

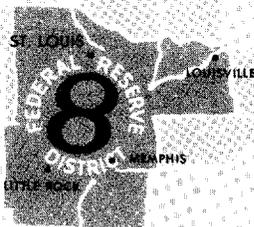
October 1964

FEDERAL RESERVE BANK OF ST. LOUIS

Review

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Recent Employment Trends

ESTIMATED TOTAL EMPLOYMENT declined slightly from August to September and has shown no net increase since last April. The relative stability of employment during this recent period might indicate a weakness in the demand for labor. But, while estimated employment has fluctuated around 70.5 million since April, the period involved is short and may not necessarily reveal underlying trends in the labor market. If the data are reviewed in greater perspective and along with other estimates, conclusions may be substantially different.

Total Employment vs. Payroll Employment

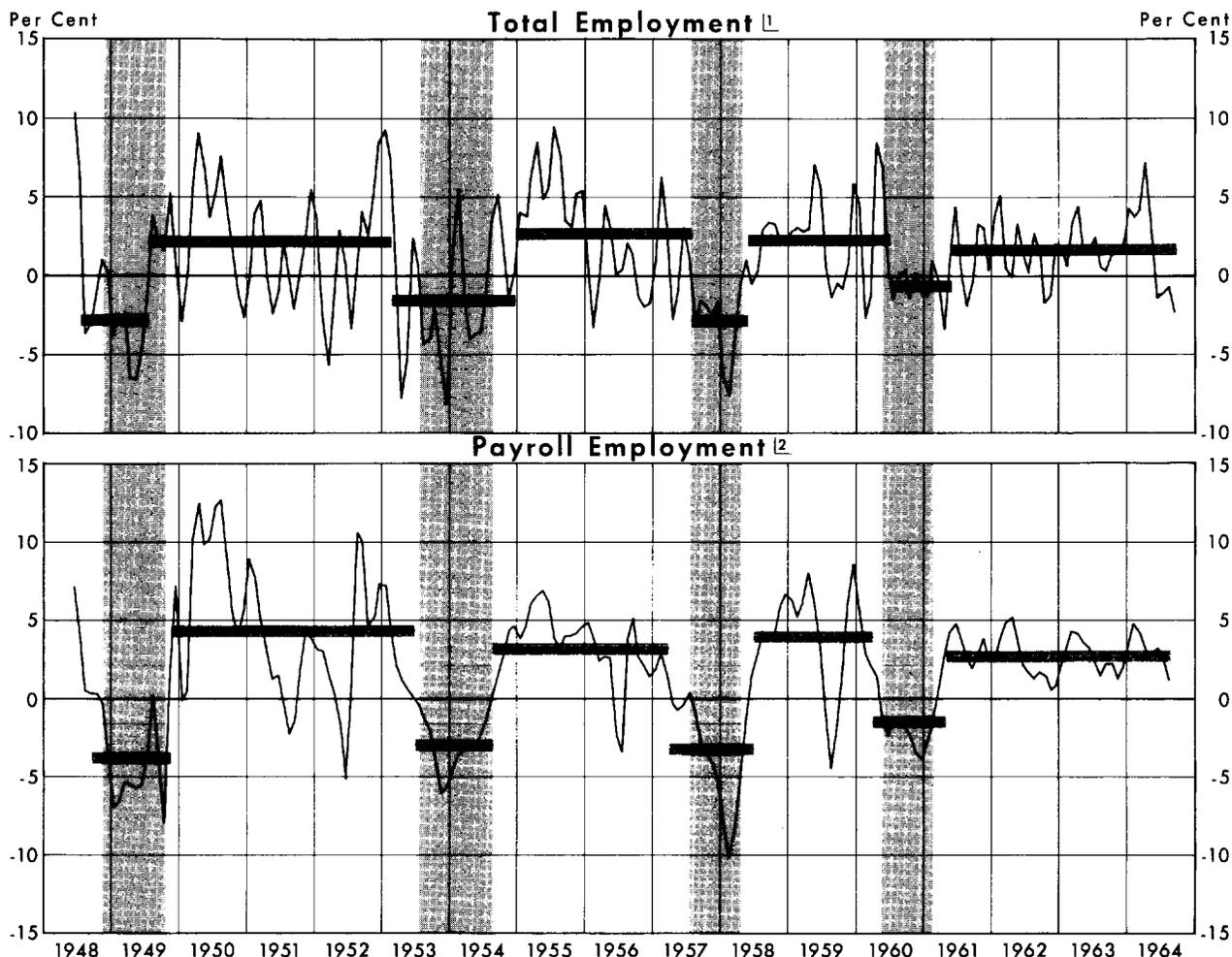
In order to judge whether such a lack of increase in the estimate of total employment for five months as we have just experienced necessarily indicates a slackening in the demand for labor, the experience of the past 16 years has been examined. Two widely used broad measures of employment in the nation are available: total employment and total nonfarm payroll employment. Estimates of total employment are based on a monthly survey of about 35,000 households. Payroll employment estimates are based on monthly reports from employers.¹

In order to facilitate analysis of these employment data, rates of change of each measure of employment from mid-1948 to the present have been computed.² These rates of change are pre-

¹ For a description of both series see 1962 *Supplement to Economic Indicators*, U. S. Government Printing Office, 1962, pp. 30 and 40.
² These computations were based on seasonally adjusted data and smoothed by a 1-2-1 moving average technique. Tables of monthly rates of change data are available on request. This method of analysis of time series data was first used by this bank in analysis of the money stock and other financial magnitudes in its *Review* for October 1961.

Employment

Annual Rates of Change



¹ Household survey data. Latest data plotted: September, estimated.
² Nonfarm establishment data. Latest data plotted: August, estimated.
 Source: U. S. Department of Labor.

Three-month moving averages of annual rates of change, weighted 1-2-1, computed from seasonally adjusted data.
 Bars indicate average rates for periods of no marked and sustained change in the rates of change (data in Tables I and II).
 Vertical shaded areas indicate periods of business recessions.

sented in the chart. For purposes of analysis each of these series has been divided into periods of relatively rapid rates of increase of employment and periods of relatively slow rates of increase or of decrease. Terminal dates of these periods and the average rates of increase for each period are shown in Tables I and II (page 3) and are represented by the horizontal bars on the charts.

The two employment series show similar cyclical movements, registering reductions of employment during periods of general economic recession and sustained rates of increase during periods of economic expansion. During these 16 years there have been

four periods of rapid increase of employment and four periods of decrease or very slow increase. The amplitude of cyclical fluctuation is greater for payroll employment than for total employment. The secular upward trend is greater for payroll than for total employment. The average annual rate of increase of total employment has been 1.07 per cent and of payroll employment, 1.68 per cent. Within cycles the month-to-month changes in estimates of total employment (based on household surveys) are erratic, while movements in the rate of change in payroll employment estimates are relatively gradual. The wide fluctuations in the total employment series probably indicate some short-run technical inadequacies. The payroll

Table I
TOTAL EMPLOYMENT¹

Compounded Annual Rates of Change

| Periods of No Marked and Sustained Change in the Rate of Change (Represented by bars on charts) | Annual Rate of Change ² |
|---|------------------------------------|
| July 1948 - July 1949 | -2.8 |
| July 1949 - Feb. 1953 | 2.2 |
| Feb. 1953 - Dec. 1954 | -1.5 |
| Dec. 1954 - July 1957 | 2.7 |
| July 1957 - May 1958 | -2.8 |
| May 1958 - June 1960 | 2.4 |
| June 1960 - May 1961 | -0.6 |
| May 1961 - Sept. 1964 | 1.7 e |
| July 1948 - Sept. 1964 | 1.1 e |

¹ Household survey data.

² Computed from 3-month moving averages, weighted 1-2-1, of seasonally adjusted data.

Source: U. S. Department of Labor.

data seem to be a better indicator of short-run employment developments than the total employment estimates.

During the course of the current business expansion both total employment and payroll employment have increased rapidly. Since April 1961, three and one-half years ago, total employment has increased at an annual rate of 1.7 per cent and payroll employment, at a 2.9 per cent rate. Since the first of the year, both total employment and payroll employment have grown at an accelerated rate, showing annual rates of increase of 2.2 per cent and 3.1 per cent, respectively. As is typical, payroll estimates have increased more steadily and plausibly than total employment estimates. For example, the estimate of total employment jumped at a 13 per cent annual rate from March to April and then showed a slight net decline from April to September. Payroll employment rose at a rate of 3.6 per cent from March to April and at a 2.3 per cent rate from April to August. One may presume that the plateau of estimated total employment since April has not evidenced economic weakness. For current analysis the payroll data would seem to be a better indicator of recent employment trends. This measure has indicated continued strength in the labor market since last spring.

At the same time that employment has been increasing strongly, estimates of unemployment have also improved. For example, the unemployment rate for married men, probably a relatively reliable estimate,³ has recently averaged about 2.7 per cent, the lowest rate in many years.

³ It is believed that the reliability of response and reporting of employment and especially of unemployment for married men is greater than for other classes of the population.

Table II
PAYROLL EMPLOYMENT¹

Compounded Annual Rates of Change

| Periods of No Marked and Sustained Change in the Rate of Change (Represented by bars on charts) | Annual Rate of Change ² |
|---|------------------------------------|
| Sept. 1948 - Nov. 1949 | -3.7 |
| Nov. 1949 - June 1953 | 4.4 |
| June 1953 - Aug. 1954 | -2.9 |
| Aug. 1954 - Mar. 1957 | 3.3 |
| Mar. 1957 - June 1958 | -3.2 |
| June 1958 - Mar. 1960 | 4.0 |
| Mar. 1960 - Apr. 1961 | -1.4 |
| Apr. 1961 - Aug. 1964 | 2.8 e |
| Sept. 1948 - Aug. 1964 | 1.7 e |

¹ Nonfarm establishment data.

² See footnote 2, Table I.

Source: U. S. Department of Labor.

Employment and Population Trends

In order to make judgments about the strength of employment, it is useful to relate changes in employment to changes in underlying employment potential.

A possible indicator of employment potential is that portion of the population which is of approximate working age. It is suggested here as a supplement to the commonly used "labor force" concept as a basis of comparison for the growth of employment. Increases of total employment⁴ at a substantially greater rate than the growth of population of approximate labor force age may be viewed as an indication of strength in the demand for labor and in the employment situation.

During the past 16 years (1948-64), while total employment has increased at an average rate of 1.07 per cent, the total population of approximate working age (20-64) has increased at about a 0.90 per cent rate. Since April 1961, while total employment has increased at a 1.7 per cent annual rate, population aged 20 to 64 is estimated to have increased at a rate of about 1.1 per cent per annum, and population aged 18 to 64 increased at a 1.3 per cent rate. So far this year, while employment has increased at an annual rate of about 2.2 per cent, the 20 to 64 age group is estimated to have been increasing at a rate of about 1.2 per cent and the 18 to 64 age group, at a 1.4 per cent rate. It is estimated that the 16 to 64 group is now increasing at a rate of about 1.6 per cent per annum. In three or four years each of these groups will be increasing at a rate of about 1.6

⁴ While this article indicates the probable unreliability of estimates of total employment data based on household surveys so far as changes during a very few months are concerned, it is believed that these data do give adequate indications of trends over longer periods of time and of the order of magnitude of employment at any one time.

per cent per annum. It seems likely that approximately that rate will then continue for a considerable number of years. The rate of growth of employment since 1961, and especially the rate in 1964, has been as great or greater than any rate of increase of population of labor force age that is anticipated for a number of years.

Whether viewed from the 1948 business peak 16 years ago, from the 1960 peak 4 years ago, or simply over the past year, the increase of employment and jobs has been rapid. Jobs and employment have grown faster than the increase in population of approximate labor force age. The rapid increase in employment has been made possible not only by an increase in the number of people of approximate labor force age but also by attraction of an increasing proportion of women into the labor market. (The proportion of women aged 20 to 64 who were employed increased from 38 per cent in 1953 to 43.5 per cent in 1964, while the proportion aged 18 to 64 increased from 36.5 per cent to 41 per cent.) Contrary to the widely held view that jobs are disappearing or growing more slowly than population, the fact is that the economy has been providing net new jobs at a very high rate.

The fact that the number of persons who are working plus those who report they are looking for work, the so-called labor force, has increased somewhat more rapidly than employment over the past decade or so (though less rapidly since the beginning of the current economic expansion nearly four years ago) does not detract from the impressive rate of increase of jobs and employment in the country. Further, the very rapid rate of increase of nonfarm payroll employment reflects not only the strength of total demand for labor but also the adaptability of the economy in absorbing the agricultural workers released by technological change in that field.⁵

Other Business Developments

According to most measures of business activity, the economy has been continuing its well-balanced advance. Output, incomes, and spending have all grown substantially since the first of the year. Most major indicators showed further improvement in August and September. At the same time prices have remained relatively stable.

Output of the nation's factories, mines, and utilities rose to 133.5 per cent of the 1957-59 average in

⁵ Agricultural employment has been declining since 1961 at a compounded annual rate of 4 per cent and since 1951 at a 3 per cent rate. Tables of monthly rates of change data are available from this bank upon request.

August. The August increase of 0.8 of a point was the eleventh consecutive monthly advance. The advance was widespread as output in most major industries moved higher. Since December, total output has increased at an annual rate of 8 per cent, nearly double its average rate of growth since 1951. Preliminary data suggest that output gained further in September.

Personal income also continued to grow in August, reaching a seasonally adjusted annual rate of \$494 billion. Spurred by expanding output, increased employment, and a gradual improvement in both hours worked per week and average weekly earnings in many industries, personal income has grown at an annual rate of 5 per cent since December. The \$2.5 billion increase from July to August was above the average since December.

Retail sales in September fell about 1 per cent below August to a level of \$22.0 billion. Since December, sales have increased at an annual rate of 6 per cent. The September decline came in nondurable goods, for which sales were down 3 per cent from August. A slight increase in food-store sales was more than offset by declines in such other soft goods as apparel and general merchandise.

Outlays for new construction in September were at a seasonally adjusted annual rate of \$66 billion, remaining on the plateau which was reached a year ago. Both private and public construction continued at about the levels of recent months. Housing starts, which averaged an annual rate of 1,616,000 units from December to March, have since declined, reaching 1,380,000 units in August. Movements in housing starts often presage changes in outlays on residential construction.

Most price indexes held steady in August and early September. The consumer price index in August, at 108.2 per cent of the 1957-59 average, was down slightly from July but up 1 per cent from a year ago. The wholesale price index edged downward by 0.1 per cent in August, reaching 100.3 per cent of the 1957-59 average. Prices of both farm products and processed foods declined during the month, while industrial prices were unchanged. In September weekly wholesale prices averaged higher as prices of farm products and processed foods edged upward.

Financial Developments

Financial developments since last spring have continued to be expansive. Since May, the money supply has risen at an advanced rate, and commercial bank credit has continued to expand at the same rapid

(Continued on Page 12)

The decline in crop production estimated for the area reflects a shortage of moisture throughout most of the planting and growing seasons. Hardest hit by the drought were central and southern Illinois, southern Indiana, and central Missouri. Yield estimates for most crops are well below 1963 levels in the major producing sections of the Central Mississippi Valley (Table III). Corn yields, for example, are down 21 per cent in Missouri. Soybean yields are down 14 per cent in Missouri and 10 per cent in Kentucky. Cotton yield estimates are below 1963 yields in Missouri. Estimated

Table III
YIELD PER ACRE OF MAJOR CROPS
Central Mississippi Valley

| | Percentage Change, 1963 - 1964 ¹ | | | | | | |
|---------------|---|------|-------|------|----------|--------|---------|
| | Corn | Oats | Wheat | Rice | Soybeans | Cotton | Tobacco |
| Arkansas | -26 | +28 | + 6 | +2 | +20 | +4 | .... |
| Kentucky | -18 | + 3 | + 7 | .... | -10 | .... | -13 |
| Mississippi | +19 | +59 | - 6 | -3 | + 5 | +1 | .... |
| Missouri | -21 | -10 | 0 | -2 | -14 | -4 | + 4 |
| Tennessee | - 2 | +18 | + 7 | .... | +14 | +1 | - 1 |
| Illinois | - 8 | -12 | - 7 | .... | -22 | .... | .... |
| Indiana | -13 | -27 | -11 | .... | -11 | .... | -14 |
| United States | - 9 | - 4 | 0 | +3 | - 8 | +1 | 0 |

¹USDA October 1 estimates.

cotton yields, however, are greater in the other major producing states of the area. Tobacco yields in Kentucky are down 13 per cent.

Recent Employment Trends—(Continued from Page 4)

rate as it has since the February 1961 trough in economic activity. Interest rates have changed only slightly in the most recent months despite a seasonal rise in the demand for credit and the continued increase in business activity.

The nation's money supply (currency plus demand deposits) rose at a 7 per cent annual rate from May to September compared with a 3.5 per cent rate since last November. From the beginning of the current economic expansion in early 1961, money has risen at a 3.1 per cent annual rate. Most of the recent sharp expansion in money occurred in the demand deposit component; currency in the hands of the public has continued to rise at approximately its earlier rate.

Although the rate of expansion of the money supply has been at an increased rate since May, the rate of commercial bank credit expansion has continued about the same as during the entire current period of economic expansion. From May to September total bank credit rose at a 9 per cent annual rate, the same rate that has prevailed since early 1961.

From May to September total loans at commercial banks and most major categories of loans continued to increase at about the same rate as over the entire February 1961 to September 1964 period. During the past forty-three months total loans have risen at an average annual rate of 12 per cent, business loans at a 9 per cent rate, real estate loans at a 13 per cent rate, and consumer loans at a 10 per cent rate.

Interest rates have changed only slightly in recent months. The supply of bank credit and the flow of

new savings available for investment have about kept pace with rising seasonal credit needs and demands for funds that have accompanied the expansion in economic activity. The three-month Treasury bill rate was 3.58 per cent in mid-October, higher than in mid-summer but about the same as last March. Since November of last year, three-month bill rates have remained within the narrow 3.40 to 3.60 per cent range. Yields on long-term Government bonds rose slightly from June to early October but remained below their April level. Yields on highest grade corporate issues have been about unchanged since last spring. According to traditional seasonal patterns, interest rates on marketable securities would be higher now than during the late spring.

New Member Banks

The First National Bank of Iuka, Iuka, Mississippi, opened for business on September 5 with capital of \$120,000 and surplus of \$120,000. Its officers are: Reuben E. Grisham, Jr., Chairman of the Board; Kelly S. Segars, M.D., President; Eugene C. Bonds, Executive Vice President and Cashier; and Edna V. Richardson, Assistant Cashier.

* * *

The First National Bank of Brinkley, Brinkley, Arkansas, opened for business on September 8. The bank has capital of \$160,000 and surplus of \$160,000. Its officers are: Otto W. Clifton, President; Mark M. Davis, Executive Vice President; and Joe McCain, Cashier.