New England

BUSINESS REVIEW

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REVIEW OF THE THIRD QUARTER:

Business Expansion Rates Slacken

The overall level of business activity is high, but has shown little net change for several months, and diverging trends in individual sectors of the economy have been largely offsetting. But this close balance obviously means that currently some sectors are weakening; the economy is not maintaining a vigorous rate of expansion. Business sentiment appears to be shifting its focus onto some of the less favorable aspects of the situation, and in consequence the outlook is tinged with less optimism and more hesitation.

Some economic indicators, with allowance for seasonal factors, attained record levels during the third quarter, although in some of these cases rates of advance were perceptibly slower. This category would include personal income, nonfarm employment, bank loans and electric power output. Others such as industrial production, business sales, total construction and capital expenditures were a little below earlier peaks. Major weaknesses included steel production, manufacturers' orders, purchases of some consumer durable goods, rates of inventory accumulation, residential construction and unemployment. Even with these weaknesses, how-

(*Continued on page 2*)

Also

Gold and the Rate of Interest, *page 5.*
Stock Holdings in New England, *page 8.*
Mixed Sentiment in Capital Spending, *page 10.*

ever, there was little evidence of accelerating deterioration.

Sentiment, as expressed in individual opinions as to business trends and outlook, showed increasing awareness during the third quarter of some of these weaknesses in statistical performances and particularly of the current lack of any vigorous expansionary factors in the economy. Attitudes tended to swing from bullishness at the turn of the year, and confidence in the spring, to hesitation. There was more questioning whether the latest boom phase in the business cycle might have run its course. National Surveys indicated a tempering of business and consumer spending plans. Business sentiment was not helped by the adjustments in stock market values nor by the uncertainties posed by domestic politics and international relationships. Yet the adverse swing in sentiment may well have exceeded that in business performance.

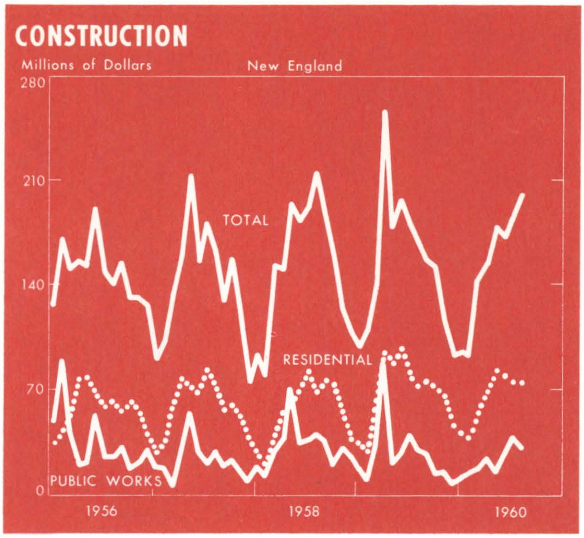
In some respects weaknesses in the business picture, insofar as they exist, appeared to develop later in New England than elsewhere. The substantial drop in steel mill operations made relatively little direct impact in the region. New England's participation in the downward trend in new housing activity was delayed. Unfavorable trends in unemployment and business failures showed up more tardily in the region. Department store sales and new automobile registrations showed better relative performance. New England manufacturers seemed more willing to maintain their capital spending plans.

The New England manufacturing ***production*** index, after a sharp rise from May to June, eased back for July and August to a level which was roughly the same as a year ago but about 4 percent higher than during the first five months of 1960. During each month of the quarter more purchasing agents were reporting production increases than production decreases.

The man-hour index for production workers in New England factories were generally below values for comparable 1959 months, but year-to-year changes were more favorable in July and August than in earlier months. In only two weeks of the quarter was the region's electric power production less than a year earlier.

August ***construction*** contracts in New England were the largest in aggregate value for any month since April 1959. They constituted a 19 percent gain over August 1959 and followed a 2 percent gain in July over July 1959. However, cumulative contracts for the first eight months still lagged behind a year ago by 9 percent.

The real retarding factor in the New England construction picture in 1960 has been the relative scarcity of contracts for public works and utilities, which for the first eight months were 40



percent less than a year ago. Building contracts, on the other hand, over the same comparative periods scored a 2 percent gain. For July and August, nonresidential building contracts were up 39 percent over a year ago, while residential contracts were up nearly 1 percent.

Consistent with normal seasonal patterns, nonagricultural ***employment*** in New England expanded by 200 from mid-June to mid-July, and by 28,600 from mid-July to mid-August. For both of the latter dates it was 1.3 percent higher than on comparable 1959 dates.

Employment expanded seasonally in contract construction and the service industry group. Manufacturing employment dipped as usual in July, when plant shut-downs for vacations are a common practice, then rebuilt in August. The latter restaffing, however, was not as extensive as usual, particularly in the case of nondurable goods manufacturing, where August employment was 1.6 percent less than a year earlier. Nonmanufacturing employment, on the other hand, was 2.0 percent greater than in August 1959.

Labor disputes somewhat affected employment trends in durable goods manufacturing. August employment in this category was up 2.3 percent from a year ago, but this is partly because the steelworkers' strike depressed the 1959 figure. Also, in the transportation equipment industry employment changed considerably within the quarter as a lengthy shipbuilders' strike ended, and another among workers on aircraft components took place.

Although employment expanded during the summer, the labor force expanded even more, resulting in relatively large increases in unemployment. The percentage increase in insured unemployment over a year earlier widened from 21 in June to 41 in September. Throughout the quarter the Brockton, Fall River, Lawrence, Lowell, New Bedford, New Britain, Providence and Springfield areas were estimated to have unemployment amounting to between 6 and 9 percent of their respective labor forces.

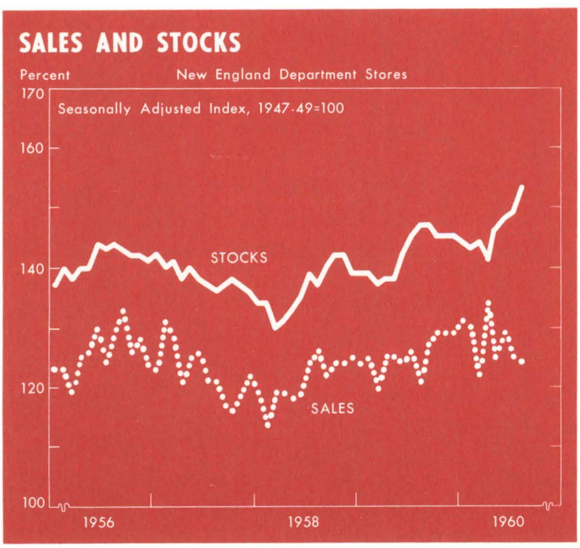
The absence of vigorous expansion in the economy was also reflected in a shortening of workweeks. Average hours for factory workers in August were less than a year ago in all six of the New England states, yet in all six states they still exceeded the national average.

Consumer spending held up comparatively well in New England during the summer, even though it lacked the zest of springtime shopping. Third quarter sales at the region's department stores were 1 percent above year-ago levels, but the pace was 2 percent slower than that which prevailed during the first half of the year with allowance for varying seasonal factors. Relatively better sales gains were achieved in basement departments than in main stores, and in some soft goods than in durable home-furnishings.

Merchandise inventories rose more rapidly than sales but did not appear excessive except in the case of some home-furnishing items. Accounts receivable, particularly of the revolving credit type expanded further but collection ratios remained close to year-ago levels.

August registrations of new automobiles in the six states were 14 percent better than a year ago. Although this comparative gain was much lower than the average gain of 18 percent achieved during the first seven months, the New England performance has well outranked that of the rest of the country thus far in 1960.

Summer vacation spending in New England was generally good, but with its ups and downs. As compared to the 1959 season, guest lodgings were up in May, down in June, up in July, and down in August. Registrations for boys' and girls' camps lagged at the start but ended up 2 percent better than for the record 1959 season. Tourist counts at miscellaneous types of attractions recorded a net gain of 1 percent, but there were variations between types of attraction.



Financial trends suggested a better balance between the supply of and demand for funds than existed earlier. A tendency for consumers to be less carefree in their spending had its counterpart in a disposition to increase their saving. Deposit balances at mutual savings banks in the region were expanding at the rate of 4.8 percent per annum at the end of September. The ratio of redemptions to sales of Series E and H U.S. Savings Bonds in the First Federal Reserve District in August was markedly lower than a year ago.

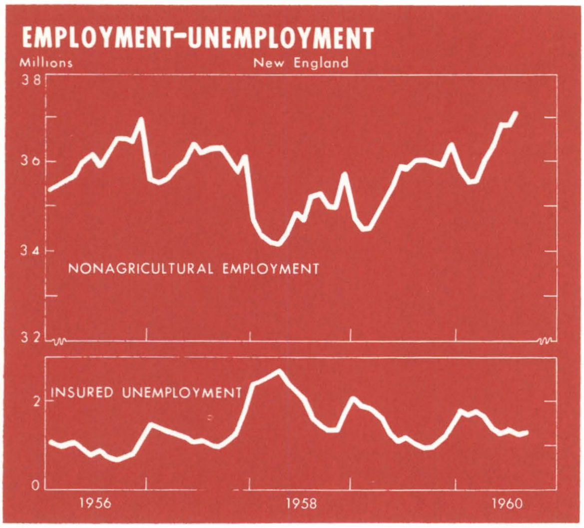
Loan demand became less intense. Although consumer credit and real estate loans outstanding continued to expand during the third quarter, the rate of expansion slowed. The popularity of compact cars tended to cut the dollar volume of automobile loans. A good share of new mortgage loans was made in fulfillment of earlier commitments to builders. Business loans did not show the vigorous seasonal rise which had characterized their behavior in some previous summers.

This easing in the availability of funds was supplemented by Federal Reserve action. Free reserves of member banks in the nation rose from a near-zero average for the second quarter to around $500 million at the end of the third quarter. In this environment, interest rates were generally lower. Both short- and long-term rates lost about half of the rises they had experienced from low points in the 1958 recession. Federal Reserve discount rates were reduced to 3 percent, and rates for prime business loans at major commercial banks were reduced to 4½ percent. Mortgage rates remained rather firm, but continued to be lower than elsewhere in the nation.

Conditions in New England's specialty *farming* appear to have stabilized enough to slacken the trend away from the farms. Dairy farmers enjoyed a fairly good season in terms of comparative incomes and expenses, although retail price wars prompted some dealers to eliminate premiums for quality milk. Commercial egg producers have made good recovery from earlier depressed conditions. In Aroostook County, Maine, potato farmers have made even better recovery after the severely depressed prices of 1958-59.

Durable Goods Industries

Whereas a year ago operations at New England ***primary metals*** plants had to adjust to the steelworkers' strike and actual or threatened shortages of steel, supplies were adequate this summer but the mills had to adjust for a slow flow of incoming orders. August employment for the



industry was 5 percent below the first quarter average. Foundry activity, except at textile machinery plants, was at low ebb. Brass mill operations were below 1959 levels.

At *fabricated metals* plants, producing such items as cutlery, hand tools, hardware and screw machine products, employment trended downward from the beginning of the year, and at mid-August was 6 percent lower than a year earlier.

Employment in New England's *nonelectrical machinery* industry eased downward during July and August, reflecting not only vacation schedules but also indications of a slow seasonal pick-up for fall business. Textile machinery producers maintained a good level of business. Whereas the flow of new orders for machine tools was reported to have surged upward in August, the rise was from a depressed level, originated largely from foreign customers, and appeared to be induced in part by impending price increases.

In New England's relatively strong *electrical machinery* industry, trends were mixed during July and August. Industry employment expanded in Connecticut but contracted in Massachusetts. Producers of communications equipment added employees, while producers of electronic components curtailed forces. Vacation shutdowns and consolidations of forces in new plants occasioned some layoffs, yet aggregate staffs in mid-August were 4 percent higher than a year earlier.

Operations in the *transportation equipment* industry during the summer quarter were somewhat dislocated and difficult to measure. Settlement of a protracted strike at the region's major shipyard led to a gradual resumption of activity. The effects of a later strike in aircraft are more difficult to evaluate.

Ordnance is one of New England's smaller industries, but the defense missile program is making it a real growth industry. Employment in August increased 18 percent over a year ago.

Furniture manufacturing is another one of New England's durable goods industries which has done reasonably well during the current period of uncertain trends. Employment, man-hours of work and order backlogs were reported above levels of a year ago, with producers alert to changing style preferences of customers.

Nondurable Goods Industries

New England's *textile* industry has found it increasingly difficult in recent months to maintain its cyclically good position of 1959. Unfilled order backlogs have declined while inventories have risen. Prices for some fabrics have eased, with a consequent narrowing of mill margins and profits. With demand for textile products slackening in practically all segments of the industry, mill operators have adjusted work forces and weekly hours downward except for the seasonal expansion in employment following the July vacation shutdowns.

The *apparel* industry swung into volume production of fall and winter garments during the third quarter, but employment failed to expand as fully as a year ago. Best relative performance was attained in men's and boys' clothing.

Earlier this year New England *shoe* manufacturers found it inadvisable to match the 1959 record pace of operations. Accordingly, output schedules for fall and winter lines of footwear were not initially stepped up as rapidly as a year ago, and more plants closed for July vacation periods. August output, however, snapped back above the year earlier level and was only slightly below the March seasonal peak. Retail sales have been well maintained, although reorders to manufacturers have been slow.

Operations at *jewelry and silverware* plants expanded seasonally from May in preparation for Christmas selling, and employment conditions at the Rhode Island plants were reported as the best since 1957. Although the current preference for beads does not favor local producers, they are experiencing good demand for better quality cast and tailored jewelry.

Employment at New England *chemical* plants increased during the early part of the third quarter, and remained substantially greater than a year ago, but with some indications of a slowdown in the rate of advance. Sales have held up fairly well, but earnings have been somewhat below expectations.

The *rubber and plastic* product industry has not fared so well in the area, except for Rhode Island. Employment has declined from February, and since June has been below year-ago levels. Inventories have accumulated and orders have fallen off.

Gold and the Rate of Interest

Large U.S. balance of payments deficits and the accompanying gold outflows in the past three years have aroused considerable interest in U.S. economic relations with the rest of the world. Since 1950 the United States has added to world liquidity by spending and investing abroad more than foreigners spend and invest in this country. Prior to 1958 the United States annual payments deficit averaged about $1.5 billion, and foreign monetary authorities secured additions to their gold reserves mostly from sources other than the United States.

In 1958 and 1959 the U.S. payments deficits together amounted to more than $7 billion and they added very substantially both to foreign private dollar holdings and to the international reserves of foreign monetary authorities. The large additions to foreign official reserves increased foreign demand for monetary gold for reserves, and during 1958 and 1959 the U.S. gold stock declined by $3.3 billion.

For the first six months of this year, foreign gold purchases averaged only $24 million per month, although the U.S. payments deficit was running at an annual rate of close to $3 billion. In the third quarter, however, foreign gold purchases rose at an average rate of more than $200 million per month as foreign reserve gains increased, in large part as a result of increased outflow of short-term capital.

Foreigners (including international institutions) now hold over $20 billion in the form of liquid dollar assets, as a result of past deficits in the U.S. balance of payments. Almost half of total foreign dollar assets are held by foreign official institutions. These foreign-held dollars underline the responsibility of the United States to maintain stability of the dollar.

While the U.S. Treasury stands ready to buy and sell gold to foreign monetary authorities for legitimate monetary purposes, there is no reason to expect that these official dollar holdings will be converted into gold, so long as the dollar is regarded as a stable international currency. In fact, official dollar holdings have increased by $600 million in the first seven months of this year.

However, if large U.S. payments deficits were to continue over a long period, they could cast doubts on the international position of the dollar, and efforts must therefore be made to bring about reasonable equilibrium in the balance of payments. The improvement of more than $4 billion in the U.S. payments position on current account between mid-1959 and mid-1960 represents part of the process of adjustment which must take place; nevertheless, a further increase in the U.S. export surplus is necessary for the attainment of reasonable long-term equilibrium in the balance of payments. The reduction in the payments deficit in 1960 has been less than the improvement on current account because of increased outflow of short-term capital.

Credit conditions were tightening in Europe this year while U. S. credit developments were in the opposite direction. The resulting differentials in interest rates provided strong incentives for capital to move abroad from this country. Such a movement might occur through loans, short-term investments, repatriation of foreign funds, or changes in timing with respect to payments on commercial transactions. The attractions of equity investment in Europe during a period of business uncertainty in this country provided an additional pull on capital movements.

Interest rate differentials between the U. S. and other countries are caused by differences in business cycle timing. For this reason short-term capital movements are less important in assessing the balance of payments than are trends in trade, long-term investment, and government grants and loans.

Cyclical factors also influence trade in goods and services. Differences in business cycle timing between this country and Europe were partly responsible for the unfavorable trade position in 1958 and the first half of 1959. The current improvement in the U.S. trade position may also be partly caused by cyclical factors. Other contributory factors are the continuing reductions of foreign barriers to U.S. goods and the efforts of U.S. businessmen to improve the competitive position of their products.

Internal and External Goals

Cyclical factors also influence trade in goods over an old problem: The potential conflict between domestic monetary policy and the external balance of payments. In its simplest form the possible conflict arises from the relationship between interest rates and gold movements.

Let us suppose that the monetary authorities decide that business activity is low in a country, and they decide to expand the credit base. If there results an overall expansion of credit that is faster than the increase in demand, this tends to drive down interest rates. Lower interest rates make the country a relatively less attractive place to invest. As a result, some funds may be withdrawn, and gold may flow out. Thus the outflow may partially offset the monetary expansion originally sought by the authorities.

Suppose, on the other hand, a country is threatened with inflation. As the rising demand for available credit stimulates interest rates, the country becomes a more attractive place for investment. Unless offset, the resultant inflow of foreign funds, which may be accompanied by an inflow of gold, encourages monetary expansion, a development which would reinforce inflationary tendencies.

When a foreign central bank buys gold from the U.S. Treasury with dollar deposits formerly held by foreign private accounts, American commercial banking system reserves are reduced. When the Treasury receives payment for the gold the amount of the purchase is deducted from the commercial bank's reserves at the Federal Reserve. Since the banking system holds only a portion of its total deposits in reserves, a contraction in reserves may bring forth a multiple contraction in bank deposits.

When bank reserves are brought down by gold sales, the Federal Reserve can offset the drain by reducing reserve requirements or purchasing U.S. securities in the open market. When the seller of the securities deposits his receipts in a bank, that bank then has its reserves at the Federal Reserve raised by the amount of the sale.

Gold flows are only one of many factors that may affect bank reserve positions. Whether or not the Federal Reserve offsets reserve losses caused by gold flows will depend on its overall monetary policy and the extent to which restraining influences are desired. Monetary action is aimed at total credit developments rather than individual factors. In 1958, when gold drains were heavy, Federal Reserve action generally prevented the losses from having a restrictive effect. In the first half of 1959 the effects of gold losses on reserves were not fully offset, but in the latter half purchases of securities prevented the gold losses from having a restraining influence. Gold sales in the first half of 1960 were too small to have significant effects on bank reserves.

Capital Movements

Interest rate differentials can stimulate capital movements without these movements being transmitted into gold flows. When a foreign holder of dollars in the U.S. withdraws his funds, he may sell the dollars to his central bank in exchange for a foreign currency. The central bank can then either hold the dollars or sell them for gold. Thus, the policy of the central bank receiving dollars determines whether a gold outflow results from the transaction. If the central bank elects to hold dollar balances, the only result as far as the United States is concerned is that the balances are transferred from a foreign private holder to a foreign official holder.

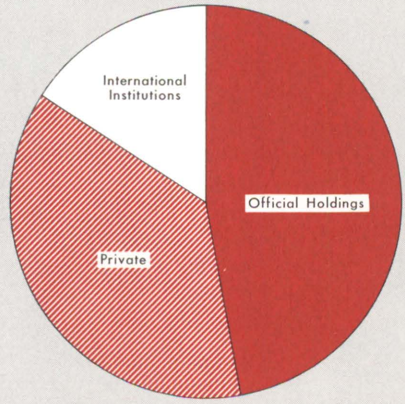
When a foreign central bank holds short-term dollar assets rather than converting its dollar gains to gold, there is an inflow of foreign capital to the U.S. This inflow often takes the form of foreign purchases of U.S. government securities or an increase in deposits (including time.) In this way an American capital outflow is matched by a capital inflow.

Dollar holdings of foreign governments and their central banks have increased 17 percent since the beginning of 1958. Among the leading industrial countries, the United Kingdom, Belgium, Netherlands, and Switzerland hold most of their reserves in gold. On the other hand, Germany, Italy, Japan, and Austria hold substantial dollar balances, and generally add to their holdings of dollars when reserves are increasing.

The different practices of the leading countries influence substantially the extent to which a given U.S. payments deficit takes the form of gold. For example, in 1958 the United Kingdom, Belgium, Netherlands and Switzerland had large aggregate reserve gains and together they purchased $1.7 billion in gold from the United States and $0.5 billion from other foreign countries. In contrast, in 1959 the United Kingdom lost reserves and on balance sold gold, and in that year the four countries combined purchased only $0.3 billion in gold from the U.S.

In part, the much reduced foreign demand for monetary gold in 1959 reflected differences in the geographical distribution of payments surpluses and deficits among foreign countries. The reduced demand also reflected the fact that a large proportion of additions to foreign dollar holdings was in foreign private holdings, rather than in those of central banks. Growth of foreign private holdings in 1959 reflected both the building up of working balances, following the relaxation of ex-

FOREIGN DOLLAR HOLDINGS
Distribution in Mid-1960



SOURCE: FEDERAL RESERVE BULLETIN.

change restrictions by European countries, and an increase in foreign short-term dollar investments attributable to attractive interest rates in this country.

Foreign-held Dollars

It is frequently pointed out that only a small proportion of current foreign dollar holdings are subject to withdrawal under the stimulus of relatively higher interest rates abroad. Out of $20 billion of foreign held dollars, the amount that might be considered "interest sensitive" has been estimated at about $1 billion. This estimate of $1 billion represents a relatively small portion of foreign private dollar holdings; the remainder appears to represent working balances. Almost half of the $20 billion of foreign dollar holdings represents holdings of official institutions, and there is no evidence that these official holdings are shifted between gold and dollar assets in accordance with fluctuations in interest returns. Finally, more than $3 billion of foreign dollar assets are held by international institutions, which require such assets to carry out their operations.

In 1958 the United States lost $2.3 billion in gold, yet these purchases did not draw down foreign dollar holdings; on the contrary these holdings increased $1 billion. Thus the gold flow for the year was entirely the result of the balance of payments deficit for that year, rather than sales of pre-existing holdings.

During the period immediately following World War II exchange restrictions acted as a curb on international movements of capital. The establishment of external currency convertibility by European countries in 1958 and 1959 has increased the opportunity for movement of funds in response to interest rate differentials. Convertibility allows holders of funds in one currency to convert them into currency of another country and invest them where the interest yield is highest.

Prior to the convertibility move, however, there had been a gradual relaxation of exchange restrictions which were imposed in the early postwar period.

Long Range Effects

The relation of monetary policy to the balance of payments cannot be examined solely in terms of the effects on capital movements. If monetary policy helps to achieve domestic stability, this is reflected in the country's exports and imports. The goods of a country which avoids inflation will tend to be more attractively priced both domestically and internationally than those of an inflating country. Looked at in this manner a policy of credit restraint to avoid inflation and a policy of high interest rates to avoid gold outflows are in harmony. The conflict between domestic and external goals arises when an economy is operating at less than full employment. Here a policy of monetary ease (with lower interest rates) is appropriate, since expenditures can be expanded without inflationary result, but the lower interest rates may lead to gold outflows.

Another effect of monetary policy on the balance of payments is via income, which in turn affects imports and availability of exports. If an expansionary monetary policy raises incomes, some of the additional income will be spent on imports and another part in goods otherwise available for export. Such a monetary policy might also result in capital outflows (brought on by lower interest rates) and more spending on imports — both of which would worsen a balance of payments deficit. Generally it would not be expected that the income effect would operate in the downward direction, since a policy of monetary contraction would not be applied if it were expected to reduce real incomes.

Monetary policy also has significant effect on capital flows aside from the direct effects of interest rate. If a country allows overexpansion in credit, investment from abroad may be discouraged because of the country's inability to maintain a sound currency. On the other hand if a country suffers from deflation, the prospects for return on investment would be inadequate to stimulate long-term capital inflow, and could lead to capital outflow.

A rather obvious effect of monetary policy on the balance of payments is the extent to which it provides banks and other investors with sufficient funds for movement abroad. If there is a heavy demand for credit at home and bank reserves are tight, there are less funds for movement overseas. This is perhaps why at times in the postwar period interest differentials of as much as 1 percent (after allowing for costs of covering foreign exchange risks), have been allowed to persist without international movements of funds operating to reduce the differential.

All of these indirect effects of monetary policy on the balance of payments must be taken into account as well as the more direct effects of relative interest rates on capital flows. The short-term capital flow items in the balance of payments are actually small in relation to trade in goods and services. In 1959 the net outflow of U.S. short-term and portfolio investments was less than $1 billion, compared to imports of $22 billion.

Consideration of the balance of payments effects of monetary policy must include both effects on trade and on long-term investment. It cannot be limited to interest rates and resulting movements of short-term money.

Stock Holdings in New England

There are about 12½ million stockholders in the United States and about one million of these are in New England. While New England has 5.6 percent of the nation's population and 7 percent of income, it has 8.4 percent of shareholders.

Share ownership in New England states is shown in the table on this page. The data is from two sample surveys of stockholders conducted by the New York Stock Exchange.

The New England states are within the top 11 states in the proportion of stock owners to population. Connecticut ranks first among the states, though the District of Columbia is higher. Maine, the New England state with the lowest proportion, ranks 11th in the nation.

Comparison of the two Stock Exchange surveys shows a rather rapid narrowing of the shareowners proportion between New England and the nation. While a narrowing is to be expected because the nation is starting from a lower level of stock ownership, it is unlikely that the pace of the narrowing is actually as rapid as that shown in the table. As in all sample surveys, a certain amount of error is unavoidable. It seems doubtful that Connecticut and Maine should show increases of almost 40 percent in the number of shareowners from 1956 to 1959, while Massachusetts, Rhode Island and New Hampshire show declines ranging up to 15 percent. Quite likely the true figures for these states are somewhere in between these extremes, and the Stock Exchange's next survey will probably redress the balance.

New England's high ranking in stock ownership would be expected on the basis of general characteristics of the region's population. Per capita income here averages higher than in the nation, and a higher income is strongly associated with greater stock ownership. New England has a relatively lower agricultural population, and this group ranks lowest occupationally in stock ownership. The region also has a slightly higher average age than the nation, another factor which is associated with more stock holdings. Finally, there is probably a higher degree of financial sophistication in this area of the nation which would lead to greater interest in stock ownership.

CAPITAL STOCK OWNERSHIP
U.S. and New England, 1959 and 1956

	Number of individual shareowners		Percent of population who are shareowners	
	1959	1956	1959	1956
United States	**12,490,000**	**8,630,000**	**7.0**	**5.1**
New England	**1,049,000**	**978,000**	**10.4**	**9.9**
Connecticut	300,000	219,000	12.6	9.5
Maine	75,000	56,000	8.2	6.2
Massachusetts	512,000	531,000	10.2	10.8
New Hampshire	50,000	59,000	8.8	10.8
Rhode Island	75,000	84,000	8.9	10.1
Vermont	37,000	29,000	9.8	7.6

Source: New York Stock Exchange.

Value of Holdings

Internal Revenue Service listings of taxable dividends by state can also be used to study geographical distribution of stock. Figures from the Stock Exchange and income tax returns are consistent, indicating that they are fairly reliable indicators of stock ownership by state. The year 1957 is the latest for which these data are currently available.

The Stock Exchange census concentrated exclusively on stock ownership, regardless of the amount. Data from income tax returns can be used, however, to estimate the amount of stock held by owners in the different states.

Since dividends are, on the average, pretty closely proportional to stock value, a comparison of the dividends distribution among the states gives a good indication of the comparative dollar value of stock held. While the $50 exemption and other allowances reduce the amount of taxable dividends below the total received by the taxpayer, the excluded amounts are fairly small, being only about 4 percent of the total.

Dividends received in each state can be used as a starting point for computing the dollar value of stock owned per capita. Dividends in 1957 were equal to 4.33 percent of the market value of common stock. As total dividends in the nation, taxable plus those exempt from taxation, amounted to $12,355 million, the estimated total market value of stocks was the dividend amount divided by 4.33 percent or $285,300 million.

This value can be apportioned among the states on the basis of state distribution of dividends. Connecticut stockholders, for example, received $283 million in 1957 in taxable dividends, which is 3.3 percent of the national total of dividends. It can be assumed, therefore, that Connecticut residents owned 3.3 percent of the total market value of stock, or $9,400 million worth. Given a population of 2,268,000 persons, the average per capita holding in Connecticut came to $4,100 in 1957.

Estimated stock holdings per capita in New England and the entire United States are shown in the table on page 9. All New England states except Maine are well above the national average, and Maine has been exactly equal to the nation in all years shown. Connecticut ranks first in New England as well as in the nation. The rate of growth in per capita holdings since 1939 has not increased as fast in Connecticut, however, as in all of New England or the nation. Connecticut showed an increase of 115 percent from 1939 to 1957, while New England as a whole increased 180 percent and the nation 183 percent.

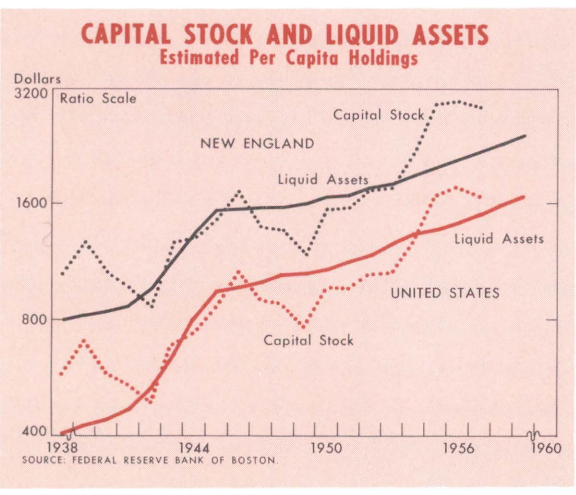
Vermont had the largest percentage rise in per capita holdings from 1939 to 1957 — 250 percent. The explanation does not lie in personal income in that state, which rose even less in Vermont than the national average. One possible reason is the growing attraction of Vermont for retirement. This could account for the greater rise in per capita stock holdings, since retired persons moving to another state are likely to have fairly substantial stock holdings.

Over the period, 1939-57, Rhode Island had the lowest rise in per capita stock holdings measured in either percentage or dollar terms. In fact, it showed no rise from 1939 to 1950. There appears to be no ready explanation for the behavior.

Stock ownership probably grew more common in Rhode Island over this period as elsewhere, so the lack of growth in per capita holdings may mean that there was some offsetting loss in state holdings. Since relatively few people own most of the capital stock, the moving out of a few large holders could cause quite a decline in a state as small as Rhode Island. The death of a large holder would have the same result if the heirs were located elsewhere.

Comparison with Liquid Assets

Stock is only one of many outlets for the savings of individuals. Savings can also be held in the form of liquid assets, which include time deposits, life insurance equities, savings and loan shares, and savings bonds.



ESTIMATED STOCK HOLDINGS PER CAPITA
New England and United States

	1939	1950	1957
United States	**$ 600**	**$1,000**	**$1,700**
New England	**1,000**	**1,500**	**2,800**
Connecticut	1,900	2,200	4,100
Maine	600	1,000	1,700
Massachusetts	1,200	1,500	2,800
New Hampshire	900	1,400	2,300
Rhode Island	1,300	1,300	2,300
Vermont	600	1,000	2,100

Per capita holdings of liquid assets and capital stock are shown in the chart on this page for both New England and the nation since 1938. The movements have been almost identical between the New England and the national figures with regard to both liquid assets and stock. There was some narrowing in the spread between the per capita liquid asset holdings in the region and the nation, but the spread in stock holdings remained about unchanged.

The value of per capita holdings of stock showed a great deal more year-to-year variation than did holdings of liquid savings. This reflects the ups and downs in the market values of capital stock and not changes in the numbers of shares held. The fluctuations in per capita holdings of stock in the region and the nation varied in identical ways for a similar reason. Approximately the same types of stocks are held in the region as in the nation. When general market prices go up, the per capita values go up both in New England and the country as a whole.

Since 1942 there has been a fairly close balance from the market value of stock and the amount of liquid assets owned. The periods of widest divergence was in 1949, when stock prices were at a postwar low, and since 1954, when stock prices began the rise which resulted in a more than doubling of average prices.

Currently, stock holdings per capita exceed liquid savings by almost the same relative margin as in 1939. The average yield on common stocks is currently about 3.5 percent, almost exactly the same as it was in 1939. The dividend rate on savings deposits, however, now averages near $3\frac{1}{2}$ percent at mutual savings banks, far above the $1\frac{3}{4}$ percent average of 1939.

Mixed Sentiment in Capital Spending

Manufacturers' capital expenditure plans reflect the mixture of strengths and weaknesses this year in the New England economy. New England manufacturers report they have revised their 1960 capital expenditure plans upward by 2 percent over the amount they estimated in the spring. The new plans would represent a 14 percent increase over 1959.

Manufacturers have raised spending even though sales and earnings so far this year have failed to meet their spring expectations. They expect sales for the remainder of 1960 and 1961, however, to increase over present levels.

The durable goods producers have reduced their planned expenditures for 1960, but the increase in outlays planned by the nondurable goods sector more than offsets this reduction. Sales volume so far in 1960 has held at higher levels in the latter group. About three-fifths of the durable goods manufacturers reported that their actual sales this year have been less than their spring expectations, while only two-fifths of the nondurable goods producers indicated sales below spring estimates.

Two-thirds of the manufacturers expect their sales to increase over present levels in 1961. The 56 manufacturers with expenditure plans for next year indicate that they will up their outlays 5 percent over the amount planned for this year.

These estimates are based on reports from 116 firms which were asked in late August and early September to reconsider their 1960 plans. Total expenditures were projected for each industry on the basis of the reports of these firms, which account for 9 percent of the region's manufacturing employment.

The purpose of the fall survey is to check on changes in plans that may have resulted from the year's developments. It also gives an early indication of manufacturers' expectations for sales and capital spending in 1961.

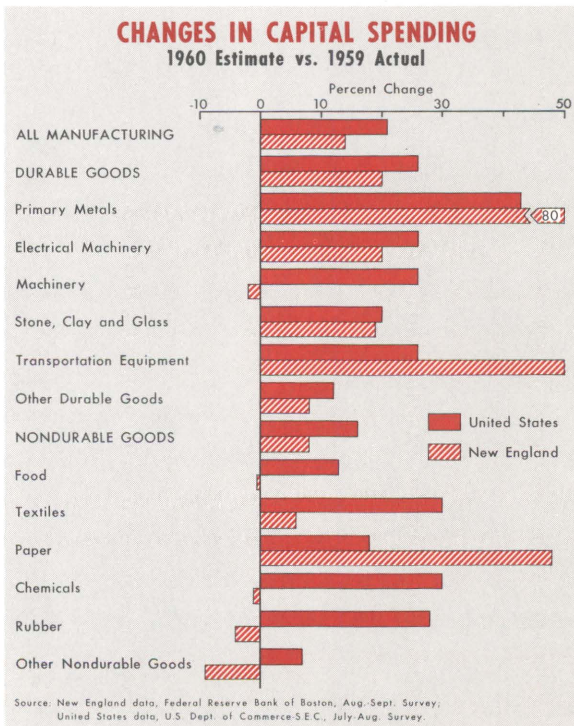
The current survey shows that New England manufacturers plan to spend \$646 million for new plant and equipment this year, an increase over 1959 but still below the 1957 peak.

The expected increase in the region this year is less than the rise expected nationally. Capital spending by all United States manufacturers this year is expected to be 21 percent above 1959, according to a July-August estimate made jointly by the United States Department of Commerce and the Securities Exchange Commission. As shown in the chart on this page, both the durable and non-durable goods sectors in the region are expected to increase their outlays by a smaller percentage than these groups nationally.

The increase in the region's capital outlays involves additional spending for both new plant construction and machinery and equipment. The allocation of spending between plant and machinery remains unchanged from the spring estimate for all manufacturing. However, there has been a shift in emphasis between the durable and nondurable goods sectors. Hard goods producers will spend a greater proportion of their outlays on new plant than they indicated last spring, while soft goods manufacturers will spend a greater proportion on machinery.

More Replacement Spending

The earlier distribution of capital outlays between expansion and replacement has been altered toward a greater proportion planned for replacement. Two factors may account for this shift in spending. Excess production capacity prevails throughout the region in manufacturing, making it unnecessary to expand facilities. Three-fourths of the respondents to the current survey said that they were operating below 90 percent of capacity, yet manufacturers in all the major industries reported last spring that they preferred to operate above this rate. Secondly, rising costs and falling prices are squeezing profit



margins. Three-fifths of the respondents to the fall survey indicated that their earnings after taxes in the past eight months have been below their spring anticipations. Consequently, the region's manufacturers are modernizing their present facilities in an effort to achieve greater efficiency and to reduce operating costs.

Industry Estimates

Durable goods manufacturers now plan to spend $338 million for plant and equipment in 1960. This is a 1 percent reduction from the earlier estimate but still 20 percent above 1959. All the industries in this group estimate that they will spend more than last year with the exception of the lumber and nonelectrical machinery industries. The latter industry, which reported in the spring that it planned to spend substantially more than in 1959, now expects to spend slightly less than last year. In addition to disappointing sales and earnings this year, the industry has been faced with a decline in new orders.

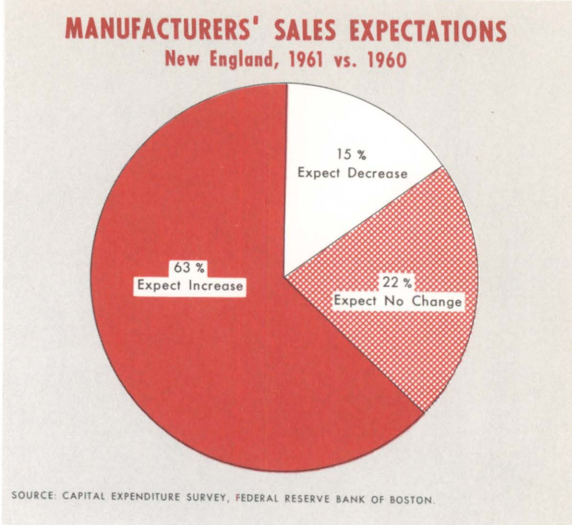
Substantial upward revisions of spending plans have been made in two of the region's durable goods industries, primary metals and transportation equipment.

Apparently the primary metals industry's current position has little bearing on spending plans since employment in the industry has been declining and sales and earnings have been below expectations throughout the year. The industry's respondents to the current survey were almost unanimous in expecting 1961 sales to improve over present levels. Firms in the industry indicated in last spring's survey that they had definite and substantial expenditure programs through 1963. Reduced construction and equipment costs this year due to price declines may have induced primary metals manufacturers to accelerate the fulfillment of their planned expenditures schedules. The industry has raised its 1960 expenditure plans by 38 percent over its earlier estimate.

Both sales and earnings in the transportation equipment industry have exceeded spring expectations so far this year. Sales in 1961 are expected to be as good or better than this year's performance.

The better sales showing than anticipated and its expected continuance has induced manufacturers in this industry to revise their capital outlays upward by 42 percent from the spring estimate.

Manufacturers of nondurable goods estimate that they will spend $308 million, 8 percent more than in 1959, for new plant and equipment. Only the textile paper and shoe industries among nondurables will spend more than last year.



The paper industry increased its capital spending estimate, which was already relatively large in the spring. Food, textiles and shoes have increased their 1960 spending plans considerably over spring estimates.

Employment in the food industry has been at high levels throughout this year. In addition, sales to date have matched the 8 percent gain manufacturers expected last spring, and they are expected to rise further in 1961.

The increase in capital spending by textile manufacturers is for additional machinery and equipment. Textile producers are installing new, improved types of machinery in an effort to reduce their operating costs. Shoe manufacturers have boosted their spending for new plant to expand facilities. Those firms in the industry which have expansion plans indicate that they are now operating above their preferred rate of capacity utilization. Hence, current production rates are the motivation for their expansion.

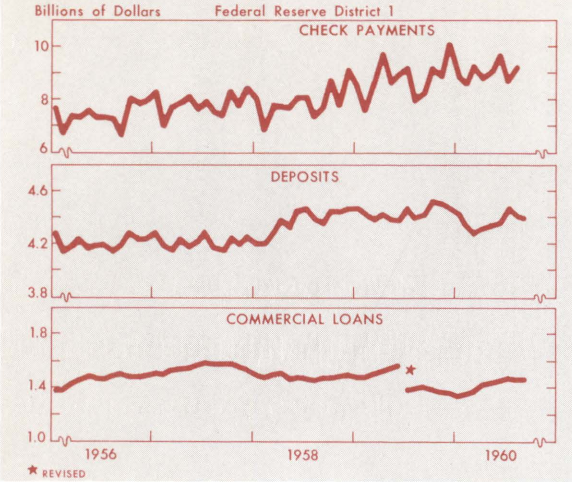
Plans for 1961

Capital expenditure plans for 1961 are still in the formative stage. Until the course of business becomes clearer, manufacturers are hesitant to make spending commitments.

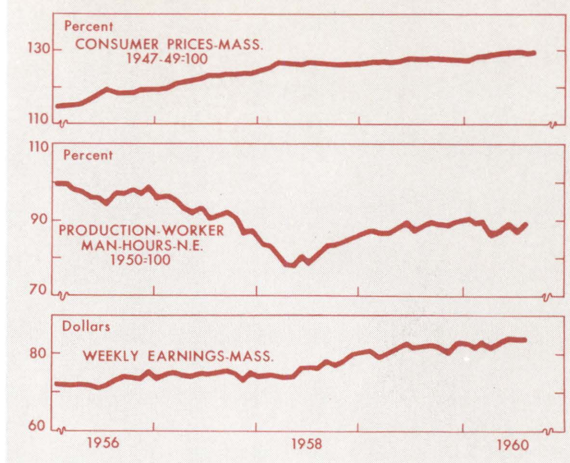
Of the firms willing to make estimates as to spending in 1961, about an equal number expect increases and decreases over 1960 levels. Respondents in the durable goods sector plan to up their outlays by 50 percent over 1960 levels.

Only 15 percent of projected 1961 expenditures are for plant, about the same proportion as this year. Three-fourths of the respondents to the current survey expect their sales in the next quarter to be as good or better than current levels. If these expectations are realized, manufacturers may be more willing to project expenditures into the future.

BANKING



PRICES, MAN-HOURS, AND EARNINGS



MANUFACTURING INDEXES (seasonally adjusted)	MASSACHUSETTS (1950–52 = 100)			NEW ENGLAND (1950–52 = 100)			UNITED STATES (1957 = 100)		
	Sept. '60	Aug. '60	Sept. '59	Sept. '60	Aug. '60	Sept. '59	Sept. '60	Aug. '60	Sept. '59
All Manufacturing	120	125	126	117	122	122	107	109	104
Primary Metals	97	95	77	93	90	95	79	82r	45
Textiles	42	45	48	63	65	69	n.a.	112	114
Shoes and Leather	123	128	133	124	128	132	n.a.	n.a.	104
Paper	103	109	111	122	124	127	n.a.	112	114

	NEW ENGLAND	Percent Change from:		UNITED STATES	Percent Change from:	
	Sept. '60	Aug. '60	Sept. '59	Sept. '60	Aug. '60	Sept. '59
BANKING AND CREDIT						
Commercial and Industrial Loans ($ millions) (Weekly Reporting Member Banks)	1,456	0	+ 4	31,337	+ 1	+ 7
Deposits ($ millions) (Weekly Reporting Member Banks)	4,384	− 1	− 1	109,593	+ 1	+ 1
Check Payments ($ millions) (Selected Cities)	8,928	− 3	+ 8	240,798	0	+12
Consumer Installment Credit Outstanding (index, 1950–52 = 100)	255.0	0	+12	283.5	0	+12
TRADE						
Department Store Sales (index, seas. adj. 1947–49 = 100)	126	+ 2	− 1	144	− 1	− 1
Department Store Stocks (index, seas. adj. 1947–49 = 100)	152	− 1	+ 3	168	− 1	+ 5
EMPLOYMENT, PRICES, MAN-HOURS, & EARNINGS						
Nonagricultural Employment (thousands)	3,689	− 1	+ 2	53,735	+ 1	+ 2
Insured Unemployment (thousands) (excl. R. R. and temporary programs)	127	+ 4	+41	1,637	− 3	+32
Consumer Prices (index, 1947–49 = 100)	129.2 (Mass.)	0	+ 2	126.8	0	+ 1
Production-Worker Man-Hours (index, 1950 = 100)	83.5	− 6	− 7	98.0	0	− 2
Weekly Earnings in Manufacturing ($)	79.50 (Mass.)	− 5	− 3	90.68	0	+ 1
OTHER INDICATORS						
Construction Contract Awards ($ thous.) (3-mos. moving averages July, August, September						
Total	178,931	− 3	+ 6	3,336,967	− 3	+ 2
Residential	71,023	− 6	− 5	1,346,423	− 5	−14
Public Works	27,551	−14	−15	619,656	− 7	+27
Electrical Energy Production (index, seas. adj. 1947–49 = 100)*	219	− 1	+ 6	267	− 1	+ 7
Business Failures (number)	55	− 5	−13	1,269	− 4	+11
New Business Incorporations (number)	804	− 3	− 1	14,007	− 7	− 5

*Figure for last week of month

n.a. = not available

r = revised