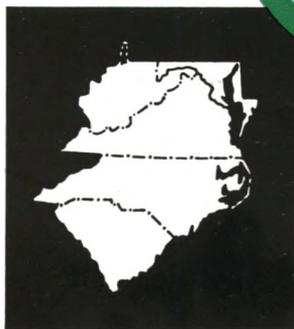


January 1968

FEDERAL RESERVE BANK OF RICHMOND

# MONTHLY REVIEW

*The Fifth District, 1967*  
*Fifth District Golf*  
*Free Trade or Protection*



JANUARY 1968

# THE FIFTH DISTRICT ECONOMY

## A Review

For both the United States and the five-state area comprising the Fifth Federal Reserve District, 1967 has gone on record as a year of considerably less ebullience than either of its two immediate predecessors. Over much of the year, the national economy grappled with the problem of inflation, with consumer prices rising at an average monthly rate of about .2%, or faster than in either 1965 or 1966. This acceleration in price increases began in a context of slackened growth in aggregate demand as a major inventory adjustment significantly dampened growth in the first half. Largely as a result of the inventory adjustment, considerable unused plant capacity emerged early in the year, and until late autumn, the unemployment rate edged upward.

As the inventory adjustment proceeded, real growth in the economy slowed to a snail's pace. But heavy government outlays coupled with a smart recovery in residential construction at least kept the business advance alive in spite of the sharp turnaround in

inventory demand. The inventory adjustment was largely over by July, and business activity in the second half strengthened. Even this mid-year recovery, however, was not as great as many economists and businessmen had anticipated. Large-scale work stoppages in the fall of 1967 were responsible to some degree for the slower than expected pace. Moreover, the uncertainty surrounding the tax surcharge proposal in the latter months of the year apparently kept many businessmen and consumers from formulating expenditure plans clearly or from making expenditures.

The Fifth District shared these problems with the nation, but to a different degree. While no very precise measures are possible it appears that the economy of the Fifth District fared somewhat better on average through 1967 than did the nation at large. Major District industries, especially textiles and furniture, were affected by the inventory adjustments in the first half, but recovered by early fall.

Chart I

Per Cent of U. S. Total



SELECTED FIFTH DISTRICT MANUFACTURING

# ECONOMY IN FOCUS

## of 1967



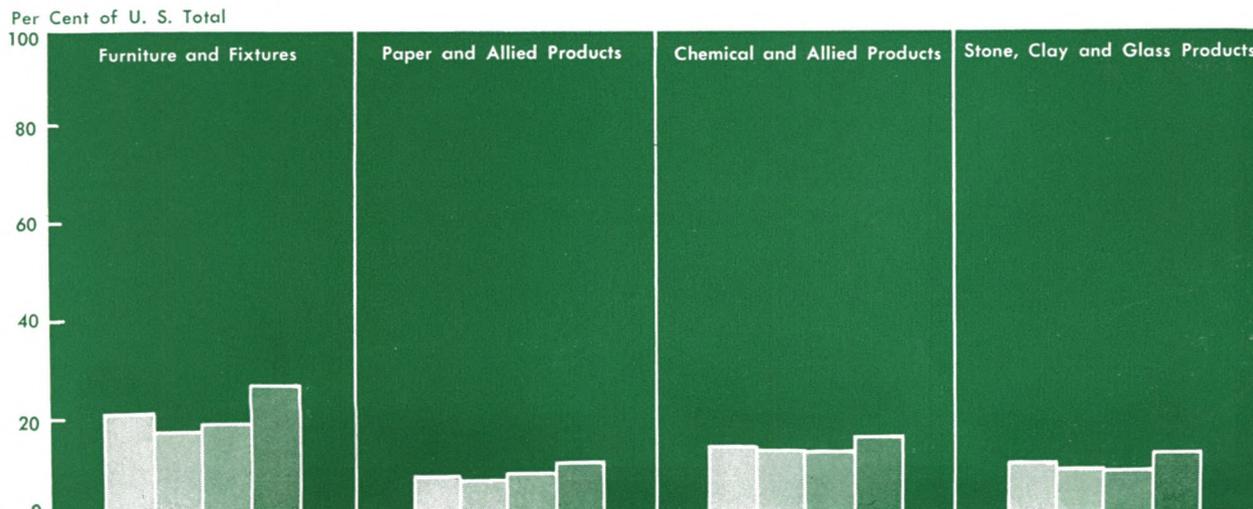
Work stoppages associated with labor disputes in the fall had less dampening effect in the District than in the nation. It was generally true in 1967 that changes of pace in economic activity in the Fifth District were less sharp and the consequences less severe than for the nation as a whole. To some extent, the more even pattern of economic activity in the Fifth District states is due to a different industrial mix than in the whole of the United States.

**District Manufacturing** Chart I gives a picture of the relative importance of selected manufacturing industries in the Fifth Federal Reserve District. The eight industry groups represented are those for which the Fifth District share of either employment, payrolls, value added, or new capital expenditures comprises more than 10% of the United States total for that industry. Tobacco manufactures, textile mill products, and furniture are the three industries most closely associated with the Fifth District. The Dis-

trict, for example, accounted for about 70% of the value added in the tobacco industry in the 1963 census year. In textile mill products for the same year, that fraction was 43%, and in furniture, 19%. The other industries are shown for comparison. All those shown are important in the Fifth District, and certain industries, such as chemicals, have increased in importance in the District economy since 1963.

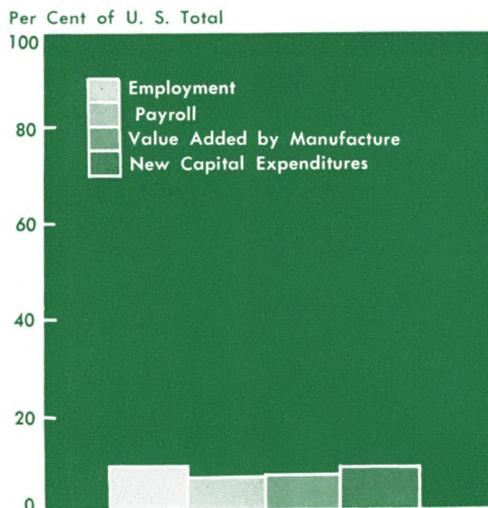
Chart II shows the relationship of all Fifth District manufacturing to all manufacturing in the United States in the 1963 census year. Value added in the Fifth District comprised 7.7% of the United States total. New capital expenditures in manufacturing in the District were 9.5% of the U. S. total; total manufacturing payrolls were 7.2%; and total manufacturing employment was 9.0%. Durable goods production in the District, as a percentage of the national total, remains relatively small. The largest share of manufacturing activity in the District is in the nondurable lines.

### MANUFACTURING INDUSTRIES, 1963



Digitized for FRASER  
<http://fraser.stlouisfed.org> Source: Census of Manufacturers.

**Chart II**  
**ALL DISTRICT MANUFACTURING INDUSTRIES, 1963**



Source: Census of Manufacturers.

For those manufacturing industries important to the Fifth District, 1967 was a relatively prosperous year, despite the slowing of general economic activity. In the textile industry, manufacturing man-hours remained consistently under 1966 levels throughout 1967, by 3 to 5% on a month-to-month basis, and textile output for 1967 showed about the same performance. Prices of textile mill products did not increase on balance throughout 1967, and the same was true of 1966. Textile wages moved upward slightly during the year. In the textile industry there has been considerable discussion and a number of hearings concerning the impact of imports on the domestic industry. This was due in part to the fact that 1967 was the year in which the Long-Term Arrangement for trade in textiles, negotiated through the General Agreement on Tariffs and Trade in 1962 had to be renegotiated. The Long-Term Arrangement remained substantially unchanged as of year end. Concern over imports has intensified in recent weeks due to the British devaluation, and the simultaneous Hong Kong devaluation.

In cigarettes, that aspect of tobacco manufacturing most concentrated in Fifth District states, production as of October 1, 1967, was running ahead of 1966 by about 5%. Tobacco manufacturing man-hours have increased slightly on balance throughout the year. Furniture industry statistics likewise indicate a substantially increased volume of business in the latter part of 1967, and industry spokesmen are looking forward to a prosperous new year. The chemical

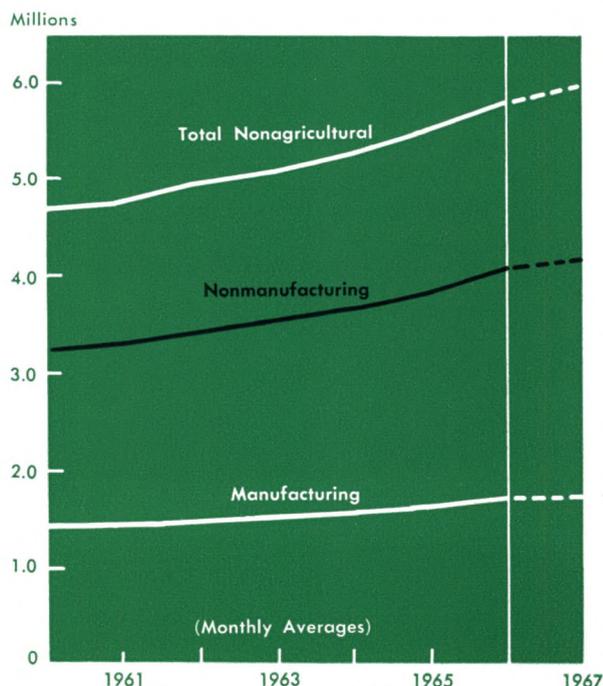
industry in the District made a considerable recovery after a slump early in the year.

Chart III compares District manufacturing employment in 1967 to previous years. The estimated figure for 1967 indicates an increase of only .2% over 1966, but 1966 posted a large gain of 5.8% over 1965. The estimated number of persons employed in manufacturing in the District in 1967, as an annual average, is 1,725,000, an increase of about five thousand over the 1966 average. Chart IV gives the picture for manufacturing man-hours in the District. Estimates indicate slight declines in man-hours in both durables and nondurables. Total man-hours declined from 1966 by an estimated 2.4%. In the nondurable category this decline was 2.0%, and in durables, the decline was 3.0%. These estimated declines followed rather sizable increases in 1966, of 3.5% in the total, 2.5% in nondurables, and 5.2% in durables.

The .2% increase in District manufacturing employment compares with a .6% estimated increase for the nation in 1967. The District decline in man-hours of 2.4% compares with an estimated national decline of 1.3% for 1967.

**Total Employment and Income** Chart III indicates that nonmanufacturing employment in the District in 1967 posted a more impressive gain than did that in the manufacturing sector. Nonmanufacturing employment, based on 1967 estimates, averaged 4.2 million, 71% of total nonagricultural employ-

**Chart III** **NONAGRICULTURAL FIFTH**



Note: 1967 figures partially estimated.

Source: State Departments of Labor.

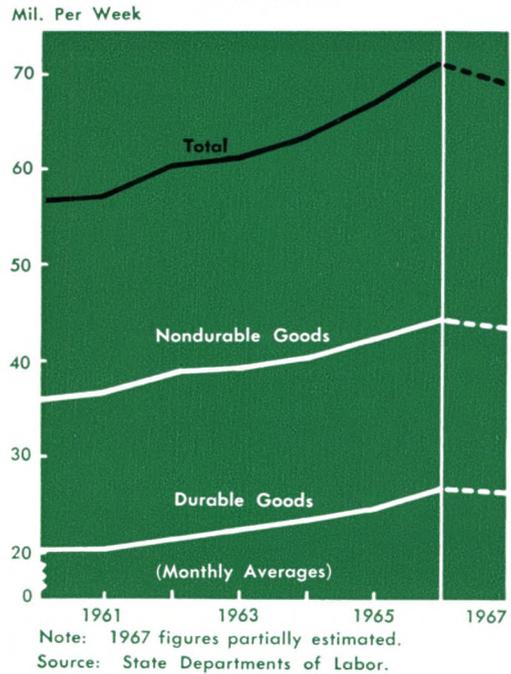
ment, and nearly 2½ times manufacturing employment. The estimated increase in the nonmanufacturing sector was 3.2% in 1967, while the estimated increase in total nonagricultural employment was 2.4%. By comparison, the national total of nonagricultural employment rose by an estimated 2.9% during 1967.

Of nonmanufacturing employment in the Fifth District, the largest increase during 1967 was in government employment, an estimated gain of 5.6%. Estimated average government employment in the District was 1.26 million in 1967, an increase of about 67,000 over 1966. The District gain compares to a nationwide increase in government employment in 1967 of an estimated 651,000, or 6.0%.

The services area has also accounted for large employment gains during the past year. In the Fifth District, this increase is estimated at 3.9%, or about 30,000. Nationally, the estimated 1967 increase was 5.1%, or about 490,000. Estimates for the District also show increases in employment of 2.4% in transportation and public utilities, and 3.8% in finance and insurance in 1967.

Table 1 presents estimated personal income statistics for the Fifth District states for 1967 and percentage changes from the previous year. Estimates for 1967 are second quarter figures at seasonally adjusted annual rates. Of interest in Table 1 is the comparison of the Fifth District with the United States. District states grew relatively more in terms of both total and per capita personal income

Chart IV FACTORY MAN-HOURS  
FIFTH DISTRICT



during the year than the nation. Per capita personal income in the District, however, remains below the national average in all states except Maryland and the District of Columbia. Some of the explanation for the relatively high rates of growth in both total and per capita income in Maryland, D. C., and

EMPLOYMENT  
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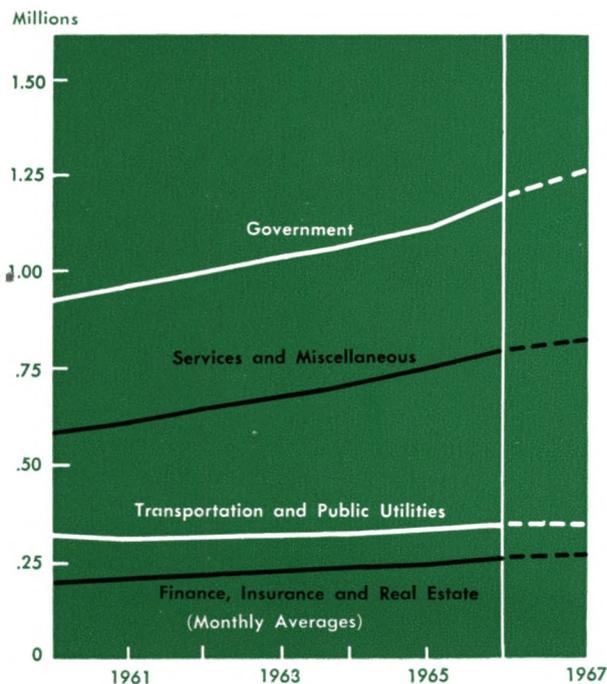


Table 1 FIFTH DISTRICT PERSONAL INCOME—1967\*

	Total		Per Capita	
	Amount (\$ Billions)	Change 66-67 %	Amount (Dollars)	Change 66-67 %
Md.	12.5	7.9	3,390	5.8
D. C.	3.4	6.9	4,203	6.5
Va.	12.5	7.0	2,748	5.5
W. Va.†	4.1	4.6	2,290	5.2
N. C.	11.8	4.1	2,345	3.0
S. C.	5.5	4.3	2,128	3.7
5th District	49.8	6.0	2,698	4.8
U. S.	613.3	5.7	3,099	4.6

\*Estimated † Includes entire state.  
Source: U. S. Department of Commerce.

Virginia is the influence of the boom-type expansion of the nation's capital.

**Retail Trade** There is some evidence that retail trade on a nationwide basis was somewhat under that which businessmen expected in 1967, par-

(Continued on page 8)

## THE FIFTH DISTRICT ECONOMY IN FOCUS

(Continued from page 5)

ticularly during fall and winter months. This probably can be attributed in part to consumer uncertainty about future tax increases. Fifth District retail trade held up relatively better than in the nation. Chart V presents a comparison of estimated 1967 retail sales and trade employment with earlier years. Retail sales for the year were under the 1966 figure by an estimated .9%. Estimated trade employment for 1967, on the other hand, increased by 1.6% over the previous year.

**Construction** While the index of value of construction contracts issued in the Fifth District in 1967 ran consistently above the nation at large, it failed to regain the peak it reached in July, 1966. In late 1967, beginning approximately in October, a further tapering off was evident in the District index. This was probably attributable to rapidly rising interest rates, rising building costs, and uncertainty over the future course of economic policy. Chart VI plots the progress of the construction industry. On an estimated basis, the 1967 gain in total construction contracts was about 1.6% over 1966. In residential construction, there was an estimated decline of 4.0% from 1966, and a decline of about 20.0%

Chart VI CONSTRUCTION  
Thousands 1957-1959 = 100

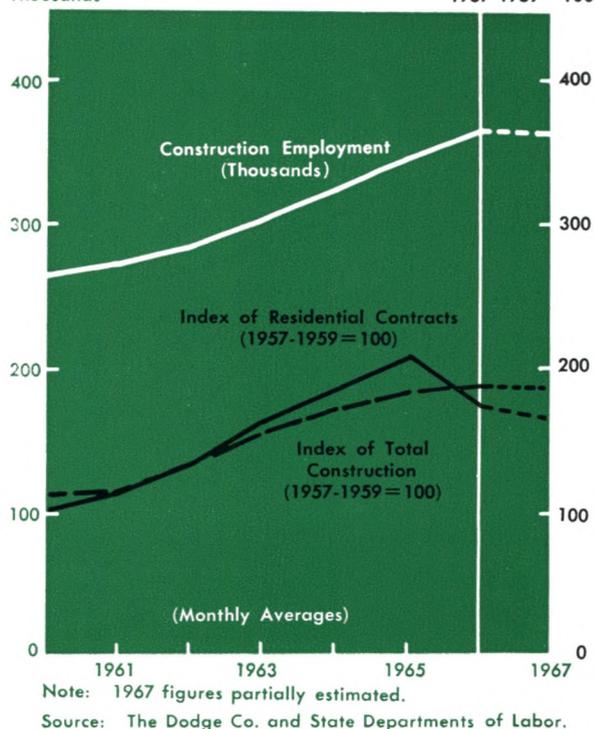


Chart V FIFTH DISTRICT TRADE



from the 1965 peak. Industrial contracts were off in the District in 1967 also, and it was other commercial contracts which filled the gap to produce the slight gain in the total. Estimated construction employment declined by a very slight .5% during 1967.

**Banking** Chart VII indicates the progress of banking in the Fifth District in 1967, in relation to earlier years of the sixties. On an estimated basis for the year, time deposits in District banks made the most spectacular gain of four series plotted. Time deposits increased 15.5% during the year, as compared to a 2.5% increase in demand deposits. The estimated increase in average time deposits was \$862 million, compared to an increase of an estimated \$192 million in demand deposits for Fifth District banks. Investments increased during 1967 by an estimated \$462 million, or 11.7%, while gross loans increased an estimated \$551 million, or 6.5%.

Developments in banking roughly paralleled the national pattern. The slower growth of loans was due in part to weaker loan demand associated with the slower pace of economic activity, to much slower inventory accumulation and to repayment of bank loans out of the proceeds of record corporate bond sales. At the same time banks have added heavily to investments, putting to work the reserves which

have been injected in record amounts by Federal Open Market operations.

**State Finance** Tax revenues grew substantially in all Fifth District states in 1967. Table 2 shows this information on a total and per capita basis. Of interest again is the comparison in Table 2 of the

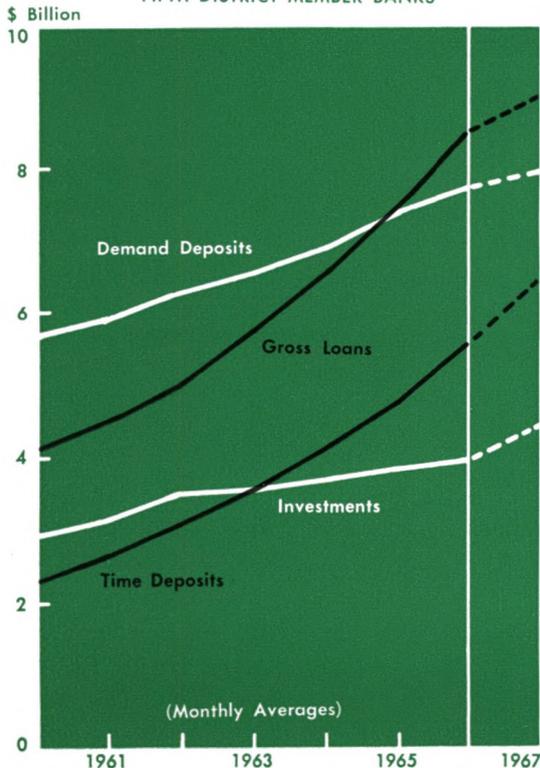
Table 2 STATE TAX REVENUES Fifth District States

	Total			Per Capita		
	1967* (\$ millions)	1966	Change %	1967* (dollars)	1966	Change %
Md.	641	588	9.1	174	163	6.9
Va.	635	529	20.0	140	118	18.3
W. Va.†	282	264	6.6	157	146	7.3
N. C.	841	777	8.2	167	156	7.0
S. C.	396	359	10.2	152	139	9.5
5th District	2,795	2,517	11.0	158	144	9.8
U. S.	31,910	29,388	8.6	162	151	7.5

\*Estimated †Includes entire state.  
Source: U. S. Department of Commerce.

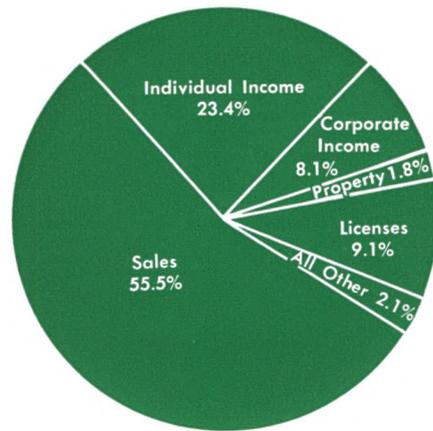
District with all states of the nation. Increases in the Fifth District were somewhat larger in total and per capita. Virginia experienced the largest increase in total and per capita of the five states, followed by South Carolina. Per capita tax revenue is higher than that throughout the nation in both Maryland and North Carolina, for both years shown.

Chart VII BANKING TRENDS FIFTH DISTRICT MEMBER BANKS



Note: FRASER figures partially estimated.

Chart VIII DISTRIBUTION OF STATE TAX REVENUES BY TYPE FIFTH DISTRICT\*—1967



\*Excludes D. C. and includes all of West Virginia.  
Source: U. S. Department of Commerce.

The estimated District population increase in 1967 was about 200,000, or 1.1%. By states, the estimated per cent increases in 1967 were: Maryland, 2.0%; D. C., .4%; Virginia, 1.5%; North Carolina, 1.1%; South Carolina, .6%. West Virginia, on the other hand, declined in population by an estimated .6%, or about 11,000 people. Thus, both state tax revenues and income (Table 1) increased at faster rates than did the population throughout the District.

Chart VIII shows the sources of state tax revenues in percentage terms by type for the Fifth District as a whole in 1967.

**Agriculture** Tobacco farmers in the District brought in higher yields, but experienced lower prices and a lower-than-expected quality during the 1967 marketing season. Gross returns increased over the previous year, but a shift in demand on the part of buying firms from previously preferred mid-stalk leaves to lower-stalk varieties, as well as the quality problem, were largely responsible for the price decline. The result is that the percentage of the crop placed under government loan increased significantly.

The year's cotton crop in the District and in the nation set record lows. The 1967 crop was the smallest for the District states on record, due to damp and cold weather during growing season and high bug infestation. Nationally, cotton produced was the lowest since 1895. A large increase in cotton prices has resulted, and serious concern has developed among textile producers about possible shortages in the supply of cotton during the coming year.

William H. Wallace