

MONTHLY REVIEW

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FEDERAL RESERVE BANK OF ATLANTA

The Southeast's Booming Paper Industry

Dramatizing the industrialization lag of the South, Henry W. Grady, the renowned Atlanta journalist, related before a Boston audience in 1889 his observance of a funeral in his native Georgia for which the South had provided nothing but the corpse and the hole in the ground. He was said to be particularly sad that the pine coffin used in the funeral had been made in Cincinnati, even though the body was buried in the heart of a southern pine forest. If he were alive today, he would be more than overjoyed; for the southern pine forest not only has ceased to be a mere sleeping green beauty, but has made the South a major production center of paper as well as the showplace of American technology in papermaking. The pine trees have also brought booms in employment and income for many communities in the South.

A Spectacular Record

A glimpse of the region's¹ pulp and paper industry activities that have taken place during the last two decades will undoubtedly impress even the most casual observers. Being endowed with

¹The region includes Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee.

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fast-growing southern pine and an abundance of fresh water, the region was a natural target for the expansion-thrust of the pulp and paper industry after World War II. From 1947 to 1966, this industry's output in the Southeast increased a spectacular 250 percent as compared to a 97-percent increase in the rest of the nation. In short, the region's paper and paperboard output grew more than twice as fast as in the U. S. as a whole and contributed one-third of the net increase in the nation's total paper production.

As a result of such rapid growth in production capacity, the region has emerged as a major production center of paper and paper products. In 1946, the region produced about 17 percent of the country's total paper and paperboard production; in 1966 the share jumped to about 27 percent; and by the end of 1969, it is estimated that its share will have nudged up to 28 percent.

Growth Factors and Production Efficiency

In a way, the enviable growth of the region's paper industry and subsequent emergence of the region as the nation's major paper production center provide a classic example of how the interplay of competitive forces in the free market has guided business decision making and has contributed to the development of the regional economy. As was noted earlier, the abundance of fast-growing southern pine and fresh water undoubtedly gave the region a competitive edge over other regions. However, this does not tell the whole story.

First of all, overall demand for paper and paper products expanded along with the growth of the economy and the living standards of the American consumers. As the economy has produced more and better products and services for the growing population, industrial and commercial users have demanded more paper products—ranging from container boards to disposable bedspreads. At the same time, better-educated and affluent American consumers read more books and newspapers and consume more paper-based products. Per capita consumption of paper products in the United States increased about 40 percent to 530 pounds between 1950 and 1968. Paper consumption in the U. S. is almost astronomical compared to the rest of the world—estimated to be only slightly more than 50 pounds per person in 1968.

The second reason the paper industry turned to the South was that this region offered an opportunity to reduce production costs. There has been keen competition among paper producers stemming largely from the industry's overall excess capacity, particularly of paperboard. Then, too, paper products faced stiff competition from other products—such as plastics—that can be used as substitutes for paper.

Price data reflect the paper industry's competitive pricings and its ramifications. Prices received for pulp and paper products have risen at a slower pace than average prices for all industrial commodities. In some cases, such as paperboard, prices were lower in 1967 than during the average 1957-59 level. On the other hand, the cost of pulp wood and papermaking chemicals has risen substantially since late 1950. Seeking more efficient means of making papers, the industry found the logical answer in the construction of large-scale, highly automated, and vertically integrated paper mills in the region. Today, large mills in this area produce finished paper rolls from raw pines in a continuing flow process, and the new technology of papermaking used by the region's mills is widely regarded as one of the most efficient in the world.

The region's production efficiency in papermaking is attested to by the rapid rise in labor productivity. While total paper production increased 160 percent between 1950 and 1966, employment increased only about 60 percent. Consequently, output per employee rose from 91 tons in 1950 to 147 tons in 1966. Also, productivity in the region was higher than in the nation. In 1966, the value of shipments per manhour was \$22.36 for the region and \$18.98 for the nation.

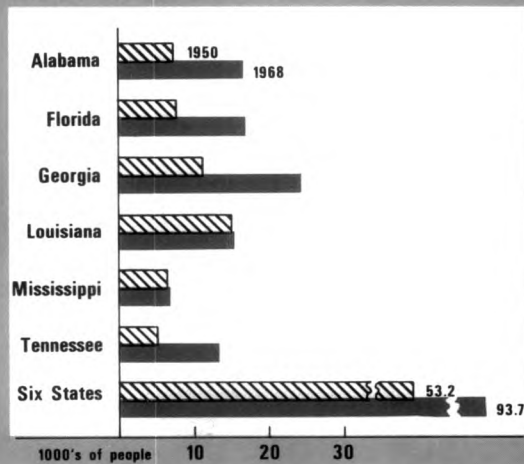
Income and Employment

The emergence of the Southeast as a major paper production center has brought booms in employment and payroll income which in turn have boosted the overall economic well-being of the region in general and of a number of communities in particular. In 1950, 53,200 persons were employed by the region's paper and allied products industry. In 1968, the industry's employment was nearly 94,000.

The industry's payroll income is estimated to have increased from \$145 million in 1950 to \$608.1 million in 1967, about a 320-percent jump. This is considerably faster than the pace of the region's total personal income.

Even more significant than the fast-growing payroll income is that production workers in the region's paper industry earn more on average than their counterparts in the nation's paper industry. For instance, in 1967, an average production worker in the region's paper industry earned \$130.80 a week as compared to \$122.84 a week earned by his national counterpart. The average hourly wage was \$3.05 compared to the national average of \$2.87 an hour.

Employment in the region's paper and allied products industry has grown much more in some states than in others.



The contribution of the pulp and paper industry to the general well-being of the regional economy has been substantial. A rough estimate indicates that the average net increase in the industry's payroll income was about \$50 million annually between 1966 and 1968.

In general, the initial increase in income payment to individuals multiplies. That is, when the initial income recipient spends his new income on a variety of goods and services, income of those who are engaged in producing those goods and services will increase. Then, the latter group spends its increased income which will in turn increase the income of still another group of workers. Through this multiplier process, the industry probably contributed to the net increase in the region's total personal income by about \$150 million to \$200 million a year between 1966 and 1968.

Industry Development by Area

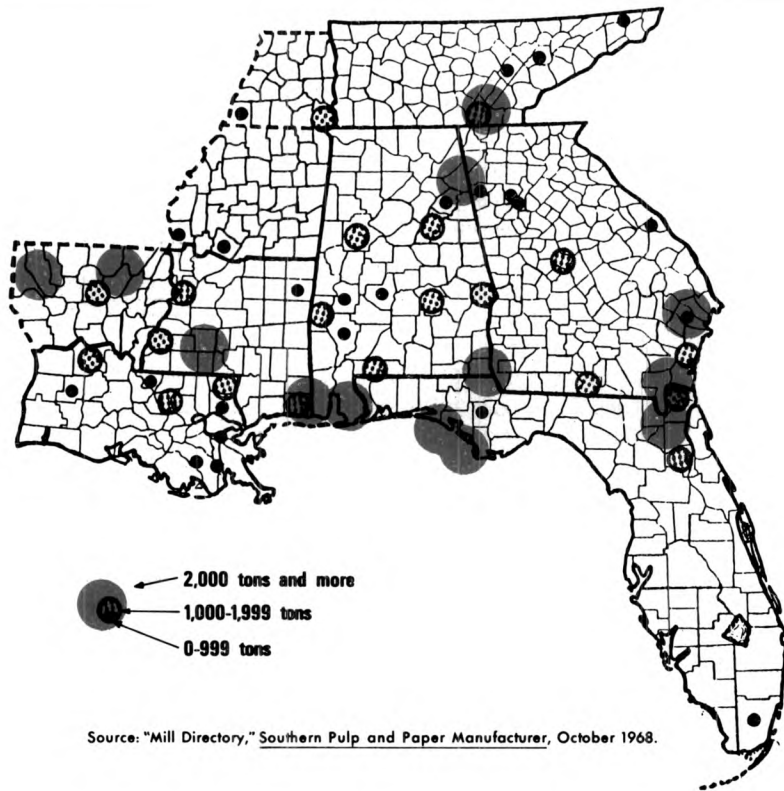
Within the region, paper and paperboard plants are located in both urban and rural areas. Most of the mills in nonurban areas are engaged in the so-called primary sector of the industry—

that is, the making of pulp, paper, and paperboards. Many of the mills in or near urban areas are engaged in converting paper and paperboard to various paper products as well as the primary operation of making pulp and paperboard. Reflecting the changing patterns of demand for paper products, the region's major product lines are shifting to printing papers and bleached paperboard from unbleached kraft linerboard which dominated the region's paper output until very recently.

The map shows the locations of major pulp and paper plants in the region. The Georgia coast line and Gulf coast areas host mills that produce approximately half of the region's total paper output and the remaining half is produced by mills in Tennessee and inland areas of Georgia, Alabama, Mississippi, and Louisiana.

In terms of total production, Georgia ranked

Pulp and Paper Production Centers



PAPER AND BOARD PRODUCTION
(thousand of tons)

	1947	1950	1958	1962	1966	1968p
Alabama	375	516	955	1,536	2,198	
Florida	633	1,070	1,818	2,102	2,344	
Georgia	587*	993	1,750	2,577	3,482	
Louisiana	1,342	1,430*	1,671	1,856	2,551	
Mississippi	462	564	687	721	766	
Tennessee	211	281	644	1,017	1,215	
Total Region	3,610	4,854	7,525	9,809	12,556	14,200**
Total U. S.	21,114	24,375	30,775	36,648	47,189	50,500
Region's Share in U.S. Production (in percent)	17.1	19.9	24.4	26.8	26.6	28.1**

p = projection.

*Estimated by extrapolation.

**Projection made by this Bank.

Sources: U. S. Department of Commerce (BDSA) and American Paper Institute.

first in the country. In 1966 (for which the latest production data are available in detail), mills in Georgia produced 3.5 million tons, or about 7 percent of the nation's total paper and paper-board production. Total value of shipments by Georgia mills was 29 percent of the total shipment by the region's mills. Louisiana, third in the national ranking, was the runner-up in the region's paper production, but in terms of value of shipments, the state trailed behind Florida. (For details on production data, see table above.)

Regional Surplus

Viewed from the region's perennial effort to develop a wider industrial base, the spectacular growth that its paper industry has logged since 1950 marked a new era in interregional trade relationships. For one reason, paper making has emerged as a basic industry of the region; it not only satisfies the regional needs but produces a surplus which it exports to other parts of the country and abroad. Actual quantity and dollar value of paper products shipped to other regions are not available. However, measured indirectly by what is known as the "location quotient" and "crude export quotient" techniques (see Note), the region's mills are estimated to have exported in 1966 about 34 percent of their total shipments, or about \$1,100 million in dollar value.

Industry Prospects

While census data are not yet available, it does not appear that capital spending by the region's industry has reached the leveling-off phase that the nation's paper industry apparently has reached. According to new plant announcements compiled by this Bank, there were 17 announcements for new paper plants with investments totaling about \$300 million in 1967 and 30 announcements totaling \$760 million in 1968 for the region. For the industry as a whole, it has

been estimated that capital investments might have amounted to \$1,640 million in 1967 and \$1,550 million last year.

Trade sources estimate the entire industry is now operating at near capacity levels and the problem of excess capacity, which once depressed the prices of paper products, is becoming a thing of the past (except for some excess capacity in paperboard production). The strength of the current demand for paper in relation to supply is reflected in the slightly more rapid increase in wholesale prices of paper products than industrial prices generally. This is a significant change from past years when price rises generally lagged behind average industrial commodities. In coming months, paper prices may continue to advance at a fairly rapid pace if the demand for most paper and paper products continues as strong as is widely expected. Meanwhile, the nation's paper industry is expected to add little new capacity. Under these circumstances, the region's paper industry will undoubtedly continue to benefit.

C. S. PYUN

NOTE

The "location quotient" is the ratio of district employment in an industry to the corresponding employment in that industry in the nation. As an example, the location quotient for the paper and allied products industry in the Southeast in 1966 was derived by dividing 4.86 by 3.46, giving a quotient of 1.404. (In 1966, the U. S. paper and allied products industry accounted for 3.46 percent of the nation's total manufacturing employment, while 4.86 percent of the region's manufacturing employment was engaged in the same industry.)

After the location quotient is derived, the "crude export quotient" is obtained by dividing the difference of the location quotient minus 1 by the location quotient (that is, crude export quotient = $\frac{\text{location quotient} - 1}{\text{location quotient}} = \frac{1.404 - 1}{1.404}$).

By this computation, the crude export quotient for the region's paper industry was found to be .2877 for 1966. Since the region's labor productivity for the industry was higher than that of the nation by about 17.8 percent in 1966, the export quotient was adjusted to reflect this difference. The adjusted export quotient was found to be .3388.

Unemployment: Who It Hits

The average unemployment rate for all workers has drifted gradually downward since the 1960-61 recession. In early 1961, about 7 percent of the reported work force was jobless. After midyear 1961, economic activity began to expand and the unemployment rate started to decline, gradually dropping to a 5-percent rate by the end of 1964. During this period, the economy was on the road to achieving, simultaneously, two of the nation's basic economic objectives: a fairly stable price level and an unemployment rate approaching the full-employment goal of 4 percent.

Continuing economic advances and employment opportunities after 1964 resulted in further decreases in the unemployment rate, and by the end of 1965, the 4-percent rate had been achieved. Since then, the unemployment rate has generally been below 4 percent, and since late 1968 it has been close to 3.5 percent or below.

Meanwhile, however, as the unemployment rate dropped below the 4-percent level, the rise in prices accelerated to inflationary proportions. This pattern of accelerating prices at low unemployment provides the basis for the observation that to decelerate the price advances will cause some increase in overall unemployment.

Judging from past experience, a rise in unemployment is not likely to affect all segments of the work force alike. The inexperienced, the unskilled, and the marginal workers in terms of education and training are usually the first to feel its effect.

The purpose of this article is not to assess or evaluate the implications or reasons for the different unemployment impacts for various groups

of the work force. Rather, the objective is to specify, based on past experience, the relationships between movements in overall unemployment and unemployment in the white and nonwhite categories separately.

Some indication of the unemployment movements among selected categories compared to the total is seen from an examination of Chart 1. Each of the subgroups of the work force shown has followed the overall downtrend in unemployment during the current economic upswing. Several important differences stand out, however. First of all, while the unemployment rate in each of these groups has declined, the actual jobless rates for nonwhites—total, male, and female—are substantially higher than the rates for the comparable white workers' categories. For example, the unemployment rate for the nonwhite group as a whole was in excess of 12 percent in 1961; it declined to 9 percent at the end of 1964; and in early 1969, when the rate for all workers had declined to 3.5 percent or less, it was around 6 percent. At the same time, the unemployment rate for white workers has been below the all-worker rate throughout the period shown, and considerably lower than the rate for nonwhites. The jobless rate for male workers in both groups has been below the rate for females.

Based on this historical experience, what is the likely impact of a change in the overall unemployment rate on each group?

The Relationships

To answer this question, we compared the un-

employment rates for the six subgroups previously described with the all-worker unemployment rate for the period 1958-68. The comparisons were based on a simple regression equation using monthly data (see Regression Note). The regressions allow a comparison of the average relationship between unemployment in a specified category and the total. They also allow us to predict, with some degree of confidence, the expected unemployment rate in each of the subgroups associated with various total unemployment rates.

The average relationship between the unem-

ployment rate in each of the subgroups and the total are shown in Chart 2 and summarized in the Regression Note. Generally, movements in unemployment among the selected subgroups were related to movements in the same direction in the total unemployment rate. However, the relationships varied between white and nonwhite groups. More specifically, we see that for each unemployment rate on the horizontal scale, the expected unemployment rate based on the regression is higher for each nonwhite category (See Chart 2). For example, if the all-worker unem-

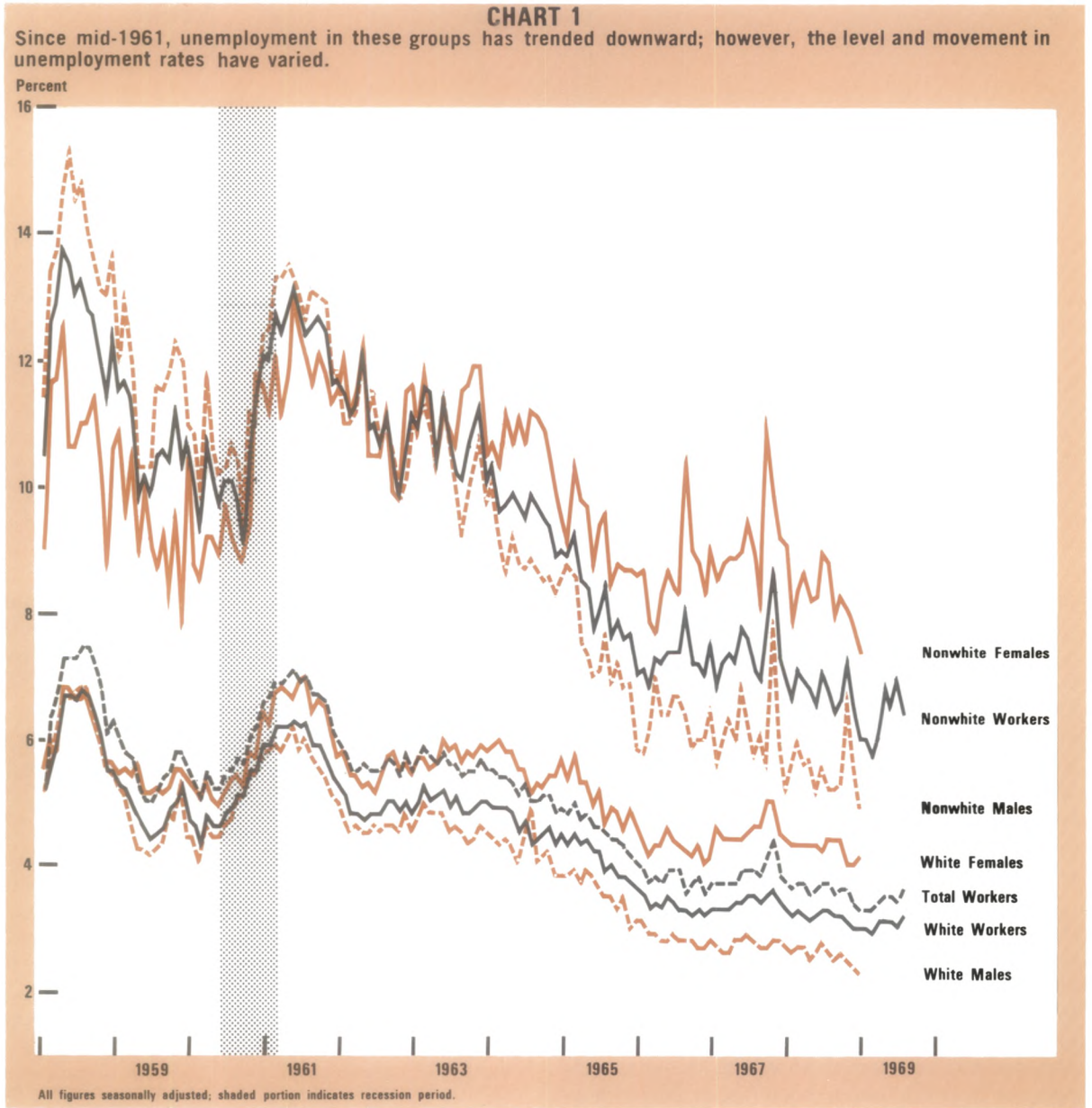
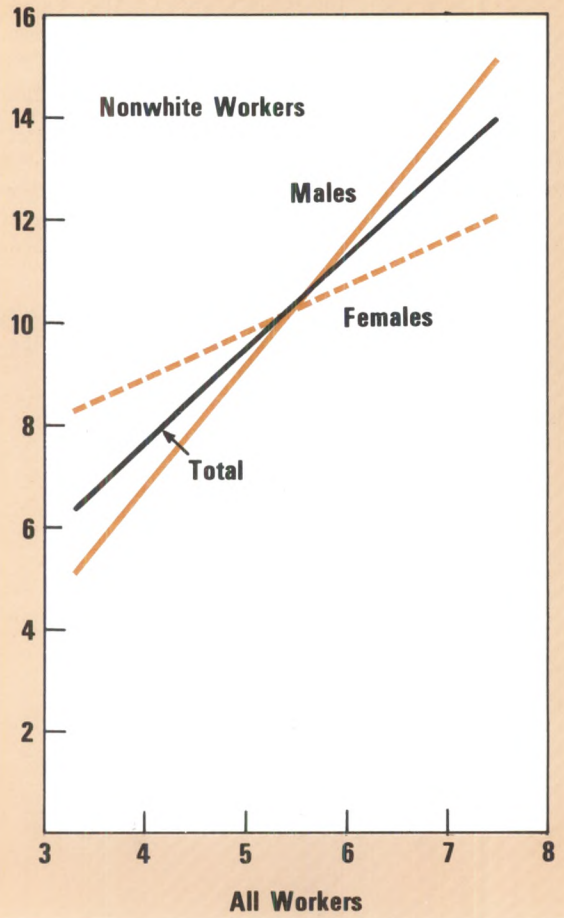
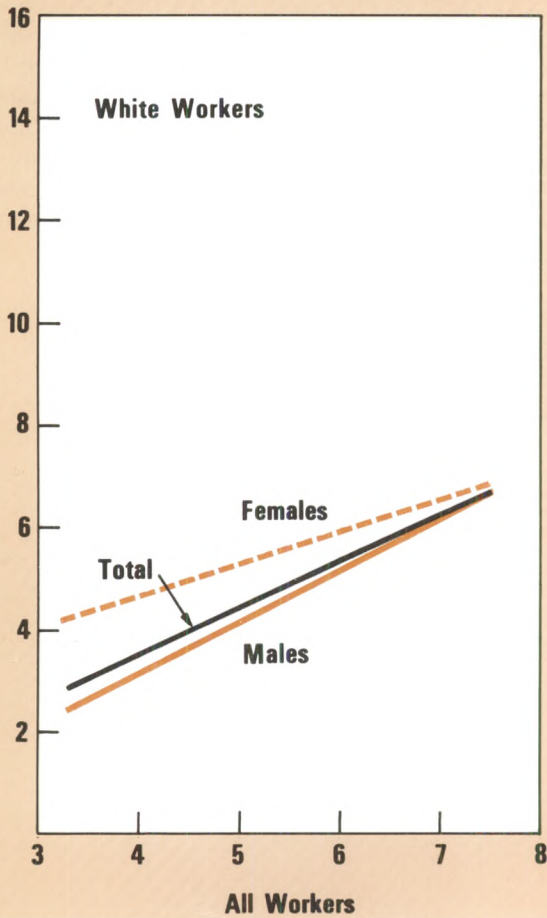


CHART 2
Unemployment Rates 1958-68
 (in percent)



ployment rate rose to 4.5 percent from the recent 3.5-percent rate, the associated rate for white workers, based on historical relationships, would remain below 4 percent. Nonwhite workers, on the other hand, would be affected more—their unemployment rate as a group would rise to about 8.5 percent from the below 7-percent rate attained when the aggregate rate was at 3.5 percent. In both groups, fewer male workers would be unemployed relative to their total work force than females.

These predicted unemployment rates are, of course, based on past average relationships that may or may not apply in the future. In each category, except nonwhite females, the statistical relationship between movements in unemployment of that category and the total was fairly close over the 1958-68 period. However, the chance of an error in prediction is much higher for the non-

white groups because of more unevenness in the month-to-month movements. The latter is probably related at least in part to variation in sample size.

Implications for the Present

Almost everyone would like to make some progress in the present fight to curb inflation. But, based on past experience, it is difficult to see how the inflationary movement can be substantially reduced without some increase in unemployment¹. As usual, however, the increase in unemployment would not affect all working groups equally. Those groups that can afford the increase in unemployment the least are likely to feel the impact the most.

JOE W. McLEARY

¹For further discussion on this subject, see "The Unemployment-Inflation Trade-Off: What 1969 Forecasts Imply," *Monthly Review*, February 1969, pp. 19-23.

Regression Note

Simple regressions of the form $Y = a + bx$ were used to derive the average relationships plotted on the charts. Six separate equations were derived, one for each of the selected subgroups studied. In each case, the aggregate unemployment rate was used as the independent variable (X) to explain movements in the unemployment rates for each of the special groups, the dependent variable (Y). Monthly data for 1958-68 were analyzed.

The (a) and (b) values shown in the table for each regression equation summarize the overall relationship between the independent and dependent variables. Thus, for a given aggregate unemployment rate (X), the expected unemployment rate in the various subgroups (Y) can be calculated from the appropriate (a) and (b) values and plotted on the chart. R^2 is a measure of how good the relationship is between (X) and (Y) and ranges between zero (no correlation) and one (perfect correlation). The standard error of estimate (S) tells us by how much, on average, the actual values deviate from those calculated from the estimating equation.

The (b) value in each case, which measures the change in the dependent variable associated with a change in the independent variable, is positive. This indicates, as expected, that unemployment in each of the groups generally moves in the same direction as changes in the overall unemployment rate over a long period of time. And, the R^2 's suggest that the movements are highly correlated. However, the individual monthly observations around the longer-term average relationship are more volatile for the non-white workers, as indicated by the higher standard errors (S).

Regression Results

Dependent Variable (Y)	a	b	R^2	S
All White Workers	- 0.0351	0.8944	.99	.092
White Males	- 1.1675	1.0407	.98	.148
White Females	1.9602	0.6463	.90	.244
All Nonwhite Workers	0.4478	1.7959	.95	.478
Nonwhite Males	- 3.0029	2.4207	.93	.747
Nonwhite Females	5.2557	0.9114	.56	.891

NOTE: Based on simple linear regressions using seasonally adjusted monthly unemployment data for 1958-68.

Bank Announcements

Citizens National Bank of Davie, Davie, Florida, opened for business as a new member bank on August 1. Officers are Charles W. Lantz, president; H. David Kelso and James J. Hunter, vice presidents. Capital is \$340,000; surplus and other capital funds, \$170,000.

Also on August 1, **Powder Springs Bank**, Powder Springs, Georgia, opened as a nonmember bank and

began to remit at par for checks drawn on it when received from the Federal Reserve Bank. Ralph N. Baker is president; J. S. Keith, vice president; and James T. Turner, cashier. Capital is \$200,000 surplus and other capital funds, \$200,000.

Tippins Bank & Trust Company, Claxton, Georgia, a nonmember bank, began to remit at par on August 15.

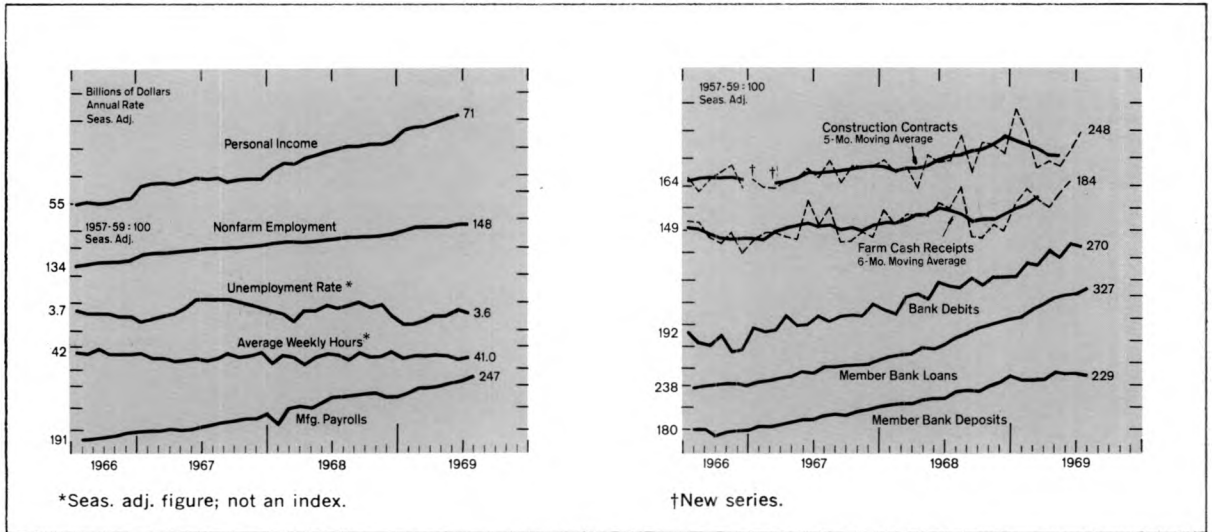
Sixth District Statistics

Seasonally Adjusted

(All data are indexes, 1957-59 = 100, unless indicated otherwise.)

	Latest Month 1969	One Month Ago	Two Months Ago	One Year Ago		Latest Month 1969	One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT					MANUFACTURING				
INCOME AND SPENDING					Nonmanufacturing				
Personal Income					July 171				
(Mil. \$, Annual Rate)					July 172				
Manufacturing Payrolls					July 169				
Farm Cash Receipts					July 130				
Crops					July 84				
Livestock					July 95				
Instalment Credit at Banks* (Mil. \$)					July 86				
New Loans					July 2.6				
Repayments					July 2.6				
					July 2.4				
					July 4.15				
					July 41.3				
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District Business Conditions



Even before hurricane Camille hit the Louisiana-Mississippi coast, the winds of economic activity in many areas of the District continued to abate. Bankers reported smaller increases and even a few declines in loan-deposit activity in early August. A similar picture characterized industrial activity, where unspectacular gains in employment were the rule in July. Consumer credit extensions also took a dip. Repeating the ditto signs, the extraordinary early-1969 strength in the construction sector has faded somewhat. On the other hand, renewed strength in contract construction appeared in July. Farm crop receipts posted only a small gain in the first half of 1969.

At member banks, loan expansion leveled off in early August and total deposits, particularly demand deposits, continued to decline. Large District commercial banks have reported only small increases in business loans, and because of continued liquidity pressures, they have lightened their U.S. Government securities portfolios. At the smaller banks, loans actually declined in the first half of August. Total borrowings at the discount window have tapered off in recent weeks but the decline has been more than offset by increased purchases of Federal funds.

Employment increased slightly. July marked a small increase in nonfarm employment and payrolls, as well as a small decline in the unemployment rate. Most sectors of manufacturing shared in the employment increase, except for Florida's food processing industry. Announcements of new plant and equipment expenditures in the second quarter have dropped off.

Consumer instalment credit extended in July declined from June. This was primarily a result of sharp reductions in auto and personal loans. Repayments rose slightly. Bank credit card and check-credit volume extended also reflected an increase from June. Personal income for June moved ahead at a pace similar to that of the

previous two months and slightly above the U.S. rate.

Total volume of contract construction showed greater strength in July than in any month since February. Renewed strength was apparent in both residential and nonresidential building categories. South Florida's apartment boom continues to produce the lion's share of residential construction gains in the District. Pressures in the mortgage market continue to mount, although they have not been as quickly reflected in housing output declines as in the 1966 period. The supply of mortgage credit for single family homes continues to be supported mainly by FNMA and by the Federal Home Loan Bank System.

In the first six months of 1969, total cash receipts from farm marketings for District states showed a healthy gain over the same period a year ago. Largely responsible for the increase was a sizable jump in receipts from livestock and livestock products. Crop receipts registered little gain. Next season's orange crop, according to preliminary estimates, will be significantly greater than in the 1969 season.

NOTE: Data on which statements are based have been adjusted whenever possible to eliminate seasonal influences.