrease from July to August was about 1.6%. The cumulative drop from the year's high in May to August was about 3¼%. Textile man-hours declined about 1½% between July and August, reflecting production curtailments to avoid inventory build-up as demand for textile mill products continued to lag. Except for occasional order flurries for delivery late this year or early next, the cotton gray goods market is still slow, and apparently in balance in terms of current output and demand. Prices are on the soft side but remain fairly steady. The bright spot in the textile picture is the knitting industry which stepped up its pace between July and August, and is from all reports enjoying strong demand for most products.

The furniture industry declined between July and August on the man-hour scale, but has been more recently reported to be back at a good level of production in response to a fall increase in business of just about seasonal proportions. Among the District's other industries, seasonally adjusted man-hour decreases between July and August were greatest in tobacco manufactures, metals and machinery. Paper and allied products, transportation equipment and the food and kindred products group registered gains.

PHOTO CREDITS

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THE FIFTH DISTRICT

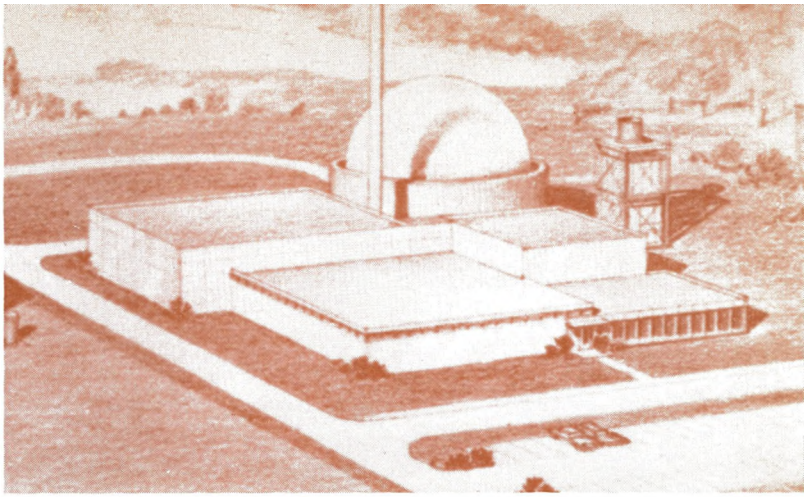
Business activity in the Fifth Federal Reserve District continues at a level only moderately below the peak reached earlier this year. In general, activity has been declining slightly. A definite fall upturn, which many observers expected, has failed to materialize. Although employment remains high, man-hours worked in many of the District's manufacturing industries have continued to decline. Insured unemployment in the District, on the other hand, decreased 1.5% during September. Insured unemployment as a per cent of the covered labor force for the District of Columbia and each of the Fifth District states except West Virginia was lower than for the United States as a whole. Activity in the textile industry has remained fairly stable since output was reduced early in September in response to the continuing lag in new orders. There have recently been a few flurries of orders for both cotton and synthetic gray goods with deliveries ranging from a few weeks to four months ahead. Unless orders increase further, additional curtailment of production may become necessary to check the erosion of backlogs and to maintain inventories at or near a desirable level. The furniture industry has experienced new optimism following its fall showing of new lines at furniture centers throughout North Carolina. Reports from the Southern Furniture Market indicate, however, that furniture men typically expect the industry as a whole, now running about 5% below last year, to show just about normal seasonal strength or perhaps a little better, for the rest of the year. Tobacco farmers in the District have sold well over a billion pounds of tobacco for more than $600 million, an increase in gross revenues of about 23% over the similar period of 1959.

EMPLOYMENT UP, MAN-HOURS DOWN The divergent tendencies which have marked seasonally adjusted employment and man-hour statistics in recent months are apparently continuing. Employment increased slightly between August and September while man-hours showed a moderate decrease. The largest gain in employment (and this was only 1.4%) occurred in the government category. Seasonally adjusted employment in manufacturing (both durable and nondurable goods industries), contract construction, and the finance, insurance and real estate group gained slightly. The largest August-to-September decrease in seasonally adjusted employment (only about 1%) occurred in the category of transportation, communication and public utilities industries. Smaller declines occurred in mining, trade and services. The drop in mining employment continues a long-run trend. The small declines in trade and services represent a hesitation in two employment categories the growth of which has been very steady in the District in recent years.

Seasonally adjusted man-hours declined between August and September in all of the District's major manufacturing industries except machinery (both electrical and nonelectrical), the stone, clay and glass group, tobacco manufacturing, and the composite of printing, publishing and allied industries. The largest decrease (—4.6%) occurred in the broadwoven fabric component of the textile industry as a result of the production curtailments already reported. Significant August-to-September declines (in the neighborhood of 4%) also occurred, however, in the transportation equipment industry, lumber and wood products, food and kindred products, yarn and thread mills, and manufacturers of apparel and other finished textile products.

September employment exceeded its year-ago level in all industry groups except mining. Significantly, those industries most directly affected by last year's steel strike are about the only ones in which man-hour data for this September are ahead of those for last. Tobacco manufacturing and the printing and publishing industries are the exceptions to this rule.

CONSTRUCTION Activity in the construction industry as a whole has continued at a high level in the District. Following through on plans made at a more optimistic time, industrial and public construction continues at high levels. Seasonally adjusted employment in contract construction moved back up between August and September to a level only 0.3% below the all-time high for the series reached in May.



The plant depicted in this architect's drawing is currently under construction at Parr, South Carolina. A pioneer in its field, it will combine the use of atomic fuel with conventional steam equipment to generate electric power. Many serious problems still confront the scientists and engineers who seek more efficient means of directing atomic power to commercial uses. Experience gained in the construction and operation of the Parr plant will contribute to their solution.

The volume of residential building, however, has fallen considerably below the level of last year. Residential contract awards in the District during the first half of this year maintained an average level 8% under the 1959 average, but considerably above that of any year since 1955 except 1959. The situation worsened in July. Residential awards since then have fallen to levels comparable with those of late 1957 and early 1958. Easier credit conditions in recent months have had little if any effect. The slack situation in residential building is reflected in the conditions which have prevailed through most of the year in the District's lumber industry. Ever since the expected spring pickup failed to materialize, lumber sales have been slow, prices soft and inventories creeping upward.

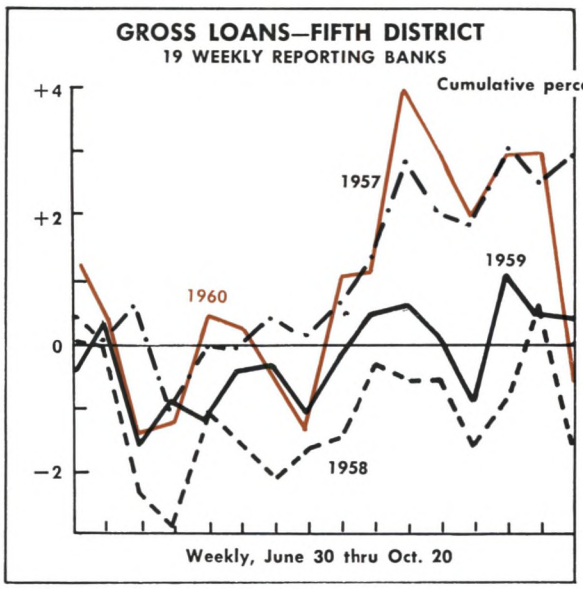
In sharp contrast, construction of public works and utilities has proceeded at a rapid pace. During the first nine months of this year contract awards in the District for this type of work exceeded the 1959 figure for the same period by 58%. A complete enumeration of projects currently in process around the District would make an impressive list. Of particular interest is the Southeast's first atomic reactor power plant, now under construction at Parr, South Carolina. Summer 1962 is the estimated time for completion. This $28 million project will generate electricity from atomic fuel. Steam produced by the heat of the reactor will drive conventional turbines and generators located in an adjoining power station.

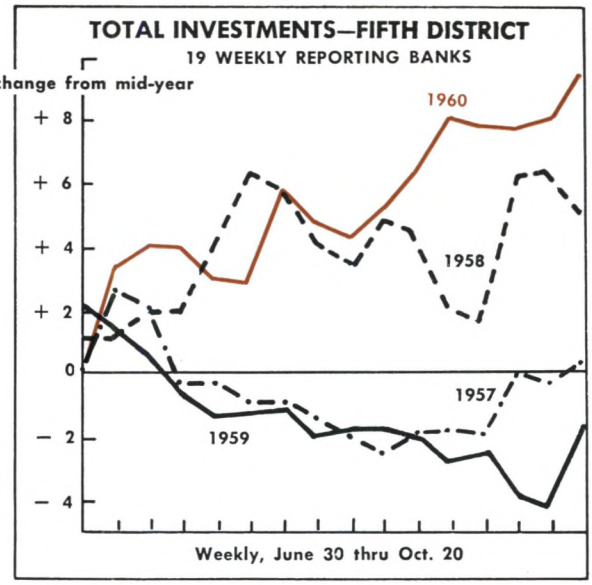
Nonresidential construction has been running below last year. After nine months total contract awards were nearly 7% below the figure for the same period last year, a very good year. Uncertain business conditions have led to some delays. In one publicly reported case the start of a new plant was postponed indefinitely, but thus far such action seems to be the exception rather than the rule. But much of the construction now in progress is the result of plans made six or eight months ago. If the current hesitation in business continues it could cause a slump in construction some months hence.

SOUTHERN FURNITURE MARKET Furniture manufacturers who showed their new lines to dealers at industry centers throughout North Carolina October 21-28 provided a considerable volume of trade news. Attendance at the Southern Market this fall was reported to be the best on record. Dealers came from all parts of the United States and from Canada. More furniture makers from other sections of the country than ever before reserved space to display their wares in competition with those of local producers. Many of the most interesting new lines were new reproductions or adaptations of Early American designs.

Despite the enthusiasm among dealers, retail trade in furniture has been described recently as sluggish. Many furniture retailers have put extra effort and money into sales promotion this fall. As a result of these efforts a good number of prospective customers have been visiting furniture stores. They liked what they saw, and gave an impression of ability to buy. A significant number, however, did not buy.

The dealers themselves, therefore, bought cautiously at the Southern Market. Many placed small orders for particular items to round out and liven up their showrooms. Little buying in volume occurred. Most buyers wanted to complete the circuit, and had to keep on the move to do so in a week's time. More than in previous years, buyers preferred to give careful thought to new designs and their own needs before ordering. Therefore, a fair judgment of the market's impact will have to await reports from salesmen making their regular rounds later in the fall.





Prices for the most part were at the same level as a year ago. It is generally conceded that this year's lines offer more value per dollar. There has been a trend in consumer demand in the past few years toward medium and higher priced goods. Some dealers, however, feel that a good selection of lower priced lines would aid the furniture industry right now in its competition for consumer dollars.

The furniture industry has not experienced as strong a fall upturn as was expected. Backlogs, now averaging about five weeks' business, have changed little if at all since September. Orders booked this year are estimated to be running about 5% behind last year's level. Optimism generated at the recent Market has revived hope for an upturn. A few producers are now about even with last year. Others are considerably behind. On balance for this year, the industry expects a decrease of 3% to 4% in total volume as compared with 1959.

BANKING More ample availability of bank credit is evidenced in the activity of the District's banking community over the past several weeks. Through much of October, member bank borrowings at the discount window were at the lowest levels since the summer of 1958, and District banks were large net sellers of Federal funds. At the same time, District bankers were able to continue the expansion of business loans that began in late summer and to add substantially to their investments.

Gross loans of the District's weekly reporting member banks moved up at a better-than-seasonal pace through September and the first half of October (see chart), but turned sharply downward in October's third week. Business loans spearheaded this advance and continued to increase even after the decline in gross loans, which was attributable chiefly to a reduction in loans to domestic commercial banks. The steady upward movement of business loans over this period bespeaks a continuing demand for bank credit in the business community despite evidence of a weaker-than-seasonal business improvement.

An even stronger indication of easier credit conditions is found in the recent behavior of bank investments. These typically decline slightly in early autumn as bankers liquidate security holdings to meet a seasonally growing loan demand. This year, however, total investments of the District's weekly reporting member banks moved up steadily over the late summer and early autumn and as the end of October approached, stood over 9% above the end-of-June level (see chart). This rate of investment expansion has not been matched in any of the past three years.

PHOTO CREDITS

Cover—Textile Hall Corporation 2. Textile Hall Corporation 3. Greenville News 5. North Carolina News Bureau 11. Virginia Electric and Power Company.

THE FIFTH DISTRICT

Recent weeks have brought evidence of further erosion in Fifth District business conditions. Employment fell a little more in October than in preceding months, but the total reduction during the current decline is still quite small. After seasonal adjustment, the number of workers holding nonfarm jobs in October was less than 1% below the record levels of April and May. The decrease in October, however, was as great as the total decrease during the previous four months. Insured unemployment rates in recent weeks have risen in all Fifth District states and the District of Columbia. These ratios are, however, well below the national average except in Maryland (slightly below) and West Virginia (definitely above).

Declines in manufacturing activity have been more marked. Seasonally adjusted man-hours in the District's manufacturing industries during October were 6% below the year's peak in May. The October decrease was smaller than the cutbacks in August and September, but somewhat greater than the declines in June and July.

FEW EXCEPTIONS October statistics show few areas of enterprise running counter to the general decline. One of these, finance, insurance and real estate, increased employment more than seasonally for the seventh month in a row. Services scored a better than seasonal gain, thereby resuming an upward movement which was interrupted only by the sharp drop last March, and smaller declines in July and September. Employment in the trade sector, seasonally adjusted, remained virtually unchanged at a level about 1% above that of the first quarter of the year, but slightly below the levels that prevailed during the spring and summer.

The number of jobholders in other industries moved downward from the September levels. The current cyclical contraction in employment thus continues. September gains of more than seasonal magnitude in many industries proved to be temporary. In District mines, seasonally adjusted employment decreased 2.5% in October, continuing a long-term trend.

Seasonally adjusted man-hour figures in manufacturing for October also revealed few departures from the general downward course of business. Three such exceptions were in the durable goods group. These were transportation equipment and lumber, each with marked gains over September, and fabricated metals which gained slightly. The increase in transportation equipment man-hours more than offset a drop which occurred in September, reestablishing a definite upward movement. This industry started the year in a fairly strong position, lost ground rather steadily in the first half, but has regained nearly all of it.

Trade sources indicate that the October rise in lumber industry man-hours resulted from a temporary improvement in demand in the middle of the month. During most of the year lumber markets have lagged behind expectations. Considerable numbers of unsold new houses in some parts of the District and elsewhere in the nation stand as mute evidence of slack demand. They also explain why market reports indicate no current improvement in the lumber business. Slightly offsetting this poor outlook, a good seasonal pickup in sales of lumber for purposes other than house building has recently been reported by retailers.

Among District nondurable goods manufacturers, only food products and cigarettes showed seasonally adjusted man-hour gains in October. The cutbacks in other industries of this group included declines of over 2% in the broadwoven goods component of textile manufacturing and more than 3% in knitting mills and apparel factories.

ALL EYES ON TRADE The year's big retail selling season is now well under way. The strength of final demand revealed by consumer outlays for goods and services during these final weeks of the year may provide a basis for judging the extent and duration of the present business adjustment. Evidence available to date remains inconclusive.

The seasonally adjusted index of District department store sales, a sequence of ups and downs so far this year, moved down again in November. A preliminary estimate indicates a 9% drop from the very good level reached in October. Current reports on retail trade, however, suggest that total consumer spending around the District may not

With only a fair fall season behind them retailers are hoping that Christmas items and attractive displays will stir consumer enthusiasm.

be this far off the previous pace. These reports, while lacking in precision when compared with the department store sales data, do have broader coverage and are based on experienced insight.

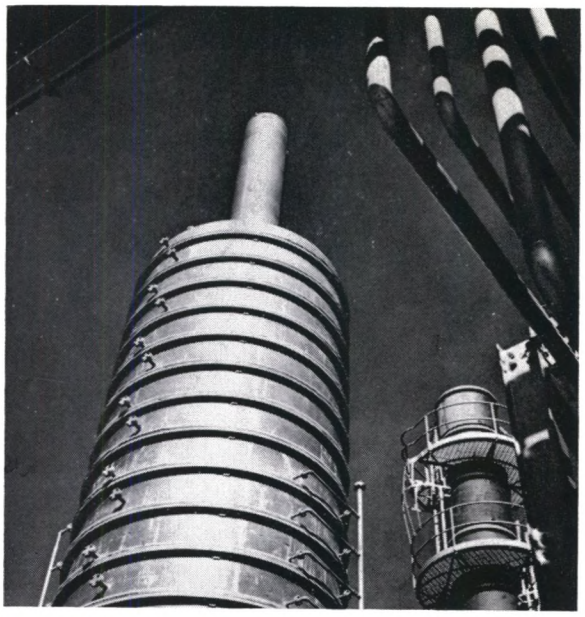
SHARP COMPETITION IN CARS In the District as in the nation, reports on automobile sales remain generally favorable. As in nearly all consumer markets, however, competition is steadily mounting in the automobile sales field. One reason for this development is the scramble for shares in the compact car market. Another reason is overproduction of 1960 models, significant numbers of which are reportedly still unsold. These market conditions strongly suggest a squeeze on profit margins too great to be readily offset by increases in the number of units sold.

Sales reports on other consumer durables are mixed, but the consensus is somewhat on the low side of normal seasonal expectations. Home entertainment equipment and electric dishwashers are providing the most favorable reports. Laundry equipment, stoves and refrigerators are apparently not moving as well. Actual pessimism, however, is scarce. Many dealers apparently consider the current volume and outlook to be close to satisfactory.

SOFT GOODS HURT BY WARM WEATHER Some of the current lag of District trade and industry is explained by the above-normal temperatures which prevailed this fall over most of the nation. Consumer purchases of fall and winter clothing have thus not come up to the volume that retailers, apparel manufacturers and textile mill operators had expected. In anticipation of good demand, knitting mills reduced operations only 2% in September, when other sectors of the textile industry were cutting back production by 4% or more, as measured by man-hours seasonally adjusted. Apparel manufacturers in the District, also faced with a less-than-seasonal volume of orders, cut production in September by nearly 4% on a seasonally adjusted basis. Both knitting mills and apparel factories were forced to curtail seasonally adjusted man-hours again in October.

The resurgence of consumer soft goods buying which has been needed to start the chain of new orders flowing from retailers to apparel manufacturers to textile mills and finishers has still failed to appear. Inventories, especially of seasonal goods, have been kept low at all levels. Emphasis now is on the planning of spring lines. Any pickup in consumer buying of fall and winter clothing which may occur will, in the opinion of industry analysts, be too late to have much direct effect on production. Industry sources have been predicting for several months that trade inventories in certain lines of soft goods would prove

The District offers its growing apparel industry proximity to textiles and easy access to eastern and midwestern markets.



Acrylic fiber production is increasing steadily in order to meet a rapidly growing demand for its use as a textile component.

to be inadequate, but demand has not yet gained enough strength to prove them right.

INDUSTRY ROLL CALL Textile markets have recently acquired a firmer tone. Gray goods for sale from dealers' inventories are definitely more scarce. Having met lagging demand by reducing output, the textile industry appears to be in a good position to obtain satisfactory prices on the still rather low but growing volume of new orders.

In textiles, the trend toward greater use of man-made fibers and filaments is becoming increasingly apparent. Within the synthetic fiber and filament industry, furthermore, the trend is away from products made from natural cellulose, especially rayon, and toward highly synthesized chemical products such as nylon, orlon, dacron and a growing host of others. In 1950 man-made fibers accounted for about 20% of total fiber consumption by weight, wool about 13% and cotton the remaining 67%. The most recent figures show man-made fibers 27%, wool about 8% and cotton 65%. Whereas consumption of man-made fibers by weight in 1950 was about 90% rayon and acetate and 10% other, the proportion now held by the "noncellulosic" group is nearly 40%.

Of the plants which produce these synthetic textile materials, those now located in the Fifth District comprise more than 40%. To meet the needs of this growing and changing demand, the District's productive capacity for synthetic fibers is in process of expansion and conversion.

Contract construction on balance continues to be a source of strength. New contract awards for nonresidential and public works projects in the District have risen again recently. Contracts awarded for construction of the Chesapeake Bay Bridge-Tunnel Project raised the October total for public works and utilities in this District to its highest point on record. Residential awards have strengthened but remain well below the levels of a year ago.

Cigarette sales and shipments continue to set new records in response to steady increases in demand at a rate of about 5% per year.

Spokesmen for the furniture industry rate as "very satisfactory" the flow of new orders booked this fall. This year may well be furniture's second best, failing by a small margin to equal 1959.

Coal, like lumber, remains a soft spot in the District economy. Conditions have changed little during the year. Foreign shipments have been picking up recently, but with steel production still lagging, the output of coal remains at disappointing levels—little higher than a year ago when demand was low because of the steel strike.

PHOTO CREDITS

Cover—Washington Post 6. U. S. Department of Agriculture 8. Colonial Studios 11. Washington Post—Colonial Studios 12. Burlington Industries—E. I. DuPont deNemours, Inc.

THE FIFTH DISTRICT

This trimming operation is being performed by one of about 8,000 workers who are employed in shoe factories of the Fifth District.

Fifth District business activity has continued to drift downward in line with national economic conditions. December statistics of employment, manufacturing man-hours, and insured unemployment indicated further deterioration from November levels. January reports from the District's principal industries failed to show any significant tendency to improve. Thus the conditions that brought about slow declines in employment and hours of work through the last half of the old year remained substantially unchanged as the new year began.

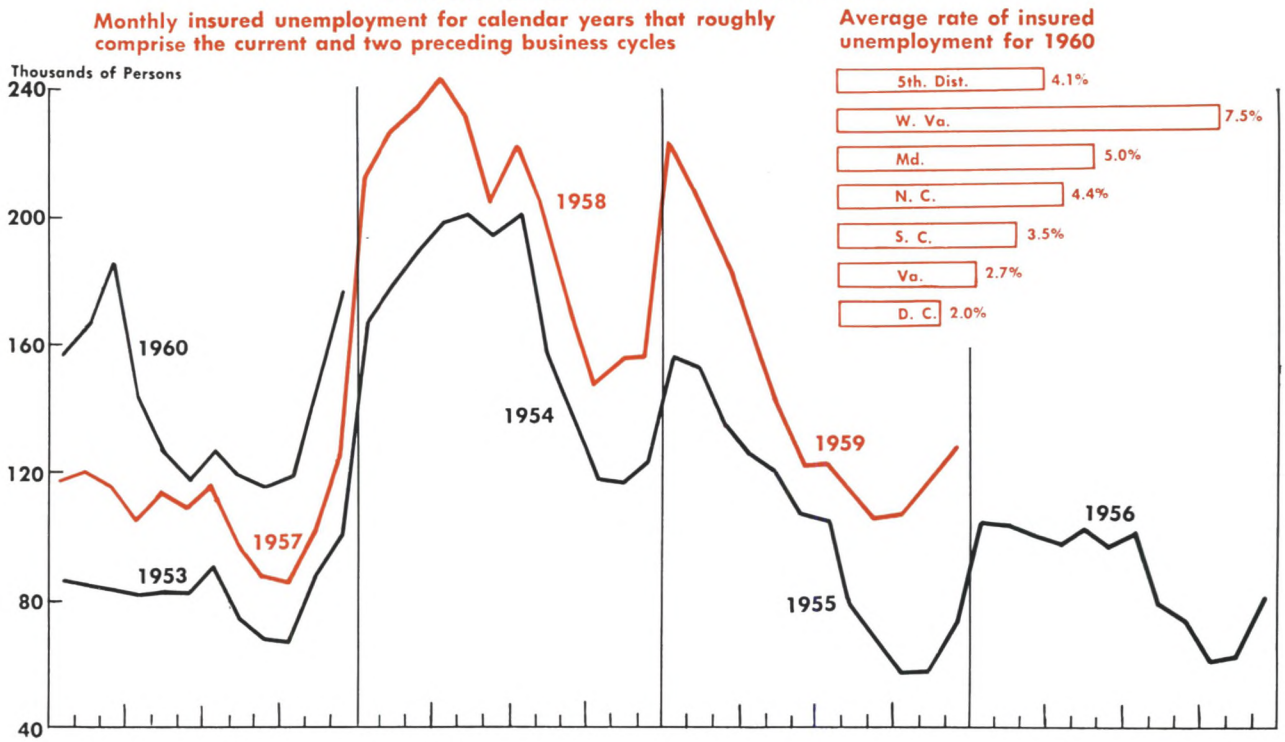
STABILIZERS IN THE PICTURE The rate of business contraction has remained so gradual that a fair degree of optimism continues to prevail. Secondary contractive forces, such as the sharp reductions in spending plans which might be made because of growing apprehension, have remained in check, and little tendency toward a downward spiral of income, investment, and consumption has appeared. Personal income and potential purchasing power have remained at relatively favorable levels. Fifth District personal income increased nearly 5% between 1959 and 1960 according to a prominent business magazine, and a further rise of nearly 4% is anticipated for 1961. Savings in 1960 apparently absorbed more than the usual portion of income. Personal savings in time deposits and Government Savings Bonds were nearly 50% greater in 1960 than in 1959.

According to the seasonally adjusted index of department store sales, December business was fairly good—short of October's near-record level, but an improvement over November and about equal to last year's monthly average. January clearance sales set a lively pace. Later, however, buying tapered off, due in part to unfavorable weather, and sales in January as a whole slipped below the December level.

SOME JOB CONDITIONS STEADY While total employment declined because of layoffs in manufacturing and mining, and more recently in contract construction, jobs in other major sectors held steady or increased. The number of workers in service establishments and financial enterprises rose again in December, extending a two-year period of steady growth. Employment in trade, the largest sector next to manufacturing, gained slightly more than seasonally between November and December. Thus the gradual descent from the midyear high was checked at a level about 1% above a year ago. The number of government employees, the District's third largest group, decreased in December, but remained 2% above the levels of early 1960. Mining employment prospects became a little less gloomy in January as coal consumption by steel companies and electric utilities increased, and foreign shipments continued to rise.

SMALLER INDUSTRIES AID ECONOMY Products manufactured in the District on a relatively limited scale include scientific instruments, petroleum products, and rubber, plastic and leather articles. One of the more stable members of this group, judging from its 1960 record of employment, is shoe manufacturing. The 23 shoe companies in the District have about 8,000 workers on their payrolls. Some companies, such as those located in Baltimore, represent only a small fraction of local industry. Many, however, are major economic factors in their respective communities. About 90% of the District shoe business is now located in Maryland and Virginia, but North Carolina will soon have a new shoe plant which will employ 350 at full production.

INSURED UNEMPLOYMENT—FIFTH DISTRICT



RISING UNEMPLOYMENT In spite of the mildly favorable factors which can be singled out, the fact remains that District unemployment has continued to rise, and has reached the highest winter levels of recent years. The accompanying chart is designed to compare the behavior of insured unemployment during the current downturn with that of the two preceding recessions. Thus 1960 is plotted in the first section of the chart along with 1957 and 1953—years in which declines began much as in 1960. The chart shows both the shorter seasonal swings in unemployment that occur each year and the more prolonged effects of business cycles.

Two developments are particularly apparent. First, insured unemployment has increased at a faster pace but over a shorter period in each successive business decline. Secondly, insured unemployment has reached a higher level in each new cycle. The 1960 business decline is expected by many to be of shorter duration than other recent periods of contraction. It has already set higher levels of unemployment for this early phase.

BANK LOANS DOWN, INVESTMENTS UP For the banking community, January is normally marked by an easing of pressures. Loans made to finance the seasonal business rush are paid off and declines in the volume of retail trade bring currency back into bank vaults.

This year the post-holiday easing was somewhat greater than usual for Fifth District banks. Both business loans and total loans of District weekly reporting banks dropped more in January this year than in most recent years. Borrowings at the District discount window, a good indicator of pressure on banks, were lower in January than in any month during the past nine years. Moreover, District banks increased their investments by more than in the comparable period of most recent years.

As in the past few months, banks continued to concentrate their investments in short-term government securities, which can be liquidated readily to meet the pressure of loan demand. Since September 1 District weekly reporting banks have increased their holdings of securities maturing in less than a year by 175%. Thus, evidences of growing ease reflect not only seasonal factors but also a continuation of Federal Reserve policies of ample credit availability for the country as a whole.

PHOTO CREDITS

Cover—Wise Contracting Company, Inc. 6. & 7. Department of Alumni and Public Relations, Clemson College 11. Hagerstown Shoe Company.

THE FIFTH DISTRICT

Analysts watching for a change in the business climate are like bird dogs approaching as yet unseen quarry. Keen senses seek out every clue. Muscles are tense and quivering, ready to freeze into a point as soon as the elusive prey is discovered.

Caution born of experience underlies this eagerness, however. It would be bad enough to find the bird by stumbling over it, but worse to point a crow while hunting pheasant. Despite such hazards, the bird dog's job is relatively simple. He picks out sitting birds a few at a time. The business analyst, on the other hand, must take many birds into account simultaneously, and all of them are on the wing.

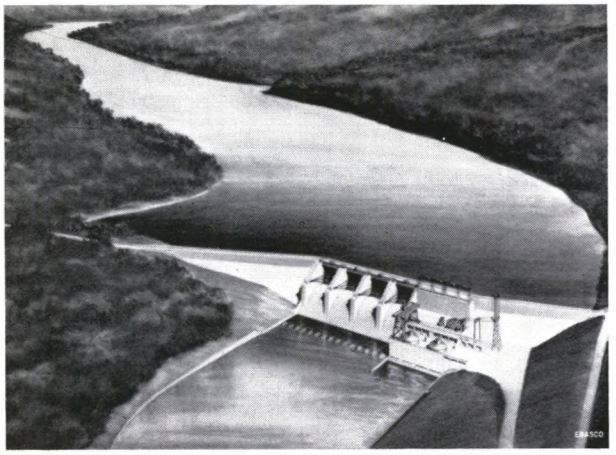
Two of the "biggest birds" in the Fifth District business picture, nonfarm employment and total manufacturing man-hours, went into a glide in the second quarter of last year. Others, such as contract awards and retail trade, either remained in fairly level flight, or soared upward from time to time. The employment "bird" lost altitude quite gradually, thanks to "thermal updrafts" in such areas as financial and service enterprises, and stability in trade and government. Factory man-hours dropped more sharply as makers of textiles and durables cut production. By December, nonagricultural employment and factory man-hours, both seasonally adjusted, were, respectively, 1% and 8% below their second quarter peaks.

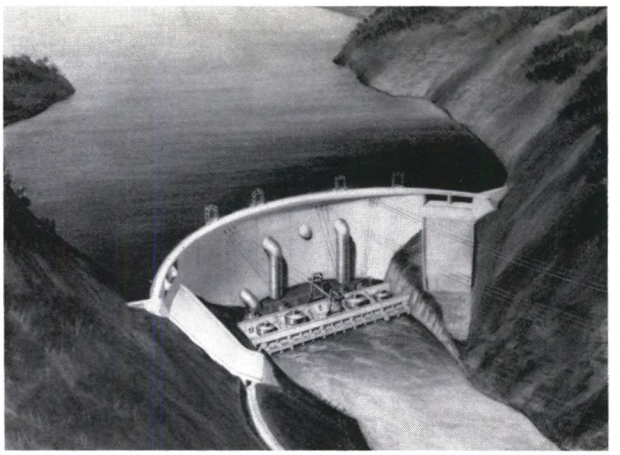
MORE STABILITY IN MANUFACTURING Although business was clearly pointing downward at the end of 1960, some January reports were favorable enough to give an analytical bird dog pause. Total nonagricultural employment edged up very slightly from December, mainly as a result of further gains in the nonmanufacturing sector. Employment dropped in durable goods factories, but increased in nondurables. Seasonally adjusted man-hours rose in both, however, gaining more than 1% between December and January. The pickup in manufacturing activity occurred in all states of the District except North Carolina and was most pronounced in chemicals, paper, and all durables except furniture.

INDUSTRIAL MARKETS STILL UNSTEADY Fluctuating market conditions continue to confront the District's major manufacturing industries. In textile markets, for instance, spurts of new orders have become somewhat more frequent and have been stabilizing or mildly increasing backlogs in a wider variety of product lines. However, these orders were placed to cover minimum needs in a continuing policy of tight buying and low inventories and were not necessarily votes of confidence on the part of textile fabricators. According to inventory estimates, the recent increase in the support price of cotton may, in a few months, add three cents per pound or more to the prices being paid by mills. This new element of uncertainty has created new concern for the industry's already weak price structure. Many mills have firm commitments to deliver a good part of their output for the next six months at the reduced prices which prevailed during most of the past year. The possibility of further increases in foreign competition limits such optimism as does exist to the fairly near future. Under these circumstances, the textile industry's oft-expressed hopes for improvement around midyear depend on an early upturn in national business conditions.

Rather mixed conditions also exist in typical primary markets for the District's durable goods. Furniture manufacturers report firm prices, but spotty and sporadic buying. Both new orders and backlogs are on the low side of manufacturers' expectations based on the experience of recent years. The picture in general, however, is considered fairly normal in the sense that the furniture business has usually started each new year slowly, last year being an exception. According to some industry spokesmen, a more favorable volume of new orders has been developing and if it continues, reaching a crest in the second half, 1961 will be about a typical year.

CONSUMERS' BUYING VARIES The up-and-down course of 1960 department store sales carried over into the first two months of 1961. Early January reports were good, but later in the month bad weather arrived and sales slipped rapidly. Then February sales rebounded sharply. The January index was 146% of the 1947-1949 base period, 5% below the December level. Only two months of 1960, March





Two dams being built on the same river—these and other projects will enable District power companies to meet growing demand.

and May, were lower. The preliminary estimate for February places the index at 159, up 9% from January, and exceeded in only two months during 1960—April and October.

New car sales in the District continued to lag through January, but with some exceptions in certain makes and market areas. Here also weather conditions produced adverse effects. Dealers complained of little response to stepped-up promotional efforts. Used car sales were reported to have improved in January, but demand was still rated below normal.

INSURED UNEMPLOYMENT The number of persons receiving unemployment insurance benefits in the District continued to climb in January and early February, reaching a new all-time high of 265,000 in the week ended February 11. The February high of previous years was 226,000, reached in 1958 during the last recession. Insured unemployment statistics have considerable usefulness as current indicators, but must be properly interpreted. Because of exhaustions of benefit eligibility after long idleness, and ineligibility on the part of those newly entering the labor force, actual unemployment always exceeds the insured portion. The difference varies considerably at different times and in different areas. Estimates of the composition of the civilian labor force, regularly available in the District only for Maryland and Virginia, suggest that total unemployment may range from half again to two or three times as large as insured unemployment.

ELECTRIC POWER AS AN INDICATOR District statistics of electric energy distribution, which will eventually provide an important new guide in the analysis of business conditions, are still in a relatively early stage of development. Post-World War II data now available reflect both rapid growth in power use and shifts in the structure of Fifth District business.

Generating capacity increased at an average annual rate of nearly 12% per year just after the war, but settled down after 1955 to a rate of about 7%. New facilities under construction or scheduled to be started in the near future will increase the level of capacity from 15.7 million kilowatts to 18.7 million by the end of 1963, an average annual growth rate of 6%.

MORE POWER IN PRODUCTION Industry consumed 49% of District power output in 1959. The steady rise in productivity due to power-consuming machinery is evident in the following growth rates which typify District trends over the last decade: Manufacturing employment and man-hours have increased on average less than 1% per year, while value added by manufacturing has expanded at an annual rate of more than 5%. Much of the difference is related to sales of electric power for industrial use, which have moved upward at a clip in excess of 7% per year. These growth rates give further support to the view that recently rising levels of unemployment among District factory workers are due in some degree to long-run technological, as well as short-run cyclical, causes.

PHOTO CREDITS

Cover—Hobbyland Shop 12. Appalachian Power Co.

THE FIFTH DISTRICT

Market conditions in the Fifth District have strengthened in recent weeks. These improvements, apparent at all levels from factory orders to retail sales, provide the principal basis for the widely held expectation that a general upturn may be imminent. Partially offsetting the good news, District production statistics tended to sag again after the January upturn, and some areas of employment weakened. Despite these signs of possible further declines in District personal incomes, a revival of demand has made some headway. The typical attitude of businessmen in the Fifth District seems to be one of mild optimism.

EARLY SHOPPERS Consumer buying has provided the clearest example of growing demand. Slow activity in January was followed by a good volume of February sales. Then, taking advantage of intermittent periods of favorable weather and looking forward to an early Easter, shoppers virtually jammed the stores during the first half of March. The seasonally adjusted index of District department store sales rose 8% between January and February, and about 10% more in March. The average level for the first three months of 1961 was a little more than 1% above that of the 1960 fourth and best quarter.

INDUSTRIAL MARKETS STRONGER The District's major manufacturing industries have felt a definite strengthening of demand in recent weeks. The flow of new orders for textile mill products has picked up somewhat, resulting in a stronger backlog position. Inventories are still a problem, however, and industry sources expect production to remain at somewhat curtailed levels for a while even if the volume of new business continues its gradual rise. Furniture, steel, metal products, paper, and chemicals have also experienced a definite improvement in new orders during recent weeks. Few changes have occurred in employment or hours of work, however.

CONSTRUCTION AT GOOD LEVEL Business volume has continued favorable for District contractors. Public works and utilities have set a fast pace and industrial building has followed closely, but residential activity is still in the doldrums and lagging badly.

Last year, seasonally adjusted employment in contract construction remained firm at a high level from April through November. Then the series dropped 4% in December, held steady in January, and declined 3% in February. In spite of these decreases, construction employment was higher in the first two months of this year than in the similar period of any previous year except 1960, and failed to equal the 1960 level by less than 1%.

Residential building has been well below normal seasonal levels for many months, but there has recently been some improvement. Partly as a result of this slight strengthening in housing construction, new orders for lumber began to increase in late February and March from previous very low levels. Influenced by rising demand and by production curtailments partly due to weather, lumber markets have stabilized and some price increases have been reported. However, vacant houses for sale and for rent are still a problem. It remains to be seen if the demand for new homes will be strong enough to stimulate a normal pickup in residential construction as the spring season progresses.

LOAN DEMAND STRENGTHENS Loan activity at District banks approximated normal seasonal patterns during February and early March. Gross loans of District weekly reporting banks declined about normally in February, then registered a seasonal upturn in the first two weeks of March.

Business loans exhibited sporadic strength in February, showing a slight increase for the month. These loans, which are often used as a rough indicator of business prospects, strengthened considerably in the first two weeks of March, rising more than 3%. Some of this increase represented tax and dividend borrowing to meet March 15 deadlines. For the six weeks ended March 15 business loans rose 3.5%, a smaller gain than in the comparable 1960 period, but larger than the seasonal increases of most recent years.

Investments at District weekly reporting banks increased 1% from February 1 to mid-March, with most of the rise occurring in the final week of the period. This is in contrast to investment reductions by these banks in the comparable weeks of most

So far this year customers of the District's commercial banks have borrowed in normal volume to meet their seasonal credit needs.

As spring farming activities begin, District farmers plan some changes in their crop acreage, but expect another big crop year.

recent years. Government securities, chiefly short-term, account for most of the increase this year. However, last autumn's rapid build-up of bank holdings of short-term Governments has slowed considerably since January 1.

Reserve positions of District banks remain comfortable. Borrowings at the discount window in February and early March continued light, although somewhat higher than the unusually low levels of December and January. District bankers were sizable net sellers of Federal funds, i.e., lenders of reserves to other banks, over the period. Bank credit availability in the District appears generally ample.

FARMERS PLAN BIG CROP YEAR Fifth District farmers' plans for 1961 point to another big crop year, according to a survey which included all major crops except cotton. Influenced by a higher support price, District farmers may also plant a larger portion of their cotton allotments, which are 31% greater than last year's acreage. Total crop acreage could be up to 3% larger than a year ago.

With the exception of cotton, most of the boost in intended District crop plantings is due to a spectacular increase in soybean acreage. Plans now call for a record 1,875,000 acres to be planted in soybeans, 11% higher than a year ago and nearly two and one-half times the 1950 acreage. Farmers expect to plant the same acreage of peanuts and tobacco as last year. They seeded 3% more acres in wheat, but plan to cut Irish and sweet potatoes by 4% and 7%, respectively. Total hay acreage is expected to be about 1% below a year ago and the smallest acreage since 1933.

Growers also reported that they intended to cut total feed grain acreage by about 1%. However, these plans were reported before farmers knew much about the Administration's new feed grain program. The law now requires farmers to divert at least 20% or 20 acres, whichever is larger, of their corn and grain sorghum acreage to soil-conserving crops in order to qualify for price supports on feed grains. As an incentive to comply with this program, growers will receive payments in cash or in kind equal to 50% of their normal production on acres so diverted, as well as additional payments for further specified acreage reductions.

PHOTO CREDITS

Cover—U. S. Treasury Department 12. Southern States Cooperative - State-Planters Bank of Commerce and Trusts.

THE FIFTH DISTRICT

Most areas of Fifth District industry and trade continued to gain strength during the month just past. The gains, however, were still well salted with hesitations and uncertainties, as has been the case since the recession turned the corner. This appraisal of April business conditions is necessarily based on somewhat sketchy information, but major industries and areas are fairly well represented. Tying these April reports to a definite set of business conditions requires a brief look at March, the latest month with adequate statistical coverage. The total number of workers holding nonfarm jobs in March (seasonally adjusted) was slightly above the February level and about on a par with the December and January figures. The individual changes which produced this small over-all advance in employment varied rather widely—from a rise of 1.5% in contract construction to a decrease of 0.7% in the transportation, communications, and public utilities group.

PRODUCTION RISES UNEVENLY Although April man-hour statistics are not yet available, there are indications that manufacturing activity in general has continued to rise, much as it did in the previous month. Seasonally adjusted manufacturing man-hours in March reached their highest level since last October. The rise between February and March was in excess of 1%, with durable and nondurable manufactures participating about equally. But significant declines did occur in both durable goods—fabricated metals and furniture—and nondurables—food processing, tobacco manufactures, broadwoven textiles, and printing and publishing.

Market conditions in the District have also shown considerable variation during the two months or so since the recession touched bottom. Manufacturers generally have indicated a rising volume of new orders during the past several weeks. But the furniture industry has continued to be hampered by rather weak and unstable demand, and recovery in textile markets has been slow and variable. Retail trade has fluctuated considerably and department store sales have reflected the uneven conditions. Nevertheless, sales reports thus far indicate that department store business during the first four months of this year will probably exceed that of the comparable period in 1960 by more than 1%.

TEXTILE DILEMMA Recent signs of more stable demand conditions suggest that textiles may soon join other industries on the road to recovery. But the uncertainties that have plagued mill operations for several months have by no means all disappeared. Textile manufacturers, hemmed in by adverse pressures affecting both production and distribution, have been suffering from a sort of economic claustrophobia. Briefly, the textile business—acutely competitive and slimly profitable under the best circumstances—has for months been offering its products to an uncertain market at weak and variable prices, while thoughts of expanding imports and rising domestic costs have tended to discourage hopes for any sudden change for the better.

The higher domestic support price for this year's cotton crop combined with an increase in the export subsidy (lower cost to foreign buyers) will strengthen the competitive advantages of foreign cotton goods in domestic markets. These same factors plus recent reductions in some synthetic fiber costs will tend to weaken the position of cottons as against man-made fiber goods in domestic manufacturing.

IMPORTS STIR DEBATE The significance of textile imports is certainly considerable, but hard to gauge objectively. The United States Department of Agriculture combines on a poundage basis all kinds of imported textile fibers, fabrics, and products, and compares this with a similarly computed total for domestic consumption. Measured in this manner textile imports rose from about 1% of consumption in the late 1940's to about 3% in the middle 1950's, 5% in 1959, and over 6% in 1960. Last year was particularly worthy of note because imports exceeded exports for the first time in modern history—and by nearly 15%. The imported yardage of cotton broadwoven goods increased nearly nine times between 1950 and 1960, from less than 0.5% of domestic output to nearly 4.5%. This class of imports nearly doubled in each of the last two years. In the last few months, however, while demand has been slack, imports have been down sharply.

Transportation has many problems: growing pains for highways and airlines, but for railways troublesome declines in demand.

SPRING FURNITURE MART The semi-annual Southern Furniture and Rug Market opened April 21 in furniture centers in North Carolina and parts of Virginia. According to early reports, both attendance and buyer interest were greater this year than last, but actual business was slow. As in most recent showings, innovations of style and new uses of decorative woods and wood finishes were much in evidence. Also as usual, no fair evaluation can be made until salesmen have had a chance to gauge the market's impact on their orders as they subsequently make their rounds.

In spite of revived interest in rocking chairs, conditions during the weeks leading up to the Southern furniture show were definitely on the slow side. Furniture manufacturing was virtually the only important District industry in which activity (measured by seasonally adjusted man-hours) continued to decline right through the first three months of this year. Evidence available for April does not suggest any significant changes in that picture.

TRAVEL AND TRANSPORTATION Each new year brings an increase in the movement of people and products both through and within the Fifth District. And every recent year has brought substantial changes in the facilities available to handle the traffic. The railways continue to lose both freight and passenger business to the highways and airlines. The only consistently profitable rail operations in recent years have been those of the coal-hauling roads of the Fifth District and adjoining areas. Abandonment of unprofitable trackage and mergers continue to be the principal approaches to cost reduction.

Symbolic of progress in air travel is Dulles International Airport, currently under construction on 9,800 acres in northern Virginia about 25 miles from downtown Washington, D. C. This will be the world's largest and most modern airport, featuring "mobile lounges" which will carry nearly 100 passengers at a time to and from their planes. The operation is expected to employ 7,000 people in direct and subsidiary jobs by 1964, over 10,000 by 1970.

Motorists, bus passengers, and truckers share an interest in the progress being made in building the District's part of the national interstate and defense highway system. Some 3,300 miles of these superhighways will serve the Fifth District. About 20% of this mileage was completed during the last fiscal year and nearly 40% more is currently in process. The District's share of Federal interstate and defense highway funds amounted to nearly $162 million in the fiscal year ended June 30, 1960, and $180 million more are authorized for the current fiscal year. Other Federal highway aid funds raised the District's total to approximately a quarter of a billion dollars in each fiscal year.

PHOTO CREDITS

Cover—International Bank for Reconstruction and Development 2. and 3. International Bank for Reconstruction and Development 6. and 7. Norfolk and Western Railway 12. Aviation Bureau, Baltimore Association of Commerce - Chesapeake and Ohio Railroad.

THE FIFTH DISTRICT

The upswing in Fifth District business activity continued through May. However, patterns of improvement remained mixed, thus closely resembling those of the previous month. The District's most diverse, least predictable, and ultimately most important group of purchasing agents, the consumers, continued their week-to-week vacillations, but maintained average buying levels that compared favorably with those of a year ago. Automobile sales, which tended to lag a little in April, picked up again in May, but both automobiles and appliances were moving at a disappointing pace as far as most dealers were concerned. What zip there has been in consumer buying lately has been pretty much confined to soft goods.

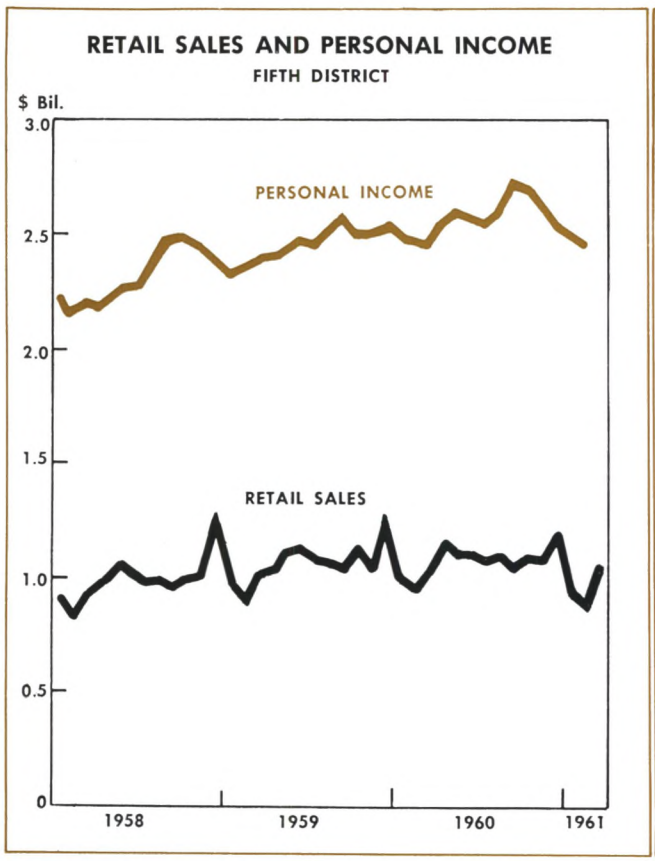
PERSONAL INCOME DECLINE ENDS As the chart on the next page indicates, personal income in the Fifth District turned down last October and the decline continued through February. Income in March reversed that trend with a somewhat stronger than seasonal gain over the preceding month. District personal income for the first three months of this year, however, remained very slightly below the 1960 figure. The other series on the chart, sales of retail stores with one to ten outlets, which handle over 80% of retail sales, contains a strong seasonal element which accounts for most of the decline this year. Neither series yet displays the consistent upward trend that characterized the early months of the last recovery period in 1958.

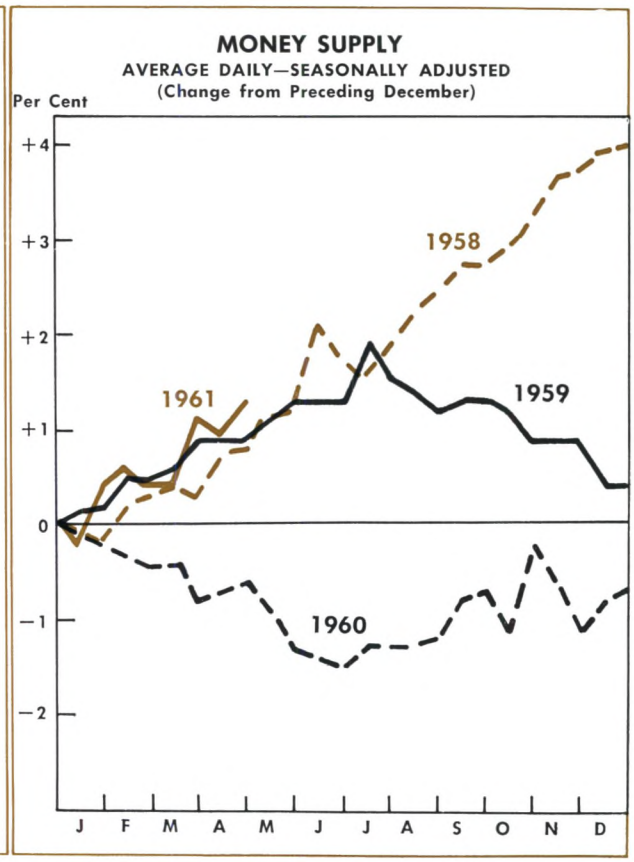
CONSTRUCTION Except for a few brief intervals, construction has been an element of strength in the District economy for the past several years. Last summer brought a definite slowdown in residential building, and contract awards for business and public works slumped early in the fall. However, each time that it seemed as if contractors might soon be left with little more than projects in process on which to keep going, there was a revival of contract awards. Residential awards gained, apparently more than seasonally, in each of the first three months, and in March were about even with the average level for 1959, the best recent year for housing. Contracts for nonresidential construction and public works have continued to be awarded in sufficient average volume to compare favorably with the last two years, each of which must be regarded as a very good year.

MANUFACTURING STRONGER Most of the District's principal manufacturing industries continued to gain strength during May. There were intermittent reports of rising demand and stronger prices in textile markets. A rising volume of new orders paved the way for good increases in employment and hours of work in the production of metals, machinery, and transportation equipment. Improvement among nondurable goods manufacturers centered in chemicals, paper, and the yarn and knitting sector of textiles. Furniture makers, however, continued to occupy the unenviable position of "bottom men" on the District's industrial totem pole. New factory orders for furniture remained slow and offered little hope for a reversal of the trend in employment and man-hours, which had been down for nearly a year.

BANKING AND THE MONEY SUPPLY District banks maintained a position of substantial ease throughout April and early May, and appear to be amply prepared to accommodate increased loan demand as

Though appliance showrooms are often crowded, dealers say that purchases of these durables have been disappointing recently.





business recovery proceeds. Comfortable reserve positions were reflected in borrowings at the discount window well below those for the comparable weeks of any recent year.

Total investments of the District's weekly reporting member banks during the eight weeks ending May 24 rose 1.0% as contrasted with substantial declines in the same weeks of 1959 and 1960. Much of this year's increase has been in U. S. Government securities of under one-year maturity. Such securities comprised 7.2% of total assets of District weekly reporters in mid-May as compared with 6.6% at the end of March and 6.3% at the beginning of the year.

Over the same seven weeks gross loans of District weekly reporting banks increased 0.6%, about the same as the rise which occurred in the comparable weeks of last year, but considerably below that of the like period in 1959. Most of this year's rise came in the first half of May. Most major loan categories showed greater strength this year than in the same weeks last year. The chief exceptions to this rule were loans to financial institutions (other than banks) and to consumers.

Business loans, watched by many as a rough indicator of current business conditions, moved up strongly in the first half of May following a slight decline in April. These loans have shown better-than-seasonal strength since the first of March, up roughly 5% as of May 24.

For the nation as a whole expansions in bank loans and investments and a decline in U. S. Government deposits have brought about a significant increase so far this year in the seasonally adjusted money supply, as is shown in the above chart. Preliminary data indicate a $500 million gain in April, bringing the total increase this year to more than $1.5 billion. This compares with a sizable decline over the same months last year, when the economy was heading into a mild recession. The increase so far this year has been at a somewhat more rapid pace than that in either 1958 or 1959, both strong recovery years.

PHOTO CREDITS

Cover—Board of Governors, Federal Reserve System 2. Federal Reserve Bank of Richmond 3. Colonial Studios 5. Museum of the City of New York 6. & 7. Home Manufacturer's Association, Safeway Stores, Inc., Fairchild Aircraft, Colonial Studios, U. S. Department of Defense, Publisher's Weekly 11. Miller and Rhoads, Inc.

THE FIFTH DISTRICT

Business activity in the Fifth Federal Reserve District generally has continued to strengthen. Among manufacturing industries, the best gains have been made in certain lines of durable goods, a normal development during the early stages of recovery. The furniture and lumber industries, however, have failed to conform. Their markets, while perhaps not actually weak, have not yet improved with any consistency. At the other extreme, manufacture of transportation equipment had already reached a new high in May —an exceptional situation, however, as all other durable goods industries are still operating considerably below their peak levels of 1960. In order to regain these highs by the end of December, they would have to advance faster in the last half of the year than they did during the first half.

Nondurable goods have not shown as consistent a pattern of recovery recently but are, nevertheless, relatively closer to attaining their former peaks. By May seasonally adjusted man-hours in these industries were 6% above their December 1960 low and were less than 3% below their May 1960 peak. In contrast, May man-hours in durable goods manufacturing were up 5% from December but were still nearly 6% below their January 1960 high.

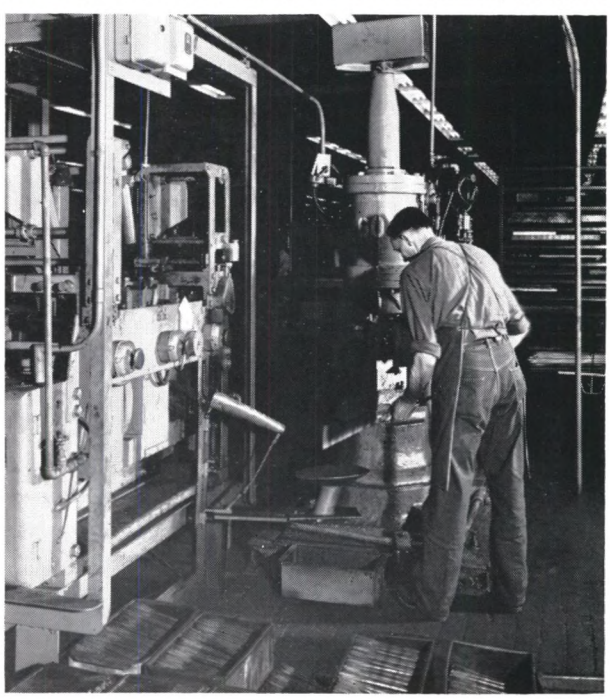
Activity in the nonmanufacturing phases of the District economy has also continued to improve. Employment has registered recent increases in all major areas except mining and financial enterprises. The number of persons drawing regular unemployment compensation, while still at the highest summer level since 1958, declined more than seasonally between mid-April and early June. Construction employment, seasonally adjusted, recently reached its highest level since last November, and increases in both contract awards and building permits lend support to an optimistic view of the near future in this area. With employment generally rising, District personal income has gained ground slowly after turning the corner in February and has registered nominal gains over last year.

The first statistical evidence on consumer activity during June, a preliminary estimate of the seasonally adjusted index of department store sales, is favorable —up 5% with respect to both May of this year and June a year ago. District department store sales during the first half of 1961 exceeded those of the comparable period last year by 1.5%.

MINIMUM WAGE INCREASE The increase in minimum pay from $1.00 to $1.15 per hour scheduled for September is causing concern in some areas of District business. This is true even in manufacturing, where most rates are well above the new minimum. Although the results are difficult to anticipate, these industries expect to be affected in two ways. First, virtually all manufacturing operations employ some unskilled workers or workers in training whose pay is below $1.15. Since wage differentials roughly reflect gradations of ability and seniority, lower level increases tend sooner or later to be felt higher up the scale. It seems likely, therefore, that most industry pay scales will to some extent be influenced by the higher minimum wage. Second, manufacturers may be affected by higher material costs. The price of lumber, for instance, may rise at least $5 per thousand feet and perhaps as much as $10, according to some persons in the industry.

On the strength of these developments, some lead-

Recovery from the recent recession has progressed rapidly in the District's primary metals, metal products, and machinery industries.



ing District furniture manufacturers predicted during market week in Chicago that prices on many of their lines would rise from 3% to 5% within 30 to 60 days. For textiles the possibility of further cost increases may mean new complications. Prices of some important fabrics are still weak, and cotton costs are already expected to increase later this year because of higher goverment farm price supports. Apparel manufacturing and segments of food and tobacco processing also seem likely to feel the effects of the minimum wage increase to some extent.

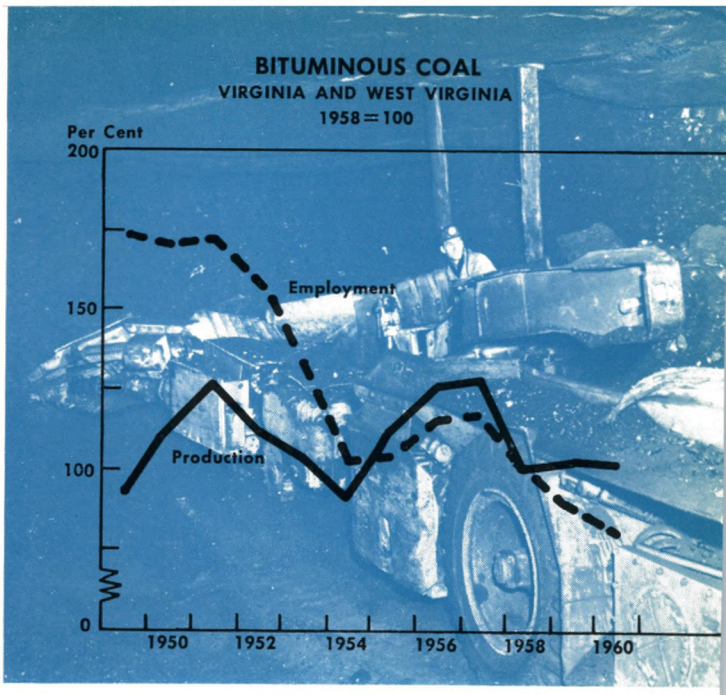
Only employers already subject to the minimum wage law will be required to observe the $1.15 minimum beginning September 3. However, some employers in nonmanufacturing fields who were formerly exempt from the minimum wage will become subject to a $1.00 hourly minimum at that time.

COAL OUTPUT LEVELS OFF As the chart shows, District coal production declined sharply between 1957 and 1958 but has since remained relatively stable. Employment, on the other hand, has continued to move down. The chart clearly shows the dramatic reduction that occurred in mining employment over the last decade while production showed considerable cyclical fluctuation but only a moderate over-all decline. A recent cyclical drop in coal output was terminated by increases in both May and June. At District ports, domestic coal loadings rose in June after declining for several months, but foreign loadings continued to fall.

SUMMER FURNITURE MARKETS Dealers touring the summer circuit of furniture shows in North Carolina, Chicago, New York, and other centers have reportedly placed a fair volume of orders. Buyers are apparently being influenced by some divergent considerations: (1) their expectation that prices will increase within the next 30 to 60 days, (2) their wish to fill out showroom exhibits, especially in new lines, (3) weakness in consumer buying, with little help expected from new residential building, and (4) their continuing desire to hold only minimum inventory.

Trade reports indicate that price increases may chiefly affect wood furniture such as chests, cabinets, shelves, tables, and desks. These items have been moving quite well, but business has been rather dull in upholstered and higher priced lines. Activity in the furniture factories reflects these conditions. Seasonally adjusted man-hours in the industry picked up in April but have since been sliding off much as they did in late 1960 and early 1961.

TEXTILES MORE ACTIVE Conditions in the textile industry still reveal a number of divergent tendencies



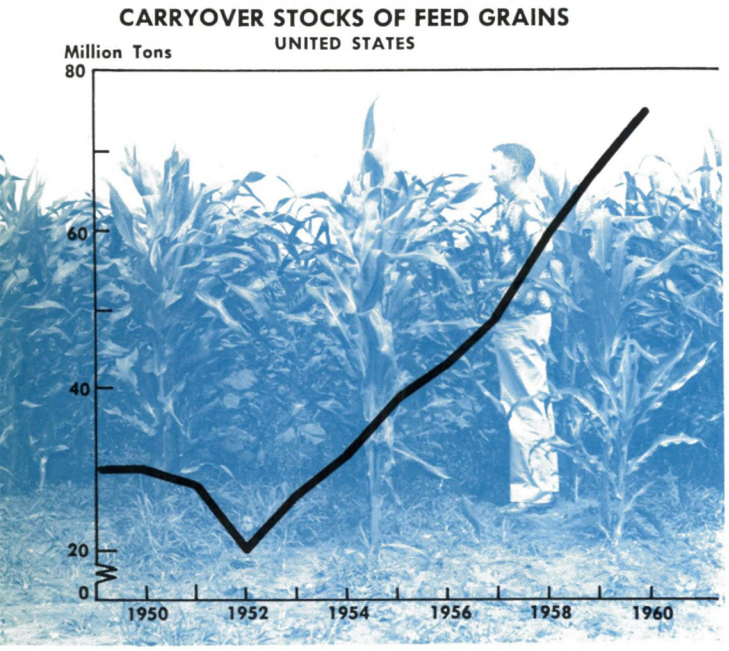
Coal production leveled out in the past few years, reflecting more stable demand conditions, but employment continued to decline.

but, on balance, have become more favorable. Manufacturing operations have picked up steadily for several months. Seasonally adjusted man-hours were up in May, reaching their highest levels since August 1960 in broad woven goods, since May 1960 in yarn and thread mills, and since June 1960 in knitting mills.

Forward buying of gray goods has held fairly steady in recent weeks. The market in industrial fabrics has been particularly active and some mills were encouraged to raise their quoted prices on these lines. Their experience following the price increases, however, indicates fairly clearly that the market as a whole is still on the soft side, certainly too soft to support the profitable price levels of a year ago.

Recent print cloth buying has been largely for the purpose of filling the gaps in current needs and has, therefore, been somewhat slow and intermittent. Some mills seeking to move these goods in larger volume for forward delivery are reported to have made further price concessions. Thus the price of the bellwether 80x80 print cloth, which ranged from 20¼ to 21 cents per yard a year ago, has recently been quoted at 17¼ cents. Some special types of fabric, such as corduroys and synthetics, have remained in relatively strong demand. But most of the large volume items are still subject to relatively weak or fluctuating market conditions.

The week of July 4 has traditionally been vacation week in the textile industry. Last year, lagging demand and mounting inventories prompted many mills to extend their vacation time to two weeks. Some mills, especially print cloth producers, are again shutting down for an extended period, but the movement



Feed grain production has exceeded utilization since 1952. As a result there has been a steady increase in carryover stocks.

is by no means as widespread as it was a year ago. Most firms in discussing vacation plans have expressed their intention to close for the week of July 4 only or to vary their schedules so that different mills will be closed different weeks.

Better conditions are present in most other textile markets. Knit goods have continued to show more strength than the rest of the industry. Knitters have confirmed their optimism by placing large orders for third quarter and some orders for fourth quarter yarn deliveries. Weaving yarns have also been quite active, and much of the industry's third quarter production has reportedly already been sold.

NATIONS TO CONFER Representatives from all important textile-trading countries will meet in Geneva later this summer to attempt to negotiate mutally satisfactory trading arrangements. The Department of State initiated the conference at the request of the President. Spokesmen for seven European countries, Canada, and the United States are now meeting to make plans for the Geneva talks.

FEED GRAIN PROGRAM Farmers' signup in the 1961 emergency feed grain program—a government program designed to stop the buildup of the nation's feed grain surplus—went "over the top" in the District as well as in the nation. The nation's carryover stocks of feed grains are at an all-time high and have been growing rapidly, being now about four times larger than they were nine years ago. The goal set by the Administration was to divert at least 20% of the average 1959-1960 corn and grain sorghum acreage to conservation uses. When the signup ended on June 1, about 35 out of every 100 eligible farmers in the District had contracted to cut their 1961 corn and grain sorghum acreage. The nearly 93,000 farmers who signed up agreed to take almost a million acres out of production this year. This represents 22% of the corn and grain sorghum acreage that District farmers had intended to plant before the emergency legislation was enacted.

Farmers participating in the program are eligible for higher support prices not only on 1961 crops of corn and grain sorghum but also on this year's barley, oats, and rye. They are in addition receiving payments in cash or in grain for each acre diverted to sound conservation practices.

The law permitted about one-half of these payments to be made during the spring. Thus through June 1, District farmers had already received $12.1 million in cash. The estimated total payment of around $26 million is equal to about one-third of last year's cash receipts from corn and grain sorghum marketings. It will, however, amount to only about 10% of the total value of these two crops, since much of the harvest is fed directly to livestock.

Farmers responsible for two-fifths of the District's corn acreage and nearly three-fifths of the grain sorghum land during the past two years volunteered for the program. Almost all of them seem to have diverted the maximum acreage permitted, as the diversion averaged 54% of the corn land and nearly two-thirds of the grain sorghum land.

The proportion of eligible farms taking part in the program varies considerably among District states, ranging from nearly one-fourth in Maryland to almost three-fifths in West Virginia. Total acreage to be diverted ranges from 9,500 acres in West Virginia to 544,000 acres in North Carolina. Land diverted per farm averages about 11 acres for the District as a whole but runs as high as 19 acres in Maryland. Advance payments also varied. Totals ranged from $162,300 in West Virginia to nearly $7.7 million in North Carolina and average payments per farm from $114 in South Carolina to $284 in Maryland.

PHOTO CREDITS

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THE FIFTH DISTRICT

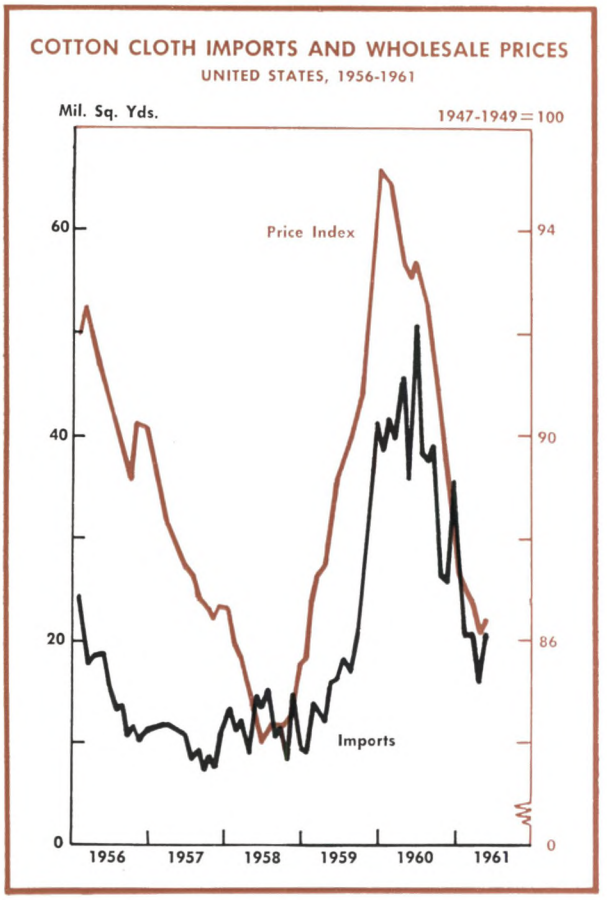
The Fifth District economy achieved further advances in July. Among the most active businesses were those catering to tourists, vacationers, sports devotees, and amateur landscape gardners. Crowds visiting District parks, beaches, and other points of interest have reportedly been averaging about 10% above those of last summer—and 1960 was considered a busy year. The beginning of the centennial commemoration of the War Between the States has rekindled interest in locations memorialized by events of that conflict. In addition, the nation's capital has attracted unusually large numbers of sight-seers this season, and their expenditures have helped maintain sales of retail stores and service enterprises in the Washington area at high levels. Apparently the average American leaves his troubles behind him when he takes a holiday.

INDUSTRY RECOVERY CONTINUES At District plants, the recovery that started early this year is continuing. By mid-June manufacturing employment, on a seasonally adjusted basis, had recovered 46% of the ground lost during the recession, and manufacturing man-hours, also seasonally adjusted, had regained 71% of their previous decline. June man-hours in the cigarette, transportation equipment, and paper industries topped their best month of 1960. However, some fairly important industries—metals, furniture, lumber, and food processing—had recovered less than half of their recession man-hour losses by June 15. In each of the latter, June man-hours were at least 5% below their 1960 peak month.

District beaches, parks, and points of historical interest are attracting unusually large numbers of vacationers this summer.

SUMMER SHOPPERS ACTIVE From all reports shoppers in the District were busy in June and busier in July. The preliminary estimate of the seasonally adjusted index of department store sales in July went to 162 (1947-49=100), up 4% from the previous month and 3% from July 1960. So far this year District department store sales are more than 1% ahead of last year. General retail sales have apparently about paralleled those of department stores during early summer and probably continued their gradual rise through July.

TEXTILE NATIONS AGREE Some first fruits of President Kennedy's program to aid the textile industry were harvested in Geneva in the week of July 17-21. All important textile exporting and importing countries were represented at the International Textile Conference sponsored by the General Agreement on Tariffs and Trade at the request of the United States State Department. The terms to which all the conferees subscribed as a step toward more orderly and cooperative trading relationships include the following: (1) As a stopgap measure, any nation whose domestic markets are disrupted by unrestricted imports (for example, the United States or Great Britain) may request the exporting nations concerned to limit shipments for the year beginning October 1, 1961 to the level that prevailed during the year ended June 30, 1961. No machinery is provided to enforce such limitations other than unilateral retaliation by the injured country. But acceptance of these terms morally binds the participants, and the speed with which preliminary agreements began to take shape during and after the conference suggests an atmosphere of good faith. (2) For the long run, an international textile committee will be formed to make recommendations by April 30, 1962 for drafting a more permanent agreement. (3) Nations that



now restrict textile imports, notably certain countries of Western Europe, will act no later than January 1, 1962 to lessen such restrictions and thus open the way to more freedom and reciprocity in textile trading.

The possible limitation of imports is the item of greatest immediate interest to the American textile industry. The chart above compares the movement of wholesale prices of cotton cloth with levels of cotton cloth imports from January 1956 through May 1961. The relationship between these two series has been especially close since the beginning of 1959. Peaks in imports have followed high points in the price index by about six months. Prices were highest in January 1960, and in June 1960 imports attained a monthly peak of over 50 million square yards. A lesser peak in prices occurred in June 1960, and after dipping to half the June volume imports rose again to more than 35 million square yards in December of that year. The experience summarized by the chart strongly suggests that higher textile prices without any agreement on imports are likely to be accompanied by an inflow of cotton goods from other countries, ranging from perhaps 30 to 50 million square yards per month. Imports averaged 39 million square yards per month during the year of relatively high prices which began on October 1, 1959 but only 27 million square yards monthly during the year ended June 30, 1961. According to the terms of the agreement, 27 million square yards could be made the limit for average monthly imports in the year beginning October 1, 1961 regardless of what prices do.

BUSINESS LOANS OFF Loan demand at District banks showed seasonal strength in June but fell off somewhat in July. Virtually all loan categories at District weekly reporting banks exhibited greater strength in June than in the same month last year. The July reduction was due chiefly to a sharp decline in business loans, which fell nearly 4% between July 5 and July 26. For the eight weeks ending July 26, these loans were off 3.5%. This compares with a similar decline in the same 1960 weeks and considerably smaller reductions in the like period of most other recent years.

Over the same eight weeks gross loans at District weekly reporting banks rose nearly 1%, as compared with a small decline during this period last year. Security, real estate, and consumer loans exhibited notable strength this year.

District weekly reporting banks moved into an easier investment position in June and July, increasing their holdings of Governments of under one-year maturity by more than 20%. Much of this increase was related to important U. S. Treasury refinancings in late June and late July. Over the same period, holdings of intermediate- and long-term Governments were reduced sharply, while other securities were increased moderately. Total investments rose 1.5% as against a 3% increase in the same period last year.

Typically District banks have continued to maintain a basically easy reserve position. Daily average borrowings at the Federal Reserve discount window rose somewhat in June but fell again in July. Average borrowings for the eight weeks ending July 26 remained far below those in the comparable weeks of any recent year except 1958. In the Federal funds market, District banks were net buyers (borrowers) through most of June but swung over to a heavy net sales position in July.

PHOTO CREDITS

Cover—Colonial Studios 6. & 7. Structural Clay Products Institute, Virginia Brick Association, Southern Furniture Exposition Building, Inc. 8. Southern States Cooperative 9. Liggett & Myers Tobacco Co. 11. North Carolina News Bureau.

THE FIFTH DISTRICT

Fifth District business generally continued its upward course in August, and businessmen were largely optimistic despite uncertainties in appraising the fall outlook. Local and national analysts expressed their agreement in the press, frequently pointing to the possibility that all major sectors will increase their spending enough between now and the end of the year to generate a sharp rise to significant new highs. A brief look at the District business recovery and comparison with that of the nation as a whole provides a point of departure for evaluating developments this fall.

In retrospect, the important broad indicators—bank debits, employment, and manufacturing man-hours, all seasonally adjusted—present substantially similar, but by no means uniform, pictures. During the early months of recovery, each of these measures showed business moving ahead more rapidly in the District than in the nation as a whole. Late in the spring the pace of national recovery increased, whereas District activity lost some of its initial momentum.

Fifth District factories produce approximately one-sixth of the 1.7 billion glass containers used annually in the United States.

The national rate of recovery in nonfarm employment as measured by the relative gain from the recession low, caught up with the District rate in May, moved ahead in June, and kept the lead. Rates of recovery in the District's bank debits and manufacturing man-hours remained ahead of the comparable national rates during the summer months but by smaller margins. Since recovery got under way, bank debits have shown relatively wider fluctuations from month to month in the District than at the national level. The opposite is true of employment and man-hours, which have been rising in the District at an unusually stable rate.

BANK DEBITS HIGH Bank debits, seasonally adjusted, broadly measuring the flow of payments in the economy, fluctuated considerably from month to month. Therefore, their trend over a longer period has more significance. Bank debits in the District reached their prerecession high in May 1960. The series declined 9.5% to its December recession low and then rose to a new high, 5% above the previous one, by May of this year. Since then seasonally adjusted District bank debits have fluctuated at high levels slightly below the May peak. In the nation, bank debits reached a prerecession high in August 1960, three months later than in the District, but their recession low and subsequent peak coincided with those of the District. The national drop from August to December was 4.4%, and the new high in May was 4% above the previous peak.

JULY EMPLOYMENT A NEW RECORD As in the case of bank debits, seasonally adjusted nonfarm employment reached its prerecession high earlier in the District than in the nation as a whole—April as against July. From these respective peak months, District employment declined only 1.7% to a February low while the national series dropped 2.3% to a trough in March. With the advent of recovery, the District fell in line fairly closely with the nation. Both exceeded their prerecession highs in July, the District by a fraction of 1%, the nation by an even smaller margin. Whereas bank debits in both areas gained considerably more between December and May than the amounts lost during the recession, seasonally ad-

justed nonfarm employment moved slowly (although consistently) up from late winter lows and did not surpass prerecession levels until July.

NONMANUFACTURING SECTOR LEADS The establishment of a new high for seasonally adjusted nonfarm employment in July resulted from strength in the nonmanufacturing sector. Particularly strong areas were government; contract construction; finance, insurance, and real estate; and services. However, employment in some nonmanufacturing groups was below last year's high month. Transportation, communication, and public utility companies had 3% fewer employees in July than in June 1960, the peak month for the group. The number of workers in trade establishments in July was also slightly below last year's high, and mining employment, although fairly constant for the last six months, was about 12% below a year ago.

MAN-HOURS RECOVER UNEVENLY Seasonally adjusted manufacturing man-hours in the District rose less than 1% between June and July and in the latter month were still 1.6% below May 1960, their peak month. The July gain in United States man-hours also fell short of 1%, leaving that figure still more than 3% below its January 1960 peak.

Experience among the District's manufacturing industries has varied considerably during this recovery period. Three nondurable goods industries—food, tobacco, and paper—exceeded their last year's highs earlier this year but in July were again slightly below the new peaks. Small reductions in seasonally adjusted man-hours occurred between June and July in knitting mills and apparel factories, while increases were registered by broadwoven fabric mills, yarn and thread mills, and chemical plants.

The only durable goods industries showing some degree of strength in July man-hours when compared with high months of last year were transportation equipment (5% above); machinery; and stone, clay, and glass (each 2% below). The others ranged between 5% and 12% under their respective prerecession levels, with furniture, lumber, and primary metals at the bottom of the list.

IMPORTED GLASS TREND UP Although the industry classification which includes glass making has made a generally good showing, some glassmakers are having a difficult time. Competition from foreign producers is increasing in quantity and also expanding into a greater variety of product lines.

According to latest reports there are 113 glass making plants within the boundaries of the Fifth District. Three-fifths of these are located in West Virginia. The majority are small operations making household, scientific, and other specialized glass products. The larger factories, fewer in number but employing a major fraction of the District's glassworkers, manufacture flat glass and glass containers. Makers of flat glass have recently felt the effects of foreign competition more keenly than in any previous recovery period. Between 1957 and 1959 imports of flat glass rose 90%, but this sharp increase was followed by a decline of about 15% between 1959 and 1960 as general business activity slowed. Even after this decline, however, flat glass imports represented 11% of apparent domestic consumption in 1960 compared with 7% in 1957.

Tariff duties currently in effect are on a per pound basis with rates varying according to the size of the glass sheets. Domestic producers argue that current rates are not sufficient to prevent further increases in imports and consequent serious injury to their industry. Areas adjacent to ports of entry can be reached by foreign shippers with little added cost from overland transportation. Here price cutting has already become necessary to prevent imports from making more serious inroads in the domestic market. However, industry experts believe that manufacturing costs are sufficiently lower in other countries to enable foreign glassmakers to cover additional transportation costs and still meet competitive price reductions.

CONTAINER IMPORTS RISING Seventeen plants manufacturing glass containers are listed in state directories for the District. According to the same source, and substantially verified by the Census of Manufactures, about 9,000 workers are employed in these plants, which places the District's share of the nation's glass container industry at roughly one-sixth. The volume of imports is growing, but still represents a small fraction (between 0.1% and 0.2% in recent years) of this country's annual consumption, now approximately 1.7 billion glass containers. Although they are both bulky and brittle, bottles and jars shipped to this country are earning good profits for their foreign makers. While still small as compared with this country's huge total volume, imports registered a large relative gain between 1957 and 1960 and exceeded a value of $2 million in the latter year.

PHOTO CREDITS

Cover—Southern Bank and Trust Company 2. & 3. Southern Bank and Trust Company 4. Colonial Studios, Southern Bank and Trust Company 5. Southern Bank and Trust Company 11. Owens - Illinois.

THE FIFTH DISTRICT

Despite moderate declines in some areas, generally good business conditions still prevail in the Fifth District. Nonmanufacturing employment, about three-fourths of the District total, reached a new high in August. Substantial gains occurred in government, contract construction, financial enterprises, and services; smaller ones in mining and trade. Construction activity, a sustaining factor during the last recession, has consistently gained further strength—an indication of confidence. Trade, on the other hand, although satisfactory by comparison with recent years, has developed little if any new strength during the period of recovery. The absence so far of any extra autumnal vigor places trade among the hesitant sectors of the economy.

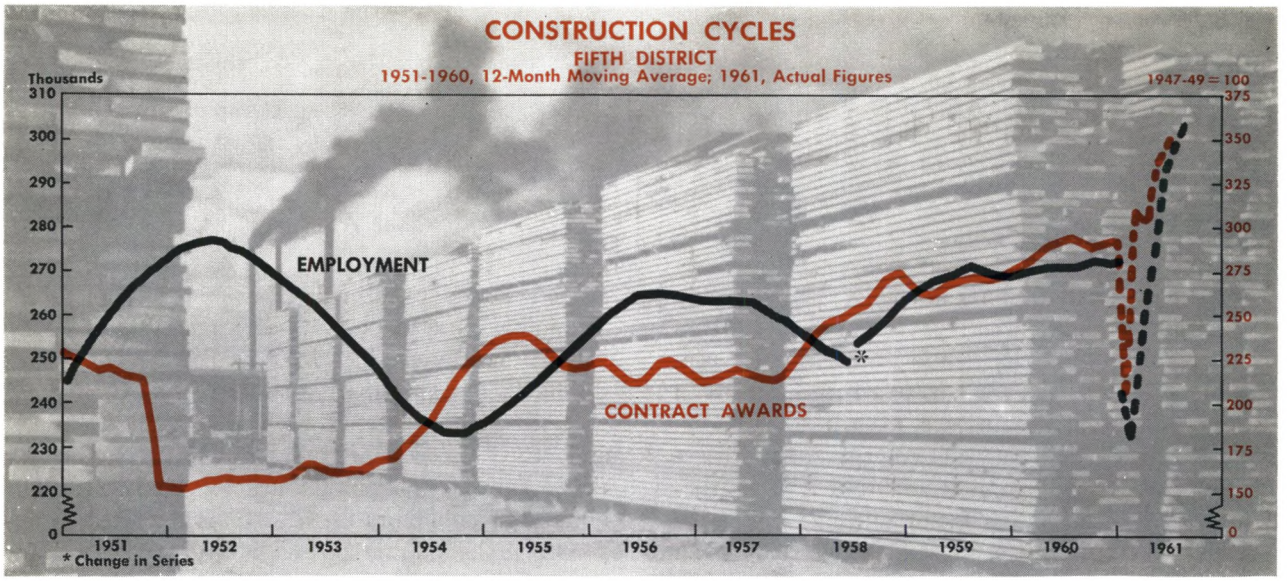
Many manufacturing industries experienced a slower pace in August. Factory employment and man-hours, both seasonally adjusted, were slightly down from July levels, and more than 2% below their respective 1960 highs. August declines—more marked in nondurable goods than in durables—occurred in tobacco manufacturing; the weaving and spinning components of textiles; apparel; paper; printing; metals; machinery; furniture; and stone, clay, and glass. The significance of these relatively small but rather widespread adjustments is not wholly clear. Business attitudes and expectations have been generally and quite consistently optimistic. Other facets of the District economy have for the most part maintained an upward course. It may be that usual seasonal slowdowns developed more than normal intensity this year.

INTERNATIONAL TRADE With markets for manufactured goods becoming increasingly competitive, interest in overseas business contacts is clearly growing. Greater emphasis is being given to foreign markets as potential outlets for domestic products. The free economies of Europe and Japan have completed a remarkable recovery from almost total wartime destruction. Fifth District business groups have demonstrated their awareness of these developments in the past but are now giving them more attention than ever. The 13th Annual Virginia World Trade Conference, directed by the Virginia State Chamber of Commerce and supported by 12 other organizations, will meet October 25-27 at Old Point Comfort, Virginia. Students and faculty members from 25 colleges and universities in Virginia, the District of Columbia, and neighboring states will be Conference guests. In Charlotte, North Carolina, the Coliseum and Merchandise Mart will provide the setting for the North Carolina Trade Fair, October 12-21. The number of exhibitors at the Fair is expected to approach 400, and the potential foreign demand for products displayed will be judged by distributors from all parts of the world.

CONSTRUCTION Manufacturers are just as persistent in trying to reduce costs as they are in pursuing new markets. Frequently the quest for lower costs has produced decisions to build. Much public construction is also in progress. Contract construction workers in August numbered more than 300,000, the most ever employed in the District. Building permits in 38 District cities also reached a new high in August with a total value of more than $72.7 million. This impressive figure was 16% higher than the series' second best value established two months earlier and 70% above last year's monthly average even though 1960 was a record year.

District contract awards are not presently at record levels but, nevertheless, do show considerable strength. Total awards have been declining gradually since mid-1960 and are slightly behind last year's pace. Awards toward the end of last year included several very large public projects, the largest of which was the Chesapeake Bay Bridge-Tunnel. These helped to provide a solid foundation for this year's construction activity and set such a fast pace for public construction and utility awards that 1961 can come in second best and still make a very good showing. Private awards, both residential and nonresidential, have maintained slightly higher average levels this year than last.

CONSTRUCTION CYCLES Erratic fluctuations in construction statistics tend to conceal the first signs of change when recovery or recession begins to affect the building business. Construction employment and the contract awards index plotted on the chart from January through July 1961 show how wide these



short-run variations are. In employment the seasonal pattern is fairly stable from year to year. In contract awards, however, it is well camouflaged by ups and downs arising from the unpredictable processes by which individuals, businesses, government agencies, and other organizations decide when to build. The employment series can be, and is, seasonally adjusted with satisfactory results, but seasonal adjustment of contract awards, especially on a regional basis, has proven difficult.

Meaningful comparisons between employment and awards require special preparation of the data. Thus, the values plotted on the chart from January 1951 through January 1961 are 12-month moving averages. This simply means that each point on the chart is an average of the values for 12 consecutive months, the six months that precede and the six months that follow the point in question. The moving averages smooth out the seasonal and random variations leaving in each case a pattern of business cycles superimposed on an upward trend.

The contracts to build the Savannah River atomic energy plant were awarded in May 1951 and were primarily responsible for high contract award averages during most of that year. Employment rose rapidly during the 12 months following this unusual event, but then went into a decline that lasted more than two years before the size of the work force had again assumed its usual relationship to the normal volume of contracts. Employment took its next upward turn in August 1954, about six months after awards began to show definite gains. New contracts then peaked in the spring of 1955, but employment continued to rise for another 18 months. The 1957 fall upturn in awards was followed about nine months later by recovery in employment.

In general it appears that turning points ending declines in contract awards have preceded recovery in employment by six to nine months. In the last two or three years increases in contract awards have not occasioned such definite gains in employment. But last year's flurry of new contracts followed by good average levels this year would seem to indicate record or near-record employment in this sector of the District economy for some months to come.

BANKING Business loans at District weekly reporting banks rose sharply in August and September, reversing a steep July decline. These loans normally increase in late summer and early fall as inventories begin to grow. The rise so far this year has been greater than usual, 6.5% from July 26 to September 20. Most other loans also showed seasonal strength over the seven-week period. Loans to domestic commercial banks (mainly Federal funds) more than doubled, reflecting ease in the reserve positions of District money-market banks. Loans to nonbank financial institutions and security loans also registered substantial gains. Real estate loans rose slightly, while agricultural loans declined seasonally. All other (primarily consumer) loans, sluggish all year for the nation as a whole, continued to exhibit more strength than usual at District weekly reporting banks—up 3.2% in the latest seven-week period.

PHOTO CREDITS

Cover—Virginia State Chamber of Commerce 12. Caterpillar Tractor Co. and American Forest Product Industries, Inc.

THE FIFTH DISTRICT

Recent comments on national economic conditions have described business as good but not booming, improving on balance but with a number of divergent elements, and "moving sideways" in some important areas. These generalizations also describe recent developments in the Fifth District.

Retail sales have been moving sideways almost continuously during the recovery period even though business in general and personal income in particular have risen steadily. Sales in certain lines—apparel and specialties for school, appliances, tools, and furniture—have displayed encouraging seasonal strength. Automobiles also have gained quite steadily, tending to confirm the industry's expectation that the 1962 model year will be one of the best. Other classes of merchandise have moved relatively slowly, however, so that total retail sales continue to lag.

MAN-HOURS MIXED Diverse movements have remained distinctive features of the manufacturing sector. Seasonally adjusted factory man-hours decreased 0.2% between August and September, the net result of a 1.1% rise in durable goods and a 0.9% fall in the more extensive nondurable goods group. There were nonconformists in both. Transportation equipment and lumber lost momentum in contrast to the generally faster pace in durables, whereas woven goods, yarn and thread, and tobacco manufactures other than cigarettes registered gains contrary to the behavior of most nondurables. The strongest gains were made in machinery, furniture, and yarn and thread. The sharpest declines occurred in food products, apparel, chemicals, and transportation equipment.

EMPLOYMENT SHOWS STRENGTH Job statistics provide broadly based evidence to support the contention that business is good but not booming. District seasonally adjusted nonfarm employment increased 0.4% between August and September. Even manufacturing employment rose, indicating that the net loss in man-hours stemmed from reductions of working time in certain industries rather than fewer jobs. Work forces decreased more than seasonally in contract construction, rose less than the usual seasonal amount in trade, and remained unchanged in transportation, communication, and public utilities. In all other nonmanufacturing enterprises employment increased with mining, services, and government contributing the strongest gains.

Variations among industries were also reflected in geographic differences. September employment reached new highs in Maryland, the District of Columbia, and Virginia. West Virginia and the Carolinas, however, have not yet returned to their respective employment highs which occurred just before the onset of the 1960 recession. In West Virginia, the responsibility rests mainly on last year's sharp decline in mining activity. In the Carolinas, textiles, apparel, lumber, and furniture all share the blame.

GRADUAL DECLINES IN UNEMPLOYMENT Monthly estimates of total unemployment without seasonal adjustment are provided by Maryland, Virginia, West Virginia, and South Carolina. Back in February, according to the figures for these four states, unemployment as a per cent of the civilian labor force ranged from 15.0% in West Virginia to 6.2% in Virginia. The average was 8.3% compared with 8.1% for the nation. By August, the latest month for which these data were available for inclusion here, the range of District rates had moved to a considerably lower level—from 11.6% in West Virginia to 4.0% in Virginia. The four-state average was down to 5.8% compared with a 6.2% national rate.

Evidence that District rates generally have declined further since August is found in recent revisions of local unemployment estimates. The District embraces about 80 "labor market areas." Labor conditions in one-fourth of these have been reviewed in the last two months. Among the unemployment rates that were changed, decreases outnumbered increases five to one.

Insured unemployment declined more than seasonally in every month from March through August, and the latest weekly figures suggest a resumption of this encouraging trend following some less favorable reports early in September. Recent rates of insured unemployment ranged from 5.2% in West Virginia (the only District rate higher than the national average) to 1.5% in Virginia and the District

of Columbia. The District average was 2.9%, which compared favorably with the national rate of 3.6%.

FURNITURE MARKET ONE OF BEST The number of furniture showings has increased in recent years to cover virtually every season in all parts of the country. Sales executives in firms selling a variety of lines nationwide hardly have time to unpack between trips. Since recent markets in other regions posted only moderately successful records, no one expected anything unusual at the regular fall shows in District furniture centers.

Furthermore, the statistical evidence until quite recently was definitely gloomy. Retail furniture sales started the year at a low ebb and showed only spasmodic improvement through June. Factory man-hours also looked bad compared with 1959 and 1960 figures. But the industry began to take heart when national furniture sales strengthened in July and August. District sales persisted at a fair level through the late summer, then increased sharply in September. Production in the District also increased in the latter month, as factory man-hours rose to a par with average levels of the past two years.

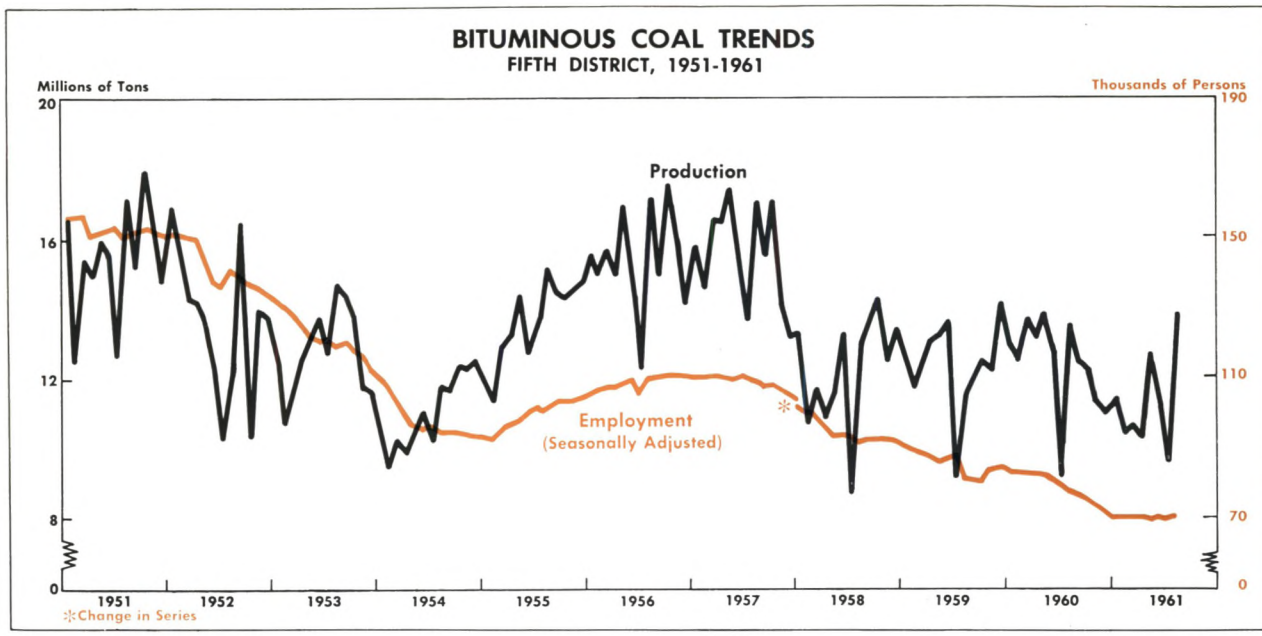
Reports from the Southern Furniture Market, in progress October 20-27, were optimistic from the beginning. It was said of most previous markets that evaluations would have to wait until salesmen could visit customers after the show and judge the extent of the show's impact on dealers' willingness to buy. This time the customers were buying on the spot for several apparent reasons. Their inventories had dwindled to unusually low levels—too low for the fall and winter seasons with business on the upgrade. New styles, some introduced at this market and some unveiled earlier in the year, were a stimulus to sales. Finally, manufacturers had prepared, more carefully than ever before, a variety of special services for dealers. Recognizing consumer resistance as a barrier to general market improvement and wishing to help dealers present products most advantageously to their customers, some manufacturers offered retailers a wide variety of selling aids ranging from suggested showroom arrangements to actual training programs for salesmen. Such interest in dealers' problems gained an added measure of good will for a number of producers and contributed to the over-all success of the markets.

STANDOFF IN TEXTILES Textile manufacturers continue to chart a cautious course through a circumstantial maze to which something new is added every week or two. The tone of the markets has changed little in recent months. Increases in new orders and rising backlogs have clearly shown a stronger trend in demand. Producers have tried to use this as a fulcrum to jack up prices. Such an effort is understandable with costs considerably higher and prices significantly lower than they were two years ago during the industry's most recent period of general prosperity. The large inventories and phenomenal productive capacity that are part and parcel of the textile business exert so much downward pressure on the price structure, however, that substantial price increases remain unlikely unless stronger demands develop.

Manufacturers' modest success in raising prices can be readily documented. The average level of the index of wholesale prices for cotton products during 1960 was 94.2 (1947-49=100). Prices declined in the second half of 1960, and the index dropped from 93.4 in September of that year to a low of 89.5 last June. The influence of improving demand then raised the index a point and a half in three months to a September level of 91.0. Price gains have been strongest in heavy industrial fabrics and man-made fiber goods.

DEPRECIATION SCHEDULES REVISED Mill operators welcomed the October 11 announcement of more liberal depreciation allowances for textile machinery. A "useful life" of 15 years was recommended for preparatory equipment (previously 30 years), cards (previously 40 years), and other machines used to process materials through the spinning and weaving operations (most of which were formerly written off over a 25-year period). These were the first such revisions since 1942. The new schedules were favorably received as much more realistic than the old ones in view of more rapid rates of innovation and

Better retail sales, low dealer stocks, new styles, and new services made this year's fall furniture market one of the best.



obsolescence in the design of textile machines and as an aid in, but not a solution to, the problem of foreign competition. The original announcement made it clear that the new schedules applied only to new acquisitions. Regulations which will set forth changes, if any, in the handling of machines not fully depreciated under the old schedules are said to be in preparation.

BITUMINOUS COAL Coal producers have experienced more stable levels of production and sales long enough to think that they may last for a while. As the chart shows, average levels of production have been fairly stable since 1958. Employment, however, continued to decline until this year. At 71,500 in September, seasonally adjusted mining employment reached the high for the year and was just about even with last December. The last such period of stable employment spanned the second half of 1956 and the first half of 1957. The number of District miners dropped about 10% in each of the three intervening years.

Several reasons for optimism are listed by the coal experts. Costs of production have been reduced to competitive levels. Within the present economic framework coal has apparently struck a balance with other fuels and power sources and will tend to hold its own domestically. Meanwhile, markets in Europe, Latin America, and the Far East are expanding and should take increasing quantities. Finally, special research units in the Department of the Interior, at West Virginia University, and elsewhere are looking into new ways of using coal. These investigations will study coal as a source of special purpose fuels and of chemicals for uses other than as fuel. The coal industry believes that these studies will eventually yield significant results in opening new markets for its product.

AGRICULTURE Prospects continue to be generally favorable for Fifth District farmers. Production of fire-cured and sun-cured tobacco, wheat, grapes, and pecans will probably be at least 15% greater than last year. Output of burley tobacco, soybeans, oats, and peaches will also be significantly larger while corn, sorghum grain, and sweet potato crops are expected to be considerably smaller this year than last. By mid-October District farmers had sold over 1 billion pounds of flue-cured tobacco for $650 million, a 1% increase in poundage and a 7% increase in dollars over 1960. Both total value of sales and average prices set new records for the Border Belt where the marketing season ended September 28.

PHOTO CREDITS

Cover—Colonial Studio 6. & 7. Virginia Chamber of Commerce, Miller & Rhoads, Inc., Bemiss Equipment Corporation, Newport News Shipbuilding and Dry Dock Company, American Forest Products Industries, Inc., Fostoria Glass Company, American Cotton Manufacturers Institute, Inc., The Champion Paper and Fibre Company, Colonial Studio, E. I. du Pont de Nemours & Co., Liggett & Myers Tobacco Co., Southern States Cooperative, Stone Manufacturing Company, Biggs Furniture Co., Inc. 8. & 9. Kugler's, Incorporated 11. Southern Furniture Exposition Bldg., Inc.

THE FIFTH DISTRICT

The improvement of business conditions in the Fifth District has proceeded at a very gradual pace in recent weeks, but the principal broad indicators do show good gains over comparable levels of last year. Seasonally adjusted bank debits, measuring the broad sweep of District business activity as reflected in total payments made by check, rose again in October after dropping in September. The high October figure—exceeded only in May and August of this year—was 8% above last year's monthly average. For the year to date, bank debits are running 4% ahead of 1960 and 8% above 1959.

EMPLOYMENT GAINS WIDESPREAD Most areas of nonfarm employment have continued to show small monthly gains after seasonal adjustment, indicating that the rising trend is fairly widespread even though not particularly strong. The number of jobs in manufacturing and trade remained virtually unchanged. Employment increases were strongest in construction and services. The number of workers in transportation, communication, and public utilities and in finance, insurance, and real estate increased moderately in October, and mining employment rose slightly for the third month in a row. Among the broad categories of employment, government was the only one to decline significantly between September and October. Total nonagricultural employment in October was 1% higher than in the same month last year.

MAN-HOURS UP ON BALANCE Although manufacturing employment in October was unchanged from the previous month, there were small increases in hours worked and, consequently, total factory man-hours rose slightly. The records of particular industries, however, showed considerable variation, as has frequently been the case in recent months. Three durable goods industries advanced enough to offset declines elsewhere, producing a small gain in man-hours for the group as a whole. The first of these, transportation equipment, jumped 16% in response to a faster pace in shipyards and motor vehicle assembly plants. The remaining two, lumber and furniture, registered moderate gains. A slightly stronger trend in residential construction helped the lumber business to move up again after declining in September, and although October's figure was only slightly greater than those of April and August, it did represent the high for the year thus far. Furniture manufacturers anticipated a successful fall market by increasing man-hours (seasonally adjusted) to the highest level since June 1960. Compared with October of last year, total man-hours in durable goods manufacturing were up 4%. Only lumber and wood products and fabricated metals still lagged behind their respective year-ago levels.

SLIGHT GAIN FOR NONDURABLES September-to-October changes in seasonally adjusted man-hours of the District's principal nondurable goods industries were about evenly divided between increases and decreases. The net result, however, was about the same as in durables—a small gain. The industries that increased man-hours were foods, paper, and chemicals, while reductions occurred in tobacco manufactures, textiles, and apparel. Printing and publishing remained unchanged.

Industries reporting higher October man-hour figures this year than last displayed various degrees of improvement. Textile mill man-hours exceeded their year-ago level by 7%. Most of the other October-to-October increases were in the 2% to 4% range.

In only three important nondurable goods industry groups were October man-hours below their year-ago levels. Each of these—food, tobacco, and printing and publishing—is an industry which typically

Suburban centers—larger, more numerous, and more attractive each year—bespeak retailers' determination to meet shoppers' needs.

operates under growing demand conditions. With the business recovery already several months old, their failure to equal last year's records even in a single month prompts a search for the probable cause. One possibility is a difference in the timing of seasonal factors between this year and last. Long-run changes—such as result from technical progress, shifts in demand, and changes in patterns of competition—might also contribute. Or, in spite of general business improvement, these specific industries may have suffered setbacks of a cyclical nature.

The record shows that the food industry so far this year has failed to surpass last year's man-hour levels in only two months—September and October. Tobacco man-hours were below 1960 levels in six months—January, April, May, June, July, and October. Local labor market reports suggest that seasonal developments, such as recent employment decreases in seafood packing and tobacco processing, probably explain these relatively few failures to top 1960 figures. Man-hours in printing and publishing, on the other hand, were below corresponding 1960 levels in May, and again each month from July through October—enough to eliminate unusual timing of seasonal variations as an explanation of this year's reduced activity. Instead, according to industry sources, a variety of long-run adjustments have adversely affected the printing business this year. For some time, acquisitions of new equipment and, more recently, mergers have been increasing capacity while reducing the number of jobs. On the market side of the picture, several lines of commercial business are in a downward trend. For example, the textile and garment industries, seeking ways to cut costs, have reduced the size and number of tags and labels that they use. Developments of this kind have reduced the volume of business available to District printers.

INCOME GAINS AT FASTER PACE According to estimates published by *Business Week* magazine, personal income in the Fifth District rose each month from the recession low last February through September, the latest month for which an income estimate is available. In recent years, the net impact of seasonal factors has been such as to produce fairly stable levels of personal income from January through July, sharp increases in August and September, then gradual declines through the final three months of the year back to the January-July level.

The sharp rise in income between July and September is clearly visible each year and has averaged 7.5% over the last three. This year the July-September rise was 8.5%, and personal income for the month of September was estimated to be 4.2% above the level one year earlier. For the first three quarters of 1961 personal income averaged, respectively, 2% and 7% higher than the average levels for comparable periods of 1960 and 1959. Evidence available from the more current employment and man-hour statistics, and from scattered reports obtained from various District areas and industries, suggests that personal income probably bettered normal seasonal expectations in October and November.

"DAY OF JUDGMENT" The tension and pressures, the opportunities and successes of businessmen reflect, among many other things, the "hazards" of the free market. Products and services are judged daily by an almost numberless jury of consumers. No manufacturer or distributor can survive for long if this impartial and impersonal court of last resort rejects the goods he offers for sale. For him every day is judgment day, but the Christmas season contains the most critical judgment days of all. In the opinion of many, perhaps most, of these suppliers of goods and services, the "consumers' court" has acted with undue deliberation so far this year.

Statistics lend support to such contentions. The contrast between the steady rise in personal income estimates and the uneven behavior of sales is immediately apparent. A closer comparison of these two indicators, however, reveals more serious evidence. Retail sales may have remained steady, or even declined, as income rose. As already noted, total personal income from January through September 1961 was estimated to be 2% higher than the similar total for 1960 and 7% greater than for 1959. Sales of retail firms having from one to ten stores and dealing in virtually all kinds of consumer goods are tabulated for the Fifth District. For the first nine months of 1961, these figures actually show decreases of 2% and 1% compared with 1960 and 1959, respectively. Department store sales are a little ahead of last year, but about even with 1959. From all indications car sales in the Fifth District, as in the nation, have recently been rising at an encouraging rate. But again the record for the year as revealed in available statistics is not rosy. For the first nine months of this year, new car registrations were down 12% from 1960 and 4% below 1959. A strong finish indeed will be needed to put 1961 in the running as a record year for retail sales.

PHOTO CREDITS

6. & 7. Federal Aviation Agency 10. Southern States Cooperative 11. Cameron Village, Incorporated.

THE FIFTH DISTRICT

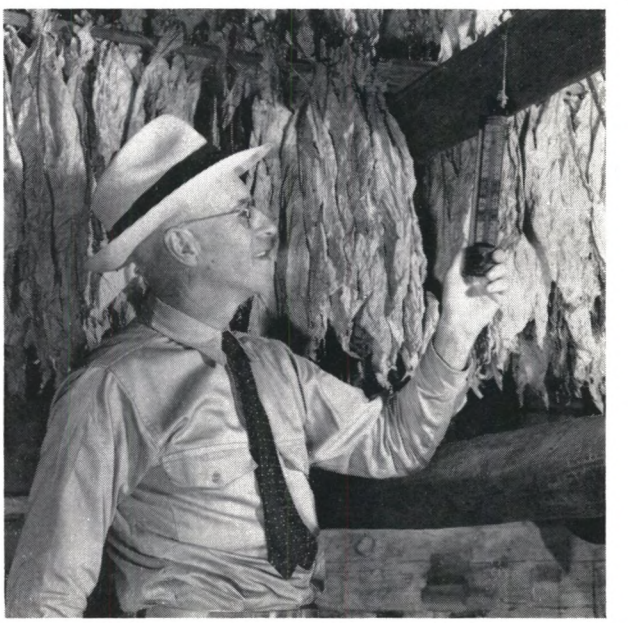
Recent trends in Fifth District business provide a good basis for generally optimistic expectations substantially similar to those reflected in composite national opinion as summarized in the main article of this issue. The District's broad statistical indicators have been consistently favorable for several months. Bank debits finished the year at record levels. Retail trade, noncommittal during much of 1961, increased markedly in October, and shoppers kept the registers busy for the rest of the year, finally ringing up record levels of Christmas sales. Seasonally adjusted nonagricultural employment rose gradually to new highs last September, October, and November, and although the unadjusted gain from November to December was slightly below normal, more Fifth District inhabitants had jobs during the final month of 1961 than ever before.

Highlights of recent increases in nonfarm employment, most of which occurred outside the manufacturing sector, included the following items. Financial and service enterprises expanded their work forces more than seasonally throughout the second half of 1961. Government agencies also took on new help with considerable regularity. Construction employment, a source of strength for more than a year and recently stable at a high level, gained additional staying power when a good volume of new contract awards came along late last year. Recent events also brought slightly improved employment at the District's bituminous coal mines. Mine operators generally expect the new stability to last for a while, thanks to domestic markets stabilized by lower costs and overseas markets believed to be poised for a period of rapid growth. These and other components of nonmanufacturing employment have moved into 1962 on a wave of general expansion.

MANUFACTURING The extent of manufacturing's participation in the current cycle of economic growth is not as easily documented. Seasonally adjusted factory man-hours displayed a series of little ups and downs toward the end of last year, ending on the upbeat. Factory employment behaved in a similar manner. Within this generally neutral picture, however, four industries in particular stood out: lumber, as a consistently bad performer; tobacco, with a consistently good record; textiles, because of prolonged uncertainty; and furniture, which emerged from the recession slowly but now displays just about the brightest 1962 outlook in District manufacturing.

The lumber business, after suffering from slack demand and soft prices during virtually all of 1961, received mild encouragement from the best fourth-quarter volume of residential contract awards in several years. As a result, lumber market conditions did show some improvement in a few localities before the Christmas holidays ushered in the regular winter lull. Cold, wet weather has helped to keep production and inventories lower than they might have been otherwise, and prices, though weak, have remained fairly stable. The lumber business in 1962 could look good by comparison with 1961 without actually rising above mediocrity. It will take a strong spring recovery to swing lumbering into line with rates of progress being visualized for most industries.

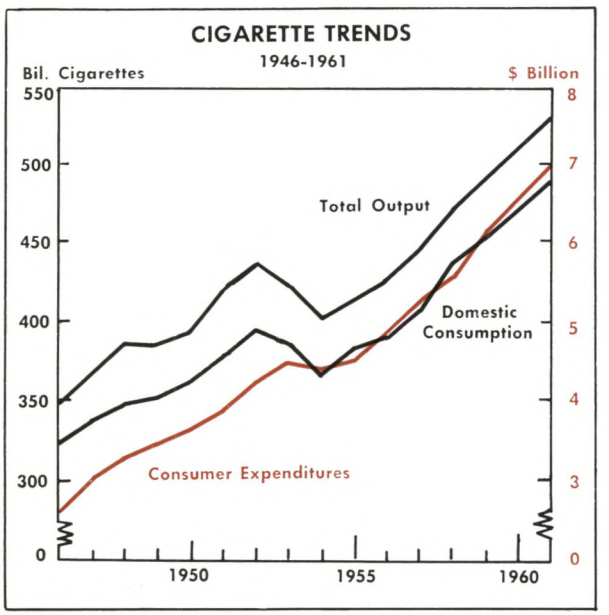
RECORDS GO UP IN SMOKE The nation's tobacco industry, of which the Fifth District's share includes 60% of farm acreage and 50% of factory workers, had one of its biggest years in 1961. Last year's



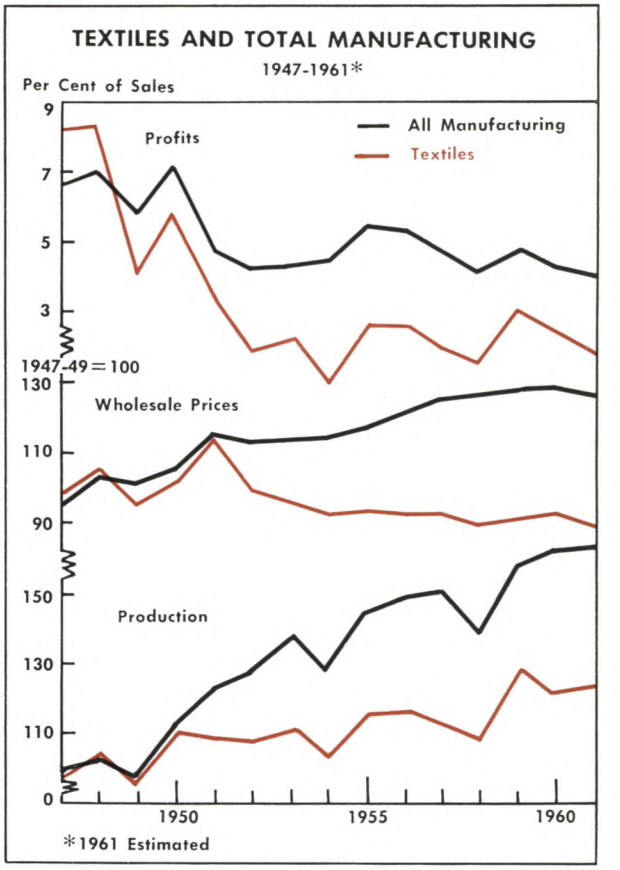
Nearly nine-tenths of United States flue-cured tobacco—the principal cigarette type—is produced by Fifth District farmers.

tobacco production, all types, was up 4% from the year before. Consumption of cigarettes, cigars, and pipe tobacco increased both in total volume and on a per capita basis. Exports of tobacco products were at the highest levels in more than ten years, and unprocessed tobacco went to overseas markets in near-record amounts. According to Department of Agriculture estimates, cigarette production in 1961 reached 528 billion, a 4% increase over the previous year. As the accompanying chart shows, 1961 thus became the fifth year in a row to establish a new output record. Cigarette sales suffered a setback in the first half of the 1950's but have been "coming back strong" ever since. The cigarette industry's sharp uptrend is visible in all three series plotted on the chart. Experts in the Department of Agriculture and elsewhere expect the current cigarette consumption growth rate of about 4% annually to carry right on through the year.

TEXTILES' WEB OF CIRCUMSTANCE The District's big, diverse textile industry has an unusually long list of items to evaluate in any appraisal of its condition and outlook. In January, for instance, the Internal Revenue Service followed up last fall's revisions of allowable depreciation on new textile machinery with similar good news for apparel manufacturers. Further announcements from the President's office and the Treasury indicated that liberalized depreciation schedules for virtually all industries would soon be forthcoming, including the faster write-offs of older equipment that textilemen have been hoping for. The above involve changes in regulations only. An additional tax credit being considered as an extra incentive to modernize would require new legislation. This measure would permit reduction of a company's computed tax by an amount equaling, perhaps, 8% of the year's investment in new machinery. One effect of these changes would be to enable American industry to compete more effectively with producers in other countries where more new equipment is in use and depreciation schedules are far more generous.



Fifth District factories account for more than 80% of the nation's cigarette output, currently growing at a rate of 4% per year.



Over the past decade textiles failed to keep pace with other manufacturing industries in production, prices, and profits.

A substantial number of regular and special units of Government are working on other aspects of the President's seven-point textile aid program. Such units in the executive branch alone involve representatives of the State, Commerce, Treasury, and Agriculture Departments, the Small Business Administration, and the Office of Civil and Defense Mobilization. These are coordinated through an "interagency" committee and are under the supervision of a Cabinet committee. With Congress in session, committees of both the Senate and the House have also begun investigation of textile problems.

TEXTILE MARKETS ADVANCE SLOWLY While special committees ponder the textile industry's status,

the public has decided to assist, as only the public can, by increasing its use of textile products. As a result, the mills have experienced improved demand, particularly for synthetic fabrics, fine cottons, and industrial cloth. Markets for yarn and knitted goods have been fairly strong for several months. Although many cotton print cloths gained little in volume and nothing in price through most of 1961, the latest market reports are a bit brighter. Converters have detected increased demand for finished cloth and are taking for processing some stocks that had accumulated at the mills as a result of requests to defer delivery. Recent interest in second quarter deliveries has made the outlook even more favorable.

As the accompanying chart shows, production of textile mill products rose between 1960 and 1961, while prices and profits declined. It is apparent, moreover, that these changes are generally consistent with trends of the past decade. Because of increased costs of both materials and labor, profits recently declined more sharply than prices. (Other manufacturing industries, also plotted on the chart, fared better than textiles. Production rose at a faster rate, profits declined more slowly, and prices were moving upward until last year.) With demand strengthening, textilemen fully expect production to continue the rising trend that began in 1961. But the rest of the picture is most uncertain. The temporary international understanding currently holding down textile imports will end with the third quarter of 1962. The industry hopes that more permanent agreements and other helpful measures will be in effect by that time.

The picture that the chart presents for 1961 is based on incomplete statistical reports. Some textile firms are already reporting a better trend in profits, but these seem to be the exception rather than the rule. Improving demand, advancing technology, and governmental inquiries point to an even more interesting year than usual in the textile business.

BUSY SEASON FOR FURNITURE Furniture folks are having a busy winter. Final demand began to strengthen about midsummer and improved fairly steadily from then on with corresponding increases in production. The successful fall market in furniture centers of the Fifth District provided an added lift. Then, in late November and December, the rising trend in orders, production, and shipments leveled out on a high plateau. Furniture industry man-hours at their last checkpoint were about even with the all-time record set in May 1960.

In the second week of January, good news reports began to come in from the winter furniture markets. The Chicago market opened on a strong note. Attendance was greater than a year earlier, and orders flowed in considerably larger volume. The price increases that began last fall continued with some items tagged from 1% to 5% higher.

To keep manufacturers' representatives and retail store buyers really busy, the third week of January brought furniture show openings in other centers from one end of the country to the other. Weather conditions provided the principal differences in the atmosphere surrounding these markets. In Chicago, sub-zero weather greeted the furniture marketeers during the first week, and blizzard conditions further hampered activity during part of the second. By way of contrast, visitors to Los Angeles were "drenched in sunlight." At High Point, New York, Dallas, and Seattle, the weather was occasionally disagreeable, but not extreme.

The business climate, however, was uniformly favorable. As has happened before, though not recently, rising retail trade figures toward the end of the previous year cleared the decks for good buying at the winter furniture markets. Furniture retailers came to the markets a little concerned about low inventories, distinctly optimistic on the spring sales outlook, and aware of possible additional price increases. Thus, in virtually all market areas, attendance and the volume of orders were of record proportions. As manufacturers' backlogs increased, delivery dates moved out to 60 and, in some cases, 90 days. Most manufacturers freely expressed satisfaction with the results of the winter shows and now expect high volume production and increased prices to bring them greater profits this year.

New trends were evident. For one, furniture retailing is moving in two directions: toward discount selling at minimum prices and minimum service in some cases; toward improved services and closer customer relations in others. For another, displays included new and artistic combinations such as a coffee table containing a stereophonic record changer and an Early American bedroom wall cabinet with a TV set. The Southern market has also advanced its reputation for special services to retailers—a panel discussion designed to show visiting furniture buyers how to cover their areas of interest efficiently and a series of display clinics. Largely because of such features the Southern market is generally regarded as the nation's fastest growing furniture mart.

PHOTO CREDITS

Cover—Chesapeake and Ohio Railway Co. 10. Liggett & Myers Tobacco Co.

THE FIFTH DISTRICT

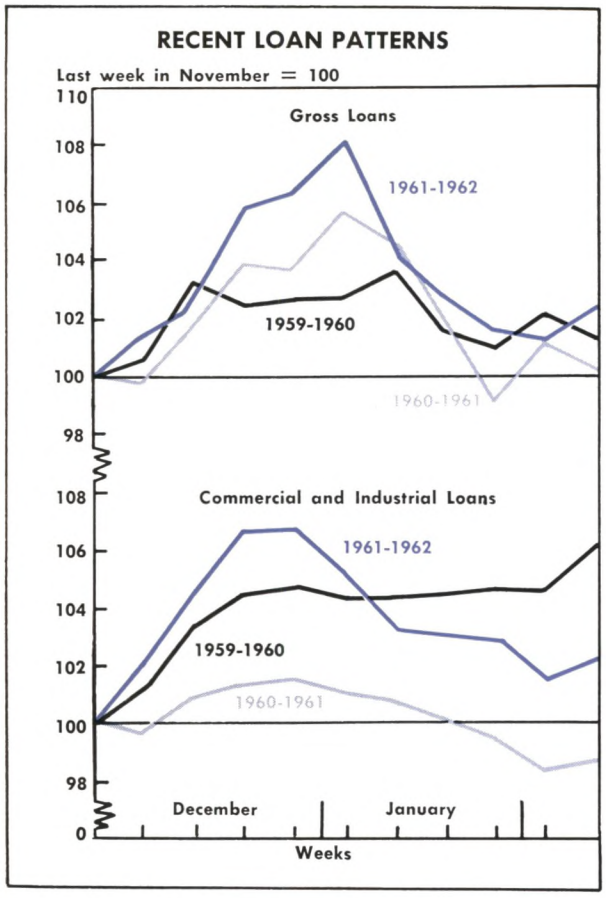
Business activity in the Fifth District has completed a year of progress to record or near-record levels. The advance, however, has recently slowed to a very gradual and rather uneven pace, and little clear evidence is yet available for judging its behavior since the first of the year. Here, as in the rest of the nation, an air of exuberance accompanied the strong seasonal ground swell that developed toward the end of 1961. The motive power came from new strength in several areas. Consumer buying forged ahead in sharp contrast to the mediocre performance which had characterized trade during most of the year. Construction activity remained at high levels backed by a good flow of new contract awards. Other nonmanufacturing sectors, particularly services, utilities, and mining, also advanced and some manufacturing industries joined in. Furniture moved ahead on a strong wave of new orders, and metals, machinery, tobacco, and food products gained well by comparison with normal seasonal behavior.

EXUBERANCE MODERATED The optimism generated toward the end of 1961 moderated considerably when January business was visibly off the pace, and December statistics showed that year-end progress in many areas of District business had been of less than seasonal proportions. Where it occurred, progress had remained pretty much on the surface, so to speak, rather than achieving the deep penetration that had been hoped for. The figures showed that seasonally adjusted nonfarm employment actually declined a little in December. This was a result of the first reduction since February 1961 in the number of nonmanufacturing jobs and the government sector was largely involved. December bank debits, seasonally adjusted, were also below the November level. On the other hand, after slipping a little in the previous month, seasonally adjusted factory employment and man-hours increased slightly in December.

RECENT EVIDENCE INCONCLUSIVE Interpretation of recent statistics seems to call for even more caution than usual. Seasonal adjustment at best provides a partial clarification of the behavior of business indicators. The unquestioning assumption that business statistics have cyclical significance simply because they have been subjected to the mechanics of seasonal adjustment overlooks a multitude of other likely possibilities. This is especially true in winter. The effects of extreme weather at other seasons of the year are usually brief and relatively mild. Bad winter weather, however, can cause serious and prolonged disruptions. No other season, furthermore, is affected by a phenomenon comparable to "the Christmas rush," a disturbance which may affect inventory build-up and liquidation, employment, credit expansion, and other factors differently each year.

In the light of these qualifications, it is difficult to arrive at any very firm conclusions about recent changes in the state of District business. Bank debits, seasonally adjusted, reached a new high in January. Employment improved a little in manufacturing, but the number of other nonfarm jobs remained virtually unchanged. The seasonally adjusted index of department store sales, which had remained near the all-time record for three consecutive months at the end of last year, was down a little in January but still strong. Trade reports on manufacturing industries were mixed. Still at the top of the list was the furniture industry, already at work on a large backlog of orders and expecting to be kept busy. Most of the other durable goods industries appeared to be maintaining good operating levels. Food processors and tobacco manufacturers adhered closely to the usual seasonal patterns. Lumber producers were still last on the list but hoped that the recent upward trend in residential contracts and building permits would soon foster a strong upturn in demand.

TEXTILE OUTLOOK SOMEWHAT CLEARER Undercurrents that have been stirring for some time beneath the surface of the textile industry have recently produced a number of significant developments. The Geneva conference of 19 textile producing nations has prepared an "arrangement" (to become an "agreement" when formally signed by the participating countries later this year) designed to control international shipments of cotton textiles over the next five years for the orderly growth of free world industry and trade in such manner as will avoid disruption of domestic markets. By clearing the way for bilaterally negotiated agreements coordinated through an international Cotton Textiles Committee, the



arrangement bespeaks a spirit of mutual understanding and good will among textile nations.

On the domestic side, textile markets have again shown little improvement. Mills have raised a number of specific prices but more, it would seem, as an outgrowth of last year's rising costs and recently initiated wage increases than in response to forces of the market place. There have, in fact, been reports of curtailed production schedules for cotton print cloth, and prices are still generally low as compared with those in effect during other periods of business improvement and especially in the light of their past relationship to costs.

STRENGTH SUSTAINED The broad picture of District business, then, is unevenly favorable. Statistical measures continue to show considerable strength, but the effect of this strength in many areas currently seems to be sustaining the economy rather than moving it ahead.

LOANS CONTRACT ABOUT AS USUAL Loan activity at District banks fell off about as usual in January, after one of the busiest Decembers of recent years. In the five weeks ending January 31, gross loans of District weekly reporting banks declined $128 million, or about 4.5%. While this is normal, the fall-off this year was somewhat larger than that in the same period of most recent years. Except for real estate loans, which rose moderately, all major loan categories at District weekly reporting banks declined in these five weeks. The largest drop occurred in business loans, down nearly $50 million.

The January reductions followed large December increases. Between November 29 and December 27, gross loans of District weekly reporting banks rose nearly $165 million, or about 6%. Outstanding business loans increased $65 million, or roughly 7%. All remaining loan categories scored moderate to sizable December gains. Large year-end increases in loans are normal, but these were considerably greater in 1961 than in other recent years and were only partially offset by the January reductions. Most loan categories rose again in the first week of February.

INVESTMENTS RISE Investment activity of District weekly reporting banks in January centered chiefly in Government securities, holdings of which were increased more than $13 million. This rise was partially offset, however, by reductions in other securities of nearly $2.5 million. Total investments rose 0.6%, about in line with changes in comparable periods of most recent years. The increase in holdings of Government securities this year was about evenly divided between maturities of under one year and over five years. Holdings of one- to five-year maturities declined.

The January increase in investments followed a much larger rise in December. Between November 29 and December 27 District weekly reporters expanded total investments more than $50 million, or nearly 3%. This was the largest increase of any recent December and was about equally divided between Governments and other securities.

Deposits at District weekly reporting banks recorded a normal seasonal decline in the five weeks ending January 31, after a distinctly better than seasonal increase in December. The January decline was concentrated in demand deposits. Time deposits continued to move up sharply, gaining almost 3% in the five-week period. While the December-January behavior of demand deposits conforms closely to recent past experience, the increase in time deposits in these two months has been considerably larger than in the same months of other recent years.

PHOTO CREDITS

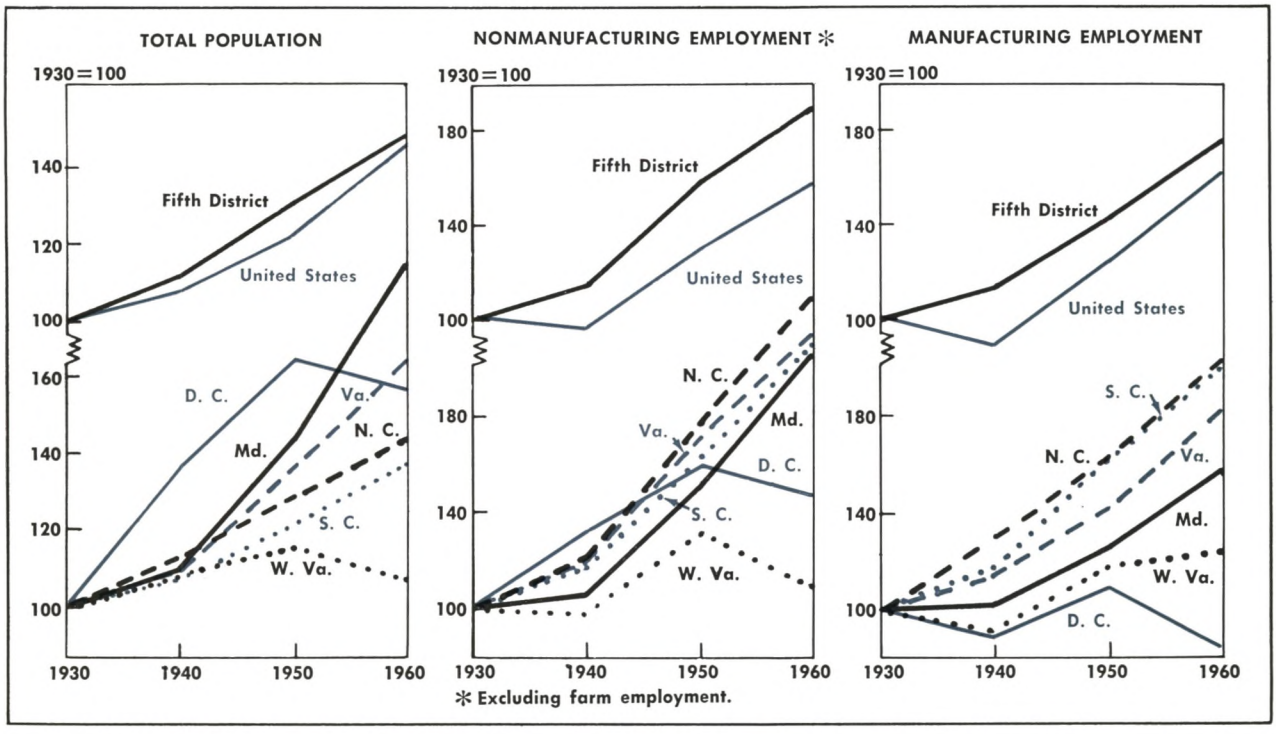
Cover—Norfolk Redevelopment and Housing Authority.

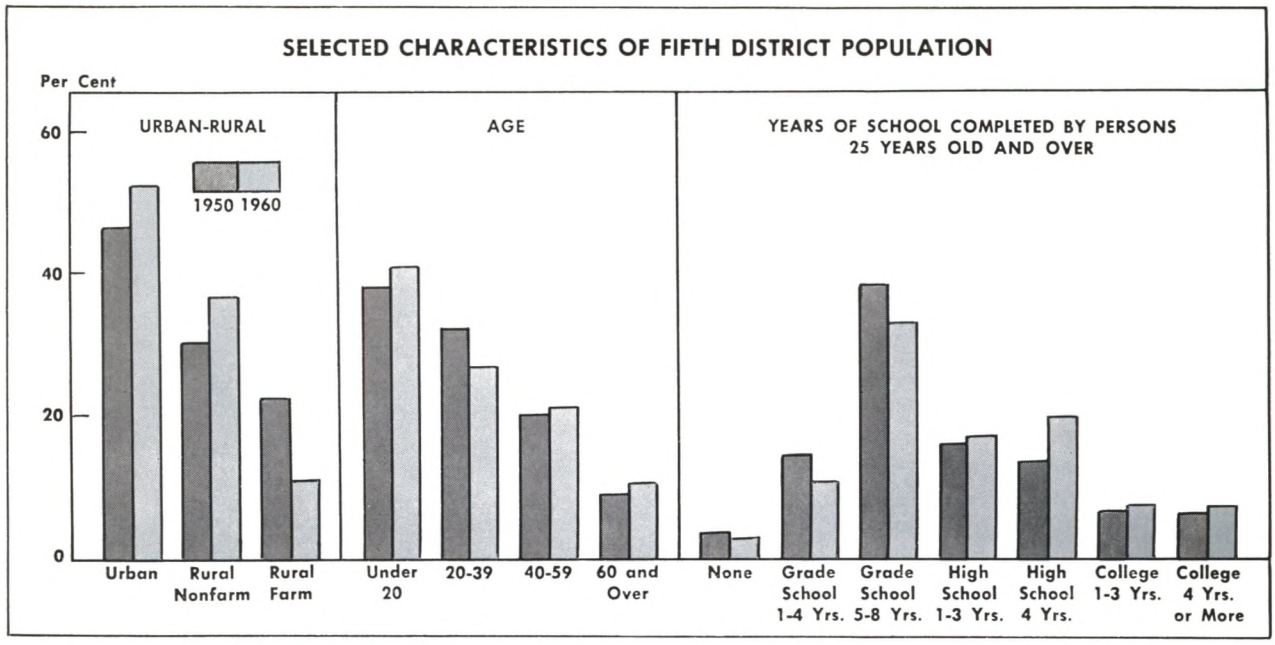
THE FIFTH DISTRICT

These pages are usually devoted to a summary of recent business developments in the Fifth District as reflected in broad indicators and in the records of particular industries. The current state of business and the direction in which it seems to be heading are important to planners and managers, and are, so to speak, the map and compass of Federal Reserve action. Such constant attention to the present, however, carries a danger—the danger of losing perspective on long-run trends or of slighting the social and cultural factors that are the substance of progress.

ECONOMIC PROGRESS is a matter of perennial interest. Discussion usually centers around the rate of growth, seldom coming to grips with the more exacting question of just how growth should be measured. A brief glance at this complex subject leads to a few generalizations. To reflect real growth, aggregate measures expressed in dollars must be adjusted for price changes. The intrinsic improvement of goods and services cannot be measured objectively but must at least be recognized as an aspect of growth. The composition of output must also be considered, for growth might occur only in such things as radar emplacements, rockets, and submarines rather than in the production of goods and services of the kind that improve living conditions. Finally, population must be taken into account. If, for example, output increases 3% per year while population gains 1.7%, output per capita rises less than 1.3% per year. The composition of population is important also. Individualistic capitalism gains as more people see their own roles in broader perspective and act with more initiative. Thus progress is reflected in population trends such as rising average levels of family income, a broader distribution of people in a wider variety of occupations, higher average levels of educational attainment, longer life, and larger families. The decennial Census of Population affords an opportunity to check impressions of change against quantitative evidence.

SOME DISTRICT TRENDS based on the 1960 Census are revealed in the accompanying charts. The first set shows relative growth since 1930 in population and two main categories of employment. District





growth exceeded that of the nation as a whole during this period, but in the decade of the 1950's only nonmanufacturing employment continued to grow as rapidly in the District as in the nation. The lower sections of the charts show how each state and the District of Columbia contributed to these changes.

Fifth District population moved from 11.2 million to 16.6 million during the 30 years covered by the charts. Residents of the District represented 9.1% of the nation's citizenry in 1930, 9.7% in 1950, and 9.3% in 1960. Over the same 30-year period, nonmanufacturing employment grew from 2.0 million to 3.8 million and manufacturing employment from 0.9 million to 1.5 million. With one exception, these figures represented a little more than 9% of their national counterparts. The exception was factory employment, 9.1% of the national figure in 1940 but only 7.9% in 1960, a reflection of the build-up of defense jobs in the District before Pearl Harbor and more rapid growth elsewhere after World War II.

POPULATION SHIFTS between 1950 and 1960 with respect to rural-versus-urban residence, age, and education are shown in the second set of charts. The trends are quite clear. People continued to move from the country to the cities, but in 1960 the District still had a relatively larger rural population than did the nation as a whole. The young and the old segments of society increased at a faster pace than the working group between them. In 1960 the "under 20" group was comparatively larger in the District than in the nation, but the "over 60" group was proportionately smaller, and thus the relative size of the middle group was the same. Finally, there was an increase in the fraction of total citizens equipped with high school and college training.

MORE DETAIL by far than can be shown here is available from Census summaries. Trends in occupational affiliation are of special interest. Every region of the District has revealed in the past 20 years a firm upward trend in both the number and the proportion of residents engaged in professional and technical occupations, management and proprietary positions, clerical and sales jobs, services, and crafts. Farm workers, laborers, and private household workers were just as clearly in a decline. Only the group designated by the Census as "operatives" (semiskilled workmen such as drivers and other performers of repetitive tasks) has remained a fairly constant fraction of the total. Better jobs have meant higher income. Even after adjustment for price increases, median family income in the District as reported in 1960 exceeded the 1950 figure by more than 50%. Part of this increase, however, is explained by still another trend—a gradual rise in the number of workers per family.

PHOTO CREDITS

Cover—Bank of England 3. Board of Governors of the Federal Reserve System 6. & 7. Bank of Canada, State Bank of Pakistan, Banco Central de Venezuela, The Central Bank of China (Taiwan), Banque de France, Banca d'Italia.

can be illustrated quite simply. Between 1950 and 1960, Fifth District population grew at an average rate of 1.6% per year, a little slower than the 1.7% pace attained by the country as a whole. Personal income, reflecting rising living standards, increased at considerably faster rates—5.7% per year in the District and 5.9% per year nationally. During the same decade, consumer prices rose 23% and the purchasing power of the consumer's dollar decreased by nearly 19% in the process. When personal income figures are adjusted accordingly to reflect real growth, the annual rates become 3.5% for the District and 3.7% for the nation. The differences between these rates and population growth—1.9% for the District and 2.0% for the nation—roughly measure the rise in general well-being.

For comparison with the behavior of current indicators, the real personal income in the District during the 1950's can be changed to a monthly rate. This comes to 0.29% and the gain that would result from nine months of progress at this rate would be about 2.6%. There is, of course, no basis for deciding that the rates of economic growth attained in the decade just past are the "right" rates. Everyone would surely like to see them improved, however, and past performance supplies a basis for deciding if and by how much they are improving.

DISTRICT PROGRESS MEASURED How much prosperity has the District recently experienced? The question cannot be answered meaningfully simply by quoting statistics and making the usual comparisons with figures of a month and a year earlier. Computations based on the past decade produced average growth rates of 0.13% per month for District population and 0.29% per month for District personal income adjusted for price changes. Nonfarm employment increased during the 1950's at a rate of 0.16% per month, according to available figures. Due to statistical revisions, however, the actual may differ slightly from the computed rate. Such revisions are a still greater problem with man-hour statistics and limit the period of computation to the years 1958 through 1961 when the monthly growth rate averaged 0.2%.

These growth rates operating over a period of nine months would produce increases of 1.2% in population, 1.4% in nonfarm employment, 1.8% in man-hours, and 2.6% in price-adjusted personal income. During the last six months of 1961 and the first three of 1962, however, seasonally adjusted nonfarm employment in the District increased by only 0.9%, but man-hours rose 2.0%, a better gain than would be expected on the basis of the previous three years. How "good" these gains are must remain a matter of judgment. Considering the fact that the underlying trend and the business cycle were both rising, the 0.9% increase in employment certainly looks weak. Although the 2% gain in man-hours compares favorably with the average rate of recent growth, a stronger rise would be expected because of the relatively wide fluctuations which business cycles induce in manufacturing.

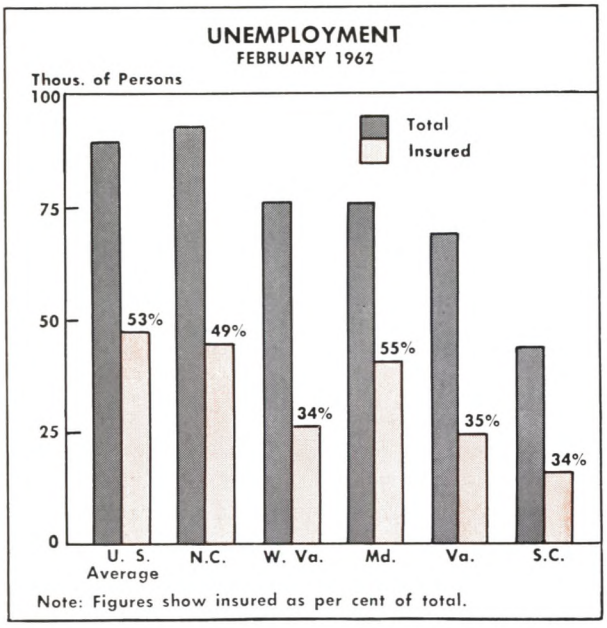
PERSONAL INCOME GAINS Fifth District personal income statistics do show substantial gains. Preliminary data released last month by the Department of Commerce and summarized in the accompanying table indicate that District personal income gained 4.6% and the national figure rose 3.6% between 1960 and 1961. In both absolute and per capita terms, the District made a better showing than did the rest of the country. Paradoxically, however, the gains for both the District and the country were smaller in 1961, a recovery year, than in recession-ridden 1960 and fell considerably short of the 5.7% and 5.9% average growth rates that characterized personal income in the District and the country, respectively, during the 1950's. Last year's 4.6% increase raised District personal income from $30.7 billion to $32.1 billion. The previous year's gains were just under 5% for the District and slightly more than that figure for the nation as a whole.

All District states registered gains in both total and per capita income in 1961 though these were far from uniform. Maryland's 6% increase in total income was the District's largest, but Virginia and North Carolina were close behind with 5% advances. South Carolina's 4% gain matched the national average, while the District of Columbia and West Vir-

FIFTH DISTRICT PERSONAL INCOME

State or Area	Total 1961 $ Million	Total Change from 1960 Per Cent	Per Capita 1961 Dollars	Per Capita Change from 1960 Per Cent
Maryland	7,901	+5.9	2,478	+3.5
District of Columbia	2,328	+1.6	3,059	+1.7
Virginia	7,755	+5.5	1,911	+3.4
West Virginia	3,125	+0.5	1,689	+0.9
North Carolina	7,566	+5.3	1,640	+4.2
South Carolina	3,468	+3.8	1,441	+3.1
Fifth District*	32,143	+4.6	1,904**	+3.3
United States	414,362	+3.6	2,265	+1.9

* Includes five West Virginia counties not in the District.
** Based on population estimates as of July 1, 1961.
Source: U. S. Department of Commerce, SURVEY OF CURRENT BUSINESS, April 1962.



ginia recorded smaller increases, respectively, 2% and 1%. In 1960 the two Carolinas led the District with advances in total personal income of 6%.

On a per capita basis, the District's 1961 income gain compares even more favorably with the average increase for the nation. Income per District resident climbed from $1,844 in 1960 to $1,904 last year, an increase of 3.3% as compared with the national gain of 1.9%. Between 1959 and 1960, per capita income rose about 4% in the District and about 3% nationally. In every year since 1957 personal income has shown a larger percentage increase in the District than in the nation as a whole. Despite this, per capita District income in 1961 was still only 84% of the national average.

Figures for individual District states are, of course, affected by variations in state population as well as changes in total income. For this reason per capita increases by states do not necessarily parallel increases in total income. On a per capita basis, incomes advanced most in 1961 in Maryland and North Carolina, each of which scored a 4% gain. At the other extreme, West Virginia showed only a 1% increase. Virginia and South Carolina scored 3% gains, while the District of Columbia experienced a 2% rise.

Although relatively small, the income rise in the District of Columbia was nonetheless sufficient to place the nation's capital at the head of the per capita income list. In 1960 it was in second place, behind Delaware. At $3,059, 1961 per capita personal income in the District of Columbia was 35% above the $2,265 national average. Maryland was the only District state to better the national average, and ranked eleventh nationally in both 1960 and 1961. Other Fifth District states in 1961 continued well below the national per capita norm, although the preliminary figures indicate that all but South Carolina moved up in national ranking. Virginia, in a tie for thirty-sixth place in 1960, moved to thirty-fourth place on the basis of the preliminary 1961 data. West Virginia stepped from forty-first to fortieth, while North Carolina advanced from forty-fourth to forty-second. South Carolina remained in forty-eighth place on the list of 50 states.

While both the District's and the nation's workers received larger incomes in 1961, they also paid slightly higher prices for the things they bought. Consumer prices rose a little more than 1% over the year, and this reduced by a corresponding amount the gains in purchasing power that the higher income figures represent.

DISTRICT LABOR FORCE Monthly estimates of labor force, employment, and unemployment are now being published (with delays of a month or six weeks) by all five District states. In February, the latest month for which all reports are currently available, the District labor force, exclusive of the District of Columbia, totaled 5,748,000 or 8.2% of the nation's work force. The 5,390,000 who had jobs represented a slightly larger percentage of the corresponding national total. The unemployed in the District, however, numbered 357,000—7.9% of the national figure, and the rate of unemployment in the District was 6.2% compared with 6.5% for the nation.

The accompanying chart shows the February relationship of insured to total unemployment for each of the District states and the average of all states. The variations in these figures emphasize the need for care in drawing conclusions from the weekly insured unemployment statistics even though they constitute one of the most promptly available of all economic indicators. Differences among the states reflect legal differences with respect to insurance coverage, waiting periods, and duration of benefits. Furthermore, examination over the past few years of the national ratio of insured to total unemployment reveals much erratic variation in addition to the more regular business cycles and seasonal fluctuations.

PHOTO CREDITS

Cover—Colonial Studios 6. & 7. National Coal Association 11. Norfolk-Portsmouth Newspapers, Inc.

THE FIFTH DISTRICT

In many a youthful mind graduation is simply, perhaps happily, the end of school. Nowadays, however, a growing number seem to comprehend a truth that retains vitality despite a degree of monotony inadvertently conferred on it by generations of graduation orators. A commencement is not an end but a beginning—a new phase of life in which more specific preparations are made and careers actually begin. By graduation time the more enterprising students will already have made their plans, and sooner or later the others will face similar decisions. In the end, less than half will continue their education. Boys will enter military service, and girls will marry or simply continue to live at home. But most of the young people who graduate this June will be looking for employment.

Comprehensive, up-to-date statistics on school enrollments are not available. Furthermore, especially at the college and university level, graduates cross state (or District) lines with impunity, seeking the most promising opportunities. However, with the aid of some current estimates and statistics that show the trends of the past, the general characteristics of this year's crop can be broadly outlined.

In the Fifth District about 200,000 students will graduate from high schools, colleges, and graduate programs this June. Of the approximately 165,000 high school graduates, about 70,000 will seek further education. About 80,000, almost half, will join the labor force, either with jobs lined up or seeking jobs. The other 15,000, more or less, will choose other alternatives such as a tour of duty with the armed forces or domestic responsibilities. Fifth District colleges and universities will probably graduate between 37,000 and 38,000 this year. About 5,000 of these will continue their studies. This will leave between 32,000 and 33,000 seeking employment in their chosen vocations. Thus, the total addition to the labor force brought about by graduations from high schools and institutions of higher learning will probably be between 110,000 and 115,000.

ASSETS OR LIABILITIES There seems to be a temptation in some circles to view this lump addition to the labor force with some alarm. The District labor force without seasonal adjustment has recently totaled about 6.3 million, and "already" there are over 350,000, or 5.8%, without jobs. Taking a most ex-

The importance of education is receiving more and more recognition as growing numbers of teen-agers and 20-year-olds look for jobs.

treme view, a precipitant increase of 110,000 in the ranks of the unemployed would raise unemployment to an awesome 8.7%. Far from being a liability, however, these youngsters are relatively able and aggressive, capable of finding employment, and destined eventually to play an active role in advancing the economy. Many will have acquired specific skills in high school. Others will be receptive to on-the-job training. And the more than 30,000 recipients of college or graduate degrees should have relatively little difficulty finding jobs that will lead to positions of potential responsibility in industrial, professional, or academic life. In any case, "economic liabilities" are few and far between in the ranks of the graduates. Those who fail to finish high school are by and large the ones that will face employment problems.

MANY LEAVE WITHOUT DIPLOMAS The evidence suggests that between 4% and 5% of students enrolled in Fifth District primary and secondary schools drop out each year. Withdrawal rates are low during the early years but are of significant magnitude at the high school level. According to the *Biennial Survey of Education in the United States,* only three-fourths of the students enrolled in ninth and tenth grade classes during the 1957-58 school year showed up in the eleventh and twelfth grades two years later. The net effect on the labor force of this attrition within District school systems is difficult to evaluate. On the surface it would appear that between 80,000 and 100,000 students of labor force age quit Fifth District secondary schools each year. Almost as many dropouts as graduates annually join the labor force, but with far less chance of finding a place in the economic life of their respective communities. Population experts say that before long the 20-years-olds will be the nation's fastest growing age group, and competition for advancement will certainly be keen.

BUSINESS CLIMATE FAVORABLE Job prospects depend primarily on local labor market conditions and the capabilities of individual applicants. But general economic activity has an important bearing on the speed at which new workers are absorbed. This graduation month finds Fifth District business operating at, or near, record levels according to virtually all principal indicators. Bank debits, seasonally adjusted, reached a new high in April as did nonfarm employment and manufacturing man-hours. The District labor force (for which seasonal adjustment is not yet available) has increased each month since the first of the year, but employment has grown faster so that unemployment has steadily declined. Employment increases were widespread in April with the most striking rises occurring in contract construction and trade. Gains were also prevalent in manufacturing industries. The rise in seasonally adjusted factory man-hours was led by furniture, up more than 8% between March and April, and apparel, which advanced nearly 6%. Gains of around 4% occurred in fabricated metals; transportation equipment; lumber and wood products; stone, clay, and glass; and tobacco. Chemical and textile man-hours rose about 3%.

WITH SOME QUALIFICATIONS These advances added to smaller ones that occurred earlier appear to proclaim a breaking away from a plateau-like situation that gripped the Fifth District after the middle of last year. They represent to some extent gains which many analysts had expected to be realized several months earlier. Although personal income is estimated to have been at record levels during the early months of the year and retail trade has been good, consumers generally seemed to lack the exuberance expected in a spring upturn during a period of relative prosperity. Then too, a few rather weak areas have persisted. In manufacturing, the important textile and lumber markets have been hampered by wavering demand. Textile prices have remained virtually unchanged while costs have tended to rise. The fact that most countries exporting textiles to the United States used up their quotas in the first half of the year may become a factor in altering this situation during the second six months. The coal business, according to recent reports, has tended to decline again after several months of gradual improvement.

The economy into which 1962 graduates are stepping is not hungry enough for manpower to gobble them all up in one swallow. Young men who have not yet fulfilled military training obligations are finding some employers reluctant to hire them. But most firms, especially the larger ones, are taking the best they can find despite uncertainties. Those who are well qualified by general background and education can find plenty of well-paying opportunities from which to choose. The rest should find hunting conditions better than average as they seek to match their talents and interests with the economic needs of society.

PHOTO CREDITS

Cover—Maryland Department of Economic Development 5. Federal Reserve Bank of Richmond 11. University of Richmond.

THE FIFTH DISTRICT

General business activity in the Fifth Federal Reserve District continued to advance at a fairly healthy clip during the late spring and early summer. There were exceptions as always. But for the most part the District economy was operating at good high levels going into the summer vacation season when sharp cutbacks in production are normal and attention centers on consumer behavior for guidance in evaluating the outlook for the fall.

The widespread strength of District business as it approached the summer slowdown was reflected in all broad statistical series. Seasonally adjusted bank debits, for example, reached a new high in May for the second consecutive month, up 1% from April and 8% above May 1961. The series fluctuated erratically without making any net progress during the last seven months of 1961, so that the present margin over last year's level is all a result of advances made this year. Except for a slight setback in March, bank debits have increased steadily and gained 10% during the first five months of this year.

EMPLOYMENT CONTINUES TO RISE Seasonally adjusted nonfarm employment reveals a substantially similar pattern. The District count of nonagricultural workers rose again in May, reaching a new high for the third time this year and exceeding the figure for the previous May by 3%. A big increase occurred in contract construction apparently in response to contract awards, which have maintained good average levels for many months. Seasonally adjusted employment advanced moderately during May in nondurable goods manufacturing; transportation, communications and public utilities; trade; finance, insurance, and real estate; and government. Service enterprises and durable goods manufacturing remained at a virtual standstill, and mining declined.

MAN-HOURS MIXED BUT SLIGHTLY UP Like bank debits and employment, seasonally adjusted factory man-hours increased substantially from January to a new high in April. Unlike the others, however, total man-hours barely managed a further advance in May as durables declined while nondurables gained. Although the over-all change could hardly be considered significant, the underlying developments were.

Reduced production schedules in primary metals (principally steel), fabricated metals, transportation equipment, and stone, clay, and glass accounted for most of the man-hour decline in durables. May's seasonal drop in furniture man-hours was a bit sharper than usual but not sharp enough to alter significantly this year's very favorable record or to alter the general appraisal of durable goods as a group. As a partial offset to these declines, more than the usual seasonal strength developed in machinery and lumber. Machinery moved up sharply to a new high from an already advanced level, and lumber continued its recent pattern of gradual progress at moderately good levels.

NONDURABLES SHIFT The small net gain achieved in May in nondurable goods man-hours concealed some significant shifts in the relative fortunes of the component industries. For instance, the sharpest declines occurred in two that are typically among the most stable in the District. In food processing, the District's biggest employer after textiles, seasonally adjusted man-hours dropped 3% in May. Tobacco industry man-hours, seasonally adjusted, dropped 5% to their lowest level since January. The May decline in cigarette man-hours was only 1%, but four months of production data and five of man-hours indicate that District cigarette production so far this year has fallen considerably short of the 4% average annual gains typical of recent years.

The textile industry, which regularly accounts for more than 40% of nondurable goods man-hours, was a mild source of strength in May. An increase in activity at yarn and thread mills more than offset a slightly slower pace at knitting plants while weaving schedules remained virtually unchanged. Apparel and chemicals (which contribute about equally to man-hours and together account for 24% of the nondurables total) made the best progress in May. A 2% decline in paper manufacturing was only partly countered by a small gain in printing and publishing.

RETAIL BUSINESS GOOD Trade statistics are not as comprehensive and so do not provide as clear a picture of recent trends. They do, however, appear generally favorable despite some inconsistencies. During the first half of 1962 seasonally adjusted de-

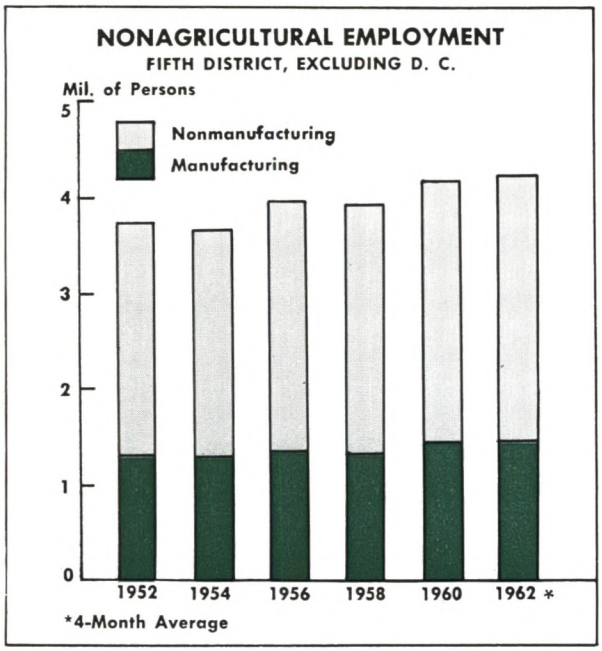
partment store sales hit a new half-year high, just a shade better than the average monthly level of the 1961 second half. But, where 1961 closed on a rising trend, 1962 volume has fallen since March.

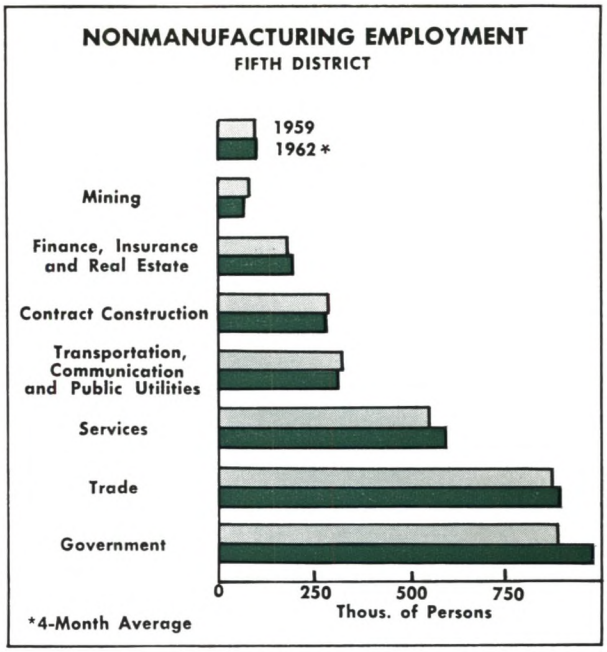
A special census compilation of sales by retail firms with less than ten establishments is the District's most comprehensive measure of trade, but the lag in availability is seldom less than two months. From November to April (the latest figure available) each month rang up record sales as compared with the same month in prior years. Past variations from month to month, however, have been so erratic that they provide an extremely vague standard for evaluating this year's performance. The over-all impression, however, is one of sales at record volume with short-run variations about in line with usual seasonal patterns.

TRADE REPORTS VARY Informed commentaries on recent consumer buying reveal marked variations in virtually every dimension of the business. Variations in performance are reported between different lines of merchandise, among various items in the same line, between main stores and branches, among apparently similar business days at the same store, and, of course, among various cities and geographical regions. Generally, seasonal items such as summer apparel, sports equipment, and recreational items have moved well. Summer appliances such as fans and air conditioners seem to have fallen somewhat short of expected volume, possibly because of cool weather in May and June. Some merchants report a recent tendency on the part of potential customers to postpone large purchases, especially home furnishings and appliances. Others, particularly outlets for automotive and recreational equipment, find customers quite willing to buy the so-called "big ticket" items. Boat and boating equipment dealers, for instance, report a strong beginning and high hopes for the rest of the season. Owners are reportedly "trading up," buying bigger and better boats, and the demand for used equipment has been strong. One observer likens today's boat business to autos in the 1920's—many new makes seeking buyer acceptance with competition rising in proportion.

ACCENT ON SERVICES Summertime travel and recreation involve services as well as equipment. The first chart on the next page indicates that most of the growth in District employment over the last decade has occurred in nonmanufacturing enterprises. The second chart shows the relative contribution made by service enterprises. In the Fifth District only government and trade have provided more jobs. Between 1959 and 1962 service establishments increased employment more than 8%, a rate of growth that government alone surpassed.

According to the employment survey conducted as part of the decennial Census of Population, services constitute by far the fastest growing of the larger employment categories. Service workers increased 32% between 1950 and 1960 compared to 21% in manufacturing, 20% in government, and 15% in retail trade. Among all major industry groups, only





finance, insurance, and real estate, which gained nearly 50% over the decade, grew more rapidly than services. At the time of the last Census of Business in 1958, District service establishments exceeded 68,000 and paid out $590 million in payrolls. Personal services accounted for nearly two-fifths of total payrolls, business services for more than one-fifth. The remaining service payrolls were divided in descending order of importance among hotels and motels, amusements, automobile service and repair, and miscellaneous repair services.

BANKING IN THE FIRST HALF Perhaps the most interesting banking development so far this year has been the continued growth of time and savings deposits. Normally such deposits grow slowly or even decline as economic expansion improves market interest rates and draws funds from time deposits to provide larger working balances. This year, however, interest-bearing deposits have continued to rise at a rapid clip, increasing almost 9% since the first of the year at District weekly reporting member banks and about 13% at weekly reporters in the nation at large. The increase can be explained in part by the mild nature of the present expansion and the stability of market interest rates. More important, however, has been the change in Regulation Q which permitted banks to pay higher rates on time and savings deposits beginning January 1.

Not only has the change in Regulation Q contributed substantially to the growth of time deposits, it has also had an important effect on the composition of bank portfolios. In order to pay higher rates of interest, banks have had to adjust their assets in order to increase earnings. In the Fifth District, in the absence of much demand for commercial and industrial loans, banks have gone heavily into consumer loans, up almost 7% since the first of the year, and real estate loans, up 4% in the last six months. Banks in the rest of the nation have also directed loan funds into these two areas but with reversed emphasis. Nationally, consumer loans have increased only 5% but real estate loans have risen nearly 6%. In the investment field both United States and District banks have lengthened their positions in Governments. Their holdings of securities maturing in over five years have increased despite declines in their over-all holdings of Governments. Banks throughout the nation have also sharply increased purchases of tax-exempt State and local government issues in their efforts to increase earnings. This trend, however, has not taken root in the Fifth District and holdings of tax-exempts by weekly reporting banks here have actually declined.

PHOTO CREDITS

Cover—Colonial Studios 3., 4., & 5. Colonial Studios 11. Federal Reserve Bank of Richmond, Nathan's Custom Tailors, Scott's Barber Shop, Richmond Hotels, Inc., W. E. Drew & Co., National Association of Engine and Boat Manufacturers.

THE FIFTH DISTRICT

For many months the construction business has been a source of strength in the Fifth District. In fact, since February of last year when the 1960-61 recession ended, seasonally adjusted contract construction employment in the District rose 15% compared to a 4% increase in all nonmanufacturing jobs and a 5% gain in factory employment. In the nation as a whole seasonally adjusted contract construction employment declined by 2%, while nonmanufacturing and factory employment rose by 3% and 6%, respectively. District construction employment seasonally adjusted reached a new high in May, marking a full year of record or near-record levels. Contract awards during this period fluctuated sharply, as usual, but at levels that were, with few exceptions, new highs for the months in question.

RESIDENTIAL SECTOR STRONG Residential award values in the District have maintained a run of monthly highs that began a year ago. In so doing the series achieved in August, October, November, December, February, March, and May the highest figures ever reached for those months. For each of the other months during this period the value of residential contract awards was the second highest ever recorded for those months. The strong wave of new contracts that developed in the second half made 1961 the District's record year for residential awards. This year's figures have been running well ahead of last year's. The cumulative value of residential awards from January through May was 42% greater in 1962 than in 1961. The national gain similarly computed was only 21%.

Statistics reported by the U. S. Department of Commerce on the number of residential housing permits reflect similar increases for this year compared with last. The District percentage gain was nearly twice as great as the national rise. March, however, is the latest month for which figures are available. New housing units authorized by District localities during the first quarter of 1962 exceeded those a year earlier by 29% while new authorizations nationally increased only 15%. Maryland contributed a 61% rise in permits between the 1961 and 1962 first quarters. Gains were also reported for Virginia (28%), South Carolina (13%), and the District of Columbia (13%). By the same comparison, however, authorizations decreased 10% in North Carolina and 7% in West Virginia.

1960 CENSUS OF HOUSING The rapid growth of new housing facilities probably means that qualitative characteristics of District residential property are improving also. The most recent and most extensive source of such information is the 1960 Census of Housing, which provides a detailed picture of District living conditions as they were in 1960. A comparative evaluation of regional conditions must await publication of the national summary, but regional trends can be studied by comparing 1960 data with the 1950 Census of Housing.

DISTRICT HOUSING IN 1960 The typical Fifth District residence in 1960 consisted of five rooms, but one-sixth of the total had fewer than four and another sixth had seven or more. Owners occupied 60% of District housing units; renters occupied 40%. Owner-occupied properties tended to be more spacious, units occupied by renters containing on average only four rooms. About 55% of District dwellings housed fewer than four persons and only 8% sheltered more than six. Three-quarters of all dwellings units were considered in sound condition, one-sixth in need of repairs, and the remaining homes dilapidated. More than three-fourths were equipped with both hot and cold running water, but more than an eighth had no piped water whatever, and nearly a fourth lacked bath facilities. Central heating was present in 42% of all District homes, and another 10% contained floor or wall furnaces. Stoves or fireplaces heated 47%, and only 1% lacked heating facilities of any kind. The heating fuel was oil in nearly half the residences counted, gas in almost a quarter, and coal or wood in most of the others. Six-tenths of 1% —a small fraction but nevertheless over 28,000 homes —were heated by electricity.

By 1960, at least two-thirds of Fifth District households had most of the other common types of equipment. Thus, 72% had washing machines, 83% had television sets, 87% had radios, 75% possessed automobiles, and 67% had telephones. On the other hand, only 18% had food freezers, 12% air con-

Half of the Fifth District's owner-occupied homes were valued at over $10,000 in 1960, an increase from one-fourth in 1950.

ditioners, and 9% clothes dryers. Gas and electricity, "running neck-and-neck," fueled 85% of the District's cooking facilities, while wood, coal, and kerosene accounted for the remaining 15%.

At the time of the 1960 Census, 15% of all District housing was under six years old, 14% was from six to ten years of age, and 19% had been in existence more than ten but no more than 20 years. Thus, at the 1960 checkpoint, 52% of all residential property dated back more than 20 years. The 1960 Census counted a total of 4.9 million housing units in the District. Since then about 147,000 additional units have been authorized. Moreover, many houses have been built in areas where building permits have not been required. Therefore, additions since 1960 have amounted to more than 3% of the 1960 total, enough to reduce slightly the average age of typical Fifth District dwellings.

According to estimates made by their owners in 1960, owner-occupied dwellings valued at $5,000 or less accounted for 20% of the total, those in the $5,000 to $10,000 range for 30%, those worth $10,000 to $15,000 for about 25%, and those above $15,000 for the remaining fourth. Nearly two-thirds of the vacant properties available for sale at the time of the 1960 Census were priced above $10,000. Monthly rentals on leased residential property averaged about $70. Only a tenth of these rentals were less than $30 per month; an eighth exceeded $100.

DIFFERENCES OVER THE DECADE During the decade of the 1950's a small but significant change occurred in the occupancy characteristics of District dwellings. Homes sheltering seven or more persons declined from 10% of the total to 8%, while those occupied by fewer than four increased from 54% to 56%. The portion of units housing four to six persons decreased slightly.

Facilities, however, showed marked improvement. A decade ago more than one-fourth were still without piped water. Little more than half had both hot and cold water, a fraction that grew to 76% by 1960. Residences with neither bathtub nor shower accounted for more than two-fifths of the 1950 total. At that time central heating was present in only one-third of the homes, and wood was still the principal heating fuel in rather extensive areas of the District.

Price differences must be taken into account, but values have changed notably nevertheless. In 1950 nearly three-fourths of owner-occupied dwellings were valued below $10,000, and the typical monthly rental on leased property was around $40 per month. The changes that have been brought about over the past decade measure progress in understandable terms. If social and economic trends display as much momentum in the future as they have in the recent past, the present decade will see even more dramatic changes in District housing.

PHOTO CREDITS

Cover—D. C. Redevelopment Land Agency 12. Viking Construction Corporation, Redevelopment Commission of City of Charlotte.

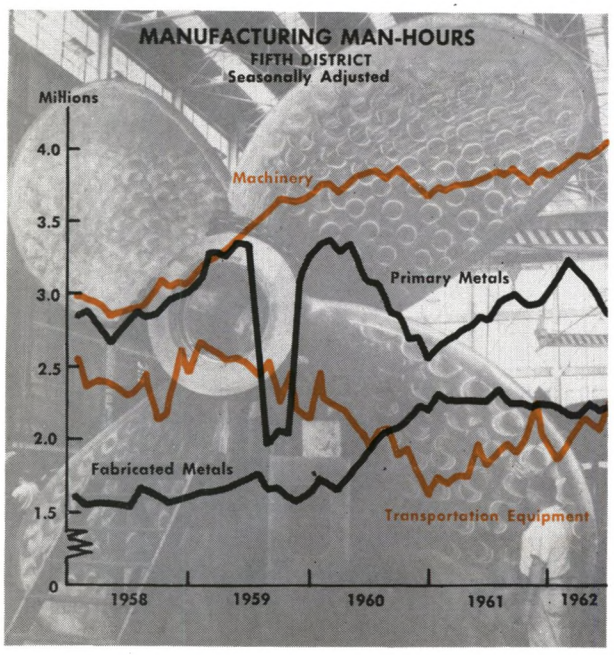
for normal seasonal variations. In June (the latest month charted) man-hours actually rose 0.9%, but this rise cannot be considered favorable because man-hours usually rise about 1.2% in June due to seasonal factors alone. Therefore, the June change shows up in the seasonally adjusted figures as a decrease of 0.3%, too small to have analytical significance or to bend visibly the line on the chart. May and July also posted minute gains. Thus, in the latest three months for which data are available District manufacturing has continued to lag along close to the level attained in April.

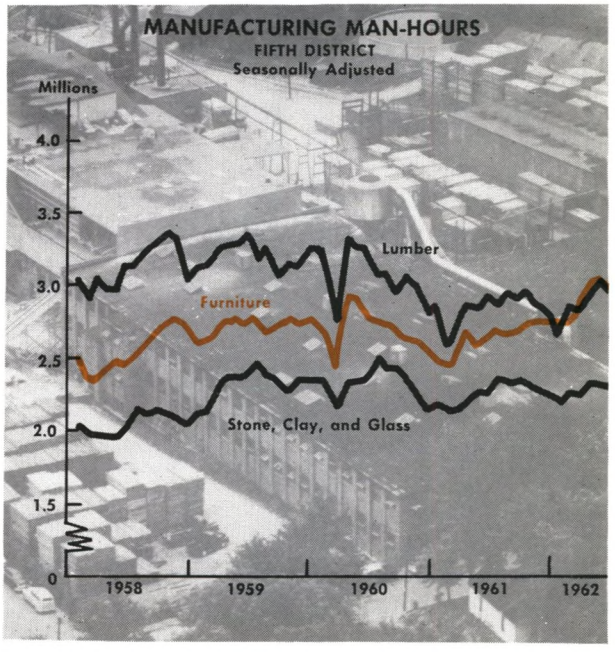
The charts show this period of expansion preceded by the 1958-1960 business cycle. In the latest upswing a two-stage advance is clearly apparent. From December 1960 to July 1961, a time of year when seasonal factors usually cause a decline of about 4%, man-hours actually advanced by this amount. The seasonally adjusted gain reflecting a combination of growth and cyclical improvement was therefore 8%. July 1961 marked the end of the first "leap" and the beginning of the first "lag." By January 1962, after a series of minor ups and downs, seasonally adjusted man-hours had experienced a net decline of 0.7%. The second leap began in February and ended in April after completing a seasonally adjusted advance of nearly 5%.

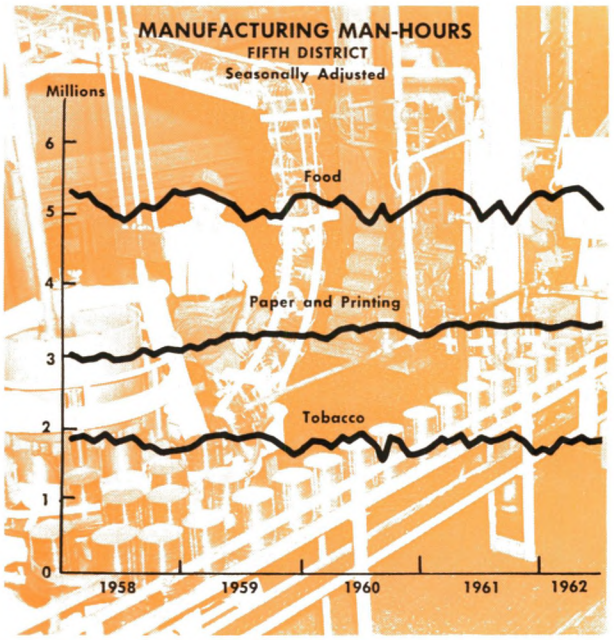
Nondurable goods man-hours, following about the same pattern, advanced steadily during the first half of 1961, trended slightly downward in the second half, resumed the advance in February 1962, and leveled out again in April about 12% above the trough. With somewhat different timing, durables rose in 1961 from February through October, declined from November through January, rose again from February through April and leveled out again in May with a total gain of 13% from the trough.

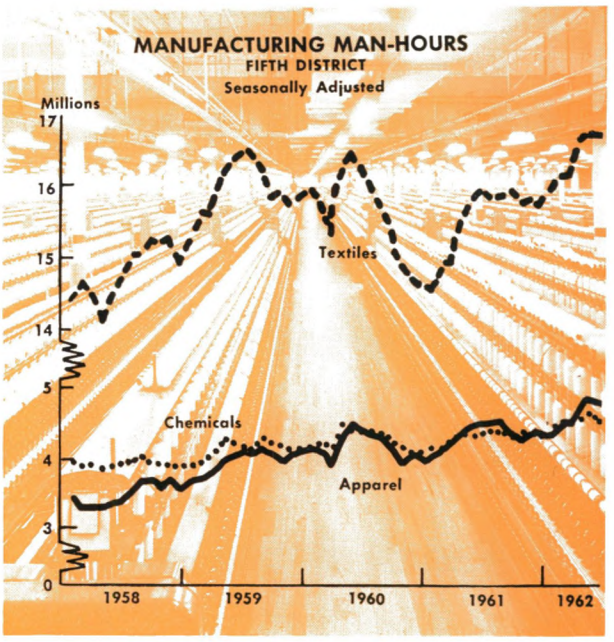
As reflected in man-hour statistics, District manufacturing is approaching the fall on a high plateau with as yet no evidence to show when or how it will break out of its static condition—whether another forward leap is in store, or a decline sharper than any that has recently occurred. It is pertinent to note that in the past four years aggregate man-hours have seldom reversed direction to any significant extent in two consecutive months.

GAINS OFFSET DECLINES By a very small margin, seasonally adjusted man-hours in durable goods industries rose to a new high in July. Gains of 4% reversed both the precipitous drop in primary metals and the gradual decline in fabricated metals. On the other hand, machinery and transportation equipment, in a strong upswing during the first half, fell 2% and 1%, respectively, in the first month of the second half-year. Lumber and wood products more than made up the June decline, continuing the irregular advance that began in January. Furniture industry man-hours declined in July for the third consecutive month but were still higher than at any time prior to this year. Stone, clay, and glass industries made the biggest gain of all. A rise of 7% more than offset May and June decreases and established for these industries the highest figure in two years.









GROWTH SLOW IN SOME NONDURABLES As the first chart shows, nondurable goods industries account for about two-thirds of total factory man-hours. Although the growth and cyclical characteristics of durables and nondurables appear quite similar on the chart, relative changes based on the greater volume of nondurables are, as would be expected, decidedly smaller. The first graph on this page shows three components of the nondurables group which have made relatively little progress in the current expansion period. During the four and a half years charted, the food and tobacco industries experienced erratic short-term fluctuations which hardly reflect the general business cycle pattern at all and show virtually no growth. Paper and printing industries have been more stable and the element of growth is clearly visible. During the recent expansion man-hours have risen more slowly in these industries than in the nondurables group generally. But it should be recalled that the decline during the last recession was also considerably smaller here than elsewhere. According to the latest figures, all three of these series advanced in July. Gains of more than 1% in tobacco manufacturing and 2% in food processing reversed recent declines.

TEXTILES DOWN IN JULY Textiles, apparel, and related products, which currently account for 54% of all District nondurable goods man-hours, have provided much of the momentum behind the recent upswing. Gains in these industries since early in 1961 average 16%, an impressive figure for so large an operation. Individual man-hour increases were 24% in knitting mills, 22% in yarn and thread mills, 17% in apparel factories, and 11% in broad woven fabric plants. All except apparel turned down slightly in June. All declined definitely in July—1% in weaving and 2% in spinning, knitting, and the manufacture of garments and other finished products.

Chemical manufacturing, the other District industry which has contributed strongly to the general rise in nondurables, gained 13% between December and June. A slight decline in June was followed by a 3% advance in July.

The behavior of Fifth District man-hours in July reinforced the general feeling of uncertainty. Many industries that had been advancing declined. Others that had been trending downward advanced, some by impressive amounts. As fragments of evidence appear during the fall they should be interpreted, as was observed earlier, in the light of the 2% to 10% seasonal increases that are normal for most District industries. Not until the seasonally adjusted statistics actually become available, however, will the facts be known about District industry's fall fortunes.

PHOTO CREDITS

Cover—Colonial Studios 3. & 9. Colonial Studios 10. E. I. du Pont de Nemours & Company 11. Newport News Shipbuilding and Dry Dock Co., Drexel Furniture Company 12. National Fruit Product Co., Inc., American Cotton Manufacturers Institute, Inc.

THE FIFTH DISTRICT

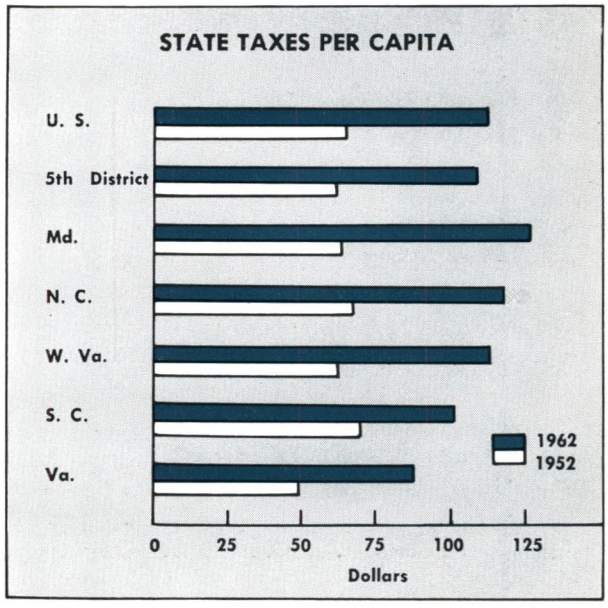
The mixture of favorable, unfavorable, and neutral factors stirred up by Fifth District economic developments in the late summer and early fall seems more complex than usual. Business is generally conceded to be operating at or near an all-time high. Bank debits and nonfarm employment confirm this. But since early this year bank debits have been quite unstable in spite of good growth, and employment has risen at an unusually slow pace compared to other periods of business expansion. Manufacturing employment and man-hours declined in August, and the downtrend in mining employment, which began again in April after a few months respite, was still in progress. On the other hand, nonmanufacturing employment extended its series of consecutive monthly gains to five, and retail sales apparently rose more than seasonally during August and the first half of September.

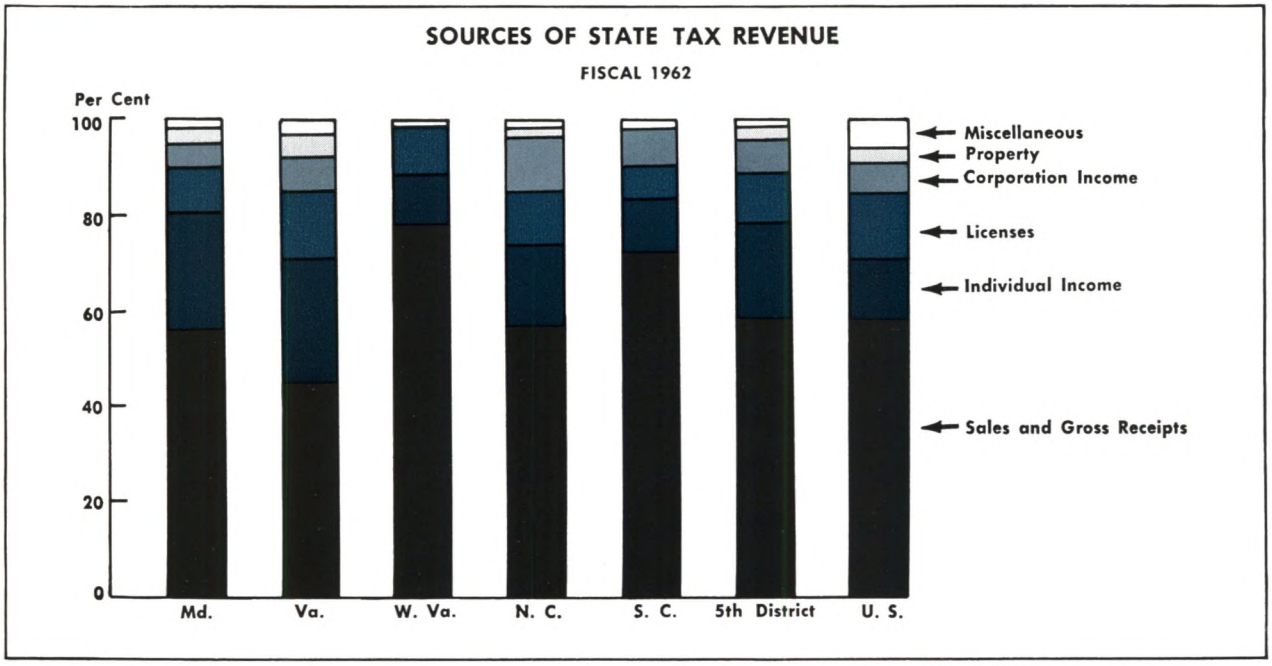
TEXTILES DECLINE All nondurable goods industries except food processing experienced a slackening of activity in August. The declines in man-hours were generally less than 1%, but slightly exceeded that figure in spinning and weaving, and reached 2% in knitting and tobacco processing. The importance of textiles becomes clear when actual figures are examined. May was the Fifth District's peak manufacturing month so far this year, and total factory man-hours, seasonally adjusted, exceeded 60.5 million. When man-hours fell below the 60-million mark in August, textiles had accounted for 79% of the drop since May. Durables contributed only 1% of the total decline. The remaining 20% was a result of man-hour reductions in apparel and tobacco partly offset by small gains in food, paper, printing, and chemicals.

PUBLIC EMPLOYMENT RISES Jobs have increased more consistently in government than in any other sector of District employment. The rise between July and August was 1%, bringing the total increase so far this year to 3%, and the gain since December 1960 to 7%. Over the last decade government jobs in the District have increased nearly twice as fast as total employment: 27% compared to 14%. District data separating State and local employment for comparison with Federal over the past ten years are not available. In the country as a whole, however, Federal employment actually declined 1% during that time while State and local jobs rose 60%. The national rise in all government jobs combined was 38%. Growth in employment and an equally significant rise in State expenditures for other purposes have been accompanied by marked increases in State tax collections.

STATE TAX PATTERNS State tax collections both in the District and in the nation as a whole more than doubled in the ten years between fiscal 1952 and fiscal 1962. Increases among Fifth District states varied considerably. Maryland's tax collections rose 166%; Virginia's, 115%; North Carolina's, 94%; West Virginia's, 73%; and South Carolina's, 66%. Increases of one-tenth or more in a single year occurred in several recent instances: in Maryland, West Virginia, and North Carolina in 1962; in Virginia in 1961; in Maryland, West Virginia, North Carolina, and South Carolina in 1960; and in Maryland in 1959.

The chart at the foot of this page presents a comparison between 1952 and 1962 per capita State taxes for the United States, the Fifth District, and individual District states. District State taxes per capita





in fiscal 1962 amounted to $109, slightly less than the $113 national figure. Per capita District tax collections were not lower than elsewhere, however, when related to levels of personal income. Thus, 1962 State taxes in the Fifth District amounted to 5.9% of personal income compared to 5% for the nation as a whole. Variations in the ratio of State taxes to personal income within the Fifth District were as follows: 5.1% in Maryland, 4.6% in Virginia, 6.8% in West Virginia, and 7.1% in both North Carolina and South Carolina.

REVENUE SOURCES DIFFER As the above chart shows, sources of State tax revenues differed somewhat between the Fifth District and the nation, and considerably among District states. Sales and gross receipts taxes accounted for 59% in both the District and the nation. Individual income taxes and corporate income taxes were slightly more important in the District than in the nation, whereas license taxes were somewhat more significant nationally than they were in the District. Among the minor sources of revenue, death and gift taxes, severence taxes, and others were more widely used outside than inside the District.

West Virginia acquired nearly four-fifths of its 1962 tax revenues through levies on sales and gross receipts. Such taxes accounted for less than half of tax collections in Virginia but for almost three-fifths in North Carolina and Maryland and three-fourths in South Carolina. License taxes, averaging 10% of District revenues, were utilized more intensively in Virginia and North Carolina, less in Maryland and West Virginia, and least in South Carolina. The individual income tax accounted for about one-fourth of tax revenues in Virginia and Maryland, one-sixth in North Carolina, and around one-tenth in South Carolina and West Virginia. The corporate income tax, which accounted for 7% of District State tax collections, was more important in North Carolina than elsewhere. West Virginia did not tax corporate profits. Property taxes made up a relatively small portion of State revenues—2.6% in the District and 3% in the nation as a whole.

GENERAL SALES TAX DOMINANT Sales and gross receipts taxes are either "general," applying a given rate to all sales excluding perhaps certain essentials such as foods and drugs; or "specific," fixing particular rates on sales of specified items such as gasoline, alcoholic beverages, or tobacco. General sales and gross receipts taxes were used by all District states except Virginia and typically accounted for the largest fraction of sales tax collections. Specific taxes on motor fuels and alcoholic beverages were in effect in all District states. In Virginia the motor fuel tax yielded the largest portion of sales tax revenues. Tobacco products were taxed by all District states except North Carolina.

PHOTO CREDITS

Cover—Electric Weld Pipe Mill, U. S. Army Photograph, American Cotton Manufacturers Institute, Inc., Dementi Studio.

THE FIFTH DISTRICT

Developments reported during the past month seem to indicate some slackening in the pace of Fifth District business. In September seasonally adjusted bank debits dropped 9% from August's all-time high to the year's lowest level to date. Before the September decline bank debits had risen 19% since the start of the current upswing in early 1961. In seasonally adjusted nonfarm employment an almost imperceptible August decrease was followed by a small gain in September. So far this year the number of jobs in the Fifth District has advanced in every month but March and August. Employment gains have been so gradual, however, that the increase during the first nine months of 1962 was only 2%, and the total rise since early 1961 only 5%.

FACTORY JOBS REACHED A PEAK IN JULY Nonmanufacturing jobs continued to increase slightly in August and September. But manufacturing employment receded slightly in both of these months after rising steadily since last November. The gain since February 1961, which amounted to 6% in July, was cut to 5% by the August and September declines. After July durable goods, which had gained 9% during the upswing, dropped more sharply than nondurables, which had gained only 5%.

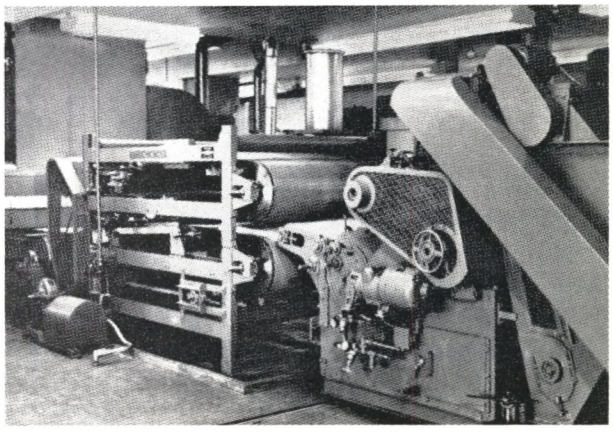
CONSTRUCTION, GOVERNMENT LEAD There were, in terms of seasonally adjusted figures, 244,500 more nonfarm jobs in the Fifth District in September than in February 1961, when recovery began. About one-third of the increase was contributed by manufacturing—some 42,000 in durables and 33,000 in nondurables. Contract construction posted the largest relative gain with a rise of 40,000 or 16%. Except for manufacturing, the biggest absolute gain over the 19-month period was the addition of 70,000 workers to Federal, State, and local government payrolls—an increase of nearly 8%. The remaining growth in employment was contributed by trade, up 25,000 or 2%; services, up 23,000 or 4%; finance, insurance, and real estate, up 10,000 or 5%; and transportation, communication, and public utilities where 3,000 workers were added for a gain of 1%.

MAN-HOURS IN DECLINE SINCE MAY Seasonally adjusted factory man-hours in September were 2% below their all-time high reached in May. Thus, the summer, which began with man-hours 11% above the February 1961 cyclical low, ended with the cumulative gain reduced to 9%. Durable goods man-hours reached an all-time high in July but dropped back in August and September to approximately the May level, 13% above the February 1961 low. Nondurable goods man-hours, comprising about two-thirds of the total, reached an all-time high in May—10% above the trough of early 1961. Subsequent declines through September amounted to nearly 3%. Man-hours in food industries, paper and printing, and chemicals actually continued to rise during the summer but turned down in September. Textile and apparel industry man-hours dropped steadily after May. Man-hours in tobacco manufacturing also declined during most of the summer but turned up sharply in September.

DOWNTURN BROADENS IN TEXTILES Declining activity has been apparent since May in the District's extensive textile complex. A 3% decline between May and August in seasonally adjusted textile mill man-hours substantially reduced the industry's 15% advance from the cyclical low of early 1961. National data show a weakening since early summer in most phases of the industry's operations.

During the summer the cotton processing segment of the national industry took a distinct turn for the

Webbing and bonding machines to make fabric directly from fiber are radically different from traditional textile equipment.



worse. The index of daily average cotton consumption, after reaching its highest level since 1959, dropped 5% in July and 3% in August. Production of cotton grey goods maintained a high and fairly stable level during the first six months, then declined almost one-fourth between June and July. "Offtake" of cotton grey goods (production adjusted for the change in inventories) actually reached this year's peak in March, then declined a few percentage points each month until July, when a sudden drop of 19% occurred. Inventories of cotton broad woven goods in April were at their lowest levels since 1960, but the rise that followed lifted inventories 11% by August. Changes in production and "offtake" of synthetic grey goods so far this year substantially paralleled those of cotton, although the volume of synthetics is only one-fourth as great.

PRICES FIRM, PROFITS UP Despite ample evidence of declining activity after the middle of the year, some aspects of the current textile situation are slightly encouraging. The industry's price structure has remained firm. The wholesale price index for textile products (1957-59=100) climbed gradually from 98.5 in January to 99.2 in May and remained at that level through June and July before moving down to 99.0 in August. The principal declines occurred in man-made fiber woven and knitted goods and in cotton yarns, with cotton cloth prices easing only slightly and woolens unchanged or stronger.

Income statements of textile firms show 1962 shaping up as a more profitable year than 1961. First quarter profits after taxes amounted to 2.2% of sales compared with 1.2% in 1961. Second quarter profits were 2.5% this year compared with 1.8% the year before. If profits in the third and fourth quarters follow the usual seasonal rise, and third quarter reports released so far suggest that they will, second half earnings may be high enough to make 1962 the industry's best year in a decade or more.

DEMAND SEEMS STRONGER Market reports on textiles, cottons in particular, have indicated a nearly static situation for many weeks. Converters, apparel manufacturers, and other users of textile products have been content to work their inventories down, buying additional goods only as needed and from any source offering the most favorable price. Forward buying has been viewed as more risky than usual. The principal reason has been the expected elimination of the 8½-cent price differential which has for years given foreign users of American cotton an advantage over domestic purchasers. Textile leaders have been expecting this change and apparently still feel that it could occur at virtually any moment. So sharp a drop in the cost of this most important fiber would entail significant adjustments, surely in prices and probably in production, throughout the textile industry.

Nevertheless, a few flurries of forward buying have occurred and some textile market observers believe that a move toward significant volume is currently in the making. The spring outlook for textile products is thought to be generally favorable. On this basis there does seem to be some current strengthening in the demand for textiles, particularly the higher quality lines.

LOOKING AHEAD In recent years textile firms have increased their spending for new plant and equipment at a faster rate than most other industries. Based on statistics for past years and surveys of the present, textile mills raised such expenditures an average of 23% per year from 1959 through 1962 compared with 6% for all nondurables and 7% for all manufacturing. According to the latest estimates, 1962 expenditures will be 26% above 1961 and 19% above 1960, previously the peak year.

Research in new products, methods, and machines is also progressing at a fast pace. The illustration accompanying this article shows a new piece of equipment (roughly resembling a paper-making machine) which makes a textile fabric directly from fiber. The machine employs a flow of air to achieve a random but highly uniform web of fiber which is chemically bonded directly into a fabric. Less than 2% of all textile fiber consumed went into these nonwoven fabrics in 1960. But the volume grows and both versatility and the means of production improve each year.

National indexes of industrial production have recently been revised and published in the booklet, **Industrial Production, 1957-59 Base.** *Copies may be obtained from the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington 25, D. C., for $1.00 per copy up to ten copies and 85 cents each for ten or more copies in a single shipment.*

PHOTO CREDITS

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THE FIFTH DISTRICT

Like the proverbial young speaker with fervor in excess of experience, business has recently created an impression of "riding off in all directions." General business sentiment both nationally and within the borders of the Fifth District clearly seems more buoyant, more optimistic, than was the case just a few weeks earlier. Yet only limited evidence to support a more cheerful outlook can be gleaned from that old cold turkey, the statistical record. Since most statistics are several weeks late when published, it is always possible that current conditions really are better than the record of the recent past.

DISTRICT MAY BE LAGGING Certain broad indicators of District business have declined recently and compare less favorably with national statistics. The District's seasonally adjusted count of nonfarm jobs, at an all-time high in September, dropped slightly in October. National employment, on the other hand, rose to a new high surpassing by a small margin the previous peak recorded in July. District seasonally adjusted factory man-hours also receded, but in circumstances apparently more serious than those attending the drop in employment. The October reduction in man-hours was the third in a row and amounted to fully 1%. National man-hours also declined in October, but the loss was smaller and followed a September gain.

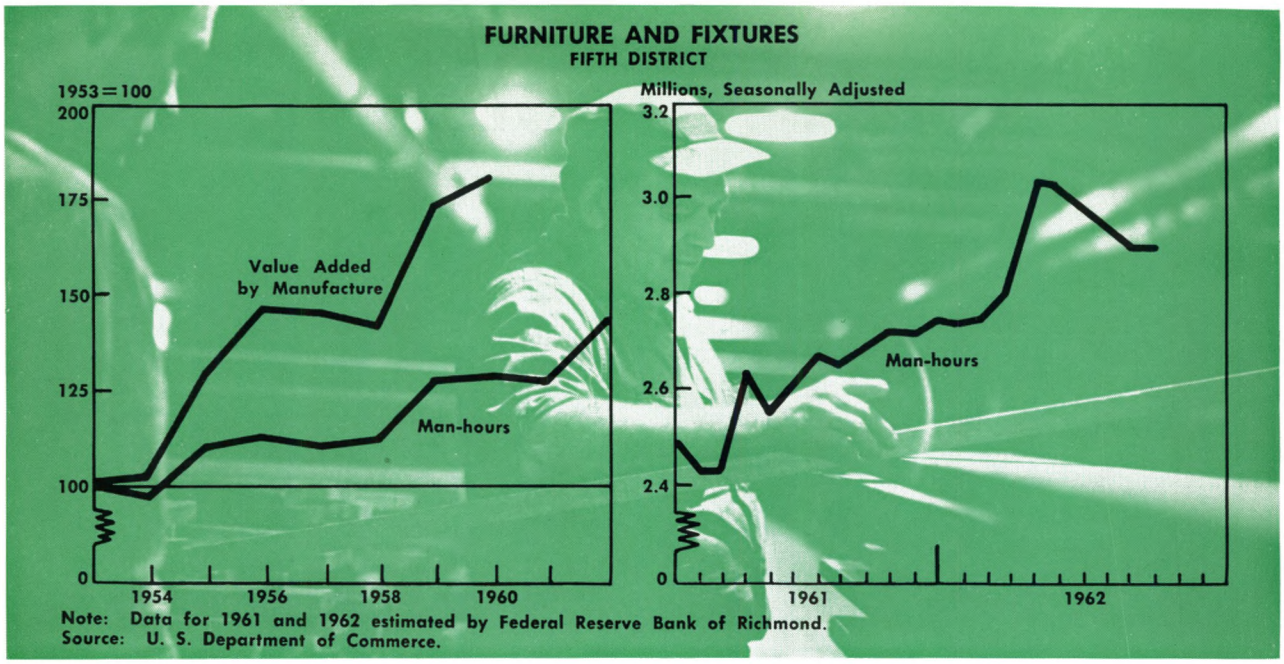
Seasonally adjusted retail sales rose 2% nationally in October, but a comparable District figure is not available. Sales of department stores in that month, however, fell short of usual seasonal strength in both the District and the nation. Seasonally adjusted department store sales in October dropped 9% in the District and 6% in the nation following good gains in each month since June. October trade employment reflected approximately seasonal strength in both District and nation.

CONSTRUCTION PICTURE DIFFERENT On the basis of rather sketchy evidence, construction appears to be the only major area that may currently be stronger in the District than in the nation as a whole. Construction employment rose in the District during October while declining nationally. Construction jobs in the District, seasonally adjusted, reached a peak for recent years in August and moved up close to the peak again in October. For the nation the number of construction workers, seasonally adjusted, reached the current year's high in July and has declined steadily since. Contract awards have been declining unevenly in the nation since March and in the District since April.

SLOWER PACE IN TEXTILES, TOBACCO Most areas of District manufacturing were affected by October reductions in man-hours. The exceptions were transportation equipment, lumber, furniture, food, and paper. Of particular significance are the declines that have recently occurred in two classes of nondurables: the textile and apparel group because of its size and complexity, and tobacco manufacturing because of certain fundamental changes that seem to be in the making.

Textile and apparel factories accounted for 34% of all District man-hours in October and were responsible for 49% of the total October decline. Textile man-hours reached their 1962 high in May, apparel man-hours in June. Both have declined steadily since. Mild strengthening of textile demand earlier in the fall failed to develop into any sort of general recovery. Prices have weakened slightly and profit expectations, quite rosy only a few weeks ago when a strong seasonal upswing seemed imminent, have assumed a shroud of uncertainty again.

The explanation and probable duration of current cigarette trends are also matters of considerable uncertainty. Cigarette production has grown quite steadily year by year since 1954 when the effects of the original "cancer scare" apparently wore off. But after annual increases of around 5% per year in the late 1950's, the growth of District cigarette production slowed to 4% in 1960 and 3% in 1961. Output so far this year is running only 2% ahead of 1961. With productivity rising, man-hour gains were small in 1960 and 1961. Man-hours in cigarette manufacturing are actually 1% lower on a ten-month cumulative basis than they were a year ago. Cigarette factory man-hours seasonally adjusted, after declining quite steadily from a peak in April, leaped to the year's high in September and then dropped 11% in October to one of the lowest levels of recent years.



FURNITURE PROSPERITY CONTINUES The first furniture chart at the head of the page shows recent trends in annual man-hours and value added. The second shows the pattern of recovery in monthly man-hours since the February 1961 business cycle low. Rising productivity is clearly apparent in the first of these charts. Based on 1953 as 100, a 29% rise in man-hours by 1960 was accompanied by an 80% increase in value added. Value added per man-hour rose from $2.55 to $3.56, failing to increase only during the recession years of 1957 and 1958. After adjustment for a 10% price rise the 1960 figure for value added per man-hour comes to about $3.24, still an impressive improvement for a period of only seven years. The first chart also shows a sharp man-hour increase over last year that strongly suggests record levels of production and sales for the District furniture industry in 1962.

The second chart, however, raises some questions about the direction of the furniture industry's current fortunes. During the second half of 1961, while the man-hour total for all manufacturing moved 1% downward, furniture man-hours moved nearly 3% upward. When all factory man-hours began to rise again early this year, furniture man-hours shot up 11% to a peak in April. Since then the trend in furniture man-hours (and in man-hours generally) has been downward. Although total factory man-hours continued to decline in September and October, furniture man-hours remained virtually unchanged. This drop in furniture man-hours between April and August warrants some rationalization.

The build-up of furniture demand began in the fall of 1961 when furniture sales soared in all parts of the country, and the seasonally adjusted index of District furniture store sales equaled record levels dating back to the spring of 1956. Buyers continued to keep channels of distribution busy, and the District sales index reached a new high in April. The spring furniture market brought a veritable flood of orders to many District producers whose backlogs were already unusually good. In retrospect it appears almost certain that the April increase in production was so much larger than the normal seasonal gain that the "seasonally adjusted" declines which followed represented a return to normal levels of growth rather than any actual loss of strength in this furniture cycle. The fall markets in October brought another wave of new orders, and the levels at which furniture man-hours stabilized in September and October appear to be consistent with the line of growth established last year.

Many new lines of furniture introduced this year were exceptionally well received. But new styles were far more numerous than usual, and some were left at the post. On the basis of this year's experience, District furniture makers feel that they can keep the number of new models at a minimum in 1963 and still have a very good year.

PHOTO CREDITS

Cover—Federal Reserve Bank of Richmond 12. Biggs Antique Company, Inc.

THE FIFTH DISTRICT

Normal seasonal changes have dominated recent developments in most areas of Fifth District business. Manufacturing has been the principal exception. Seasonally adjusted factory employment and man-hours declined again in December, continuing a downtrend that began after historical highs were reached in July.

HOURS DOWN MORE IN NONDURABLES Manufacturing employment declined nearly 2% and man-hours nearly 3% during the last five months of 1962. Employment reductions were of approximately equal magnitude in both durable and nondurable goods, but man-hour declines concentrated heavily in the nondurable goods sector.

The only durable goods industries in which seasonally adjusted factory man-hours rose in December were primary metals, lumber and wood products, and furniture and fixtures, but the furniture business was the only member of this trio to make a better showing in December than July. December seasonally adjusted man-hours were below July figures by 1% in primary metals and 6% in lumber. Machinery and transportation equipment man-hours, on the other hand, fell in December but were still higher than they were five months earlier. The December drop in fabricated metals man-hours was the fourth in five months, extending the total decline to 5% on a seasonally adjusted basis. In the stone, clay, and glass industry, a relatively small decrease in December reduced seasonally adjusted man-hours 8% below the midsummer level.

Seasonally adjusted factory man-hours fell in December in all nondurable goods industries except food, and all man-hour figures in this group except those for apparel and cigarettes were lower in December than in July. Although apparel industry man-hours declined 3% from the November level, the figure was still 1% higher in December than in July. Among the District's major manufacturing industries, only textiles registered steady declines in man-hours over the last five months of 1962, a 2% reduction in August accumulating to 5% by the end of the year. Small December declines pushed man-hour losses in the last half of 1962 to 4% in chemicals, foods, and tobacco manufacturing, 2% in paper, and less than 1% in printing.

NONFACTORY JOBS MOSTLY UP Nonmanufacturing enterprises have a different story to tell. Except for mining, these activities either retained their strength during 1962's last five months or added to earlier gains. In mining, seasonally adjusted employment dropped 4% in December bringing the total decline since midsummer to 7%. Contract construction employment also fell in December, offsetting previous gains and leaving construction employment about at the relatively high level that prevailed in

Part of the purchasing power behind the recent record volume of sales came from rising levels of consumer loans at District banks.

July. The District's numerous service-type industries, however, continued to provide significant examples of growth. Jobs in transportation, communications, and public utilities; in finance, insurance, and real estate; and in services and miscellaneous activities advanced in December to levels ranging from 1% to 3% above comparable July figures. Employment in financial institutions and service enterprises increased in every month from August through December.

Employment changes in the District's important government sector in late 1962 varied somewhat from usual seasonal patterns. Government jobs typically become gradually more numerous during the fall and increase sharply between November and December. Last year, however, the pattern involved more rapid increases during the early fall months followed by a less-than-seasonal December rise. The resulting 1% drop in seasonally adjusted government employment in December was the biggest single factor in the decline in total nonmanufacturing employment.

TRADE REMAINS STRONG The December rise in trade employment was almost exactly in line with the usual seasonal gain and followed two months in which wholesaling and retailing jobs increased more than seasonally. In September, however, when the first fall increase in trade employment normally amounts to 2% or more, the gain last year was less than 1%. As a result seasonally adjusted trade employment was substantially the same in December as it had been during the summer.

Available evidence indicates that consumer buying has recently remained at or near record levels. District department store sales began this year with the highest January volume on record. Seasonal swings in retail sales at this time of year are, of course, very large, normally involving gains of as much as 50% between November and December followed by declines as large as 60% from December to January. According to early estimates, sales declined a little less than is usual so that with seasonal adjustment the January figure was 2% ahead of December—about on a par with March and May of last year but lower than August, September, and November, the all-time high month for these sales.

CONSUMER LOANS RISE To an increasing extent District consumers have been going to commercial banks for funds. The rate of increase in bank-financed consumer purchases, however, has been lower in recent weeks than in the first half of last year. Loans to consumers at District weekly reporting member banks increased more than 7% in the first half of 1962 and continued growing during the second half, although at a somewhat slower pace. Statistics covering all Fifth District commercial banks showed consumer instalment loans up about 14% in the first 11 months of 1962, with automobile credit accounting for about two-thirds of the total expansion. Purchased automobile paper gained almost 23% during this period, and direct automobile loans increased by more than 11%. Both personal instalment loans and loans on other consumer goods made gains in excess of 10%.

Gross loans of District weekly reporting banks increased sharply in the second half of 1962 following a rather indifferent first six months. The gain was the largest on a percentage basis for any year since 1955. Business loans, which exhibited little strength in the first seven months of 1962, gained almost 13% from August through December and closed the year with a sizable over-all gain. The most striking development in District bank lending in 1962 was the growth of real estate loans, which showed the largest percentage gain of any loan category. After declining slightly in the first quarter, the volume of these loans rose more than 17% from April through November. Slight declines in December brought the gain for the year down to about 16%.

There were also some significant changes on the liabilities side of District bank balance sheets during 1962. Time deposits continued to gain importance as a source of funds. At the same time, many banks raised interest rates on time and savings deposits following the change in Regulation Q. These two developments resulted in a substantial increase in commercial bank operating expenses and generated pressure to obtain a higher yield on earning assets. This led to increased efforts to steer available funds into consumer and real estate loans and to shift investment portfolios toward longer term Governments and tax exempt bonds. Sustained demand from consumers and home buyers made growth possible in both of these loan categories.

In the early weeks of 1963 gross loans at District weekly reporting banks declined more than seasonally. Real estate loans continued strong and the expected drop in consumer loans was smaller than the usual January decline. Business loans, however, fell sharply. Time deposits increased but at a slower rate than in the same period last year, while demand deposits declined somewhat more than seasonally.

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THE FIFTH DISTRICT

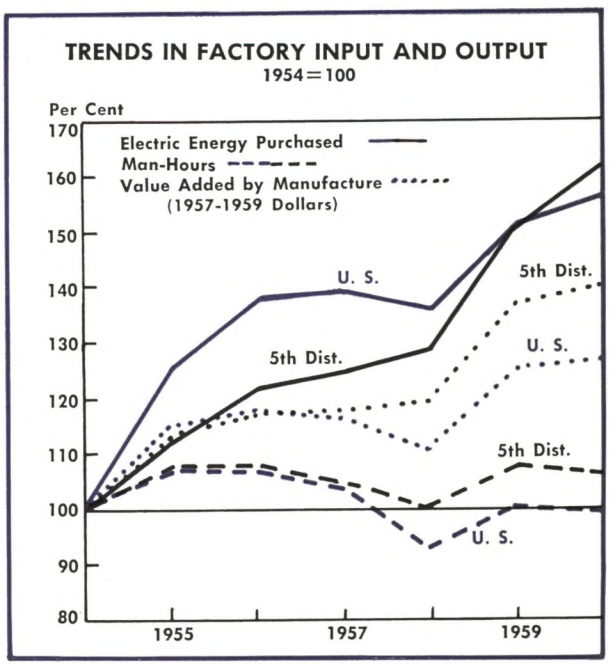
Changes in manufacturing employment reflect opposing forces, both of which are aspects of economic growth. Factory jobs tend to increase to meet the growing demand for goods as population grows and living standards rise. Technology's steady improvement of method and machine has the opposite effect. Over relatively short periods these trends may be obscured by more abrupt movements associated with business cycles. But over longer periods factory employment will tend to rise if demand increases faster than productivity and will fall if the reverse occurs.

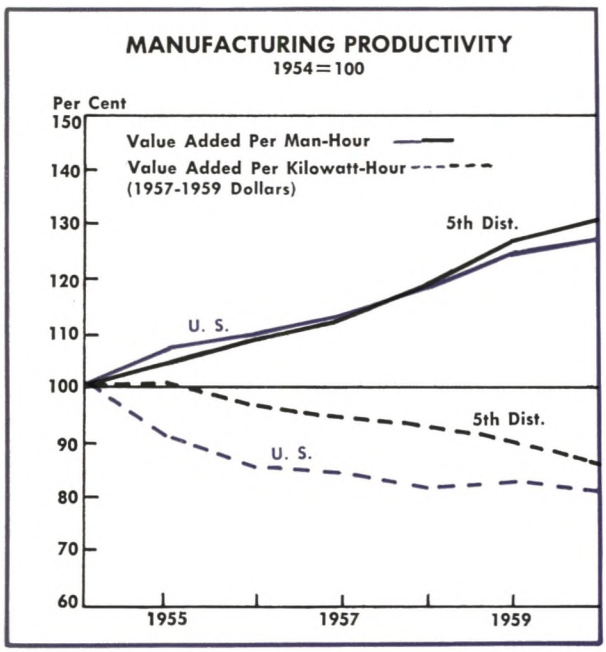
FACTORY JOBS: DISTRICT UP, NATION DOWN During the past decade manufacturing employment has continued to rise in the Fifth District even though the national trend has been slightly downward. In 1953 the number of jobs in District factories returned to the World War II high, 1,353,000. The figure fell below this level again in 1954 and 1955 but moved to new highs in 1956, 1959, 1960, and in 1962 when it reached 1,466,000. For the nation as a whole, private manufacturing employment crested at 17.6 million 20 years ago in response to the stern demands of war. Thereafter the figure declined to a postwar low of 14.4 million in 1949, recovered in 1950, and has fluctuated since 1951 between a high of 17.5 million in 1953 and a low of 15.9 million in 1958. By 1962 it was back up to 16.7 million. In general, the country appears to have been in a period of transition during which the effects of rapid progress in manufacturing technology caught up with and began to outdistance the impact of growing demand for manufactured goods.

PRODUCTIVITY RISING When large, diverse groups of people pool their resources of capital, labor, management skill, technical and scientific knowledge, and market insights to produce and sell, they create an organism of great complexity. Changes in any of its productive factors or in any pertinent aspect of its market will change its mode of operation. The purpose always is to offer the customer the best product at the lowest price. No summary treatment of these relationships can adequately explain or even describe them. But comprehensive statistics that are readily available can shed some light on the way in which manufacturers in general are shifting their combinations of human and mechanical resources to get more output per unit of input.

Between 1954 and 1961 factory man-hours changed little, purchases of electrical energy representing machine utilization rose sharply, and value added by manufacture, adjusted for price changes in order to approximate physical output, followed a rising path about halfway between them. The chart on this page shows these trends through 1960 (1961 data were not available in time to be included) for the Fifth District and the nation with all data converted to percentages of 1954 levels. District man-hours and value added paralleled national figures from 1954 through 1957, while District power use lagged. After 1957, however, the District overtook and passed the nation in growth of power utilization, moved significantly ahead in man-hours, and markedly ahead in value added.

Electric power has steadily replaced manpower in the processes of production. In the District the typical manufacturer increased his use of electricity from 7.3 kilowatt-hours for each production worker man-hour in 1954 to 11.0 in 1960 and 11.7 in 1961. The figures were a little higher for the nation—7.7 in 1954, 12.1 in 1960, and 12.8 in 1961. In the





process, as the chart above shows, productivity with respect to labor advanced sharply. Price-adjusted value added per man-hour rose 35% between 1954 and 1961 in the District and 33% in the nation as a whole. Physical productivity with respect to electric power declined, of course, as shown by the lower lines. But between 1954 and 1961 the price of factory labor rose about 30% while the price of industrial power dropped nearly 5%.

In only seven years manufacturers as a group have improved methods and equipment sufficiently to increase output per unit of labor one-third. Since this is a national average, many have raised productivity at a substantially faster rate. The fact that productivity rose more rapidly locally than nationally suggests that the District has a good share of the more progressive industries.

PRODUCTIVITY RATES Some major industries that have achieved large gains in productivity are well represented in the Fifth District. Since rates and ratios can confuse as easily as clarify, it is helpful to make pertinent comparisons first and then look at the numerical values involved.

Industries differ in productivity. Some create high value per man-hour, some low, the differences reflecting competitive conditions, internal technology, and many other factors. Industries also differ with respect to rates at which they are able to raise productivity. An industry with low productivity may show the biggest gain in a given span of time.

Of the nation's major industries with importance in the District, chemical plants were the most productive with respect to labor. This industry achieved a level of $9.66 for price-adjusted value added per man-hour in 1954 and raised this figure to $16.00 by 1961. Tobacco manufacturers, second in productivity, raised value added per man-hour from $6.57 in 1954 to $11.45 in 1961. Other important District industries listed in order of declining productivity per man-hour are: foods; transportation equipment; primary metals; machinery; paper; stone, clay, and glass; fabricated metals; furniture; lumber; textiles; and apparel. The textile business, near the bottom of the list according to value added per man-hour, was high in rate of improvement.

EFFICIENCY RATINGS RISE When emphasis centers on rates of increase in efficiency with respect to labor, tobacco and chemicals change places at the head of the list, and textiles rank third. The tobacco industry raised price-adjusted value added per man-hour three-fourths between 1954 and 1961. Comparable increases amounted to two-thirds in chemicals and one-half in textiles. Other industries ranked as follows: foods; transportation equipment; apparel; stone, clay, and glass; lumber; paper; primary metals; furniture; machinery; and fabricated metals.

VARIATIONS IN POWER USE The ranking of District industries shifts again when the rate of increase in purchases of electric power is the criterion. Here the striking fact is that chemicals remain at the top, but tobacco products and textiles drop to the middle and the bottom of the range. Between 1954 and 1961 chemical plants raised purchases of electric energy 98%. The apparel industry occupied second place with a 95% gain. Most industries raised power purchases between 40% and 60%. The figure for tobacco products was 56%, for textiles 23%.

Manufacturing as a whole raised price-adjusted value added per man-hour one-third while increasing purchases of electric power three-fifths. Textiles increased value added per man-hour one-half while power purchased rose less than one-fourth. Fabricated metals provide a sharp contrast with a 40% gain in power purchased accompanied by a mere 9% rise in value added per man-hour. The rapid changes that have occurred within industries and the wide variations that exist between the various industry groups provide convincing evidence of the dynamic nature of the nation's manufacturing enterprise.

PHOTO CREDIT

Cover—Marcellus Wright & Son, Architects.

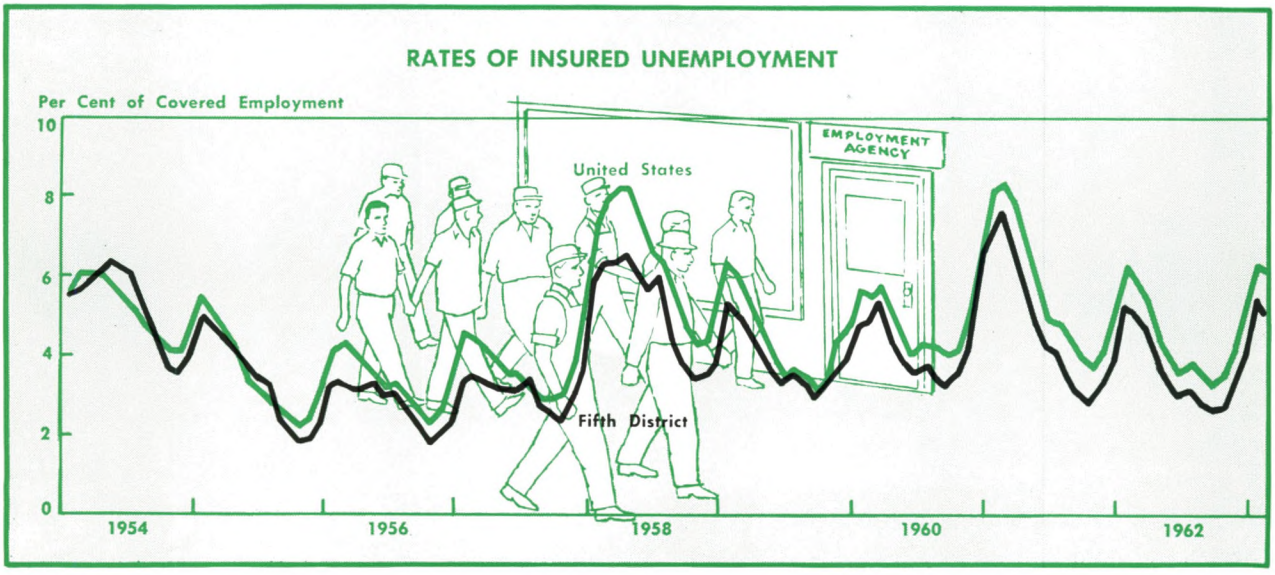
THE FIFTH DISTRICT

Employment and unemployment are closely related business indicators that do not always convey consistent impressions of business trends. During the first quarter of 1963, for instance, employment reached record levels after several months of fluctuation along a high plateau, but unemployment failed to decline. In fact, joblessness showed a troublesome tendency to rise during most of last year while employment remained virtually unchanged. Apparently the number of jobseekers has acquired a tendency to grow a little faster than the number of jobs.

JOBLESSNESS PERSISTS Like other economic events, labor market developments at various seasons must be evaluated by comparison with the changes that usually occur. For instance, unemployment drops to seasonal lows each fall as jobs build up to harvest and process farm output, and to prepare for the regular year-end bulge in general business activity. The pattern is typical of the Fifth Federal Reserve District and most other parts of the nation as well. From autumn lows, as a rule, joblessness rises to seasonal highs in January and February. The coming of spring turns the course of unemployment downward again. And so it continues until fall except for the rise that occurs in June when schools close and most new graduates join the labor force in search of work.

The declines in unemployment that occurred early last fall were somewhat less than seasonal. The rise in joblessness that followed turned out to be slightly greater than would normally be expected. And this year the spring downturn got started at a later date and has since progressed at a slower pace than has usually been the case.

JOBS AT RECORD LEVEL Despite the presence of more unemployment than usual, District employment showed some improvement in January and February. The seasonally adjusted number of jobs in nonagricultural enterprises reached 4,946,000 in February, equaling the all-time high set in September last year. District employment owes its recent strength to the nondurable goods sector of manufacturing, to trade, services, and government, and to transportation, communications, and public utilities. Employment in the last-mentioned category reached record levels in February after the end of the dock strike. Manufacturing industries showing particular improvement so far this year include textile spinning and weaving operations, apparel, tobacco, chemicals, and printing. Primary metals producers were the only members of



the durable goods group to raise employment in both January and February. Jobs increased in January in nearly all durable goods categories, but February declines disappointed hopes for steady advances.

Contract construction employment in recent weeks has been conspicuously lacking in vigor. The number of construction workers reached a high for recent years last October but has declined ever since. Due in large measure to unusually adverse weather conditions, jobs dropped 3% in February alone. Indications are that the return of good weather has enabled many to return to work.

In February, as a result of the cyclical upswing of the past two years, all categories of employment except mining were well above their levels of one and two years ago. Total employment was 2% higher than a year ago and 7% higher than two years ago. Factory jobs were 1% more numerous than in 1962 and 6% more plentiful than in 1961. The largest gain in the one-year period was 4%, recorded in trade, in services, and in the finance, insurance, and real estate group. The biggest gain registered since February 1960 was 15% in contract construction. Virtually all this increase occurred in 1961.

300,000 NEW JOBS Employment gains stemming from improved business conditions in the Fifth District generated about 125,000 new jobs in the past year compared to 175,000 during the year before. As already suggested, most of the 1962 increases occurred prior to midyear. In contrast to 1961 experience, however, jobs in 1962 did not rise enough to reduce unemployment significantly. As shown by the chart on page 11, last fall's rates of insured joblessness were the lowest since 1957. Thus, District rates of insured unemployment are high compared to pre-1958 experience, but not unusually high in relation to typical rates since that year. During the period depicted on the chart District rates have matched national rates rather closely with respect to seasonal variations and business cycle fluctuations. Prior to 1957 the two series were also of similar average magnitude. Since that time, however, rates in the District have been consistently below the national figures.

UNEMPLOYMENT BY INDUSTRY Insured unemployment by particular industries differs among the various District states pretty much as industry patterns themselves differ. In the early months of the year much of the District's unemployment is seasonal, and is linked to manufacturing and contract construction. These activities accounted for about one-third of total nonfarm employment in February, but for more than two-thirds of insured unemployment. By contrast, trade and services, which provide nearly another third of all nonagricultural jobs, generated only one-sixth of joblessness qualifying for unemployment compensation.

Differences in economic structure among District states result in some sharply divergent patterns of insured unemployment. The Maryland rate has remained quite stable at or near 6% since the first of the year. Seasonal declines in the number of jobs provided by construction and trade, and additional idleness induced by the dock strike, maintained this rate in January despite increased employment in government and stability elsewhere. When job opportunities later increased in transportation, services, and trade, these were partly offset by small declines in manufacturing employment.

Virginia's rate of insured unemployment at the start of the year was about 3%. Construction and manufacturing were the principal industries involved, but some unemployment was also linked to trade. Insured unemployment in manufacturing was fairly well distributed across the board, but with the smaller concentrations in food industries, textiles, and lumber.

As the year began the rate of insured unemployment in West Virginia stood at 10%. It has since shown a tendency to decline, primarily because of employment gains in manufacturing, government, and transportation, communications, and public utilities. The rate of insured unemployment among miners, however, reached 47% of covered employment in February.

The rate of insured unemployment was 6% early in January in North Carolina, and the trend since then has been slightly downward. Nearly two-thirds of the insured unemployed were linked with manufacturing, principally tobacco factories and textile mills. Most of the remainder were in construction and trade.

South Carolina's rate of insured unemployment has been declining this year from a starting level of about 5%. As in North Carolina, manufacturing, construction, and trade headed the list of industries involved. Within the group linked to manufacturing, about two-thirds of the insured unemployed had been attached to textile mills and apparel plants.

PHOTO CREDITS

Cover—Federal Reserve Bank of Richmond

THE FIFTH DISTRICT

Spring made an auspicious entry in the District, its bright skies and gentle temperatures proving as congenial to business optimism as to the area's variegated floral life. Soundings made in March and April revealed a notable blossoming of confidence in the District's business and banking communities, apparently part of a nationwide ground swell which may be only partly attributable to the happy transition from winter into spring over much of the country.

Since statistics on the economy's early spring performance remain incomplete, it is difficult to judge the extent to which improved sentiment is justified by actual gains. The rather fragmentary data currently available for both the nation and the District suggest substantive business advances beginning in March and continuing in April. But whether the swing in actual conditions has thus far matched the rise in optimism remains an open question.

TRADE AND EMPLOYMENT Retail trade this year has advanced about as vigorously in the District as in the nation, but less consistently. District seasonally adjusted department store sales soared to an all-time high in March, 10% above the February level and 4% higher than the previous record established last fall. Present indications are that department store sales slackened somewhat in April. They remained in the high range typical of recent months, however, and bettered last year's April figure by 4%. Preliminary national figures also show these sales surging to a new record in March, 5% above the previous month and 3% higher than a year earlier.

Slight gains in seasonally adjusted nonagricultural employment in each of this year's first three months led to a new high for the District in March. Seasonally adjusted nonfarm employment was then estimated to be 4,950,000, surpassing by about 4,000 the previous high reached last September. These gains were about in line with national figures, which reversed last fall's slight declines and rose to successive new highs in February and March.

District nonmanufacturing employment rose 0.1% in March, as small gains in contract construction, in trade, in finance, insurance, and real estate, and in government more than offset small declines in mining, in transportation, communication, and public utilities, and in services. Contrary to its customary seasonal pattern, District insured unemployment rose a little in February and clung to those higher winter levels a bit longer than usual. By the middle of March, however, insured unemployment was declining at a distinctly better than seasonal pace.

INDUSTRY DEVELOPMENTS Employment rose in March in most of the District's manufacturing industries, but more in durables than in nondurables. The situation was reversed, however, with respect to hours worked. Seasonally adjusted man-hours advanced 1.8% in nondurable goods and 1.0% in durables for a 1.5% gain in the total figure. Man-hours declined in only three of the District's major manufacturing categories: primary metals, fabricated metals, and transportation equipment.

Less comprehensive but more current evidence gathered from trade journals and industry sources suggests that most District industries continued to improve in April. Textile industry man-hours were up substantially in March, and trade reports suggest that a fairly good flow of new orders developed in April. But buying was intermittent and more heavily concentrated than usual in spot and nearby deliveries. District furniture makers, still in a period of general prosperity that began in late 1961, showed their latest wares during the week beginning April 19. Prospective buyers from all parts of the nation gathered at a growing number of display centers concentrating in North Carolina and Virginia. Actual attendance at this latest Southern Furniture Market was reportedly down a bit compared to a year ago and off considerably from last fall when one of the largest crowds in the history of the event came to see a wide assortment of new lines. This time, however, fewer new models were anticipated, new orders generally were already running well ahead of last year, prices were firm, and manufacturers' backlogs were large enough to push delivery dates weeks or even months ahead on some lines. Consequently, reduced attendance was not viewed by the trade with any particular concern.

The good weather has given new impetus to District construction activity and has apparently lifted the lumber business out of its winter doldrums.

The District's planted acreage of all principal crops will be 2% above 1962's record low if farmers carry out their March 1 plans.

Although this happens to some degree every spring, improvement this year seems stronger than usual. For one thing, District contract awards rose in February at a sharply better than seasonal rate due mainly to strength in residential, public works, and utilities categories, and present indications are that new business continued at a brisk pace in March.

BANK LOANS EXPAND Evidence that spring business has been better than usual also appears in the loan experience of District weekly reporting banks. Their business loans rose 6.4% between February 27 and April 17. This increase resembled the spring gains of 1959 and 1961, both strong recovery years, and was well ahead of other recent years. It was, moreover, considerably greater than the 2.1% increase in business loans at United States weekly reporting banks over the same period.

District weekly reporting banks also made substantially more than seasonal additions to their real estate and "all other" (mainly consumer) loans in these weeks. Real estate loans, in particular, registered a sharp rise and now stand nearly 6.0% above their level on the first of the year. In no other recent year have these loans risen by as much as 1.0% in the comparable period.

FARM PROSPECTS Land preparation for spring planting lagged until mid-March but moved at a brisk pace thereafter so that most field work was about on schedule at the Easter holiday.

Current plans suggest that District crop plantings will be up about 188,000 acres this year. Planned increments are concentrated mainly in wheat and corn, with smaller increases projected for soybeans, Maryland and Burley tobaccos, and grain sorghums.

Sizable acreage reductions are indicated, however, for other important District crops. Cotton and sweet potatoes will probably be cut back about 7% from last year and flue-cured tobacco about 5%. Important reductions are also planned for oats and Irish potatoes. Acreage is expected to be about the same as last year for peanuts, hay, barley, and Virginia fire-cured and sun-cured tobaccos. Cotton and flue-cured tobacco reductions are apparently linked to 1963 allotment cuts. Based largely on March 1 estimates, these plans are subject to change.

NOTICE

"System Open Market Operations in 1962," by Robert W. Stone, Manager of the System Open Market Account, was printed in the April 1963 **Federal Reserve Bulletin.** *Reprints may be obtained from the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington 25, D. C.*

PHOTO CREDITS

Cover—Carolina Power & Light Company 3. Carolina Power & Light Company 6. & 7. Washington Suburban Sanitary Commission 8. Federal Reserve Bank of Richmond 12. Southern States Cooperative, Inc.

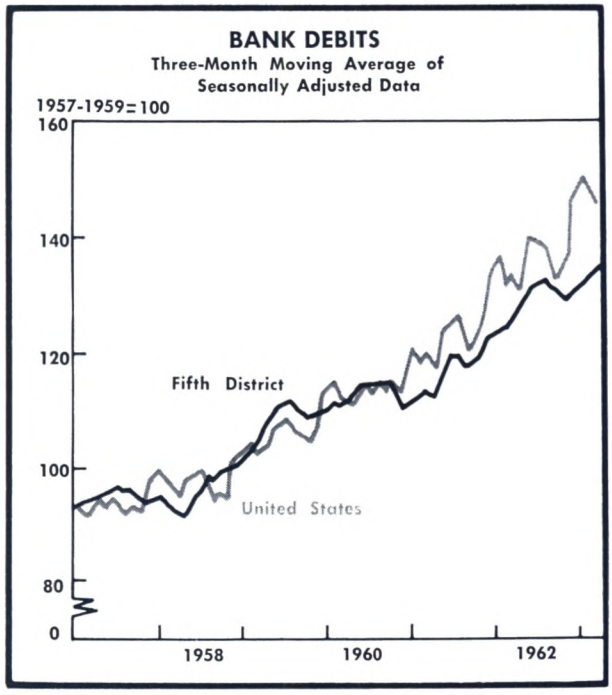
Map—Virginia Electric & Power Company.

THE FIFTH DISTRICT

Signs of continued advances in Fifth District business are still quite general, although the pace of improvement seems a little slower than in the early spring. The prevailing mood remains one of studied optimism. Statistics for the month of May are only fragmentary, but such as are available gain support from trade comments and reports and suggest a continuation of the modest increases that were apparent in April.

Seasonally adjusted bank debits, the lone dissenter among generally rising indicators in March, moved up vigorously in April to a new all-time high. The full impact of the April gain is not apparent in the chart of bank debits shown at the foot of the page because the plotted figures are three-month moving averages which smooth out random variations and accentuate growth and business cycle characteristics.

NEW HIGH IN EMPLOYMENT Seasonally adjusted nonfarm employment also rose to a new record in April. Jobs added in contract construction and retail trade provided most of the push, but increased mining activity also contributed to the small net gain. Employment remained unchanged between March and April in nondurable goods industries; finance, insurance, and real estate enterprises; and services. It declined in durable goods manufacturing, in transportation, communications, and public utilities, and in government.



Manufacturing and government, which together account for about one-half of District nonfarm jobs, are frequently the main centers of attention in employment studies. It is often desirable, however, to look at the array of enterprises that make up the other half of nonagricultural jobs. The right-hand chart at the foot of page 11 shows recent trends in total employment in these areas. These service-type enterprises have grown steadily but by no means spectacularly in recent years. Gains in employment amounted to about 2% in the past year and 10% over the six-year period charted.

Of special interest to regional analysts is the accelerated pace of District growth in these areas since the trough of the 1960-61 recession. Before that time there was virtually no difference between the District and the nation as regards these sectors of employment. But growth since that point has amounted to 7% in the District compared to 3% for the nation as a whole. Government jobs are frequently cited as a strengthening and stabilizing force in the local nonfarm, nonmanufacturing economy. The record of the past two years, however, shows steady progress in nonmanufacturing employment even with the direct effect of government jobs removed. Here as elsewhere all kinds of services are continuing to grow, but other evidence indicates that those related to the rapidly growing tourist trade may be among the largest contributors.

MAN-HOUR TRENDS DIVERGE The behavior of seasonally adjusted factory man-hours illustrates how a statistical series can continue to baffle observers of business trends for several months. After more than half a year of small fluctuations about a remarkably stable average, total Fifth District man-hours spurted more than 1% in March. Instead of sustaining the March gains, however, developments in April very nearly wiped them all out. This was true for both durable and nondurable goods. But the details of

change during the two months differed markedly among specific industrial groups, as a few illustrations will readily confirm.

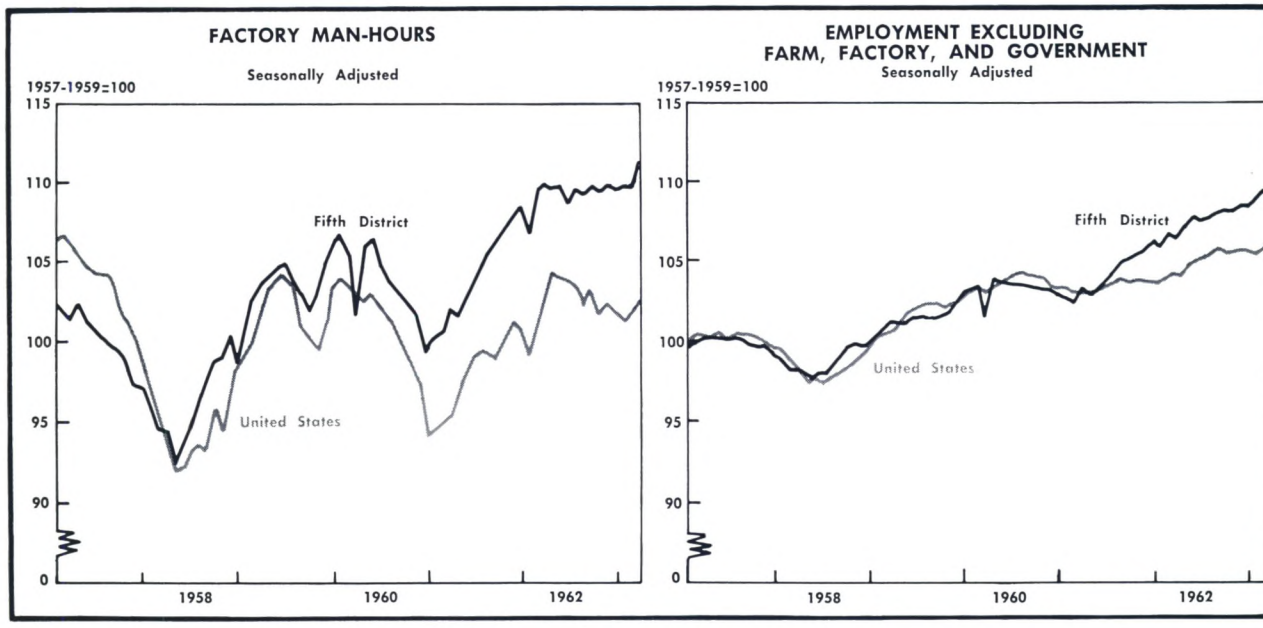
None of the District's principal manufacturing areas experienced successive declines in seasonally adjusted man-hours in March and April. A few, however, managed gains in each month. These were producers and fabricators of metals, makers of stone, clay, and glass products, and paper and paper product manufacturers. In two industries, transportation equipment and chemicals, man-hours lost in March were recouped with some to spare in April. Despite recent increases, transportation equipment man-hours were still substantially below last fall's high levels, but for the chemical industry the latest gains established a new high. Elsewhere man-hours dropped in April following gains in March. Textile mills and apparel plants accounted for the bulk of the April declines.

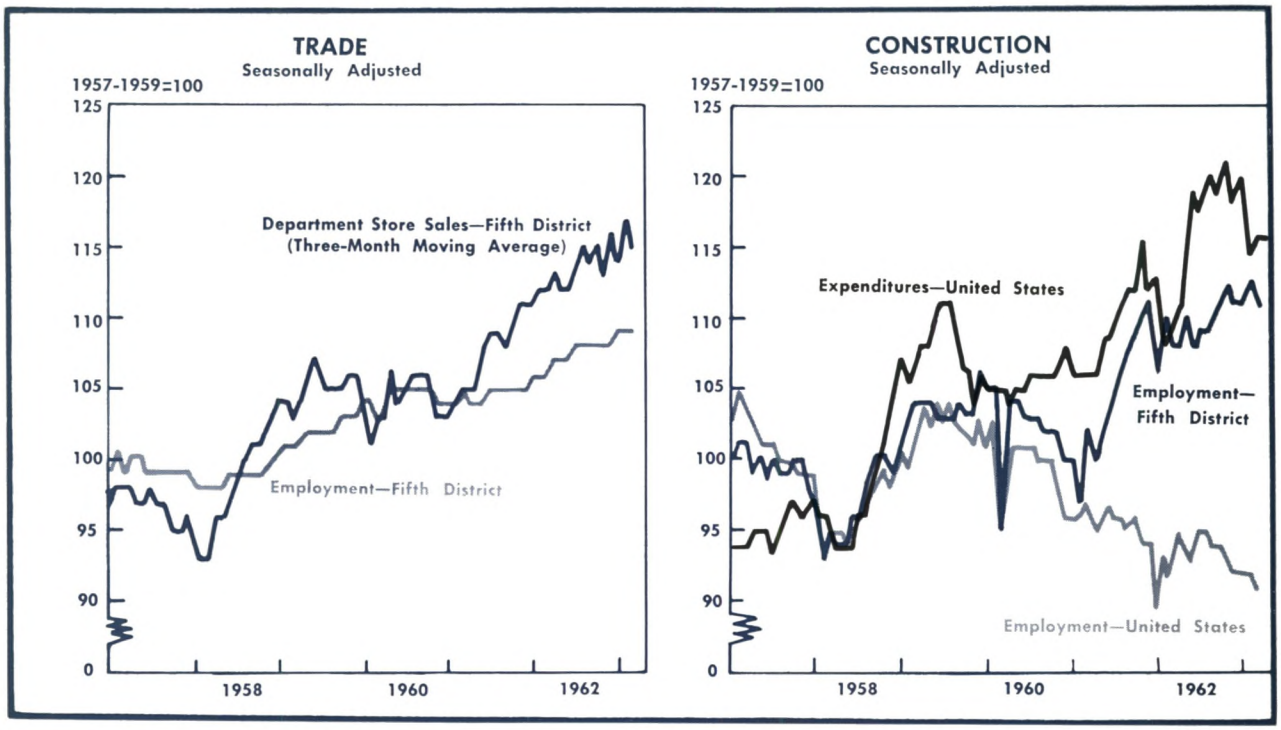
CYCLES STRONG IN MANUFACTURING National and District indexes of manufacturing man-hours charted in the left-hand panel below show a marked sensitivity to the gyrations of business cycles. The year 1962 contrasts sharply, especially in the Fifth District, with the five preceding years. Before 1962 man-hours characteristically established and maintained increases or decreases in the first few months following each turning point in the cycle. From February 1962 through February 1963, however, the District index varied by mere fractions of a point around the 109.6 level. Hopes were kindled for rising out of this plateau condition when the index neared 111 in March. They were dimmed again, however, when the index dropped to 109.3 in April. In any event the performance of District manufacturers compares favorably with the national record as shown by the relatively higher level of District man-hours since the recession of 1958.

VARIATION MARKS TRADE Retail trade statistics have been marked by erratic changes recently, although they continue to show good average growth. Seasonally adjusted department store sales in the District reached a new high in March, 10% above the previous month and 3% above the record high attained last November. As with certain other indicators, however, March gains were dissipated in April, and preliminary estimates for May suggest only partial recovery toward the volume recorded in March.

Department store sales have been fluctuating around rapidly rising average levels, as the right-hand chart on page 12 shows. Seasonally adjusted trade employment, also shown on the graph, has grown less rapidly and with less sensitivity to business cycles. Comparable national figures were not charted because they were virtually coincident with those of the Fifth District throughout the period.

Growth of trade in the District is further substantiated by a broader Bureau of the Census tabulation of sales of Group 1 retail stores. Not since October 1961 have sales at these stores for any given month failed to set a new high. Thus the March figure, the latest available, showed sales 7% above a year earlier and 17% higher than in 1961.





SUPPORT FROM CONSTRUCTION Sustained by a strong backlog of business and a good, if erratic, flow of new contracts, builders of virtually all types are keeping busy in the Fifth District. On a seasonally adjusted basis, new highs were reached in April by both contract construction employment and building permit values. The rise in permits maintained a strong average for the year despite mediocre performances in February and March.

Since early 1961 the trend of District construction employment has been firmly up while the national trend has been downward. Thus construction employment gives a more favorable picture of District progress relative to the nation than do any of the other series. As with other indicators, District performance paralleled that of the nation until a divergence of growth factors, possibly associated with differences in cyclical sensitivity, resulted in relatively greater strength in the District. The third line on the graph, national new construction expenditures, was included to provide a comparison between trends in labor utilization and construction outlays. This comparison lacks precision but indicates the direction and approximate strength of changes in productivity with respect to labor.

PRODUCTIVITY RISING Recent surveys have indicated that a sizable portion of new investment is aimed at modernization and cost reduction rather than increased output as such. Rapid changes in the tools and techniques of production may have little effect on the month-to-month behavior of statistics such as employment and man-hours, but must be taken into account in interpreting changes over longer periods. Thus, while national man-hours in the six years charted on page 11 show virtually no trend, the manufacturing component of the industrial production index over the same period rose 18%. Furthermore, national factory man-hours have recently been heading downward while factory production has continued to rise. In the retail trade chart above, sales (a measure of output) can be seen rising at a distinctly faster pace than employment (a measure of labor input). Similarly, national expenditures for new construction (measuring output) are seen to be rising quite steeply while employment (measuring labor utilization) declines.

Changes in labor utilization relative to other production inputs will differ between the District and the nation for a number of reasons. Differences in the industrial composition of the District's economy as compared with the nation's, for example, are important in this connection, as productivity generally grows more slowly in some industry types than in others. Moreover, regional differences in the price of labor relative to other inputs play an important role.

PHOTO CREDIT
South Carolina State Chamber of Commerce.

THE FIFTH DISTRICT

Fifth District business conditions have maintained a gradually upward course with most indicators, both general and specific, providing evidence of improvement. Favorable developments have continued to dominate the few statistical series that are available weekly. Thus, insured unemployment, reflecting broad coverage of the District economy, has continued to decline at a distinctly better than seasonal rate. Department store sales have been improving gradually since April, when a rather sharp decline occurred. And bituminous coal production and shipments have maintained good levels.

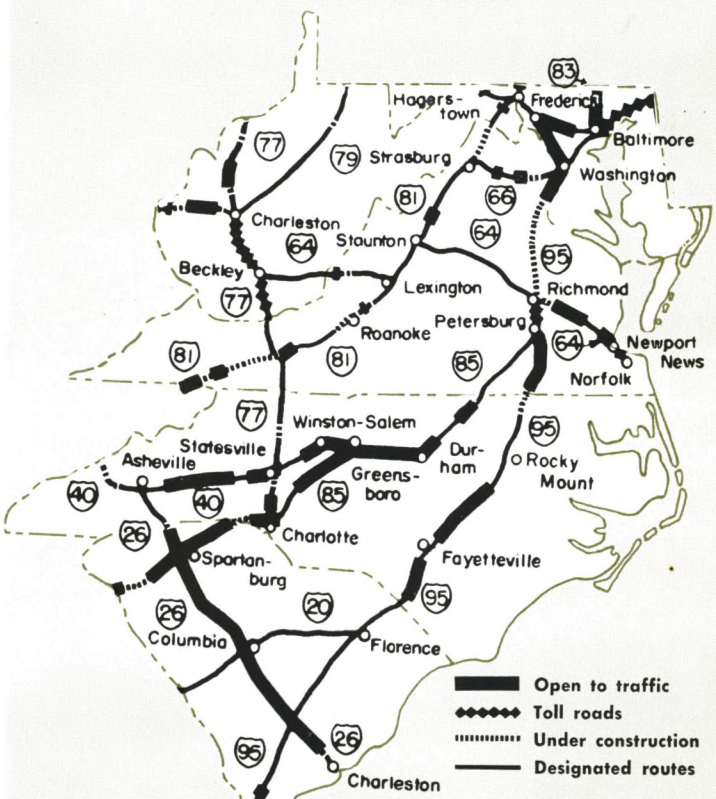
Other statistics also show that recent gains are probably firmly based. Seasonally adjusted nonfarm employment rose slightly in May as a result of a modest amount of new strength in the nonmanufacturing sector. As has rather frequently been the case, the principal gains occurred in services and service-type enterprises such as those engaged in transportation and related activities, financial and similar services, and government. The high level of construction employment remained unchanged in May, while jobs declined slightly in trade and mining. Employment in nondurable goods industries remained unchanged in May, but jobs in factories making durable goods declined slightly.

Although small reductions were typical of manufacturing employment, these were generally offset by increases in the length of the workweek. Thus, seasonally adjusted factory man-hours in May rose 1% in durables and nearly 2% in nondurable goods industries. Only three of the District's major industry groups (electrical machinery; stone, clay, and glass products; and paper) failed to contribute to the May rise.

STRAWS IN THE WIND Sources of statistical and more general information possessing certain predictive implications have also remained quite steadily favorable. For instance, a substantial rise in new construction contracts occurred in April. In the same month District building permits neared an all-time high and continued strong in May although at a somewhat lower level. Recent reports of modest increases in manufacturers' new orders, backlogs, and shipments accompanied by small declines in inventories also suggest continued strength. Steel and a few other industries, such as those mentioned parenthetically above, may well be exceptions to this generalization. But otherwise, if any significant weaknesses are developing in the current District situation, they remain effectively camouflaged.

SUMMER AND THE OPEN ROAD About this time of year residents of the Fifth District, along with people in other parts of the country, become unusually restless, in some cases even adventurous. The symptoms spread like a virus, eventually to epidemic proportions. The ailment is simply the urge to "get up and go," and it defies any sort of adjustment for seasonal variation. So, with at least as much effort as ever goes into a day's work, they make elaborate preparations and spend their hard-earned vacation time going places and doing things. Increasingly, travelers turn

THE INTERSTATE HIGHWAY SYSTEM IN THE FIFTH DISTRICT



to automobiles for freer expression of the urge to go. Last year set a record for new passenger car registrations in the Fifth District, exceeding the 1955 peak by 6%. And 1963 registrations through the first four months were running fully 18% ahead of 1962. Clearly, a new era of highway travel is in the making. This summer and in summers to come motorists generally will travel under more favorable conditions than ever before. The network of interstate highways being constructed as a cooperative Federal-state effort is the primary factor responsible for the change.

HIGHWAY STATUS As of the first of this year 1,200 miles of interstate highways were open to traffic within the boundaries of the Fifth District. Work had begun on an additional 1,000 miles, with 450 actually under construction and the rest in engineering or right-of-way stages. Another 1,200 miles were under preliminary study or planned, bringing total designated system mileage within the District to 3,400. The designated total includes about 350 miles in Maryland, 30 in the District of Columbia, 1,050 in Virginia, 530 in West Virginia, 770 in North Carolina, and 680 in South Carolina. Maryland has made the greatest relative progress toward completing its share of the system with 44% of the projected total open to traffic and another 48% under way. North Carolina actually has nearly half its designated mileage open to traffic but only an additional 27% under way. South Carolina has about one-third in use and one-fifth in process; West Virginia, one-fourth in use and one-fifth in process; and Virginia, one-fifth in use and two-fifths in process.

As the map on page 11 shows, the long sweep of Interstate Route 81, cutting diagonally across Virginia through the Shenandoah Valley, accounts for much of the state's relatively large share of the District's total system mileage. Within the District these routes fall basically into three classifications. Most of the District mileage represents highways fanning out to the South and West from the population concentrations along the upper East Coast. These are crossed by a series of arteries connecting the Midwest with Middle and South Atlantic centers of industry and trade. Finally, there are the shorter connecting roads and bypasses in the vicinity of the larger cities.

FINANCIAL FACTORS The Federal Government's share varies according to the type of highway. The interstate system is being financed 90% by Federal assistance and 10% by the states. Where Federal aid is available for construction or improvement of highways that are not part of the new system, costs are shared between Federal and state governments on a 50-50 basis. During 1962, the value of contracts awarded for highway construction involving no Federal aid at all made up one-fourth of the total in the District compared with one-sixth for the country as a whole.

Since 1956 Federal receipts from taxes on fuels, lubricating oils, and motor vehicle use have been earmarked in a Federal highway trust fund, and all disbursements are from this source. During 1961 such Federal tax collections totaled $212 million in the Fifth District. Highway contracts awarded involving Federal funds totaled $257 million in 1961 90% of which, about $231 million, will eventually be paid from the Federal trust fund. Contracts qualifying for Federal assistance in 1962 amounted to $259 million. According to present schedules the entire system will be completed by 1972.

ON THE SAME STREET Official statistics for 1961 report the total length of highways, roads, and streets in the United States at 3,573,000 miles. The District's share was 253,400 miles, 7% of the national total. The interstate system will increase total mileage by only 1.3% in the District and 1.1% in the nation.

With these figures in mind, it is interesting to speculate on the far-reaching effects of these spacious new arteries. Many a motorist has packed up his car, left his own familiar neighborhood, stopped from time to time in unfamiliar but friendly environs hundreds or even thousands of miles from home, and gained from the experience a perhaps unspoken realization that, despite their many differences, Americans in a very real sense all live on the same street. Completion of the new highway network will give this feeling a stronger foundation than it ever had before.

Tourists are already plentiful enough to make many inadequate stretches of highway look like Main Street on Bargain Day. Consequently, the opening of each new section of the interstate system is greeted with enthusiasm by both local and long-distance travelers. The economic implications of these developments, particularly with respect to the growing tourist trade, will be the subject of "The Fifth District" article in the August issue.

PHOTO CREDITS

8. Federal Reserve Bank of Richmond 11. Map—Committee on Public Affairs of the American Petroleum Institute.

THE FIFTH DISTRICT

The Fifth District as a whole offers tourists a rich combination of historic sites, scenic attractions, and interesting activities in a variety of natural settings. The rising productivity of American business is gradually adding to the length and frequency of vacations, as well as shortening the workweek. Leading citizens in all parts of the Fifth District recognize the significance of these trends. The vacationer's dollar is an important injection of new income, and the vacationer himself is always a prospective resident, possibly the architect of a new business in the area if its advantages exert a strong appeal.

TOURISM HARD TO MEASURE The economic significance of tourism is notoriously difficult to evaluate. Many stores, restaurants, purveyors of services including amusements, and other business firms cater only incidentally to travelers. Regularly collected statistics cannot provide sufficient detail within the pertinent classifications to permit estimates of tourism's contribution to the total volume of business. With travelers in general and vacationers in particular assuming more and more economic importance, local businessmen, business organizations, and governmental agencies are seeking ways to measure the tourist trade as well as ways to attract more of it. In many areas, plans are being formed to accomplish both of these aims. Much current information, even though based on the best available data, is admittedly subject to an indeterminate margin of error. Additional complications arise from the fact that definitions are seldom sufficiently precise to indicate exactly what the available estimates measure. The figures presented here come from official state and District of Columbia sources. Their comparison with personal income is included simply to give them a small amount of perspective which would otherwise be totally lacking. Each area is treated separately, and comparisons between areas on the basis of available data would be misleading to say the least.

WEST VIRGINIA'S RAPID GAINS This year's Centennial celebration will undoubtedly accelerate West Virginia's already rapidly expanding tourist trade, estimated to have increased about 14% in 1962. Annual spending by vacationers is currently placed in excess of $300 million, or more than 8% of total personal income. This unusual rate of growth reflects a broad, cooperative effort on the part of government, business, and private citizens. Many West Virginians have developed a keen interest in their state's potential for attracting tourists. With numerous natural assets, such as Blackwater Falls, pictured here, they have a solid foundation on which to build. Restaurants, motels, and other establishments serving travelers are being rapidly expanded. A recent survey of tourist accommodations revealed a 20% increase between 1959 and 1962. Most of this growth occurred in the second half of the three-year period, and took the form of bigger, better equipped, and more attractively appointed motels.

SPECIAL APPROACHES There are several special aspects to West Virginia's promotion of tourism. The state publishes a quarterly magazine called *Travel West Virginia* which began with 25,000 copies in the second quarter of 1962 and grew to 75,000 copies for the 1963 summer issue. Moreover, the state's continuing efforts to cope with its unemployment problem—efforts in which tourist promotion figures importantly—have been publicized by national media, including news services, news and feature magazines, and television. These channels have provided much valuable publicity coverage at comparatively little cost.

MARYLAND TOURISM MOUNTS The Old Line State offers visitors a wide range of attractions. Baltimore, the nation's sixth most populous city according to the 1960 census, combines focal points of national pride such as Fort McHenry with glittering examples of modern business, residential, and recreational construction, largely concentrated in its downtown reclamation project. Maryland's Eastern Shore, with its historic landmarks, large estates, boating, fishing, and bathing facilities, became easily accessible from Baltimore, Washington, and areas further inland when the 7.3-mile Chesapeake Bay Bridge, an attraction in itself, was completed a few years ago. In addition, the mountains of western Maryland, long appreciated as a summer resort area, are now being developed for winter sports.

About ten years ago, a travel industry group estimated that the tourist trade was worth about $225 million to the state economy. The Maryland Department of Economic Development has begun an official study of tourism's current contribution to business and industry, but as yet no estimates are available. This Department's budget shows more funds spent currently on tourist development than for the promotion of business and industry. The volume of tourist inquiries this year has been running 50% ahead of 1962. The state's emphasis on travel is further reflected in plans to feature its tourist attractions at the 1964 New York World's Fair.

WASHINGTON, D. C. The nation's capital is, of course, unique in its attraction for tourists. The educational value of the various centers of governmental activity has long been reflected in annual trips arranged for school children from all parts of the country. According to estimates, the number of tourists visiting Washington has been growing at about 4% per year. In 1962, visitors numbered nearly 7.5 million, and spent an estimated $385 million, nearly 15% of the District of Columbia's 1962 personal income. Studies show that the initial expenditures of visitors to the nation's capital are divided about one-fourth to hotels and motels, a little more than one-fourth to restaurants, about one-fifth to retail stores, with the remainder distributed among miscellaneous travel and entertainment activities. Advance estimates place total tourist expenditures for 1963 in excess of $400 million, a new record.

VIRGINIA OFFERS VARIETY The tourist trade looms large in Virginia and North Carolina because of the great variety of recreational opportunities these states offer. A survey of attendance at Virginia's principal tourist attractions shows a rise of more than 4% between 1961 and 1962. As a guide to the growth of tourism generally, this figure is probably low because many of the more popular attractions recorded increases as high as 20%. The relatively low average resulted in part from a drop in attendance at a few locations which in 1961 featured special Civil War Centennial events such as the re-enactment of the Battle of Manassas.

Another survey indicated an increase of 2% in utilization of tourist accommodations between 1961 and 1962 and a gain of 6% in business transacted by a sample of commercial tourist attractions. According to a special survey of out-of-state cars made by the Virginia Department of Highways in 1959, 33 million visitors in over 14 million cars toured Virginia in that year and spent a total of $237 million. Application of a reasonably conservative growth rate (4% per year) to these figures suggests a 1962 level of out-of-state tourist expenditures between $270 million and $280 million, or roughly 3% of the state's total personal income.

NORTH CAROLINA RICHLY ENDOWED North Carolina shares extensive shoreline attractions with Maryland, Virginia, and South Carolina. Like other areas of the Fifth District, the Tar Heel State provides a wide variety of historical, educational, economic, and recreational facilities of interest to visitors. In the opinion of many tourists, North Carolina's particular distinctiveness is found in its mountains. Here the Appalachian ranges rise to their greatest height, and their rugged contours include the highest peaks in the United States east of the Mississippi.

Expenditures of out-of-state travelers in North Carolina during 1962 have been estimated at $270 million. This figure was moderately in excess of 3% of total personal income, about the same as in Virginia. The figures also reveal a good rate of growth; up 6% over 1961 and almost three times the level of 15 years earlier. An additional $175 million estimated as spent by Tar Heels traveling in their own state raises total travel expenditures to about 8% of all retail trade and service industry receipts. Out-of-state visitors numbered about 26 million in 1962, an increase of 5% over the previous year.

SOUTH CAROLINIA'S SPECIAL APPEAL The Palmetto State has some distinctive features not shared by other Fifth District states. The transition to a subtropical climate begins there, endowing South Carolina with unusual varieties of floral displays, and making it attractive to tourists all year around.

About 11 million out-of-state visitors toured South Carolina during 1962. Their total expenditures were estimated at $128 million, which was between 3% and 4% of personal income and about 6% of the state's total retail business. This figure represents a gain of 7% over the 1961 level and is nearly three times tourist trade receipts 15 years ago. The additional $82 million estimated as spent by South Carolinians traveling in their own state brought total tourist expenditures to about $210 million.

Tourism is clearly increasing its contribution to economic growth in the Fifth District. The information currently available probably reflects with reasonable accuracy rates of growth in regional importance. Comparisons between states will gain significance as new sources of data are developed.

PHOTO CREDITS

11. West Virginia Industrial & Publicity Commission.

THE FIFTH DISTRICT

Business in the Fifth District began 1963 at record levels and has moved slowly but steadily ahead. The uptrend so far this year is clearly visible in most major statistical series. The seasonally adjusted bank debits series, at a record level in January, reached new highs in April and July and in the latter month was 8% above its January level.

EMPLOYMENT AND FACTORY MAN-HOURS Seasonally adjusted nonfarm employment gained a little every month this year, but not until July did the cumulative rise exceed 1%. Gains after seven months amounted to around 1% in durable manufactures, trade, and government, and about 2% in construction, services, financial enterprises, and transportation, communications, and public utilities. At the extremes, mining employment rose nearly 5% over the period while jobs in nondurable goods industries showed little change.

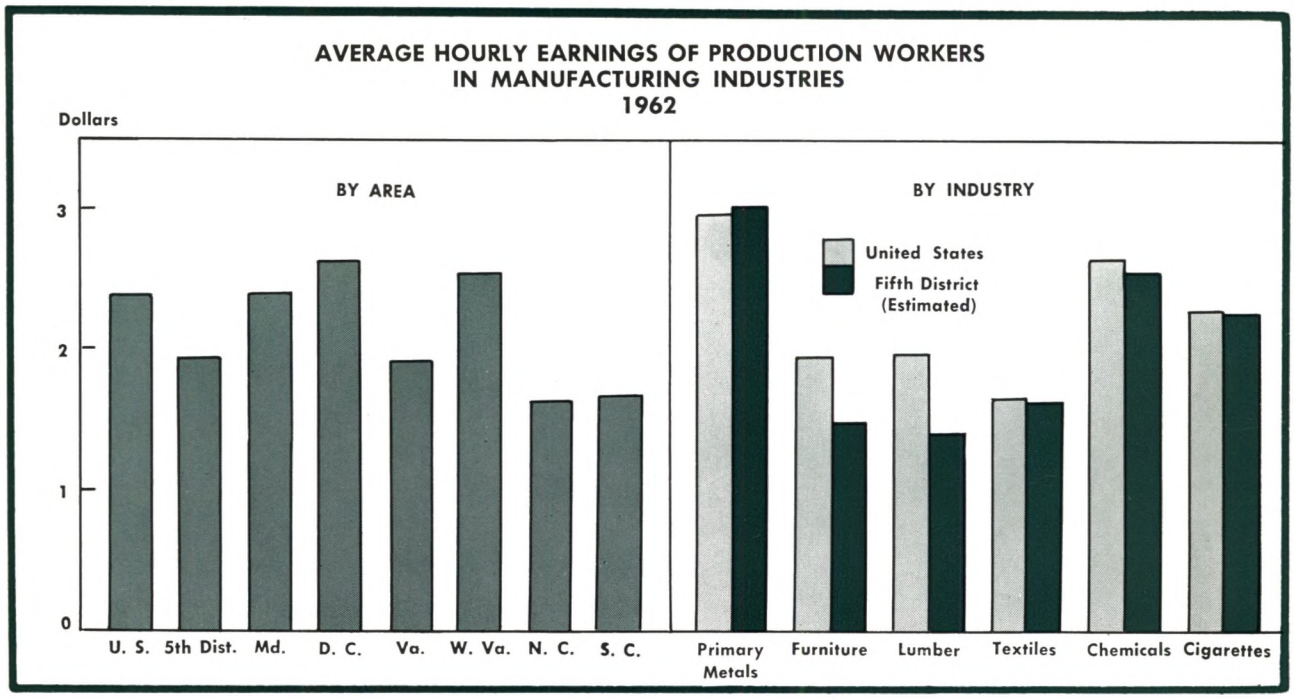
Factory man-hours, seasonally adjusted, moved more irregularly than nonfarm employment in the first seven months and showed a smaller net advance. All groups of durable goods industries except electrical machinery and stone, clay, and glass products scored gains. July changes accounted for the man-hours decline in electrical machinery and the advance in lumber and wood products. Among nondurables, slight declines in paper and the knitting sector of textiles were more than offset by small gains in other lines. In the chemical industry, July man-hours were virtually the same as in January. July figures, the latest available, showed small reductions in man-hours for most nondurable goods industries and small gains for most durables.

NEW MINIMUM SPOTLIGHTS WAGES As provided in the minimum wage law enacted over two years ago, the wage floor for many employees will be raised this month to $1.25 an hour. Some actions were taken during the summer to anticipate the change. For instance, certain furniture makers increased wage rates ahead of the deadline and also made selective price increases to help cover the higher costs. Industries affected by the new minimum may find their entire wage structure moving upward to maintain the differentials needed for providing incentive, recognizing seniority, and rewarding productivity.

Wage rates are, of course, prices paid for labor and are related closely to basic supply and demand forces in markets for particular kinds of labor. For jobs requiring little specialized training or experience, the supply may be relatively large and the wage rate relatively low, as in retail trade where national hourly earnings of sales personnel averaged $1.75 in 1962. If skill and experience requirements or other factors limit the supply, wages are likely to be higher, as in the construction industry where the typical production worker in 1962 earned $3.29. In markets characterized by some degree of organization among employees or employers, the relative strength of bargaining positions may exert the most important immediate influence on wage rates.

WAGE DIFFERENTIALS Wages vary geographically as well as industrially. In most cases, both geographical and industrial differentials can be traced partly to basic supply and demand factors and partly to disparities in bargaining strength. Earlier in this nation's history, when both knowledge of distant employment opportunities and ability to migrate were more restricted, regional differences were far greater than they are now. Today workers receive much the same pay rates for comparable work in all parts of the country. Thus, straight-time hourly earnings of machine-tool operators in machinery manufacturing in the spring of this year were $2.34 in Boston, $2.41 in Baltimore, and $2.44 in Los Angeles.

Variation in industrial composition is the principal cause of regional differences in wages. Thus in 1962 average hourly earnings in manufacturing were $1.64 in North Carolina and $2.55 in West Virginia. Relatively low-wage nondurable goods industries dominate North Carolina manufacturing and, in addition, the state's chief durable goods are of the low value-added variety. Local rates, for example, average $1.60 per hour in textiles, $1.50 in furniture, and $1.40 in lumber. In West Virginia, on the other hand, durable goods industries are more numerous, and the dominant industries in both durables and nondurable goods categories fall near the upper end of the wage spectrum. West Virginia features metals and metal-working, paying locally about $3.10 per hour, and chemicals, where hourly pay rates average



close to $3.00. Variations in average hourly earnings of manufacturing production workers both within the Fifth District and between the District and the nation, shown in the left-hand chart at the top of the page, are due mainly to differences in industrial composition.

The right-hand chart shows 1962 average hourly earnings in selected industries, actual for the United States and estimated for the Fifth District. These comparisons illustrate how differences in product specialization within an industry can influence regional wage differentials. For example, the national average hourly rate in the lumber and wood products industry is very close to $2.00, while the Fifth District figure is around $1.40. Pay rates are higher in the North and Northwest, which concentrate more heavily than the District on production of finished and specially processed lumber and lumber products.

INTRA - INDUSTRY DIFFERENTIALS In connection with the minimum wage increase, wage scales within particular industries are particularly interesting. Industry wage surveys released from time to time by the Bureau of Labor Statistics provide the basis for the comparisons presented here.

A June 1963 survey of sawmills and planing mills in the South (from Virginia westward to Texas and Arkansas) indicated average hourly pay of $1.25. According to the survey, 70% of all production workers in these establishments earned less than $1.25 per hour, 19% earned between $1.25 and $1.50, and only 3% earned $2.00 or more.

In the apparel industry in 1962, national average hourly pay for production workers was $1.67. A Bureau of Labor Statistics survey of the work clothing segment of this industry in the spring of 1961 showed hourly earnings averaging $1.24 nationally and $1.19 in the Southeast. At that time 68% of the surveyed workers in the Southeast received less than $1.25 per hour as against 60% of those in the national survey.

An April 1962 survey of the footwear industry revealed average hourly production worker earnings of $1.64 nationally and $1.47 in the Border States (Delaware, District of Columbia, Maryland, Virginia, West Virginia, and Kentucky). The distribution showed 26% of these workers below the $1.25 mark nationally and 36% in the region specified.

Other surveys taken at various dates in 1961 and 1962 indicate sizable numbers of workers in other important lines under the $1.25 minimum. In the dyeing and finishing area of the textile industry, for example, 9% of surveyed workers in the Southeast and 6% in the nation were in this category. In the related hosiery sector the figure was 36% for the Southeast and 35% for the nation. The new minimum wage will apparently have a stronger impact in the South than in other parts of the country.

CREDITS

6. & 7. Map—National Park Service, U. S. Dept. of the Interior; Blue Ridge Parkway Association.

THE FIFTH DISTRICT

In the industrial economy of the Fifth Federal Reserve District the importance of textiles is as plain as the red brick mills that dot the green landscape. In coastal areas of South Carolina the industry is of little significance. But moving northward, especially through the lower Piedmont, its importance rises sharply, reaching a peak in North Carolina, and tapering off again to nominal significance in northern parts of the District. While there is little need to bring in published data merely to add emphasis, statistics are useful to highlight the industry's many interesting features.

Distribution By States In South Carolina's industrial directory, textile mills occupy more than seven of 65 pages, with some 55 names on each page. Firms in closely related lines—apparel, textile machinery and machine parts, synthetic fibers, chemicals, and dyes—fill many additional pages. Statistics for 1962 show 134 thousand South Carolinians on textile payrolls, more than one-fifth of all nonfarm employment in the Palmetto State and over half of manufacturing employment. Jobs and income generated in textile-related activities further magnify the industry's local significance.

Textile mills are most numerous in North Carolina's Piedmont region. In the Tar Heel State's industrial directory, textile plants fill 42 of the 200 pages that list the state's manufacturing establishments, with 25 names on each page. The directory also lists many makers of apparel and related products and many machinery and chemical manufacturers serving primarily the textile business. Jobs in the textile industry proper averaged 227 thousand in 1962, nearly half of all Tar Heel manufacturing employment and almost one-fifth of all jobs in nonfarm businesses. North Carolina's textile complex is considerably larger than South Carolina's, but the industry's relative importance as a source of employment and income is slightly smaller.

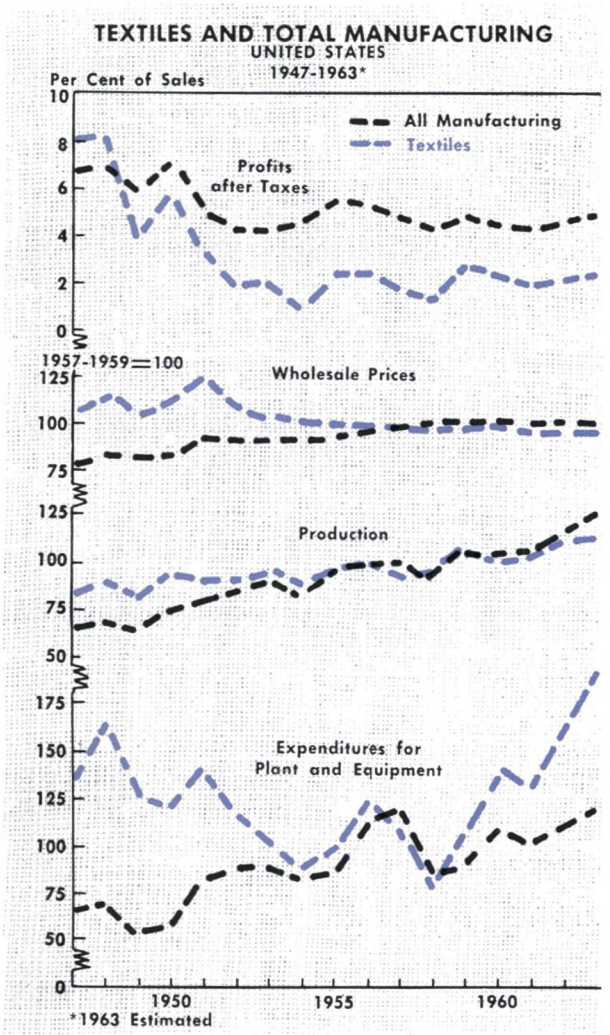
Though not on a par with the Carolinas, Virginia's textile industry is substantial. In the Old Dominion, textile firms typically employed around 37 thousand during 1962, one in every eight factory workers and one of every twenty-nine nonfarm wage and salary employees. By contrast, the combined textile employment of West Virginia and Maryland amounts to little more than four thousand.

Regional and National Status In the Fifth District as a whole in 1962, textiles provided more than one-fourth of the manufacturing jobs and one-twelth of all nonfarm wage and salary employment. Textile jobs in the entire nation number little more than twice the Fifth District total. Nevertheless the industry's national significance is considerable. Nationally in 1962, the industry's 903 thousand workers accounted for one of every 19 manufacturing employees and one of every 62 nonfarm wage and salary workers. Four cents of every manufacturing income dollar and one cent of every national income dollar originated in textile manufacturing. Enterprises supplying the domestic textile industry, furthermore, represent many more thousands of jobs and millions of income.

Textile Trends Differ Since World War II textile production has increased, but the rise has been considerably smaller than in most other manufacturing industries. In textiles, contrary to manufacturing trends generally, both prices and employment have declined. The postwar downtrend in manufacturing profits was more pronounced in textiles than in most other lines. While the profit slide flattened out after 1958, after-tax profit rates on sales in textiles have recently been about half the average for all manufacturing.

In the face of dwindling profits, textile producers spent less and less on new plant and equipment in the early and middle 1950's. Intensified competition, both foreign and domestic, stimulated research efforts, however, and after 1958 investment outlays began to rise, chiefly for more efficient and more versatile equipment. With the handwriting on the wall, textile plant and equipment outlays have risen every year since then except for a slight drop in 1961.

Rising Efficiency Between 1947 and 1962 national employment in textiles fell almost one-third while textile mill output, measured by the Industrial Production Index, rose more than one-third. Currently rising outlays for new plant and equipment ap-



pear to confirm these trends at least for the next year or two. Outlays last year just about matched the postwar record (1948) and will reach a new high this year. Investment in 1963 will be about twice as great as in 1959 and three times the 1958 figure which marked the postwar low. Wholesale prices, fairly stable for several years, have recently shown some inclination to rise. Efforts to control costs appear to be succeeding, and profit margins, although still well below the average for other manufacturing industries, have inched upward.

International Aspects Problems facing the textile industry have important international overtones. Imports of textiles and finished textile products have trended steadily upward, and textile exports have declined. A number of new developments in automated equipment, special processes, and new fibers have originated in foreign countries. Recently attention in this country has been focused principally on tariff negotiations to restrict imports and on the so-called two-price cotton situation, which enhances the competitive advantage of foreign producers. Foreign users can buy American cotton eight cents per pound cheaper than American users. Originally designed to encourage raw cotton exports, this eight-cent export subsidy has now become an important issue in the competitive struggle between domestic and foreign producers and has caused some shifting domestically from cotton toward synthetics, although the former remains the major raw material.

A glance at the figures lends needed perspective to these trends. Detailed statistics on some parts of this large and diverse industry are limited so that generalizations applying to all its phases are difficult to formulate. Certain sectors, however, can be covered quite adequately. In cotton textiles, for instance, domestic production in 1962 was nearly 11 billion square yards. Cotton textile exports in the same year amounted to 415 million square yards, and imports reached 464 million square yards, exceeding exports by 12%. Exports in 1962 were 3.8% of production and imports were 4.2%. These figures, however, do not take account of trade in apparel and other articles made of cotton fabric. With the help of special conversion factors developed by the Department of Commerce, the square-yard equivalent of such items imported has been estimated at some 700 million square yards. This brings the cotton goods imports figure to 11.5% of domestic production.

These trends appear to be well established in the record of the recent past, but could be sharply altered by any of a number of developments. Cotton textile production was only 4% higher in 1962 than in 1952 in contrast to a 23% gain in textiles generally; and the cotton trend has been downward since 1959. During the same decade exports of cotton textiles dropped 45% and imports, not counting the square-yard equivalent of miscellaneous manufactured items, increased about twelvefold. If imports can be checked while further cost reductions are achieved through current investment and possibly also through elimination of the two-price system, more favorable trends may be expected in the future.

CREDITS

Cover—Mack Trucks 6. & 7. A. Aubrey Bodine, F. P. S. A.; Sparrows Point Plant, Bethlehem Steel Co.; Communications Department, Maryland Port Authority; Port of Baltimore Handbook, Maryland Port Authority; Maryland Shipbuilding & Dry Dock Co.

THE FIFTH DISTRICT

Halfway through the fall season, business statistics continue to show rising levels of activity in the Fifth District. As always, there are some departures from the prevailing trend. Toward the end of October, gross income from flue-cured tobacco, a significant source of spending in some parts of the District, was about 14% behind last year. According to recent indications, the final figure will probably be some $70 million, or 9%, lower than last year. Seasonally adjusted department store sales dropped rather sharply in October. The series reached a record level in August and declined only slightly in September. Signs of weakness other than these, however, are hard to find. In fact, the evidence is clearly weighted in the other direction.

On High Ground With the exceptions noted above, virtually all important sectors of District business show strength. Seasonal adjustments, which reflect average timing and magnitude of seasonal variations over several years, do not always provide the correction appropriate for a particular year. But even taking this into account, the improvement in business indicators this fall is too extensive to be the result of seasonal influences only. With Federal employees accounting for one-tenth of the District's nonfarm workers, military pay increases in effect since October 1 and the civil service pay hike scheduled for January 1 represent important additions to income in the District. If these are not offset by declines elsewhere, the resulting gains in personal income will tend to brighten already favorable prospects for retail trade over the holiday season.

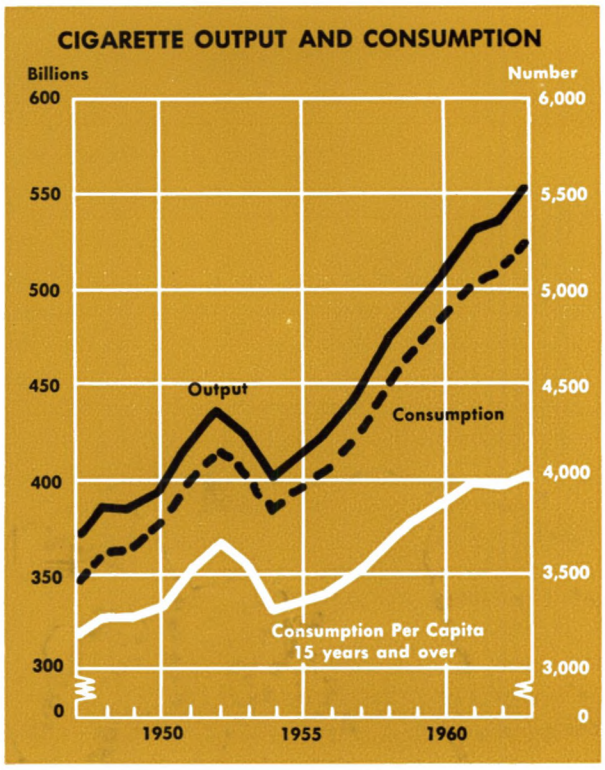
In the District, seasonally adjusted bank debits, a broad but volatile indicator, reached an all-time high in July, dropped rather sharply in August but rose again in September almost to the July level. The cumulative rise since the April 1961 recession low now amounts to 27%, slightly larger than the increase between the 1958 low and the early 1960 high, and distinctly larger than any gain achieved in three consecutive calendar years since the period from 1954 to 1957.

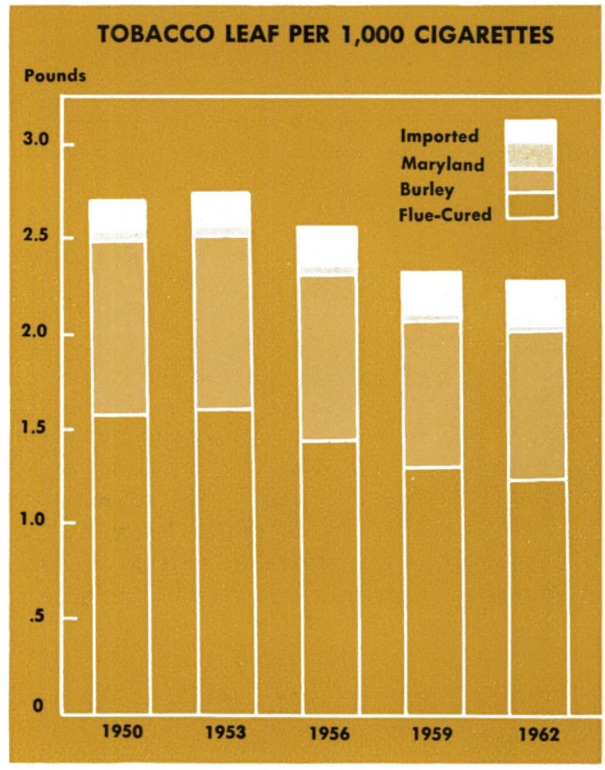
In contrast to bank debits, increases in seasonally adjusted nonfarm employment have been for the most part slow but steady. A barely measurable net decline in September marked the first dip in District employment since April 1961. In the interim, monthly increases ranged from 0.1% to 0.5% except for November and December of 1962 and March of the current year, when no significant change occurred. August improvements in nonfarm employment were marked by 0.3% gains across the board, but mixed conditions reappeared in September with small declines in nondurable goods manufacturing, mining, construction, trade, and services. District nonfarm employment is currently more than 8% above the early 1961 recession low. During the previous cyclical upswing, April 1958 through May 1960, the gain in nonfarm employment amounted to 7%. Prior to the present period of growth, no three consecutive calendar years have produced a gain in nonfarm employment as large as 8% since 1954-1957.

Over 380,000 workers have been added to Fifth District nonfarm payrolls since February 1961: 100,000 in Maryland, 49,000 in the District of Columbia, 104,000 in Virginia, 4,000 in West Virginia, 82,000 in North Carolina, and 41,000 in South Carolina. Relative gains in the various states so far come to 12% in Maryland, 9% in the District of Columbia, 10% in Virginia, 1% in West Virginia, and 7% in both North Carolina and South Carolina.

Man-Hours Recently Unchanged Seasonally adjusted factory man-hours reached an all-time high for the District in May of this year, declined slightly in June and have since remained almost unchanged. A further slight decline occurred in September largely because of a sharp cutback in tobacco manufacturing and smaller reductions in some metals and machinery, transportation equipment, paper, and printing. Temporary declines have occurred several times since early 1961, but the trend has remained generally upward and the over-all gains are significant: 10% for the District as a whole, 14% in Virginia, 13% in South Carolina, 11% in North Carolina, 8% in the District of Columbia, 7% in West Virginia, and 6% in Maryland.

Builders Busy The construction business continues to contribute strength and stability to the District economy. Seasonally adjusted construction employment rose almost without interruption after the





February 1961 low, reached a new high in August with a cumulative gain of more than 17%, then receded slightly in September. Contract awards approached record levels in May and have remained close to these levels ever since. Strength has been uniformly distributed among commercial, industrial, and residential categories. Seasonally adjusted building permits advanced to a new high in September, rising sharply from already high levels.

Uncertainties Mark Tobacco Business Despite uncertainties generated by unfavorable publicity, cigarette sales continue to climb. Last year's decline in per capita consumption was widely regarded as a possible turning point in this steadily rising trend, but preliminary 1963 figures suggest a resumption of the uptrend strong enough to set new records. This year's domestic purchases of cigarettes are now expected to equal 4,005 for every citizen 15 years of age or over, or 11 cigarettes per person per day. Postwar trends in total production and in total and per capita consumption are shown in the chart at the head of this column. Growth in the total figures has been steady at about 3.4% per year since the early 1950's. This year's gains are a bit below the average, 2.7% in production and 2.9% in consumption. The consumption data include shipments to armed forces overseas. Other exports account for the margin of production over consumption.

Recent statistics indicate that Fifth District producers account for 83% of the nation's cigarette output, and yet cigarette manufacturing accounts for less than 2% of total Fifth District factory man-hours. Random fluctuations in cigarette production are frequently so large from month to month that growth and the effects of the business cycle are difficult to recognize over short periods of time. Rising with the national trend, Fifth District cigarette production reached an all-time high in May, declined in June, returned almost to the May level in July, and has continued close to these high levels ever since. This year's District cigarette production so far exceeds last year's by 2.8%.

The amount of leaf tobacco to make a given number of cigarettes has declined since 1953, as shown in the chart above. About nine-tenths of the tobacco used in domestic cigarettes originates in this country and only one-tenth abroad. The use of domestic leaf tobacco in cigarettes has been declining, however, while imported varieties have increased. Cigarettes require less leaf tobacco than formerly because filters and new processes permit the cigarette filler to include stems and tobacco particles not formerly used and because the column of tobacco is shorter in a filter cigarette than in a nonfilter type. More of the aromatic foreign varieties are used to maintain the flavor of the filtered smoke.

THE FIFTH DISTRICT

Figures currently emerging from various statistical assembly lines clearly show continued progress in most sectors of Fifth District business. More recent evidence—the far less comprehensive "seasonally unadjusted" kind gleaned from business news, statements of industry spokesmen, and various other sources—suggests that the uptrend is still in force as November ends and December begins.

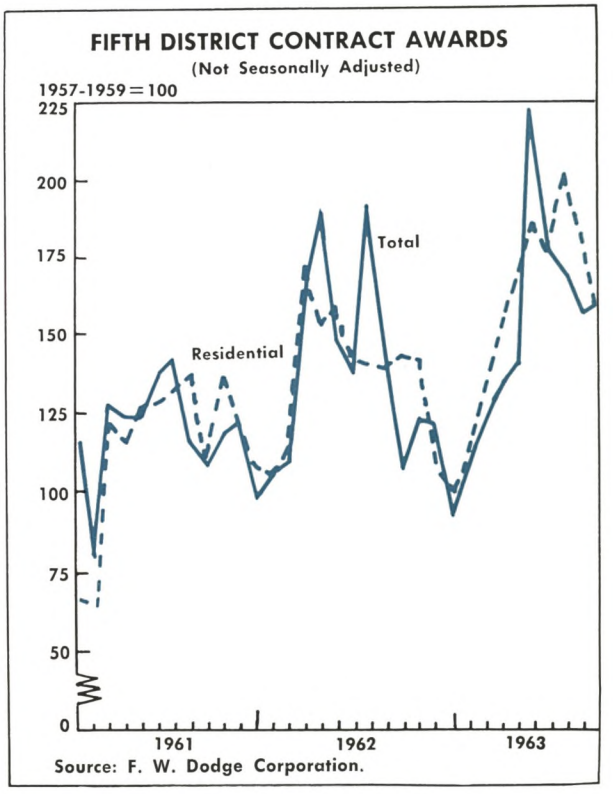
There is strength in the District's major manufacturing industries, in construction, service enterprises, trade, mining, and most other activities. Unemployment remains low compared to the rest of the nation and to District levels in previous years. Comprehensive indicators reflect continued growth as bank debits remain close to the peak while nonfarm jobs and factory man-hours stand at all-time highs.

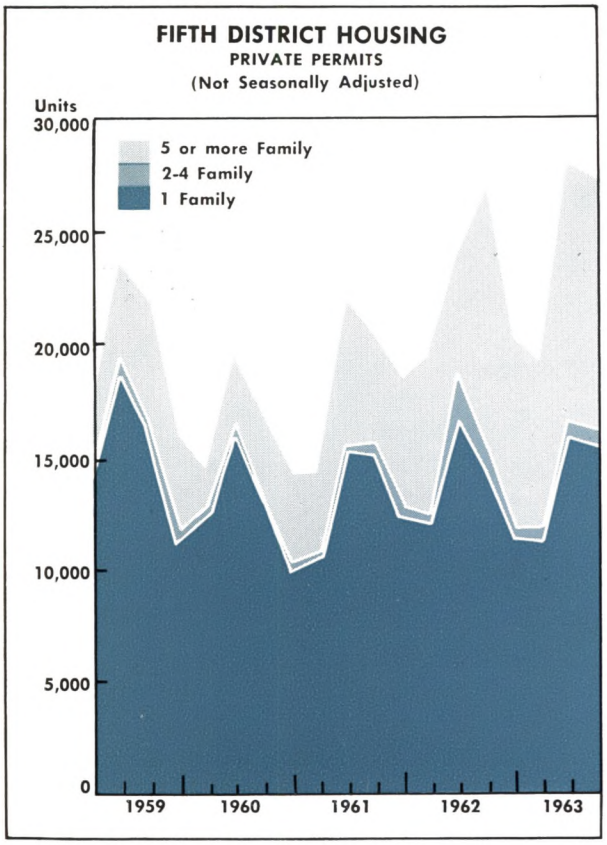
The one clear exception is agriculture, where receipts from flue-cured tobacco sales continue to run some 9% lower than a year ago. A few other developments—lower average levels of contract awards and automobile registrations, and unevenness in retail trade, for instance—temper the general aura of strength. While it is premature to assess the significance of these developments, it may be noted that similar spotty evidences of weakness have, on earlier occasions, disappeared.

Jobs and Man-Hours Set Records In October, seasonally adjusted nonfarm employment rose 0.3% to a new high. Jobs increased in both durable and nondurable goods factories and in all nonmanufacturing sectors except services where a slight decline occurred. October employment figures set records in durable goods manufacturing, in contract construction, in trade, in finance, insurance, and real estate establishments, and in government. The sharpest gains, however, occurred in construction, mining, and the production of nondurables.

With employment rising, unemployment has remained relatively low. Weekly rates of insured unemployment in October averaged 2.3% in Maryland, 1.4% in the District of Columbia, 1.0% in Virginia, 3.7% in West Virginia, 2.5% in North Carolina, and 2.7% in South Carolina, compared to 3.1% for the nation. Labor force estimates of total unemployment, available for all District states since January 1962, also show local rates consistently below the national except in West Virginia. In September, the latest month for which these data are available, unemployment equalled 7.5% of the West Virginia labor force and ranged from 2.5% to 4.0% in other District states compared to 4.8% for the nation as a whole.

Seasonally adjusted factory man-hours, by virtue of the strongest gain since May, also reached a new high in October. Progress was not universal, however, as somewhat mixed conditions resulted in a small decline in durable goods man-hours partially offsetting a healthy rise in nondurables. Industries reporting man-hour reductions included nonelectrical machinery, lumber, cigarettes, and to a lesser extent, fabricated metals, food, and printing. Advances were most vigorous in textiles, apparel, transportation equipment, and primary metals. Business is particularly rosy for District furniture makers, preparing to wind up a second record-shattering year, and al-





though textiles face a web of uncertainties, demand is strong, prices firm, and production high.

Strong But Variable Bank debits reached the same record level in July and September, then settled back slightly in October. On a ten-month basis, this year's debits exceed last year's by 7.6%.

District business failures increased in September although the trend over the year has been generally downward and failures in the first nine months were 10% lower this year than last. The trend in current liabilities of business failures has also been downward this year, but the total for the first nine months was 3.9% higher than in 1962. New business incorporations were weaker than usual in August and September, but earlier strength produced a 1.2% nine-month gain over last year.

Following five record months, new passenger car registrations declined more than seasonally in August and September. With three quarters of the year accounted for, 1963 is running 15% ahead of 1962 and 40% ahead of 1961.

Construction Construction, one of the District's most enduring sources of strength, has recently developed a few uncertainties. Nevertheless, most measures of District building activity continue to show improvement, as the charts indicate. For example, the total value of contracts rose steadily during the early part of the year and were, after nine months, 7% higher this year than last.

These totals hide some conflicting trends. In the category of public works and utilities, where contracts are likely to have prolonged impact on the general economy, award values rose 40% in 1962, but on the basis of nine months' data, dropped 17% this year. Reassuringly after two rather slow months, these awards rose again in September. In view of the earlier weakness, however, the District economy will receive less support from this source a year or so hence unless these awards continue to rise.

Nonresidential awards, largely new industrial and commercial buildings and expansions which include a good number of sizable projects, followed a somewhat different course. Here award values declined 4% in 1962 then achieved year-to-year gains averaging 18% over the first nine months of 1963. As with public works and utilities, May and June were the busiest months so far this year, and September showed a good rise after two months of decline.

The trend in residential awards has continued upward over the past three years but, as the chart of residential building permits shows, the strength lies in multifamily dwellings not in single family houses. On the basis of nine months' data, total residential awards are running 15% ahead of last year. Single family dwellings have increased only slightly since 1960 and are still well below 1959 levels. Although some fears have been expressed lest construction of apartment houses exceed potential demand, there is little evidence that this is a significant danger as yet.

Agriculture Gross returns from District flue-cured tobacco sales are running about $70 million (9%) below last year. Despite this, markets in the Eastern North Carolina Belt recently closed with gross sales 2% higher than in 1962 due to 4% more volume with prices 2% lower. Total cash receipts of District farmers for nine months of 1963 were 5% below 1962 compared to a 1% decline nationally. With 1964 acreage allotments on flue-cured tobacco cut 10%, prospects for a return to farm income levels of recent years remain uncertain.

PHOTO CREDITS

Cover—Friedman-Marks, Inc., Richmond, Virginia; 6. & 7. The Homestead, Hot Springs, Virginia; Department of Conservation and Development, Raleigh, North Carolina; Deep Creek Lake—Garrett County, Promotion Council, Inc., Oakland, Maryland.

THE FIFTH DISTRICT

BANKING SUMMARY, 1963

The year 1963 was an eventful one for Fifth District banking. It was marked by continued growth in bank credit, important shifts in the composition of earning assets held by banks, and rapid growth in time and savings deposits. More significant from the long run viewpoint, perhaps, were the numerous changes in banking structure during the year.

Healthy Growth in Bank Credit The most readily available information on changes in bank credit in the District is provided by data for the nineteen member banks that report weekly. While experience of these banks, the District's largest, is not necessarily identical to that of all District banks, they account for a sizable fraction of total loans and investments, and their experience is fairly representative of District banking as a whole.

Total loans and investments of District weekly reporting banks increased almost 5% in 1963. While this was a healthy growth, it failed to match the 6.6% gain achieved by weekly reporting banks throughout the United States and was less than the 6.3% expansion for District weekly reporters in 1962.

In addition to the overall increase in bank credit last year, there were significant changes in the composition of earnings assets of District weekly reporting banks. First, a substantial expansion in gross loans was accompanied by a sizable reduction in total investments. This is in marked contrast to experience in 1962 when gross loans increased almost as much as they did last year, but total investments also increased. Second, real estate loans and consumer loans grew more rapidly than gross loans, and although total investments declined, holdings of municipal securities rose sharply.

These changes in the composition of assets reflect increased pressure on bank reserves and efforts by weekly reporting banks to acquire higher yielding assets to offset the increased cost associated with the growth of time and savings deposits and with higher rates of interest on such deposits.

Loan Demand Strong The 9.5% increase in gross loans at District weekly reporting banks last year was one of the largest in recent years. It fell short of the gains achieved by weekly reporting banks throughout the United States, however, and was only slightly ahead of the gains realized in 1962.

Among specific loan categories, real estate loans showed the most spectacular growth, a whopping 20.5% increase. This was the best gain in recent years, surpassing by a wide margin the impressive

CHANGES IN LOANS, INVESTMENTS, AND DEPOSITS
WEEKLY REPORTING MEMBER BANKS
(% Change)

	Fifth District		United States
	January 2, 1963-January 1, 1964	January 3, 1962-January 2, 1963	January 2, 1963-January 1, 1964
Gross Loans	9.5	9.3	10.0
Commercial and Industrial Loans	8.8	5.9	9.7
Real Estate Loans	20.5	16.6	15.2
All Other (Primarily Consumer) Loans	11.3	10.8	10.8
Total Investments	— 2.8	1.6	0.5
U. S. Government Securities	—10.9	— 2.2	—10.4
Other Securities	21.8	15.1	22.9
Total Bank Credit	4.9	6.3	6.6
Demand Deposits	2.5	5.0	2.2
Time Deposits	15.6	15.2	17.5

16.6% gain in 1962 and the 15.2% growth for the U. S. weekly reporting banks in 1963.

All other (primarily consumer) loans also displayed strength, but the gain in this category was short of the record in recent years. The 11.3% growth in these loans last year exceeded the 10.8% realized in 1962. U. S. weekly reporting banks had an increase of 10.8% last year.

Demand for business loans at District weekly reporting banks remained strong in 1963. Their 8.8% growth exceeded the 5.9% gain in 1962, but failed to equal the performance of weekly reporters throughout the country. Growth in these loans lagged behind the expansion in gross loans, with a resulting small decline in their relative importance.

Significant Shifts in Investments Last year was the first year since 1959 in which the total investments of District weekly reporting banks declined. The year 1959 was one of substantial economic expansion and the strong loan demand put pressure on the resources of commercial banks which resulted in a sizable reduction of investments. In 1963, for the first time since early 1960, banks experienced some pressure on reserves and once again investments were reduced. The reduction for District reporters last year, however, was relatively small, amounting to 2.8%.

The decline in total investments was less significant than shifts within investment portfolios. The most noteworthy was a sizable reduction in holdings of U. S. Government securities and a sharp rise in other securities, mainly municipals. Other securities have been rising for several years and at the end of 1963 represented 31.0% of total investments of District weekly reporting banks. This compares with 18.7% at the end of 1960 and 24.8% at the end of 1962. As the accompanying table shows, changes in the investment portfolios of U. S. weekly reporting banks in 1963 closely paralleled those of District weekly reporters, except that increases in other securities held by U. S. weekly reporters slightly exceeded declines in Governments.

The decline in the relative importance of Governments was accompanied by an extension of their average maturities. Governments with less than one year to maturity fell from 21.7% of total investments at the end of 1962 to 15.6% at the end of 1963.

Deposits Changes on the liability side of bank balance sheets were closely related to the changes in earning assets, not only quantitatively but also in terms of the structure of liabilities. As the accompanying table indicates, the growth in demand deposits at District weekly reporters in 1963 was only half that of the preceding year. Time and savings deposits, on the other hand, recorded a third straight year of rapid expansion.

As a result of these changes, time and savings deposits at all District member banks rose from 30.1% of total deposits in December, 1961, to 32.6% in December, 1962, and 34.6% in December, 1963. Coupled with rising interest rates on these deposits, this rapid growth has significantly increased the cost of bank funds.

There is little doubt that the higher costs of funds has induced many bankers to seek more remunerative outlets for these funds and this has been at least partly responsible for many of the changes in asset structure described above. There is also little doubt that changes in the composition of assets have reduced bank liquidity, but at the same time the increase in the relative importance of savings deposits has reduced liquidity needs of the banks.

Fewer Banks But More Offices Changes in District banking structure in 1963 resulted in a reduction in the number of banks and an increase in the number of banking offices. This type of change has characterized banking in the United States for many years, but the changes in the District last year were unusually numerous.

New banks organized in Fifth District states in 1963 totaled 19, of which 12 were national banks and 7 state banks. At the same time, there were 41 bank mergers, with a net reduction of 22 in the number of banks in the District. State nonmember banks were reduced in number by 14, state member banks declined by 5, and national banks by 3.

Banking offices, on the other hand, increased by 170, mainly as a result of the opening of 157 new branches. The 19 new banks organized during the year added to the total of banking offices, but 5 branches were discontinued and one banking office was eliminated as the result of a merger.

Among District states, Virginia's banking system experienced the greatest change with 8 new banks, 20 mergers, and 46 new branches. In North Carolina one new bank was chartered, 56 new branches established, and 6 mergers completed. Three new banks were organized in South Carolina, 7 mergers were consummated, and 21 new branches established. Maryland had 5 new banks, 8 mergers, and 30 new branches. The District of Columbia gained 2 new banks and 4 new branches, while one branch was discontinued. There were no changes in West Virginia.

THE FIFTH DISTRICT

The District economy seems to be performing distinctly better than usual for this time of year despite a few uncertainties. For one, the latest efforts to separate fact from fiction regarding tobacco's effects on health have placed some restraint on activity in this important industry. For another, textile manufacturers remain in doubt respecting the important two-price cotton issue and the extent to which textile products will be involved in forthcoming tariff revisions. Both the tobacco and the cotton questions will affect farmers, whose 1963 cash receipts were down a little from 1962 and who face a 10% cut in tobacco allotments this year. None of these factors, however, or occasionally severe weather in parts of the District, has substantially affected key business indicators for the District.

Business At Record Level In the District, as in the nation, February marked the thirty-sixth successive month of expansion. As a result of the sustained uptrend, District business, as reflected in the usual data, is at an all-time high. The advance has been comprehensive both geographically and industrially. Most sections of the District have continued to show gains, as have most major business sectors.

Recent performance of District business indicators suggests that the current uptrend retains considerable vigor despite its advanced age. Seasonally adjusted bank debits in January, while slightly below the December 1963 peak, were 6% above a year ago. Other banking series have followed normal seasonal patterns, but at all-time high levels. Gross loans of weekly reporting member banks fell less than seasonally in January and turned up again in the first week of February, some weeks earlier than usual. Business and consumer loans at these banks were moderately strong over the first six weeks of the year, while real estate loans continued to expand in line with the rapid 1963 pace.

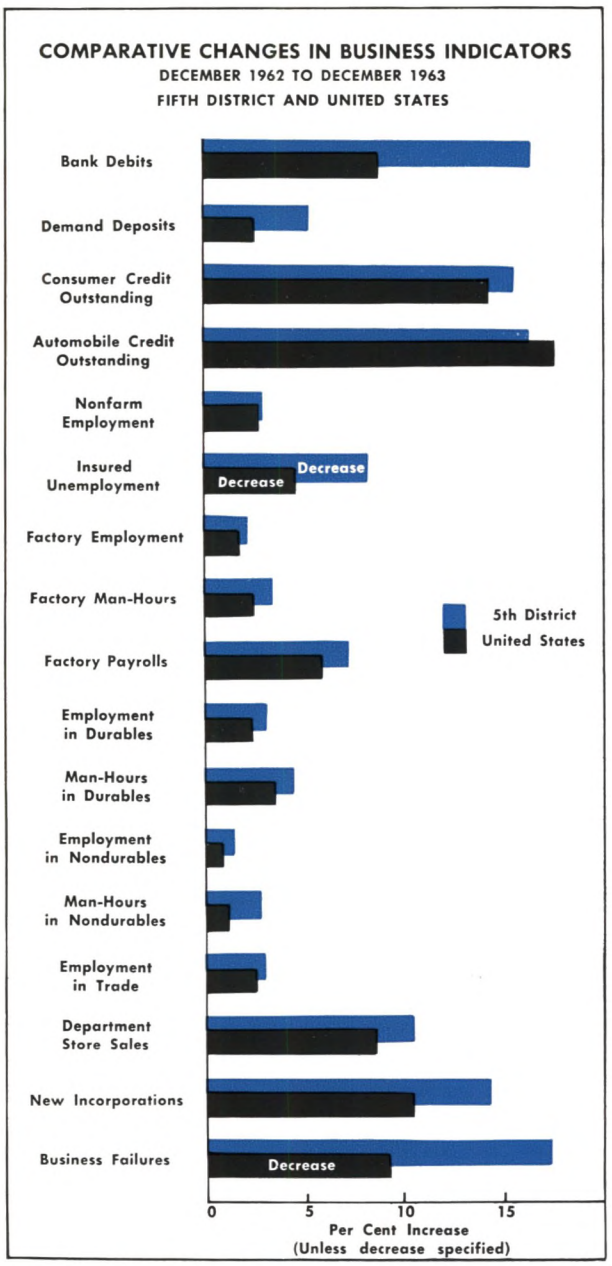
Seasonally adjusted nonfarm employment has increased steadily since September. Gains have been widespread in each month, with intermittent declines affecting construction, services, mining, trade, and nondurable goods manufacturing.

A Boost From Construction Contract construction employment decreased more than seasonally in January but has otherwise displayed unusual resistance to seasonal declines. Builders have plenty of work and are almost certain to remain as busy in the months ahead as weather and availability of men and materials permit. Contract awards reached record volume in 1963, surpassing the 1962 figure by one-sixth and the 1961 total by one-third. Awards were strong in all categories, but residential awards showed the most improvement.

The surge in residential building has been a major factor in the improved market conditions noted recently in the lumber business. Large industrial buyers and railroads have also stepped up orders, and some retail lumber dealers have begun building inventories in anticipation of heavy volume in the spring and summer.

The job of equipping new buildings is expected to give added support to the already brisk demand for both home and commercial furnishings. This promises yet another good year for the District's furniture industry, which for two consecutive years now has been operating close to an expanding capacity. Since furnishings include upholstery materials, rugs, draperies, and a variety of other fabrics, the textile industry also stands to benefit. Considering the uses that modern builders and furnishers make of a wide variety of other materials and equipment, many of the District's manufacturing industries have a stake in the optimistic outlook for construction and housing nationally.

Cigarette Production Slows Recent changes in the demand for cigarettes and other tobacco products have been well publicized. Recognizing these changes, cigarette companies in early February announced production cutbacks for most plants, from the normal five-day week to four days and in some cases to three. Seasonally adjusted cigarette factory man-hours have fallen every month but one since last summer. These declines, however, have been more than offset by gains in other sectors which raised total factory man-hours and man-hours in nondurables every month in 1963's final quarter. Small declines in man-hours occurred in most of the District's major classes of industry in January.



Uncertainties In Textiles The textile industry has been operating in an unusually fluid environment for some time, shifting and adjusting in response to a host of changes in its markets, materials, methods, and machines. Recent evidence suggests that the industry's current price structure remains firm despite a relatively slow pace of forward buying. Mill backlogs on big-volume items are of fair size, and customer inquiries for forward delivery are numerous, although relatively few are being translated into actual orders. Buyer caution apparently stems largely from a belief that pending Federal legislation may lower the price structure by reducing the effective price of cotton to domestic users to bring it closer to world prices.

The same uncertainty temporarily delayed the flow of orders at times last year. Yet strong demand and efforts to reduce costs pushed profit margins for most large producers to the highest level in several years. Part of the improvement in profits resulted from a continuing move away from cotton to synthetics and blends, a trend which cotton interests hope to see checked by the new legislation.

Compounding the uncertainties associated with cotton prices are equally significant questions about the eventual effects of current and prospective tariff negotiations. Neither the cotton price nor the textile tariff issue has the popular appeal of the tobacco inquiry. Yet these issues bear directly on the prosperity of the District's largest manufacturing industry and could affect the welfare of numerous localities which depend on textile mills.

District Versus Nation The 1963 statistical record is not yet sufficiently complete to allow detailed study of last year's progress in the District relative to the nation. Interesting comparisons based on a number of individual business indicators can be made, however. The accompanying chart shows percentage changes, nationally and for the District, in 17 indicators between December 1962 and December 1963. It should be noted that year-to-year comparisons of figures for a single month are subject to large distortions from random occurrences and cannot be relied upon to give an accurate measure of annual growth. Accordingly, the chart should not be interpreted as a comparative growth profile.

District figures compare especially favorably in banking, in manufacturing, in employment and unemployment, and in trade. Expansion in District banking was accompanied by a sizable increase in the number of offices. A continuing influx of new industry, particularly in coastal and Piedmont areas, again contributed to the increase in factory activity. All sectors of District employment except mining advanced and unemployment declined. The fact that 15 of the 17 comparisons favor the District suggests that the region as a whole shared generously in last year's broad economic advance.

PHOTO CREDITS

Cover—Federal Reserve Bank of Richmond 6. & 7. Federal Reserve Bank of Richmond; E. I. du Pont de Nemours & Company, Savannah River Operations Office, Atomic Energy Commission; U. S. Post Office Department; U. S. Marine Corps Photo; U. S. Army Photo; Official U. S. Navy Photograph.

THE FIFTH DISTRICT

Business barometers in the Fifth District and across the country continue to indicate a broadly favorable outlook. Recent reports suggest, in fact, that activity may be livelier now than it was just a few weeks ago. The most significant new development is, of course, the tax cut, which appears to have boosted business optimism at least as much as consumer buying power.

District Contrasts Noted Business conditions in the District resemble those in the nation, although a few contrasting features mark the local scene. Construction has been especially strong in the District, as heavy flows of new contract awards have raised the volume of work to consecutive new records. Most manufacturing sectors and many service-type enterprises have moved steadily into new high ground. Retail sales have maintained record levels, while the District's general indicators, such as nonfarm employment, factory man-hours, and electric power consumption, have advanced to new highs.

The less favorable side of the District picture focuses largely on agriculture where, according to preliminary figures, last year's realized net income dropped 10%. This year's prospects thus far offer little hope of recovering the lost ground. Manufacturing also displays a few uncertainties, with the tobacco business currently in the limelight.

Recent banking statistics have been inconclusive at best. In contrast to the rather strong note on which the year began, February and March data on weekly reporting member banks displayed little more than seasonal strength, either in loan demand or in deposit growth. The March tax date was accompanied by no more than a normal increase in loans. The absence of distinctive features in the banking picture may be a temporary result of seasonal uncertainties associated with the early Easter and with variable weather conditions.

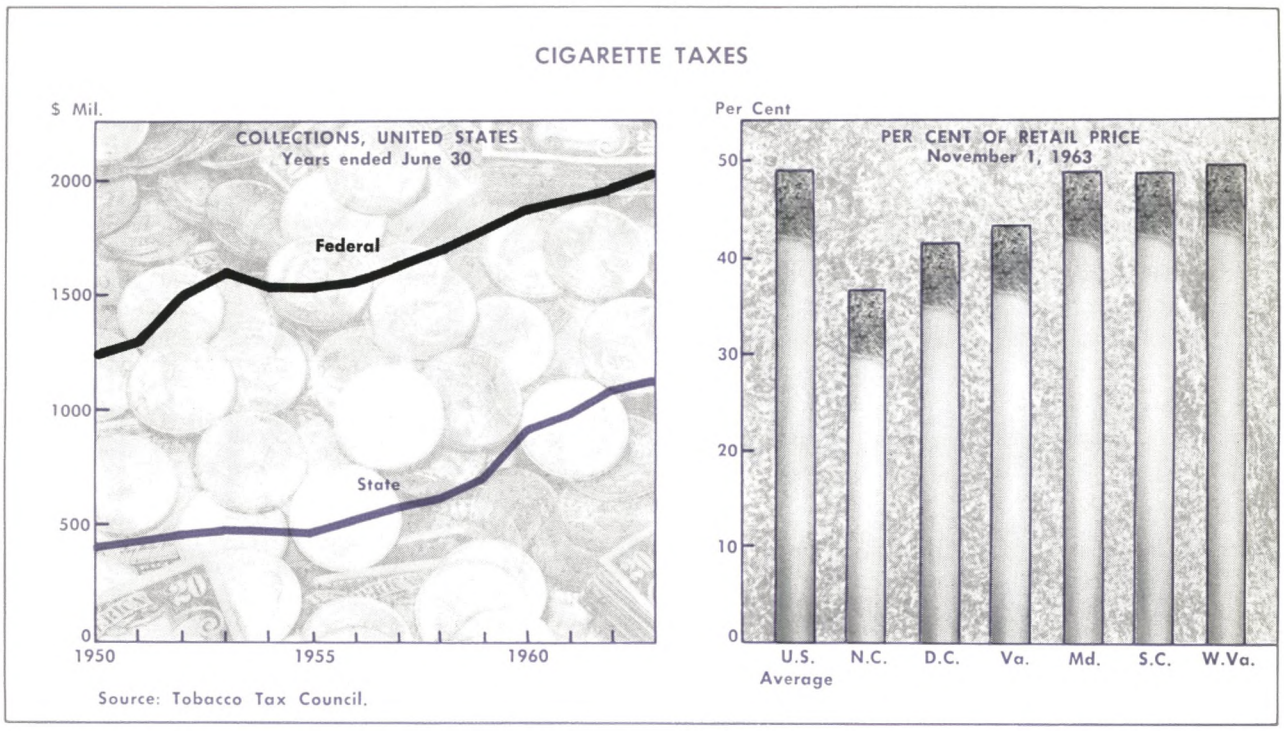
Automobile Trends Sustained demand for automobiles helps to set the current upswing apart from its predecessors. All signs point to a third successive year with sales above the 7-million-unit level, a phenomenon which not too long ago would have been considered highly unlikely. Data on new car registrations suggest that the District has accounted for its share of the market. The year 1955 set District and national sales records that were unapproached until 1960 and unexcelled until 1962. In that year, the previous District high for new car registrations was passed by a 6% margin, and a further gain of 13% was recorded in 1963. District registrations in January 1964 were down from the previous month, perhaps more than seasonally, but still exceeded the year-ago figure by a wide margin.

A comparison of automobile registrations to personal income figures suggests that, despite the strength of current demand, District residents may be devoting progressively smaller fractions of income to new car purchases. In 1950, the record year prior to 1955, District residents registered 27 new cars per million dollars of personal income. The figure in 1955, when total car sales were 11% higher, was only 23 cars per million of income. Although registrations in 1962 and 1963 averaged 13% above the 1955 level, cars per million dollars of personal income dropped to 17. The figures were lower during the recessions of 1958 and 1961, but this is not surprising in view of the fact that automobile sales are much more sensitive to business cycles than are personal income data.

For the nation as a whole, new car registrations per million dollars of personal income dropped 31% between 1955 and 1963, compared with 28% in the Fifth District. New car prices during this period rose 14%, and the proportion of national personal income spent on new cars dropped about 22%.

Builders Seek Labor The volume of construction work accumulating in the District is also worthy of note. Its most recent manifestation appears to be an incipient shortage of labor. Skilled construction workers have occasionally been in tight supply, but now some areas are reported to be short of unskilled labor as well. Last winter produced fewer seasonal layoffs than usual, and normal strength in the spring upswing promptly took the seasonal slack out of the labor market. Demand has apparently continued to grow, but the supply has been slow to respond.

Recent statistics tend to bear out this picture. Seasonally adjusted construction employment increased quite rapidly last year, declined slightly in



January, then rose sharply again in February. February gains were unusually large, averaging 5% and ranging as high as 10% in West Virginia and 11% in the District of Columbia. The volume of new business has also been extraordinary. Contract awards set records by sizable margins for each month from August through February. Similarly, building permits were high all last year and hit all-time January and February highs this year. Regional wage data are not available, but national figures show hourly earnings of construction workers rising along with the volume of work, although less rapidly. During the twelve months ending in January, hourly earnings increased 5% in construction compared to 3% in manufacturing.

Tobacco Dilemma While the tobacco industry steps up research to reduce the questionable effects of its products on health, other observers are giving some serious thought to the industry's economic significance. Among these, Federal and state fiscal authorities appear to have about as much at stake as any group outside the industry itself.

Federal and state taxes on tobacco products exceeded $3.2 billion in fiscal 1963. With roughly one-third going to the states, tobacco taxes represented 5½ cents of every state tax dollar. In 1963, Federal tobacco taxes amounted to $2.1 billion, nearly 2% of all Federal taxes.

In fiscal 1963, cigarettes accounted for 97% of Federal tobacco tax receipts and 98% of state tobacco revenues. The accompanying charts show the growth of these taxes since 1950 and their effects on retail prices as of November 1, 1963. Only three states—North Carolina, Colorado, and Oregon—levied no cigarette tax. In North Carolina, as the chart shows, the 8-cent-per-pack Federal tax was close to 37% of the average retail price, 21.6 cents per pack. Since shipping costs and other price components vary among the states, a higher bar on the chart does not necessarily mean higher taxes. Maryland and West Virginia, for instance, each added a 6-cent state tax to the 8-cent Federal, but this raised the total tax to 50% of a 28-cent average retail price in West Virginia compared to 49% of a 28.6-cent average price in Maryland. In South Carolina, the average price was only 25.5 cents per pack, so that a total tax of 13 cents also represented 49% of the price. In 24 states, taxes accounted for more than half of average retail price during 1963. Thus it seems reasonably clear that, however the tobacco industry may figure in the national health picture, it is at present significantly involved in the fiscal health of numerous governmental units.

PHOTO CREDITS

Cover—United States Mint, Philadelphia, Pennsylvania

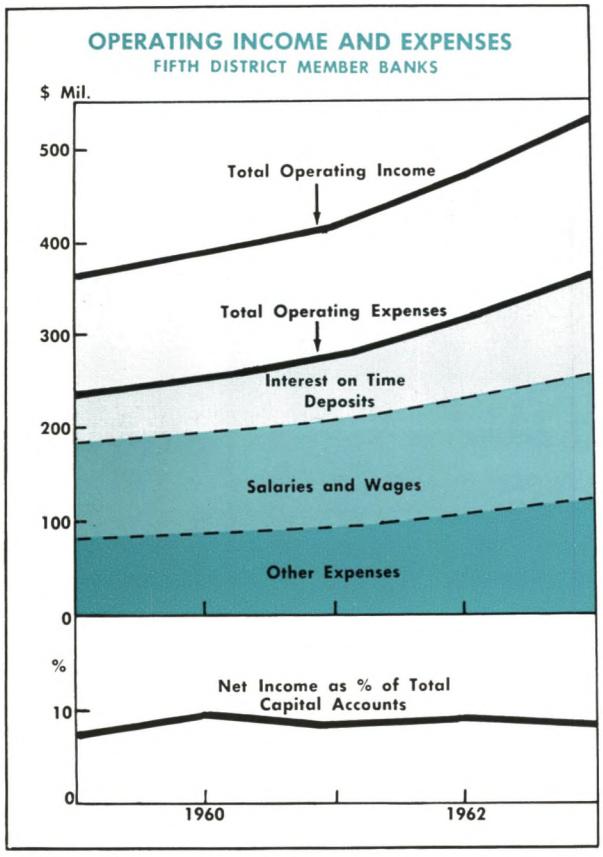
12. Federal Reserve Bank of Richmond.

THE FIFTH DISTRICT

BANKING DEVELOPMENTS

Operating statements of Fifth District member banks for calendar year 1963 indicate a continuation of the trend toward higher costs and reflect efforts on the part of bankers to offset rising costs by shifting into higher-yield assets. These developments are reflected in significant shifts in the relative importance of various expense items as well as in sources of earnings. Ratios employed to detail these results in the paragraphs that follow are simple averages of individual bank ratios.

Total operating income of Fifth District member banks moved up in 1963, but total operating expenses increased at an even faster rate. As a result, net operating earnings before taxes declined from 28.1% of total operating income in 1962 to 27.6% in 1963. This ratio stood at 37.5% as recently as 1952 and has moved downward with few interruptions since that date.



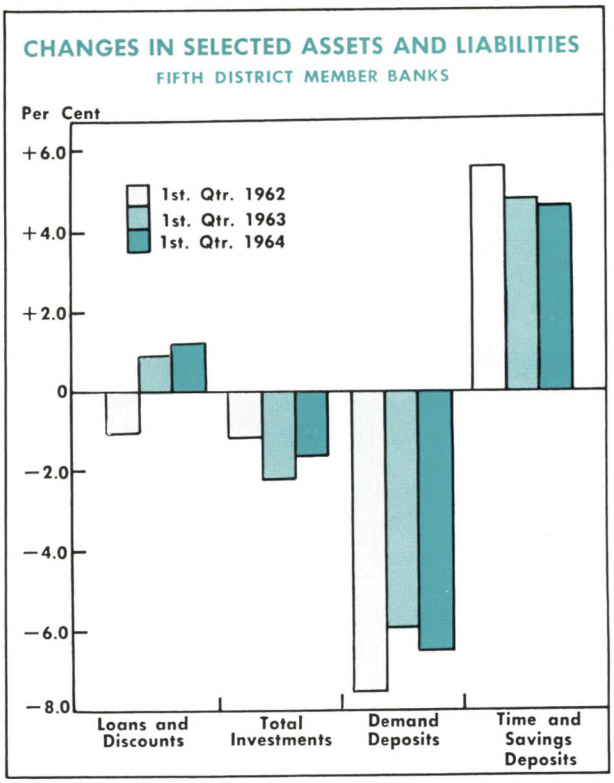
Sources of Earnings Interest on loans accounted for 65.5% of total operating income in 1963, a new high for the postwar period. The increased importance of loans as a source of income was partly the result of continued growth in loans relative to total assets. In addition, however, the average rate of return on loans was higher, as real estate and consumer loans gained in relative importance.

The proportion of total assets held in the form of municipal and corporate securities rose again last year, and the average yield on these assets was also somewhat higher. Although income from municipals and corporates accounted for only 5.8% of total current operating income, its importance in terms of net income after taxes was much greater than this ratio would indicate.

Income sources which declined in relative importance in 1963 included interest on U. S. Government securities and service charges on deposit accounts. Although the average yield on Government securities portfolios last year was 3.48%, compared with 3.33% in 1962, income from Governments comprised a smaller portion of total operating income as the ratio of Governments to total assets continued the decline that has been evident for some years. The ratio of service charges to total operating income has drifted slowly downward since 1958, and service charges contributed but 4.6% of current operating income last year.

Operating Expenses Interest on time and savings deposits has been the fastest growing category of operating expense in recent years. These payments, which increased 20.2% in dollar volume in 1963, absorbed 26.7% of current operating income in that year, compared with 25.8% in 1962. The increase resulted from a substantial growth in time and savings deposits and from a rise in average interest rates from 2.96% to 3.10%.

The share of current operating income needed to meet wage and salary payments was smaller than in 1962. Various officer and employee benefits, however, absorbed a slightly larger percentage of current income than in the preceding year.



Return to Owners The ultimate measure of operating performance is, of course, the return on owners' equity. In 1963, District member banks' net current operating earnings before income taxes amounted to 14.4% of total capital accounts, a modest improvement over the preceding year. After adjustments for profits on sales of securities, losses on loans, and increases in valuation reserves, net income before taxes was down fractionally from the 1962 level. Taxes on income were also somewhat lower, however, and net income after taxes was unchanged from the preceding year at 8.4% of total capital accounts. Although this return did not represent an improvement over the 1962 figure, it was exceeded in only two of the last ten years.

The average District member bank declared cash dividends equal to 41.2% of realized net income, down from 43.0% the year before. This ratio has displayed a considerable degree of instability in recent years, ranging, for example, from 48.3% in 1959 to 37.5% in 1960. In contrast, the ratio of cash dividends to total net worth has fluctuated between 2.9% and 3.2% over the last decade. The figure was 3.1% in 1963.

Banking in the First Quarter Total credit at District member banks registered a small increase in the first quarter of 1964 as compared with substantial seasonal reductions in comparable periods of the last two years. The 1.3% growth in loans was the largest first quarter expansion since 1959, and while the decline in total investments was greater than in 1961 and 1962, it was less than in similar periods of other years in the last decade.

Information is not yet available as to changes in individual loan categories for all District member banks, but data for those large banks which report such information weekly may indicate the general nature of the changes. For these banks, business loans and all other (primarily consumer) loans expanded at a faster rate than in any first quarter since 1961. Real estate loans grew at a record pace through the week ending March 11, but since that date have shown little increase. Nevertheless, their growth rate for the entire first quarter was greater than in the similar period of any recent year.

Total investments declined less than in the first quarter of 1963, mainly because of an unusually large expansion in holdings of securities other than U. S. Governments. Holdings of such securities, mainly obligations of states and political subdivisions, have grown steadily in recent years. As of April 1, 1964, they accounted for 32.5% of total investments of the weekly reporting member banks as compared with 22.5% two years earlier.

Holdings of U. S. Government securities by District weekly reporting banks dropped substantially in 1963 and declined further in the first quarter of 1964. The lengthening of the average maturity of Government portfolios, which has been evident for several years, appears to have slowed in the most recent quarter. Governments with less than one year to maturity accounted for a slightly larger percentage of total investments in the first quarter of 1964 than they did in the final quarter of 1963, while those with more than five years to maturity represented a smaller fraction of the investment portfolio.

Demand deposits, after falling sharply in January, recovered somewhat thereafter and the decline for the first quarter was about seasonal. In contrast, total time deposits grew at a record rate in January but increased at a slower pace in February and March. Consequently, growth in time and savings deposits for the first quarter was somewhat below that in similar periods of the last two years.

PHOTO CREDITS

Cover—University of North Carolina; North Carolina Department of Highways; South Carolina Department of Public Welfare; West Virginia University Medical Center 6. & 7. Chesapeake Bay Bridge and Tunnel District.

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Recent developments suggest new strength in Fifth District business as the current upswing moves firmly along in its fourth year. Seasonally adjusted bank debits, following a March decline, rose 4% in April to a new all-time high. Retail trade, disappointingly sluggish in March and April, apparently took on new life in May. Estimates based on data for the first three weeks of the month indicate an increase in department store sales about 5% greater than the normal seasonal gain, and trade reports suggest continued improvement over much of the District. April gains in nonfarm employment were slightly less than seasonal, perhaps because the rise to normal seasonal strength occurred earlier than usual this year. Factory man-hours also rose less than seasonally in April, affected perhaps by local labor shortages.

Buildings Burgeon Fifth District contractors continue to work away at a large and growing backlog of business. Building permits and contract awards are still at high levels, virtually assuring no slackening of the pace in the months immediately ahead. Seasonally adjusted building permits rose 12% in April and, in the first four months of the year, averaged 30% higher than for the same period last year. Construction contract awards mounted rapidly in March to a level that has been exceeded in only two prior months. The increase raised the first quarter total to a record level, one-third higher than in the same months last year. Seasonally adjusted construction employment rose in April but remained slightly below the all-time high reached in February. As in the case of some manufacturing industries, reports suggest that construction employment statistics may reflect shortages of certain types of skilled labor.

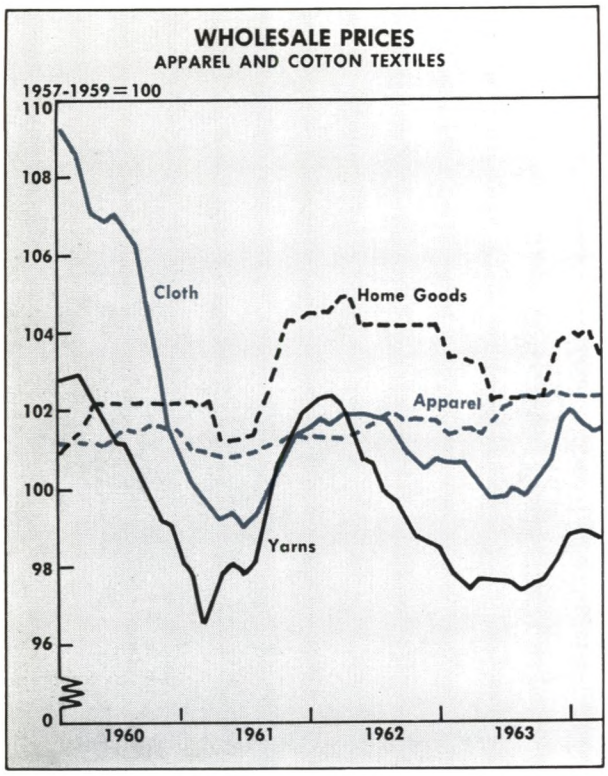
Cigarettes Bounce Back District cigarette production, which declined one fifth in February following the Surgeon General's report, made a partial recovery in March and returned to late 1963 levels in April. Cigarette man-hours, which paralleled the February decline in output, resumed near-normal levels in March and April. Federal cigarette tax collections, reflecting factory shipments, dropped 12% in February to a level 20% lower than in February 1963. Collections then rose 11% in March and a further 14% in April, roughly matching production increases in those months. Following the recovery that occurred in March and April, monthly collections were again at about the December 1963 level but still 3% below April 1963.

Furniture Rolls On The furniture industry's present rosy outlook contrasts sharply with the uncertainties besetting the cigarette business. The strength and endurance of furniture demand has been a bright spot in District manufacturing throughout the current upswing. Each of the past two years has been hailed in turn as a record year. District furniture output increased about 15% in 1962 and an additional 10% in 1963. The evidence available so far suggests that this year's gain will be in the neighborhood of 15%. Significant improvements in productivity are indicated when the increase in production is compared with the rise in man-hours. Whereas output is now running about 40% above the 1961 level, man-hours are up only 28%. This year's increase in output over last year appears to have been achieved so far with only a 4% increase in man-hours.

Textile Outlook Clears Conditions in the textile industry, which provides one in every three District factory jobs, show signs of settling down after an unusual period featuring a variety of problems.

In May 1961, President Kennedy proposed a 7-point program to deal with a complex cumulation of textile problems. Since that time the textile industry, among others, has been accorded increased depreciation allowances, an investment credit against income taxes, and some relief from pressures of overseas competition. Also, new research has been sponsored by the Department of Agriculture to aid cotton growers and users by reducing cotton production costs. The most significant change, however, was the reduction on April 11 of 6.5 cents a pound in the effective price paid for cotton by domestic textile mills. This was enough to offset most of the competitive disadvantage to domestic mills resulting from a price support program which pegged the domestic price 8.5 cents above the world price.

The long-standing cost disadvantage associated with two-price cotton, and uncertainty as to how long it might last, contributed to substantial changes in the industry. For one, synthetic fibers increasingly



found their way into market sectors formerly dominated by cotton. Intensified foreign and domestic competition hastened the obsolescence of old and uneconomical facilities and became an important factor in raising new capital outlays to record levels. With large amounts of working capital tied up in cotton inventories, which would decline in value as a result of proposed revisions in the cotton program, mills strove for greater efficiency in production scheduling and inventory control. Last fall, the textile industry granted 5% wage increases, sharing the benefits of greater efficiency and the expected reduction in the cost of cotton. Virtually all of these developments had the effect of strengthening the industry for the long run. Now that the adverse domestic effects of the cotton export subsidy have been offset, many a cloud which hampered the industry in the recent past may turn out to have a silver lining.

Textile Prices Reflect Change The technical and legislative developments of the past few years have strongly influenced basic market conditions. This is perhaps best revealed in the statistics for the cotton sector of this large and complex industry. The data for this sector are more complete than for the industry as a whole, and provide a basis for some significant generalizations.

Wholesale prices are a good index of the changing balance between supply and demand. They reflect the complex forces on both sides of the market. Four relevant wholesale price series are presented in the accompanying chart. The decline in basic cotton textile prices during the 1960 recession is immediately apparent. Cotton cloth prices fell sharply and did not turn up again until July 1961. By March 1962 about one third of the 1960 decline had been recovered, but the situation weakened and declines resumed early in 1962. They continued until the middle of 1963 when responses to the combination of factors mentioned earlier began to produce a better balance between supply and demand.

Yarn prices followed much the same pattern but with a relatively shorter, more shallow decline in 1960, a sharper recovery in 1961, and subsequently a steeper decline. Cotton housefurnishings continued their 1959 price rise well into 1960, then remained stable during the remainder of the 1960-1961 recession. When business improved in 1961, home goods prices sagged at first but paralleled cloth and yarn prices from then on. During the whole period, apparel prices (including other fibers as well as cotton) moved slowly and irregularly upward.

Cotton goods imports, in response to the high prices prevailing at the start of the year, reached a record level in 1960. In 1961, when falling prices made U. S. markets less attractive to foreign suppliers, imports dropped 25%. In the last quarter of 1961, the Geneva short-term import stabilization plan went into effect and was followed a year later by the long-term arrangement. Consequently, the recent volume of imports reflects economic factors modified by these arrangements. Although domestic prices in 1962 stayed well below 1959-1960 levels, cotton goods imports jumped 63%, prompted by firmer demand here as well as lower costs overseas. Imports maintained about the same levels through 1963 and have shown some tendency to rise so far in 1964.

Cotton goods prices again show signs of stabilizing, having perhaps weathered the uncertainty generated by discussion and ultimate passage of the new law. Domestic demand is strong but in good balance with production. Productivity is rising and textile mills plan record outlays this year for more cost-cutting equipment. For the textile industry the immediate future looks better now than it has for some time.

PHOTO CREDITS

Cover—National Cotton Council of America; Coxe Studio, Greenville, S. C.; The Champion Paper and Fibre Company of America 2. The Champion Paper and Fibre Company 6. & 7. South Carolina State Ports Authority.

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Despite some uncertainties, Fifth District business appears to have made the transition from spring to summer with little if any loss of momentum. The evidence is somewhat more mixed than a month or so ago, but this may be due to some extent to random variations or mere statistical aberrations. Such inconsistencies, which may arise in any data series, serve as constant reminders that business analysis is far from an exact science. Even without such complications, when an indicator turns downward it takes some time to ascertain whether or not it has passed a true peak.

Questions of this kind affect the interpretation of recent declines in some major District indicators. The behavior of seasonally adjusted bank debits is often erratic, and the 6% drop that occurred in May after a record high in April could be largely a reflection of random influences. Some man-hours and employment series displayed weakness in April and May, but chiefly in the form of less-than-seasonal increases. Thus, on a seasonally adjusted basis, total nonfarm employment declined in April and employment in durable goods manufacturing, mining, and contract construction fell in May. Factory man-hours data for the latter month also showed some weakness in textiles, fabricated metals, paper products, electrical machinery, and stone, clay, and glass.

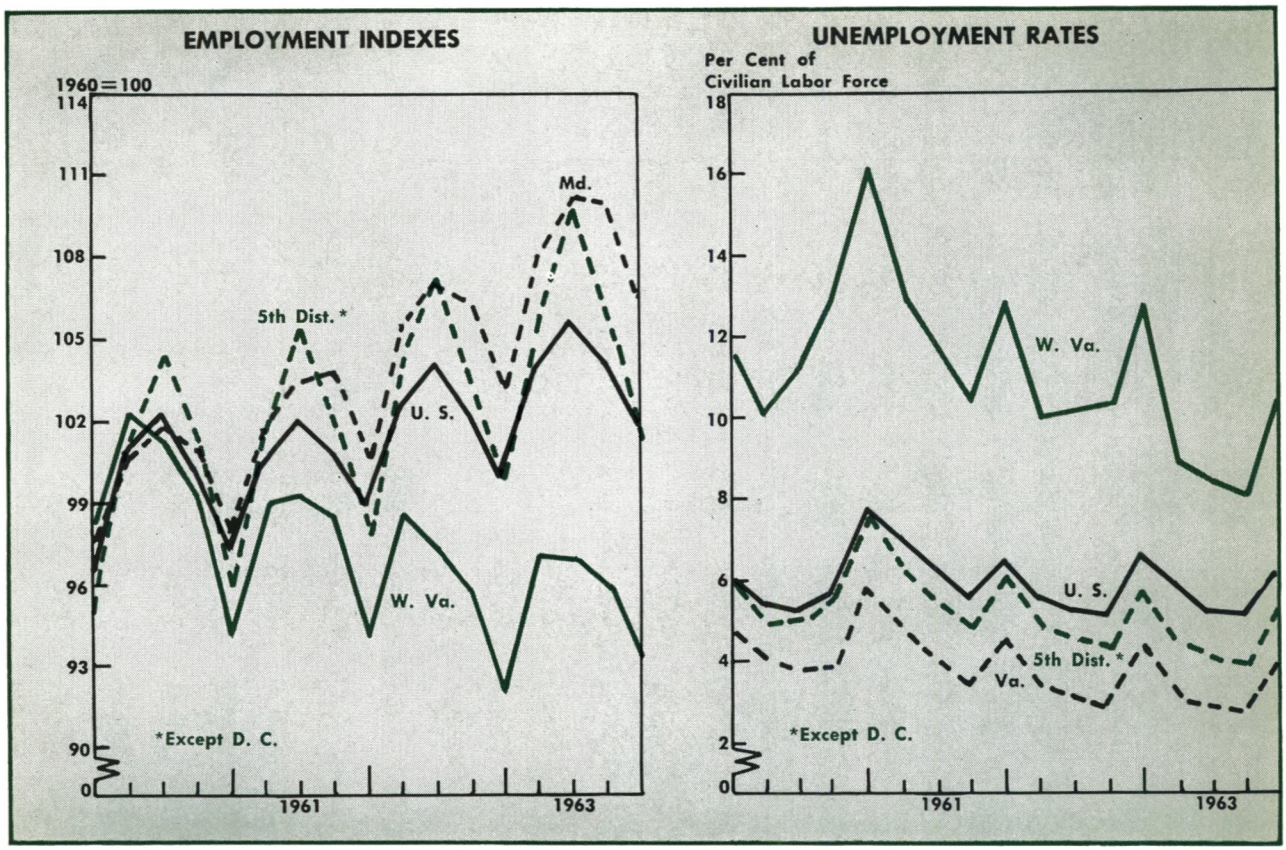
Despite these declines, total factory man-hours, seasonally adjusted, rose 0.4% in May and total nonfarm employment, on the same basis, also recorded a slight increase. Man-hours gains were larger in the District's durable goods industries than in nondurables, with primary metals, lumber, furniture, and transportation showing notable strength. Among the District's nondurables industries, substantial increases were scored in foods, tobacco products, apparel, and chemicals. Except for the hesitation in April, District nonfarm employment has risen more than seasonally every month since last September.

Fast Pace in Furniture Seasonally adjusted furniture factory man-hours rose sharply in May and were just a hair below the all-time high set in March of this year. Most of the industry's indicators continue to show strength with gains over last year in the neighborhood of 15%. Seasonally adjusted sales of furniture and home furnishings retail stores nationally declined slightly in April from a record level of $711 million in March. The May figure is not yet available, but there is some evidence of renewed gains. Cumulative for the year to date, these sales are running 16% above 1963 and 34% ahead of 1961. Population changes and high-level construction activity are basic factors in the recent surge of furniture demand and these factors continue to augur well for the industry's near-term future.

Perspective on Furniture District furniture manufacturers have been riding the crest of the current business expansion. The growing teen-age and young married population has been an important factor in the present wave of residential building, and new homes almost always call for at least some new furniture. Young folks increasingly display firm, well-defined interests in furniture. Older couples are also moving to new homes, frequently apartments, and in the process often brighten their new surroundings with new furniture. With the current fast pace in new construction extending to business structures, public facilities, and institutions such as schools, hospitals, and churches, prosperity in the furniture industry seems solidly based indeed.

The statistical indicators reflect this strength. District furniture employment last year averaged 73,000, almost one fifth of the national total. By April this year District furniture jobs had increased to 75,800, up 12,800 since February 1961. Furniture employment has been rising about twice as fast in the District as in most other parts of the country. Such gains in employment are especially impressive in a mature industry and in a period of rising efficiency. Nationally over the past three years, furniture industry man-hours have increased about one fifth compared to a one-third rise in output as measured by the furniture and fixtures component of the Industrial Production Index. Prices rose in 1961, 1962, and 1963 but have remained stable so far this year. Wholesale prices are now about 2.4% higher than in early 1961 on household furniture and 1.5% higher on commercial furniture.

Labor Markets Improve District labor market conditions continue the steadily improving trend



that began in 1961. In April, unemployment in the Fifth District (excluding the District of Columbia) had declined to 259,700, 4.3% of the labor force. The national rate was exactly one percentage point higher. Rates among the five states varied considerably. Maryland's and South Carolina's, each 4.0%, and Virginia's, 3.1%, were below the District average. North Carolina equaled the District rate. West Virginia's 8.2% exceeded the national as well as the District figure.

The need for seasonal adjustment, not yet available for District labor force data, is quite apparent in the accompanying charts. These charts show quarterly changes in employment and unemployment from 1960 through the first quarter of 1964 for the nation and the District. For purposes of comparison, data are also shown for the states that mark extremes of variation within the District. Despite sharp seasonal fluctuations, the trends in these series over the four years are clearly apparent. District employment rose in April to 5,832,000, nearly 96% of the labor force. April employment was 1.7% higher this year than in 1963 and 6.6% greater than in the same month of 1961. The April unemployment rate was 4.3% this year, down from 6.6% in 1961, 4.8% in 1962, and 4.5% in 1963.

Maryland's growth, from 1,050,000 jobs in April 1961 to nearly 1,150,000 in the same month this year, a gain of 9.5%, was the fastest among District states. All major sectors of employment increased except mining, with the sharpest gains occurring in government, services, and construction.

West Virginia, on the other hand, continued to experience slow contraction in its job markets. Employment decreased from 542,100 in April 1961 to 539,500 in the same month this year. Most of the lost jobs were in mining, but small reductions also occurred in trade; in transportation, communication, and public utilities; and in finance, insurance, and real estate enterprises. Contract construction employment, however, rose 25% over the three-year period, and jobs in durable goods manufacturing increased nearly 10%.

Employment and unemployment would normally be expected to trend in opposite directions and this has been the case in all District states except West Virginia, where the labor force declined. The Mountain State's labor force numbered 629,500 in April 1961 but only 588,800 in the same month this year, a drop of 40,700 or 6.5%. The employed segment of the West Virginia labor force has changed only slightly in the past three years, but the number of unemployed has dropped to about half its previous magnitude.

THE FIFTH DISTRICT

CROP PRODUCTION PROSPECTS

Fifth District crop prospects at midsummer generally ranged from fair to good. Wet soils in March and April hampered spring field work, but planting activities were about on schedule by mid-May. Dry weather in May and June lowered crop prospects over a wide area of the District, although drought damage is less severe this year than last. General rains in July brought welcome relief to much of the District. Weather during the remainder of the season holds the key, of course, to whether or not prospects as of July 1 materialize.

The total acreage of principal District crops planted for harvest this year is about 4% larger than in 1963. Sizable declines in tobacco and Irish potato acreages and a slight cut in cotton acreage were more than offset by major increases in acreages of wheat, rye, soybeans, and feed grains. Declines from last year in yields per acre are expected only for the corn, Irish potato, and flue-cured and burley tobacco crops.

Tobacco Prospects The District's 1964 tobacco crop is expected to be about 10% smaller than last year. Yields per acre will probably average second only to last year's record level, but growers plan to harvest the smallest tobacco acreage since 1916. Smaller flue-cured and burley crops will account for all of the decline in production. If current prospects materialize and prices average the same as in 1963, the combined value of the flue-cured and burley crops will be around $77 million below a year earlier.

Basic acreage allotments for the flue-cured and burley crops were cut 10% from last year, and per-acre yields for both types will be down somewhat. Flue-cured output is expected to be slightly more than 10% below a year ago but 0.5% above the recent five-year average. Anticipated burley production will be down 14% from last year but 5% larger than average. Larger acreages and indicated higher yields per acre are combining to bring about bigger crops of Southern Maryland and Virginia fire-cured tobaccos, while sharply increased yields are expected to produce a larger sun-cured crop.

Fewer Peaches, More Apples Fruit prospects vary considerably by type of fruit and area of production. The District's peach crop, severely damaged in the Carolinas by freezing temperatures in late March, is estimated to be nearly 70% below a year ago and two-thirds smaller than average. South Carolina's production is expected to be only 12% as large as in 1963, while the North Carolina crop is estimated at 17% of last year's level. By contrast, peach prospects in Virginia are the same as a year earlier and those in Maryland and West Virginia suggest sharply larger output than last year.

Prospects for the commercial apple crop on July 1 indicated that this year's output will be 17% above last year's harvest and about 4% more than average. Except in North Carolina, where prospective pro-

Fifth District crop prospects as of July 1 generally ranged from fair to good, and rains since then have brightened the outlook.

duction is about one-fifth below that in 1963, late frosts were no problem to the District's apple crop this year. Orchardists in Virginia—largest apple producing state in the District—are expected to harvest an 18% bigger crop than in 1963. West Virginia and Maryland apple producers meanwhile are looking for even bigger increases, some 30% and 38%, respectively, above a year earlier. The size of the fruit has been reduced to some extent because of the dry weather.

Grapes, grown commercially only in North and South Carolina, are reported to have developed well this season. Estimated production indicates this year's crop will be 8% larger than in 1963 and nearly 90% above average.

Feed Crops and Food Grains Probably because of 1963's drought-reduced production of feed, District farmers planted larger acreages of all feed crops this year. With expanded acreage and higher anticipated yields per acre, 1964 production of hay will probably be up 15% from 1963. Total feed grain output will likely be about the same as a year earlier, however, primarily because this year's dry weather has cut prospective per-acre yields of corn. The corn harvest is expected to be down 5% from last year, while indicated production of oats is up 18% from a year ago. Barley prospects point to an increase of nearly 40% over 1963.

Pasture conditions deteriorated sharply during June, particularly in Maryland and Virginia, and on July 1 were poorer than a year ago in all District states except Virginia. Except in South Carolina, pasture feed supplies were also well below average for the date. Because of the shortage of pasture feed, livestock in the drier areas were already being fed hay and silage.

Increases over last year are anticipated for both food grains. Considerably larger acreages coupled with higher expected yields per acre are joining forces to increase winter wheat production by 27% over a year ago and the rye crop by more than two fifths.

Irish and Sweet Potatoes District Irish potato growers cut this year's acreage some 5% below that in 1963, and dry weather in June limited growth and reduced per-acre yields sharply. As a result, total production of Irish potatoes this year is expected to be slightly more than one-fifth smaller than a year earlier and around 30% lower than average. Greatest reduction from last year is anticipated in the late spring crop, particularly in the big producing area in northeastern North Carolina. The crop of early summer potatoes on Virginia's Eastern Shore, the main area of production, is also expected to be down sharply.

The sweet potato harvest, according to July 1 indications, will be up only 3% from last year but slightly less than average. If prospects are realized, the gain over a year earlier will be the result of slight increases in both acreage and yields per acre. All of the prospective upturn is in Virginia where the outlook is for a 21% larger crop than in 1963.

Output Indications Production estimates for cotton, peanuts, and soybeans are not yet available. Acreages and crop conditions, however, provide good clues to probable output in 1964. This year's planted acreage of cotton in the District is around 1% less than in 1963 but about 1% above the recent five-year average. Cool, wet weather this spring delayed planting, but cotton appears to have recovered from the slow start and prospects are said to be promising. The crop is fruiting freely, and boll weevil damage thus far is reported to be light.

Only eight District farmers, all in South Carolina, chose to increase their basic cotton allotment by 5% and sell the cotton from this extra acreage for export without the benefit of price supports. Export acreage from these farms totals only 71 acres. There is no information relative to the number of cotton farmers who chose to reduce their basic allotment by one third in order to receive an additional payment of 3.5 cents per pound over the basic support price.

Peanut acreage planted for all purposes is 1,000 acres, or less than one half of 1%, smaller than last year. All of the decline is in Virginia where the change in acreage is the first since 1959. Stands are said to be excellent. Lack of rain has caused concern in some isolated spots, but condition of the peanut crop as a whole is reported to be generally good, especially in the commercial producing area.

District farmers expanded soybean acreage again this year for the eighteenth year in a row. Acreage which they plan to harvest for beans is at a new record level, 5% larger than in 1963. Because of dry soils, there was some delay in planting the late acreage following small grains. The outlook for the crop remains mostly favorable, however, following rains which fell over much of the drought-stricken area of the District during the first two weeks of July. Generally, the crop is said to be in mostly good condition and growing well.

PHOTO CREDITS

11. National Cotton Council of America; Virginia Department of Agriculture; Southern States Cooperative; Liggett & Myers Tobacco Co.

THE FIFTH DISTRICT

Fifth District business activity continues at a high level. Although the pace in some sectors slowed a little during late spring and early summer, the latest statistics suggest that the District economy is again moving up, perhaps at a quickening pace. In July, seasonally adjusted bank debits rose to an all-time high, 2% above the previous record reached in April and 9% above July a year ago. Seasonally adjusted nonfarm employment also rose to a new high after small gains in three consecutive months made up for the April decline. Seasonally adjusted manufacturing man-hours likewise increased slightly, continuing the seesaw behavior that has characterized factory man-hours since the all-time high in March. Seasonally adjusted department store sales were down in July, but prosperity elsewhere seems to have boosted consumer optimism, for department store business jumped 9% to a new high in August.

Most usable economic capacity now appears to be in operation despite some unemployment. Informed spokesmen from many areas indicate that most District enterprises are handling about as large a workload as they reasonably can, and many feel that supplies of suitable labor, as far as their particular industries are concerned, are just about exhausted.

Strength Widespread District employment statistics reveal substantial stability and strength in almost every sector. In June, seasonally adjusted employment increased by small amounts in both durable and nondurable goods manufacturing, in mining, in transportation, communication, and public utilities, in trade, and in finance, insurance, and real estate. In construction and services, the number of workers remained unchanged. The government sector alone reported fewer jobs in June. In July, nonfarm employment rose in all major categories except nondurable goods manufacturing.

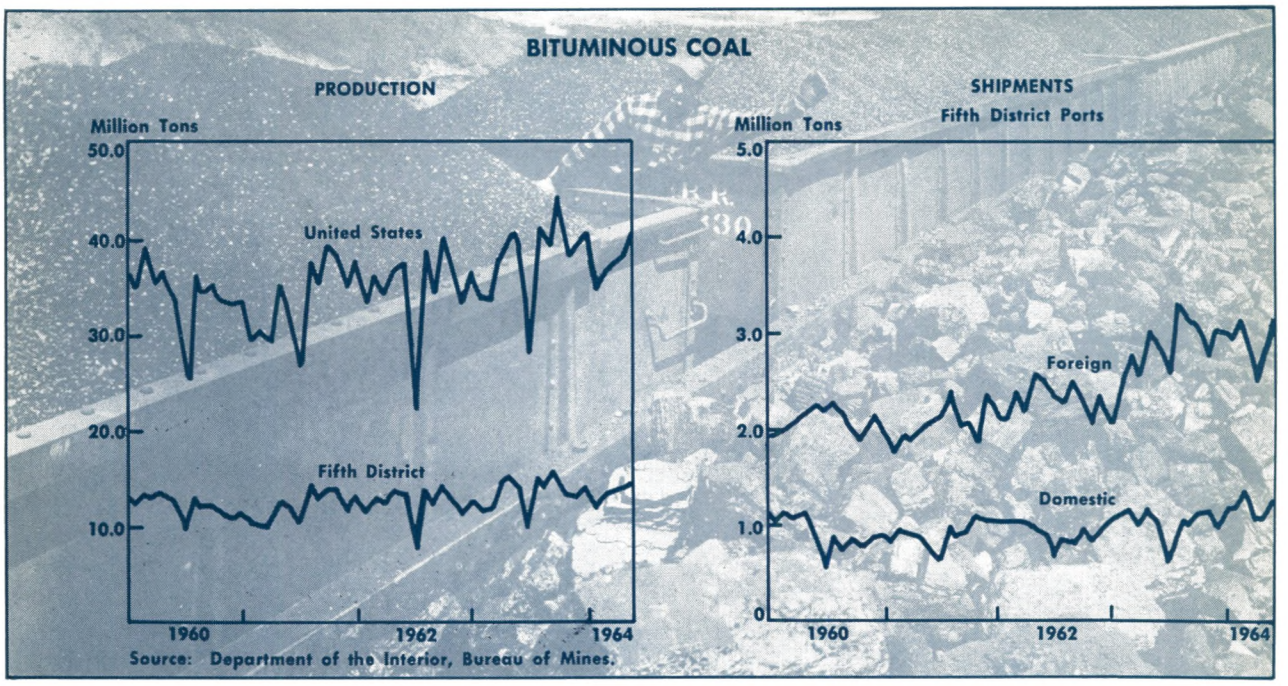
Mixed movements in July produced a small net gain in durable goods man-hours but no change in nondurables. In the durable goods sector, strong gains in primary metals, lumber, and stone, clay, and glass, aided by a small increase in furniture, more than offset declines in fabricated metals, machinery, and transportation equipment. Strength in nondurables was centered in tobacco, chemicals, and apparel, but declines in foods and paper products counterbalanced these gains. Man-hours in textiles and printing remained at about the June level.

Prosperity in Textiles In the textile industry the current picture is particularly bright. Order backlogs are large, and new business has maintained good average volume. Prices are firm, even rising a little now and then on individual items, though not enough perhaps to have a noticeable effect on the recent slightly downward trend of textile prices generally.

The present improvement has been in progress since the elimination of two-price cotton. Before the cotton price policy was changed, unfilled orders for broad woven cotton goods had been declining and in April were at a level equivalent to only 9.1 weeks of production. Backlogs changed direction in May, and all evidence indicates that they have since continued to rise. Recent trade reports, for instance, show a substantial volume of orders placed for delivery later this year and in early 1965 at prices equal to or just slightly below those recently charged for immediate delivery from generally tight supplies.

Firm prices and rising volume point to a continuing uptrend in textile mill dollar sales in both the District and the nation. In the first half of this year, national sales reached $8.7 billion, 7% above the comparable figure for 1963. More significantly, profits earned over the next year or so are also likely to be higher. How much higher is hard to tell because a number of mills have recently announced pay hikes averaging around 5%, and these may well spread through the industry as did similar increases last fall. It seems unlikely, however, that these or other higher costs will offset the effects of the equalization payments.

Textile industry profits in 1963 totaled about $350 million after taxes even though domestic mills paid for cotton, over and above its market value at world prices, an amount roughly equal to after-tax profits. Department of Agriculture experts estimate that domestic consumption of cotton in the current crop year will reach 9.6 million bales, a volume on which price equalization payments would probably exceed $300 million. The impact of these payments on



prices and profits will be determined by supply and demand conditions in many markets, but the strong current demand for cotton textiles suggests that some share will lodge in mill profits in the months ahead.

Bituminous Coal Conditions in the District's bituminous coal industry have been improving gradually for the past several years. Despite stiff competition from other fuels, coal demand has continued to gain strength at a fairly steady rate. Developments overseas, stemming mainly from economic growth and the rising cost of coal production, have increased the flow of United States coal to foreign markets. Domestically, sales to electric utilities and other traditional users have continued to increase, and extensive research has improved coal's practical potential as a future source of liquid and gaseous fuels and of useful organic raw materials.

The charts above picture the industry's more important developments during recent years. As shown in the first chart, output turned a corner in 1961 and followed a mildly upward trend through 1962 and 1963, although the declines of late 1963 seemed a little greater than seasonal. Production then continued to rise during the first half of the current year and exceeded last year's output on a cumulative basis by 2.8% in the District and by 2.7% nationally.

The second chart, showing coal shipments through District ports to both foreign and domestic destinations, indicates that the volume of exports also moved into a firm uptrend in 1961. The seasonal pattern calls for heavier shipments toward the end of the year, and foreign loadings declined as usual in the first half of this year as compared to the second half of last year. For the first six months, however, District coal exports are up 11% this year over last.

Domestic users accounted for less than one third of total shipments in 1960. Although the volume of coal passing through District ports to domestic destinations has gradually increased, it now represents only about one fourth of total District port loadings. About 8% more coal has been shipped through District ports for domestic use so far this year than was shipped in the comparable period of 1963.

Although District coal production reached 13.4 million tons per month in 1963, up 12% from 1961, 1963 mining employment averaged only 69,200, down 6% since 1961. Thus, the industry's continuing efforts to compete with other fuels involve more extensive use of labor-saving equipment and have resulted in declining prices for most types of coal. Price reductions during the past year have ranged from 4% on domestic stoker coal to around 2% on larger domestic sizes and 1% or less on screenings for industrial use. Prices for high grade metallurgical coal remained unchanged, but those for low and medium volatility grades decreased 1% or more.

PHOTO CREDITS

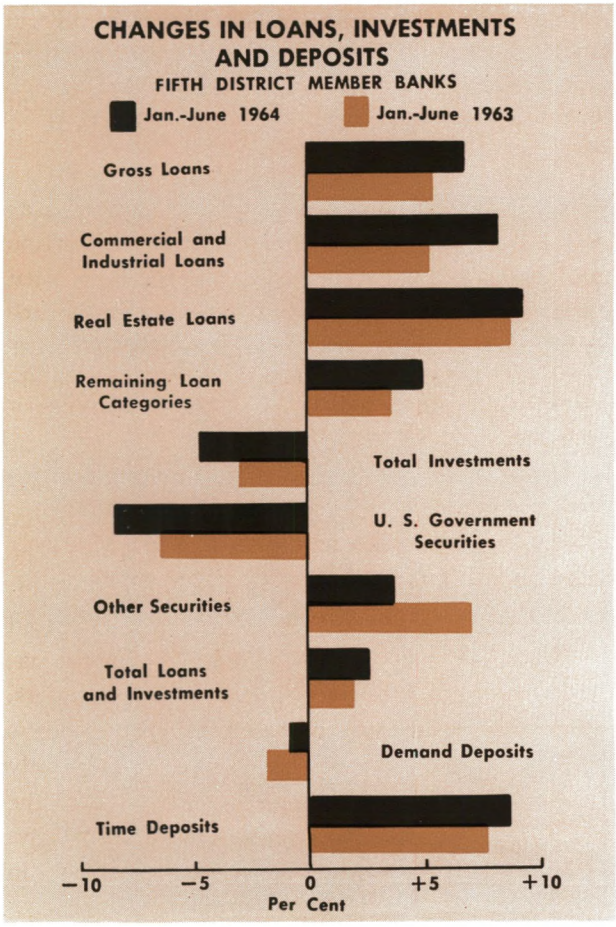
6. & 7. West Virginia University; Morris Harvey College; West Virginia Wesleyan College; Shepherd College; Concord College 12. Bituminous Coal Institute.

THE FIFTH DISTRICT

BANKING DEVELOPMENTS

The banking community has played an active role in the expansion of the Fifth District's economy so far this year. Banking statistics reveal a significant growth in overall credit extended by the District's member banks, with increases in all loan categories. Individual banks have also shown substantial expansion in total resources, some of it resulting from a continuation of recent consolidation and merger trends. Moreover, a number of new banks have been established.

Loan Expansion Midyear call report data indicate that District member banks expanded their loans in the first half of this year at a pace substantially in advance of that in the same period last year. The chart on this page compares the two periods. On June 30 gross loans of all District member banks stood at $6.7 billion, 16% higher than a year earlier. The increase for the first six months of 1964 amounted to nearly 7%.



Strong demand for commercial and industrial loans, reflecting strength in the District's business community, was a major factor in this expansion. Business loans rose 8.2% in the first half, reaching a level of $2 billion, and on June 30 were nearly 15% above a year earlier. Classified business loan data indicate that expansion was most rapid in loans to wholesalers other than commodity dealers and in construction loans.

Real estate loans also moved up rapidly in the first half, outstripping their robust performance in the same period of 1963. The overall increase for the first half of this year came to over 9%, but most of this took place in the first quarter. Expansion was at a substantially reduced pace in the second quarter. The remaining categories, taken together, rose 5% in the first half, somewhat more than in the same period last year.

Call report data indicate a slightly smaller percentage increase in consumer loans in the first half of this year as compared with the like period of 1963, 8.7% against 9.1%. But this year's pace may have been affected adversely by the June truckers' strike, which prevented delivery of many new cars. Loans to farmers, which have shown a high degree of volatility over the past two years, increased nearly 24% in this year's first half. Periodic sharp rises in these loans in 1963 and 1964 may be associated in some measure with the drought suffered by large sections of the District in these two years.

Data on loan behavior since the end of June are confined to gross loan totals for all member banks and to detailed breakdowns of the loan portfolios of the weekly reporting banks only. These data indicate that loan expansion continued in the third quarter, as total loans of all District members rose an additional 1.7% between June 24 and September 9. Figures for the weekly reporting banks suggest that

CHANGES IN NUMBER OF BANKS AND BRANCHES

FIFTH DISTRICT*

December 31, 1963 to August 31, 1964

Commercial Banks	
Number of banks, beginning of period	888
New banks organized	15
Mergers and absorptions	19
Number of banks, end of period	884
Net change	− 4
Branches	
Number of branches, beginning of period	1,681
New branches established	87
Banks converted into branches	19
Branches discontinued	5
Number of branches, end of period	1,782
Net change	+ 101
Net Change in Banking Offices	+ 97

*Including six West Virginia counties which fall outside the Fifth District.

the growth over the more recent period was also distributed over all important loan categories. Business loans at these 19 banks gained 0.3% between the end of June and September 9, and the "all other" category rose 1.7%. Real estate loans apparently regained some of their first quarter vigor, rising more than 4% in the same period, while agricultural loans advanced an impressive 41%.

Sources of Funds Demand deposits of District member banks declined 0.8% in the first half, compared with a considerably larger reduction in the same period last year. Time and savings deposits, on the other hand, rose nearly 9%, outstripping the rapid increase of a year earlier. Growth of the latter deposits was an important factor not only in supplying banks with loan funds but also in determining the kinds of loans bankers made. Total deposits increased 2.4% over the period.

Despite the increase in deposits, the sizable expansion in loans was accompanied by a curtailment in bank investment activities. Total investments of District member banks fell 4.7% in the first half, as District banks reduced their holdings of U. S. Government securities by $212 million, or more than 8%. Holdings of municipals, however, continued to rise, although at a slower pace than last year. The gain in municipals in the first half of this year was $80 million, or about 9%. The decline in Governments was concentrated heavily in short-terms, with under one-year maturities falling almost 24%. Securities other than Governments and municipals, including a few unguaranteed bonds of Federal agencies, fell 20%.

More recent data indicate some change in these first half trends in the third quarter, with respect both to deposits and investment portfolios. Between June 24 and September 9, for example, gross demand deposits at all District member banks increased 4.3% while total deposits rose 3.7%. Time and savings deposits moved up at a pace somewhat below that of the first half, gaining 2.7%. Moreover, District banks increased their investments in this period. Total investments rose 1.5%, with gains in holdings of both Governments and other securities. Figures for the 19 weekly reporting member banks, which also show investment increases, indicate that additions to Governments portfolios were entirely in the under one-year and five-year or over maturity classes.

Banking Structure Mergers, consolidations, and the establishment of new banks are continuing to change the structure of Fifth District banking. In the first eight months of 1964, 15 new banks were organized, while 19 were eliminated through mergers and absorptions for a net decrease of four banks. At the beginning of the year, the 888 District banks had 1,681 branches. By August 31, they had added 87 new branches, converted 19 absorbed banks into branches, and discontinued five branches for a net increase of 101. These developments resulted in a net increase of 97 banking offices.

The greatest changes took place in Virginia, largely as a result of a 1962 statutory revision which permits banks to acquire branches through merger on a statewide basis. Ten of the 15 new banks organized in the District in 1964 are in Virginia, which also had the greatest number of new branches, with 28. Virginia also accounted for 11 of the 19 banks converted into branches.

Maryland was the next most active state in structure changes with four new banks, one eliminated through merger, and a net increase of 20 additional branches. West Virginia was the only state in the Fifth District in which the banking structure remained unchanged.

PHOTO CREDIT

Cover—Adult Education Program, Richmond Public Schools.

THE FIFTH DISTRICT

Business activity in the Fifth District appears to be advancing normally for the fall season. Farming may turn out to be the exception, however, as harvesting activity in parts of North and South Carolina has been severely curtailed by heavy rains, and some crop damage seems inevitable. The manufacturing sector has displayed seasonal strength, with no signs of any slowdown except in transportation equipment, recently affected by strikes in the automobile industry. Seasonally adjusted department store sales receded somewhat in both September and October after reaching an all-time high in August. The further reduction of personal income tax liabilities in 1965 may, however, bode well for near-term retail prospects. A recent U. S. Treasury release estimates that these tax liabilities in Fifth District states will be nearly $800 million lower than in 1963.

The Statistical Record The latest statistics reflect widespread strength in Fifth District business, and more recent business news contains no hint of a change. Bank debits rose sharply again in September, to a level just under the July record. New highs were reached in the District of Columbia and in South Carolina. For the District as a whole over the first nine months of this year, bank debits were 10% higher than in the comparable period of 1963.

Seasonally adjusted nonfarm employment has risen in every month since April and has set consecutive new records since June. The September rise, however, was too small to be significant. Slight gains in durable goods manufacturing, mining, construction, transportation and related industries, financial enterprises, and government were nearly matched by small declines in nondurable goods, trade, and services. Unemployment in the District labor force declined further in August, and rates of insured unemployment continued to improve in September and October.

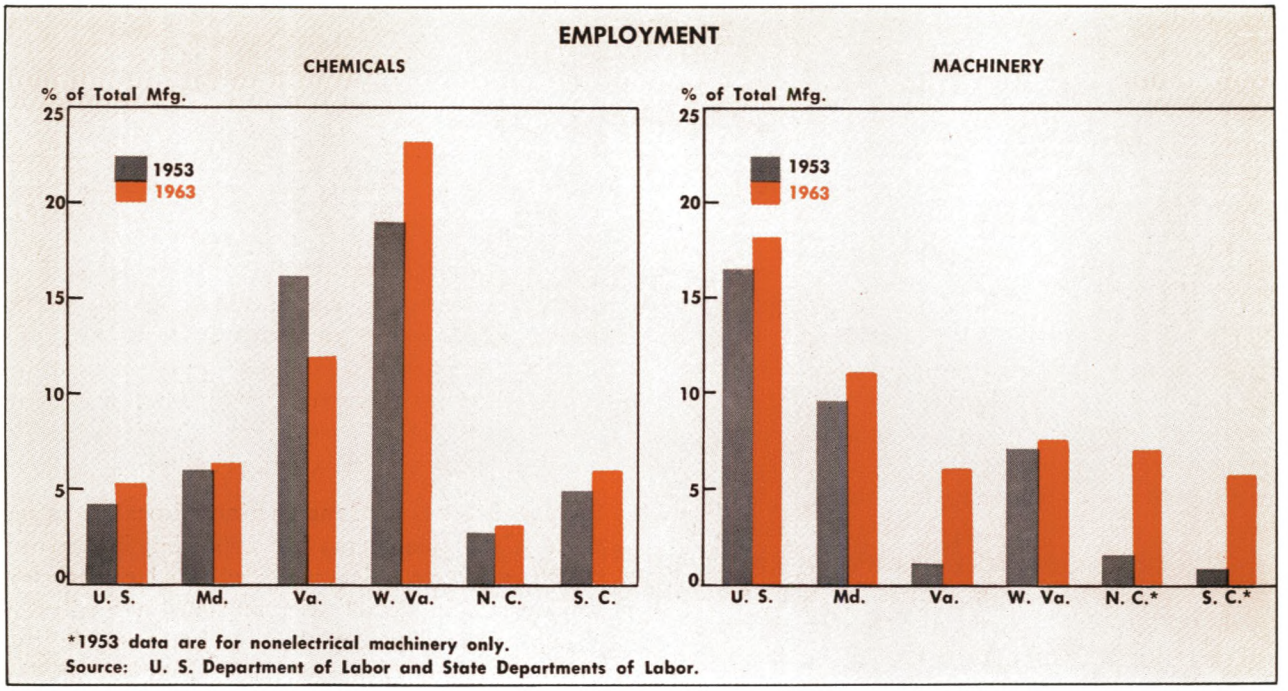
Seasonally adjusted factory man-hours fell off slightly in September after rising in August to the highest level since last December. Mainly because of rising productivity, man-hours in recent years have increased more slowly than some other manufacturing indicators. This trend appears to be continuing, and the slight decline in September does not seem large enough to suggest any curtailment of output. In the durable goods sector, gains in transportation equipment and primary metals more than offset small declines elsewhere. Among nondurables, man-hours rose in food, apparel, paper, and chemicals but receded in textiles, tobacco, and printing.

Slower Growth in Construction Locally, as nationally, question marks are appearing in the construction picture. Seasonally adjusted construction employment in the District remained virtually unchanged from February through June, rose in July to an all-time high, dropped 1% in August and increased slightly again in September. Building permits rose less than seasonally in September, remaining below the September 1963 level. Despite wide fluctuations, building permits issued thus far in 1964 have averaged well above those of any previous year. But the cumulative year-to-year gain, as high as 40% back in March, had dropped to 22% by September.

The same general pattern is apparent in District construction contract awards. After advancing briskly last year and early this year, awards settled into a pattern of fluctuation around an all-time high average. On a cumulative basis, they were one-third ahead of last year in March and April but the margin over 1963 has since declined to about one sixth. The recent behavior of construction employment, building permits, and contract awards may indicate a leveling out in construction activity.

Growth in Chemicals To meet rapidly growing demand, the chemical industry has steadily expanded capacity and is becoming increasingly important in the Fifth District economy. In 1962, the most recent year with broad statistical coverage, District chemical plants were credited with $2.1 billion of value added by manufacture. This was more than one eighth of the national total for chemicals and allied products and almost one sixth of all value added by manufacture in the District. Value added per employee in the production of chemicals was over $21,000 in 1962 compared with around $8,700 for all other District manufacturing industries.

The data also show rapid growth in physical output. Value added by chemical plants almost doubled



in the District between 1952 and 1962, and since wholesale prices of chemicals and allied products rose less than 3%, most of the gain represented increased physical volume. Value added in this industry nationally rose 88% during this ten-year period, a somewhat smaller gain than occurred in the District.

In chemicals, wage and salary payments account for about 30% of value added compared to over 50% for manufacturing industries generally. Chemical workers in the District now number about 115,000, nearly one tenth of all manufacturing employment. Rising productivity has opened a wide gap between growth rates in output and employment. Despite the sizable increase in output over the past decade, employment has risen only 13%. Employment increases in other manufacturing industries have generally been well below this figure. As a result, the chemical industry has become relatively more important as a source of jobs in the District, as the left-hand chart on this page shows. In all District states except Virginia, employment in chemicals last year was a larger fraction of total factory employment than it was a decade earlier. The decline in the Old Dominion was largely due to the decreasing demand for rayon.

Machinery Large investments in new plant and equipment have brought new business to machinery manufacturers. Textile firms account for a good share of the local demand, and growth in textile machinery production was evident at the 23rd Southern Textile Exposition held in Greenville, South Carolina during the week of October 12. Nearly 500 firms put their latest equipment on display. Ten years ago there were less than half as many exhibitors, with only one fourth listing Fifth District addresses then compared with nearly two fifths now.

For the machinery industry generally, Maryland held undisputed first place among District states until recently. Current statistics, however, show about 39,000 machinery industry employees in North Carolina against 29,000 in Maryland. The right-hand chart on this page shows how the industry has progressed in relative importance during the past decade. Virginia and the Carolinas account for most of the gain.

District machinery makers now provide nearly 116,000 jobs. Some 20,000 of these are in Virginia, 18,000 in South Carolina, and 10,000 in West Virginia. Growth during the current business upswing has been particularly fast in South Carolina, where only 5,300 on average were employed in nonelectrical machinery in 1961 versus 10,000 now, and where electrical machinery and equipment workers, not reported separately in 1961, now number between 7,000 and 8,000. Machinery employment has gained rapidly in Virginia also.

PHOTO CREDIT

Cover—Southern States Cooperative, Inc.

THE FIFTH DISTRICT

No feature on the calendar of business events involves more fanfare than the year-end bulge in consumer spending. Earlier each fall, so it seems, store decorations and advertising begin featuring the celebrations that mark the end of one year and the beginning of another. And customers, more cooperative than at any other time of year, eagerly raise their spending power to a seasonal peak with savings from the past and borrowings from the future. To help those whose aspirations are more affluent than their pocketbooks, merchants have steadily liberalized and expanded their credit plans. Although almost everyone participates in this annual shopping spree to one degree or another, few are familiar with the details of its character and significance. A review of retail trade patterns for last year and for this year to date may be as good a guide as any to what may reasonably be expected in the approaching holiday season.

Last Year's Patterns In the absence of seasonal differences, retailers would expect to do about one twelfth of their annual business each month. More than one tenth of last year's business, however, both locally and nationally, was transacted in December. November volume last year was slightly over the monthly average so that November and December together accounted for nearly one fifth of the total for the year.

Nationally, nine main classes of retailing establishments are regularly responsible for nine tenths of all sales. In 1963, food stores accounted for 24% of total sales, automobile and accessories dealers for 19%, general merchandise (mostly department and variety) stores for 12%, gasoline stations for 8%, restaurants for 7%, lumber, hardware and farm equipment dealers for 6%, apparel stores for 6%, furniture and appliances dealers for 5%, and drug stores for 3%. According to 1963 data, the two most important groups, automotive and food, were least affected by seasonal variations. Sales transacted in December amounted to less than one twelfth of the total in the automotive group and slightly more than one twelfth in foods. November last year was a slightly better sales month than December for automotive dealers and just as good as December for foods.

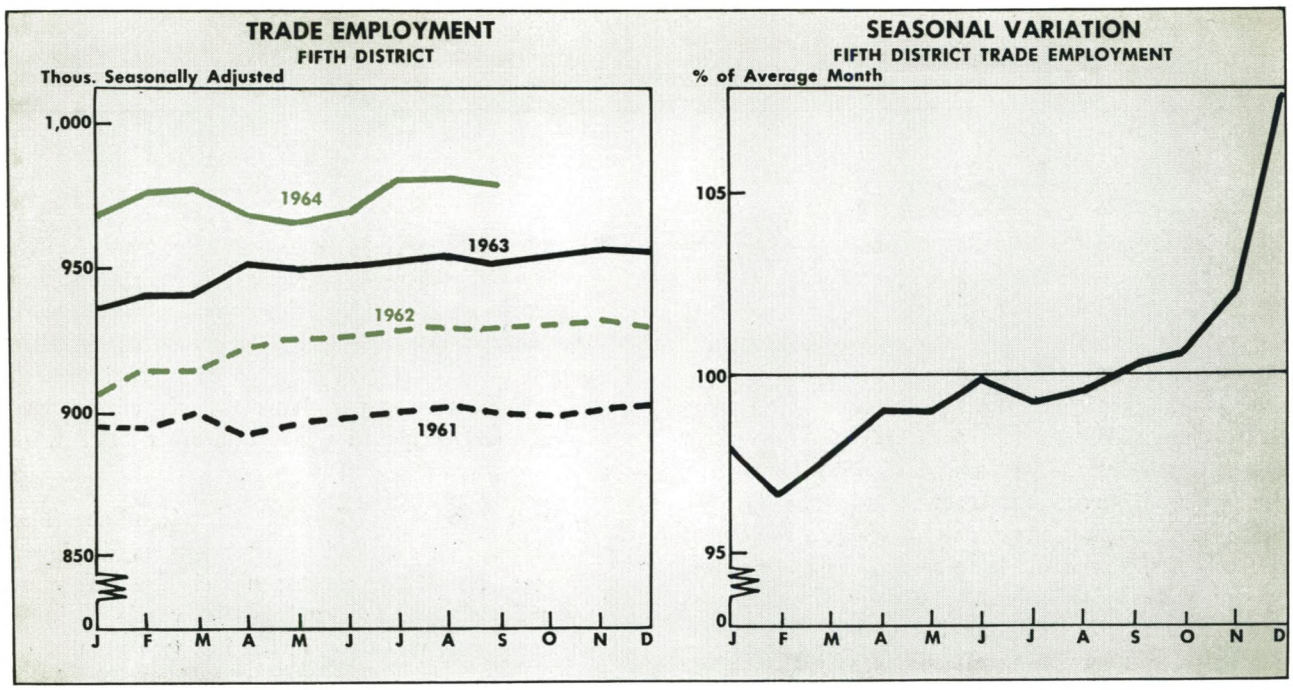
The least important categories showed a moderate response to seasonal influences. For furniture and appliance stores, both November and December were better than average, and the two months together accounted for over one fifth of this group's 1963 sales. For drug stores, however, November was just an average month while December sales were about one third above average.

Strong Seasonal in General Merchandise The general merchandise and apparel groups displayed the greatest response to seasonal change last year. Nationally, about one fourth of the year's business in these groups was done in the last two months of the year, with December accounting for 15% of the annual total. General merchandise stores in the District showed somewhat less year-end concentration than did those in the nation as a whole. In the apparel group, however, the opposite was true, with year-end business relatively more important locally than nationwide.

Department store statistics cover a comparatively small sector of the general merchandise class of retail trade, but one in which year-end volume is unusually important. During the past few years, December has typically accounted for one sixth of annual department store volume in the District, and November and December taken together have normally contributed more than one fourth of total annual sales.

Jobs in Trade at Seasonal Peak To handle the sharp increase in activity toward the end of each year, many extra workers are added to store payrolls. The right-hand graph on page 12 shows the pattern of seasonal growth in District trade employment during 1963. The values plotted are seasonal index numbers with 100% representing the average monthly level.

Trade jobs were consistently under the monthly average early in the year, close to but still below average during late spring and summer, slightly above the monthly norm in early fall, and distinctly above average only in the final two months of the year. More than 17,000 workers were added to trade payrolls in November last year and over 48,000 more in December. As the chart shows, the buildup in District trade employment actually continued slowly but



steadily from the seasonal low in February to the December peak, when the total exceeded one million for the first time. At the end of last year the figure was 84,000 above its midyear level and 117,000, or about 13%, higher than the February low. If the usual patterns prevail, the one million figure will be reached this year in November, and another 50,000 or more will be added in December.

Profits Show Sharp Seasonal Rise To many department and other general merchandise stores, Christmas business is even more important than the employment and sales figures suggest. Year-end business is generally transacted at maximum mark-up. On the other hand, the temporary help tends to be less efficient than the regular employees. But favorable factors, such as good mark-ups and capacity utilization of facilities, more than offset unfavorable ones and produce substantially wider profit margins. The November-December season, which accounts for about one fourth of annual volume, provides an even larger fraction of annual profits.

Growth in Retail Sales Both retailing and wholesaling activities have grown steadily in the District since the current business upswing began nearly four years ago. The left-hand chart above shows the growth of total trade employment during this period. Seasonally adjusted monthly figures for each of the past three years and the current year to date are plotted to emphasize year-to-year growth, which has proceeded at a 3% average annual rate. Seasonal adjustment raises figures that are seasonally low and reduces those that are seasonally high, using correction factors that represent each month's typical deviation from the average monthly level. Because of seasonal adjustment, none of the figures plotted in the left-hand chart exceeds the one million level.

Since regular monthly estimates of total District retail sales are a relatively recent development, meaningful comparisons between trade employment and sales volume cannot yet be made. Moreover, the period for which sales data are available is too short to allow reliable seasonal adjustment. Under these circumstances, the device of rating this year's performance against last year's, despite many shortcomings, probably provides as useful a picture as any and allows some significant comparisions between the District and the nation.

Using average volume in the first quarter as a base, District retail sales rose 10% through September of this year while the increase for the nation as a whole was 9%. Comparable gains in 1963 were 3% in the District and 5% nationally. Total retail sales for the first nine months of 1964 exceeded those in the same period of 1963 by 8% in the District and 6% in the nation. This 8% rise in District retail sales was accomplished with less than a 3% rise in wholesale and retail employment combined.

PHOTO CREDITS

Cover—Jack and Jill School; University of North Carolina at Chapel Hill; A. H. Robins Company, Inc.; Senior Center, Inc.