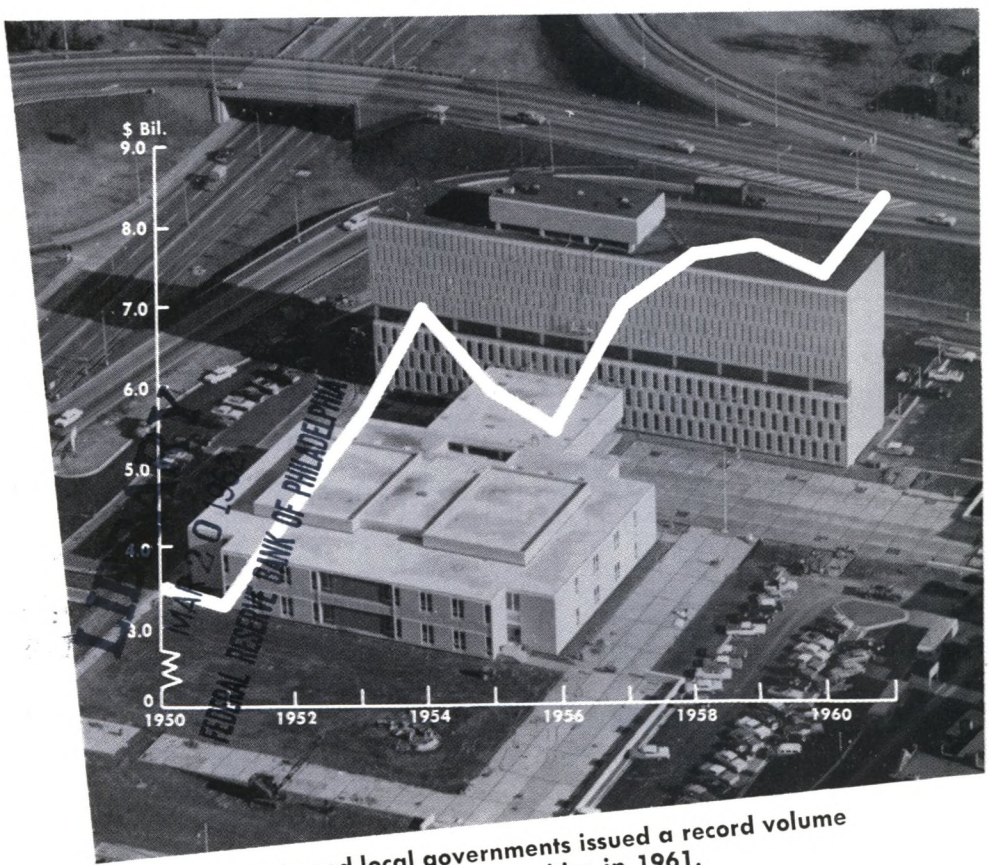
MONTHLY REVIEW



State and local governments issued a record volume of new securities in 1961.

FEDERAL RESERVE BANK OF RICHMOND

MARCH 1962

MONEY AND CREDIT IN 1961

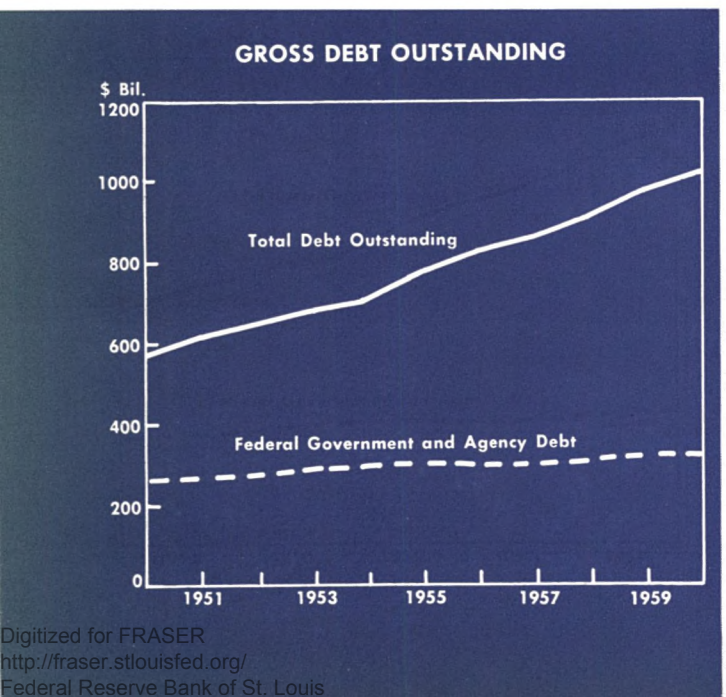
According to a recent estimate, $1 billion would make a stack of $100 bills six times the height of the Washington Monument. When thought of in these terms, the size and growth of the Federal debt assume gigantic proportions. Often overlooked is the size and growth of non-Federal debt. In the years from 1949 through 1960, the debt of the Federal Government and Federal Government agencies rose 20% from $266 billion to $321 billion. During the same period, non-Federal debt rose a whopping 135% from $300 billion to $706 billion. The magnitudes involved and the relative rates of growth are evident from the chart below. Also evident is the fact that Federal debt as a fraction of the total has constantly decreased over the decade. Federal debt in 1950 comprised 47% of total debt outstanding but only 31% in 1960.

Each of the components of non-Federal debt (state and local debt, corporate debt, and debt of individuals and unincorporated enterprises) grew at a substantially faster rate than Federal debt. The developments over the period are summarized in the following table.

Debt of State and local governments grew most rapidly, followed in order by debt of individuals and unincorporated businesses (including farm debt, nonfarm mortgage debt, consumer debt, commercial debt, and financial debt) and corporate debt. Preliminary data suggest that developments in 1961 did not depart greatly from trends of the previous 11 years.

INTEREST RATES A significant development in 1961 was the huge volume of new security financing which took place at remarkably stable rates of interest. During other recoveries from recession since World War II, interest rates tended to rise sooner and further than in the 1961 recovery. The table on the following page compares 1958 with 1961 as to the rise in interest rates from the trough of the recession through ten months of recovery. In every case the rise in 1958 was significantly greater. Why?

Part of the answer lies in the simple fact that interest rates did not fall as far in 1960. The Federal Reserve System made a deliberate attempt in 1960 to supply reserves to combat recession in such a way as to minimize downward pressure on interest rates. Reserves were supplied largely by allowing vault cash to be counted as reserves and by lowering reserve requirements for central reserve city banks. An additional and more important reason for the



GROWTH OF DEBT

Type of Debt	Debt Outstanding 1950	Debt Outstanding 1960	Per Cent Increase 1950-1960	Average Growth Per Year
	$ Billion		Per Cent	Per Cent
Total debt	566	1,027	81	7.4
Federal Government plus agencies	266	321	20	1.8
State and local governments	24	67	178	16.2
Corporations	167	352	111	10.1
Individuals and unincorporated enterprises	109	287	164	14.9

moderate decline in interest rates was the fact that the 1960 recession was milder than the recession of 1957-58. Consequently, the level of rates remained fairly high relative to the 1958 experience. The chart below shows the course of the three-month bill rate from the troughs of the respective recessions through ten months of recovery. A plot of other rates would reveal a similar pattern.

Rates failed to rise as rapidly during the present recovery mainly because the absence of inflationary pressures enabled the Federal Reserve System to maintain a policy of active ease for a much longer period of time than in 1958. Throughout 1961 the discount rate remained at 3% and free reserves averaged around $500 million. In 1958 the discount rate was raised twice during the first ten months of recovery and the average level of free reserves fell rapidly beginning in the fourth month of recovery and became negative in the eighth month.

Consequently, the level of interest rates remained very stable during the current business cycle. In the last two months of 1961 bill rates and rates on other short-term Governments showed a marked rise, and rates on long-term Governments increased slightly. Rates on corporate and municipal bonds, however, remained virtually constant at higher levels established earlier in the year.

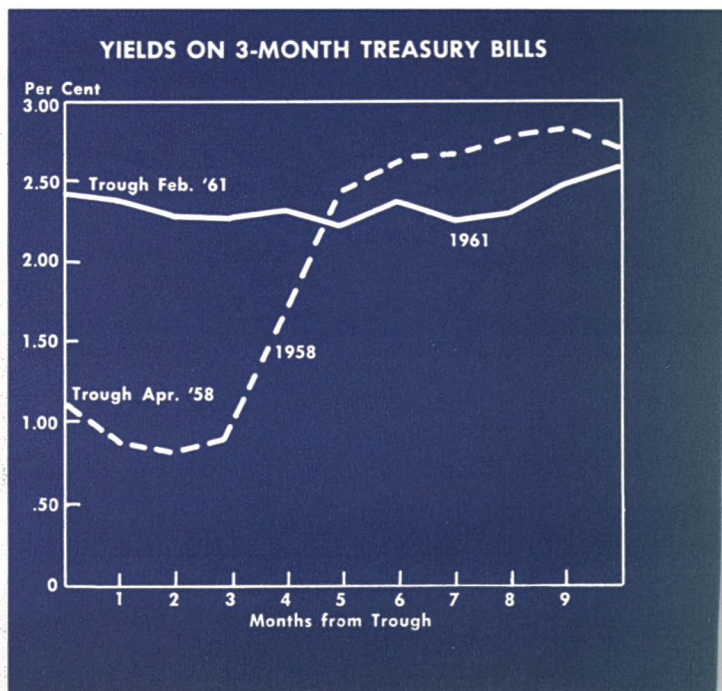
In view of the Federal Reserve System's policy of operating in the long as well as the short end of the market and other efforts to keep short-term rates up for balance-of-payments reasons, an interesting question is how the structure of interest rates differed during periods of ease in the last two business cycles. A hasty conjecture would be that short rates were higher relative to long rates in the 1960-61 period, but there is only slight evidence to support this conclusion. In 11 months of ease centered around the respective troughs, the spread between the three-month bill rate and the rate on long-term Governments was lower in the 1960-61 period than in the 1957-58 period in seven out of the 11 months, and the spread between the three-month bill rate and Moody's Aaa corporate bond index was lower in 1960-61 in nine of the 11 months. The spreads between the bill rate and the yield on three- to five-year Governments and Moody's Aaa municipal index, however, were lower in 1960-61 in only five of the 11 months of ease. It cannot be said, therefore, that the spread between short and long rates was consistently lower in the 1960-61 period. But this can be explained in large part by the fact that the degree of ease fluctuated more in the 1957-58 period than in 1960-61. In the latter period average free reserves started at $414 million in September 1960 and closed the period in July 1961 at $530 million with little variation in between. In the earlier period, however, average free reserves started the 11-month period of ease at —$293 million in November 1957, rose to $493 million in April 1958, and declined to $95 million in September. In the 1957-58 period, when free reserves were rising rapidly, short rates were naturally falling more rapidly than long rates and the spread was widening. The converse was true when the average level of free reserves began to fall. In contrast, since the intensity of ease was virtually constant in the 1960-61 period, the spread between short and long rates remained almost constant.

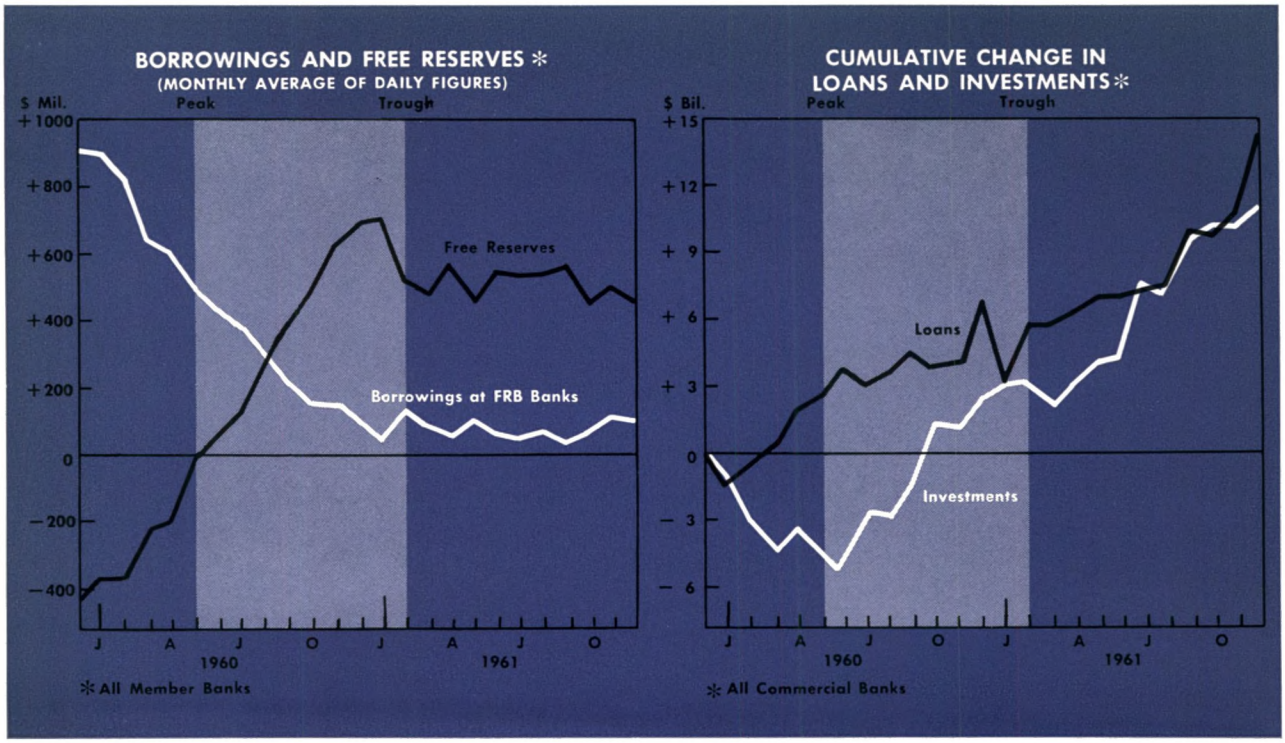
Thus it is impossible to tell very much about the effect of official action on the structure of interest

RISE IN INTEREST RATES FROM TROUGH OF RECESSION THROUGH 10 MONTHS OF RECOVERY

3-Month Treasury Bills		3-5 Year Governments	
April 1958-February 1959:	+1.57	April 1958-February 1959:	+1.52
February 1961-December 1961:	+ .18	February 1961-December 1961:	+ .28
Long-Term Governments		**Moody's Aaa Corporates**	
April 1958-February 1959:	+ .80	April 1958-February 1959:	+ .54
February 1961-December 1961:	+ .25	February 1961-December 1961:	+ .15

Moody's Aaa Municipals	
April 1958-February 1959:	+ .46
February 1961-December 1961:	+ .18





rates by comparing 1960-61 with 1957-58, because the periods were so dissimilar.

RESERVES AND BANK CREDIT In the current business cycle the Federal Reserve System has now pursued an easy money policy for almost two years. As can be seen from the chart above, the average level of free reserves rose rapidly during 1960 and reached a peak of almost $700 million in January of 1961. During the same period borrowings at the Federal Reserve Banks fell steadily from a level of $900 million to a level of $50 million. Following the trough of the current business cycle in February 1961, the level of free reserves fluctuated in the neighborhood of $500 million and borrowings in the neighborhood of about $65 million.

What was the effect of easy money on bank credit? Because of investment liquidation in early 1960, bank credit grew by only 4.8% in that year—from $190 billion to $200 billion. In contrast, bank credit increased by 8.1% in 1961 to a level of $216 billion, reflecting primarily a rapid growth in investments. The chart above shows the cumulative change in loans and investments from the beginning of 1960 through 1961. As is usual in recessions, loans expanded only moderately after the peak of the business cycle in 1960, while investments rose sharply.

Most of the increase in bank credit was reflected not in the growth of demand deposits but in savings accounts. During 1960 adjusted demand deposits at all commercial banks declined very slightly, while savings deposits rose by 8.3%. In 1961 both grew, but savings accounts at a faster rate. Adjusted demand deposits increased 4.1% while time deposits grew by 14.4% during the year. From June through the rest of the year, time deposits grew at a slower rate than formerly, while the rate of growth of adjusted demand deposits picked up somewhat beginning in September.

Following the trend of adjusted demand deposits, the money supply in 1960 did not rise at all, but in 1961 it rose 3.2% and reached a level of $144.9 billion in December. Using a broad definition which includes time deposits, the money supply grew 7% in 1961.

OTHER SOURCES OF FUNDS In spite of high levels of unemployment throughout last year, personal income rose from a level of $402 billion in 1960 to $417 billion in 1961. Since consumer buying was restrained, savings rose substantially and were channeled in large part into financial intermediaries. The lending capacity of mutual savings banks, savings and loan associations, and life insurance companies increased more than in either 1960 or 1958.

TREASURY OPERATIONS The Treasury was forced to go to the market for a substantial volume of funds in 1961. In contrast to calendar 1960 when the

Treasury reduced the debt slightly, the Treasury in 1961 borrowed $5.9 billion on a net basis ($1.4 billion through increasing the size of the weekly bill auction and $4.5 billion through issuing other securities for cash in excess of cash retirements and attrition). All of the net borrowing in 1961 came in the last half of the year after corporate and state and local borrowing had subsided somewhat. In the last half the Treasury borrowed $7.9 billion on a net basis, swamping net debt reduction of $2 billion in the first half.

Short-term financing figured more prominently in the Treasury's operations in 1961 than in the previous year. In 1960 only $293 million of new cash was raised through increasing the size of the weekly bill auction, compared with $1,399 million in 1961. This procedure served the dual purpose of raising new money and helping maintain short rates for balance-of-payments reasons.

CORPORATE FINANCE New corporate bond issues in 1961 totaled $9.3 billion, the largest volume since 1958. Normally, long-term bond financing is concentrated in the recession phase of the business cycle; but in the current cycle the bulk of new issues fell in the second quarter of the year, two months after the trough. Businessmen apparently delayed financing, hoping for a further fall in interest rates, and then belatedly loaded the market in anticipation of rate increases. Yields rose fairly rapidly in the period of heaviest financing, reached a peak in August, and subsequently declined until congestion in the market became evident in late November. In December Moody's Aaa corporate yield index rose three basis points to close the year at 4.42%, three basis points below the year's high.

STATE AND LOCAL FINANCING State and local financing reached a record level of $8.3 billion in 1961, an increase of 14% over 1960 and of 8% over 1959, the previous record year. As in the case of corporate financing, municipal financing was concentrated in the first half of the year as State and local governments sought to beat the rise in interest rates. In consequence of heavy offerings, yields as measured by Moody's Aaa municipal index rose rather sharply from 3.14% in January to 3.35% in June. As offerings subsided, rates decreased until the last part of November, at which time congestion developed in the market. Yields rose five basis points in December and might have risen farther had not substantial demand developed from commercial banks seeking more profitable investments to help cover anticipated higher costs of time and savings deposits.

MORTGAGE FINANCING Mortgage debt outstanding grew $13.3 billion in the first three quarters of 1961, contrasted with growth of $11.8 billion during the same period of 1960. The increased mortgage indebtedness accompanied a new record in the value of construction put in place, and total construction contract awards in the first 11 months of 1961 increased 2% over the comparable period in 1960. With personal savings at record levels in 1961 and yields on mortgages attractive compared with other investments, funds were readily available throughout the year. Mortgage rates in the secondary market fell steadily during the first three quarters and stabilized in the fourth. Mortgage lending by savings and loan associations established a new record, and mortgage lending by life insurance companies fell only $300 million short of its record in 1956.

CONSUMER DEBT In spite of the fact that disposable personal income rose substantially in 1961, consumers were reluctant to spend. Consequently, consumer credit outstanding increased by only $1.4 billion compared with an increase of $4.4 billion in 1960. But consumer credit outstanding increased more than in 1958, the previous recession year, when consumer debt outstanding rose only $136 million.

During the early months of 1961, repayments on instalment credit exceeded extensions and the total outstanding declined. During the summer the total outstanding remained virtually unchanged, and not until the final quarter did extensions begin to exceed repayments by a significant amount.

CONCLUSION Total debt grew more in 1961 than in 1960 as every major component of debt except consumer credit showed a marked rise. Treasury borrowings accounted for most of the increase.

The growth of debt last year was about the same as the increase in 1958, which was also a year of recovery. Corporate borrowing and net borrowing by the Treasury were higher in 1958 than in 1961, but these were offset in 1961 by greater increases in municipal and consumer borrowings and in mortgage indebtedness.

Although roughly the same volume of borrowing occurred in the two years, interest rates rose much more in 1958. There are many factors peculiar to each period which would have to be included in an explanation of the difference. One of the more important factors appears to have been the different Federal Reserve policy. In 1958 the monetary authorities began to tighten four or five months after the trough of the recession. But in 1961 the System was still pursuing a policy of monetary ease at the year's end, ten months after the trough.

National Income

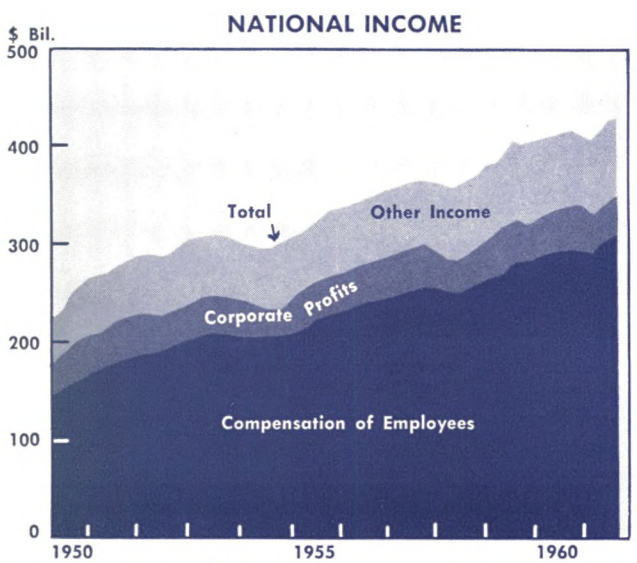
National income is of great interest to business forecasters because it measures total earnings of the factors of production—labor and property—in producing the nation's output of new goods and services. It is the sum of employee compensation, interest, rents received by persons, and business incomes.

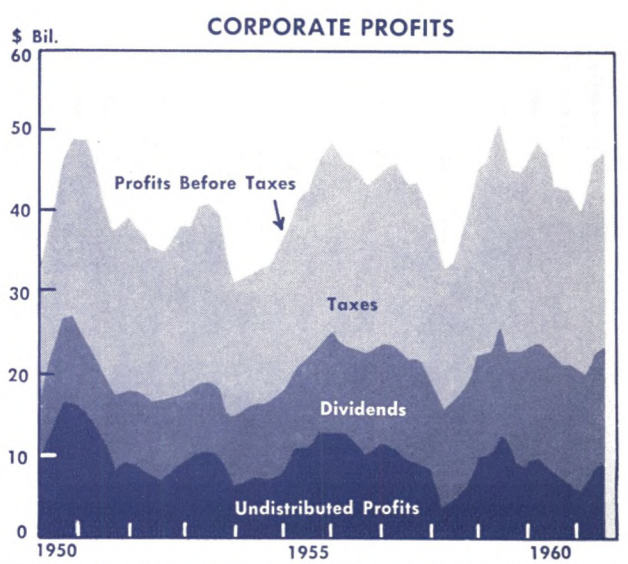
NATIONAL INCOME VERSUS GNP In the national income and product accounts, national income represents, on the receipts side, the *factor cost* of the nation's output whereas gross national product (GNP) represents the expenditure side in terms of *market value* of this output. GNP, therefore, includes costs that do not accrue to the factors of production but which are included in the sale price of the final output. These "nonfactor" costs are chiefly depreciation on buildings and equipment and indirect business taxes, such as excise, sales, and property taxes.

COMPONENTS OF NATIONAL INCOME Like GNP, national income is often used as an indicator of the general level of business activity. The value of the national income accounts, however, lies more in the component measures than in the total. Changes in the relative importance of the components often indicate structural changes in the economy.

Of the major income components, perhaps the one most closely watched by forecasters is the volatile sector of "corporate profits." Among the separate estimates are those for corporate profits before and after taxes, dividends, and retained earnings. For the purposes of the accounts, an inventory valuation adjustment (also reported separately) is made so that profits reflect the value of real change in inventories rather than the change in book value as is customary in business accounting.

Income from sole proprietorships, partnerships, and noncorporate businesses—"proprietors' income"—is shown separately for business and professional enterprises and for farm





Note: In the National Income chart, corporate profits include inventory valuation adjustment. Profits before allowance for changes in value of inventories are shown in the second chart.

enterprises. By far the greatest part of national income, however, is in the form of "wages and salaries" to persons in an employee status. These payments, plus "supplements to wages and salaries" (primarily employer contributions for social insurance and private pension funds), make up the major component—"compensation of employees."

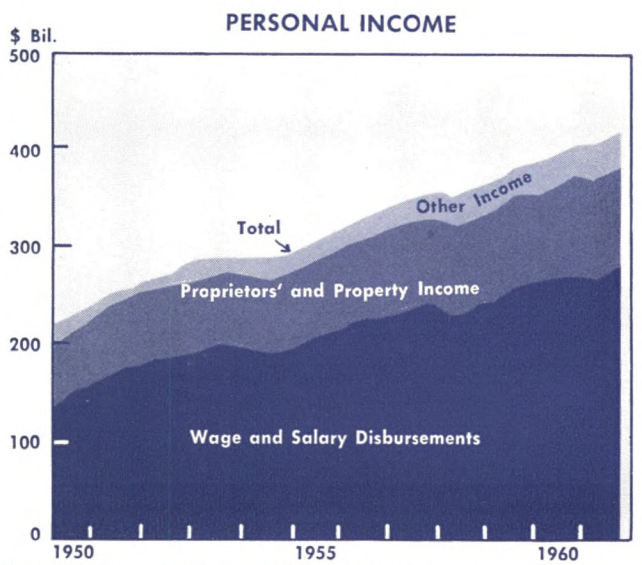
The remainder of the national income comes from "rental income of persons" (including rental on real property, net nonmonetary rental value of owner-occupied homes, and royalties received from patents and rights to natural resources) and from "net interest" (interest from private business, less government interest disbursements to business).

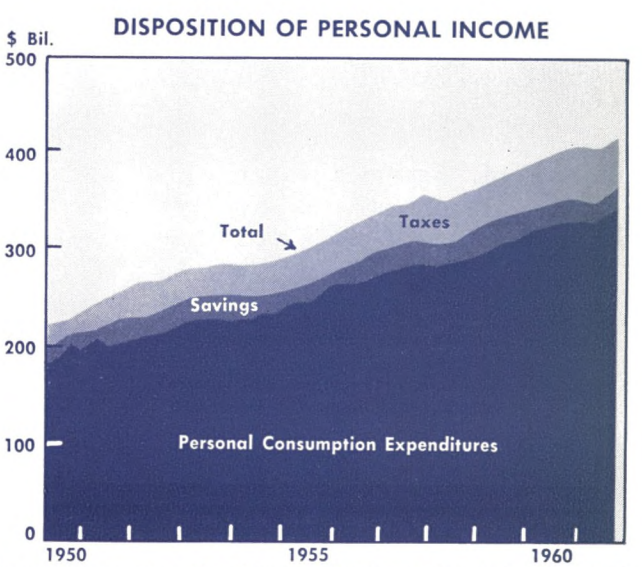
NATIONAL INCOME VERSUS PERSONAL INCOME Personal income is obtained from national income by subtracting contributions for social insurance and corporate profits, and by adding dividends, net interest paid by the government, and transfer payments. Transfer payments include payments not resulting from current production, such as social security benefits, veterans' bonuses, and corporate gifts to nonprofit institutions. Thus, personal income measures income received by individuals, unincorporated businesses, and nonprofit organizations. It includes not only money payments but nonmonetary income, chiefly rental value of owner-occupied homes and the value of food produced and consumed on farms.

COMPONENTS OF PERSONAL INCOME Published breakdowns of personal income are wages and salaries (by broad classes of industries and by government), other labor income, proprietors' income, rental income of persons, dividends, personal interest income, and transfer payments. Personal income statistics are available on a monthly seasonally adjusted basis for the nation and annually by states. They are one of the few measures of over-all economic performance available on the state level.

The amount of income available for spending—"disposable personal income"—is another item of special interest to forecasters. It is found by deducting "taxes" from total personal income. "Taxes" in this case includes personal taxes (such as income and estate) and nontax payments (such as fines) but excludes property and commodity taxes. Personal contributions to social insurance funds have already been deducted from the personal income total.

If the amount people spend for goods and services—"personal consumption expenditures," a major sector of the GNP accounts—is subtracted from "disposable personal income," an estimate of the amount that goes into personal savings is obtained. Personal savings include not only changes in cash holdings and bank deposits but changes in reserves of life insurance companies and persons' equities in real property, farms, and other unincorporated businesses. Since this estimate of personal savings is the difference between two much larger estimated totals, it is subject to large relative error.





Note: As shown, total personal income excludes personal contributions for social insurance. Proprietors' and property income is the sum of dividends, personal interest, rental income of persons, and proprietors' income.

Consumer Instalment Credit in Recovery

During the first ten months of recovery following the February 1961 trough in business activity, consumer instalment credit increased by a net of $639 million on a seasonally adjusted basis. (All data cited herein are seasonally adjusted.) The rise was about two-thirds as much as during the first ten months of recovery in 1958-59 but less than one-fifth of the increase during the comparable months of recovery in 1954-55.

Until a $181 million increase in consumer instalment credit was recorded in October, the financial press carried many references to the lack of strength in consumer borrowing. The consumer "hesitation," as it was called, was evident primarily in instalment credit. It appeared pronounced, however, only in relation to the $3.4 billion increase in such credit following the 1954 upturn.

INSTALMENT CREDIT COMPONENTS Automobile paper is the largest component of consumer instalment credit. During the first ten months of the current recovery, automobile paper declined a quarter of a billion dollars, slightly more than offsetting the increase in other consumer goods paper. Personal loans rose over $650 million, repair and modernization loans nearly $50 million.

During the comparable recovery period of 1958, automobile credit declined about $325 million, a drop that was more than offset by a rise of $511 million in other consumer goods paper. Increases of $520 million in personal loans and $239 million in repair and modernization loans contributed substantially to the net rise of $946 million in total instalment credit.

In sharp contrast to its declines in the current and 1958 recovery periods, automobile credit in 1954-55 accounted for 63% of the $3.4 billion increase in total consumer instalment credit during the first ten months of recovery. Personal loans accounted for slightly over 20% and other consumer goods paper for 17% of the increase. Repair and modernization loans declined modestly.

TIMING OF UPTURN IN INSTALMENT CREDIT With each successive business recovery period, consumer instalment credit has begun to increase at a later date relative to the trough of the recession, indicated on the accompanying chart as the last month within the shaded recession period. A decrease in instalment credit occurred early in the 1954 recession, and an upward movement was resumed two months in advance of the trough. In the 1958 recession, consumer instalment credit began a decline in February which continued through the April trough and for five succeeding months. In the current business cycle, no decreases were recorded until the month immediately preceding the trough. Subsequently, decreases occurred in the trough month and in four of the following ten months, the last being September.

REPAYMENT LAG Changes in consumer instalment credit outstanding are merely the differences between extensions and repayments. The amount of extensions and the terms of the contracts jointly determine the amount of future repayments. Changes in repayments lag behind extensions because in any given month repayments are based on the amount of credit previously extended. Thus, repayments are lower than extensions when the latter are rising. If extensions rise and remain constant at the higher level and terms of the contracts are not changed, repayments ultimately catch up with extensions.

Extensions rose 13% between February and December 1961 while repayments rose only 4%. Similar patterns existed during the first ten months following the 1958 and 1954 troughs, when extensions rose by 19% and 25%, respectively, and repayments increased by 4% and 8%. The slower growth of repayments during these two periods reflected not only the lag inherent in repayments but also a lag created by lengthening of contract maturities.

EFFECT OF LONGER MATURITY Any lengthening of maturity accentuates the repayments lag and thus leads to an increase in the total amount of instalment credit outstanding. This lag is operative only during the period of lengthening and immediately afterwards, that is, until a full cycle of monthly repayments under the new maturity has been com-

pleted. This feature explains part of the difference in magnitude of the change in instalment credit outstanding between this current recovery period when an increase of $639 million was recorded and the $3.4 billion increase in the 1954 recovery.

The table on the next page illustrates the effect of a lengthening of maturities upon the total amount of instalment credit outstanding. Even though monthly extensions are the same under two separate maturities, slower payoffs associated with longer maturities lead to larger amounts of instalment credit outstanding. In the simplified example of the table, with extensions at $100 a month and repayments scheduled over a five-month period, the amount outstanding at the end of the fifth month will be $300—all of the $100 extended in the fifth month, four-fifths of that extended in the fourth month, three-fifths of that in the third month, and so on. In the sixth and every subsequent month repayments are equal to extensions, as one-fifth of each of the $100 extensions made in the five previous months is paid off.

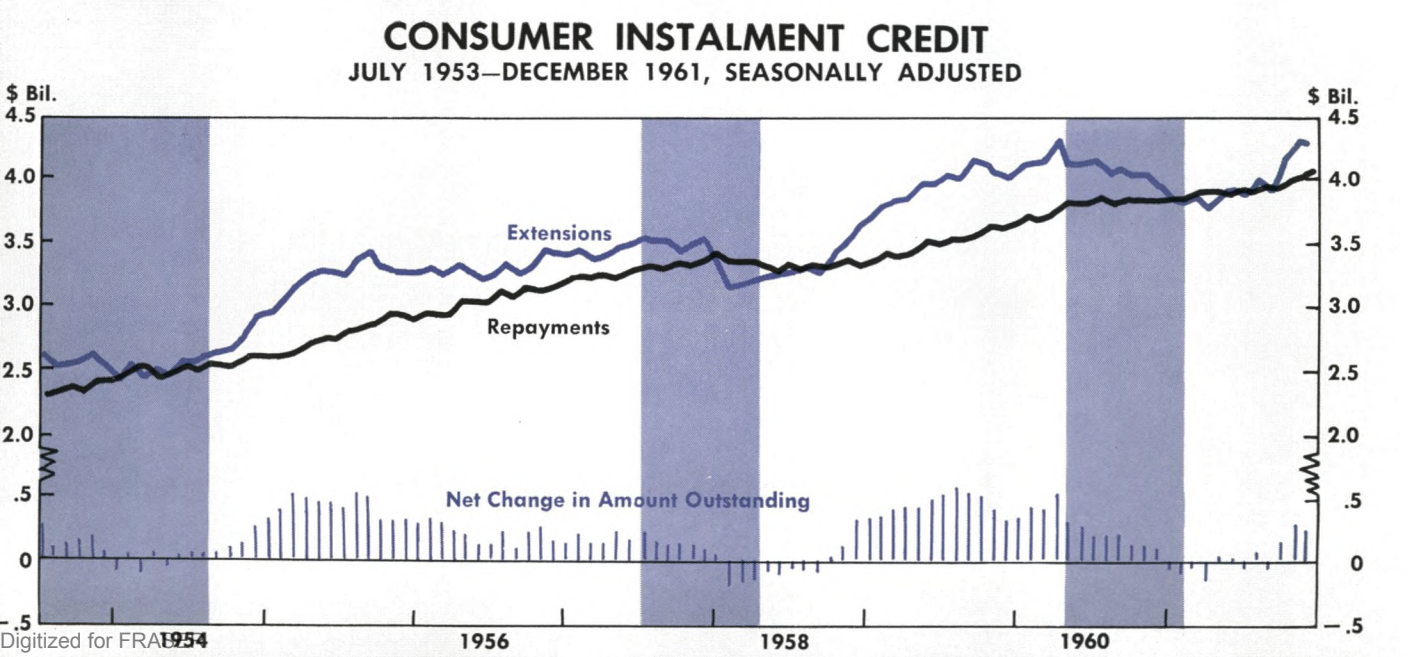
But if the maturity of the contract were ten months instead of five, repayments would not equal extensions until the eleventh month. The amount outstanding at that time would necessarily be larger than at the end of a cycle for five-month contracts because the proportional repayments made on a larger number of monthly $100 extensions would be smaller, leaving a larger amount outstanding yet to be paid.

The volume of outstandings associated with longer maturities increases only approximately in proportion to the increase in maturities, as evidenced in the table by outstandings of $300, $550, and $1,050 for maturities of 5, 10, and 20 months, respectively.

Actual maturities of consumer instalment credit contracts run much longer than those used in this simplified example. Typically, contracts run 18, 24, and 36 months. If extensions were at $100 a month, outstandings would level off at $1,250 and $1,850 with maturities of 24 and 36 months. Extensions, of course, run much higher than in the example; in the trough month of February 1961 seasonally adjusted extensions were approximately $3.8 billion.

MATURITY LAG IN RECENT RECOVERIES The maturity lag was greatest in the 1954-55 recovery, less pronounced in the 1958 recovery, and almost absent in the current one. In late 1954 and early 1955 there was a marked lengthening in maturities of automobile contracts, which cover a substantial part of consumer credit and which accounted for the major portion of instalment credit growth in that recovery period. By midsummer 1955, 30-month instalment contracts on new cars were typical, compared with 24-month contracts a year earlier. Although 36-month contracts were widespread at the time the 1958-59 recovery began, there had been no significant change in maximum maturities since 1957. The proportion of long-term contracts, however, rose steadily through the third quarter of 1958 and then leveled off. By early 1959 it was estimated that about 60% of all new car contracts were written with

With each successive recovery period, consumer instalment credit has begun to increase at a later date relative to the National Bureau of Economic Research trough months. These trough months are indicated on the chart as the last months within the shaded recession periods.



HYPOTHETICAL EXAMPLE:
EFFECT OF CONTRACT MATURITIES UPON AMOUNT OF INSTALMENT CREDIT OUTSTANDING

Months	Extensions per month	Repayments per month	Amount outstanding, end of month
	5-month maturity		
1st	100	--	100
2nd	100	20	180
3rd	100	40	240
4th	100	60	280
5th	100	80	300
6th	100	100	300
7th and subsequent months	100	100	300
	10-month maturity		
1st	100	—	100
2nd	100	10	190
3rd	100	20	270
4th	100	30	340
5th	100	40	400
6th	100	50	450
7th	100	60	490
8th	100	70	520
9th	100	80	540
10th	100	90	550
11th	100	100	550
12th and subsequent months	100	100	550
	20-month maturity		
1st	100	—	100
2nd	100	5	195
3rd	100	10	285
4th	100	15	370
5th	100	20	450
6th	100	25	525
7th	100	30	595
8th	100	35	660
9th	100	40	720
10th	100	45	775
11th	100	50	825
12th	100	55	870
13th	100	60	910
14th	100	65	945
15th	100	70	975
16th	100	75	1,000
17th	100	80	1,020
18th	100	85	1,035
19th	100	90	1,045
20th	100	95	1,050
21st	100	100	1,050
22nd and subsequent months	100	100	1,050

36-month maturities. As the current recovery began, about two-thirds of all new car contracts were being written to mature in 36 months, and there has been no marked change in this proportion since then.

MONTHLY PAYMENTS A lengthening in maturities does not reduce monthly payments proportionately, because it requires larger interest payments. A 50% extension of contract maturity from 24 to 36 months would reduce monthly payments on a $3,000 loan carrying an add-on interest rate of 5% from $137.50 to $95.83. This reduction amounts to 30% rather than to the one-third reduction which would occur if only the principal were involved. The higher the interest rate is, the smaller the proportionate reduction would be. The percentage of debt service payments represented by interest increases with longer maturities. On a loan with a 5% add-on interest rate, interest payments account for 9.1% of total payments under a 24-month contract and 13.0% under a 36-month contract.

FINANCING INSTALMENT CREDIT Maturity lengthening reduces the return flow of funds to lenders out of which they can make new extensions of credit. This has not been of much significance under the relatively easy credit conditions of recent months, but it would become increasingly important with the growth of credit demands.

The principal suppliers of consumer instalment credit are commercial banks, which normally hold close to 40% of consumer instalment credit outstanding. Sales finance companies, in second place, hold about 25%. Consumer finance companies and credit unions each account for nearly 10% of the outstandings. Credit unions have been increasing in importance as a supplier of consumer credit in recent years, while retail outlets have become somewhat less significant. In the late months of 1961 retail outlets accounted for around 12% of consumer instalment credit. Other financial institutions hold about 4% of consumer instalment paper.

BURDEN OF REPAYMENTS Repayments were 12.9% of disposable personal income in the fourth quarter of 1961, compared with 13.2% in the first quarter of the year when the recovery began. The decline in this ratio during this recovery was about in line with that in the 1958 recovery, when the percentage dropped from 12.7% to 12.4% between the second quarter of 1958 and the first quarter of 1959. But in the 1954-55 recovery repayments rose, along with the rapid growth of consumer instalment credit, from 11.9% of disposable personal income in the third quarter of 1954 to 12.0% and 12.2% in the first and second quarters of 1955.

THE FIFTH DISTRICT

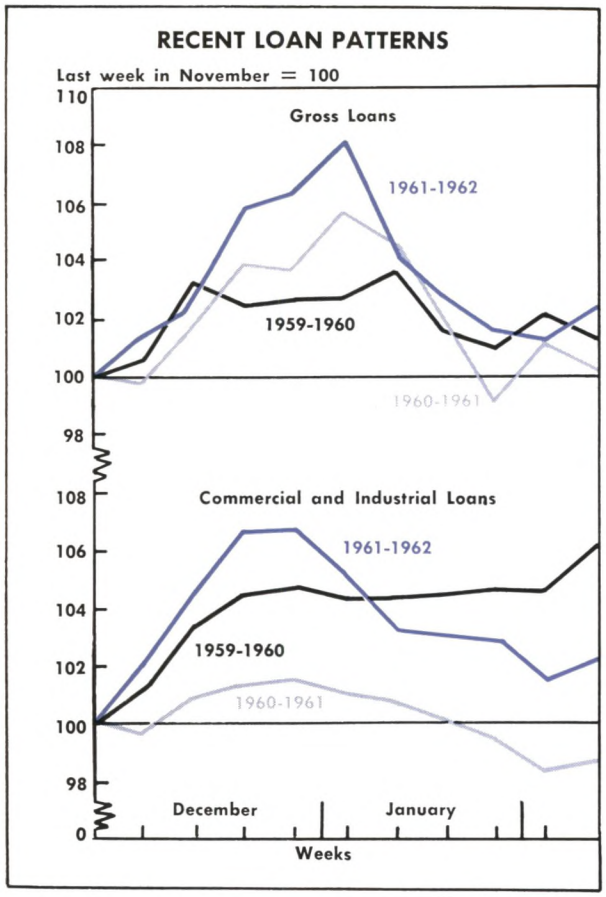
Business activity in the Fifth District has completed a year of progress to record or near-record levels. The advance, however, has recently slowed to a very gradual and rather uneven pace, and little clear evidence is yet available for judging its behavior since the first of the year. Here, as in the 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

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