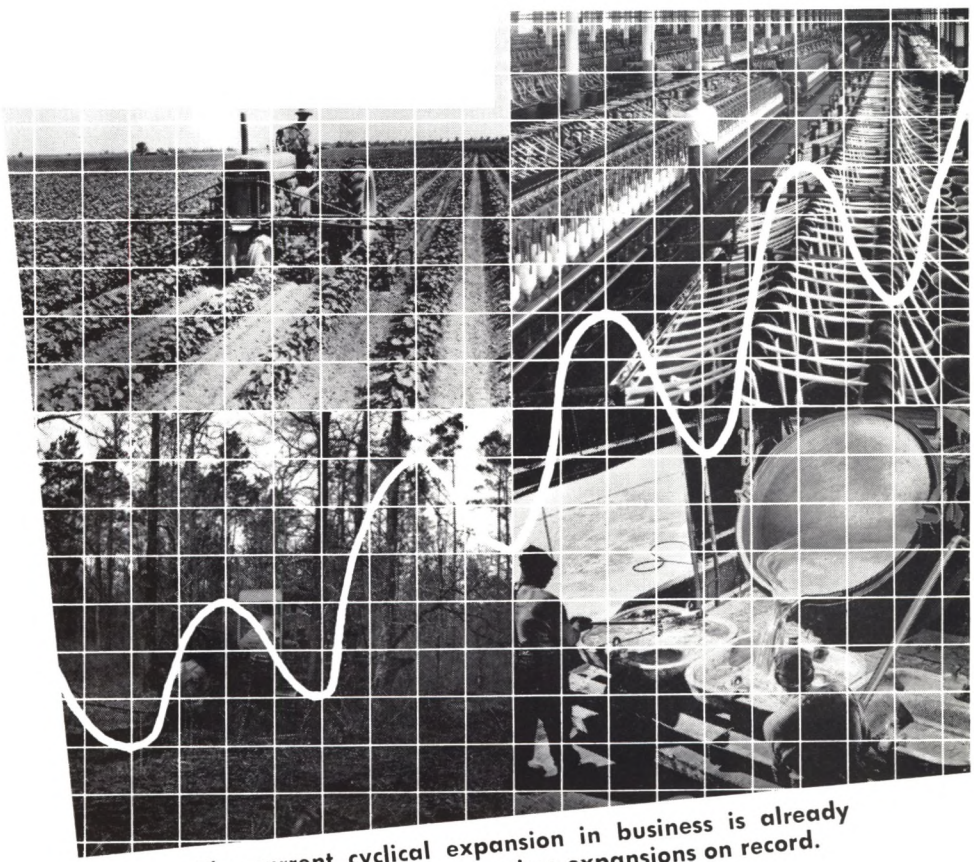
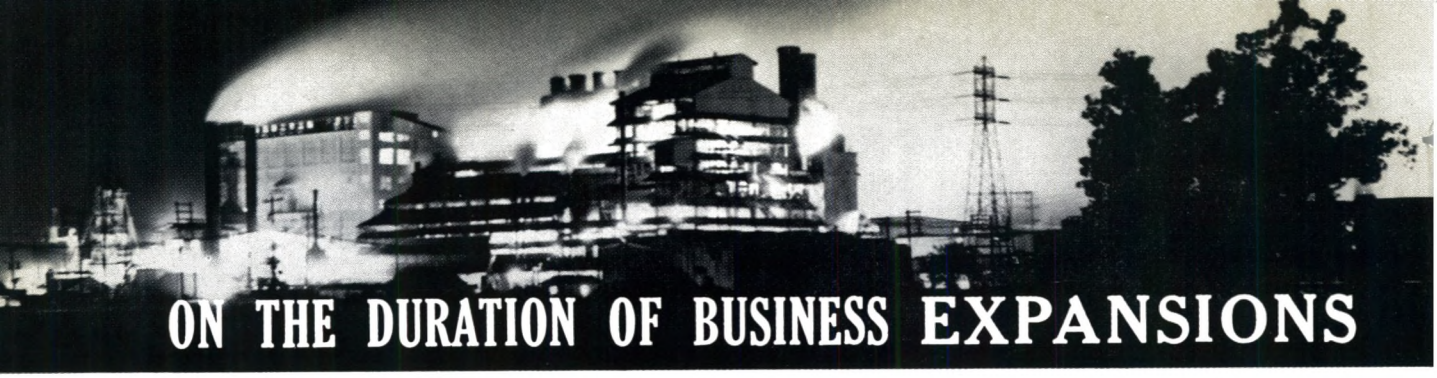
MONTHLY REVIEW



The current cyclical expansion in business is already one of the longest peacetime expansions on record.

FEDERAL RESERVE BANK OF RICHMOND

JUNE 1964



ON THE DURATION OF BUSINESS EXPANSIONS

The current cyclical expansion in business, now in its 40th month, is one of the longest in this country's history. It is exceeded in duration only by wartime upswings and by the long, slow recovery from the abnormally low level reached by the economy in 1933. The advance since the recession low of February 1961 has been marked by several pauses and, compared against earlier expectations for the Soaring Sixties, appears less than spectacular. Nevertheless, its extended duration invites comparison with other cyclical expansions in United States business history.

The Business Cycle Alternating upward and downward movements in the level of business activity, commonly called the business cycle, have long commanded the attention of economists. In this country, perhaps no other economic phenomenon has been studied so intensively. The National Bureau of Economic Research (NBER), established in 1920, has been the recognized leader in this field of study. It has dissected, in massive statistical detail, every cyclical movement in the country's history in an effort to isolate the factors underlying the wavelike movements in business.

Despite this intensive study, current knowledge of the cycle remains disappointingly inconclusive in some important respects. One of these relates to the duration of upward and downward swings in business. Indeed, some economists object to the use of the term "cycle" on the ground that it implies a degree of regularity in the alternating swings that experience does not support. Accordingly, they prefer the term "business fluctuations" to the more precise "business cycles." Yet others point out, not incorrectly, that monumental research efforts over two generations have yet to demonstrate that the economy inevitably generates alternating ups and downs. Rather, the evidence of such alternations is empirical, in the broader sense of the word—or perhaps better, historical. In the past, what has gone up has also come down, as if in response to some economic gravitational principle that remains unfathomed. Whether this is in fact an absolute economic principle or something that can be modified through institutional adjustments remains problematical.

In any event, the NBER, along with many other economists, retains both the idea and the terminology of the cycle. Geoffrey H. Moore, the NBER's Associate Director of Research, wrote recently: "The business cycle is not dead . . . . It is not the same . . . cycle we have known in the past. [It] is like an automobile. Every new model is different, with bigger fins . . ., automatic transmission, safety belts, and a smoother ride. But a car is still a car. What we know about . . . business cycles should be taken into account in any calculations of the short-run future of the economy." Yet Moore points out that "current developments can fall outside the range of previous experience" and warns against ascribing the characteristics of past cycles to current business movements. The following comparisons should be interpreted in the light of that caveat.

Past Experience Since World War I this country has experienced ten complete cyclical expansions. The present upswing is the eleventh. The lower chart on page 4 shows the dates of each and of the business declines that preceded them. By far the longest of these expansions was the one embracing World War II. It began in June 1938, following a sharp 13-month recession, and ran 80 months. The expansion of 1949-53, which covered the period of the Korean hostilities, lasted 45 months. The average duration of the ten completed expansions is just over 35 months.

Of the eight completed peacetime expansions, the 50-month upturn of the mid-1930's was longest. Next comes the 37-month surge in 1945-48, which exceeded by two months the 1954-57 advance. Shortest of the eight was the 10-month upswing in 1919-20. This movement, and the sharp 7-month contraction that preceded it, marked the transition from wartime to peacetime activity and is not altogether comparable with the others. It is interesting that similar transitional swings, though widely expected, did not develop following World War II.

The average duration of the eight completed peacetime expansions is 28½ months. Omitting the unusual 1919-20 upturn, this average is raised to 31 months. Thus, from the standpoint of duration, the

current expansion is already well ahead of the average for the period.

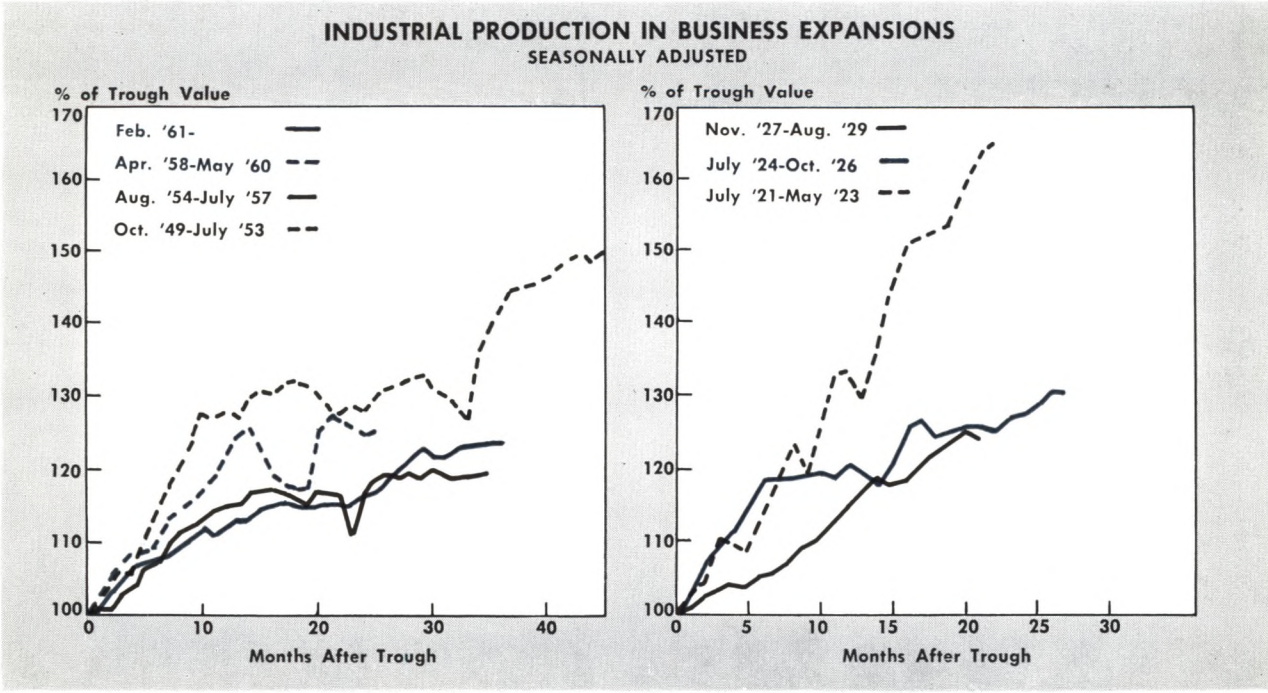
Postwar I vs. Postwar II Comparison of these expansions may be more meaningful if the movements between 1929 and 1945, a period of extraordinary conditions, are omitted. In this case, the comparison becomes one between the post-World War I period, taken as ending with the 1929 crash, and the post-World War II period. As noted earlier, these periods differ in that the sharp swing of 1918-20 was not repeated after World War II. Other differences and similarities are also noteworthy.

The lower chart on page 4 shows four completed expansions in each period. It is readily apparent that the four post-World War II movements were considerably longer, averaging 35½ months against a 20-month average for those of the earlier period. Omitting the short 1919-20 advance and the 1949-53 (Korea) upswing, the averages are 32⅓ months for the post-World War II period and 23⅓ months in the earlier years. Averaging in the current expansion at its present age would add nearly two months to the post-World War II average.

Similarly, post-World War II *contractions* have been shorter than those following World War I. The three recessions between 1920 and the 1929 crash averaged 15 months in duration while the five since 1945 averaged only 10 months. The decade of the 1920's, long considered the Golden Age of business, produced 71 months of expansion against 49 months of contraction, whereas the 1950's saw 98 months of expansion against only 22 of contraction.

Magnitude of Swings Data in the table on page 5 show the cyclical swings in industrial production and GNP (for later cycles only) over the period since 1920. These data show that, with respect to the relative levels from which business expansions began, the two postwar periods are roughly similar. Business declines in each period were relatively mild, except those preceding the 1921-23 and the 1945-48 expansions. In each of the exceptions, industrial production fell about one third. The average decline for the other two recessions of the 1920's was 12%, while the average drop for the three recessions between November 1948 and May 1960 was 10½%.

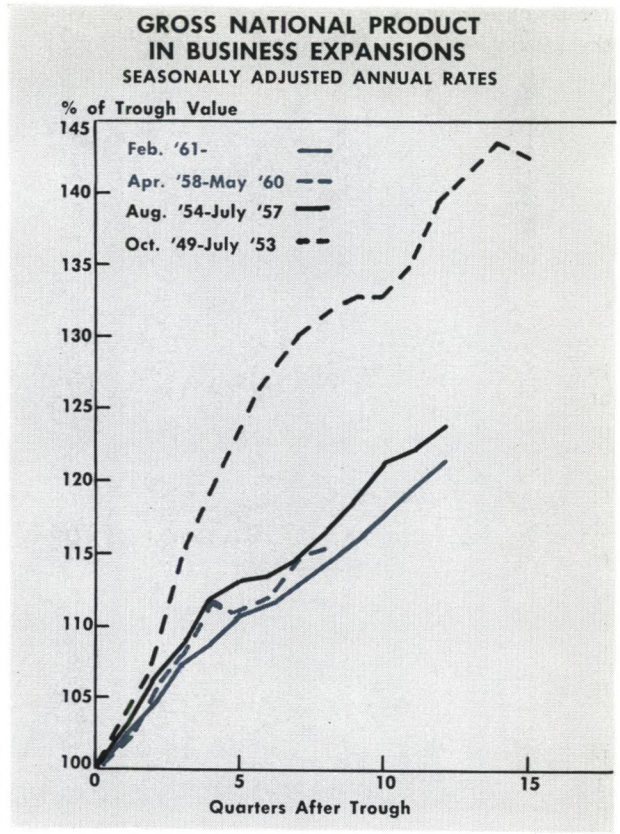
The course of trough-to-peak increases in industrial production in the two periods is shown in the charts on this page. The 1945-48 cycle is omitted because of sharp industrial production swings related to the transition from war to peace. Despite their shorter duration, the expansions of the 1920's generated, on the average, 40% increases in industrial output against 29% increases in the post-World War II expansions. Measuring the increases from the peak of one expansion to the peak of the next, however, the difference between the periods was not great, especially if allowance is made for the effects of World War II and the Korean episode. Generally, cyclical movements in industrial production in the 1920's involved somewhat deeper declines and

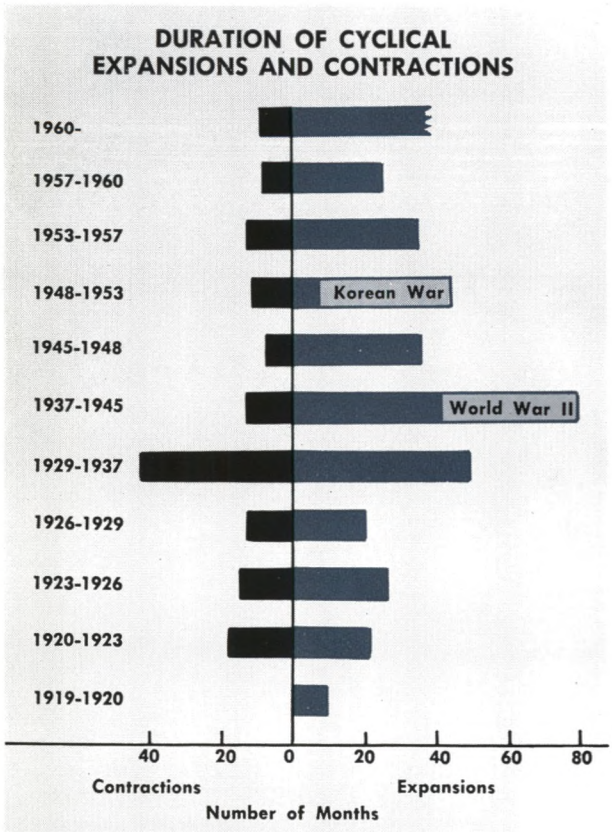


more rapid trough-to-peak advances, but the pace of secular increase was about the same in the two periods.

Chronic Depression and World War II The expansions of 1933-37 and 1938-45 were among the longest in United States history. Both were dominated by unusual circumstances: the first, by an atmosphere of chronic depression; the second by feverish production for the nation's largest and most sustained war effort.

The upturn that began in 1933 followed the worst business depression in modern history. Recovery was marked by drastic institutional changes in financial and economic arrangements both domestically and internationally. In this country, crises between 1929 and 1933 reduced both industrial production and personal income by about one half. Under stimulus of extensive Federal Government activity, recovery proceeded at rates which, statistically, appear relatively rapid. The total trough-to-peak gain, for example, was 120% for industrial production and 76% for personal income. But despite this, the 1929 peak in industrial production was not regained until December 1936 and at the 1937 peak industrial output was only about 6% above the peak of eight years earlier.





Government activity, directed first toward rearmament and then toward war, was the dominant factor in the 1938-45 expansion. The 1937-38 decline, while severe, was considerably less so than its immediate predecessor. It reduced industrial production by about 32% and personal income by 11%. In the ensuing 80 months of expansion, industrial production rose 183% and personal income gained 157%. The record wartime levels of industrial production were not reached again until late 1950.

The Current Expansion Institutional changes significantly affecting the economy's behavior intervened between the 1920's and the post-World War II period. Consequently, comparisons of recent expansions with those of a generation ago, while instructive, are perhaps not as meaningful in studying current movements as comparisons between recent cycles. Accordingly, the remainder of this article compares some aspects of the current expansion with other post-World War II upswings.

The current expansion follows one of the mildest recessions on record and consequently began from

relatively higher levels than other recent upturns. In the 1960-61 decline, for example, industrial production fell less than 6%, compared with reductions of 8½%, 9%, and 14% in the three preceding recessions. Similarly, GNP in the first quarter of 1961 was less than 1% below the previous cyclical peak, while for the three earlier recessions the comparable decline averaged about 2½%. Personal income actually rose during the 1960-61 recession but recorded small declines in the other recessions.

The left-hand chart on page 3 shows industrial production thus far in the current upturn increasing at about the same pace as in the 1954-57 and 1958-60 upswings, but at a considerably slower rate than in the 1949-53 expansion. The upper chart on page 4, which shows the comparative behavior of GNP, tells much the same story. Data in the table on this page show that total gains in both series thus far in the present advance compare favorably with gains in the last two expansions. Thus the fact that the current expansion began from relatively higher levels of activity does not appear to have retarded its comparative advance.

Partly due to the same fact, the previous cyclical peaks were equaled sooner than in earlier expansions. The prerecession peak in industrial production before the current expansion was passed in the fifth month after the trough, while the prerecession high in GNP was exceeded in the first quarter after the trough. In the 1949-53 advance, the previous cyclical peak in industrial output was topped in the sixth month of recovery and the prerecession high in GNP was passed in the second quarter. It required eight months of recovery in 1954-57 and ten months in 1958-60 to pass earlier industrial production peaks, while in each case earlier highs in GNP were topped in the second quarter after the trough.

Through the first quarter this year, gains in the current expansion had raised industrial production 17% and GNP 21% above prerecession peak levels. By comparison, industrial production in the 1954-57 expansion rose 9% above its previous cyclical peak and in 1958-60 it advanced 7½%. GNP in these expansions reached levels 22% and 12½%, respectively, above earlier cyclical peaks. Peak-to-peak increases in the 1949-53 upswing were much larger than in any recent expansion, approximately 38% for both industrial production and GNP.

Concluding Comment Study of earlier cyclical experience affords no sure means for predicting the life of the current business expansion. Yet it points up some interesting characteristics of the present cyclical movement. The current expansion appears, in perspective, as part of a new business cycle pattern that has developed in the postwar period and that features longer expansions, shorter contractions, and less pronounced swings than earlier cycles. In this light, the relatively long life of the current advance does not appear unusual. The upward movement since 1961 has thus far proceeded at about the same pace as the two immediately preceding expansions but it is still well behind the 1949-53 expansion, both in duration and intensity.

But historical comparisons should not be made without reference to basic differences in the environment against which expansions proceed. In this connection, the current expansion differs in important respects from its recent predecessors. Perhaps the most notable difference is provided by the recent cut in Federal income taxes, which could well provide major reinforcement to the factors making for longevity in the current expansion.

CYCLICAL SWINGS IN INDUSTRIAL PRODUCTION AND GNP

Expansion Period	Duration[1]	Per Cent Decline in Preceding Contraction		Per Cent Increase Trough-to-Peak		Peak Value as Per Cent of Previous Peak	
		Industrial Production	Gross National Product*	Industrial Production	Gross National Product*	Industrial Production	Gross National Product*
1919-1920	10	— †	— †	24.6	— †	— †	— †
1921-1923	22	31.7	— †	64.4	— †	112.3	— †
1924-1926	27	17.9	— †	30.2	— †	106.9	— †
1927-1929	21	5.9	— †	24.0	— †	116.7	— †
1933-1937	50	51.8	46.4	120.3	62.1	106.3	87.0
1938-1945	80	31.7	6.2	183.0	150.7	193.4	235.2
1945-1948	37	31.4	10.9	21.9	34.9	83.6	120.2
1949-1953	45	8.5	3.3	50.0	42.8	137.3	138.1
1954-1957	35	9.1	1.4	19.7	23.8	108.8	122.1
1958-1960	25	14.1	2.5	25.2	15.3	107.5	112.4
1961-	?	5.9	0.7	25.0‡	21.6‡	117.6‡	120.7‡

[1]Based on NBER reference dates.

*Current dollars.

†Data not available on basis comparable with later figures.

‡Based on April 1964 industrial production and first quarter 1964 GNP.

Sources: Board of Governors of the Federal Reserve System; U. S. Department of Commerce.

Monthly Review looks at . . .

THE PORT OF CHARLESTON

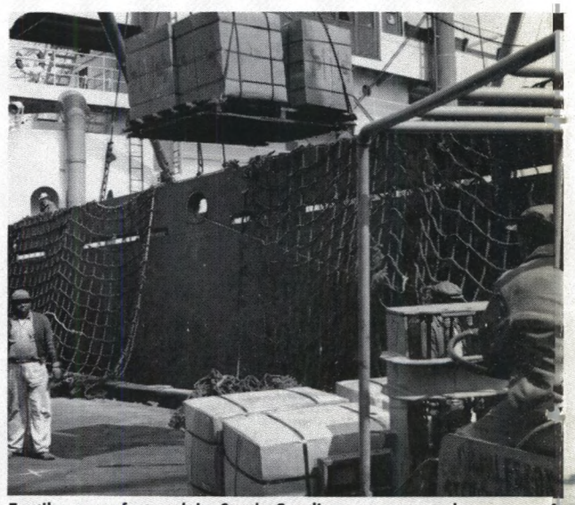
State Pier 16, the new bulk-handling pier at North Charleston Terminal, is equipped with two of the State Ports Authority's 50-ton gantry cranes.

Located at the head of the Ashley-Cooper River, Charleston harbor is but seven and one-half miles from the open sea. Easily accessible to ocean-going vessels by way of well-defined channels and open to traffic all year. The Port of Charleston is linked to 100 major world ports by 88 steamship lines, over half of which follow regular call schedules. Since 1950 the number of ships calling at the port to load and discharge cargo has more than doubled, the value of waterborne foreign trade has nearly tripled while tonnage has risen by about two thirds. The greater increase in value than in tonnage reflects a growing concentration of trade in high value cargoes such as textiles, machinery, and other manufactured items.

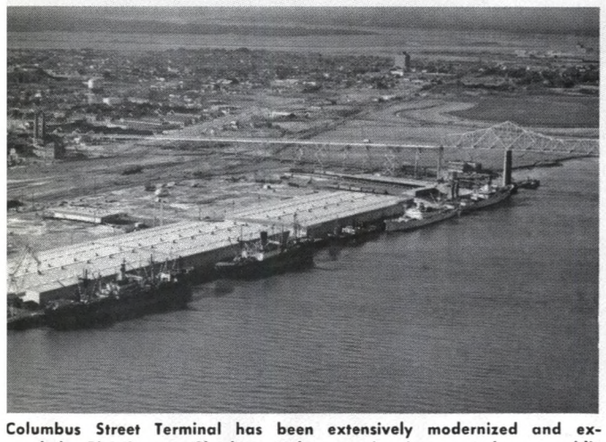
Modernized and expanded facilities, coupled with increased industrialization in South Carolina and other areas of the South, are prime stimuli to shipping activity. Port facilities and services are, in turn, a major factor in the Palmetto State's industrial growth. A recent State Ports Authority publication credits reactivation of state ports, principal among which is the Port of Charleston, with attracting "Fully a third of the new industry that has located in South Carolina since the end of World War II. . . ."

Wood pulp is stored at State Pier 8 for later shipment to the United Kingdom. This product comprises approximately one fourth of foreign export tonnage handled at the Port of Charleston.

Wool slated for shipment to textile mills in South Carolina and other points in the Southeast is unloaded at Columbus Street Terminal. Charleston is now the nation's foremost wool-importing center.

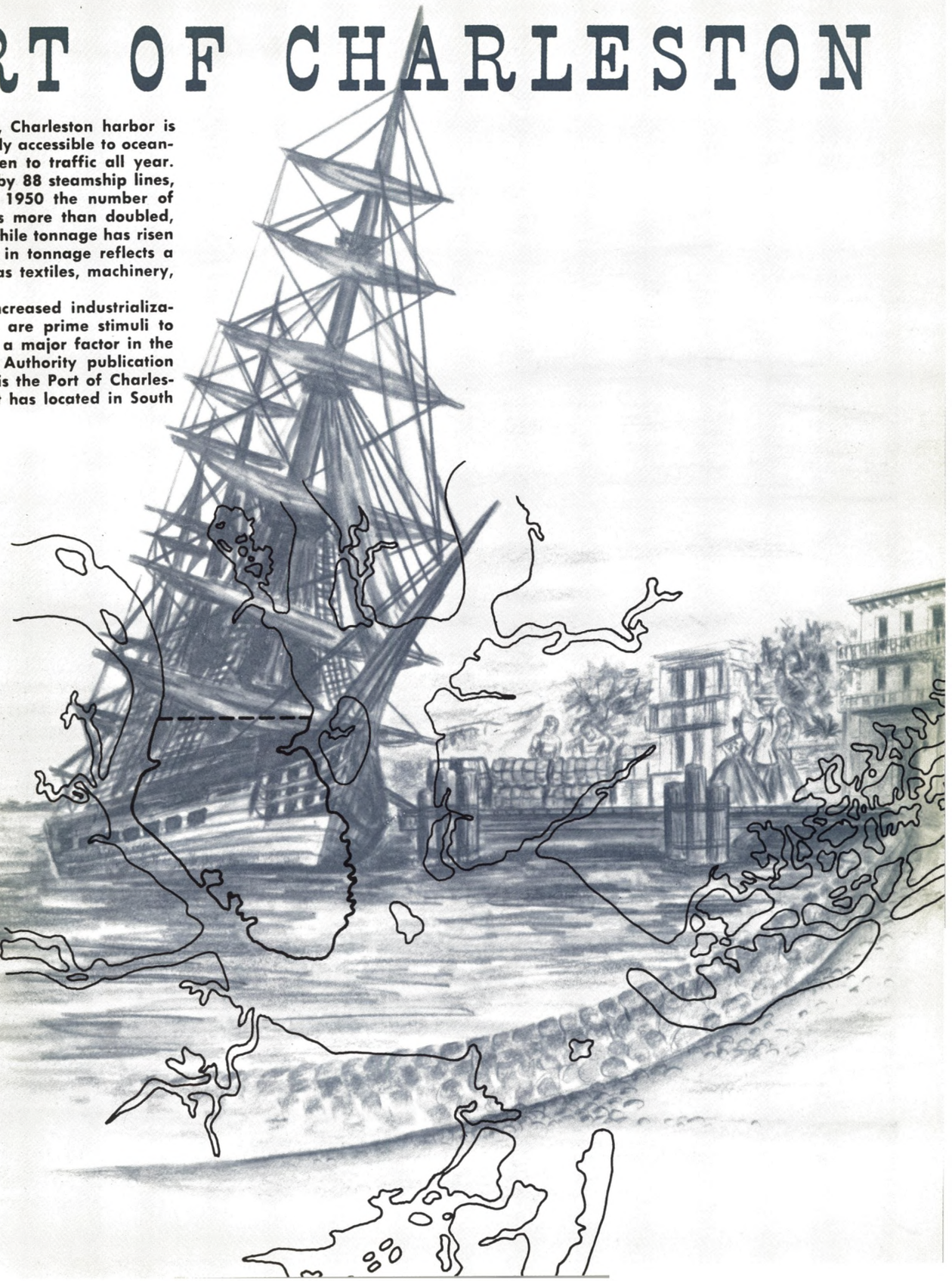


Textiles manufactured in South Carolina are exported to many fo countries, with best customers including Mexico, Canada, Venez and the Union of South Africa.



Columbus Street Terminal has been extensively modernized and expanded. Pier 8, now Charleston's longest pier, is operated as a public terminal, while Pier 9 is leased to a private fruit importer.

North Charleston Terminal is the main port terminal operated by Ports Authority. Tobacco, soybeans, chemicals, wool, and heavy chinery are among the varied commodities handled at this locat



BANK LOANS *for* HIGHER EDUCATION

CREDIT — FROM — COMMERCIAL — BANKS

Loans to finance the higher education of young Americans have become a significant new outlet for funds for many commercial banks. Banks have long made loans to parents to finance the education of their children but only in recent years have special programs been developed for making this kind of loan. The purpose of this article is to describe various types of higher education loan programs available at some commercial banks and to trace their growth in recent years.

Contributing Factors Several developments have contributed to the recent growth in bank loans to finance higher education. Foremost, perhaps, has been the large increase in the number of young people attending college. The college age population is increasing rapidly and at the same time the percentage of this population attending college has risen. In 1960, about 22% of the young people of college age attended college, as compared with about 15% in 1950, and it is estimated that by 1970 the figure will be near 29%. The number of students enrolled in colleges rose by almost 50% in the decade of the 1950's and is expected to double in the 1960's.

The skyrocketing cost of college education also has contributed to the growth of educational loans. At many schools, the cost of a year's education has more than doubled since World War II and currently is rising at a rate close to 5% per year. Translated into dollars, this means that parents will have to pay well in excess of $3,000 to send their offspring to some private colleges next year. Although the cost of attending many good schools is no more than half this amount, tuition and living costs at all schools have risen sharply in recent years.

Finally, the public has shown an increased willingness to borrow for educational purposes and more and more banks are vigorously developing this potentially important outlet for loan funds. Indeed, the development of special educational loans is simply an extension of the kind of instalment lending that has become firmly established at many commercial banks. For many years Americans have financed the purchase of high-priced durable goods through instalment loans. A college education, while not altogether comparable with consumer durables, is an investment in human capital that adds significantly to the earning capacity of its recipient.

A great many students receive financial assistance in the form of scholarships, and others are able to borrow at low cost from college loan funds. In addition, the Federal Government has provided scholarship and loan funds under the National Defense Education Act. But funds from these sources may not be available to many students because of special eligibility requirements, such as scholastic achievement, proved financial need, or special fields of study.

Commercial banks have developed special loan programs to meet the growing demand for credit to finance the costs of higher education. The development of such programs has been stimulated by various state student loan guaranty programs and by United Student Aid Funds, Incorporated, a private, nonprofit organization that endorses loans to students to meet educational expenses. In addition, many banks have developed their own special education loan programs.

State Loan Guaranty Plans A number of states have established special authorities for the purpose of guaranteeing bank loans to students for educational purposes. The oldest such authority in existence is the Massachusetts Higher Education Assistance Corporation, which was organized in 1956. Since that date, programs have been established in a dozen or more states and there is every indication that more states will follow in the future.

The accompanying table provides some information as to the number and scope of state loan guaranty programs. The data in the table, however, are subject to certain limitations. Figures showing the number and dollar amounts of loans represent, for the most part, cumulative totals from the beginning of the various programs to the most recent date for which information was available. For this reason, the older programs, such as those in Massachusetts

and New York, appear much larger than those begun more recently. Moreover, information is not available for programs in several states, and some newly established programs may not be included. Consequently, the figures do not represent total loans under all programs; they are simply the totals for individual state programs.

Although the various state plans differ in detail, all have certain common characteristics. In almost all cases, some enabling legislation was enacted by the state legislature, although in some instances the guaranty funds are provided by the state while in others they are obtained from contributions of individuals, businesses, and private foundations. Generally, the loans are made by commercial banks and in many states bankers associations actively sponsor the programs.

In almost all of the state programs, the loan is made on the student's signature, but in some states the parent or guardian must acknowledge or approve the loan if the student is below some specified age. Borrowers usually are required to be residents of the state enrolled in an approved educational institution.

The maximum amount that may be borrowed in any year ranges from $500 to $1,500 in various states, while the maximum total loan limit for any student runs from $1,500 to $7,500. Repayment begins after graduation and the maximum term thereafter may be from three to six years. In most programs, interest charges range from 4½% to 6% simple interest per year while the student is in school, although in New York the Higher Education Assistance Corporation bears all of the interest costs while the student is in school. In some states, interest rates remain the same after graduation, but in others interest costs rise as the interim notes are converted into an instalment note.

For the most part, the state authority simply guarantees repayment of part or all of approved educational loans by commercial banks, although in some instances the authority itself makes some loans to students. The guaranty usually covers 80% to 100% of the unpaid loan balance. Some programs require the lending bank to remit to the guaranteeing authority a guaranty fee based on the amount of the original loan and on the renewal note.

United Student Aid Funds, Incorporated This private nonprofit corporation was organized in Indiana in 1961 and was so successful in its first year that it extended its operations to other states in 1962. As the accompanying table shows, by the end of February 1964 USAF had extended its operations to 49 states. On that date it had endorsed more than 42,000 loans for students in 607 colleges, in an amount in excess of $23 million. But even more impressive than the present scope of USAF's operations is the rate at which they have grown. For example, in the short period between June 30, 1963, and February 28, 1964, the number of loans endorsed increased from just under 17,000 to almost 42,500, while the dollar volume jumped from $8.4 million to $23.1 million.

USAF raises and invests funds which form the reserves against its endorsement of loans to students for educational purposes. A portion of the funds used come from the deposit of reserve funds by participating colleges and universities, but additional reserves are raised by voluntary state committees. In

STATE LOAN GUARANTY PLANS

	From start of program to	Number of loans	Amount of loans
Maine Higher Education Assistance Foundation	November 1963	3,701	$ 1,365,203
Massachusetts Higher Education Assistance Corporation	November 1963	18,239	8,845,475
Michigan Higher Education Assistance Authority	December 1963	863	603,402
New Hampshire Higher Education Assistance Foundation	December 1963	331	154,981
New Jersey Higher Education Assistance Authority	October 1963	4,886	3,522,518
New York Higher Education Assistance Corporation	December 1963	107,191	80,123,855
North Carolina Bankers' Student Loan Plan (College Foundation, Inc.-Banks lend to Foundation which makes loans to students)	September 1963	188	78,750
Ohio Higher Education Assistance Commission	November 1963	3,963	2,951,303
Rhode Island Higher Education Assistance Corporation	January 1964	2,315	1,496,884
Virginia State Education Assistance Authority	April 1964	4,843	2,780,839
		146,520	$101,923,210

UNITED STUDENT AID FUNDS, INCORPORATED

	June 30, 1963	December 31, 1963	February 28, 1964
Number of States	44	45	49
Number of Colleges	470	583	607
Number of Banks	3,039	4,100	4,200
Number of Loans	16,962	33,503	42,414
Amount of Loans	$8,439,875	$18,620,488	$23,083,563

Source: The American Bankers Association; United Student Aid Funds, Incorporated.

addition, foundations, businesses, and individuals make contributions. The reserves maintained by USAF equal 8% or more of all outstanding loans.

Like the state guaranty programs, USAF and participating educational institutions make use of the loan facilities of commercial banks in carrying out the program. Any student at an approved college who has completed his freshman year can qualify for participation.

Normally, the loan process begins when the student seeks financial assistance at his college. The appropriate college official provides him with the necessary USAF application forms and indicates on the forms approval of the college. The student takes these forms, together with a letter of introduction from his college, to his local bank.

If the bank loan officer approves the loan, an interim note is executed by the student and forwarded to USAF which endorses it and returns it to the bank. The student may not borrow more than $1,000 per year ($2,000 for graduate students) and a maximum of $4,000 in total. The interim notes mature after the student is scheduled to graduate, at which time they are converted into a single payout note. The latter is normally payable in monthly instalments over a three-year period, but the term may be longer if necessary to keep the monthly payments below $100. The interim notes may not carry a rate in excess of 6% simple interest per year, and the maximum charge on the instalment note is $3.00 per $100 per year.

The student signs the notes, but the signatures of his parents may be required if he is a minor. In approving the loans, primary consideration is given to the applicant's character, financial need, and ability to perform college work. His prospects are much more important than his present financial situation. These loans are designed to supplement, not replace, normal loan facilities, and the bank need not approve such loans when the applicant or his family is eligible for regular bank credit.

In the event of default, the bank is expected to make a reasonable effort to collect. If such efforts fail, USAF pays the full amount owed to the bank.

Individual Bank Plans Little information is available as to the exact number of banks having their own specialized college loan plans or the dollar volume of loans made under these plans. A recent survey made by the American Bankers Association drew responses from 605 banks, of which 185, or about 31%, indicated they had formalized college loan plans. These banks had about 31,000 loans outstanding at the end of 1963, amounting to approximately $62 million. Numerous other banks indicated that, while they had no formal plan, they held a substantial number of instalment loans that had been made to finance college education.

The individual bank plans differ from the loan guaranty plans in several important respects. First, the loan is usually made to the parent or guardian rather than to the student, and much more importance is attached to the financial capacity of the borrower. Second, repayment begins shortly after the initial funds are advanced rather than after the student leaves college. Indeed, some banks include a savings feature in the program whereby the parent accumulates funds in a savings account by regular monthly payments while the student is in high school. When the student enrolls in college, the bank disburses funds out of the savings account until it is exhausted and then begins to advance its own funds to meet the student's college expenses.

Since the bank bears all of the credit risk in making these loans, the interest cost may be greater than for the guaranteed loans. There appear to be great variations in the rates actually charged, however, with charges ranging from $2.25 to $6.00 per $100 for a one-year note repayable monthly. These charges, which are made only on the amounts actually advanced, must conform to local statute.

Finally, terms on these loans usually are shorter than those on guaranteed loans, although there may be great variations in actual practice. As mentioned earlier, repayment begins shortly after the initial funds are advanced and terms of most loans under these programs do not exceed six years.

Summary Special programs developed to meet the growing demand for funds to finance college training are further evidence of the flexibility of commercial banks in adapting to changing demands for credit. They also reflect a growing acceptance of the idea that a college education is not something to be reserved for an elite few, but is rather to be considered the minimum educational preparation for a useful and productive life. With such new credit facilities, the extent of an individual's education need not be limited by his or his family's immediate financial capacity. The various programs described in this article are based on the principle of maximum utilization of private initiative and private resources. Their growth to date suggests that the private sector, with minimal cooperation from government, can make a significant contribution to the solution of financing problems in higher education.

THE FIFTH DISTRICT

Recent developments suggest new strength in Fifth District business as the current upswing moves firmly along in its fourth year. Seasonally adjusted bank debits, following a March decline, rose 4% in April to a new all-time high. Retail trade, disappointingly sluggish in March and April, apparently took on new life in May. Estimates based on data for the first three weeks of the month indicate an increase in department store sales about 5% greater than the normal seasonal gain, and trade reports suggest continued improvement over much of the District. April gains in nonfarm employment were slightly less than seasonal, perhaps because the rise to normal seasonal strength occurred earlier than usual this year. Factory man-hours also rose less than seasonally in April, affected perhaps by local labor shortages.

Buildings Burgeon Fifth District contractors continue to work away at a large and growing backlog of business. Building permits and contract awards are still at high levels, virtually assuring no slackening of the pace in the months immediately ahead. Seasonally adjusted building permits rose 12% in April and, in the first four months of the year, averaged 30% higher than for the same period last year. Construction contract awards mounted rapidly in March to a level that has been exceeded in only two prior months. The increase raised the first quarter total to a record level, one-third higher than in the same months last year. Seasonally adjusted construction employment rose in April but remained slightly below the all-time high reached in February. As in the case of some manufacturing industries, reports suggest that construction employment statistics may reflect shortages of certain types of skilled labor.

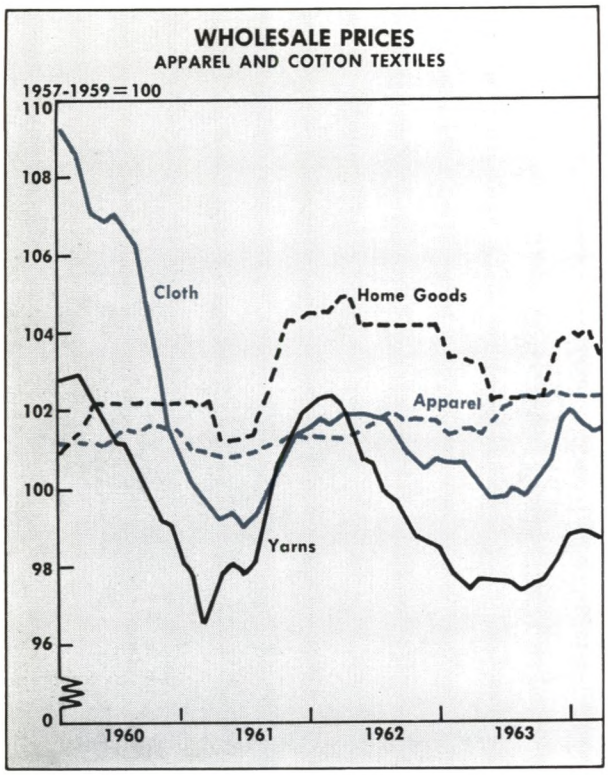
Cigarettes Bounce Back District cigarette production, which declined one fifth in February following the Surgeon General's report, made a partial recovery in March and returned to late 1963 levels in April. Cigarette man-hours, which paralleled the February decline in output, resumed near-normal levels in March and April. Federal cigarette tax collections, reflecting factory shipments, dropped 12% in February to a level 20% lower than in February 1963. Collections then rose 11% in March and a further 14% in April, roughly matching production increases in those months. Following the recovery that occurred in March and April, monthly collections were again at about the December 1963 level but still 3% below April 1963.

Furniture Rolls On The furniture industry's present rosy outlook contrasts sharply with the uncertainties besetting the cigarette business. The strength and endurance of furniture demand has been a bright spot in District manufacturing throughout the current upswing. Each of the past two years has been hailed in turn as a record year. District furniture output increased about 15% in 1962 and an additional 10% in 1963. The evidence available so far suggests that this year's gain will be in the neighborhood of 15%. Significant improvements in productivity are indicated when the increase in production is compared with the rise in man-hours. Whereas output is now running about 40% above the 1961 level, man-hours are up only 28%. This year's increase in output over last year appears to have been achieved so far with only a 4% increase in man-hours.

Textile Outlook Clears Conditions in the textile industry, which provides one in every three District factory jobs, show signs of settling down after an unusual period featuring a variety of problems.

In May 1961, President Kennedy proposed a 7-point program to deal with a complex cumulation of textile problems. Since that time the textile industry, among others, has been accorded increased depreciation allowances, an investment credit against income taxes, and some relief from pressures of overseas competition. Also, new research has been sponsored by the Department of Agriculture to aid cotton growers and users by reducing cotton production costs. The most significant change, however, was the reduction on April 11 of 6.5 cents a pound in the effective price paid for cotton by domestic textile mills. This was enough to offset most of the competitive disadvantage to domestic mills resulting from a price support program which pegged the domestic price 8.5 cents above the world price.

The long-standing cost disadvantage associated with two-price cotton, and uncertainty as to how long it might last, contributed to substantial changes in the industry. For one, synthetic fibers increasingly



found their way into market sectors formerly dominated by cotton. Intensified foreign and domestic competition hastened the obsolescence of old and uneconomical facilities and became an important factor in raising new capital outlays to record levels. With large amounts of working capital tied up in cotton inventories, which would decline in value as a result of proposed revisions in the cotton program, mills strove for greater efficiency in production scheduling and inventory control. Last fall, the textile industry granted 5% wage increases, sharing the benefits of greater efficiency and the expected reduction in the cost of cotton. Virtually all of these developments had the effect of strengthening the industry for the long run. Now that the adverse domestic effects of the cotton export subsidy have been offset, many a cloud which hampered the industry in the recent past may turn out to have a silver lining.

Textile Prices Reflect Change The technical and legislative developments of the past few years have strongly influenced basic market conditions. This is perhaps best revealed in the statistics for the cotton sector of this large and complex industry. The data for this sector are more complete than for the industry as a whole, and provide a basis for some significant generalizations.

Wholesale prices are a good index of the changing balance between supply and demand. They reflect the complex forces on both sides of the market. Four relevant wholesale price series are presented in the accompanying chart. The decline in basic cotton textile prices during the 1960 recession is immediately apparent. Cotton cloth prices fell sharply and did not turn up again until July 1961. By March 1962 about one third of the 1960 decline had been recovered, but the situation weakened and declines resumed early in 1962. They continued until the middle of 1963 when responses to the combination of factors mentioned earlier began to produce a better balance between supply and demand.

Yarn prices followed much the same pattern but with a relatively shorter, more shallow decline in 1960, a sharper recovery in 1961, and subsequently a steeper decline. Cotton housefurnishings continued their 1959 price rise well into 1960, then remained stable during the remainder of the 1960-1961 recession. When business improved in 1961, home goods prices sagged at first but paralleled cloth and yarn prices from then on. During the whole period, apparel prices (including other fibers as well as cotton) moved slowly and irregularly upward.

Cotton goods imports, in response to the high prices prevailing at the start of the year, reached a record level in 1960. In 1961, when falling prices made U. S. markets less attractive to foreign suppliers, imports dropped 25%. In the last quarter of 1961, the Geneva short-term import stabilization plan went into effect and was followed a year later by the long-term arrangement. Consequently, the recent volume of imports reflects economic factors modified by these arrangements. Although domestic prices in 1962 stayed well below 1959-1960 levels, cotton goods imports jumped 63%, prompted by firmer demand here as well as lower costs overseas. Imports maintained about the same levels through 1963 and have shown some tendency to rise so far in 1964.

Cotton goods prices again show signs of stabilizing, having perhaps weathered the uncertainty generated by discussion and ultimate passage of the new law. Domestic demand is strong but in good balance with production. Productivity is rising and textile mills plan record outlays this year for more cost-cutting equipment. For the textile industry the immediate future looks better now than it has for some time.

PHOTO CREDITS

Cover—National Cotton Council of America; Coxe Studio, Greenville, S. C.; The Champion Paper and Fibre Company of America 2. The Champion Paper and Fibre Company 6. & 7. South Carolina State Ports Authority.