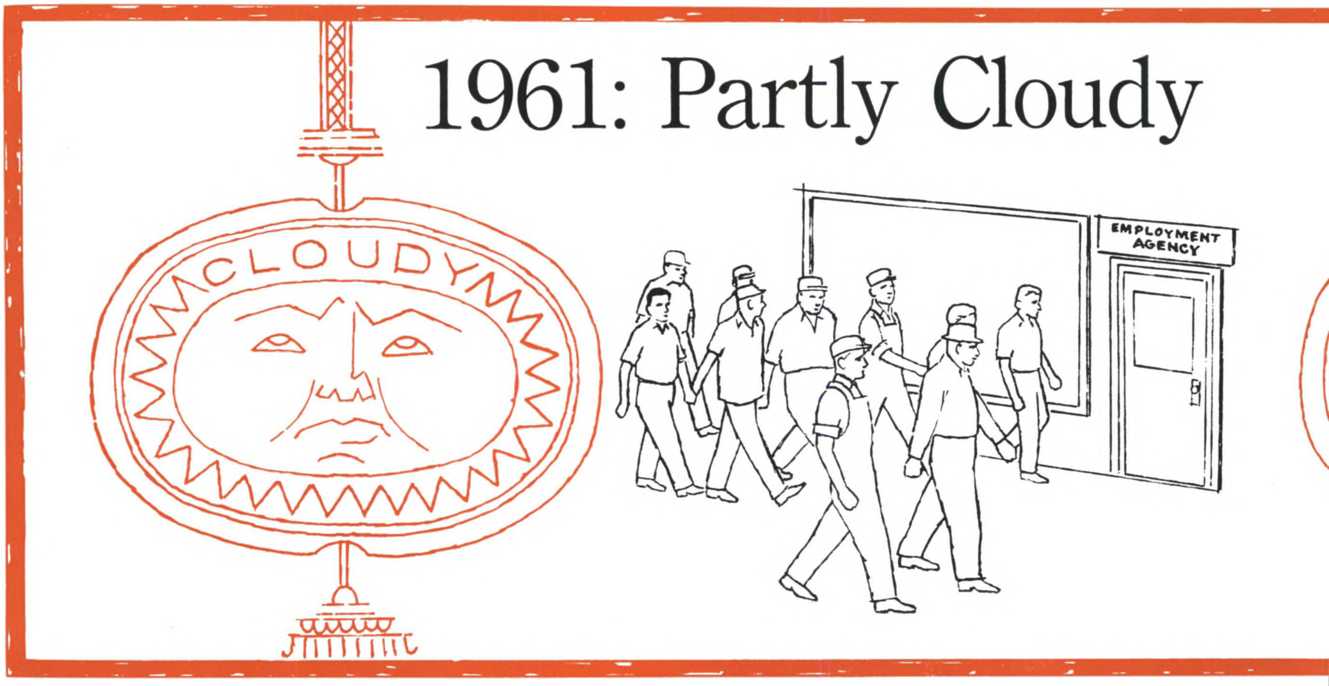
# MONTHLY REVIEW

Construction should be a sustaining force in the economy of 1961.

FEDERAL RESERVE BANK OF RICHMOND FEBRUARY 1961

# 1961: Partly Cloudy




Like the weatherman, the business forecaster is widely criticized—but his prognostications are eagerly read. Around the turn of the year businessmen must review the old year and approve budgets for the new. It is natural for them to formulate their own views about the coming year and then to see how they compare with the views of others. But the great game of predicting is by no means confined to businessmen: any number can play and many do.

The main forecasting season is now over. This is a quick look at the harvest. As an aid to our readers in appraising the forecasts for the coming year this article summarizes the projections and predictions of many prominent financial writers, economists, business leaders, and public officials. These people have performed a valuable service in trying to chart the future course of economic activity.

Scores of forecasts were studied during the survey. The ones discussed here are those which gave fairly specific predictions covering most of the economy or which dealt more intensively with a major segment. Several of the forecasts were group efforts, one of which involved over 300 participants. Consequently, over 450 persons took part in the economic forecasts summarized below.

The views and opinions set forth in this article are those of the forecasters. No agreement or endorsement by this Bank is implied.

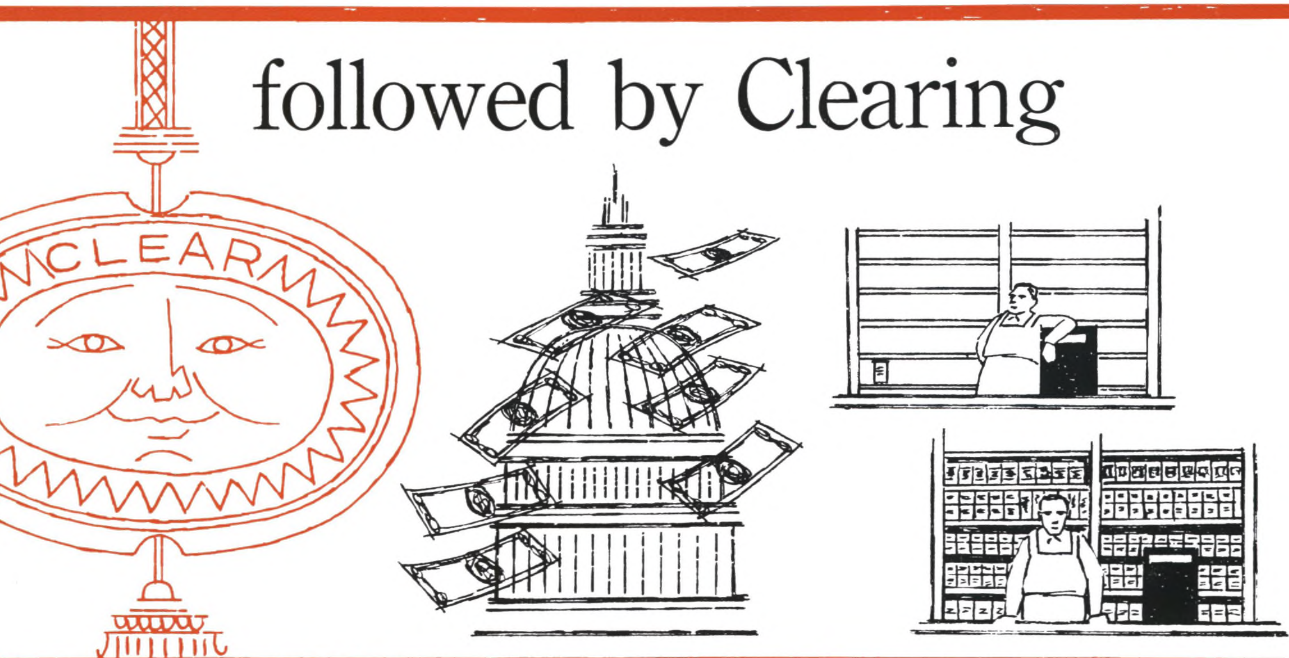
**THE GENERAL CLIMATE** It is interesting to note the background or setting in which the forecasts were made and some of the general characteristics of the predictions.

As a foreword many of the forecasters note that the present recession has been the mildest and gentlest since World War II and that it has not accelerated or "fed on itself." Reasons assigned for this are the absence of excesses in the previous recovery period and the generally sound financial structure of the country.

A few of the forecasters note that the 1958-60 recovery was the weakest and shortest since World War II. The factor which causes the greatest concern in this respect is the persistently high rate of unemployment, which was above 5% of the labor force a good part of the time.

Because of the weak recovery and the mild recession thus far, few observers expect any spectacular developments in 1961. Some say specifically that they do not expect any "boom or bust" and a great majority imply general agreement with such a position. There is remarkable agreement among the forecasters on nearly all major points and when quantitative estimates are given the range of the predictions is quite narrow. Those economists who participated in the forecasts do not provide support for the facetious definition of an economist as "one who thinks otherwise." In fact, one writer observes

# followed by Clearing




that the forecasts are so uniform as to appear "suspicious."

Perhaps the most interesting and significant characteristic of the general background of these forecasts is a rather vague feeling on the part of a number of forecasters that a new economic environment will prevail in 1961. A few forecasters mention it specifically and several others hint at it in more general terms. One factor in that new environment is the absence of the inflationary psychology which has prevailed over most of the postwar period. This seems to have affected both consumers and producers. Among consumers it has produced a new pattern of behavior in that consumer expenditures have been increasing more slowly than consumer income, while personal savings have risen significantly. Among producers and merchants it has caused changes in inventory policies. With no fear of price increases and with improved techniques of inventory control, businessmen are content to operate with relatively smaller inventories than they carried a few years ago.

A second element of the new environment is suggested by the weakness of the last recovery and the persistently high level of unemployment. This leads a few forecasters to question whether the economy is "running out of steam" as it catches up with the backlog of demand accumulated over the depression and war periods.

A changed demand for housing is the third element in the new environment. In the other postwar recovery periods the demand for housing, stimulated by increasingly liberal financing arrangements, provided a major impetus to recovery. Now there seems to be almost universal agreement that housing will not provide such a strong stimulus in the next upturn for at least two reasons. The backlog of urgent demand for new housing has been greatly reduced if not entirely eliminated. At the same time financing arrangements have been liberalized about as much as is feasible and, in any event, further liberalization cannot provide much additional stimulus. Any gains that might be made by stretching out repayments would be largely offset by increases in total interest charges.

Finally, the new environment is different in that there is now excess producing capacity throughout most of the economy. Several forecasters cite surveys which show that a majority of industries were operating well below capacity in 1960, even when employment and personal income were at record high levels.

This new environment makes forecasting even more hazardous than usual and several forecasters qualify their predictions by calling attention to it. For example, one says: "We have now entered a period of a differently shaped cycle, but I for one don't at all feel that I know what the new shape is likely to be."

**FALLING BAROMETER AHEAD** What is likely to be the broad, general profile of business activity in

1961? There is overwhelming agreement among the forecasters on this point and its runs about as follows: Business activity will continue to decline in the early months of the year but will turn up about midyear, if not earlier, and will end the year in a broad and general upward movement. Apparently, over 90% of the forecasters agree with this generalization, although there are different opinions as to when the turn is likely to come and the extent of the dip and the rise. Of course, the extremes are represented, even though lightly. One forecast indicates that activity will increase steadily each month "and will produce a sizable boom within a year's time." At the other extreme one forecaster states that recovery during the last half of the year is "highly uncertain."

Opinions differ as to whether the year 1961, overall, will be a better year than 1960. The majority seem to believe that, on balance, it will be moderately better, although a substantial number hold to the belief that it will be about the same or slightly worse.

Why are the forecasters so confident that the trend will be reversed around midyear? Several reasons are given. The one most generally mentioned is that by midyear the liquidation of inventories will have run its course and some small rebuilding of inventories will take place in the last half. Supporting this is the belief that personal income will be maintained, as it has been in recent months, from unemployment compensation, social security payments, and other sources, and that consumers will reverse their policy of the past several months by spending more of their income.

The second major reason is that government spending will increase. The forecasters are almost unanimous in predicting that total government spending for goods and services will increase by $6 billion to $8 billion over 1960 expenditures, not counting any new expenditures made by the Kennedy Administration. In the first half of the year the effect of this increase will be offset somewhat by a Federal cash surplus of some $4 billion or $5 billion, but in the second half the full effects will be felt, accentuated by the Federal Government's seasonal cash deficit, which may amount to as much as $8 billion or $10 billion.

In addition to these factors, a few forecasters believe that recovery in the second half of the year may be stimulated by a small increase in residential housing expenditures.

**SPECIFIC FORECASTS** So much for the broad and general aspects of the predictions. What are the prospects for the various components which make up total business activity?

Gross national product (GNP) is the broadest measure of the performance of the economy as a whole. As noted earlier, the majority opinion is that it will be a little higher than last year. All specific forecasts fall between $510 billion and $521 billion; they average $515 billion, or between 2% and 3% above the 1960 level which is estimated at about $503 billion. This range of estimates is probably as narrow as could be expected for any year.

The estimates of consumer expenditures are also closely bunched, ranging from $330 billion to $342 billion, or from 1% to 4% above the 1960 level. Generally the opinion is that there will be little or no increase in spending for durable goods; the increase is expected in expenditures for food, some other nondurables, and services.

All forecasters expect some decline in business expenditures for plant and durable equipment. A recent survey of anticipated expenditures for this purpose shows a decline of about 3% from the high level of nearly $36 billion in 1960. A majority of the predictions specify a larger decline, some putting the figure as high as 10%. The reasons most generally given for the pessimistic view are widespread excess capacity and the continuing squeeze on profits.

Inventories are regarded as one of the most volatile and unsettling factors in the business picture. Almost all forecasters are agreed that there will be continued liquidation in the early months of the year, and one puts the total liquidation as high as $5 billion. Most predictions call for some rebuilding of inventories before the end of the year, but a fair number say liquidation will continue. The majority opinion is that there will be some net liquidation for the year as a whole, but a considerable number think that there will be no substantial net change, one way or the other. Very few expect any significant increase in inventories over the year as a whole.

Total new construction expenditures are expected to be an element of strength in the 1961 economy at a level of $56 billion to $57 billion, slightly higher than the 1960 level. Most forecasters, however, are quite wary about the outlook for private housing. Most of them estimate private nonfarm housing starts at from 1,250,000 to 1,350,000—slightly above the 1960 figure. A few expect activity to pick up in the latter part of the year, but none looks to housing as a major stimulating factor in the economy.

As already noted, all forecasts state that government expenditures for goods and services will be

## BOX SCORE 1960

| | |
|---|---|
| Gross National Product* | $503.2 billion |
| Personal Consumption Expenditures* | $328.2 billion |
| Government Purchases of Goods and Services* | $ 99.6 billion |
| Gross Private Domestic Investment | |
| Business Plant and Equipment (SEC series)* | $ 35.7 billion |
| Change in Business Inventories* | $ 3.3 billion |
| Residential Construction (nonfarm)* | $ 21.1 billion |
| Other Investment* | $ 12.6 billion |
| Net Exports of Goods and Services* | $ 2.7 billion |
| Housing Starts | 1,248,200 |
| Corporate profits | $ 45.0 billion |
| Employment | 66,681,000 |
| Unemployment | 3,931,000 |
| % of Civilian Labor Force | 5.6% |
| Industrial Production Index* | 108.0 |
| Wholesale Price Index* | 119.6 |
| Consumer Price Index | 126.5 |

* Preliminary or estimated figure.

higher in 1961, with the expected increase ranging from $4 billion to $10 billion. Most expect an increase of between $6 billion and $8 billion, or 6% to 8% above the 1960 figure. These estimates do not include any new or additional expenditures initiated by the incoming Administration.

Expectations for industrial production are not optimistic. Estimates for the year as a whole range from 103 to 110 (Federal Reserve Index), compared with an average of about 105 for the last quarter of 1960 and a high of 111 in January 1960.

Almost without exception the forecasters are pessimistic about the employment situation. A large majority expect unemployment to be higher than in 1960 and see it as the most difficult problem facing the economy. Some estimates run as high as 5.5 million at midyear and 4.1 million at year end; no one expects it to be lower than in 1960.

Pessimism prevails also among the predictions for business profits. While some see a chance for better profits in particular areas, very few expect higher profits for the whole economy. One of those few is Secretary of the Treasury Anderson, who predicted an increase of $1 billion. The expectation generally is for keen competition and a continuation of the squeeze on profits. However, no one seems to expect a drastic fall in profits or large losses.

In keeping with the disappearance of the inflationary psychology, the estimates call for relatively stable prices. Consumer prices are expected to continue creeping upward by 1% to 2% per year, but wholesale prices are expected to remain approximately stable.

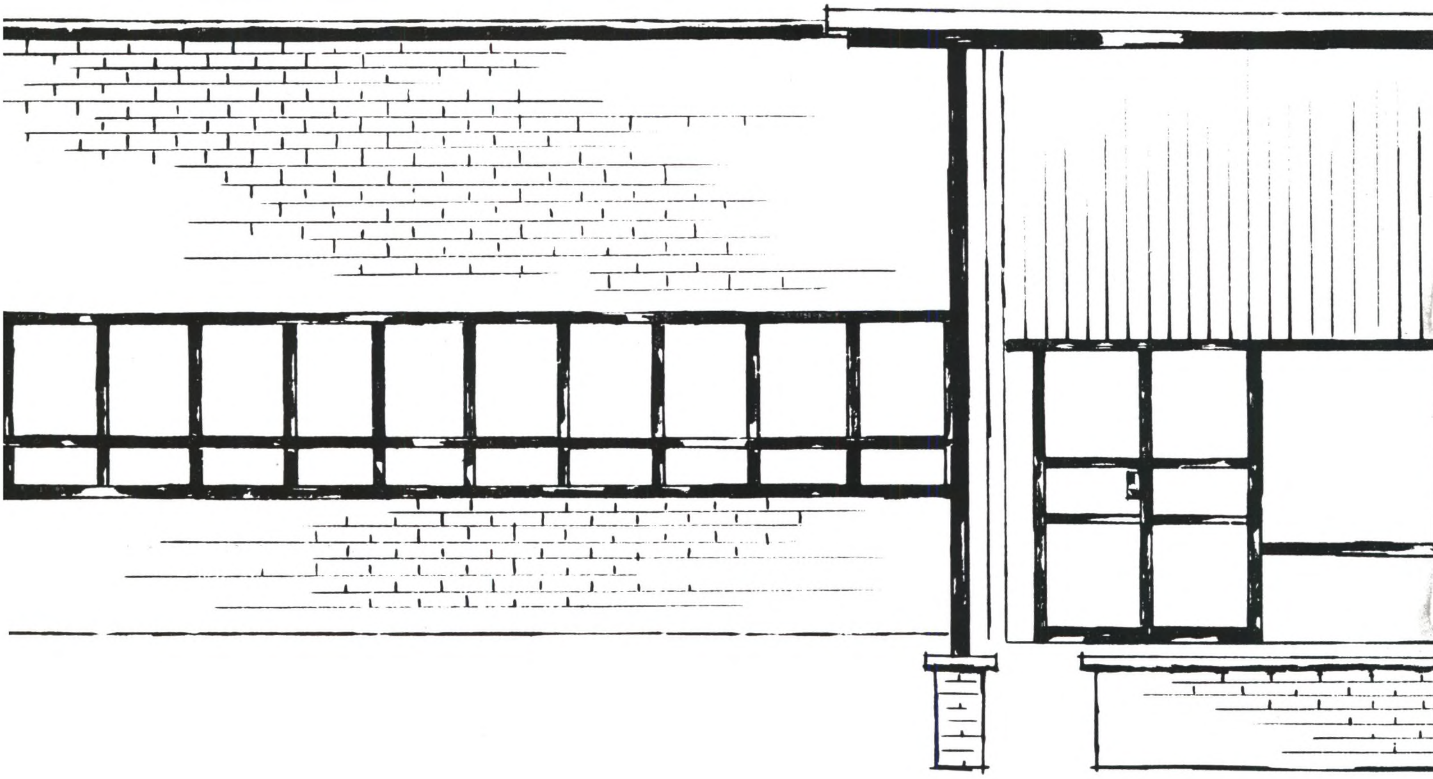
Most forecasters did not attempt a prediction about foreign trade or the balance of payments. Those who did usually gave a very brief statement with little supporting analysis. A few say that it will be difficult for the United States to maintain the high level of exports reached in 1960, which was realized only through a fortunate combination of events, including unusually large exports of a few special commodities and high levels of economic activity in Japan and Western Europe. Very few expect any improvement in the balance of payments; most of those who expressed an opinion expect it to remain about the same or to worsen moderately.

Such a brief review as this cannot do justice to the detailed analysis and the broad scope of many of the forecasts. But the brief summaries may be helpful in giving some idea of the highlights and the general tone of the predictions. In conclusion it should be noted again that the opinions are those of the forecasters and do not constitute an expression of opinion by this Bank.

*A compilation of more than 50 forecasts with names of forecasters and details of estimates may be obtained from the Federal Reserve Bank of Richmond.*

# RAVENEL RESEARCH CENTER

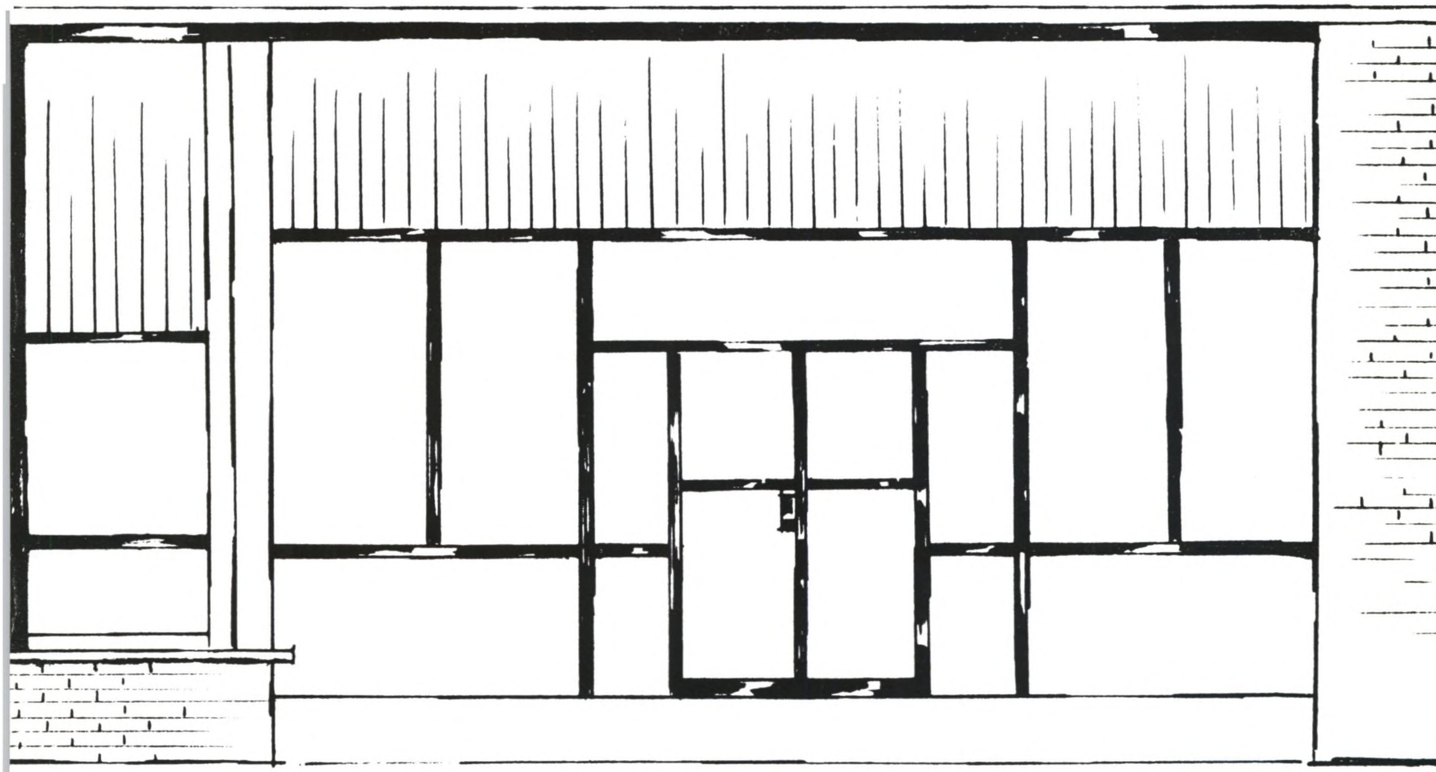
New ideas are the foundation stones of pr
costly facilities are needed. The research staff must possess both theoretical insight and techn
late and enrich scientific effort. Surroundings should offer recreational opportunities without
Clemson, South Carolina, is designed to provide such an environment. The long-range develo
Board. The original announcement in late 1958 included plans for the first research building
trial organizations that are considering research units at the Center. The research facility no
a new idea can originate almost anywhere. If it seems promising, it is scrutinized and develo



detailed plans are drawn by engineers and draftsmen.

The fruits of

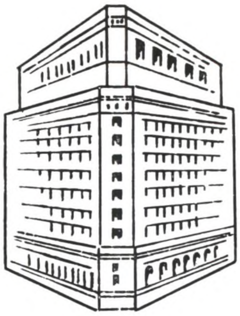
ess. Searching for them requires a particular combination of factors. Specialized and often
l skill. There should be opportunity for frequent contacts with other research groups to stimu-
esirable distractions. Ravenel Research Center on the site of the old Ravenel place outside
ent of this Center is a joint effort of Clemson College and the South Carolina Development
hich was completed in mid-1959. Negotiations are currently under way with two more indus-
in operation well illustrates a typical program of industrial research activities. The germ of
by experts. After passing that test . . .



The devices needed to implement the new idea are fashioned by craftsmen using precision tools and equipment.

The new devices are thoroughly tested unde simulated production conditions.

ustrial research—higher quality and lower costs—keep America's living standards on the rise.



# Lender of Last Resort

## *The Federal Reserve and Commercial Bank Liquidity*

Suppose the business community were suddenly required to pay off all debts, stop all borrowing and lending, and refrain from using credit in any form. How would this development affect the American economy?

The confusion would be enormous. Credit underlies most modern economic activity and its sudden elimination would paralyze business. But in answering this question, it is not necessary to rely on imagination. Economic history provides many vivid examples. Sudden credit stoppages imposed by defective banking systems were common in the days before central banking.

**ORIGINS OF THE FEDERAL RESERVE** In this country before 1914 credit "freezes," or banking panics, occurred with discouraging regularity. Popular determination to stop these panics was an important factor in the movement to establish the Federal Reserve System. This System, framed after long study, was expected to insure that credit would always be forthcoming in the necessary amounts. In this role, the System became, in the financial language of the early twentieth century, the economy's "lender of last resort."

**CREDIT AND LIQUIDITY BEFORE 1914** The Federal Reserve's role as lender of last resort is best appreciated in the light of credit problems before 1914. Relatively, credit was as important then as it is today. A sudden cessation of bank loans and trade credit could seriously reduce business activity. The pyramid of credit then, as now, rested mainly on bank lending. Banks were the chief immediate lenders as well as the indirect source of much of the trade and other credit extended by others.

Commercial bank operations before 1914 did not differ markedly from those of today. What did differ, however, was the system of bank organization. In particular, in the earlier period no provision was made to insure the liquidity of the banking system, as distinct from that of individual banks.

Liquidity, the ability to meet creditor claims when due, is of course a problem facing all businesses. For commercial banks it is an especially difficult one. A glance at the bank statement on the opposite page will show why. Most creditor claims on banks are in the form of deposits payable on demand. This is technically true only of demand deposits, but in practice it is true of savings deposits as well. By contrast, most claims on most other businesses mature in the future, many in the distant future.

Before 1914 bankers sought liquidity through holding cash, deposits at other banks, and notes and securities which could be sold readily with little chance of loss. In addition, most loans were short-term, some even callable on demand. Loans were arranged so that some would be maturing, and thereby providing access to cash, at short intervals. The portfolios of most large banks also contained such assets as bankers' acceptances, call loans, and prime commercial paper. These assets were held for two reasons. First, they were regularly traded in large volume on well-developed markets which bankers could readily enter as sellers if the need arose. Second, as short maturities they involved little risk of capital depreciation.

**BANKING SYSTEM LIQUIDITY** These practices, which resemble those followed today, ordinarily insured the liquidity of individual banks. Faced with large deposit withdrawals, the individual banker responded first by calling demand loans and refusing to renew other loans as they came due. If this did not suffice, he then sold his more liquid securities. As long as the latter maintained their value in the market, these actions allowed the banker to meet the withdrawals and to remain in business.

If this course of action was open to all bankers, why did difficulties arise? With no central bank present, a banker selling liquid assets would be likely to sell them to other commercial banks. Under such circumstances an individual banker was able to maintain liquidity only as long as other banks would buy his offerings of liquid assets or as long as his borrowers could squeeze their own operations sufficiently to repay their loans.

**COMBINED STATEMENT OF CONDITION OF COMMERCIAL BANKS IN LEADING U. S. CITIES**

**November 30, 1960**
**(millions of dollars)**

| Assets | | Liabilities and Capital Accounts | |
|---|---|---|---|
| Reserves with Federal Reserve Banks | 12,550 | Demand Deposits | 89,362 |
| Vault Cash and Balances with Other Banks | 17,131 | Time Deposits | 34,037 |
| Loans and Discounts | 69,177 | Borrowings from Other Banks and Federal Reserve Banks | 1,106 |
| Investments: | | | |
| U. S. Government Securities | 29,312 | Other Liabilities | 5,241 |
| Other Securities | 9,571 | | |
| Other Assets | 4,025 | Capital Accounts | 12,020 |
| Total Assets | 141,766 | Total Liabilities and Capital Accounts | 141,766 |

Adapted from data in the **Federal Reserve Bulletin**, December 1960, pp. 1364-1366

But what if all banks experienced large withdrawals and were forced to sell liquid assets at the same time? Then sales at book value were possible only if nonbank buyers entered the markets on a large scale. Before 1914, however, nonbank buyers were relatively few and could take large quantities of these assets only at sharply reduced prices. Forced to sell at large discounts, bankers might not realize enough to meet their deposit obligations and remain solvent. Thus, while current practices sufficed for individual banks under normal conditions, they did not insure the liquidity of the entire banking system.

Before the Federal Reserve System was organized deposit withdrawals from any group of banks tended to put all banks under pressure. A group of banks experiencing extraordinary withdrawals would call in their deposits at other banks, curtail loans, and sell their more liquid securities. All these actions, the first one most obviously, would lead to withdrawals from other banks. As borrowers at the first group of banks were forced to pay off their loans, they in turn would insist on payment from their customers, at least some of whom would be likely to be depositors at other banks. Similarly, sales of securities by the first group of banks would probably be paid for, in part at least, by buyers drawing down their deposits at other banks. Thus, the normal reaction of one group of banks under depositor pressure was likely to produce withdrawals from a second group of banks. In like manner, the actions of the second group would soon involve still other banks and so on, with deposit losses snowballing through the system.

**PRE-FEDERAL RESERVE LIQUIDITY CRISES** The liquidity of the banking system is vitally important to the liquidity of the business community at large. Thus a liquidity crisis in the banking system quickly becomes a liquidity crisis for the entire economy.

The banking system creates most of the public's money, since bank deposits make up most of the money supply and these deposits result chiefly from bank lending and investing. The banking system generally pays new deposits to the public in return for the public's promissory notes and securities. On the other hand, therefore, deposits are reduced when banks sell their assets to the public, for the public generally pays for these purchases by drawing down deposits.

Before 1914, when the public decided to convert its deposits to cash, banks were forced to sell notes and securities, both through offers on the markets and through requiring borrowers to pay off, *i. e.* to "buy back," their notes. If enough banks were affected, sales to the public were sufficiently large to cause a significant reduction in the public's money holdings. At the same time, lending by banks was seriously reduced, if not stopped altogether. Business borrowers, pressed by banks, curtailed their own trade credit and insisted on cash payment. With both less money and less credit in trade channels, prices fell, interest rates rose, profit margins disappeared, and widespread business failures followed.

Major crises of this kind occurred in 1837, 1857, 1873, 1893, and 1907, with lesser ones interspersed between these dates. Each of these was marked by extraordinary deposit withdrawals, a phenomenon popularly referred to as "runs" on banks. Factors underlying these runs varied, associated sometimes with international and sometimes with purely domestic developments.

Ordinarily, business firms and many individuals held much of their money as bank deposits, for payment by check was often more convenient than payment in cash. Sometimes, however, a series of business failures or an expose of bank mismanagement shook public confidence in banks and touched off withdrawals. At other times gold exports had the same effect, since most gold was held by banks and its purchase for export reduced deposits. Perhaps the chief factor in these runs, however, was the poor record of the banking system itself. The public was, of course, aware of this record, and many bank customers were prepared to withdraw deposits on small provocation.

**THE REMEDY—A LENDER OF LAST RESORT** With long experience in the kinds of crises described here, Congress, in framing the Federal Reserve System, sought to establish an institution that would underwrite the banking system's liquidity. The new Federal Reserve Banks were viewed as a broad market in which commercial banks could obtain cash for some of their assets when the need arose. Confronted with extraordinary withdrawals, bankers could bring customer and other notes to the Reserve Banks and exchange them for either currency or reserve deposits, a procedure called "rediscounting." In this manner, sales of bank assets to the public, with a consequent reduction in the public's deposits, would be avoided. Banks could also maintain loan lines despite the deposit withdrawals.

In this light the term "lender of last resort" takes on an obvious meaning. It implies a central bank role as third party in credit transactions between the commercial banking system and the public. When commercial banks find the burden of meeting the public's credit needs to be too great, they shift part of this burden to the central bank. As a third party ready to assume this burden, the central bank becomes the ultimate support of the economy's credit structure.

**CENTRAL BANK EVOLUTION** In the Federal Reserve's first years, the prevalent view was that the System's chief function should be rediscounting at the initiative of commercial banks. The basic idea was that the public's need for credit should normally be met by commercial banks. If these banks were threatened with a liquidity problem, the Reserve Banks would stand ready to provide the necessary liquidity.

Those who expected that the new system would eliminate all crises were disappointed. In 1921 and again in 1929 the country experienced credit panics not unlike those of pre-Federal Reserve days. Chiefly as a result of the 1929 crisis and the ensuing depression, the System's role as lender of last resort has been expanded and refined. Since 1935, this role has embraced not only the emergency function of preventing credit freezes but also the more positive function of maintaining the "right" amount of liquidity in the banking system and the "right" amount of credit in the economy. Here "right" must be interpreted in the light of broad policy objectives respecting employment, prices, and economic growth.

Today the Federal Reserve underwrites the liquidity of the economy not merely by responding to bank requests for loans. On its own initiative it enters the market for government securities as a buyer when it sees the need for additional liquidity, or as a seller when it feels that liquidity is excessive. The System's purchases of securities in the open market provide banks with new cash, and hence lending power, as effectively as do loans to members. Similarly, System sales in the open market curtail bank lending power. The Federal Reserve now employs rediscounting, open market operations, and other controls over commercial bank lending power in an active and continuing campaign to meet the liquidity requirements of a growing, fully employed economy without generating inflationary pressures.

This change in the Federal Reserve's role, however, should not be allowed to obscure its function as lender of last resort in the old sense of the term. It is still the economy's insurance against the kinds of panics that plagued the pre-Federal Reserve era.

# 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.

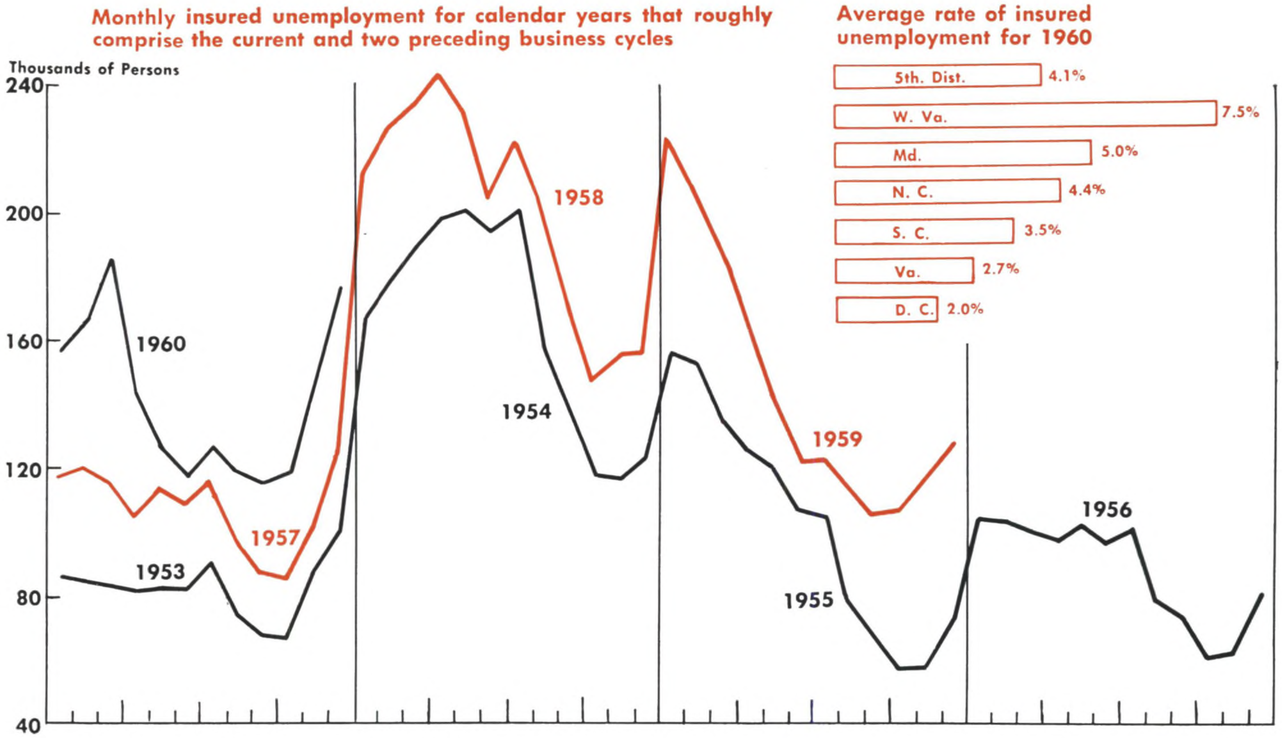
**STABILIZERS IN THE PICTURE** The rate of business contraction has remained so gradual that a fair degree of optimism continues to prevail. Secondary contractive forces, such as the sharp reductions in spending plans which might be made because of growing apprehension, have remained in check, and little 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**

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