New England BUSINESS REVIEW

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REVIEW OF THE SECOND QUARTER:

A Mild Response to an Uptrend

Business activity in New England during the second quarter of 1963 was generally good, — yet showed no rapid improvement. Thus, although the existing level of activity was quite satisfactory, the trend in the region's economy still left something to be desired.

During the second half of 1962 it was difficult to discern a decisive trend in business activity. Approximate balance prevailed, both nationally and for the New England region, between statistical series that indicated a strengthening and those that pointed to a weakening economy. Even in the early days of 1963, search for a controlling trend upon which to base outlook projections was difficult. Later in the first quarter, business statistics of nationwide scope developed a definite uptrend which continued through the second quarter. Comparable statistics and industry reports for New England, however, gave but mild response to this uptrend. A few diverged into a contrary downtrend. Many that developed uptrends did so in much

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less magnitude or more belatedly than their national counterparts.

This by no means implies a pessimistic outlook for New England. By many measures, such as per capita income or unemployment rate, its economic status is more favorable than that for the Nation at large. Moreover, the comparative mildness of its current uptrend is not unusual. The relative stability of its economy has frequently given it comparatively narrow swings in business activity both in uptrends and downtrends. In this particular uptrend in the second quarter of 1963, much of the strength was derived from the steel and automobile industries. As the direct impact of activity in these industries is largely concentrated in other parts of the country, it is not surprising that New England's participation in this latest uptrend has been of modest proportions.

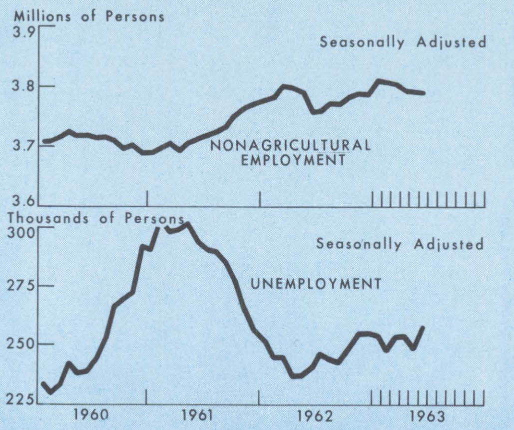
Employment statistics reflect rather well the economy's level and trend. Nonfarm payroll employment in New England, adjusted for usual seasonal changes, declined in each month from January through June, accumulating to 0.5 percent. In contrast, comparable nationwide data showed a rise in each of those months, accumulating to 1.8 percent. The June totals, related to a year earlier, were up only 0.1 percent for New England but up 1.8 percent for the United States.

The weaker regional employment trend was quite general by major industry groupings, and was especially noteworthy in durable goods manufacturing where June employment, compared to a year ago, was down 1.2 percent in New England but up 1.3 percent nationally. Four-fifths of the numerical decline for this group in New England took place in the electrical machinery industry. At the same time, nondurable goods manufacturing employment was down 1.7 percent from a year earlier in New England, but down only 0.4 percent nationally. Nonmanufacturing employment could point to a 12 months' gain, but that gain of 1.1 percent in New England trailed the national gain of 2.4 percent.

Analysis by states of changes in nonfarm employment from June 1962 to June 1963 shows that net gains in Connecticut, New Hampshire, and Vermont were nearly offset by net declines in the other three states. Only Connecticut exceeded the national rate of a 1.8 percent gain.

Somewhat mirroring employment statistics are those of unemployment. There is a seasonal tendency for unemployment to decrease over most of the spring period. Yet at midyear the number of New England workers who were entitled to unemployment compensation was 16 percent greater than a year earlier. Nationally, in contrast, the number had declined by 2 percent. It is only fair to note, however, that despite its discouraging trend New England's current status remained relatively favorable. Its estimated total unemployment rate, expressed as a percentage of the labor force and adjusted for usual seasonal variations, ranged during the first five months of 1963 between 5.2 and 5.5 percent. Nationally the range was between 5.6 and 6.1 percent.

New England resists response to recent U.S. uptrend in employment, while unemployment remains rather high.



Average weekly hours of employed New England factory workers were estimated at 39.7 for April and 40.2 for May, after seasonal adjustment. Both figures were below comparable 1962 averages as well as below comparable 1963 averages for the Nation as a whole. Total ***man-hours*** worked by factory workers reflect both changes in the number of manufacturing employees and their average hours of work. As might be suspected from the foregoing statistics, the aggregate number of such man-hours, seasonally adjusted, declined from March to May in New England but rose in the Nation at large.

Per capita ***personal income*** was officially estimated by the U. S. Department of Commerce to amount to $2,680 in 1962 for New England. This was 14 percent better than the per capita estimate of $2,357 for the Nation. Also, aggregate personal income in New England had risen at an annual rate of 5.6 percent from 1961, close to the annual rise of 5.8 percent in the Nation. *Business Week's* recent estimates also point to the smaller income gains in the region than in the Nation. While income in New England was up 3.2 percent in the first five months over the same period a year ago, this figure was 4.9 percent for the country as a whole.

Department store sales benefited from rising incomes as well as from a sustained inclination on the part of consumers to spend freely. The seasonally adjusted index of sales at New England reporting stores, after a dip in April from the record March level, rose again to a June value 6 percent higher than a year earlier. The national index in June was about 8 percent higher than a year earlier. At New England stores, regular departments were relatively better patronized than basement affiliates, and best sales gains over a year ago were achieved in such items as women's and misses' coats and suits, sportswear, furs, men's and boys' wear, furniture, appliances, and toys.

Instalment sales, including those which used revolving credit, continued to account for about 15 percent of total sales at the reporting stores. Although accounts receivable at the end of June totaled more than a year ago, the increase was about the same as the increase in collections, and collection ratios were not impaired.

Consumers' behavior also continued to dispute the contention that ***automobile*** dealers cannot experience two successive good sales years. Registrations of new automobiles in the six New England states during April and May were 14 percent more numerous than during the comparable 1962 months. Nationally the gain was 15 percent.

New England ***vacation business*** in the second quarter was in the relatively quiet interlude between a record winter season and hopefully another good summer season. Early vacationers in June gave reporting resort operators 2 percent more overnight patronage than a year ago. Agency summer camps for boys and girls reported that advance registrations received through June 30 were averaging 6 percent better than a year ago for July sessions and 3 percent better for August sessions.

Expanding incomes aided consumer ***saving*** along with consumer spending. Deposit balances at a reporting sample of New England mutual savings banks increased by 2.0 percent during the second quarter, and at midyear were 8.8 percent larger than a year earlier. Savings deposits at weekly reporting commercial banks in the First Federal Reserve District recorded similar gains of 0.8 percent over the quarter and 10.4 percent over the 12-month period. Share capital at insured savings and loan associations in New England increased 12.2 percent from mid-1962 to mid-1963.

Bank ***credit*** developments during the second quarter were still influenced by the two goals of maintaining adequate credit available for an expanding domestic economy, and attempting to correct a persistent deficit in the international balance of payments with its associated gold outflow. As the national economy strengthened during the quarter, net free reserves of member banks of the Federal Reserve System were allowed to contract slightly. Nevertheless, commercial and industrial loans at weekly reporting member banks in the First Federal Reserve District expanded 3.2 percent during the quarter. The New England index of outstanding consumer credit rose 2.0 percent during April and May. Real estate loans outstanding at the reporting sample of New England mutual savings banks showed a 3.2 percent growth for the quarter.

There was a tendency in the latter part of the quarter for some firming in short-term interest rates, but for relative stability in longer-term rates. Yields at weekly auctions of 3-month U. S. Treasury bills had risen above 3 percent by midyear, in apparent expectation of a rise in the Federal Reserve discount rate from its 3 percent level, and this rise took place in July. The prime business loan rate at major commercial banks, however, remained

New England department store sales displayed growth during the second quarter and with respect to a year ago.

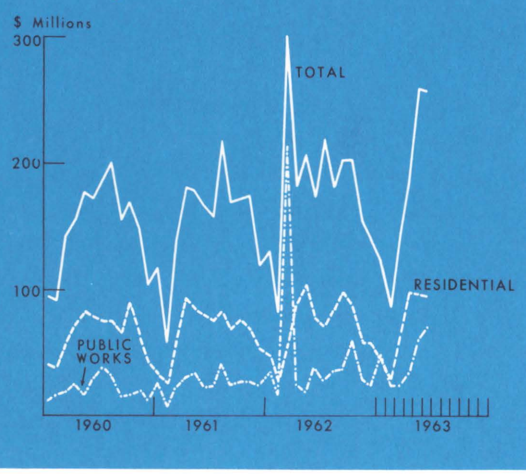
at 4½ percent. Rates for conventional residential mortgage loans in the New England area appeared to be stabilized in the range from 5¼ to 6 percent.

Substantial ***construction*** activity was readily apparent throughout New England during the second quarter. With increasing use of capital equipment, however, the work was being accomplished with less employment than that of a year ago.

New contract awards in the second quarter totaled in dollar value 24 percent more than those made during the comparable months of 1962. The gain was mostly in contracts for public works and utilities which scored a 94 percent increase from a year ago. Contracts for nonresidential buildings were up 16 percent from a year ago. Although the gain of 8 percent in residential contracts over a year earlier appeared small compared with the 14 percent gain recorded nationally, apprehension over a potential oversupply of housing units in New England is much less than that which prevails in some other parts of the Nation. The vacancy rate for residential rental units in the area which includes New England, New York, New Jersey, and Pennsylvania averaged only 4.1 percent in the second quarter—much less than the 7.5 percent rate which prevailed nationally.

New England ***agriculture*** in the second quarter had difficulties like those of a year ago. The Aroostook potato industry remained depressed as the end of the marketing season failed to bring the higher prices hoped for. For dairymen, milk prices and grain costs paralleled those of a year ago, but a short hay crop pushed hay costs up 50 percent. Broiler prices recovered somewhat until production

Large construction contracts in May and June improve 1963 picture to date for New England.



increases started them down again. With commercial egg production slightly higher and prices somewhat lower, the egg-feed ratio—an index of profitability—dropped below that of a year ago.

A brief survey of New England ***manufacturing*** industries discloses a variety of conditions during the second quarter, but few indications of a vigorous uptrend in activity.

Perhaps healthiest over-all was its ***transportation equipment*** industry with 4 percent more aggregate employment than a year ago. Yet, diversity ruled within the industry. Connecticut work forces were up 6.5 percent under the stimulus of continuing brisk activity in the production of Polaris-type submarines, aircraft engines and parts. Massachusetts, however, had a contraction of 3 percent in work forces as favorable trends in the production of helicopter engines and the assembling of automobiles failed to offset a further curtailment in shipbuilding.

Employment in New England's ***nonelectrical machinery*** industry slipped during the quarter below levels of a year ago, and average workweeks were somewhat shorter. Iron pourings by producers of textile machinery were in 10 percent less volume than last year. Producers of machine tools, on the other hand, were benefiting from a substantial pickup in the flow of new orders.

The region's ***electrical machinery-electronics*** industry, which has experienced rapid growth in recent years, was relatively quiet this spring. Employment in June as related to a year earlier was down about 4.5 percent for New England and down 8 percent for Massachusetts. Orders reported by Massachusetts producers were running behind last year's pace.

At ***primary and fabricated metals*** plants in New England employment during June was running about 1 and 5 percent, respectively, below levels of a year earlier. The rapid expansion in operations of iron and steel producers nationally failed to effect a comparable stimulus for plants in New England. Business at Connecticut copper and brass plants held up rather well during the quarter, although not developing outstanding vigor.

The manufacturing of ***instruments*** makes up one of New England's smaller durable goods industries. It is nevertheless a growth industry with an expanding range of products, some new plants, and a work staff which in June showed an annual growth rate of 4 percent.

Business at New England plants manufacturing ***lumber and wood products*** picked up seasonally during the spring, although employment remained less than a year ago. Work staffs at the region's ***furniture*** plants declined slightly in the second quarter, but orders and shipments gave promise of holding close to last year's good volume.

New England's ***textile*** mills still find it difficult to report encouraging developments. Over-all employment rose slightly during the second quarter, yet was down about 4 percent from a year ago. Trends in the lengths of workweeks varied within the industry. Plans for closing more of the older mills have been announced. Competition with foreign fabrics with their lower costs continues to be a vexing problem for the domestic industry.

Business for New England ***apparel*** makers was moderately good in the second quarter, although employment trailed that of a year ago. Advance orders for women's wear indicated some pickup but no upsurge. With dealer inventories somewhat low, orders for men's clothing have been rather good, except for rainwear.

For the ***shoe*** industry, 1963 continued in the second quarter to be a disappointing year. Both production and employment have lagged behind 1962 performance, with losses relatively greater in New England's third of the national industry. Sales of novelty and low-priced shoes, sandals, play shoes, and slippers were particularly slow. More recently there has been a small improvement in retail shoe sales and in orders placed with manufacturers. Imports of low-priced shoes continue to be a large share of the domestic market.

Although makers of precious ***jewelry*** have had a fairly good year to date, business for costume jewelry makers this spring was termed at low ebb. Even after some pickup in late spring, June employment in the Rhode Island area of the industry was still 2 percent less than a year earlier and the flow of incoming orders lacked real vigor.

Paper production in New England is reported as running somewhat better than in 1962. Employment, however, was until June below levels of a year ago. For the year New England producers look for a 3.7 percent rise in sales and plan a 16 percent increase in capital expenditures.

At New England ***chemical*** plants employment remained quite stable during the second quarter but below levels of a year ago. Average weekly hours changed little. Massachusetts producers reported some improvement in order flows.

Employment in the New England ***rubber products*** industry dropped increasingly below year earlier levels during the second quarter, while average workweeks were shorter. Incoming orders for May were reported by Massachusetts producers to be 19 percent less than those received in May 1962.

New Cars and Longer Loans

If the present pace of new car sales continues across the Nation for the rest of the year, 1963 will definitely prove to be a recordbreaking year surpassing the previous high of 7,200,000 new car registrations set in 1955. Here in New England, 184,000 new cars were registered from January through May of this year—the best ever for this six-state area.

Since most new car buyers borrow to finance their cars, automobile credit has risen along with sales. Car buyers in the Nation owe credit agencies (commercial banks, sales and consumer finance companies, dealers, and other financial institutions such as credit unions, mutual savings banks, federal savings and loan associations, etc.) $20.5 billion for new and used cars—up from $18 billion last year at this time. Commercial banks account for half of this outstanding automobile credit.

The bulk of credit extended on new cars is in loan maturities from 31 to 36 months. This longer-term paper was introduced in volume in 1954-55. Before that, there were only isolated instances of 3-year contracts for new cars.

Impact of 3-Year Loans on Sales

This significant shift in the terms of credit back in 1955 helped stimulate sales to a degree not equaled since that time. This shift brought to the new car market a host of buyers, many of whom had previously been interested primarily in used cars. This, of course, was due to the attractive lower monthly payments required when these 3-year loans became easily attainable.

Last year was another big sales year for new cars, and this year will be even better—the first time in automotive history that two years of such sales volume have occurred back-to-back. But no change in credit terms can help explain the surge in auto sales in 1962 and 1963. Only in rare instances across the country have credit agencies permitted auto loans for longer than three years.

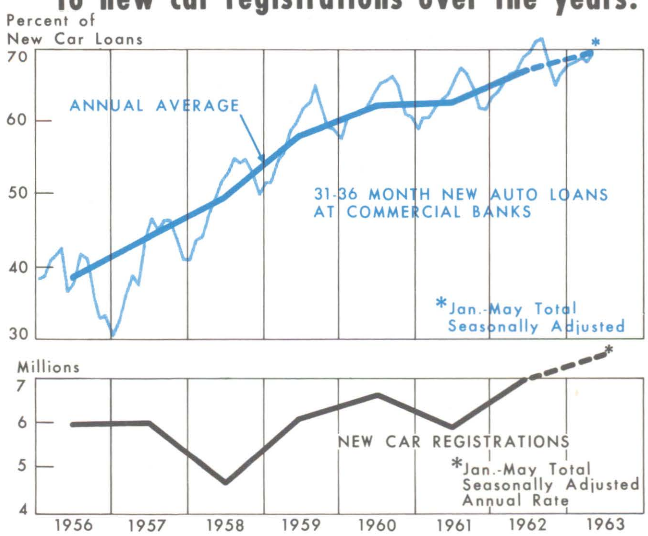
Moreover, 3-year loans did not rise sharply last year as a fraction of total loans, thus eliminating this possible explanation of large car sales. Despite one million more new car owners in 1962 than 1961, the share of longer-term loans rose little, showing that the average length of loans remained about the same as in the previous year. A glance at the chart below shows little relationship between the percent of 3-year loans and total car sales.

Three-year loans rose significantly from 1956 through 1959, but from 1960 on these loans have not increased so dramatically, even though sales have surged forward during most of this time. Due to business recessions, however, sales dropped in 1958 and 1961. Whether they would have dropped even more if it were not for longer-term loans is difficult to determine statistically—but these long credit terms do not seem to have been much of a plus factor in the good selling years of 1960, last year, and this year.

Among the reasons advanced for the increase in car sales this year and last are the influx of teenagers born during the war and early postwar years, two-car families, new cars replacing old, and rising disposable income.

Per capita instalment credit outstanding, as a percent of per capita income after taxes, averaged 11.6 percent in 1961, 11.8 percent in 1962, and 12.3 percent so far this year. Instalment credit is rising at a greater rate than disposable income due mainly to the growing amount of automobile paper, the largest segment of instalment credit.

Three year loans show little relation to new car registrations over the years.



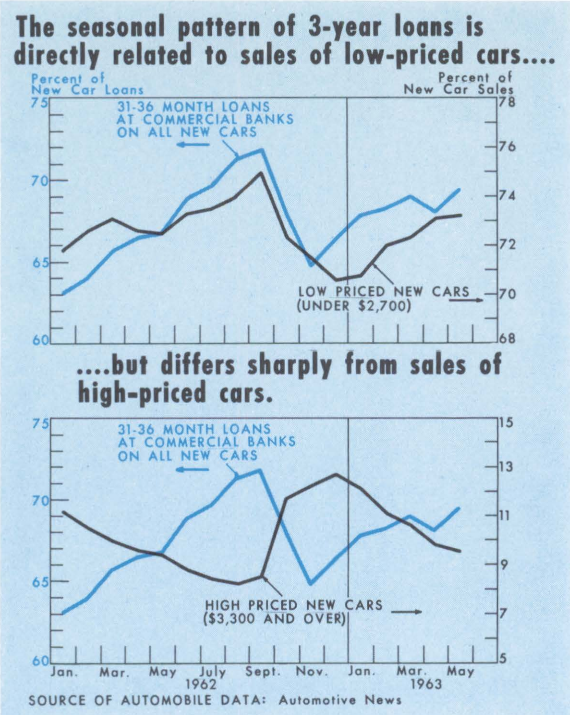
SOURCE OF AUTOMOBILE DATA: Automotive News

Seasonal Swing of 3-Year Loans

Although 31-36 month loans show little influence on sales after 1955, sales of cars under $2,700 rise and fall in a regular pattern each year. In a similar way 31-36 month paper shows a seasonal swing. Its gradual rise from December-January to September and then the sudden dropoff for the rest of the year coincides with the fast and slow selling periods of low-priced cars. Such cars as most Chevrolets, Fords, Plymouths, Ramblers, Studebakers, all compact cars, and small foreign cars capture a larger slice of the new car market in the spring and summer, culminating in an August peak—shortly before the new models come out.

The moderate income buyer of a low-priced car is more apt to come into the market from spring to summer. Factors such as winter heating bills, Christmas bills, taxes, etc., cause him to delay his purchase until this time. Stock clearance of new cars in late summer with their appealingly reduced prices brings this buyer out even more strongly. Usually he purchases his car on a longer-term loan, as can be seen in the similarity of the longer-term loan and low-priced car lines in the chart on the next page.

Conversely, cars priced over $3,300 penetrate the market more in the four months November through February.



This buyer can usually afford to wait for the new models in the autumn. He is likely to enter the market with cash and a late model car to trade.

Longer Loans in the Future?

Does the slightly increased share of these three-year contracts suggest a further easing of credit through even longer-term loans? Some instances of easier credit and the extension of time payments in personal loans and home mortgages have appeared in the Nation. So far, however, there has been no breakthrough of 3½ to 4-year auto loans.

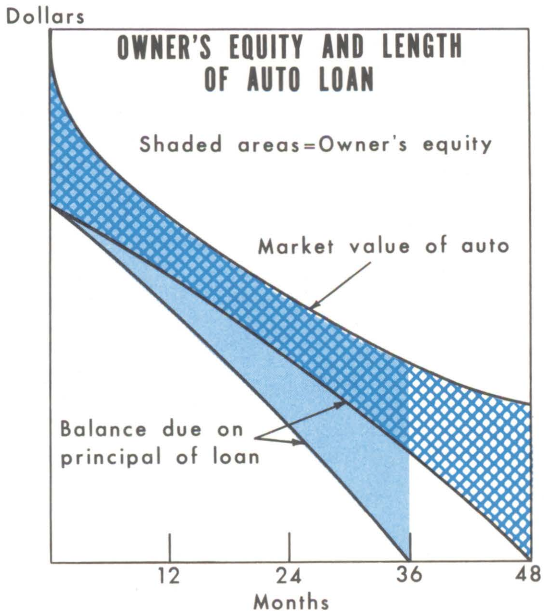
A spot survey by the Federal Reserve Banks indicated that only a negligible amount of contracts are made for more than 36 months. These contracts have never exceeded 1 percent of the total held by commercial banks. Very few of such longer contracts are written in New England. In the rare instances where they have occurred, they are either the result of a special promotion by a dealer or else are exceptional contracts written by an occasional bank. In the latter case, the particular customer's credit and high standing, and not the value of the automobile, is the basis for the loan.

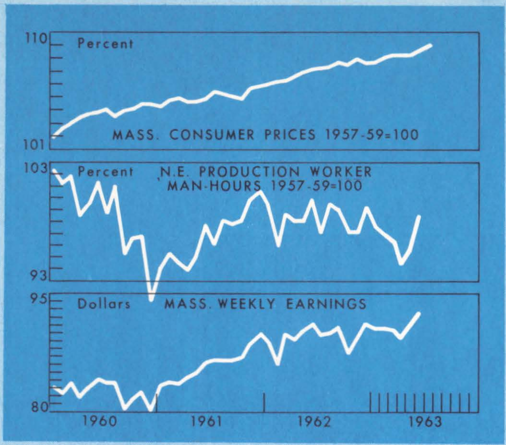
The survey showed that New England bankers and automobile dealers were opposed to extending maturities beyond three years. They felt that the credit risk was too great because of the slow buildup of customer equity in a rather quickly depreciating product. In addition they thought such long-term loans would keep the customer out of the car market too long.

The following chart shows the relationship between the balance of an auto loan and the market value of a new car. The upper line in the chart is the market value of the car; the lower line is the balance due on the principal of the auto loan. The vertical distance between the two lines is the owner's equity in the car at any point in time.

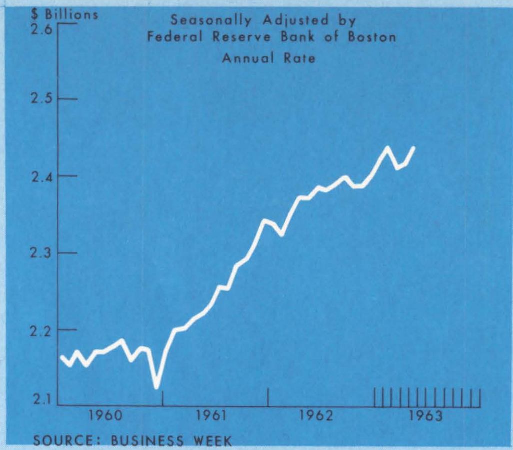
Many factors go into an auto's depreciation—model popularity, cleanliness, price range, mileage, and how hard the car has been driven. Also, the loan balance can vary, depending on the amount of equity (cash and used car trade-in value) at the time of purchase. But keeping these variables in mind, the chart shows how a 4-year loan can narrow the difference between loan balance and market value of a purchased car, compared to a shorter loan. The closer the loan balance comes to the market value, the more difficult it may be for the credit agency to recapture its money investment if it unfortunately becomes necessary to repossess the car.

In summary, then, the increased share of 36-month auto loans has not caused the surge in new car sales. Other factors such as population growth, two-car families, old car replacement, and a rise in income helped to push up sales. No indication of further easing of automobile credit terms is apparent at this time.





Despite recent increase, the production worker man-hour index has not been able to recover to levels reached in earlier years. Average weekly earnings and consumer prices are now rising faster.



Estimated personal income in New England continued to grow although more slowly. The annual growth rate which averaged 5.6 percent during 1962 was reduced to 2.8 percent in May 1963.

MANUFACTURING INDEXES	MASSACHUSETTS (1950-52 = 100)			NEW ENGLAND (1950-52 = 100)			UNITED STATES (1957-59 = 100)		
(seasonally adjusted)	June '63	May '63	June '62	June '63	May '63	June '62	June '63	May '63	June '62
All Manufacturing	125	121r	122	130	128	126	126	125	119
Primary Metals	110	107	110	118	114	114	125	127	98
Textiles	39	40	44	62	62	65	n.a.	117	117
Shoes and Leather	120	110	118	125	122	122	n.a.	n.a.	103
Paper	117	113	106	131	126	122	n.a.	123	120

	NEW ENGLAND	Percent Change from:		UNITED STATES	Percent Change from:	
	June '63	May '63	June '62	June '63	May '63	June '62
BANKING AND CREDIT						
Commercial and Industrial Loans ($ millions) (Weekly Reporting Member Banks)	1,641	+ 1	+ 4	35,271	0	+ 7
Deposits ($ millions) (Weekly Reporting Member Banks)	5,087	0	+ 4	133,021	+ 1	+ 7
Check Payments ($ millions) (Selected Cities)	11,345	− 7	+ 6	174,641	− 5	+ 3
Consumer Installment Credit Outstanding (index, seas. adj. 1957 = 100)	135.6	+ 1	+ 8	149.2	+ 1	+11
TRADE						
Department Store Sales (index, seas. adj. 1957–59 = 100)	119	+ 1	+ 6	120	+ 3	+ 8
Department Store Stocks (index, seas. adj. 1957–59 = 100)	118	− 2	+ 3	122	0	+ 3
EMPLOYMENT, PRICES, MAN-HOURS & EARNINGS						
Nonagricultural Employment (thousands)	3,845	+ 2	0	56,802	+ 1	+ 2
Insured Unemployment (thousands) (excl. R.R. and temporary programs)	126	−11	+20	1,517	−10	+ 1
Consumer Prices (index, 1957–59 = 100)	108.4 (Mass.)	0	+ 1	106.6	0	+ 1
Production-Worker Man-Hours (index, 1957–59 = 100)	98.2	+ 3	− 1	102.3	+ 2	+ 1
Weekly Earnings in Manufacturing ($)	92.23 (Mass.)	+ 2	+ 2	100.61	+ 1	+ 3
OTHER INDICATORS						
Construction Contract Awards ($ thous.) (3-mos. moving averages)						
Total	233,119	+19	+26	4,411,763	+ 7	+13
Residential	95,296	+13	+ 8	2,004,370	+ 6	+14
Public Works	55,769	+39	+118	799,612	+ 8	+17
Electrical Energy Production (index, seas. adj. 1957–59 = 100)	133	0	+ 4	141	+ 1	+ 9
Business Failures (number)	48	−28	−11	1,211	− 7	− 6
New Business Incorporations (number)	866	− 8	−11	15,016	−11	− 1

r = revised

n.a. = not available