New England

BUSINESS REVIEW

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REVIEW OF THE FIRST QUARTER:

In Search of a Trend

How good was business performance in the first quarter of 1963, and what was its trend? Analysts for the most part would readily concur that aggregate business performance was in very good volume although many would contend that it could have been even better. But they were still perplexed in their search for a clear-cut trend running through the maze of rising and declining statistics to serve as a guide for future expectations.

Many over-all measurements of performance, such as gross national product, industrial production, employment, incomes, and retail sales, indicated an economy operating at or close to record levels. Even at these high levels, however, there were still considerable unutilized resources in the form of a continuing high rate of unemployment and excess productive capacity in some industries.

Until late in the quarter, week-to-week or month-to-month changes in these and

(Continued on page 2)

Also

other statistical indicators presented a mixture of gains and losses, seemingly without consistent pattern. It was a continuation of the patternless movements which over the last half of 1962 led to use of the terms "sluggishness" and "stagnation." In such a confusing picture, determination of an underlying trend was difficult and forecasts increasingly uncertain. Toward the end of the quarter, a greater proportion of favorable statistics pointed to a more decisive upturn.

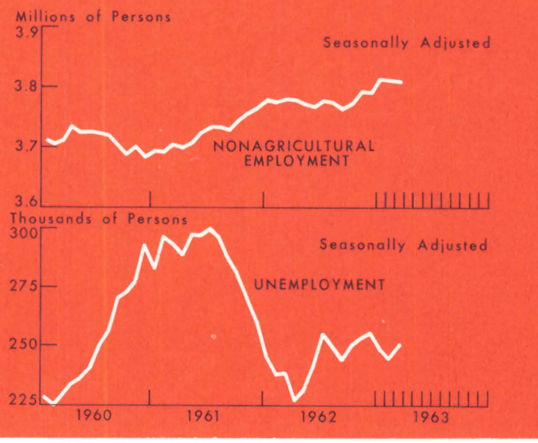
These same attributes show up in business developments in New England during the first quarter. Over-all performance was good. Yet statistics of individual economic factors and reports from individual industries ranged from good through indifferent to bad, and search for a guiding trend was difficult.

From first quarter ***employment*** data for New England, one can make either gratifying or discouraging findings. The 3,710,200 workers reported on nonfarm payrolls in mid-March represented a decline of somewhat less than seasonally expected magnitude from December, and a 0.1 percent net gain from a year ago. Yet this is very small compared to the 1.8 percent national gain over the same period, and to 12-months' gains of 2.0 percent or more for New England employment at times during 1962.

Employment trends, aside from temporary seasonal movements, continue to reflect a shift of relative strength between industry groupings. Data for March as compared to a year earlier show a 1.3 percent net gain in nonmanufacturing, a 1.0 percent net loss in durable goods manufacturing, and a 2.3 percent net loss in nondurable goods manufacturing. In the latter category, employment in the textile and leather products industries over the 12-month period suffered a contraction of 4.3 percent or 9,600 workers.

The estimated unemployment rate in New England declined slightly from 5.6 percent in December to 5.5 percent in March, seasonally adjusted. However, the number drawing unemployment compensation during the quarter averaged about 10 percent more than a year ago. Moreover, during the quarter estimated unemployment rates rose above 9 percent in the Brockton and Fall River areas, and the U. S. Bureau of Employment Security in March classified 9 of the 17 major labor market areas in New England as having substantial labor surplus.

New England employment in 1963 has changed only seasonally, but employment fluctuated.



Average factory workweeks, of course, varied by industry and state. Seasonally adjusted averages for New England were estimated at 40.6 hours in January and February, but down to 40.1 in March.

Man-hours worked by factory employees are influenced by changes in both manufacturing employment and average factory workweeks, and constitute one factor in estimates of manufacturing production. The seasonally adjusted index of production worker man-hours in New England declined 0.8 percent from December through March.

Industrial consumption of ***electric power*** is another indirect indicator of manufacturing production. On a seasonally adjusted index basis, this continued its generally upward trend, and in March was 3.8 percent higher than a year ago.

An expanding trend in the flow of ***new orders*** was noted by 31 percent of reporting members of the New England Purchasing Agents Association in March, somewhat better than the 27 percent so reporting in December. The index of orders for the Associated Industries of Massachusetts, compared to values of a year earlier, was down 3.5 percent for December, up 0.1 percent for January and up 3.0 percent for February.

Capital expenditure plans of New England manufacturers, as disclosed in this Bank's annual survey, indicate that total 1963 spending for new plant and equipment will exceed that for 1962 by about 4 percent.

New England ***construction*** contract awards for the first quarter as reported by F. W. Dodge Corporation were 36 percent less in total value than the abnormally large total for a year earlier. A single large highway contract in the 1962 period accounted for most of the over-all decline, and led to a 67 percent relative decline in the nonbuilding component. Nonresidential building contracts for the quarter also totaled 11 percent less than a year earlier. Residential contracts showed a relative gain of 2 percent.

Meanwhile, active construction in the region continued in visibly impressive volume, mortgage funds were generally in ample supply at moderate interest rates, and most builders and lenders noted little evidence as yet of overbuilding in New England such as is causing concern elsewhere.

Consumer spending has been one of the more consistently bright spots in the New England economy. Department store sales during the quarter averaged 4 percent higher than a year ago, with relative declines appearing in only three weeks. By departments, sales of apparel were particularly strong, while those of accessories and house furnishings were relatively weaker. Basement sales were well maintained. Revolving credit sales gained relative to other types of sales. Compared to a year ago, February 28 inventories were up 3 percent and outstanding merchandise orders up 9 percent, the latter perhaps buoyed by optimism in sales expectations and by the earlier 1963 Easter date. Despite increases in charge and instalment accounts receivable, satisfactory collection ratios were maintained.

Automobile dealers' sales were sustained in unusually good volume, with January and February registrations of new cars in the six states up 12 percent from a year ago. Keen competition, however, was limiting dealer profits and inducing some further liberalization of instalment credit terms.

Winter vacation business benefited from unusually heavy snow accumulations on northern New England ski slopes, so that resort operators were able to report 8 percent more guest night patronage for the season than during the previous season. Prospects for the summer season at private camps for boys and girls seemed auspicious as advance registrations received through February totaled 3 percent ahead of last year's pace.

The *banking and credit* environment for business was not greatly altered from late 1962. In general, funds continued to be freely available at moderate interest rates. Inflow of new saving expanded balances at mutual savings banks and savings and loan associations in the region at an annual rate of nearly 10 percent. Time and savings deposit balances at weekly reporting member banks in the First Federal Reserve District were in late March 17 percent greater than a year earlier. Free reserves at member banks averaged somewhat over $300 million on a nationwide basis during the quarter.

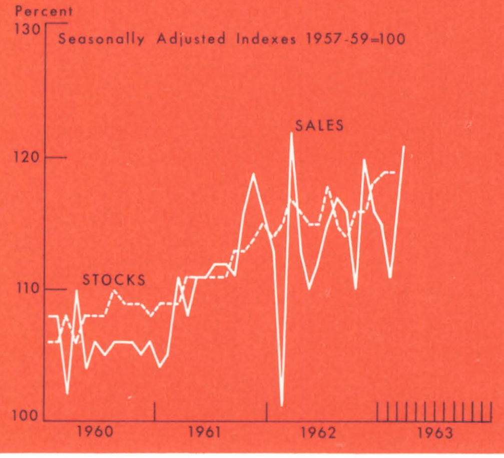
Outstanding business loans at District member banks experienced a sharper than seasonal decline in January from their late 1962 surge, but recovered strongly in February and March. Ample funds were available from various types of lenders for the further expansion of real estate credit. This Bank's index of consumer instalment credit outstanding in New England was 8.5 percent higher at the end of March than a year earlier.

Typical interest rates, little changed during the quarter, show a 3 percent discount rate at this Bank, yields of about 2.9 percent on new 3-month Treasury bills, a 4.5 percent rate for prime business loans at commercial banks, and a range from 5¼ to 6 percent for conventional residential mortgages.

Farm receipts in New England remained about the same as last year, while expenses were higher. Dairymen especially were experiencing the pinch of higher grain prices and the effect of a short hay crop which required many to purchase hay. Maine potato producers suffered severely from continuing depressed potato prices little better than those of a year ago. Southern New England producers, closer to markets, suffered somewhat less severely.

The production of *transportation equipment* has recently been one of New England's stronger manufacturing industries, with a growth of 4,300 employees in the 12 months through March. Work on helicopters, aircraft engines and parts,

New England department store sales rebounded sharply in March.



Easter Sales Gain Modest

New Englanders spent more money in the region's department stores during the past Easter shopping season than in any previous one. The gain was modest, amounting to only 1 percent, but sufficed to establish this year's season as the record-holder. Nonetheless, some grumbling was heard on the part of the region's merchants and analysts of consumer behavior. Larger gains had been expected because the year's sales to the beginning of the Easter season exceeded 1962 levels by 5 percent.

Sales started slowly the fourth week before Easter, trailing 1962 volume by 5 percent. During the next two weeks, the sales pace accelerated rapidly with gains of 5 and 6 percent, so that the gain for the season exceeded 2 percent when the week before Easter began. The weather up to this point had favored shopping and encouraged the idea of a warm Easter. Slightly cooler temperatures set in during the final week, however, and the likelihood of warm weather for the traditional fashion parades dimmed. Sales slowed and fell 2 percent short of the record Easter week volume achieved in 1962, cutting the gain for the season to 1 percent.

Sales in Quincy, Lowell, and Downtown Boston failed to match the records set in 1962. Sales gains in other parts of the suburban Boston area, including Cambridge, more than offset these losses and resulted in a 1 percent gain for the whole metropolitan area. For other stores in the region, combined sales were 2 percent larger than a year ago.

Gains were recorded in sales of infants', children's, and girls' clothing, while sales of boys' clothing lagged. Men's clothing sales achieved modest gains but sales of women's and misses' apparel and accessories failed to challenge last year's record volumes. Basement store sales were only slightly better than those in the upstairs stores. Sales of home furnishings, usually slow during the Easter season, were up 5 percent from a year ago.

The record achieved continues the evidence of stable consumer spending but the modest size of the gain disappointed those looking for an indication of an outburst of consumer enthusiasm for spending to accompany the arrival of spring. Post-Easter sales have continued this trend of slight gains over year-ago levels.

and submarines has provided most of the new strength. Automobile assembly operations were still very busy. Activity at the region's major shipyard was limited because of insufficient orders.

The *nonelectrical machinery* industry also has added to the strength of the region's economy. March employment was 800 over a year ago, although recent gains have been below seasonal expectations. Average weekly hours have recently been rather stable around 41.7 hours, seasonally adjusted. Business conditions vary among sectors of the industry. Orders for machine tools have picked up rapidly, but not to 1961 levels, and some further contraction in orders from abroad is likely.

From New England's *electrical machinery* industry, reports and statistics were less bullish despite recent advances in the output and uses of electronic products. Employment in March dropped to 7,200 or 4.4 percent below a year ago, although there was a partially compensating rise in average weekly hours worked. Many firms reported declining orders. Current overcapacity in the industry has led to keep competition, some price shading, and reduced profits.

Employment in the region's *primary metals* industry was still running about 5 percent below a year ago in February. It should be recognized, however, that operations at that time had been stepped up in anticipation of a 1962 steel strike. Operations have resumed at the pipe foundry closed last fall by strike. Textile machinery foundries have been quite active. Business at brass mills has held up better than anticipated by industry spokesmen.

At New England plants manufacturing *lumber and wood* products, early 1963 work forces had experienced less than the usual seasonal contraction and averaged slightly above a year ago. As some producers of eastern white pine were snowed in, dry stocks were in short supply and commanded higher prices.

New England *furniture* producers in the first quarter seemed more successful in maintaining last year's high volume of business than those elsewhere. March employment was close to that of a year ago, as some of the region's producers benefited from increasing orders for early American solid furniture.

Although March *textile* mill employment in New England still recorded a 12-months' net loss of 4,700, a more than seasonal improvement in employment and average weekly hours appeared in progress. Inventory positions were generally considered sound, and many mills reported a pickup in orders. In the cotton mill sector daily average spindle hours and cotton consumption were increasing. In spite of the currently better outlook, operators must still reduce costs to compete with the lower prices of imported fabrics.

Business for New England *apparel* manufacturers started slowly in 1963, but improved distinctly by late March. Increased retail interest in fall and winter samples, coupled with their relatively low inventories, offer prospects for a busy fall season for producers.

New England *shoe* manufacturers noted a deterioration in business commencing last November. Employment in March, despite seasonal strength, was 4,900 less than a year ago, while first quarter output is estimated to be down by 6 percent. Competition from low-priced imported shoes has become a critical threat to domestic producers who at the same time are losing some export markets. Shoe prices have remained rather stable as hide prices have declined and labor costs have risen.

First quarter business was disappointing for *jewelry* manufacturers, particularly for makers of less expensive costume items. Employment in the first two months of the year slipped 7 percent below a year ago. Profits in this as well as the silverware industry have been adversely affected by the rising price of silver.

Paper mills in the region were generally busy in early 1963, with operations averaging about 90 percent of capacity, although newsprint producers felt the effect of the strike in New York. Employment was off slightly from a year ago, and some price reductions developed.

At *chemical* plants in New England, employment and average workweeks, seasonally adjusted, declined somewhat in the quarter. Prices remained generally stable, and a rising inflow of orders gave hope to the industry.

At the region's *food processing* plants, total work staffs and average workweeks registered increases in the quarter over a year ago. Higher prices of refined sugar meant higher costs for producers of candy, ice cream, and soft drinks.

New England's *rubber products* industry experienced a slowdown from its rapid growth rate of 1962, with orders declining and with March employment slipping below that of a year ago.

Skiing Growth Continues

The rapidly growing ski industry reached new highs this past winter. Measured by the number of guests at New England's vacation lodging places, the 1962-63 season of December through March was 8 percent greater than the previous record set a year ago. The index of lodging occupancy rose to 244 (the 1949-50 ski season occupancy = 100).

Lodging business ran consistently better than year-ago totals in each of the four months, with gains of 7 to 9 percent. Gains might well have been even larger had weekend weather in December and January been more favorable to travel by car. Instances were few during the season when skiing conditions could not be classed as "good to excellent." Many area records for skiing were set.

In addition to good snow cover in most ski areas, improved and expanded ski facilities, new areas, improved access, good highway clearing work, more plans to stimulate midweek business, and snow-making equipment all helped to make the season a record success. All these factors served to increase the interest and enthusiasm of the growing number of people seeking recreation out-of-doors in the wintertime. Our data do not tell the full story inasmuch as they only cover people staying overnight in the ski country. Many more drive up for a day's skiing and then return home. Also a growing number own vacation cottages in ski areas, and numerous ski clubs own or rent lodgings for the season.

Ski lodgings in all areas reported gains over last year. Only in western Massachusetts did the gains not shatter previous records. There the volume of business was only 1 percent lower than the 1959-60 season total. Hotels and inns recorded a gain of 8 percent while the tourist group catered to 9 percent more guests than a year ago.

The industry continues to grow rapidly and is also gaining stability through the addition of snow-making equipment, smoothing of slopes, and stimulation of midweek business. Package plans, reduced midweek rates, activities in addition to skiing, and expanded après-ski entertainment are all measures taken in this direction. With the success of the past season and the continued growth of interest in skiing, plans are already being made to expand facilities for next year's season.

People in New England

New England's population growth rate was higher in the past decade than any period since the 1910's, and recent projections indicate that the rate will continue to increase in the 1960's. This advance in the region's growth reflects the high postwar birth rate characteristic of the Nation as a whole. It also reflects a resurgence in the region's economy. New employment opportunities have induced people to stay in the region.

The population growth in the region still remains below the national average. Compared to the 13 percent increase in New England from 1950 to 1960, the Nation's growth was 18 percent. But this disparity is no new development — New England has always had a slower rate of population growth than the Nation. The causes are several. The early preponderance of urban population in the region accounted in part for its lower than national birthrate. Also contributing to this were the young people who left the region in pursuit of broader economic opportunities. In addition, the region's higher than average death rate slowed population growth.

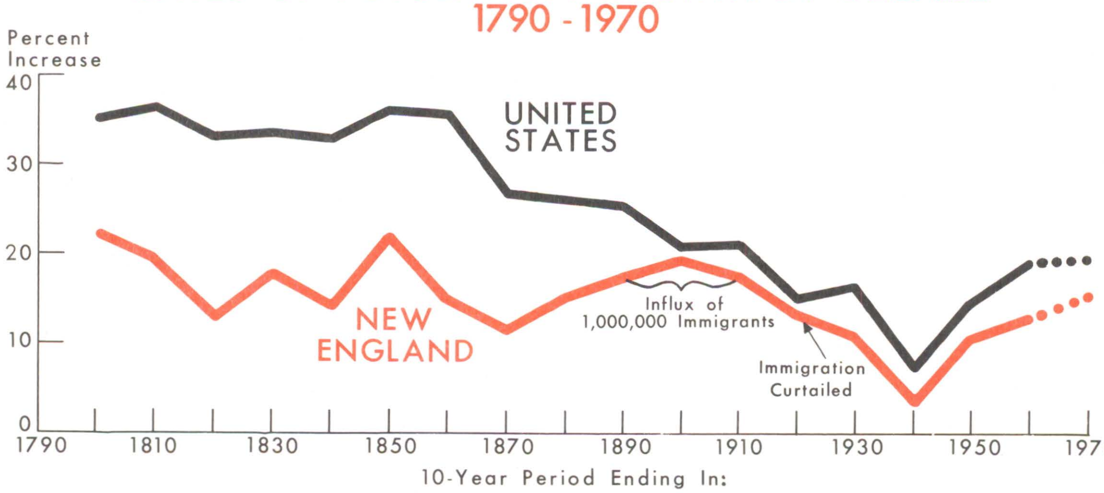
The Historical Record

From 1790 to the Civil War the population of the Nation increased by about one-third every decade. New England's growth rate in this same period averaged about 18 percent per decade, and it fluctuated more than that of the Nation. Early in the 1800's Jefferson's Embargo on imported manufactures helped to establish manufacturing in New England and the tariff of 1816 protected this infant industry. Later the opening of the Middle West by canals and railroads brought a decline in New England agriculture.

After the Civil War New England had a period of rising growth based largely on its expanding production of textiles, shoes, and industrial machinery. A large number of foreign immigrants found jobs in these industries. The biggest surge in immigration occurred in the 1890-1910 period when New England gained over a million foreign-born persons. The decade of the 90's is also the only period in the last hundred years with a net influx of native-born people as seen in the table on the next page.

Although Federal legislation curtailed immigration after World War I, foreign-born people continued to come to New England. In addition to job opportunities, they were attracted because of the presence of others who shared their social customs, religion, and language. One interesting result is that except for New York, no part of the country has a

RATES OF POPULATION GROWTH BY DECADE 1790 - 1970



1970 — Projected by the Bureau of the Census and the Federal Reserve Bank of Boston.
SOURCES: U.S. Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1957 and Statistical Abstract of the United States, 1962.

proportionately larger foreign population. Of all the regions of the country, New England is the best example of a melting pot of nationalities. The foreign-born are relatively more numerous in the region's southern states and are largely from European countries. In Maine, New Hampshire, and Vermont, Canadians predominate in this group.

NET INTERCENSAL MIGRATION — NEW ENGLAND

1870-1940
(thousands)

	1870-80	1880-90	1890-00	1900-10	1910-20	1920-30	1930-40
TOTAL NET MIGRATION	141	403	494	496	298	28	—43
Native-White	—67	—33	+22	—80	—53	—190	—23
Foreign-born White	204	429	458	569	339	211	—26
Negro	5	7	15	8	12	7	5

Note: Because of rounding, details may not add to total.
Source: Lee, E. S. et al., *Population Redistribution and Economic Growth: United States, 1870-1950*, Vol. I.

During the 1920's growth was also slow because the South cut into the textile market. The low point was reached in the 1930-40 decade, when New England's growth was only 45 percent of the Nation's.

Since then the differential has narrowed. In the decade just past the region's growth was 69 percent of the national rate. Recent Census Bureau projections suggest, as shown in the table on page 8, that the region's growth for the 1960-70 period will be 80 percent of the Nation's.

Sources of Population Growth

The rate of increase in the population depends on the excess of births over deaths plus the extent of in- or outmigration.

New England's birth rate is slightly below the national average. In 1960, the number of births for each 1,000 in the population was 22.5 in New England as compared with 23.7 in the Nation. This lower birth rate is explained in part by the relatively smaller proportion of rural population in the region. Rural families have more children than urban families and the region's proportion of rural population is about one-fifth less than the Nation's. Another reason for the smaller number of births is the age distribution of the population. Because younger people have migrated from the region, the percentage of women of childbearing age is slightly lower than the national average.

New England's higher than national average death rate also curtails population increase. The last available figures (1959) for the number of deaths for each 1,000 people show that they were 10.7 in New England and 9.4 in the United States. One reason is that the region has proportionately more older people than the Nation. Also New England has a higher proportion of foreign-born than the rest of the country, and foreign-born persons typically do not live quite as long as native-born.

On Balance, Few Leave the Region

While foreign immigrants have come to New England and generally remained here, native-born white persons have been leaving New England. The most mobile part of this group are people in their twenties and thirties. Most of them have a high school education, speak good English, have learned basic skills, and are readily accepted in all parts of the country. They have the choice of taking higher paying jobs in other sections of the country. In recent full employment decades (the twenties, the forties, and the fifties), 5 to 10 thousand native-born whites aged 20 to 40 moved out each year. But compared to the average 2 million or more New Englanders in this group the total outmigration was small.

During these decades, Connecticut was the region's only state to which native-born white persons were consistently attracted. On the other hand, every New England state attracted young foreign-born adults. For the region as a whole, the foreign-born moving in about counterbalanced the native-born moving out.

Much of New England's total increase in population has taken place in Connecticut and particularly in Fairfield County. This county, however, cannot really be considered part of the New England "economic region." It is in the active growth fringe of metropolitan New York. Its population increased 30 percent from 1950 to 1960, and in

Reprints of "Federal Open Market Operations in 1962," a report by Robert W. Stone, Manager, System Open Market Account and Vice President of the New York Federal Reserve Bank, are available on request from this Bank's research department.

1960 it accounted for 12½ percent of the region's increase in population. If this county were excluded, New England would have had a net outmigration of about 55,000 in the 1950's and a much smaller inmigration in the 1940's. Without this area almost no net movement of population in or out of New England has taken place since 1920.

Population Movements Within the Region

Compared with the sluggish migration between New England and other regions, the movement of people within the region was brisk.

These movements have been from the northern to the southern states, from small towns to larger towns and cities, and from central cities in metropolitan areas to the suburbs. From 1950 to 1960 the population of the three southern states increased by 14 percent while that of the three northern states increased only 8 percent. Connecticut had the largest rate of increase — 26 percent — and Vermont had the lowest — 3.8 percent. In the three northern states, urban places with a population from 2,500 to 5,000 declined in population from 1950 to 1960.

Differing wage rates and job opportunities in various parts of the region in part explain these changing population patterns. In New England as in the United States more high wage opportunities exist in larger urban centers than in small towns. Furthermore, wages tend to be higher in Connecticut than in the other states of the region, and higher in Massachusetts than in the three northern states.

Unemployed persons in northern New England usually have difficulty in finding acceptable jobs nearby. Cities such as Burlington, Vermont and Portland, Maine offer some opportunity. But many young people faced with limited opportunities at home have migrated to southern New England.

In the region's metropolitan areas the population of core cities declined by 3.7 percent from 1950 to 1960 while areas outside the core cities increased by 28 percent.

The Future

In 1959 the Federal Reserve Bank of Boston published a series of economic projections which showed an expected population growth in New England of 10.2 percent from 1960 to 1970 (table below). These projections were substantially the same as those issued by the Census Bureau at that time.

Recently the Census Bureau has produced with the benefit of 1960 Census Data a series of revised state population projections. These vary depending on what assumptions are made about the number of children who will be born, and the number of people who will move from state to state. A middle projection assumes that the birth and migration rates will remain about the same as during the last decade. It suggests a 15 percent gain for New England from 1960 to 1970.

The recent Census projection was based on the number of children under five years of age per 1,000 women of childbearing age during the 1955-57 period, while the Bank's 1959 study used these figures for 1950-55. This change accounts for much of the difference in the two projections for the region as a whole.

The Bank's study based its net migration estimates on the 1940-55 period while the Census used the migration figures for 1950-60. This difference accounts in part for the higher forecasts for Connecticut and New Hampshire. The more recent data also suggest that outmigration from the other New England states in the region will be larger than expected in 1959.

Both projections assumed that people would live somewhat longer during the next ten years.

Altogether the new Census projections using 1960 data indicate a further increase in the region's total population in the next decade. The shift within the region — particularly to Connecticut — will probably be greater than previously forecast by this Bank.

1970 POPULATION PROJECTIONS

	OLD[1] (000)	NEW[2] (000)
NEW ENGLAND	11,380	12,129
Maine	1,018	1,046
New Hampshire	655	698
Vermont	404	406
Massachusetts	5,595	5,799
Rhode Island	943	944
Connecticut	2,766	3,235

[1] Federal Reserve Bank of Boston, Research Report 1970 Projection No. 5.
[2] Unofficial Census Bureau projections Series II 2, May 1961. Assumptions for births, mortality and migration are closest to those of the Bank.

Outlays Up Slightly

New England manufacturers plan to up capital outlays 4 percent above last year's level to $656 million this year. If realized, this year's percentage gain will match that recorded last year.

Present plans are strongly influenced by the relatively small gain, 4 percent, expected in sales this year, and by the excess capacity which still prevails in the region. New England manufacturers are operating at 78 percent of capacity, up only 1 percentage point from the rate a year ago. This is considerably short of their preferred operating rate of 91 percent of capacity.

Durable goods producers, after raising their outlays by a fifth last year, foresee increasing spending by only 2 percent in 1963. Nondurable goods manufacturers, on the other hand, plan a 7 percent increase this year, after cutting outlays back by more than a tenth last year.

Tentative plans for 1964 call for outlays 15 percent below the amount planned for this year, but estimates tend to be low when made so far in advance. Moreover, four industries, including the expanding instruments and plastic products industries, already anticipate spending more next year than they are scheduling for 1963.

These forecasts are based on reports to the Federal Reserve Bank of Boston in February and March of this year from 909 firms which account for 30 percent of manufacturing employment in the region.

With capacity considerably in excess of current needs, the emphasis continues to be on installation of modern machines to cut costs. Purchases by New England manufacturers of new machinery and equipment will increase by a tenth this year, while outlays for new buildings will fall by 15 percent.

Moreover, an increasing proportion of outlays are going for replacement of existing plant and equipment, rather than expansion of facilities. In 1957, the first year of the Bank's all New England capital spending survey, outlays were evenly divided between expansion and replacement. Since then outlays have been increasingly allocated to replacement rather than expansion. Plans for this year indicate that this trend will continue. Only one-third of total outlays will go to expanding facilities, while two-thirds will be directed to replacing existing plant and equipment.

Nationally, according to a joint Securities and Exchange Commission-Department of Commerce survey conducted in February, manufacturers plan to increase capital spending 7 percent this year. The national survey indicates the same trend as found in the regional survey; the gain expected this year will equal that registered last year.

The Nation's durable goods producers expect to increase their outlays this year 11 percent over 1962, compared to only 2 percent for the region's durable goods group. However, if expected 1963 spending is compared with 1961 levels, the relative growth in the Nation is comparable with that of the region, both areas showing an increase of nearly a fourth over the two-year period.

Nondurable goods manufacturers in the Nation plan to raise capital outlays by 3 percent in 1963, the same rate of growth as achieved the year before. It is in this sector where the national and regional growth trends diverge.

New England's soft goods producers raised their capital outlays by a tenth between 1960 and 1961, while nationally outlays rose by less than 2 percent. A substantial pickup in business in the region's soft goods sector had occurred over this period. Capacity utilization rose from 74 percent at the end of 1960 to 82 percent at the close of 1961.

However, this spring's survey shows that utilization of capacity remained unchanged between 1961 and 1962. Consequently, the region's nondurable goods sector reduced capital outlays last year by more than a tenth to a level slightly below that of 1960. This cutback was foreshadowed in last year's spring survey, as the nondurable goods sector forecast a 1 percent decline from the 1961 level. The greater cut than anticipated stemmed primarily from a downward revision of almost a third in the spending of the chemical and rubber industries.

Current Business Trends

That manufacturers are planning to increase outlays by the same proportion this year as last is not too surprising in view of current business trends. The Federal Reserve Board's index of manufacturing production nationally indicates that output in February was up only 2.8 percent above the same month a year ago. Since last July the index has remained virtually stable, fluctuating between 119.7 and 120.4 percent of the 1957-59 average, after adjustment for seasonal influences.

Increases in new orders and sales have also been relatively small over the past year. Manufacturer's new orders rose 5 percent and sales 4 percent between February of 1962 and 1963.

Inventory buildup, however, is still not a depressing factor on business expansion. Manufacturers are continuing to maintain their inventories at a low level in relation to sales. The current inventory to sales ratio of 1.71 months of sales is equal to that which prevailed in February a year ago, and is considerably below the high of 1.87 months of sales reached in January of 1961.

The national survey indicates that manufacturers anticipate that their sales this year will duplicate last year's performance of increasing 4 percent. New England manufacturers expect this same rate of sales increase. Anticipations differ between the region and the Nation, however, when comparisons are made by industrial sector. Nationally both the durable and nondurable goods sectors expect to equal the average gain for all manufacturing. In New England, on the other hand, durable goods producers anticipate only a 1 percent gain in sales, while nondurable goods manufacturers look for a 6 percent increase. Producers of textiles, rubber, and chemical products in New England all expect a gain in sales above the relative increase expected in these industries nationally.

Only 7 percent of the respondents in New England's nondurable goods sector expect sales to fall below 1962 levels, while 12 percent of the participants in the durable goods group believe sales will fall.

Durable goods producers in New England are operating, on the average, 15 percent below their preferred rate of capacity utilization. Important capital using industries such as primary metals and electrical machinery are operating at an even greater distance from their preferred rates.

Industry Trends

The largest dollar increase in investment within the region's durable goods sector this year will occur in the transportation equipment industry. Its outlays will advance by $10 million or 24 percent. This is the same rate of increase as expected nationally in the nonautomotive sector of this industry where the region's activity is concentrated. More than four-fifths of the added spending in the region will go to replacement of existing facilities as the industry seeks to keep pace with changing technology. Indicating an advance in business, employment has increased 5 percent since last July in the region's transportation equipment industry.

CAPITAL SPENDING PLANS OF NEW ENGLAND MANUFACTURERS

	Total Expenditures		
	1962 Actual ($ Millions)	1963 Planned ($ Millions)	Percent Change From 1962
ALL MANUFACTURING	629.6	656.4	+ 4
DURABLE GOODS	360.9	368.2	+ 2
Primary Metals	42.6	35.2	—17
Fabricated Metals	73.4	74.5	+ 2
Machinery	67.2	69.8	+ 4
Electrical Machinery	67.4	70.2	+ 4
Transportation Equipment	41.5	51.3	+24
Instruments	19.1	23.1	+21
All Other Durables	49.7	44.1	—11
NONDURABLE GOODS	268.7	288.2	+ 7
Food	37.3	46.3	+24
Textiles	39.6	38.4	— 3
Paper	63.4	73.4	+16
Chemicals	24.2	28.8	+19
Rubber and Plastics	38.5	38.5	——
Shoes	15.9	15.4	— 3
All Other Nondurables	49.8	47.4	— 5

Both New England's electrical and nonelectrical machinery industries plan to increase outlays by 4 percent this year. This is in contrast to an expected 4 percent decline in outlays nationally for these industries. The region's nonelectrical machinery industry has been showing a relatively stronger performance than the national industry since the 1960-61 business downturn.* Capacity utilization increased from 75 percent in 1961 to 80 percent last year. Recent reports on incoming orders to regional machinery producers indicate that capacity utilization should increase even further this year.

New plant outlays will account for all of the increase in spending this year in the electrical machinery industry. On the average, respondents in this industry expect sales to increase by only 2 percent this year. However, it is the pessimism of the communication equipment sector which depresses the average. All other sectors of the industry anticipate a 6 percent gain in sales this year.

The largest cutback in spending within the durable goods sector is anticipated in the primary metals

*See "Nonelectrical Machinery — A Leader," *New England Business Review*, February, 1963.

industry. Outlays are expected to fall 17 percent from the 1962 level, as both plant and equipment purchases will be cut back substantially. Capacity utilization fell from 73 percent in 1961 to 70 percent last year in the regional industry. Sales this year are expected to remain unchanged from 1962 levels. Consequently, primary metal producers are cutting their capital outlays for expansion purposes by two-fifths this year. Outlays for replacement, on the other hand, are expected to rise by a tenth as this industry strives to become more competitive and enlarge its markets.

Within the nondurable goods sector, the region's paper producers plan a $10 million, or 16 percent, increase in capital expenditures this year. Both plant and equipment purchases are scheduled to expand by this proportion. A 4 percent gain in sales this year is anticipated by the region's producers. Capacity utilization increased slightly last year to 86 percent, well above the average for all manufacturing and within 11 percent of the paper industry's preferred operating rate.

The chemical industry is another of the region's soft goods industries planning a substantial increase in outlays this year. It expects to advance spending 19 percent over 1962 levels, but this will still be 25 percent short of the 1961 level. Nationally this industry foresees a rise of 8 percent in outlays this year. Both nationally and regionally this industry expects a relatively greater rise in sales than for any other manufacturing industry. Regional producers expect a rise in shipments of more than a tenth this year.

Capital outlays of New England textile manufacturers peaked in 1961 at $41 million. Last year they reduced outlays 3 percent, and they anticipate a like reduction this year, primarily in smaller outlays for new plant. Nationally this industry plans to raise outlays by 18 percent this year. Sales are expected to advance 5 percent by regional producers, while nationally the expectation is for only a 2 percent rise. If regional textile manufacturers experience the sales gain they anticipate, their current plans may be revised upward.

Expenditures Per Employee

Since 1958 capital expenditure per manufacturing employee has been increasing in the region, but current levels are still below the 1957 peak in most industries. In that year New England manufacturers added $524 of capital equipment per employee. The 1958 recession caused them to reduce this to $336 per worker, after adjusting for price changes. Last year the ratio was up to $417, and if present plans are realized it should rise another $21 this year.

The region has historically used less capital per worker than has the Nation. Its manufacturing activities are concentrated in products such as shoes, textiles, and machinery which call for a lower ratio of machines to people than for the Nation's manufacturing as a whole. In 1957 the region's capital expenditure per employee was 56 percent of the national average. This proportion fell to 47 percent in 1960. In the past two years it rose to one-half of the national amount. A comparison of national and regional spending plans for 1963 indicates that New England expenditures per employee will remain near this proportion.

Some industries in the region have been adding as much or more capital equipment per employee in recent years as their national counterparts. Among them are the electrical machinery, food, and rubber and plastics industries. This latter industry, for instance, plans to add $546 of capital equipment per employee in the region, compared to $537 per employee in the Nation, this year.

Next Year's Plans

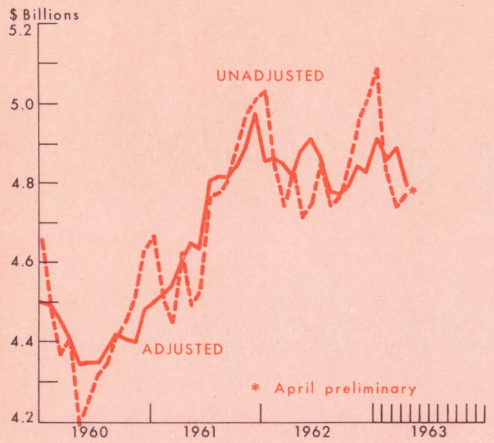
Tentative estimates for 1964 capital outlays were made by more than nine-tenths of the firms participating in this year's survey. Being primarily the larger firms, this group accounts for a fourth of manufacturing employment in New England.

These firms now foresee spending 15 percent less in 1964 than this year. The durable goods group have plans to spend 20 percent less next year. However, the instrument industry expects to raise spending 50 percent over 1963, and the lumber and wood products industry looks for a 2 percent rise.

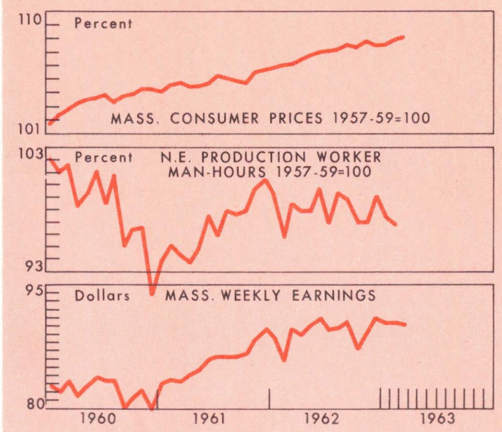
New England's nondurable goods producers now expect to spend in 1964 about nine-tenths the amount they are planning for this year. The rubber and plastics and the miscellaneous group each plan to raise outlays next year by about two-fifths over 1963 levels.

If present sales expectations are substantially exceeded this year, thus reducing excess capacity appreciably, plans for both 1963 and 1964 may be raised from present expectations in most industries in New England.

District 1 checking accounts declined somewhat in 1963.



Consumer prices rose further in early 1963, but fewer man-hours led to stable earnings.



MANUFACTURING INDEXES	MASSACHUSETTS (1950–52 = 100)			NEW ENGLAND (1950–52 = 100)			UNITED STATES (1957–59 = 100)		
(seasonally adjusted)	Mar. '63	Feb. '63	Mar. '62	Mar. '63	Feb. '63	Mar. '62	Mar. '63	Feb. '63	Mar. '62
All Manufacturing	120	119	122	128	126	125	121	120	117
Primary Metals	105	104	113	110	111	116	110	105	117
Textiles	42	44	43	63	63	66	n.a.	113	117
Shoes and Leather	114	114	115	120	122	121	n.a.	n.a.	104
Paper	111	111	111	128	126	125	n.a.	n.a.	121

	NEW ENGLAND	Percent Change from:		UNITED STATES	Percent Change from:	
	Mar. '63	Feb. '63	Mar. '62	Mar. '63	Feb. '63	Mar. '62
BANKING AND CREDIT						
Commercial and Industrial Loans ($ millions) (Weekly Reporting Member Banks)	1,591	+ 3	+ 5	34,971	+ 2	+ 7
Deposits ($ millions) (Weekly Reporting Member Banks)	4,961	— 1	+ 4	130,088	0	+ 7
Check Payments ($ millions) (Selected Cities)	11,438	+11	+ 6	173,455	+10	+ 3
Consumer Installment Credit Outstanding (index, seas. adj. 1957 = 100)	132.2	+ 1	+ 9	145.2	+ 1	+12
TRADE						
Department Store Sales (index, seas. adj. 1957-59 = 100)	121	+ 9	— 1	119	+ 4	+ 2
Department Store Stocks (index, seas. adj. 1957-59 = 100)	119	0	+ 2	n.a.	n.a.	n.a.
EMPLOYMENT, PRICES, MAN-HOURS & EARNINGS						
Nonagricultural Employment (thousands)	3,710	0	0	55,035	+ 1	+ 2
Insured Unemployment (thousands) (excl. R. R. and temporary programs)	184	— 4	+12	2,366	— 9	+ 4
Consumer Prices (index, 1957-59 = 100)	108.0 (Mass.)	0	+ 2	106.2	0	+ 1
Production-Worker Man-Hours (index, 1957-59 = 100)	95.9	— 1	— 3	98.0	+ 1	0
Weekly Earnings in Manufacturing ($)	89.89 (Mass.)	0	+ 1	97.84	+ 1	+ 2
OTHER INDICATORS						
Construction Contracf Awards ($ thous.) (3-mos. moving averages Jan., Feb., Mar.)						
Total	116,846	+ 2	—35	3,093,391	+ 5	— 1
Residential	43,511	+ 3	+ 2	1,368,809	— 4	+ 4
Public Works	29,755	0	—66	544,110	— 9	—10
Electrical Energy Production (index, seas. adj. 1957-59 = 100)	133	0	+ 6	138	— 1	+ 5
Business Failures (number)	47	—10	—38	1,296	— 1	—13
New Business Incorporations (number)	917	+24	— 4	16,124	+15	— 6

n.a. = not available