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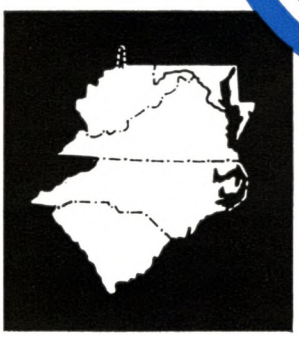

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THE DISTRICT ECONOMY IN PERSPECTIVE: 1973

During most of 1973 both the U. S. and Fifth District economies geared down from the hectic pace of 1972. Inflation, however, continued to plague the nation as prices rose higher and worldwide shortages of food and raw materials became a reality. The consumer price index rose 8.8 percent from December 1972 to December 1973, a growth substantially above the previous year's increase. The jobless rate was trimmed to 4.7 percent in November 1973, as major industries pushed capacity restraints to meet the booming demand.

As the year progressed, production growth slowed, in large part because of capacity limitations. Industrial production was up only 4.5 percent in December over the comparable 1972 figure. Total civilian employment, however, advanced rapidly during the past year, rising 3.2 percent from December 1972 to December 1973. The productivity of labor in the private nonfarm economy, as measured by the output per man-hour, changed little after a very rapid increase in the first quarter of 1973, and from late 1972 to late 1973 the increase amounted to less than 1 percent.

The growth of real output also slowed during 1973 after a healthy 7 percent rise in 1972. Real GNP rose at an annual rate of 5.5 percent through the first half of the year, slowed to 3.4 percent in the third quarter, and dipped to a 1.3 percent rise in the fourth quarter.

In contrast to slackened production growth during 1973, spending on goods and services surged as a result of rapid increases in prices. Personal consumption expenditures, after adjustment for seasonal variation, jumped 10 percent from fourth quarter 1972 to fourth quarter 1973, while business expenditures for new plant and equipment grew at a 14 percent seasonally adjusted annual rate, and government spending advanced at a 10 percent rate. The spending growth in 1973 was accompanied by a rise in outstanding credit, with commercial bank credit through October 1973 up 15 percent over a year earlier.

In most instances, economic developments in the Fifth District paralleled those of the nation at large. A closer look at the individual sectors of the Fifth District economy, however, provides a more complete perspective on District developments over the past year.

The Employment Picture Nonagricultural employment statistics showed moderate to substantial improvement in the nation and the District during 1973. Employment through the first 11 months of the year was up 3 percent over November 1972, with gains of 2 percent in manufacturing and nearly 4 percent in nonmanufacturing industries. A close look at the major categories of nonmanufacturing employment illustrates the relative strength of each.

Apart from manufacturing, government is the leading source of jobs in the District. In November, Federal, state, and local governments supplied 1,550,000 jobs or 21 percent of the District's total nonagricultural employment. The 2 percent expansion of government employment during 1973 was slightly below the 1972 increase. Individual advances in government employment by states were: 4 percent for South Carolina, 3 percent for North Carolina and Virginia, 2 percent for Maryland, and .1 percent for the District of Columbia. West Virginia experienced a slight .4 percent decline in government employment. The District of Columbia's fractional growth in government employment perhaps reflects an atttempt by the Federal Government to tighten employment rolls.

Both trade and services categories also posted sizable increases in employment during 1973. As the third largest source of nonagricultural employment, wholesale and retail trade accounted for 19

percent of the District's nonagricultural jobs in November, up almost 4 percent for the year. The most impressive gain was in South Carolina, which posted a 7 percent increase. Jobs in the service industries also rose 4 percent between November 1972 and November 1973, accounting for 15 percent of the nonagricultural employment in the District, with each category growing more rapidly than in 1972.

Results of the monthly survey[1] of District business conditions suggest that manufacturing employment declined slightly during the latter part of 1973. Throughout the year numerous respondents reported work disruptions resulting from raw material and labor shortages. Scattered lay-offs related to the energy crisis have recently been reported.

The number of workers employed provides one key to the growth of manufacturing industries in the District. After adjustment for seasonal variation, employment in manufacturing industries grew 2 percent in 1973, slightly below the 1972 growth. Each state shared in the manufacturing employment growth, with both South Carolina and Maryland posting impressive 3 percent gains.

Perhaps an equally important measure of growth in the manufacturing sector is man-hours. The District man-hour index was up 2 percent in November over a year earlier, with a 4 percent gain in durables and no growth in nondurable manufacturing man-hours. Although these figures are lower than the gains posted in 1972, they do reflect a substantial recovery over the man-hour declines that characterized 1971. Year-to-year, the man-hour index in November was up nearly 5 percent in Maryland, 2 percent in Virginia and South Carolina, and 1 percent in North Carolina. West Virginia and the District of Columbia showed no change over the 1972 index. Survey respondents in January reported decreases in hours worked per week during December, and troublesome labor shortages continued to plague textile and furniture manufacturers. The low unemployment rate in the District does not portend any immediate improvement in the labor shortage problem.

At 3.5 percent in November, the rate of unemployment in the District was below the national rate of 4.7 percent. Not only was the aggregate rate for the District below the U. S. figure; but each state posted a November 1973 rate of unemployment below the national average, with the exception of West Virginia. Overall, joblessness showed a marked decline in the District, with much of the improvement resulting from an easing of unemployment in West Virginia and Maryland. State unemployment rates in November were: West Virginia, 5.5 percent; Maryland, 3.9 percent; South Carolina, 3.4 percent; the District of Columbia, 2.9 percent; Virginia, 2.6 percent; and North Carolina, 2.5 percent.

Construction Highlights Total new construction in the U. S. increased at a 9 percent rate from January to April 1973, showed no expansion during mid-year, and declined sharply in the fourth quarter as a result of a decline in residential construction. Deposit outflows from thrift institutions contributed to reduced mortgage lending in the second half; and consumer resistance to escalating property and construction costs compounded the problem, resulting in a 35 percent plunge in U. S. housing starts during 1973. In spite of labor and material shortages, however, the index of construction contracts in the District posted a 7 percent increase in October over a year earlier. The jump was the result of a 43 percent increase in nonresidential contract awards combined with an 18 percent decline in residential awards. Only Maryland and the District of Columbia showed gains in the residential sector, while all District states showed substantial growth in nonresidential awards. Gains in the nonresidential category measured 109 percent in the District of Columbia, 101 percent in Virginia, 58 percent in South Carolina, 40 percent in North Carolina, 26 percent in Maryland, and 18 percent in West Virginia.

Agriculture The pages of history will mark 1973 as a banner year for Fifth District farmers. Their record earnings highlighted the year as estimated net farm income climbed to an unprecedented level.

Weather was generally cooperative during the growing and harvesting seasons, helping to assure an abundant harvest. As a result, production gains over 1972 ranged from slight to spectacular for most major crops, with output of soybeans, corn, and peanuts at record levels.

The bountiful harvest, soaring crop and livestock prices, and slightly smaller marketings of livestock and poultry products combined to bring about a phenomenal gain in cash farm income and to boost farmers' gross income to a new high.

[1] The Fifth District Opinion Survey of Business Conditions is conducted monthly by the Research Department of the Federal Reserve Bank of Richmond. Respondents represent manufacturing and retail industries throughout the District.

But the year was not without its problems. Farm production expenses also soared to new heights. Much of the increase resulted from sharply higher prices of farm-originated production inputs, particularly feed and feeder livestock. These rising costs led, in turn, to cutbacks in livestock and poultry production. And before the fall marketing season ended, some farmers were feeling the crunch of the fuel crisis.

Market values of farm real estate continued to advance rapidly, moving upward throughout the five-state area. With the growing value of farm real estate assets and record farm earnings, farmers' financial positions improved greatly.

Banking Developments The 1973 statistics for member banks in the Fifth District clearly reflect the strong demand that characterized the year. Through November 1973, the bank debits index rose 22 percent for the District, exceeding last year's gain. Large increases were reported in each state, ranging from a low of 14 percent in North Carolina to a high of 37 percent in West Virginia. Unusually strong business loan demand resulted in a dramatic increase in loans and discounts by District member banks. At $21.2 billion in November, loans and discounts were up 23 percent over a year earlier. In the investments category, District bank activity was mixed, with holdings of U. S. Government obligations declining 10 percent to $2.0 billion and other security holdings climbing 9 percent to $5.6 billion. Total assets of member banks in the District were $33.9 billion in November, up 17 percent over 1972. By states, total assets on the last Wednesday in December posted the following year-end increases: South Carolina, 31 percent; North Carolina, 19 percent; Virginia, 16 percent; West Virginia, 15 percent; the District of Columbia, 13 percent; and Maryland, 12 percent.

District member banks also experienced sizable deposit expansion during 1973. Total member bank deposits in November were $27.5 billion, 12 percent above November 1972. Total deposit gains by state were 30 percent in South Carolina, 13 percent in North Carolina, 11 percent in West Virginia and Virginia, 8 percent in Maryland, and 7 percent in the District of Columbia. Time deposit volume in the District showed a sharp increase of 18 percent during 1973 while demand deposit balances rose only 5 percent. By state, time deposit expansion ranged from 50 percent in South Carolina to 15 percent in Virginia and the District of Columbia. Demand deposit balances grew in each District state, with the exception of a 2 percent decline in Maryland.

B. Gayle Ennis