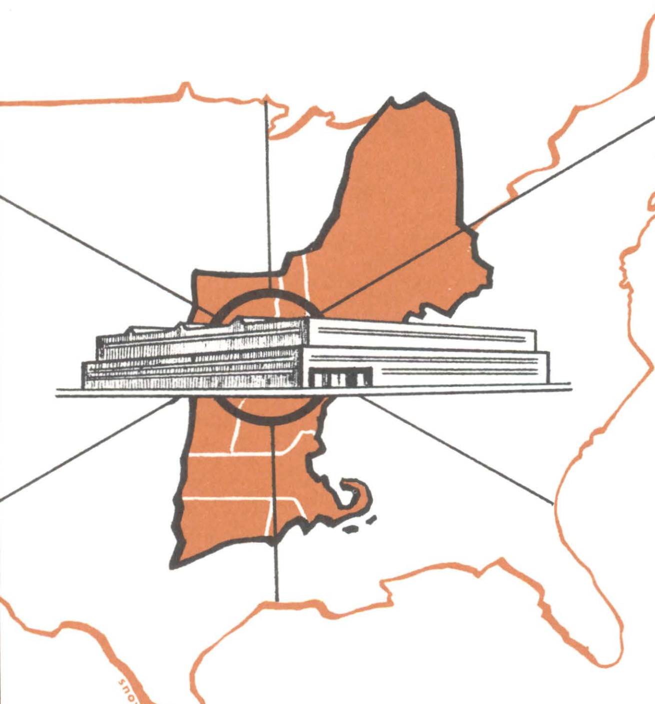
NEW ENGLAND BUSINESS REVIEW

MAY 1965



New England Manufacturing — National or Local?

Have outside firms been taking over the region's manufacturing? Some changes have occurred particularly among large employers. In general, however, the region's manufacturers continue to have strong personal ties to New England.

Onward and Upward . . . a review of business in the first quarter

The upward movement of business trends has accelerated its pace in recent months. The facts make good reading.

Higher Capital Outlays Planned

New England manufacturers expect to raise their capital spending this year to a new record level. Outlays will be especially notable in the nonelectrical machinery and paper industries.

FEDERAL RESERVE BANK OF BOSTON

NEW ENGLAND
BUSINESS REVIEW

New England Manufacturing — National or Local?

THE last decade has been characterized by a rising number of industrial mergers. Usually these have been undertaken in the hope of achieving increased sales and production, and not for the purpose of liquidating the assets of the smaller firm. Nevertheless, such mergers frequently give rise to local fears that "outside" firms are taking over and that as a result the region will suffer. Similarly, the moving of a firm's head offices to another area of the country can arouse fears that the firm will lose interest in a particular region. This study attempts to answer the following questions: Has the center of operations of New England manufacturing firms moved to areas outside the region? Are more of the region's workers employed by national firms now than just after World War II?

The results of this study show little change overall between 1948 and 1963 in the percentages of national and New England firms and in the proportion of manufacturing employment attributable to each. Among firms employing 100 or more workers, there was a more definite trend toward "nationalization," however, while smaller companies remained almost entirely local or regional. In addition, broad changes have taken place within industries. A much higher proportion of New England workers in the pulp and paper and nonelectrical machinery industries were employed by national firms in 1963 than in 1948. On the other hand, nearly all the 1963 employees in the textile and shoe and leather industries were working for local or regional firms. This was not the case in 1948.

The New England Business Review is produced in the Research Department. Joan Poskanzer was primarily responsible for the article, "New England Manufacturing — National or Local?," Harold F. Price for "Onward and Upward . . . a review of business in the first quarter," and Edwin F. Estle for "Higher Capital Outlays Planned."

Location Loyalty

The promise of growth and substantial financial gain offered by affiliation with national companies has attracted many New England manufacturing firms. Their opportunities are widened by national marketing organizations and large research and development staffs. However, there may also be a loss of local management authority in plant location, choice of product, personnel, and even the selection of banking and other supporting services.

Both large and small companies now are making extensive efforts to diversify their operations. Numerous mergers have resulted that could substantially affect the area where the merged company is located. Aided by the management skills and the capital of a national company, subsidiary firms sometimes grow very rapidly bringing greater employment opportunities and improved business conditions to their localities. On the other hand, the parent firm may cut back local operations or undertake elsewhere expansion planned by the local firm. Use of supporting services such as banking may be transferred out of the community by the parent central office, thereby reducing benefits formerly brought by the firm to the local area. The entire operation may even be moved to a distant location viewed as more favorable by the parent company. Immediately after World War II several well-known family concerns in New England were liquidated soon after their acquisition by national companies.

In the past, personal loyalty to New England has been important to the continued growth of the region's manufacturing. A study of 42 new firms organized here between 1945 and 1948 showed that the desire of the founders to remain in the region was the dominant factor in their choice of location.* A follow-up study of these firms in 1955 found that in most cases management would again choose New England.

As might be expected, personal preferences were found by the same study to be of little importance in the location of branch plants. National concerns particularly gave far less weight to familiar environment and loyalty to a local community. Instead, proximity to markets and to other production facilities and services were the major considerations in their branch location decisions.

**Monthly Review*, Federal Reserve Bank of Boston, April 1949, p. 1.

National or Local

To measure the extent to which firms in New England have national or local ties, the following definitions were used. A firm was classified as a local or "New England" company if its head office and the majority of its total employment were located in New England. If, on the other hand, the firm's head office was outside the region or if the majority of employees worked in other areas, the firm was classified as "national." A wholly-owned subsidiary of a national concern was also classed as national. All firms were grouped in manufacturing industries according to the principal products made in their New England plants.

In the light of recent mergers, a noticeable reduction in the proportion of "New England" firms and in their share of employment might have been expected. The results of this study do show a definite movement toward "nationalization" among firms with 100 or more employees. However, this change was offset during this period by the growth of small local firms — both in number and in share of manufacturing employment. In both years only about 10 percent of the sample firms were found to be national, and an estimated 25 percent of the region's manufacturing employees worked for national companies.

Changes by Industry

These summary results for all manufacturing cover wide variations between industries as well as among firms of different sizes. Since most large national textile firms have now withdrawn from the New England scene, nearly all the 1963 textile workers were employed by local companies, while in 1948 about 30 percent worked for national firms. Nearly all employees in the leather and shoe industry and in the printing and publishing industry now work for local firms. This was not the case in 1948 when about 1 in 7 shoe workers were employees of national companies, and about one fourth of employment in the printing industry was in national firms. Due to the growth of the region's largest single employer, a local firm, national employment in the transportation equipment industry has declined from over 50 percent in 1948 to less than 40 percent in 1963, even though the proportion of national firms increased.

Other industries clearly show the growing influence of national concerns. Thus, while nearly all the workers in the pulp and paper industry in 1948 had been employed by local firms, their share of employment in 1963 was slightly over one-half. Employment in the chemical industry showed a similar trend. The proportion of workers in local firms making nonelectrical machinery also declined.

Changes by Size of Firm

The New England or local firm found in the 1963 sample ranged in size from a foundry employing only a few people to the region's largest employer with about 60,000 workers. Variations in size within the sample were not as wide among national firms, which most often employed 100 or more. Nevertheless in 1963 they ranged from just over 30 workers employed by a manufacturer of photocopy equipment, a subsidiary of a national concern, to a staff of nearly 40,000 New Englanders hired by a manufacturer of electrical machinery and equipment.

When the sample results were grouped by the size of the firm's employment, they showed that considerable changes have taken place since 1948 between the national and local or regional categories except in the smallest companies. Of the manufacturing concerns employing 5,000 or more in 1948, nearly half could be described as New England firms. By 1963 not only had the number of firms of this size declined substantially, but only about one-third could be classified as local or regional. Because of the extensive growth of one New England firm, the proportion of employees working for local companies in this size group increased slightly between 1948 and 1963. When this employer is omitted in both years, the proportion of total employment for local manufacturers shows a decline during this period. Altogether this small number of large firms in both years accounted for a substantial proportion of the region's manufacturing employment — about 18 percent.

The sampling of manufacturers with 500 to 4,999 workers also showed a sizable increase in "nationalization." The number of such firms listed in the New England directory declined between 1948 and 1963 as did their share of total manufacturing employment. At the same time, the proportion of employees working for national firms in 1963 was estimated at about 40 percent against 30 percent 15 years earlier.

Firms listed as employing between 100 and 499 workers did not increase in number between 1948 and 1963, but their share of total manufacturing employment rose slightly. The proportion working for national firms grew as well, from about 4 percent in 1948 to about 9 percent in 1963.

Companies with fewer than 100 employees remained almost without exception local firms. Between 70 and 75 percent of the manufacturers listed in the New England directory are in this category, the only group to increase in number listed, as well as in the share of total manufacturing employment. Because these firms are so numerous, they are of great importance to the region's manufacturing. Despite their small size they employed over 20 percent of all manufacturing workers in 1948 and almost 25 percent in 1963. In each year this proportion was higher than for the few firms with more than 5,000 workers. Personal loyalty to the New England area undoubtedly is an important factor in the location of these firms and can be expected to remain so.

That no change has taken place in the nearly 100 percent local composition of these firms suggests that their production activities are better suited to local operations and also that these firms are not yet of sufficient size to attract the interest of larger companies and investors. Small firms not engaged in highly specialized technical production are not likely to merge with large national companies.

The Implications

The results of this study show that more of the region's larger manufacturing establishments — those employing 100 or more workers — now have national ties than was the case in the immediate postwar period. This growth in "nationalization" has occurred despite the departure of large national firms in the textile industry. The interest of national companies in locating in New England indicates that the region is still competitive and that an acceptable return can be earned by investing here. On the other hand, national firms may not be as oriented to the region's problems nor as loyal to the location as New England firms.

As in the past, the larger number of manufacturing concerns, those employing fewer than 100 workers, remain local firms. These small companies have increased in number during the postwar period, and remain an important part of New England manufacturing. For the large majority of these companies, management's strong ties to home and community continue to be important considerations in their location.

THE METHOD

Firms listed in the 1948 and 1963 directories of New England manufacturers were classified into five groups according to the size of their employment in New England. All firms in the largest size group, 5,000 or more workers, were included in the sample. Firms were selected at random from each of the smaller size groups. The sample included 450 firms operating in 1948, and 500 in 1963. In the selection no consideration was given to the firm's products or to the New England state in which it was located.

State industrial directories and industrial and financial manuals were used for information about a firm's employment, products, location of the central office and manufacturing plants, and affiliations with other concerns. Available annual reports were checked for companies with 250 or more employees in New England. On the basis of these data, estimates were made of the firm's total number of workers and those employed in New England. The firm was then classified as national or local. The sample was later expanded using industry data from the appropriate Census of Manufactures in order to estimate the proportion of New England manufacturing employment in national firms.

Onward and Upward

. . . a review of business in the first quarter

The most striking feature of overall business developments in the first quarter of 1965 was the continuation of the onward and upward movement. While the rising trend has now continued for 48 months, the surge in the first quarter was exceptional. Gross national product of $649 billion, for example, grew by $14 billion, on an annual basis, a record peacetime quarter-to-quarter spurt.

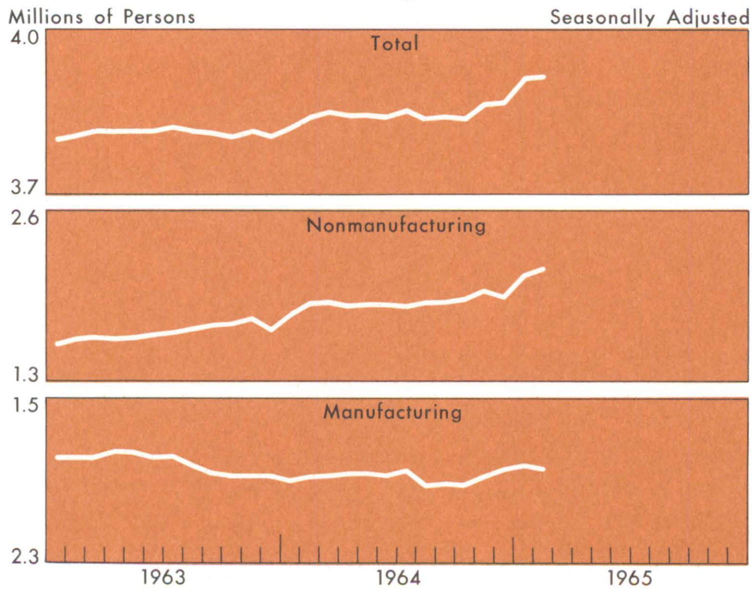
The lasting power of the current business expansion, which has been gaining strength rather than weakening, has generated optimism among many business analysts. Others, however, still have reservations. They note that much of the current strength of the economy is due to special and transitory factors in the steel and automobile industries.

Regardless of various connotations for the future outlook, the facts of the present trend make good reading. Employment has been rising and unemployment declining. Production, construction, incomes, spending, saving, and borrowing are all in unusually large volumes. Practically all industry groups are sharing in this upward trend. It holds true in the Nation at large. Analysis in the following paragraphs shows that it also holds true in the New England region.

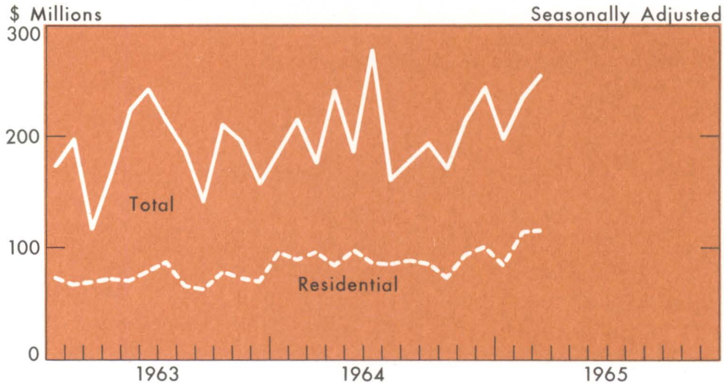
Nonfarm payroll ***employment*** in New England was reported at 3,843,900 in March, for a 2.3 percent net gain over a year earlier. Adjusted for normal seasonal factors, it finally broke into an upward trend in the late fall of 1964 and intensified that trend in the opening quarter of 1965. Even the lagging manufacturing sector had reached a 12 months' net gain of 2.0 percent by March although it was still well below earlier records. Nonmanufacturing

NONAGRICULTURAL EMPLOYMENT

New England



CONSTRUCTION CONTRACT AWARDS
New England



employment at that time showed a 2.4 percent gain. So widespread were the employment gains that only the ordnance, textile, and transportation-public utilities industry groups had fewer employees than in March 1964.

All six states in the region had higher non-farm employment in March than a year earlier, with gains ranging from 4.6 percent in Vermont to 1.4 percent in Rhode Island. All six also had increased manufacturing employment but the aggregate gain was limited because of a gain of only 1.4 percent in Massachusetts. This latter comparative weakness is corroborated by the fact that in March, 6 of the Nation's 29 major labor markets with a substantial labor surplus were centered around Massachusetts cities, for the most part former mill cities.

Despite such local pockets of lingering trouble, unemployment trends were generally favorable during the quarter. By March, total New England unemployment had dropped to a seasonally adjusted 4.4 percent of its labor force from 4.9 percent in December. Also in March, the number who were drawing unemployment compensation benefits averaged 22 percent fewer than a year earlier.

The trend was not only towards more workers, but also towards more hours of work. In March the average weekly hours for manufacturing production workers were appreciably up from a year ago in each of the six states. For the region as a whole they reached the unusually high average of 41.3 hours after seasonal adjustment. The total number of man-hours put in by all manufacturing production workers in New England appeared to be higher in March on a seasonally adjusted basis than for any other month since May 1962.

These man-hours are an important indicator of trends in manufacturing ***production.*** This Bank's seasonally adjusted New England production index, computed in part from such data, rose steadily through the quarter to 130 in March. Over the same period far more purchasing agents were reporting upward than downward production trends for their individual companies.

Capital spending plans of New England manufacturers reflected the upward trends in their production experiences. Although manufacturers who reported in this Bank's current survey did not spend as much in 1964 for new plant and equipment as they had earlier planned to spend, they now plan to increase such spending by 19 percent in 1965. A large portion of these 1965 expenditures is intended for plant expansion.

Upward trends in ***construction*** plans for

New England are by no means limited to manufacturing buildings. Nor do New England plans suffer by comparison with those for the whole Nation. Tabulations by F. W. Dodge Company indicate that total construction contracts awarded in New England during the first quarter of 1965 were 12 percent greater in dollar value than those for the comparable quarter of 1964. Nationally there was a slight decline. For nonresidential buildings in New England a sharp pickup in contracts during March brought the quarterly total 0.5 percent above that for a year ago. Within this category, contracts for manufacturing buildings more than doubled. New England's sustained activity in residential plans was notable, with the quarter's total contracts exceeding those of a year ago by 11 percent. In contrast, residential contracts nationally had fallen off by 7 percent. New England's smaller volume of nonbuilding contracts had an impressive relative rise of 36 percent.

As might be expected, more new ***incorporations*** and fewer ***failures*** took place during the quarter. In the region as a whole 3,055 new business corporations were chartered, 6 percent more than in the comparable 1964 period. The reported number of business failures, however, dropped to 218 in the 1965 period from 229 a year earlier, although the dollar liabilities involved were higher.

Personal income also rose. Estimates by *Business Week* place New Englanders' total personal income for the first two months of 1965 at $5,326,300,000, or 5.8 percent more than they received during the comparable months of 1964. Although this rate of increase was less than the estimated 7.8 percent for the Nation, New Englanders still enjoyed per capita personal income well above the national average.

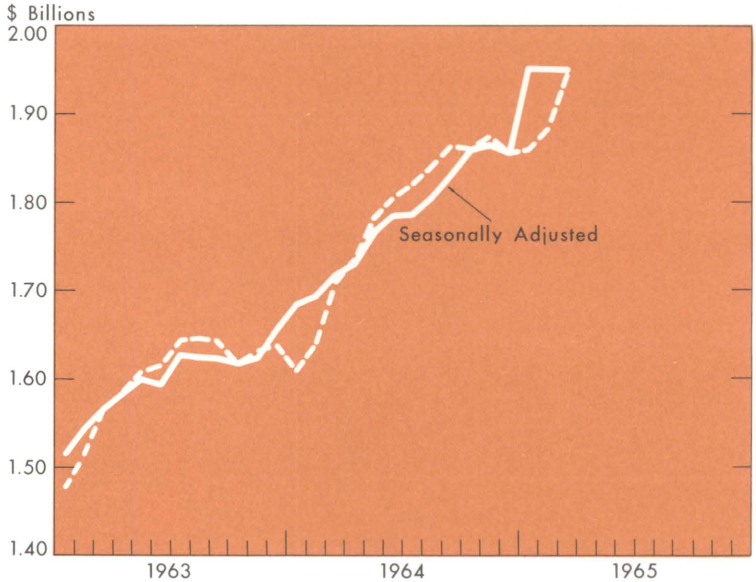
Consumer ***spending*** was enhanced by this increase in income as well as by freer use of instalment credit. Increases in spending were perhaps less impressive at department stores than at some other types of retail outlets. Yet at the monthly reporting sample of department stores in the First Federal Reserve District, sales were 2 percent better than a year ago in both January and February. While March 1965 sales at these stores were 5 percent less than those for March 1964, it must be noted that the 1965 Easter date was still more than two weeks away in April whereas the 1964 Easter shopping season was completed within March. Adjustment for this variable would indicate that the March shopping pace this year continued the gains over a year ago. Sales relationships to those of a year ago did not vary widely among major departments. However, some smaller departments, such as those merchandising silverware, clocks, books and stationery, scored impressive gains. Instalment sales continued to expand more rapidly than other types. Collection ratios with respect to accounts receivable held close to those of a year ago, but on the slow side.

Automobile dealers could scarcely ask for a better volume of business as prospective purchasers sought new automobiles which had been in inadequate supply because of strikes against major producers in late 1964. Registrations of new automobiles in the six states during the 1965 first quarter exceeded those of a year earlier by 18 percent.

The flow of new ***saving*** also remained substantial. In this region, representative samples indicated that at the end of the quarter mutual savings bank deposit balances were up 8.7 percent from a year ago, outstanding share capital at insured savings and loan associations was up 8.1 percent, while savings deposit balances at member commercial banks were up about 14.5 percent.

Money and credit conditions in the first quarter continued to be influenced strongly by policy decisions made at the national level with due consideration for maintaining strength in the domestic economy and reducing the net outflow of funds to other nations.

COMMERCIAL AND INDUSTRIAL LOANS
District 1



Longer-term interest rates showed little change. Mutual savings banks, for example, generally continued a $5\frac{1}{4}$ percent rate for conventional type real estate loans in Boston, and a range from $5\frac{1}{2}$ to 6 percent elsewhere in New England. Shorter-term rates showed more firmness. Yields on 91-day Treasury bills approached more closely the 4 percent discount rate which had been established last November, while the effective rate for Federal Funds rose more frequently above that rate.

Commercial member banks found their net free reserves smaller or replaced by net borrowings. Yet credit was generally ample, and permitted continuing substantial expansion in such major loan categories as those for commercial and industrial, real estate, and consumer purposes. Additional programs were set up during the quarter, however, to discourage credit extensions which might add to the outflow of funds abroad.

The foregoing elements of strength not only gave an upward trend to the overall New England economy during the first quarter of 1965, but also benefited an unusually high percentage of individual manufacturing industries.

Production of ***nonelectrical machinery*** constitutes New England's largest manufacturing industry in terms of employment. Strikes reduced that employment early in the first quarter, but by March it had recovered to measure a 1.7 percent gain over a year ago. Average weekly hours of work also increased. Textile machinery foundries poured 23 percent more iron during the quarter than a year earlier. Machine tool producers continued to enjoy exceptionally good business.

New England's ***electrical machinery*** industry has hopefully turned the corner after a lean period for government contract awards. March employment was up 2.0 percent from a year ago, and workweeks have lengthened. With incoming orders trending upward the industry sees a prospective 3 percent rise in sales in 1965 and is boosting its capital expenditure plans.

The ***transportation equipment*** industry also was disturbed by strike early this year, but by March its employment in New England numbered 7 percent greater than a year ago. Continuing revival of shipyard operations at Quincy was a principal source of this growth. Yet increasing defense orders also benefited other shipyards as well as producers of helicopters and airplane engines and parts. Automobile assembly operations continued to be very busy.

At New England's ***primary metal*** plants employment was showing modest growth by March and workweeks were expanding. One major foundry was closed down for replacement, but other foundries were quite busy. Operations at copper and brass plants were sustained at high level. At ***fabricated metal*** plants employment was 3.5 percent better than a year ago and average workweeks were lengthening under the stimulus of improving business.

New England's ***furniture*** industry appeared to be participating in a fifth consecutive record year in sales, with shipments starting out 12 percent better than a year ago. Some upward price adjustments have taken place. Increasing shipments to this and other markets have also strengthened the ***lumber and wood products*** industry. Employment has been rising and prices have firmed.

Textile mills no longer employ the greatest number of workers among New England's nondurable goods manufacturing industries. Their overall employment was still declining in early 1965, and additional mill closings were announced. Yet the residual operators were distinctly more optimistic, in part because of increased productivity and improved facilities, but especially because of the boon to operating profits accruing from the revised cotton pricing legislation. Recent surveys by this Bank find that textile sales are currently trending upward and for the full year are expected to exceed those of 1964 by 8 percent.

For New England ***apparel*** manufacturers, business in the first quarter of 1965 appears to have been fairly good, as measured by sales, employment, and average workweeks. Furthermore the trend in orders, although varying according to the line of merchandise, affords a good outlook for business in the rest of 1965. Imports of finished apparel were still rising last year, but so were exports.

For New England's ***shoe*** industry no 1965 production statistics are yet available, but other information implies a good level of business. March employment was about 3 percent better than a year ago. Retail sales have been good, particularly for women's shoes, and a tendency towards trading up is noted. Optimism prevailed at the recent National Shoe Fair. Inventories have been low. Imported shoes, however, still pose an unsolved problem for producers.

New England ***jewelers*** and ***silversmiths*** generally enjoyed good business during 1965's first quarter, with trading up favoring better quality producers. Fine jewelry has increased its share of the business. Staple items, fraternal and school jewelry, enameled flower pins are among others which have sold well. Producers of lower-priced costume jewelry have experienced more difficulty. Sterling silverware has been gaining consumer preference over stainless flatware.

New England's *pulp and paper* industry seems headed for another record year. With utilization of existing productive capacity already running around 95 percent, and prospective 1965 sales up about 14 percent over 1964, producers are planning to increase capital expenditures this year by another 36 percent on top of last year's substantial rise. Rising operating costs have led to some price increases which have thus far held firmly.

Firms in New England's ***rubber products*** industry had a good first quarter, raising their work staffs about 4.5 percent over a year ago, lengthening their average workweek, and planning to increase the rate of capital spending in 1965 over 1964.

Higher Capital Outlays Planned

New England manufacturers expect to raise capital outlays this year to $820 million, 19 percent above last year's level. If this expectation is fulfilled, 1965 spending will exceed the previous record registered in 1957 by 6 percent.

Durable goods producers in the region plan this year a 17 percent boost in outlays over those of last year. Two-thirds of this gain will come in the booming nonelectrical machinery industry. Manufacturers of nondurable goods now foresee spending 23 percent more for buildings and equipment this year. Increases of more than a fourth are planned in the paper, printing, chemical, and shoe industries.

These are the results of the eighth annual survey of New England manufacturers' capital expenditure plans. The Federal Reserve Bank of Boston conducted the survey in the February-early April period of this year. Replies were received from 786 firms which account for 28 percent of the region's manufacturing employment.

The percentage increase expected this year in the region's capital outlays is similar to that found in surveys for the Nation as a whole. The Department of Commerce-Securities Exchange Commission survey in February found manufacturers planning a 16 percent increase in outlays this year. A McGraw-Hill Company survey in March and early April placed this year's increase in plant and equipment spending by manufacturers nationally at 21 percent.

New England manufacturers show some shift in emphasis from replacement to expansion in their spending last year and their plans for this year. Expenditures for expansion of facilities constituted 40 percent of total spending last year and are expected to account for 42 percent this year. In comparison, expansion expenditures in 1962 and 1963 were 35 and 36 percent, respectively, of total outlays.

The proportion of total spending going to plant — that is, land and buildings — was raised from 20 percent in 1963 to 22 percent last year. Four industries — fabricated metals, nonelectrical machinery, textiles, and paper — were largely responsible for last year's rise in plant spending. In textiles plant outlays more than tripled, while in the other three they doubled.

This year plans for new plants call for a spending increase of 6 percent over last year's level. The nonelectrical machinery and paper industries again expect to double plant outlays. They will be joined by the printing and chemical industries. The textile industry, on the other hand, plans to reduce plant outlays back to 1963 levels. Overall, spending for new plant this year is expected to constitute one-fifth of total spending.

Capacity utilization rates moved up slightly in most manufacturing industries in the region between 1963 and 1964. On the average utilization was 79 percent of capacity last year, compared to 77 percent the previous year. However, the 1964 rate was still well below the 90 percent operating rate that manufacturers prefer. There is, therefore, considerable excess capacity in New England's manufacturing complex. The bulk of spending will continue to be allocated to modernization and replacement of existing structures and machines.

New England manufacturers look for higher sales this year, almost 9 percent above last year. Nationally, according to the U. S. Department of Commerce-S.E.C. survey, manufacturers anticipated a 6 percent rise in sales this year. If regional sales expectations are fulfilled, additional pressure on existing capacity would occur, which might lead to further increases in expansion outlays.

Sources of Funds

For the past three years New England manufacturers planned to use internal sources of funds, such as retained earnings and depreciation allowances, to finance their capital outlays to a much greater extent than they actually did. Last spring, for example, internal sources were expected to finance 90 percent of capital outlays. This spring's survey shows, however, that internal sources were actually used for only 83 percent of their outlays. Manufacturers turned to borrowing to a greater extent than they had planned last year. Last spring they foresaw financing 9 percent of 1964 outlays by borrowing, but they actually financed 14 percent in this manner. Leasing arrangements accounted for most of the remaining funds, as new stock issues were very small. The nonelectrical machinery, instruments, and printing industries used lease arrangements for 5 percent or more of their outlays.

Borrowed funds accounted for more than a fifth of total sources in the nondurable goods industries last year. Particularly heavy reliance was placed upon this source by the paper, printing, and shoe industries. In the durable goods group, where, overall, borrowing constituted 8 percent of total funds, the fabricated metals, lumber, furniture, and stone-clay-glass industries used borrowing for more than a fourth of all funds.

This year regional manufacturers again plan to use internal sources for more than ninetenths of their funds for plant and equipment purchases. Borrowing is expected to be used for only 6 percent of the total. However, the printing and shoe industries plan to borrow a fourth or more of their funds. Funds from leasing arrangements will provide for the remaining 2 percent of total financing.

1964 Spending Short of Plans

New England manufacturers' actual outlays last year fell far short of those forecasted in both the spring and fall surveys made by the Bank last year. Actual spending in 1964 was only 3 percent above the 1963 level. Durable goods producers actually reduced outlays last year by 3 percent, as the defense oriented industries* — ordnance, electrical machinery, and transportation equipment — reduced their outlays collectively by almost a fifth from 1963's level.

Nondurable goods producers raised their outlays 11 percent above 1963's level. However, textile, apparel, and shoe manufacturers actually spent less last year than in 1963 but this decrease was more than compensated by the paper industry which spent 46 percent more in 1964 than in 1963.

Although total capital spending of New England manufacturers was cut back last year by 11 percent from their spring plans, ***plant*** spending was increased by 18 percent. The drop from the amount planned in last year's spending was primarily in outlays for machinery designated to replace existing equipment.

An analysis of past capital spending surveys in the region shows that manufacturers typically underestimate their spending for new plant in their spring plans. Conversations with many respondents indicate that a number of factors are responsible for this underestimation. In some cases construction costs for a particular plant turn out to be higher than originally estimated. In other cases additions are made to the plans after construction starts, for example, a power plant or heating unit is added. Moreover, some firms indicated that when it is necessary to curtail spending during the year, they defer machinery purchases rather than plant outlays.

A follow-up was made early in May of this year of several firms which held their 1964 plant spending at or above their plans made in the spring of 1964. This showed that they were already revising plant spending estimates upward substantially from those they had made in February and March of this year.

Industry Trends

All but three durable goods industries plan to spend more for plant and equipment this year than last. Even these three combined (fabricated metals, instruments, and lumber) are cutting outlays back only 4 percent.

The largest spending increase, both in percentage and absolute terms, in the durable goods group is anticipated in the nonelectrical machinery industry. Expansion outlays will constitute 38 percent of this year's spending. After a good year in 1964, the region's producers expect sales to rise 9 percent this year.

Two of the region's major industries, electrical machinery and transportation equipment, except motor vehicles, were affected last year by reduced defense spending. Nationally, these industries were also affected and reduced their outlays 7 percent between 1963 and 1964. This situation has now changed. At the national

* See "Impact of Defense Orders in New England," *New England Business Review*, March 1965.

level the electrical machinery industry expects sales to advance 9 percent this year, and plans to raise capital spending by a fourth. Producers in the region anticipate a 3 percent sales gain and plan to raise their outlays by an eighth this year. The increase will be concentrated in purchases of new machines primarily for replacement of existing ones. Last year the capacity utilization rate rose to 81 percent from 77 percent at the end of 1963.

The transportation equipment industry now plans to raise its capital outlays by a fourth this year. Replacement outlays will constitute more than two-thirds of the total. The survey a year ago found producers of transportation equipment such as ships and airplane parts expecting sales to drop 9 percent in 1964. Actually, however, they advanced 1 percent. Respondents

CAPITAL SPENDING PLANS OF NEW ENGLAND MANUFACTURERS — 1965

	Total Expenditures		
	1964 Actual ($ Millions)	1965 Planned ($ Millions)	Percent Change From 1964
ALL MANUFACTURING	$688.9	$820.5	+19
Durable Goods	368.1	428.8	+16
Primary Metals	51.4	53.4	+ 4
Fabricated Metals	56.9	53.0	− 7
Machinery	83.2	123.0	+48
Electrical Machinery	53.9	60.4	+12
Transportation Equipment	41.3	52.1	+26
Instruments	41.0	40.3	− 2
All Other Durables	40.4	46.6	+15
Nondurable Goods	320.8	391.7	+22
Food	56.6	53.6	− 5
Textiles	32.4	38.6	+19
Paper	89.3	121.1	+36
Printing	34.8	44.0	+26
Chemicals	23.8	39.2	+65
Rubber and Plastics	37.5	39.5	+ 6
Shoes	12.8	20.8	+63
All Other Nondurables	33.6	34.9	+ 4

Source: Federal Reserve Bank of Boston Survey.

this spring look for 1965 sales to show a 12 percent rise over last year. This is well above the 4 percent gain expected nationally.

In the soft goods group only the food and miscellaneous industries foresee spending less in 1965 than in 1964; each expects to cut back about 5 percent. The largest percentage increases planned in capital outlays among the other nondurable goods industries are found in chemicals and shoes. Both industries are programming a rise of just over three-fifths. Both plan to about double their outlays for new plant. Moreover, respondents in each of these industries look for a 6 percent gain in sales this year over 1964 levels.

The region's paper industry is planning to advance outlays by more than a third this year. Over one-half of this spending will be for expansion. Paper producers in the region are quite optimistic about their sales outlook, and expect a 14 percent gain this year. Nationally, paper manufacturers look for a sales gain of only 3 percent this year.

Following a 15 percent increase last year, firms in New England's printing industry plan to up plant and equipment spending by another 25 percent this year. Over two-fifths of the total outlay was used for expansion in 1964; the same proportion will be similarly used in 1965.

Textile producers in the region are planning to raise capital outlays by almost a fifth this year, with most of the increase allocated to expansion. Respondents' sales last year exceeded their expectations, showing an 8 percent gain over 1963 levels. As a result, the industry's capacity utilization rate rose from 80 percent at the end of 1963 to 86 percent at the end of 1964. Moreover, respondents expect sales this year to show an 8 percent rise, slightly more than national expectations.

Sales Anticipation and Future Capital Spending

Respondents to this spring's survey indicate that they expect 1965 to show a strong advance over 1964. They are much more optimistic about the course of their sales this year than they were about last year's sales. In the spring of 1964, they looked for sales to advance only 2 percent during the year. Their sales actually increased about 4 percent last year. A year ago durable goods producers were quite pessimistic and expected no gain in sales. This year respondents expect 1965 sales to show a 9 percent rise over the 1964 level with durable goods producers expecting an 8 percent rise.

New England manufacturers overestimated the extent of their spending last year, which is contrary to the past tendency to underestimate in times of business expansion. However, the region's growth has been a relatively slow, steady one without great pressures that require rapid expansion of facilities. Capacity utilization averages only 79 percent, whereas a rate 11 percentage points higher is preferred. Nationally, manufacturers feel this pressure to a greater extent. The McGraw-Hill Company survey this spring found manufacturers in the Nation operating at 88 percent of capacity at the end of 1964. This is only 4 percentage points below their preferred rate.

Much of last year's planned spending in the region seems to have been deferred to this year. It will only be realized if manufacturing activity moves up rapidly throughout this year. The strong performance already recorded in the first quarter indicates a good possibility that this will be the case.

Here's New England –

MANUFACTURING INDEXES (seasonally adjusted) 1957–59 = 100	NEW ENGLAND			UNITED STATES		
	pMar.'65	Feb. '65	Mar. '64	Mar. '65	Feb. '65	Mar.'64
All Manufacturing	130	128	120	141	139	130
Nonelectrical Machinery	146	138	133	154	153	137
Electrical Machinery	142	140	123	154	152	135
Transportation Equipment	153	142	138	145	140	130
Textiles, Apparel, Leather	103	105	98	133	133	122
Textiles	105	108	102	132	133	119
Apparel	112	116	102	n.a.	144	132
Leather and Shoes	93	94	91	n.a.	102	96
Paper	125	124	114	140	138	130

		Percent Change from:			Percent Change from:	
BANKING AND CREDIT	Mar. '65	Feb. '65	Mar. '64	Mar. '65	Feb. '65	Mar. '64
Commercial and Industrial Loans ($ millions) (Weekly Reporting Member Banks)	1,946	+ 3	+14	43,949	+ 3	+16
Deposits ($ millions) (Weekly Reporting Member Banks)	5,781	0	+ 9	151,036	+ 1	+ 8
Check Payments ($ millions) (Selected Cities)	186,328	+ 2	+15	2,923.8	+ 3	+13
Consumer Installment Credit Outstanding (index, seas. adj. 1957–59 = 100)	152.8	+ 1	+ 7	179.9	+ 1	+11
DEPARTMENT STORE SALES (index, seas. adj. 1957–59 = 100)	126	– 3	+ 4	n.a.	n.a.	n.a.
EMPLOYMENT, PRICES, MAN-HOURS & EARNINGS						
Nonagricultural Employment (thousands)	3,844	+ 1	+ 2	58,823	+ 1	+ 4
Insured Unemployment (thousands) (excl. R.R. and temporary programs)	136	–11	–22	1,767	–10	–16
Consumer Prices (index, 1957–59 = 100)	111.0 (Mass.)	0	+ 1	109.0	0	+ 1
Production-Worker Man-Hours (index, 1957–59 = 100)	99.0	+ 2	+ 5	107.7	+ 1	+ 7
Weekly Earnings in Manufacturing ($)	98.33 (Mass.)	+ 1	+ 6	107.12	+ 1	+ 6
OTHER INDICATORS						
Total Construction Contract Awards ($ thous.)*	155.621	+12	+12	3,519,732	+ 6	– 2
Residential	65,811	+15	+11	1,483,035	+15	– 7
Nonresidential	51,980	+15	+ 1	1,197,965	+ 2	+ 3
Public Works and Utilities	37,830	+ 3	+36	838,732	– 2	+ 1
Electrical Energy Production (4 weeks ending Mar. 20, 1965) (index, seas. adj. 1957–59 = 100)	150	0	+ 8	160	+ 1	+ 8
Business Failures (number)	86	+32	+12	1,332	+20	+ 1
New Business Incorporations (number)	1,101	+26	+11	19,789	+24	+12

*3-mos. moving averages Jan., Feb., Mar. p = preliminary n.a. = not available