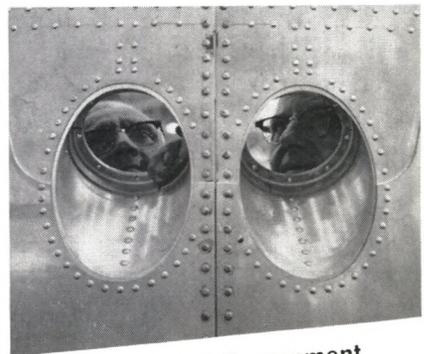
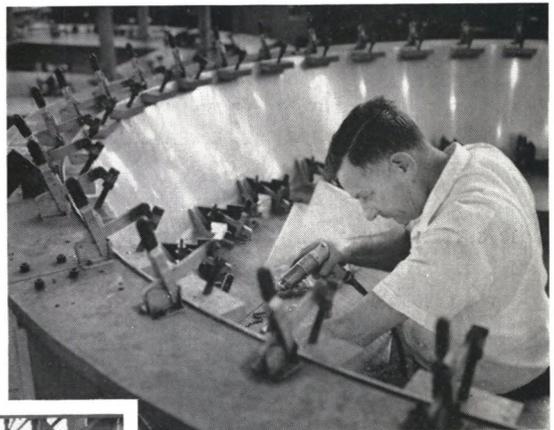
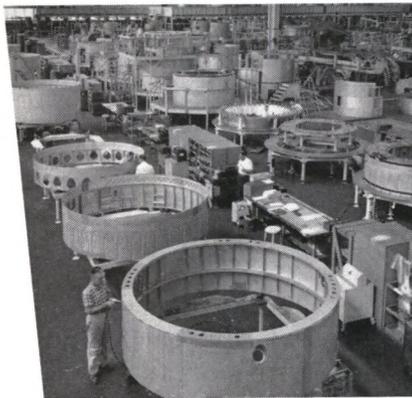


MONTHLY REVIEW



Large outlays for space exploration will help boost Government expenditures to a record high in 1963.

FEDERAL RESERVE BANK OF RICHMOND

FEBRUARY 1963



ECONOMIC PREVIEW OF 1963— More of the same, but not much more

THE CONSENSUS

The current forecasting season for 1963 got away to an early and fairly fast start in late September and early October. The general pattern of the early forecasts included a mild, short recession in the first half of 1963 followed by an upturn during the second half. Then came the Cuban crisis, dragging a harvest of economic question marks in its wake.

Abruptly the flow of forecasts dried up and for a time it appeared that there might be a complete failure in the crop of prognostications. But the crisis was speedily resolved and soon the forecasts began to flow again but with a somewhat more optimistic tinge. Now the general pattern called for only a leveling off in the first half, with a resumption of the slow upward movement in the second half. One observer expressed it this way: “. . . most of those who have been anticipating a dip in 1963 are now talking in terms of a shallower decline than they were before, and an increasing number are venturing the thought that we may get through 1963 with no recession at all.” Another forecaster estimated that the Cuban incident caused changes in the forecasts for 1963 equal to \$10 billion in GNP, a billion dollars in corporate profits, and three points on the index of industrial production.

As usual, the summary that follows is based upon all available forecasts for the year 1963. It attempts to convey the general tone and pattern of a great many individual and group forecasts made by economists, businessmen, public officials, and others.

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

The general tone of the forecasts is that business activity generally—employment, production, and income—will be up a little in 1963, perhaps by an amount between 3% and 5%. In most cases this is the result of a leveling off in the first half, followed by some improvement in the second, although some predictions have this order reversed. Only a few hardy souls foresee any large changes one way or the other and many of the forecasts are marked by a tone of uncertainty and lack of confidence.

With respect to a number of the major components of GNP and other important economic indicators there is quite general agreement. Retail sales and consumer expenditures generally are expected to rise along with general activity. It is universally agreed that Government expenditures for goods and services will continue their steady rise, with the increase amounting to about \$8 or \$9 billion. The forecasters reach almost complete agreement on the employment problem: employment is not expected to grow any more than the labor force, if as much, and unemployment will therefore remain as great as in 1962, if not greater. The general anticipation is that business investment will decline slightly and that total construction will show only a small rise. For prices, the standard prediction is the same as it has been for several years—stability for wholesale prices and a continued inching up of consumer prices.

On several other major points of interest the forecasts are fewer, less certain, and more diverse. No significant change is foreseen in agricultural income. With respect to the production and sale of automo-



biles, an occasional optimist believes there will be an increase in 1963 but the typical prophet cautiously and hopefully predicts that they may be about as good as they were in 1962, while a considerable number expect some decline. Most forecasts have very little to say about the balance of payments and say that little in vague and general terms. It is regarded as a major problem and no improvement is expected during the year. The same lack of clarity applies to interest rates and the availability of investment funds but in this case no one sees any problem; adequate funds are expected to be available with no significant change in interest rates.

THE ECONOMIC CLIMATE

In addition to the normal uncertainties which becloud the economic horizon, each year sees a crop of new problems and developments which arise to bemuse and bedevil the prognosticators. Last year they included the threat of a steel strike, the possibility of a stock market collapse, and the relatively new problem of a deficit in our balance of payments. These are still with us in varying degrees but they have been pushed into the background by the developments discussed below.

One of the standard, perennial problems is the question of the stage we have reached in the business cycle. Since World War II each successive upswing has been shorter and milder than the preceding one. The upswing of 1958-60 lasted 25 months. By next month the current upswing will have lasted two years, so it is only normal for forecasters to begin to look for signs of a downturn.

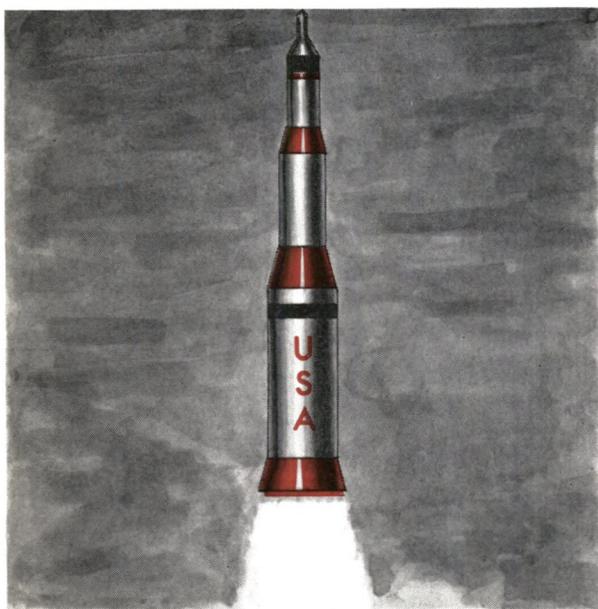
The cold war, or "the garrison state economy," is also one of our standard problems, but the Cuban incident threatened a shooting war. As noted earlier, this development, coming at the time when many forecasts were being prepared, exerted a striking effect on the outlook. For some reason not entirely clear, it caused a sharp rise in public confidence and optimism which was most dramatically portrayed by the steep and prolonged rise in stock prices from late October until early December. This development probably was responsible for the typical forecast being "slightly optimistic" rather than "slightly pessimistic."

The most important problem unique to the current season is the possibility of a major reduction in Federal taxes in 1963. This move had been discussed for many months but as 1962 drew to a close it became the subject of increasing controversy. If a forecaster decided to take it into account he had first to make assumptions as to the nature of the reduction, how large it would be, and when it would become effective. It is not surprising that many of them decided to assume no cut. Apparently a majority of the forecasts are based on that assumption, although often not explicitly so. In some instances alternative forecasts are given and in such cases this summary, without making any assumption as to what actually will happen, takes into account the one which assumed no cut. Consequently, if there is a significant tax reduction which becomes effective in time to affect materially economic activity during the year, it will be necessary to increase some parts of the estimates by some indefinite amounts.

Another uncertainty peculiar to this year is the President's executive order intended to prevent discrimination in housing constructed with Federal aid. There have been wide differences of opinion on this point. There are none who believe that it will increase housing activity, but some believe that it will have no noticeable effect and others think it might cause a reduction in residential construction by varying amounts up to 20%.

SOME DETAILS OF FORECASTS

Gross National Product With respect to GNP, the broadest measure of economic activity, there is a great concentration of estimates in the area between \$565 and \$580 billion. The midpoint of this range, \$572.5 billion, would represent an increase of about \$18 billion, or a little more than 3% over the \$554 billion attained in 1962. This would be a sharp drop from the increase of 6.5% made in 1962 and about the same as the 3% realized in 1961, when all of the gain was accomplished in three quarters. On a per capita basis the projected 3% increase for 1963 is reduced by about half, leaving a very small gain per person. Most of the increase for the year is expected to take place in the second half and some of the estimates foresee GNP reaching an annual rate as high as \$585 or \$590 billion in the last quarter. The Federal budget is based on an estimate of \$578 billion for the year, this being ". . . the midpoint of a range of expectations which extends about \$5 billion on each side."



Consumer Income and Expenditures Bolstered by higher Government salaries and increased transfer payments, personal income is expected to continue its slow rise, reaching a total of more than \$450 billion for the year. This would be an increase of about 2.5% to 3%, less than half the 1962 gain. Typical estimates of consumer expenditures fall between \$365 and \$370 billion, representing an increase of \$9 to \$14 billion over the \$356 billion estimated for 1962. A large part of the increase is assigned to services and only a modest amount to nondurables. If automobile sales continue strong, durable goods sales are expected to stay about the same as 1962; otherwise, they may decline somewhat.

Government Expenditures Expenditures of all governments—Federal, State, and local—for goods and services are noteworthy for two reasons; they are the easiest to predict and for 1963 they constitute the only major area in which forecasters expect a substantial increase. Most estimates for 1963 are closely bunched between \$124 and \$127 billion, representing an increase of 6% to 8% over the \$118 billion for 1962. In 1961 and 1962 the gains were 8% and 10%, respectively; the increase from 1960 to the projected 1963 figure is about 25%. Defense accounts for far more than any other single function, but outlays for space exploration are rising most rapidly and will soon assume major proportions.

Business Income and Investment The outlook for business profits is complicated much more than usually by new depreciation schedules, by the investment tax credit enacted last year, and by the possibility of a major tax reduction. An additional difficulty is that no final figures, nor even good estimates, are yet available for corporate profits for the last quarter of 1962 which probably will be substantially affected by the new depreciation schedules and the investment tax credit. Beseated by these obstacles, forecasters differ in their appraisal of the profit prospects for 1963; some think that profits will be larger than in 1962 but most think they will be lower. Most estimates of corporate profits before taxes seem to fall between \$47 and \$51 billion, compared with preliminary estimates of \$50 or \$51 billion for 1962. Substantially all observers who expressed opinions are agreed that profits are unsatisfactory and that there has been no change in the downward secular trend of profits as a percentage either of sales or of invested capital.

Because of this unfavorable outlook for profits many forecasters see little change in outlays for plant and equipment next year. As one expressed it, "Profits are high, but not high enough to give indus-

1962 RESULTS AND 1963 EXPECTATIONS

	Unit or Base	1962*	1963**
Gross national product	\$ Billion	554	565 to 580
Personal consumption expenditures	\$ Billion	356	365 to 370
Government purchases of goods and services	\$ Billion	118	124 to 127
Gross private domestic investment	\$ Billion	76	74 to 82
Net exports of goods and services	\$ Billion	3.0	2.5 to 4
New plant and equipment expenditures	\$ Billion	37	38 to 39
Change in business inventories	\$ Billion	3.2	0 to 2.5
Corporate profits before taxes	\$ Billion	51	47 to 51
New construction put in place	\$ Billion	61	60 to 63
Balance of international payments	\$ Billion	-2	-1 to -2
Private nonfarm housing starts	Million	1.41	1.32 to 1.42
Sales of domestic automobiles	Million	6.75	6.2 to 6.8
Unemployment rate, civilian labor force	%	5.6	5.5 to 6.0
Industrial production index	1957-59	118	118 to 122
Wholesale price index	1957-59	101	101 to 102
Consumer price index	1957-59	105	106 to 107

* Preliminary or estimated figures.

** Figures are rough approximations of the typical forecast for 1963.

try the incentive to substantially increase its capital expenditures next year." Another reason is that there exists in most industries a considerable margin of unused capacity. On the other side is the fact that most companies have a high and rising cash flow, mostly from depreciation, which could be used to finance new investment. Most estimates call for outlays for plant and equipment of about \$38 or \$39 billion against some \$37.2 billion in 1962. The most carefully prepared and highly respected forecast is for slightly over \$38 billion, which would be 3% above the 1962 total but a little under the annual rate reached in the last quarter of 1962.

Changes in business inventories can cause sharp and substantial changes in business activity. Many forecasters are uncertain about what inventory changes to expect in 1963 so they put down, without any supporting analysis, figures ranging from a decline of \$2 billion to an increase of over that amount. One line of reasoning, given by a few who do not believe there will be much change, is that present inventories are adequate for the level of sales expected next year, there is very little chance of any price increase, and a considerable margin of unused plant capacity insures the prompt filling of new orders. In 1962 inventories probably increased by over \$3.2 billion; if they remain unchanged in 1963 total business investment will be reduced by that amount unless it is offset elsewhere.

Construction Like most other areas, construction does not promise any large changes in 1963. An

official outlook published by the United States Department of Commerce predicts total outlays of \$63.3 billion, an increase of more than 3% over the \$61.1 billion for 1962. Most other forecasters are less optimistic, foreseeing a smaller increase or a small decline. One observer comments: "As to construction, . . . we are getting close to the brink of a downturn The President's recent antisegregation order . . . throws a cloud on this picture for 1963, and, at the same time, current demographic trends with respect to birth rate and size of families, and so on, make the intermediate outlook dubious. [A recent] survey of buying intentions indicates that home-buying plans are not strong." Most estimates of nonfarm housing starts are at or a little below the approximate 1.42 million reached last year.

Conclusion The forecasts reviewed here, as a group, contemplate four major problems remaining unsolved in 1963; unemployment, the deficit in our balance of payments, weak and declining business profits, and an unsatisfactory rate of economic growth. On the other hand, as one forecaster said, "We have built fewer excesses into this recovery, with nearly two years of it under our belts, than in any postwar recovery." That may be true if we do not count unemployment and the deficit in our balance of payments as excesses.

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

Keys for Forecasting

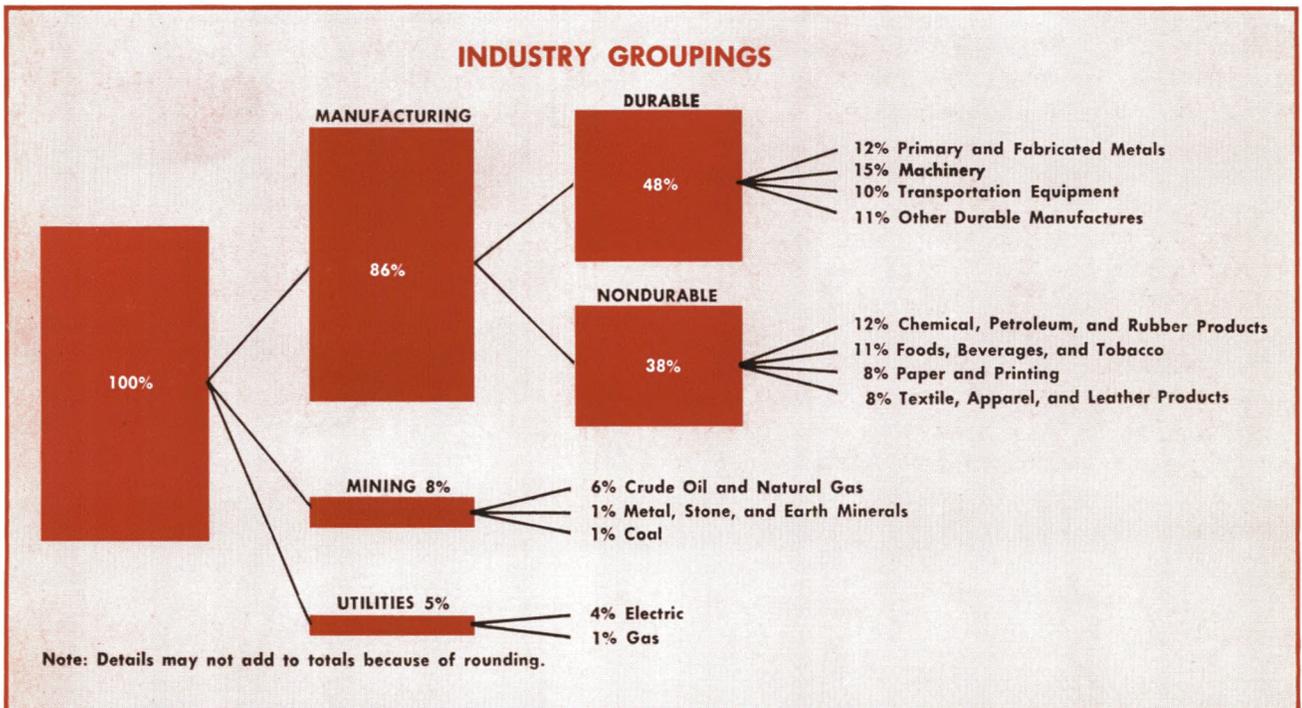
Industrial Production

The Federal Reserve index of industrial production is widely used by forecasters of both general business activity and specific industry developments. As a summary indicator of economic activity, the index vies for first place in popularity with estimates of the Gross National Product, described in the first article of this series.

A MEASURE OF ECONOMIC GROWTH The industrial production index measures changes in physical output in the industrial sector of the economy—manufacturing and mining establishments, and gas and electric utilities. Excluded are agriculture, construction, wholesale and retail trade, foreign trade, finance, transportation, and the service trades. Strictly speaking, therefore, this index can not be viewed as a measure of general business activity. The industries covered by the index, however, account for a little over one-third of the total value of goods and services produced in the United States.

The industrial production index is an important tool in economic analysis not only because it represents a substantial proportion of the total output of the country but also because the area of the economy that it covers is the part most sensitive to changes in over-all demand. Minerals, finished and semi-finished manufactures, and utility output are used by all other sectors of the economy. Thus this index is a useful barometer of changes in over-all business activity.

The usefulness of the index as a statistical tool is enhanced by its timing. It is published monthly with a time lag of about 15 days. In contrast, the measure of the value of all goods and services produced in the economy—GNP—is estimated quarterly. Historical data on industrial production are available back to 1919.



CONSTRUCTION OF THE INDEX To compute the monthly industrial production index, 207 statistical series are used. Some of these basic series represent quantity of production; others are in terms of shipments, materials consumed, or in man-hours. Where necessary, adjustments are made in order that the figures represent physical volume of output in all cases and are, as far as possible, free of price influences. The individual monthly series are adjusted periodically to more comprehensive annual data or to census benchmarks.

In combining the various individual series, a method known as "weighting" is used. Each component series is assigned a weight representing its relative importance in the total during some period of time. The weights used in the industrial production index are based on value added in 1957. Indexes back to 1953 have been adjusted to the 1957 weights. For the period 1947 through 1952, weights were based on 1947 value added relationships.

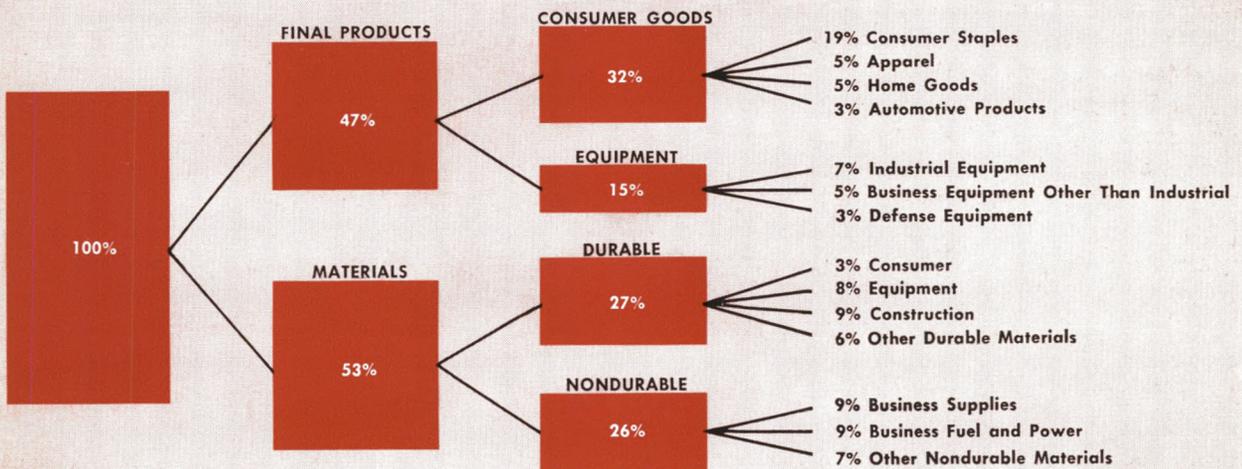
To make comparisons over time, index numbers are computed in relation to some reference or base period which is given the value of 100. The comparison base for the industrial production index is the monthly average for the three years, 1957-59.

COMPONENT INDEXES The 207 individual series are classified in two separate ways: by industry groupings as designated in the U. S. Budget Bureau's 1957 *Standard Industrial Classification Manual*, and by market groupings which show either type of product use or class of purchaser. The individual series are combined into industry or market subgroups which, in turn, are grouped into major industry or major market subdivisions.

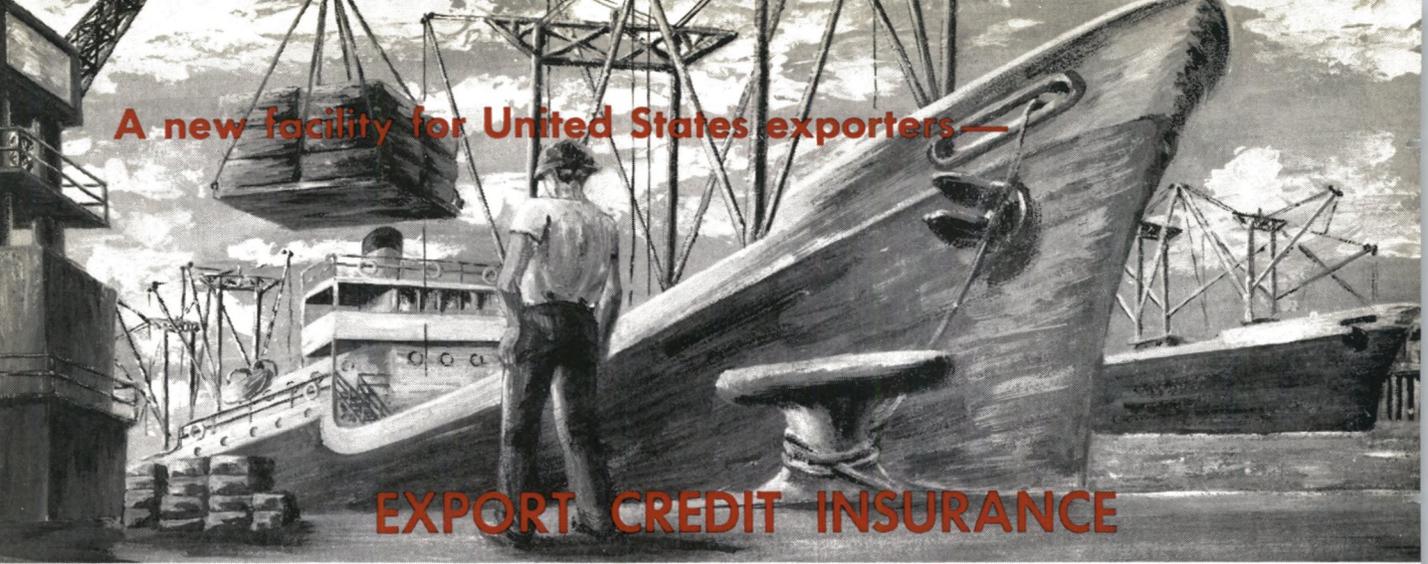
The build-up from small sectors in the economy to major summary groupings is shown for the two classification systems in the charts below. The percentages indicate the relative importance of components in the 1957-59 base period. Separate indexes for additional subdivisions, other combinations, and individual series are also published. Indexes for all market groupings and industry groupings are adjusted for seasonal variation.

The monthly detail is useful in analyzing the demand and supply developments at various stages in the production process. Through study of the component indexes, the analyst can often pinpoint the areas accounting for the fluctuations in the industrial sector of the economy. The components are also used by individual companies in comparing the company's output with that of the industry as a whole. In cross-section analysis of the economy, the over-all industrial production index and its components are studied in relation to other important economic measures, such as prices, sales, inventories, and business investment.

MARKET GROUPINGS



Note: Details may not add to totals because of rounding.



A new facility for United States exporters—

EXPORT CREDIT INSURANCE

Persisting deficits in the balance of international payments of the United States since 1958, with accompanying gold losses and increased liquid liabilities to foreigners, have prompted Federal remedial action along several lines. One course of such action has been directed at increasing United States merchandise exports, which provide the most important single source of money receipts from abroad. With exports approaching \$21 billion annually, a relatively small percentage increase could bring total receipts from abroad into better balance with total payments.

Among recent programs designed to promote sales of United States goods in foreign markets is one providing insurance against some of the risks involved in making sales abroad on credit. This insurance covers both political and commercial risks inherent in the extension of credit to foreign buyers. Although it does not eliminate all risks of selling abroad on credit, it substantially reduces them and for that reason businessmen should be more willing to undertake or expand export sales.

The Foreign Credit Insurance Association (FCIA) was established under the sponsorship of the Export-Import Bank of Washington, an agency of the Federal Government, to administer the export credit insurance program of this country. FCIA was organized in late 1961 and began operations in February 1962. It is an unincorporated association of 74 private marine, casualty and property insurance companies. With headquarters in New York City, FCIA is governed by a committee of seven members from the participating companies. To date, more than 1,000 policies have been issued with an aggregate liability of more than \$470 million.

THE NEED FOR INSURANCE Insurance covering credit risks in domestic trade has been available for

many years to United States firms. Prior to the Great Depression of the 1930's a large number of insurance companies in the United States offered such coverage, but tremendous credit losses during this period forced most of them to retire from the field. Today only a few companies issue such policies, one of them having written credit insurance continuously for 70 years. The volume of domestic commercial credit insurance is relatively modest, with total premiums probably amounting to little more than \$10 million annually. It is employed primarily by firms having a small working capital in relation to the scale of their operations, and hence a very limited "loss-taking" capacity. It has nevertheless been available and loss experience in many industries has provided a basis for predictions of credit losses which can be used in calculating insurance premiums.

Private insurance companies in this country, however, have been reluctant to shoulder the burden of foreign credit risks. In large part, this reluctance is due to important differences between risks involved in domestic credit extension and those inherent in granting credit to foreign buyers. In particular, foreign credit risks are political as well as commercial in nature, and full private coverage of the risks has not proved feasible.

Abroad, some private companies write export credit insurance, but they assume only commercial risks. Coverage of both commercial and political risks is available through private companies only when governments shoulder at least a part of the burden.

COMMERCIAL RISK The term "commercial risk" usually denotes the risk of insolvency or protracted default on the part of the buyer. Although a seller faces commercial risks in dealing with domestic as well as foreign buyers, the degree of risk is likely to be greater in the latter case. Adjusting to peculiar-

ities of foreign credit customs and business practices, dealing with unfamiliar foreign legal systems, obtaining current and reliable credit reports on foreign buyers—all of these as well as other problems render credit sales to foreign buyers more risky than such sales to domestic customers.

POLITICAL RISKS With respect to foreign countries, political risks refer to conditions of a noncommercial nature which are beyond the control of debtors and which prevent them from discharging their obligations abroad. Among other things, they include: government action which prevents nationals of a country from converting local currency into foreign exchange for the purpose of settling foreign debts; governmental confiscation of property; cancellation of import licenses; and war, revolution and riot. This list is only partial, but should be sufficient to suggest why private companies have generally been reluctant to insure political risks by themselves. As a rule, coverage of such risks, where available, has come through governmental initiative.

EXPORT CREDIT INSURANCE ABROAD Major trading countries abroad faced foreign credit risk problems early and established export credit insurance programs with more or less government participation. Some countries, Japan and Great Britain, for example, adopted programs administered by government departments. Others, such as Canada, Australia and Israel, established public or government-owned corporations to manage their programs. Still others, like Italy and Sweden, established programs using some combination of a government organization and a privately owned insurance agency. Finally, some encouraged private insurance organizations to administer the program by offering government guarantees or reinsurance of risks. Prominent here are France, the Netherlands, and Switzerland. In Germany, a private company acts as agent of the government, taking no risk for itself. Today more than 20 nations provide export credit insurance for their exporters and in each case the government participates in the program in one way or another.

Export credit insurance abroad antedates the new United States system by more than a generation. The United Kingdom, for example, instituted its system in 1919. The Belgian system dates from 1921, the Danish from 1922, and the Italian and Japanese from 1925 and 1930, respectively. While the United States Export-Import Bank has provided various forms of guarantees and loans to promote exports since 1934, along with a rising volume of project credits, interest in an insurance program as such is of recent origin.

A glance at the accompanying chart, which shows the relative importance of exports to highly industrialized nations, points up one reason for United States tardiness in this area. The export market is of far greater relative importance to other countries than to the United States. The United States exports less than 4% of its production, while the others export more than 10%, the Benelux countries selling abroad more than 30% of their production.

INSURANCE FEATURES Most insurance programs are broadly comparable, differing only in detail. Most cover both commercial and political risks, and all insure a relatively high percentage of covered risks. Moreover, all offer both short- and medium-term coverage, and premium costs are not greatly dissimilar. Yet the systems of some countries have certain advantageous features which others omit. The British system, for example, requires an exporter to insure both commercial and political risks, while a recent modification of FCIA's regulations permits a United States firm to purchase only political risk coverage if it wishes. Despite such differences, all plans are similar in broad outline. The accompanying chart facilitates comparison of the basic features of representative insurance plans.

FCIA COVERAGE The FCIA insures both commercial and political risks on short- and medium-term credits extended to foreign buyers. Short-term insurance covers sales, usually of consumer goods and commodities, to be paid for within 180 days, and occasionally within one year. The exporter is required to insure all eligible export sales made within the

GROSS NATIONAL PRODUCT AND EXPORTS

Selected Countries, 1961

Country	Gross National Product	Exports	Exports as Per Cent of GNP
	\$ Billion	\$ Billion	Per Cent
United States	518.7	20.1	3.9
Japan	38.8*	4.2	10.8
France	62.6	7.2	11.5
Italy	35.1	4.2	12.0
United Kingdom	74.9	10.8	14.2
Canada	34.0	5.5	16.2
West Germany	77.6	12.7	16.4
Switzerland	7.8**	2.0	25.6
Belgium-Luxembourg	12.2*	3.9	32.0
Netherlands	11.7*	4.3	36.8

*Figures for 1960. **Figure for 1959.

Source: International Monetary Fund.

EXPORT CREDIT INSURANCE PROGRAMS OF SELECTED COUNTRIES

Country	Year of Origin	Organization Administering Program	Nature of Organization	Type of Cover	Percentage of Cover	Period of Cover	Premium Rates*
United States	1962	Foreign Credit Insurance Association	Unincorporated association of private insurance companies with government reinsurance	Comprehensive risks (commercial and political) or political risk only	85% to 95%	To 6 months for short-term and 5 years for medium-term	0.5% to 3.2%
Canada	1944	Export Credits Insurance Corporation	Government corporation	Commercial and political risks	80% to 85%	To 6 months for consumer goods and 5 years for capital goods	1% average
United Kingdom	1919	Export Credits Guarantee Department (Board of Trade)	Government department	Commercial and political risks	85% to 95%, less for certain exceptions	To 6 months for consumer goods and 5 years for capital goods	0.4% to 4.75%
France	1929	Compagnie Francaise d'Assurance pour le Commerce Exterieur	Stock company owned by banks and insurance companies, with government reinsurance	Commercial and political risks	75% to 80% for commercial risks, 80% to 95% for noncommercial risks	To 6 months for consumer goods and 5 years for capital goods	0.4% to 1.5%

* Minimum and maximum limits or estimated average.

policy year, except sales to Canada and sales made on irrevocable letters of credit. This feature is considered necessary in order to provide a satisfactory risk spread. Commercial risks are covered to the extent of 85%, while 95% of political risks are insured. FCIA and the Export-Import Bank share commercial risks equally, but the Bank assumes all liability on political risks.

Medium-term insurance is issued to cover sales of consumer durables and heavy goods, such as machinery and equipment, which are made on credit terms of 181 days to five years. It may be written to cover a single transaction, a revolving line of credit to a single buyer, or all eligible exports of the seller. Both commercial and political risks are covered up to 85% of the financed portion of the sale. The buyer is expected to make a down payment and then to make periodic payments, at least semiannually. As in the short-term contracts, FCIA and the Export-Import Bank share commercial risks equally, but the Bank assumes full liability for political risks.

For both short- and medium-term insurance, coverage may be obtained either from the date of contract or from the date of shipment. Premium rates depend upon the length and amount of credit extended and the country to which sales are made.

Rates are higher on long-term than on short-term sales, and they are higher on sales made to buyers in countries which are classified as financially or politically unstable.

FCIA emphasizes that credit insurance is not a substitute for credit departments. The coinsurance requirement that exporters retain a portion of the risks—from 5% to 15%—is intended to encourage continued use of sound credit practices.

The insurance contract permits exporters to assign policy benefits to third parties, if FCIA is notified. The assignment of benefits to banks provides additional security against loans to exporters, and this feature may thereby facilitate export financing.

SUMMARY The FCIA's program fills a recognized vacuum in this country's insurance system. It is adaptable to the specific needs of particular exporters and offers valuable assistance in developing export markets. Although the program is new, it has already been modified and extended to meet changed conditions and to accommodate additional needs. In a modern dynamic world, in which patterns of trade and conditions of conducting business are constantly changing, further modifications of the program can be anticipated.

THE FIFTH DISTRICT



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

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

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

glass industry, a relatively small decrease in December reduced seasonally adjusted man-hours 8% below the midsummer level.

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

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

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



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

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

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

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

CONSUMER LOANS RISE To an increasing extent District consumers have been going to commercial banks for funds. The rate of increase in bank-financed consumer purchases, however, has been lower in recent weeks than in the first half of last year. Loans to consumers at District weekly reporting member banks increased more than 7% in the first half of 1962 and continued growing during the

second half, although at a somewhat slower pace. Statistics covering all Fifth District commercial banks showed consumer instalment loans up about 14% in the first 11 months of 1962, with automobile credit accounting for about two-thirds of the total expansion. Purchased automobile paper gained almost 23% during this period, and direct automobile loans increased by more than 11%. Both personal instalment loans and loans on other consumer goods made gains in excess of 10%.

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

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

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

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