New England

BUSINESS REVIEW

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REVIEW OF THE SECOND QUARTER:

Better Days at Hand

At the beginning of the second quarter of 1961 New Englanders were impatient for final release from the rigors of an unusually inclement winter. They were hopeful for a strengthening of weak spots that appeared to be developing in their economy. They were anxious for an end to apprehensive talk about another recession. They were, in short, awaiting better days.

At the end of that same quarter they were enjoying the comforts of the anticipated better weather. They noted definite signs of restrengthening in their economy. They turned from recession psychosis to confidence in an improving outlook. They saw better days at hand.

In retrospect, the interruption to the onward march of the economy that developed in 1960 can now be seen as a mild type of cyclical change. In many respects it was milder in New England than in the nation at large, where disturbances to the steel and other heavy goods industries more easily upset the balance of the overall economy.

By almost any statistical measure the recent sag in business activity penetrated to

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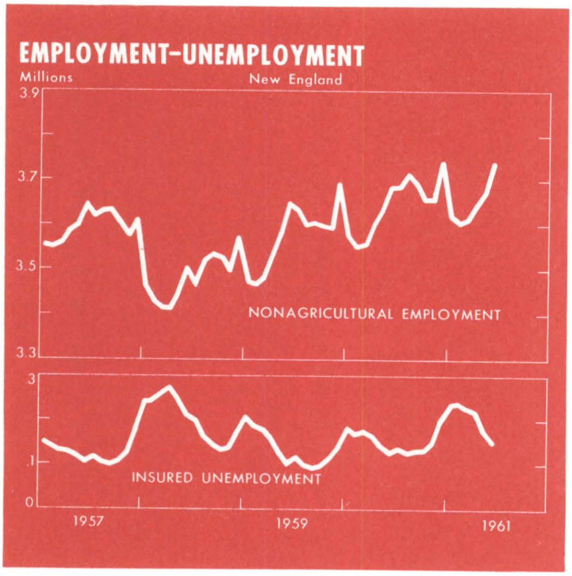
less depth than did the recession of 1957 and 1958. Already in the first quarter of this year some business indicators had turned upward. The upturn strengthened and broadened during the second quarter. At midyear weaknesses were by no means fully corrected nor was the pace of the upturn indicative of a vigorous boom, but at least there was restored confidence that business trends were moving in the desired direction.

Employment conditions afford one of the most meaningful measures of the health of an economy. During the second quarter New England's employment rose, its unemployment declined, and workweeks for its factory workers lengthened.

Total nonfarm employment in the region rose steadily from February, after allowance for seasonal factors. In June, when the nation's nonfarm employment was down 0.6 percent from a year earlier, the New England total was down only 0.3 percent. At no time during the recent cyclical decline did its 12 months' net loss exceed 0.8 percent, whereas in April 1958 its 12 months' net loss reached 4.8 percent.

These relatively favorable comparisons of total employment statistics do not deny that unfavorable employment conditions developed in some industry groups. Despite recent improvement, New England's manufacturing employment in June was 2.6 percent less than a year ago, and the 12 months' gap was even greater earlier in the year. Nonmanufacturing employment in June, on the other hand, was still 1.1 percent above a year ago. The recent business decline was essentially in manufacturing, and particularly in the metal, nonelectrical machinery and textile industries. Although durable goods industries in general suffered sharper employment cuts in the decline, their recoveries during the second quarter were in many cases better than those in some of the nondurable goods industries.



Total unemployment in the six states was estimated to be 295,000 in mid-June, following an 18 percent decline since February. This compares favorably with a national decline of 2 percent over the same period.

In spite of recent improvement unemployment remains disturbingly high, with much variation in its impact by geographical area. Expressed as a percentage of the labor force, unemployment in June averaged 6.5 percent in New England and 7.5 percent in the nation. Only Rhode Island with 7.9 percent exceeded the national average. The U.S. Bureau of Employment Security in its June classification of major labor market areas listed Bridgeport, Brockton, Lawrence, Lowell, Manchester, Providence, Springfield and Worcester as having from 6 to 9 percent unemployment, and Fall River, New Bedford, New Britain and Waterbury as having from 9 to 12 percent. None of the nation's eight major market areas having more than 12 percent unemployment was located in New England.

Average weekly hours of factory workers continued during the second quarter in most states the expansion which had started in the first quarter. Coupled with the continuing upward creep of average hourly earnings, this led to average weekly earnings generally at record levels in June.

Manufacturing ***production,*** like employment, increased during the second quarter without yet reattaining its year-earlier levels. This bank's manufacturing production index, computed from reported inputs of factory labor and electric power, adjusted for seasonal factors and related to a 1950-52 base, rose from 110 in March to 116 in May but was below the May 1960 value of 118. The percentage in the New England Purchasing Agents Association who noted increasing rates of production rose from 34 in March to 43 in June, while the percentage who noted declines fell from 17 to 10.

More production was supported by more ***orders*** for manufacturers' products. Among this same group of purchasing agents, the percentage reporting increasing flow of new orders rose from 35 in March to 47 in June, while the percentage reporting contracting flows dropped from 19 to 15. Reports from other sources indicated that, while new orders in some industries were still discouragingly low, there was overall a recognizable improvement from a few months earlier.

Outputs of ***electric power*** in New England continued during each week of the second quarter to exceed outputs for the corresponding 1960 weeks, with an average gain of 6.6 percent. After adjustment for seasonal factors, second quarter output was up 3.6 percent from the first quarter.

Business failures statistics presented a more favorable trend during the second quarter. Reports of failures in New England, as compared with a year ago, were 1.7 percent fewer in number and 30 percent less in amount of liabilities.

New ***business incorporations*** in the six states were fewer than a year ago in April, as had been true in preceding months since last November. The contrasting rise in incorporations for May over a year ago offered further indication of a business outlook change for the better.

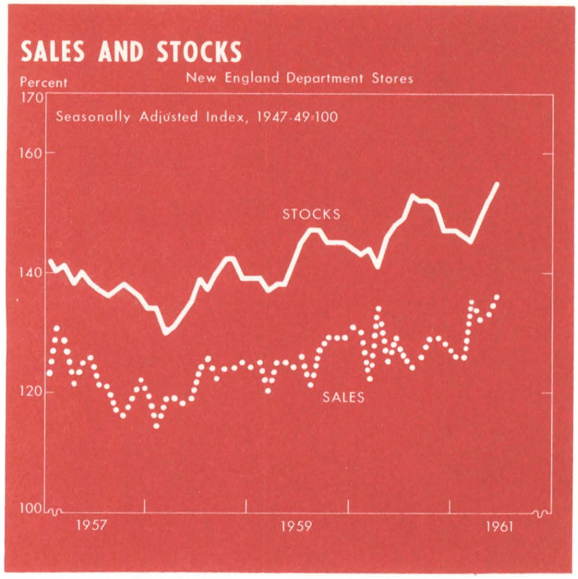
Consumer spending during the quarter presented a mixed pattern of freer spending at some outlets or for some goods, but continuing hesitation otherwise. There was generally more evidence of a pick-up in New England than in the nation at large.

Second quarter sales at its ***department stores*** were, after allowance for an earlier Easter and other seasonal changes, 3 percent above both the preceding quarter and the record second quarter of 1960. Sales comparisons with 1960 were distorted in April by the changed Easter date, but for May and June they were definitely better in silverware and jewelry, women's and misses' apparel, rugs, draperies, lamps, radios, phonographs and television sets, as well as basement department merchandise. Accounts outstanding at the end of May were 10 percent greater than a year ago, with an especially rapid rise in the use of revolving credit. Collections have risen, but not as rapidly as outstandings. With sales generally improving, merchants have expanded merchandise orders, and stocks on a seasonally adjusted basis rose above their previous peak.

Automobile sales, after a discouraging first quarter, picked up gradually so that by mid-year dealer outlooks were much more hopeful. In New England, registrations of new automobiles, which had lagged 13 percent behind the 1960 pace for the first three months, were only 6 percent behind for April, and a much narrower gap was indicated for May and June.

Vacation business in New England has a spring interlude when skiable snow patches rapidly dwindle and when summer vacations for most tourists are in the planning stage or limited to occasional week-end trips. The 1961 summer season had a slow start as resort operators reported May business 10 percent poorer than a year ago, but the difference was nearly recouped in June. Advance registrations for boys' and girls' summer camps also started off slowly, but a subsequent quickening of the pace rebuilt hopes at most camps that they might operate at capacity.

Financial conditions experienced no profound changes during the second quarter. The initial stages of increasing business activity developed in an environment of overall price stability, moderate credit demands, a continuing propensity to save, and relatively narrow changes in interest rates. For monetary policy in such an environment, the advantages of stimulating faster economic growth outweighed any need to restrain inflationary pressures.

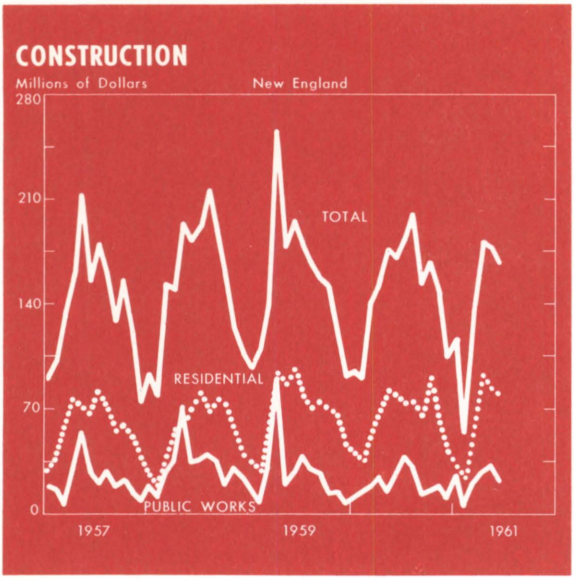


There were individual price changes during the quarter, both upward and downward, but overall net effects were a slight drop in the wholesale commodity price index and a slight rise in the consumer price index.

Commercial and industrial loans at weekly reporting commercial banks in the First Federal Reserve District had a much smaller second quarter rise in 1961 than in 1960, so that by mid-1961 the net gain over a year earlier had been reduced to 0.4 percent. In the national sample of banks the change had become negative. The District index of consumer instalment credit outstanding at all lending sources declined, on a seasonally adjusted basis, in the quarter. Real estate mortgage funds were generally stated to be in ample supply to meet the reduced demand.

An accelerated inflow of saving funds into New England mutual savings banks raised the 12 months net deposit gain from 6.9 percent as of March 31 to 7.3 percent as of June 30. Total time deposits at District weekly reporting member banks as of June 29 showed a three months gain of 1 percent and an annual gain of 21 percent.

This bank's discount rate and the prime business loan rate at commercial banks were unchanged during the quarter at 3 and 4½ percent, respectively. Yields at weekly auctions of three-month Treasury bills fluctuated without decisive trend between 2.2 and 2.5 percent. Interest rates on conventional type residential mortgage loans eased a little during the quarter, with a prevalence of 5¼ and 5½ percent around Boston, and ranging up to 6 percent in outlying areas.



New England ***agriculture*** had its own problems this spring. Pasture development was retarded by cold and wet weather, but was generally good by June 1. Grain prices were somewhat higher and limited the drop in the formula-based price of milk to dairymen to from 8 to 22 cents per hundredweight less than a year ago.

The heavy hatch of chicks for laying flocks tapered off after April in New England to a May rate 21 percent less than that of a year earlier. Nationally, the hatch remained high. Wholesale egg prices in mid-June were about 10 percent less than in the corresponding period of 1960.

With broiler production up 2 percent over a year ago in New England, and up even more elsewhere, broiler prices reached record lows in late May or early June, with but little subsequent recovery. Likewise, turkey prices have been held down by a much heavier hatch this year.

Late season sales of potatoes brought $1.60 to $1.75 per barrel to Aroostook County growers, up from the season's low price of $1.50 but far below the $6.00 price of a year earlier. Unfavorable ground and weather conditions seriously delayed planting of the 1961 crop.

Late May frost caused damage to a prospectively large apple crop, as well as to strawberries and cranberries. Frost damage, wet weather or both also necessitated replanting of some vegetable crops.

The outlook for ***construction,*** as reflected in contract awards, brightened in the second quarter even though current construction activity was in some respects still slow. According to F. W. Dodge Corporation tabulations, second quarter contract awards in New England exceeded in value the corresponding 1960 figure by 6 percent, in contrast to a relative decline of 4 percent for the first quarter. The contrast was pronounced in the case of residential contracts which had a relative gain of 12 percent for April to June but a relative decline of 15 percent for the first quarter. A drop in contracts for manufacturing buildings reflects in part the current lull in capital expenditures by business. The relative lag of 2.4 percent in New England's construction employment in June from a year earlier is further evidence that the industry lacks full vigor.

Activity in the ***primary and fabricated metals*** industries was not back to desired levels in the second quarter, yet showed marked improvement in trend and outlook from the similar quarter of 1960. Since then, the overestimation of demand for metals and metallic products which followed the 1959 strike has been corrected, production kept in line with shipments, and excessive inventories gradually reduced to minimum levels. Orders were showing definite improvement in this year's second quarter. Average workweeks have lengthened within these industries since January by amounts ranging up to three hours. More recently the number of employees turned upward, although aggregate staffs in June were still 5 percent less than a year earlier. Particularly satisfying was a heavy inflow of new orders to the region's brass mills during May and June, which resulted in the busiest operations at these plants for the last 15 months.

In the ***nonelectrical machinery*** industry the leveling off of business activity in the second quarter constituted a relative improvement after the continuing decline of the first quarter, but any substantial pick-up has yet to appear. Average workweeks lengthened somewhat. Work forces increased somewhat from March to June, but in the latter month were still 7 percent less than a year earlier. Machine tool orders picked up during the quarter, and customer inquiries indicated the possibility of further improvement in coming months. Iron pourings at foundries of textile machinery producers were about 10 percent less than a year earlier.

New England's ***electrical machinery*** industry, overall, was relatively resistant to cyclical decline last year, and has shown little inclination to expand this year. Average weekly hours increased little this spring. Employment was very stable during the first six months of this year, but because of a declining trend a year ago the 12 months' net loss had narrowed to 2.2 percent by June. But trends varied within the industry. May employment in the communication equipment sector was above, that in the electronics components sector below, a year ago. Some electronics firms have received extensive defense contracts, while others have been obliged to retrench operations because of a dearth of orders.

In the manufacture of ***transportation equip-***

ment activity at New England plants this spring was rising to the best performance since 1958 on an overall basis. But performance varied within the industry. Expansion occurred at Connecticut aircraft plants because of research and development on aircraft engines, fuels and air traffic control systems, as well as production orders for helicopters, missiles and satellite components. The New London base has been continuously busy building atomic powered submarines, but the large Quincy shipyard faces a sizeable contraction of work forces because of lack of new orders. Automobile assembly and equipment forces have been relatively stable this spring.

Employment at New England's *instrument* making plants was relatively stable this spring, with the net loss from a year ago reduced to 3 percent in June. Staff reductions at some plants were balanced by expansion elsewhere. New order flows were generally reported to be improving for the regional industry.

New England's *ordnance* industry was one of the few which employed more workers this spring than a year ago. This relative strength was waning, however, as contract completions at some Massachusetts plants led to layoffs which offset continuing expansion at Connecticut plants.

Improvement in New England's *textile* activity from the first to the second quarter was rather limited, and concentrated principally in the woolen goods sector at the expense of the cotton goods sector. Despite an increase from March to June, employment in the regional industry was 8 percent less than a year earlier. Employment at cotton mills has declined rather continuously this year, while that at woolen and worsted mills generally increased with an accelerating trend in the spring. A similar divergent pattern characterized average workweeks. Orders for cotton fabrics were none too plentiful, and some mills cut back operations to a three-day week basis. At woolen mills, on the other hand, order backlogs were generally good and inventory positions sound. Textile imports still posed a problem which the industry was anxious to see solved.

New England *apparel* makers had a poor spring quarter. Work forces declined more than seasonally to a level 3.2 percent below a year ago in June, but yet fared relatively better than the nationwide experience. Average weekly hours worked up close to the year earlier mark. Cautious buying by retailers and cold wet weather hurt business for women's dress manufacturers. Orders for men's wear were below expectations. Despite these disappointments, some producers sensed an order pick-up in late spring.

Production and employment in the *leather and shoe* industry declined seasonally during the second quarter, and were generally less than a year ago. The decline was greater in tanning and finishing than footwear. The early Easter date accentuated the seasonal drop in shoe production in April. This drop relative to a year ago moderated in May and June, and the industry still looks for a total 1961 output in excess of that for 1960. Retail sales improved from late May, and stimulated some pick-up in orders for the factories.

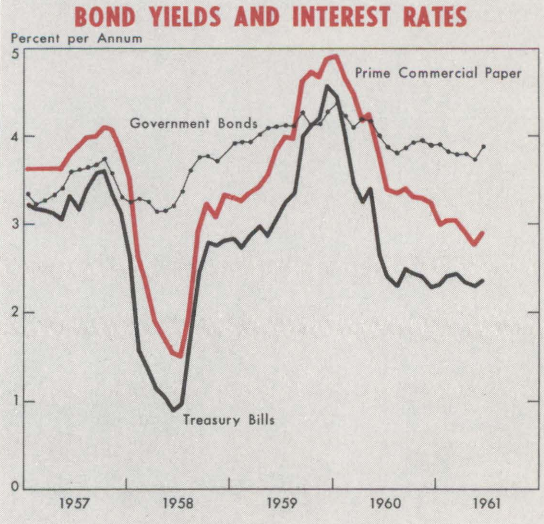
Jewelry producers, particularly those making lower priced costume jewelry, had a rather poor spring season. However, the increased interest of buyers at the spring show in Providence, and suggestions of a reversed style trend from beads to costume jewelry have regenerated some optimism. This industry, like so many others, is coping with increasing competition from imported products.

For New England's *paper and allied products* industry, the second quarter brought only limited improvement from a poor first quarter. Employment and production were generally less than a year ago, and price structures showed symptoms of weakness. Many mills, however, are operating full workweeks, expansion programs are being carried out, and expectations call for an improving second half year.

New England employment at *rubber and plastic product plants* rose during the second quarter, but not up to levels of a year ago. Business improvement in the rubber sector was from a depressed level at the start of the quarter when orders for tires and other products were scarce.

Improvement in New England's *chemical* business showed up in March and is reflected in subsequent gains in production, employment, workweeks, sales and profits. Adequate productive capacity has permitted some price reductions.

BOND YIELDS AND INTEREST RATES

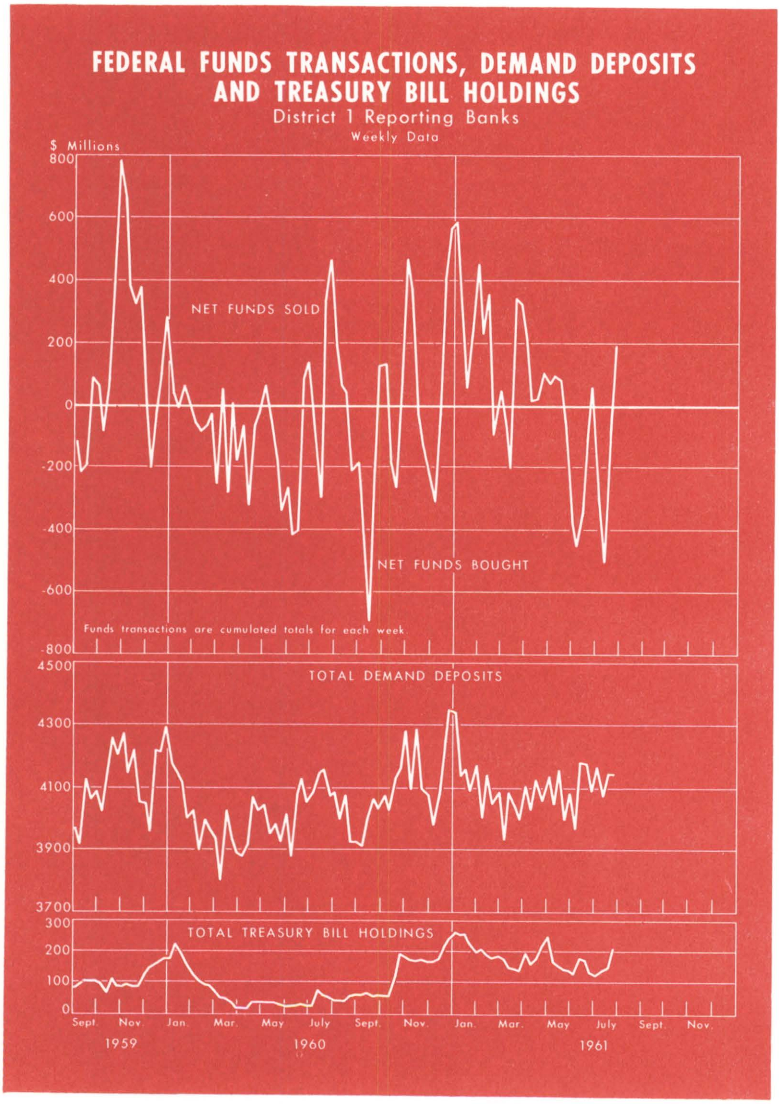


Bank Reserve Adjustment Through Federal Funds

Commercial banks are required to hold a specified reserve against their deposits. Banks which are members of the Federal Reserve System may hold this reserve as a balance with the Federal Reserve Bank or as cash in their own vaults. Deficiencies in reserves may incur a penalty and excess reserves draw no interest. Therefore, many banks follow closely their reserve balances or "money position" from day to day.

Intensive use of money in large amounts offers special problems for the nation's banks, particularly those located in New York and other financial centers such as Chicago, San Francisco, Boston, Philadelphia and St. Louis. The ebb and flow of funds from one region to another give rise to shifting pressures on the banks. Deficiencies in a bank's money position may arise from unexpected losses of funds from deposit swings or possible shifts in balances of large customers. These pressures are reflected in bank reserve accounts which fluctuate between excess and deficient positions.

When deficiencies arise, the bank may follow several courses of action to adjust its reserves. The bank may sell securities, borrow reserves from other banks having an excess, draw upon its correspondent balances, or borrow from the Federal Reserve Bank. Alternatively when a bank has excess reserves it may buy such assets as Treasury bills, commercial paper, or bankers' acceptances; lend funds to banks with deficiencies or to a U.S. securities dealer, or repay borrowing from the Federal Reserve. Choice of action is dictated by a number of factors, chief among which is the current interest rate on the various alternatives, the length of time the funds will be needed or are available, and the convenience. The "Federal Funds" market – the borrowing (purchasing) or lending (selling) of excess reserve balances – has many advantages for daily or weekly adjustment.



Federal Funds means funds which are available for immediate credit for discharging obligations at a Federal Reserve Bank and include actual balances at these banks or checks issued or drawn upon a Reserve bank or the Treasurer of the United States.

The market for Federal Funds is a unique feature of the American unit commercial banking system. It began its development in the early 1920's and has become more important and widely used during the period of the 1950's. National in scope today in contrast to the strong regional character of the market in past periods, it is currently an important part of the complex of interbank relationships which tie the units in the American structure into a cohesive banking system.

At the present time some 300 banks in the nation trade funds, the daily average ranging between $1 and $2 billion. The market is centered in New York but plays an important role in all Federal Reserve districts. Boston for instance was one of the first markets to develop during the 1920's, and the region's banks today continue to be relatively important participants in the market, with some 25 to 30 of the larger banks classified as regular traders.

Commercial banks have dominated the volume of trading in recent years although other institutions have made steady if less important use of the market. The immediate availability of reserves provided by the Federal Funds market makes possible a closer adjustment in bank reserve positions and a somewhat greater flexibility in management of bank assets. Government securities dealers also use the market because the great bulk of their transactions are settled in Federal Funds. The form of the transaction in funds has been influenced to some extent by the nonbank participants in the market. Transactions among banks are generally unsecured and run only for a day. Transactions of banks with dealers are generally made in the form of "repurchase agreements" or "buy backs" which involve government securities as collateral.

Mechanics of Trading

The mechanics of trading among the banks are relatively simple. Instructions by telephone or telegraph are given to the Reserve bank to transfer funds from the selling bank's reserve account to the borrowing bank's account, with reversal of the entries the following day. The transaction may be arranged by a broker or by direct communication from one bank to another by telephone or commercial bank wire followed by an exchange of confirmations. A member firm of the New York Stock Exchange maintains a clearing desk in regular daily contact with both buyers and sellers of funds. The firm does not deal as a principal. A few large banks in New York and some other principal cities commonly referred to as "accommodating banks" will trade funds on both sides of the market during the same day. They buy and sell funds to meet their own reserve needs but in addition provide or absorb funds as a service to correspondents and others.

The relative amounts of offers and requests for Federal Funds each day determine the interest rate on the transactions. As in other financial markets, the "price" or funds rate fluctuates during the course of the day. The ceiling rate is generally the Federal Reserve discount rate, since borrowing banks can cover their reserve deficiencies at this rate rather than paying more in the Federal Funds market. The floor rate tends to be near zero at times when funds are plentiful relative to demands. Because these loans are only for a day, the gross return is quite small, for example, just over $55 for a $1 million sale when the rate is 2 percent. Small transactions would therefore not be profitable due to the transaction costs involved, so the market is limited to large amounts, generally $1 million or more although smaller transactions are made under certain conditions.

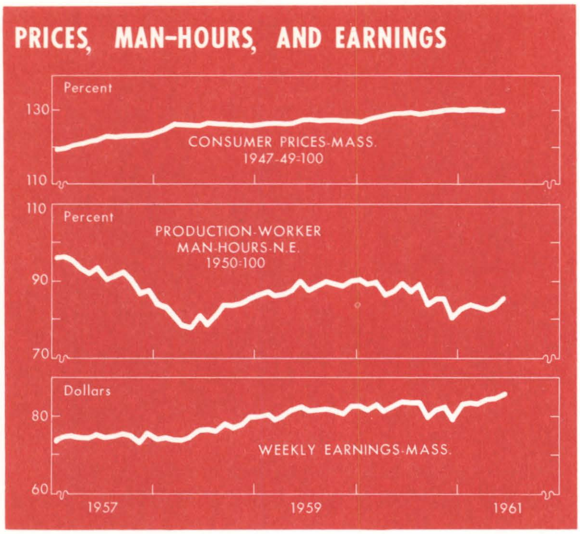
Reserve Adjustments— First District

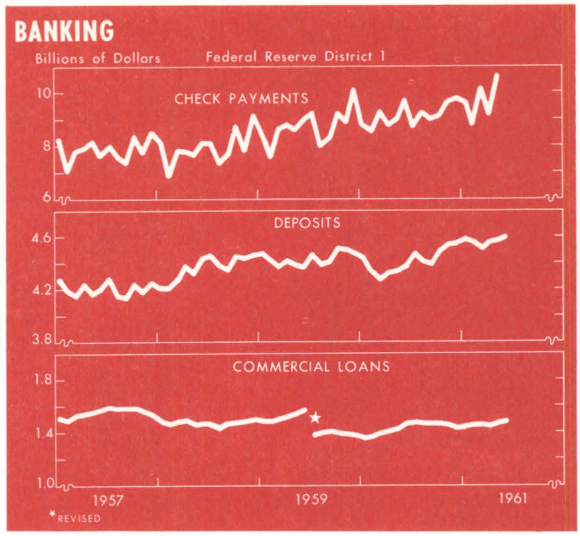
The chart on page 6 shows how weekly reporting banks in New England have used Federal Funds and Treasury bills in offsetting reserve fluctuations caused by short run deposit shifts as well as seasonal deposit flows. The basic level of demand deposits of the region's reporting banks has remained about unchanged since September 1, 1959, the period covered by the data. Seasonal changes, however, were substantial. Deposits rose about 10 percent in each of the last quarters of 1959 and 1960, and declined about an equal amount in each first quarter of the following years. In the second and third quarters seasonal changes have been more moderate.

Variations in Treasury bill holdings of District banks roughly match the seasonal changes in demand deposits. Most of the region's banks thus meet most of their seasonal and longer term reserve adjustments through outright purchases and sales of Treasury bills.

Net Federal Fund purchases and sales show a greater amount of week-to-week fluctuation than bill holdings or deposits. Their average level, however, corresponds to the general fluctuations in deposits and pronounced peaks and troughs in deposits are usually matched by Federal Funds transactions. Purchases and sales of funds are generally preferred for meeting short-term fluctuations in deposits particularly within reserve periods. There is no spread between buying and selling prices and no risk of price change as in the case of Treasury bills. At times the "turn-around cost" – spread between buying and selling prices of bills – may absorb the interest earned.

There appears to be some substitutability between bill holdings and Funds transactions. In the fall of 1959, for example, bill holdings did not match the inflow of deposits, and Federal Funds were sold in substantial amounts. By contrast, in the fall of 1960 bill holdings rose fairly sharply while Funds transactions were about at a balance between net sales and purchases. In the first half of 1961, deposits declined less than in the same period of 1960 and this was reflected in both a higher level of bill holdings and net sales of Federal Funds.





MANUFACTURING INDEXES (seasonally adjusted)	MASSACHUSETTS (1950–52 = 100)			NEW ENGLAND (1950–52 = 100)			UNITED STATES (1957 = 100)		
	June '61	May '61	June '60	June '61	May '61	June '60	June '61	May '61	June '60
All Manufacturing	120	114	125	122	116	124	110	108	110r
Primary Metals	106	105	94	102	98	90	92	90	88r
Textiles	48	48	50	69	68	71	n.a.	109	115r
Shoes and Leather	131	142	129	128	135	129	n.a.	n.a.	104
Paper	110	107	111	129	123	131	n.a.	117	112r

	NEW ENGLAND	Percent Change from:		UNITED STATES	Percent Change from:	
	June '61	May '61	June '60	June '61	May '61	June '60
BANKING AND CREDIT						
Commercial and Industrial Loans ($ millions) (Weekly Reporting Member Banks)	1,481	+ 1	+ 2	31,538	0	+ 1
Deposits ($ millions) (Weekly Reporting Member Banks)	4,600	+ 1	+ 5	116,330	+ 1	+ 8
Check Payments ($ millions) (Selected Cities)	11,161	n.a.	n.a.	296,673	n.a.	n.a.
Consumer Installment Credit Outstanding (index, seas. adj. 1950–52 = 100)	264.3	0	+ 5	285.5	+ 1	+ 2
TRADE						
Department Store Sales (index, seas. adj. 1947–49 = 100)	136	+ 2	+ 5	149e	+ 4	+ 3
Department Store Stocks (index, seas. adj. 1947–49 = 100)	155	+ 2	+ 5	164p	0	− 1
EMPLOYMENT, PRICES, MAN-HOURS, & EARNINGS						
Nonagricultural Employment (thousands)	3,737	+ 1	0	53,254	+ 1	− 1
Insured Unemployment (thousands) (excl. R. R. and temporary programs)	150	−14	+22	2,085	−13	+28
Consumer Prices (index, 1947–49 = 100)	130.3 (Mass.)	0	+ 1	127.6	0	+ 1
Production-Worker Man-Hours (index, 1950 = 100)	85.8	+ 3	− 4	95.2	+ 3	− 4
Weekly Earnings in Manufacturing ($)	85.75 (Mass.)	+ 1	+ 3	94.24	+ 1	+ 3
OTHER INDICATORS						
Construction Contract Awards ($ thous.) (3-mos. moving averages Apr., May, June)						
Total	175,356	+ 6	+ 5	3,454,345	+ 5	+ 2
Residential	85,157	+ 9	+11	1,518,924	+ 4	+ 3
Public Works	27,066	0	+21	627,718	+ 1	+ 2
Electrical Energy Production (index, seas. adj. 1947–49 = 100)	232	+ 1	+ 7	286	− 1	+ 7
Business Failures (number)	57	− 1	+ 8	1,403	− 9	+ 5
New Business Incorporations (number)	941	− 7	−10	16,485	+ 1	− 1

r. = revised
n.a. = not available
p = preliminary
e = estimate