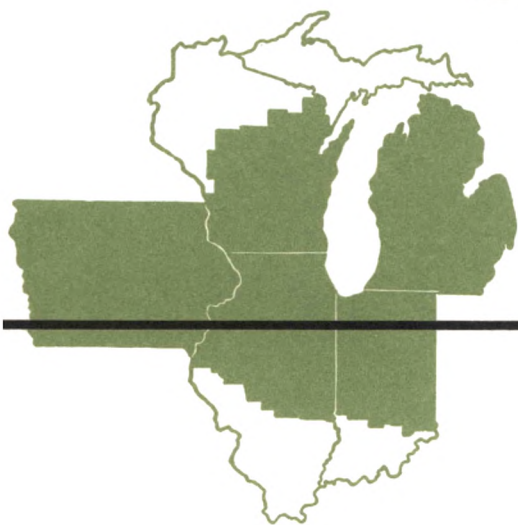


A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1960 February



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THE Trend OF BUSINESS

Settlement of the steel dispute in early January removed the principal uncertainty clouding the near-term business outlook. Planning of purchases, output and sales is now proceeding in the steel-using firms on the assumption that basic materials soon will be available when needed. There is a variance of view as to whether the wage and fringe benefits provided in the steel settlement will lead to inflationary price increases. However, there can be little question that the strike itself, in restricting the availability of goods in a time of generally rising income and demand, exerted an upward pressure on the price level.

It is anticipated that 70 million tons of steel ingots will be poured in the first half of 1960. This is 9 per cent more than in the comparable period of last year when inventories were being accumulated rapidly.

By the end of June, all major types of steel are expected to be in good supply. It is almost certain that some drop-off in steel output will occur in the second half of 1960. However, industry experts do not foresee a sharp cutback in the rate of utilization of steel capacity. The "standard projection" calls for about 130 million tons for the year as a whole, 11 per cent more than the record total of 117 million tons in 1955. Steel output of this magnitude presumes a continuance of strong demand for the products of the metal-fabricating industries throughout 1960. Any appreciable slowing in final demand would probably bring a greater cut-

back in output, especially after inventories are replenished.

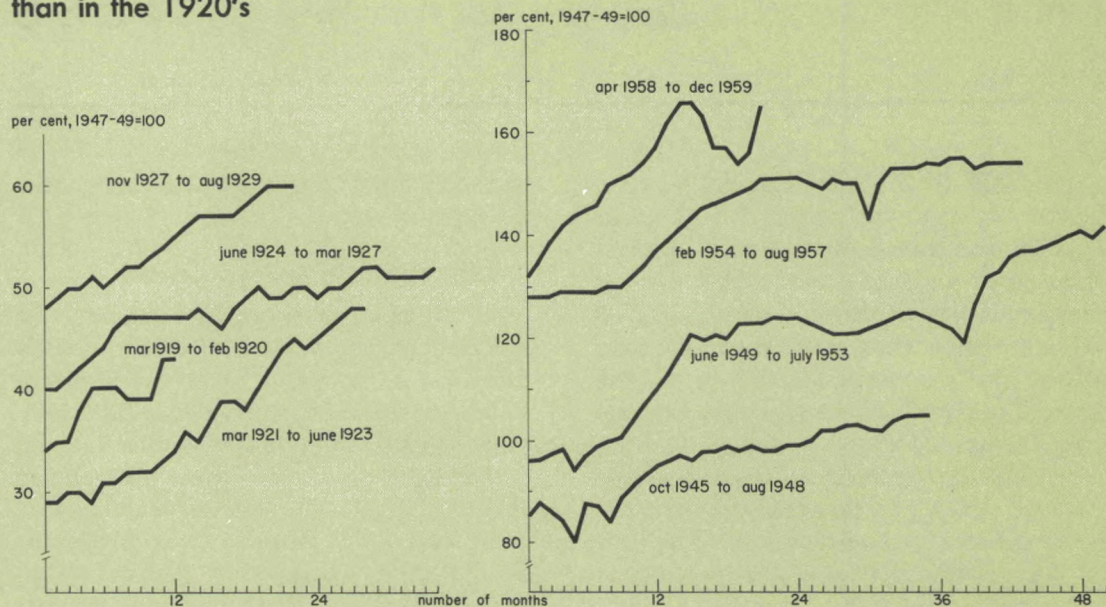
The projected Budget surplus

In his State of the Union address, the President estimated that Federal expenditures and receipts will be in close balance during the fiscal year ending June 30. Moreover, he projected a Budget surplus of about 4 billion dollars for the fiscal year ending June 30, 1961. The surplus is predicated upon total expenditures approximately the same as in the current fiscal year but a substantial increase in revenues. Rising incomes of individuals and businesses are expected to produce the greater flow of tax receipts to the Treasury. The expected surplus is consistent with earlier postwar patterns, when surpluses were achieved in most prosperous years.

In projecting receipts, the Bureau of the Budget has estimated that the output of goods and services will total 510 billion dollars during calendar 1960. This is an increase of 4 per cent over record 1959. The President suggested in a news conference that this may prove to be a conservative figure—that he had noted other estimates ranging as high as 524 billion dollars.

Output during the first quarter of 1960 may be close to an annual rate of 500 billion dollars. If a steady rise throughout the year were assumed, a total output of 510 billion would require an annual rate in the fourth quarter of over 520 billion; a total of 524

Upswings in industrial production have lasted longer in the period since World War II than in the 1920's



billion for the year would require a fourth-quarter rate of almost 550 billion.

Early 1959 was one of the few times during the postwar period when there was widespread confidence that underlying strength would continue for a full year. However, cyclical swings between broad increases and declines in business activity have not been eliminated. Sooner or later the present upswing is likely to give way to a decline, a moderate one if the pattern of the postwar period is continued. One indicator which will be followed closely is the rate of inventory build-up during the months ahead. In only a few lines, such as refined petroleum products, are inventories now believed to be excessive, and, in most hard-goods lines, stocks are at relatively low levels because of the steel strike and strong consumer demand.

Business inventories declined in the third and fourth quarters of 1959 as inventories of steel and steel-related goods were reduced. In the current quarter, there will be an appreciable rise, and, during the April-June period, inventories may be moving up at a rapid pace, depending somewhat on the strength of final demand, especially for hard goods. In the first half of 1959, inventories were increased at a rapid rate as rising sales and output called for larger stocks, but the anticipation of a steel strike also played a vital role. In the second quarter, the annual rate of accumulation reached 10 billion dollars, the highest on record in peacetime and far in excess of a sustainable rate.

When inventories are being accumulated, total demand is augmented by this factor. Any reduction in the rate of inventory accu-

mulation, therefore, has the effect of a reduction in total demand. As a result, the higher the rate of accumulation in the months ahead, the more likely that it will soon decline and tend to dampen, though it need not reverse, the trend in general business activity.

Auto inventories rising

The auto firms have scheduled about 2,250,000 passenger car assemblies for the first quarter. This is 40 per cent above last year and 7 per cent above the previous high in the first quarter of 1955. But these projections, particularly for March, can be adjusted if final demand should be less than is now anticipated.

At the start of the year, car inventories totaled 575,000. This was slightly less than the year-earlier amount and was a relatively low figure when compared with other previous years.

Past experience indicates that the industry is unlikely to build an inventory of domestically produced cars much in excess of 1 million. The highest inventory on record thus far was 965,000 on August 1, 1959—just before the model change-over. If inventories approach the million level, it is likely

that automobile production will be curtailed.

If existing production schedules are realized, a 1 million car inventory would be reached before the end of March unless retail sales averaged over 23,000 per selling day. In the first quarter of 1959, deliveries were at a daily average rate of 17,400. In December, because of limited availability of autos, deliveries were only 14,000 per day.

A selling rate of 23,000 cars per day is well in excess of recent experience and is about equal to the record first quarter of 1955. Therefore, a substantial selling effort will be needed to reach this rate in early 1960, particularly since foreign cars, a minor factor in 1955, are now selling at a rate of almost 2,000 per day.

An important determinant of the size of the car market will be the availability of credit and the willingness of consumers to use it. Recent surveys of consumers indicate that they are confident of the future, consider themselves to be in a strong financial position and intend to increase purchases of durable goods including cars. The large sales finance companies have been preparing for an expected increase in the use of instalment credit by selling debentures and commercial paper.

Who are "the unemployed?"

At mid-December 1959, unemployment in the nation was estimated to total 3.6 million persons. This was 90,000 less than in November, reflecting primarily the continued recall of workers laid off as a result of the steel strike. Usually, unemployment

rises seasonally about 100,000 between these months. Although unemployment at mid-December, seasonally adjusted, had declined to 5.2 per cent of the labor force and was well below the 1957-58 recession high of 7.6 per cent, it was still somewhat higher

than in the summer of 1957, which marked the peak of the preceding boom. This failure to drop back to the previous low also occurred in the recovery following the 1953-54 recession.

Unemployment defined

Current information on unemployment is compiled each month by the Bureau of the Census. Estimates are based on the results of a monthly survey of a sample representing the civilian population 14 years and over. Individuals are queried as to their own work status and that of other members in their immediate family during the week which includes the twelfth day of the month.

Unemployed persons include those who *did not work* at all during the survey week *and were looking for work*. Those awaiting the results of efforts to find jobs within the 60 days preceding the survey week are regarded as looking for work. Also included in the unemployed are those who (a) were waiting to be recalled to a job from which they had been laid off, (b) were waiting to report to a new job scheduled to start within the following 30-day period, or (c) would have been looking for work had they not been temporarily ill or believed that no work was available in the community of the type sought. Those on strike are not included. This definition of unemployment has been in use since January 1957 and differs in some respects from the definition used prior to that date. Data presented in the chart for years prior to 1957 are adjusted to conform with the current standard.

There is considerable movement into and out of the labor force. Some is seasonal but much of it reflects shifts in the economic climate. From 1957 to 1959, for example, which includes the period of recession, the civilian labor force increased by 1.4 million

persons. The armed forces declined by roughly 200,000 so that the total labor force went up only 1.2 million or less than half as much as the increase in population 14 years old and over.

From 1954 to 1956, on the other hand, a period in which economic activity rose strongly, the labor force increased 2.6 million, or slightly *more* than the rise in population of working age. Behind the rise in total labor force during this period was an increase of 3.1 million in the civilian sector and a drop of one-half million in the armed forces. This 1954-56 experience illustrates how the labor force can expand—largely through married women and older people seeking work—in a tight labor market. The number employed usually can increase far more than would be indicated by the number unemployed. Even in periods in which there are unfilled job openings, there is some “frictional” unemployment, which results from such factors as high voluntary quit rates and seasonality in operations. This *irreducible minimum* may total as many as 1.5 million persons, or 2 per cent of the labor force.

Persistent unemployment in profile

In the published official data, the unemployed are classified according to such meaningful characteristics as age and sex, color and sex, marital status and sex, jobs previously held and duration of current idleness.

The most widely used measure of *persistent unemployment* is the number who have been seeking work for 15 weeks or longer. This measure tends to understate the amount of persistent unemployment; any work, even of a casual or odd-job nature, breaks the continuity of consecutive weeks of unemployment. During 1958, for example, 2.3

million workers with one period of idleness were unemployed 15 weeks or more, but 2.7 million had two or more periods of unemployment which in total extended 15 weeks or longer. Nevertheless, the data do help to indicate to what extent the unemployed is a constantly changing group, or is more or less permanent.

In November 1959, the most recent month for which detailed figures are available, a little more than half of the unemployed had been out of work for less than 5 weeks. An additional 28 per cent had been idle for 5 to 14 weeks. Both of these groups probably included some workers who had not yet been recalled to jobs from which they had been laid off as a result of the steel strike. (Those actually on strike are classified as being employed.) Twenty-one per cent of the total number of unemployed in November had been out of work for 15 weeks or more—since before the strike. Twelve per cent had been out of work for 27 weeks or longer.

In the recession year, 1958, *persistent unemployment* was, of course, much higher than it was in November 1959. One-third

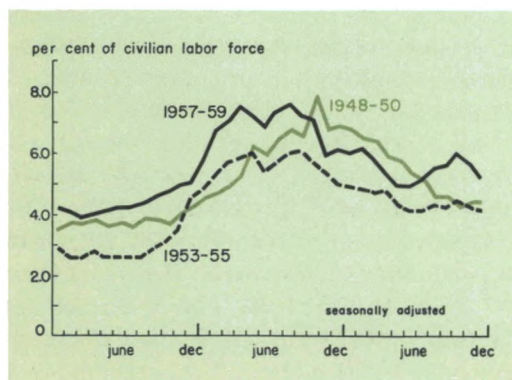
of all unemployed workers were out of work for 15 or more consecutive weeks, an average of nearly 1.5 million for the year. The number unemployed for long periods rises substantially during recession and falls sharply during recovery.

As of November, however, long-duration unemployment was proportionately larger relative to the pre-recession level than in the earlier postwar recessions. The number of persons who had been seeking work for 15 weeks or longer was roughly 60 per cent above the pre-recession level. This tendency toward a relatively high level of long-duration unemployment is a distinguishing feature of the recovery following the most recent recession as compared with the two previous ones.

What are the major characteristics of the group which has been unemployed consistently for a relatively long time? One outstanding characteristic: the group includes a high proportion of unskilled workers. Those with less skill tend to be laid off earlier and to remain out of work longer. Among the major occupational groups, extended unemployment in November was most common for laborers (excluding farm and mine laborers). It is highly probable that the high incidence of long-duration unemployment among nonwhite workers is due in large part to the fact that a higher proportion of them is unskilled. Expressed as a percentage of labor force, the rate of unemployment for nonwhite workers was 2½ times the rate for white workers in November. Differences were even greater for men where the rate for the nonwhite was 3 times that for the white.

Age is another important factor in long-duration unemployment. Among the various age groups, the incidence of persistent unemployment is greatest for men and women

Unemployment rate during three recessions



under 24 years of age and for men over 65 years of age. The difficulty encountered by many older workers in finding a job is well known. Less well recognized is the difficulty of the young—often inexperienced, unskilled and with limited education—worker to gain

a foothold promptly after entering the labor market.

Persistent unemployment appears to be more common in some industries than in others. Workers in mining, for example,

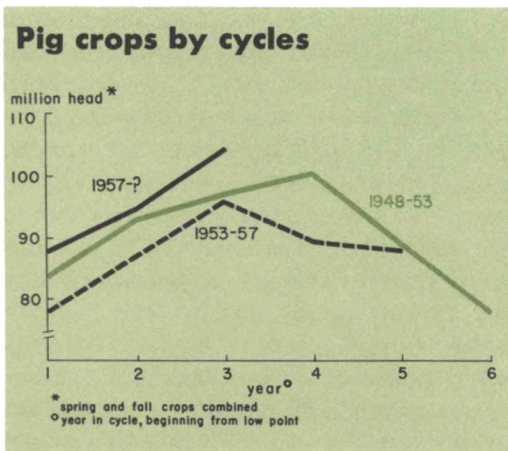
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The hog cycle in perspective

The importance of hogs to Corn Belt agriculture is well known, since they account for about one-third of farmers' gross cash receipts in Iowa and about one-fourth and one-fifth in Indiana and Illinois, respectively. Farm income in these states is sensitive to shifts in supplies and prices of hogs, and, through the years, both have shown large fluctuations. This, of course, has been a matter of great interest to farmers, meat packers and consumers, and much study has been undertaken to discover a possible

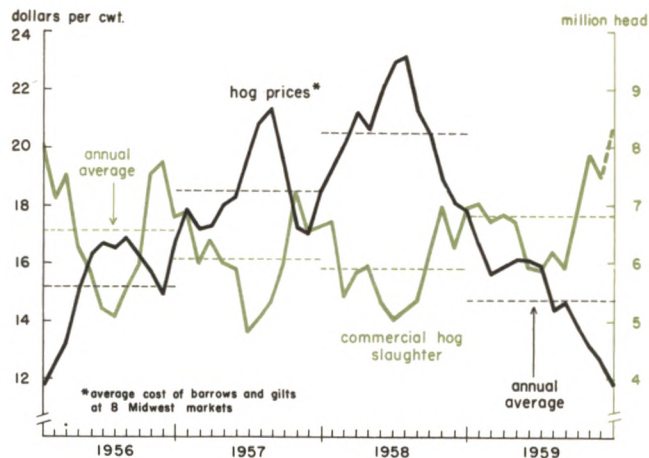
means of stabilizing the hog picture.

In the 1930's, programs were adopted to stabilize supplies and prices of corn. It was widely believed that these would also stabilize supplies and prices of hogs. While the variations of hog production in subsequent years have differed somewhat from the earlier pattern, large swings in output have continued. Some of the major characteristics of the fluctuations commonly referred to as "the hog cycle" are shown in the following charts.



Cyclical changes in hog production since 1945 have tended to alternate between increases of two or three years duration and declines of about two years. These fluctuations result from (1) the large changes in price which result from changes in supply and (2) the time necessary to change the quantity produced, as dictated by the biology of the hog. The relatively large price changes reflect consumers' desire for stable supplies and their resistance to any increase or decrease of consumption except as "forced" upon them as a result of large changes in prices.

Hog prices have declined sharply in the past eighteen months, reaching \$11.20 per hundredweight, national average, in December. This was the lowest price since January 1956, the corresponding time of the previous cycle, and 36 per cent below a year earlier. This drop in prices has been in response to increased slaughter of hogs in the present cycle. The total number of hogs slaughtered was 15 per cent higher in 1959 than in 1958. The peak has apparently been reached in the recent upswing in production as farmers have reported that they plan to produce fewer pigs in the spring of 1960.



Thus, 1960 probably will see the continuation of a cyclical pattern of output.

Fluctuations in corn production set the stage for changes in hog production prior to the 1930's, before price support programs assumed a dominant role for feed grains. Most of the feed grains produced in one year were fed before the next year's crop was harvested. Thus, livestock production was adjusted quite promptly to changes in the amount of feed available. Hogs have been the largest user of corn and in many ways are the most adaptable users. Therefore, hogs have shown a sharper response to variations in corn production than have other kinds of livestock.

The process was somewhat as follows: in a year of high corn production, corn prices declined, and, since the supply of hogs could not be increased quickly, hog prices would be high relative to corn. In this situation, it was more profitable to feed corn to hogs than to sell it as grain. Hence, an expansion of

hog production would be initiated. Prior to World War II, the ratio of prices of hogs to corn averaged about 12 to 1. Years in which the ratio was above this average were followed by increases in production of hogs, while years in which the ratio was below this average were followed by decreases.

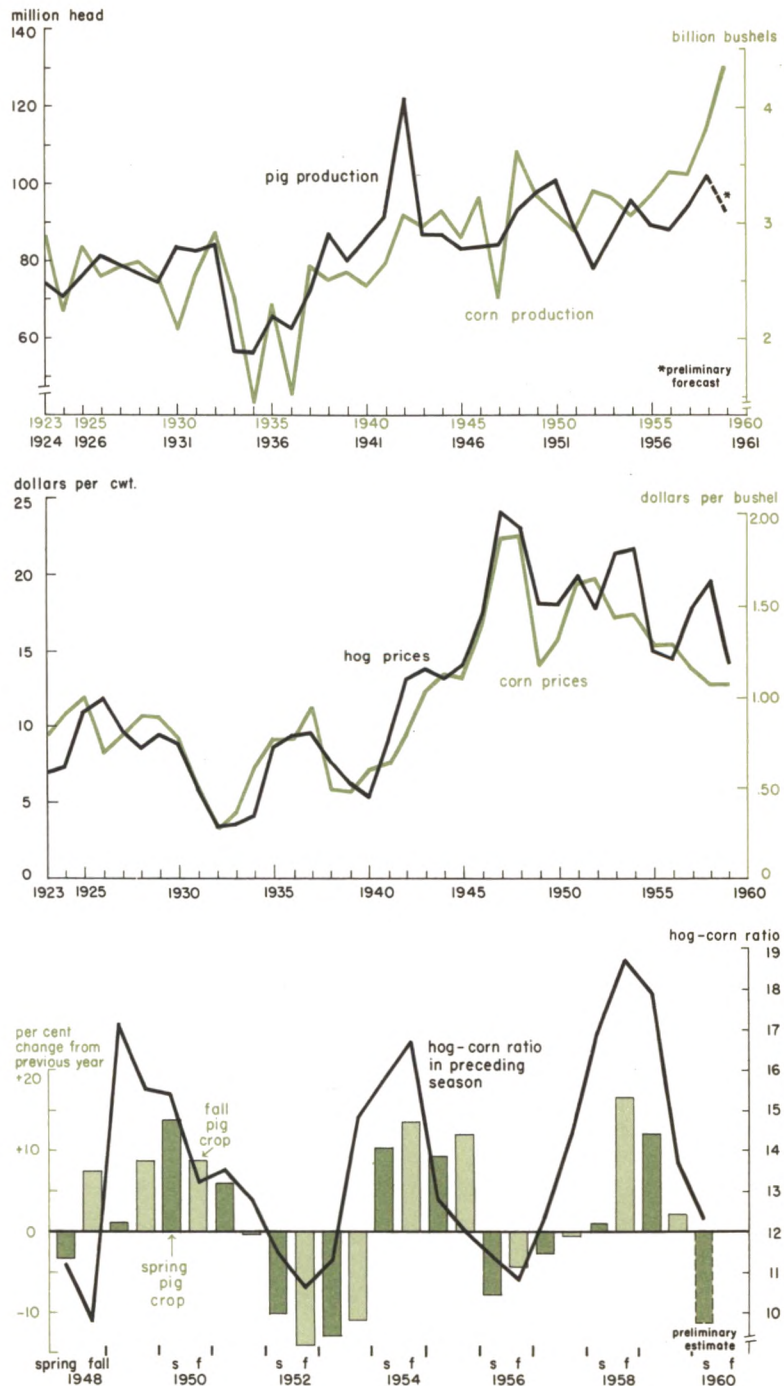
Following the introduction of a Government price support program for corn, corn prices have not fluctuated greatly in response to changes in crop size. Thus, the influence of the traditional basis for the hog cycle—fluctuations in supplies and prices of corn—has been greatly reduced. Even so, the hog-corn ratio has continued to fluctuate in response to changes in hog prices. Now the cycle is largely one of production response to price changes for pork. Also, the cycle has tended to become shorter since it is dependent largely on the time limits imposed by the biological processes in produc-

ing hogs and is largely independent of corn production.

Recent hog cycles

have also tended to be sharper and to fluctuate around a higher average hog-corn price ratio. Consumer demand for pork has been declining and consumption has become even more insensitive to changes in price. As a consequence, price responses to changes in supply have been even larger. This, in turn, results in greater swings in production.

The higher average hog-corn ratio is in part an indication that farmers prefer the certainty of the corn support price to the uncertainty of probable hog prices nearly a year in the future, and in part a reflection of the higher costs of items other than corn used in the production of hogs. Consequently, 1960 promises to bring a highly unusual situation—a sharp downturn in production following a hog-corn ratio above the long-term average.



The new Budget

The President's Budget for the next fiscal year forecasts a surplus of 4.2 billion dollars. The impact of the Federal Government's finances on the economy, however, is better measured by total cash receipts from the public and total cash payments to the public. These differ from the conventional budget in that they include the sizable operations of the Government's trust funds and exclude the internal transactions among various Government accounts.

On a cash basis, the predicted receipts and disbursements are on the order of 16 to 18 billion dollars larger and the surplus is 1.7 billion larger than for the conventional budget. The social insurance trust funds—social security and other retirement programs, and unemployment insurance—and the Federal high-

Estimated receipts and expenditures of the Federal Government for the year ending June 30, 1961

	Conventional budget basis	Adjustment to obtain cash basis	The cash basis
(billion dollars)			
Receipts			
Individual income taxes	43.7		43.7
Corporation income taxes	23.5		23.5
Excises and customs—	10.9		
for highway trust fund		+ 3.0	13.8
Employment taxes—	.3		
for old age and survivors insurance		+10.7	
for disability insurance		+ 1.0	
for railroad retirement		+ .7	12.7
Other receipts—	5.6		
unemployment insurance deposits from states		+ 1.9	
veterans' life insurance premiums		+ .5	
other trust funds receipts (on cash basis)		+ 1.6	
transfers from Govt. agencies and trust funds		- 1.1	8.5
TOTAL	84.0	+18.2	102.2
Expenditures			
Major national security—	45.6		
advances for military assistance		+ .3	45.9
International affairs and finance	2.2		2.2
Veterans' services and benefits—	5.5		
life insurance benefits and dividends		+ .7	6.1
Labor and welfare—	4.6		
cash expenditures for—			
old age and survivors insurance		+11.2	
disability insurance		+ .6	
unemployment insurance		+ 2.0	
railroad retirement		+ 1.0	
Federal employees' retirement & other benefits		+ .9	20.3
Agriculture	5.6		5.5
Natural resources	1.9		2.0

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way program account for the lion's share of the differences. For 1961, the major reason for a cash surplus which is larger than the budget surplus is the fact that 1.6 billion dollars of interest payments by the Treasury are not cash payments to the public, but reflect interest credited to Government agencies and trust funds and accrued on savings bonds.

Expenditures, cont.

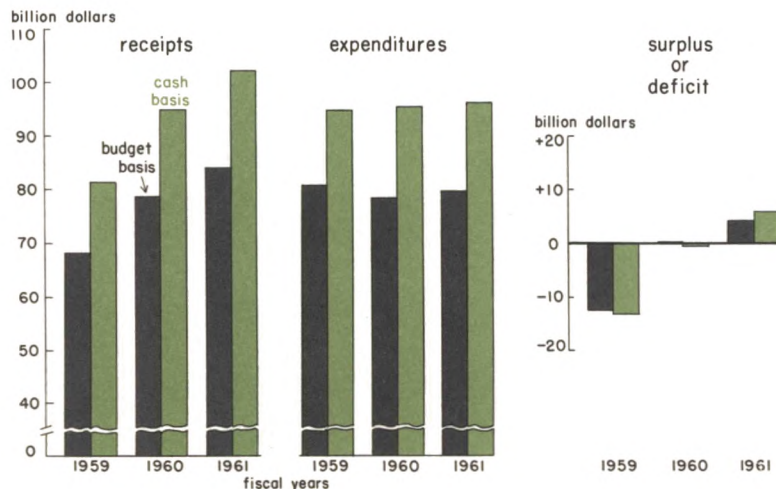
	Conventional budget basis	Adjustment to obtain cash basis	The cash basis
(billion dollars)			
Commerce and housing—	2.7		
highway trust fund cash expenditures		+ 2.7	
FNMA secondary market operations		+ .8	
net expenditures of Government-sponsored financial enterprises		— .6	→ 5.6
General Government—	1.9		
District of Columbia and Indian tribal funds		+ .4	→ 2.3
Interest—	9.6		
savings bond interest accrued but not paid		— .1	
interest paid Govt. agencies and trust funds		— 1.5	→ 8.0
Allowance for contingencies	.2		.2
All other adjustments, net (primarily contributions to Federal employees retirement fund)		— 1.7	— 1.7
TOTAL	79.8	+ 16.4	96.3

Note: Detail may not add to totals due to rounding.

Economic recovery turns deficit into surplus

In fiscal 1959, the Treasury ran a record peacetime deficit. Due to the strong rise in

business activity, Federal cash receipts are expected to be 21 billion dollars higher in the fiscal year ending June 30, 1961 (16 billion higher on a conventional budget basis). Cash expenditures are estimated to be 1.5 billion dollars above the 1959 level (budget expenditures, slightly below the 1959 level). The result is a sharp improvement in the Government's fiscal prospects.



Sharp rise in debt increases demand on capital and credit markets

The outstanding amount of public and private debt increased over 57 billion dollars during 1959, nearly as much as in the record year—1955—when total debt increased by 60 billion. Both 1955 and 1959 were years of strong expansion in activity following recession.

Although all major sectors of the economy have contributed to the expansion in output and income, the sharpest gains have been in the hard goods lines where sales frequently involve the use of credit. Residential construction, consumer purchases of durables and business outlays for new machinery and equipment all were at high or rapidly rising levels in 1959. Home-building outlays were one-fourth larger than in 1958. Consumers spent about 12 per cent more on durables, and business investment in new machinery and equipment was 14 per cent above such outlays in 1958. These three dynamic areas of expenditures represented only 18 per cent of the over-all value of goods and services produced in 1958. Yet, together with increases in inventories, which also are credit financed to a great extent, they accounted for over half of the increase in total output between 1958 and 1959.

Because of the volatile nature of the demand for hard goods, and the related effects on business inventories, changes in this sector play an important role in business fluctuations and credit trends. As a result, debt typically rises rapidly in the early stage of a business recovery.

The total demand on the money and capi-

tal markets is an aggregate of the borrowing requirements of the various sectors of the economy. It is relatively easy to identify what constitutes debt or credit transactions, but it is not as easy to decide what is the most meaningful measure of the total amount of debt and changes therein.

Measuring debt

An all-inclusive measure of debt would encompass the liabilities of all economic units within the economy. This would, for example, include all deposit-type liabilities of financial institutions to their customers, charge account credit and liabilities of taxpayers for taxes not yet paid on income already received. Measured in this way, total debt outstanding passed the trillion dollar mark several years ago.

The most frequently used figure for outstanding debt, however, excludes bank deposits and other deposit-type claims on financial institutions and the debt held internally within a particular economic unit. Thus, Treasury obligations owned by a Government trust fund or agency, state or local government securities held by the issuing authority or corporate debt in the portfolio of a parent firm are deducted from the gross obligations excluding deposit-type liabilities to measure "net public and private debt." These data, which are compiled and published by the United States Department of Commerce, are presented on the first line of the accompanying table for the years 1953 through 1958.

Demands on the capital and credit markets, 1953-59

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
	(billion dollars)						
Net public and private debt.....	586	612	672	707	736	770	828
Less:							
Trade credit.....	50	53	62	66	69	72	} 152
Corporate profits tax liability...	20	16	20	19	17	14	
Debt of Federal Government and finance companies which duplicates debt of other sectors to them.....	35	36	41	43	46	48	
Miscellaneous nonmarket debt...	3	3	10	16	13	7	
Debt generated by borrowing in capital and money market, excluding duplicative debt.....	479	504	539	564	591	630	676
New demands on money and capital market.....		25	34	26	27	38	46
Consumers.....		12	20	15	12	12	19
Business.....		6	11	12	12	10	15
Farm.....		1	1	1	1	1	2
Federal Government.....		3	-1	-7	-3	7	5
State-local governments.....		4	3	3	4	6	5
Rest-of-the-world.....		—	—	1	1	2	—

Note: Detail will not necessarily add to totals due to rounding.

Even this series, however, overstates the net demands on the capital markets. It includes the obligations of both "wholesale" and "retail" borrowers. There are many businesses that serve as wholesalers or intermediaries between the sources of loanable funds and the ultimate users—consumer and sales finance companies being the prime examples. Counting the same funds twice as they pass from the saver or financial institution to the finance company and then to the consumer or small business served by the finance company does provide a measure of total obligations, but it overstates the net requirement for credit to ac-

commodate the manufacture, marketing and consumption of goods and services.

The Federal Government also acts as a financing intermediary. Credit extended by the Treasury by way of purchases of mortgages, or loans to businesses, farmers, homeowners, state and local authorities and foreign governments is financed by Treasury borrowing from the public. In most years, therefore, Treasury borrowing to finance Government activities, aside from credit-extending programs, is less than the total increase in its publicly held debt. Net Treasury demands on the capital and money markets equal the difference between the increase in

publicly held Federal debt and the amount of credit the Treasury provides to the markets.

The Commerce Department data also include such book debt as trade payables and accrued corporate tax liabilities. However, new demands on the money and capital markets result from an increase in the volume of book credit only insofar as creditor firms utilize external sources of funds more heavily.

The estimated amount of credit generated by financing in the market, excluding book debt and duplicative debt of Federal agencies and finance companies, is also presented in the same table. These figures have been compiled from the Flow-of-Funds/Saving accounts, developed by the Board of Governors of the Federal Reserve System and now published quarterly in the *Federal Reserve Bulletin*.

In 1959 . . .

New borrowing through the money and capital markets, estimated at 46 billion dollars in 1959, was 35 per cent above the level in the boom year of 1955.

Personal borrowing during 1959 was responsible for a large part of the increase in indebtedness. Mortgage debt on 1-to-4-family homes rose an estimated 13.3 billion dollars—exceeding the previous record rise of over 12.5 billion in 1955.

In number of units, housing starts last year about matched the record 1955 number of over 1.3 million. But higher construction costs, the trend toward larger homes and a decline in down payments relative to purchase price boosted credit extensions well above the 1955 level. Although repayments were at a higher level, reflecting the larger amount of debt outstanding at the beginning of the year, the total outstanding rose sharply during the year.

Outlays for residential construction played a big role in the business recovery in 1958. After fluctuating about a seasonally adjusted average rate of 1.0 million units during late 1956 and 1957, housing starts began to increase in early 1958. By the end of that year, outlays for home building were at an annual rate 2 billion dollars above the spring of 1958 and within the next six months increased another 3 billion dollars.

Rising sales of automobiles and furniture and home appliances last year also contributed to the increase in volume of personal debt outstanding. Although starting to rise later than the upsurge in mortgage credit, consumers' short- and medium-term obligations increased about 6.6 billion dollars. Of this, 2.5 billion was accounted for by a rise in auto credit.

Short-term business borrowing also showed a large increase. Commercial and industrial loans at the nation's banks rose 5.4 billion dollars in 1959, in contrast with 1958 when such loans at the end of the year were at the same level as twelve months earlier. Long-term borrowing, however, declined. Net corporate long-term debt rose by only 6 billion dollars during 1959, 2 billion less than in the previous year.

The drop in corporate security flotations occurred in the face of a rise in capital expenditures. Larger depreciation allowances and expanded retained earnings supplied a larger share of funds needed by corporations.

Although total corporate new issues decreased, offerings of sales finance and consumer finance companies rose from 400 million in 1958 to 700 million last year. This gain, of course, reflected the sizable rise in consumer credit. State and local governments continued to issue new securities at the record 1958 pace. The Federal Government, despite the high level of business ac-

tivity, spent 8 billion dollars more than its cash receipts, about the same performance as in 1958, a recession year.

A larger amount of the Treasury's deficit last year, however, was incurred as a result of a sizable increase in credit supplied to the market by the Government via purchases and extensions of mortgages and other loans. Mortgage holdings of the Government, for example, rose by an estimated 2 billion dollars or more, compared with only 300 million in 1958, when both the demand for mortgage credit was lower and the supply of private funds was greater.

Pressure on interest rates

The high level of demand for borrowed funds was reflected in a sharp rise in interest rates. The greatest gains were recorded in the short-term sector, reflecting the large Treasury financing requirements and the expanded demand for business loans, together with the Federal Reserve's efforts to restrain the volume of bank credit expansion in accord with its objective of promoting sustainable growth.

Long-term rates increased but by a much smaller amount. The decline of corporate long-term borrowing and the forced abstin-

ence over most of 1959 of the Government from issuing obligations maturing in over five years helped moderate the gain.

Short-term and intermediate-term rates were above those on long-term obligations at year end. This pattern, although not new to the market in recent years, is still considered in some quarters to be "abnormal." However, it reflects the interaction of the demand for and supply of funds in the various maturity classes and can be expected to change as shifts occur in the supply and demand forces in the various market sectors.

For 1960 . . . ?

The movements of interest rates this year will, of course, be related primarily to the level of over-all economic activity. A drop in home building and a decline in the Federal deficit would reduce the pressures from these sectors on the capital and money markets. Should business activity continue to expand, however, increased business borrowing to help finance capital outlays and additions to inventories, and rising consumer instalment debt, combined with some possible decline in the supply of funds, could mean continued pressure on the market for borrowed funds.

Unemployed—*continued from page 7*
have experienced relatively greater incidence of such unemployment than those in other industry groups. Important in this higher rate for miners is the secular decline in coal mining. Employment in this industry has declined as a result of mechanization and competition from gas and oil. Among the manufacturing industries, textile workers have experienced relatively long periods of

idleness. Persistent unemployment was relatively high among construction workers during the first half of 1959 but was reduced in November.

Geographical distribution

Just as persistent unemployment is more pronounced for certain age, color and occupational groups than for others, continuing high levels of unemployment are more

common in some areas than in others. The Bureau of Employment Security, in a study published in July 1959, identified 17 major areas and 53 smaller centers which at that time were classified as areas with substantial labor surplus and which had had unemployment rates at least 50 per cent above the national average during four of the five preceding years. Many of these areas are located in the northeastern states. A number of New England textile centers have had prolonged unemployment as a result of declining markets for wool and cotton textiles as well as the relocation of some textile mills. Numerous coal mining centers appeared on the list of "chronic labor surplus areas." Pennsylvania and West Virginia, for example, have 18 major areas or small centers so classified, of which the majority have coal mining as the industry principally responsible for heavy unemployment. Pockets of persistent unemployment are found also in the coal mining fields of Kentucky and southern Illinois. Many of these communities are not within commuting distance of cities where jobs are available and the population has not adjusted fully to the changes in local employment.

Three of the major areas and only 4 of the smaller centers with chronic labor surpluses are located in the Seventh Federal Reserve District, specifically in District sections of Illinois, Indiana and Michigan. The largest of these is the Detroit area where employment has been adversely affected by decentralization of auto manufacturing facilities, automation, declines in the amount of defense work and shifting consumer preferences among the products of the various automobile manufacturers. It should be noted that Detroit was a "boom town" during much of the postwar period and attracted a large labor force from outside the area.

Since 1956, however, it has had a substantial labor surplus.

Unemployment has been an important problem in Terre Haute, Indiana, for many years. Cutbacks in local bituminous coal mining in the 1930's and in the number employed by railroads in more recent years account for much of the area's unemployment, but the situation has been aggravated by curtailment of manufacturing also.

Unemployment in the Muskegon-Muskegon Heights area appears to be less chronic. Cutbacks in household appliances, especially refrigerators, and in industries producing automobile components and parts have been important, especially during the 1957-58 recession. But substantial improvement has appeared in recent months in Muskegon's foundries and auto parts industry, and in September 1959, the area was removed from the list of surplus labor markets.

In each of the four smaller District centers with substantial amounts of unemployment of long duration—Muncie, Indiana, and Bay City, Monroe and Port Huron, Michigan—the shifting fortunes of the automobile industry have played important roles. However, with the steel strike settled and the outlook for autos improved, unemployment in these centers is showing at least cyclical declines.

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