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The Economy's Performance in Early 1975

by Harry Brandt

The economic news of early 1975 continues to be disappointing in many respects. But some hopeful signs have appeared, and the corrective forces now under way are bringing the economy closer to recovery.

Recent Developments

After holding up well earlier, most general business indicators posted severe declines in late 1974 and early 1975 (see Chart 1). Industrial production has contracted sharply, registering some of the most severe declines on record. Nonfarm payroll jobs fell by 2.3 million between October 1974 and February 1975, as manufacturing and construction bore the brunt of the employment drop. Retail trade jobs have also come down. The length of the factory workweek has been sharply curtailed, and the overall unemployment rate climbed to 8.2 percent of the civilian labor force in January. It remained unchanged in February, only because some workers dropped out of the labor market, and then rose to 8.7 percent in March. Thus, by many measures, the recession deepened in early 1975.

Further evidence indicates that the recession has spread to nearly all sectors. Declining considerably in fourth quarter 1974, capital spending (in real terms) was one of the most recent casualties (see Chart 2).¹ Reductions in residential construction spending, under way much longer, have continued. Even government purchases of goods and services were no longer providing a stimulus in the economy. Overall consumer spending has been weak, following a feeble revival in the first half of last year.

The fall-off in spending has led to declines in industrial activity (see Chart 3). Limited at first to a few industries, output reductions have spread dramatically—even to such earlier strongholds as machinery and business equipment.

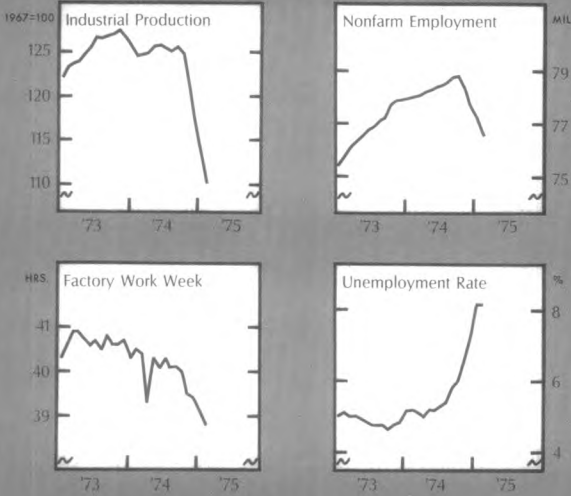
By the end of 1974, the current recession (measured by declines in real GNP) had already lasted for four quarters (see Chart 4). This exceeds the 1953-54 and 1957-58 recessions, when real GNP dropped for only two or three quarters and to a lesser degree. Until now, these have been the most severe since World War II. Thus, the current recession has been rightly stamped as the longest and deepest since the 1930's.

¹Reference to this and all other spending measures used in the article is to figures expressed in real terms or constant dollars, i.e., the figures are net of price increases.

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(1)

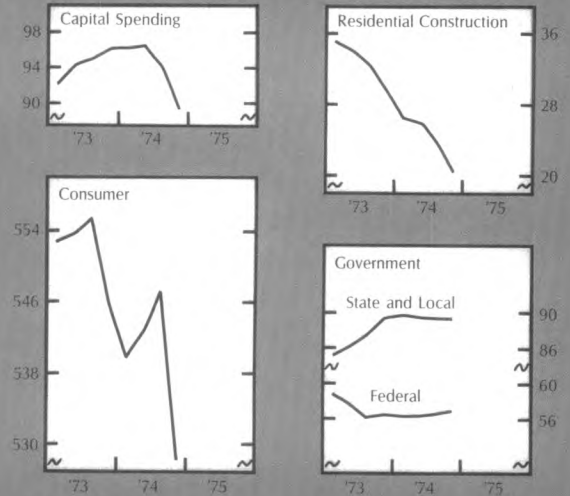
ECONOMIC INDICATORS



Latest plotting: February
 Source: Board of Governors, Federal Reserve System and Dept. of Labor

(2)

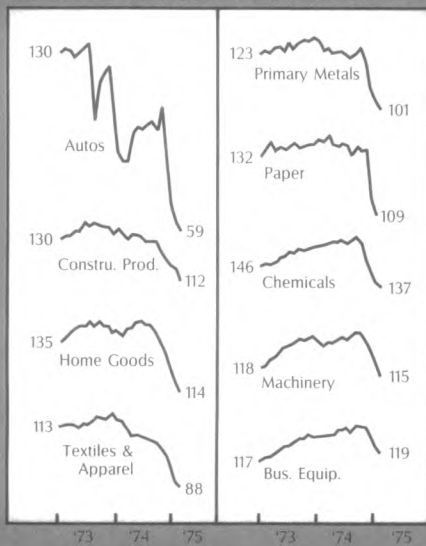
MAJOR SECTORS



Latest plotting: Fourth quarter
 Source: Dept. of Commerce GNP

(3)

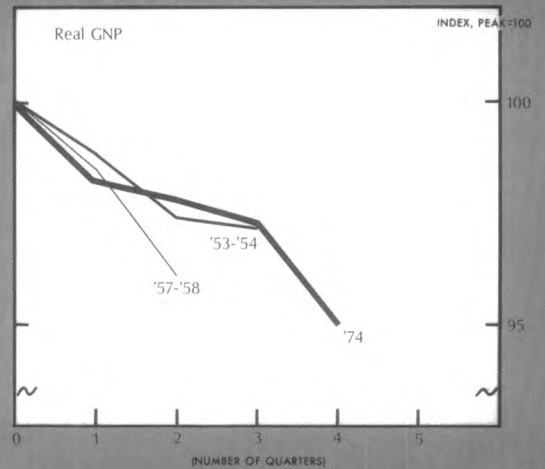
DECLINES IN INDUSTRIAL ACTIVITY



Latest plotting: February
 Source: Board of Governors, Federal Reserve System

(4)

RECESSIONS — Depth and Length



Source: Dept. of Commerce

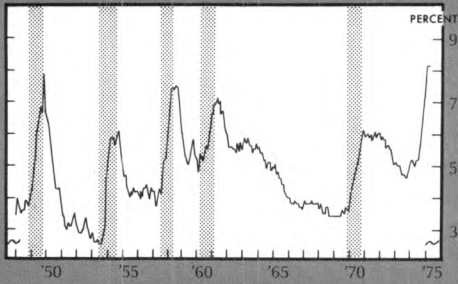
The unemployment figure also compares unfavorably, exceeding anything experienced in other postwar recessions (see Chart 5), including the former high of 7½ percent in 1957-58. However, for some groups, the jobless rate this February was lower than at that time. This was so for adult men and blue collar workers. Moreover, more liberal unemployment benefits and food stamps are making the unemployed's lives more tolerable than in previous recessions.

Seeds of Recovery?

The eventual upturn in business activity awaits, to some extent, the elimination of excessive inventories (see Chart 6). Inventories rose substantially during the second half of 1974, especially in relation to sales. Recent production and employment declines are strongly tied to efforts by businessmen to bring inventories into line.

(5)

UNEMPLOYMENT RATE



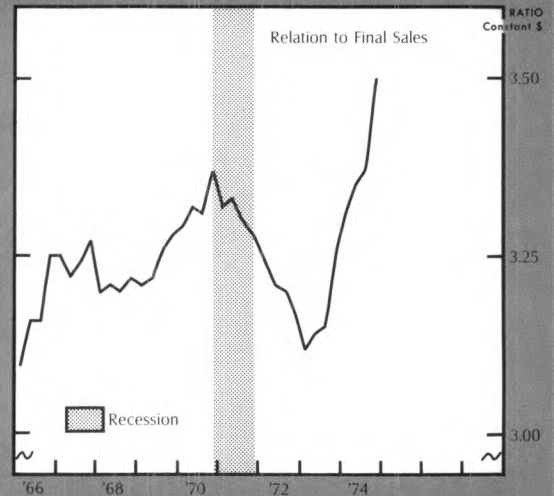
UNEMPLOYMENT BY GROUPS

	Feb. 1975 %	1957-58 Recession
Total	8.2	7.5
Adult Men	6.2	7.0
Blue Collar	10.9	11.3
Teenagers	19.9	17.9
Nonwhite Pop.	13.5	13.3
Adult Women	8.1	6.4
White Pop.	7.4	6.8
White Collar	4.5	3.2

Source: Dept. of Labor

(6)

INVENTORIES

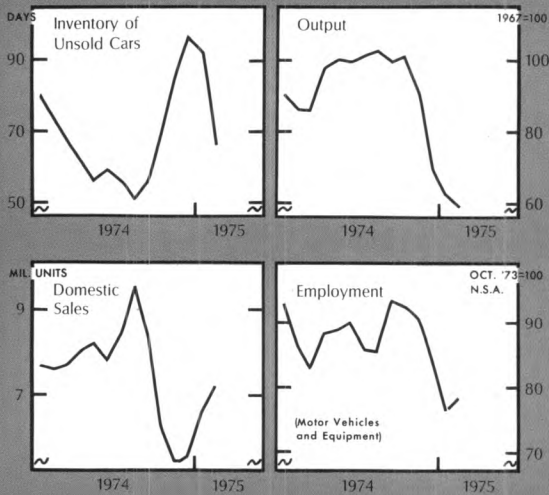


Latest plotting: Fourth quarter

Source: Dept. of Commerce

(7)

AUTOS

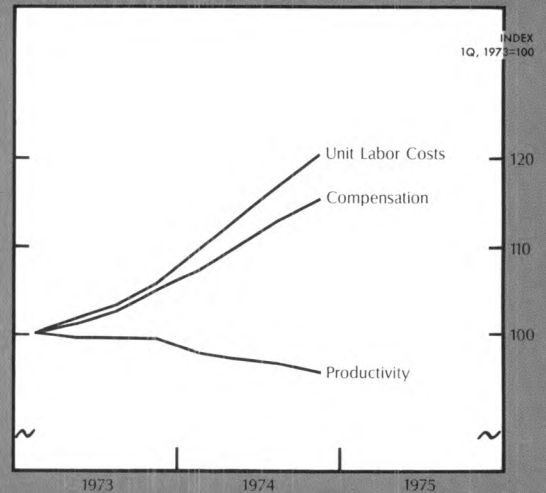


Latest plotting: February

Source: Motor Vehicles Mfrs. Assn., Board of Governors of Federal Reserve System, Ward's, and Dept. of Labor

(8)

LABOR COSTS



Latest plotting: Fourth quarter

Source: Dept. of Labor

Autos are a good example of an industry working to reduce excessive stocks (see Chart 7). This has met with some success, as the inventory of unsold cars dropped after the first of the year. However, the number of unsold cars is still large relative to the reduced sales volume of domestic cars. With price rebate programs in effect, auto sales picked up in February, but not enough to rise above even last year's energy-depressed volume. Anticipating improved sales with spring, auto manufacturers in March recalled some workers and scheduled higher production than in January and February.

Whether these expectations prove correct depends partly on consumer demand for autos, which is influenced, among other things, by prices.

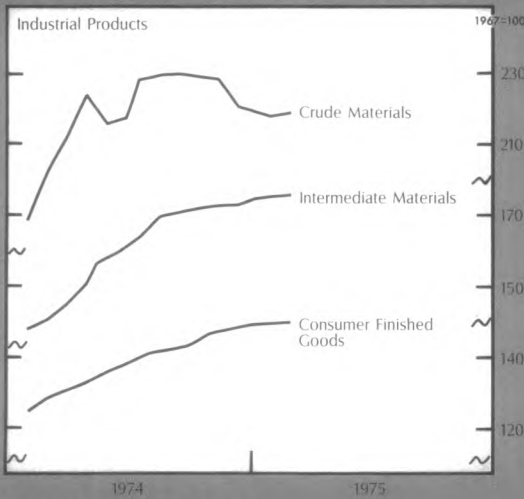
Costs and Prices

Many observers believe that 1974's rapid inflation is an important factor in the current recession. Price increases reduced purchasing power.

Rising labor costs have been an important element in 1974's higher prices. Unit labor costs were propelled upward by both rapid wage increases

(9)

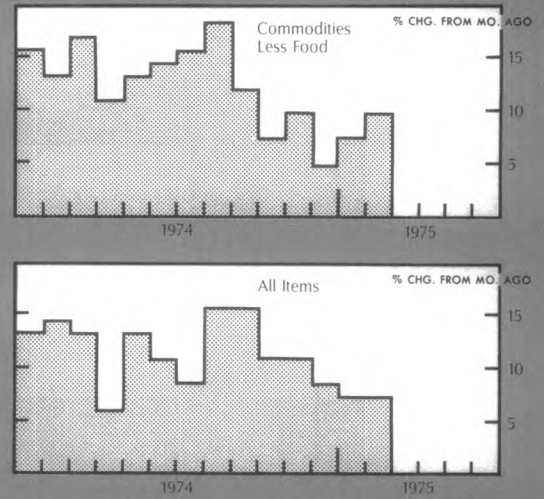
WHOLESALE PRICES



Latest plotting: February
Source: Dept. of Labor

(10)

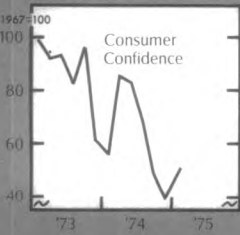
CONSUMER PRICES



Latest plotting: February; ann. rate data
Source: Dept. of Labor

(11)

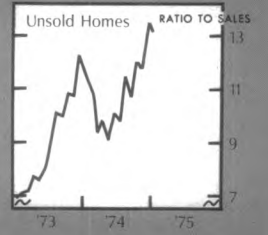
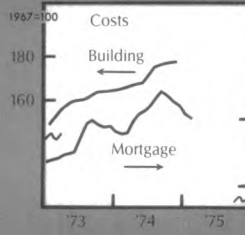
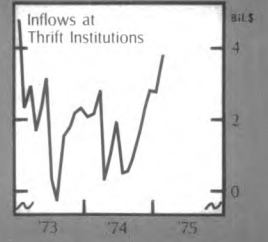
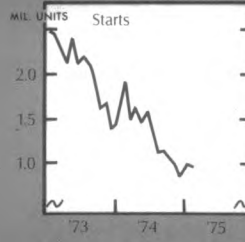
CONSUMER



Latest plotting: February
Source: Dept. of Labor, National Conference Board, and Standard and Poor's

(12)

HOUSING



Latest plotting: February, except building cost, November, and unsold houses, January.
Source: Dept. of Commerce, Federal Home Loan Bank Board, and HUD

and productivity reductions (see Chart 8). The latter is typical in recessions. During the last stages of recession, however, productivity usually rises as businessmen tighten their belts, cut overhead, and close unprofitable operations. A pickup in productivity seems likely, then, thereby holding down labor costs and resisting inflation. There is evidence that high unemployment inhibits wage increases. This would also slow labor cost increases.

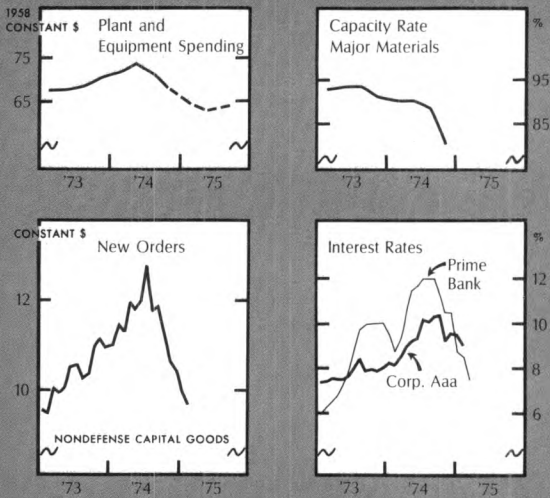
For various reasons, the inflation rate has already slowed significantly, especially wholesale prices of industrial products (see Chart 9). Prices for crude

materials, such as copper, lead, and zinc, have actually come down for several months. Intermediate materials prices are still rising but much more slowly than before the summer. These developments, in turn, have been reflected in a moderation of wholesale price increases for consumer finished goods such as apparel, understating the inflation relief from lower farm prices.

The consumer is only beginning to get the benefit of these price changes at wholesale (see Chart 10). Still, consumer prices of nonfood

(13)

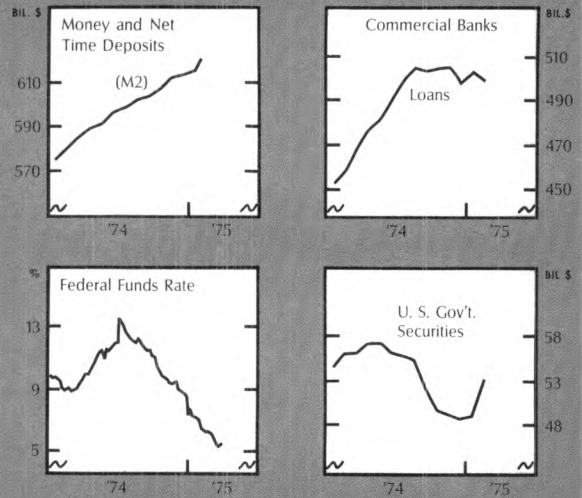
CAPITAL SPENDING



Latest plotting: Top left, fourth quarter, actual and plans; top right, fourth quarter; bottom left, February; bottom right, corporate, February, and prime, March
 Source: Dept. of Commerce, Board of Governors, Federal Reserve System, and American Appraisal Co.

(14)

FEDERAL RESERVE & COMMERCIAL BANKS



Latest plotting: Monthly, February; weekly, March 26.
 Source: Board of Governors, Federal Reserve System

commodities have already moderated materially. Increases in the all-items Consumer Price Index, too, have become smaller in recent months, though utility bills, medical charges, and other service costs have continued to climb rapidly.

Consumer Spending and Housing

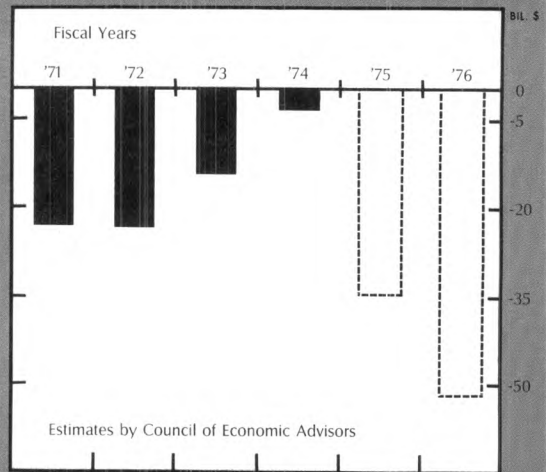
An upturn in the economy probably awaits an about-face in consumer spending, which has been adversely affected by the severe drop in real spendable earnings (see Chart 11). Owing to inflation and unemployment, consumer confidence has remained near an all-time low. To spur consumer demand, tax reductions are therefore desirable. Although part of the tax rebates are likely to be saved initially, it will probably not be too long before the tax reductions get into the spending stream.

Falling stock prices and uncertainties contributed to last year's reduction in consumer spending. A prolonged recovery in stock prices, therefore, would not only raise the value of financial assets but increase the confidence of consumers, who hold the key to an economic upturn.

Housing is one sector that seems ripe for some recovery (see Chart 12). Starts are at extremely low levels and below potential demand. Building costs have been increasing more slowly in recent months, and mortgage costs have declined somewhat. Benefiting from rapidly rising inflows of funds, thrift institutions have become more willing mortgage lenders. However, there is also a large overhang of unsold houses on the market, and some segments of the building industry are in

(15)

FEDERAL BUDGET DEFICITS



Source: Economic Report of the President, February 1975

disarray, factors which seem to lie in the way of any sudden surge in housing.

To a significant extent, cyclical economic recoveries require a turnaround in capital spending, a sector that normally brings up the rear (see Chart 13). Recent surveys suggest that current dollar spending on plant and equipment by business firms will rise less than capital goods prices in 1975. Declines in contracts for nonresidential structures, new orders for capital goods, and manufacturing operating rates confirm weakness in business fixed

investment. On the other hand, liberalization in the investment tax credit and reductions in bank lending and other interest rates could have a beneficial effect.

Reduced interest rates and more relaxed financial market conditions reflect in part monetary policy measures taken since last summer (see Chart 14). Aimed at helping the economy get back on its feet, the Federal Reserve has taken accommodative open market and other actions aimed at providing more reserves to the banking system. Money and net time deposits have increased, though until recently more slowly than desired. Short-term interest rates have been reduced sharply in order to stimulate money and credit growth.

Commercial bank loans have not yet expanded, largely because of weak short-term credit demands, in general, and cautious bank lending policies, in particular. Banks have put a high priority on paying down their own borrowings and on adding to loan reserves. They have begun only recently to rebuild liquidity, investing in U. S. Government securities.

The U. S. Treasury would welcome additional commercial bank buying of U. S. securities, since it must borrow huge sums to finance heavy federal budget deficits (see Chart 15).

According to estimates by the Council of Economic Advisers made in February, the deficit has been projected at \$35 billion for fiscal 1975 and \$52 billion for fiscal 1976. More recently, the Administration has admitted to much deeper deficits. Inflation, growing Social Security outlays, unemployment benefits, public service jobs, and defense spending have raised expenditures. On the receipts side, the huge deficit projections reflect upcoming tax cuts and, primarily, a shortfall in tax collections

stemming from the weak economy.

Financing such large deficits could pose problems difficult to evaluate at this time. While heavy prospective Treasury borrowing is widely expected to put financial markets under pressure, the severity of these strains will depend heavily on whether competing private credit demand drops further, depending upon the economy. The state of the economy also will ultimately determine how inflationary the fiscal deficits will be. Deficit financing poses less inflationary risks in a weak economy than a strong one.

There are other uncertainties. These include when the current recession will end and how strong the eventual upturn will be. Although there is some evidence of improvement here and there, two areas widely expected to recover first—housing and retail spending—are still in the doldrums. Other uncertainties include not only the ultimate impact of fiscal actions but developments in energy problems. Then, the outlook for prices is uncertain. Although the pace of inflation is moderating and large U. S. harvests are predicted, unexpected weather, foreign demand for U. S. farm products, and energy prices have had sudden and violent repercussions on prices in the past. These developments are, of course, unpredictable.

As economic recovery expected by many later in the year develops, production and employment should gradually improve. However, as the accompanying article in this **Review** suggests, unemployment is apt to average at fairly high levels unless the upturn in the economy is, in fact, extraordinarily sharp. On the other hand, the fear that the current downturn might turn into a 1930-like depression seems increasingly unfounded. ■

Unemployment in 1975 and 1976: What Do Rules of Thumb Predict?

by William D. Toal

Today's unemployment rate is shockingly high, and it is widely expected to rise even more in the near future. Unemployment, as a percent of the labor force, is now the highest since the 1930's. In the midst of unanswered economic questions, those about current and future unemployment demand some attempt at answers. Does a relationship still exist between the level of or change in economic activity and the unemployment rate? Does this explain today's high rate? How much has unemployment increased among the various segments (i.e., grouped by age, race, sex) of the population? Are unemployment changes in each segment closely related to the level of economic activity? What are the prospects, based on these relationships, for unemployment rates (total and components) coming down quickly if economic recovery gets under way?

Does Okun's Law Still Exist?

The level of or change in economic activity influences the level of or change in unemployment. This makes sense, since an economy's output is determined through productive relationships specifying how much of its resources—land and raw materials, labor, and capital—are needed to produce so much output. The reverse is also generally true; output (i.e., level of economic activity) determines roughly how much labor is used (given a fixed stock of capital) and how much remains idle or unemployed. This idea was formally stated and quantified in the early 1960's by Arthur Okun and has become known as Okun's Law.¹ This so-called "law" states a relationship, in numerical terms, of the gap between the economy's actual and potential output and its unemployment expressed as a percent of the civilian labor force—the unemployment rate. The more actual output is below potential output, the higher the unemployment rate. A more recent version of Okun's Law explains changes in the unemployment rate by percent changes in real output (usually measured as real Gross National Product). Does this relationship still hold true? It has apparently weakened in the Sixties since Okun's initial results, which covered the 1950's.² Still, growth or percent changes in economic activity (or output) and changes in the total unemployment rate seem strongly related. It is not surprising, then, that many econometric models use such relationships in forecasting unemployment rates.³

To the economist, these unemployment rate/output growth relationships are not eloquent devices. In economic jargon, they are known as "black box" relationships. Why? Because hiding behind them are the basic labor supply and demand relationships which actually determine employed and unemployed

¹Arthur Okun, *The Political Economy of Prosperity*, Norton, 1970, pp. 135-137.

²M. Arak, "The Relationship Between Unemployment Rate Changes and the Growth of Real GNP," unpublished memorandum, Federal Reserve Bank of New York, May 1970.

³The large Data Resources model, for example, uses a growth rate form of Okun's Law to forecast unemployment rates.

Estimating the Unemployment/GNP Equations

A derivation of Okun's Law was used to estimate the impact of economic activity on the total unemployment rate as well as 12 specific subunemployment rates of age, sex, and racial groups. The following equation was used:

$$\Delta UR_t = a + b_1 GNP^*_t + b_2 GNP^*_{t-1}$$

ΔUR —quarterly change in the unemployment rate being examined

GNP^* —percentage change at annual rates in real Gross National Product

a —constant term largely reflecting the potential growth rate of the economy (assumed to be a constant)

b —the extent to which growth in real GNP influences the particular unemployment rate being considered

t —time reference (by quarters) of each variable

A one quarter lagged real growth variable (GNP^*_{t-1}) was included in the belief that some rise (decline) in unemployment occurs only after a slowdown (increase) in economic activity. In other words, an adjustment process is involved: employers do not immediately lay off workers when business slows but initially hoard some. This relationship was estimated for 13 different unemployment rate categories using quarterly data from 1960 to 1972 (see Table 1).¹ These tests reveal how closely changes in total unemployment rates, as well as unemployment rates among various labor sectors, are related to growth in economic activity. In other words, they tell us to what degree changes in the unemployment

rate are explained by percentage changes in real GNP. The estimated "b" values give us even more information, showing how unemployment responds to changes in economic activity for each labor force group examined. For example, these estimated equations, to the extent that they are significant, could determine the rate of economic growth necessary over a year's time to lower the unemployment rate (either total or for a specific group) by one percentage point (e.g., from 8.2 to 7.2 percent) in that year. Probably most important, these tested relationships provide the information necessary to establish which economic growth rate is necessary to keep unemployment rates from rising; that is, what real GNP growth rate will keep the total unemployment rate unchanged (see Table 2). This growth rate is obtained in the following manner: Using the algebraic equation given above, put ΔUR equal to zero, assume present and lagged growth in GNP^* are equal, and solve for GNP^* . The calculation is as follows:

$$\Delta UR_t = a + b_1 GNP^*_t + b_2 GNP^*_{t-1}$$

$$\Delta UR_t = 0$$

$$GNP^*_t = GNP^*_{t-1}$$

$$\text{then, } 0 = a + (b_1 + b_2)GNP^*$$

$$GNP^* = \frac{-a}{b_1 + b_2}$$

Since a , b_1 , and b_2 are all actual values as estimated and shown in Table 1, the growth rate of real GNP necessary to hold the unemployment rate constant can be obtained. For example, for the total unemployment rate, this growth rate is:

$$GNP^* = \frac{-0.3328}{(-0.044) + (-0.039)} = 4.01\%$$

¹These same tests were run over a shorter time span, mid-1964 to 1972, with the same general results being obtained. This indicates that, at least for the 1960's, these relationships seemed to be temporally stable.

labor. Okun's Law, in its simplest form, does not really consider labor supply conditions at all and lets all labor demand be reflected in the percent changes in real Gross National Product.⁴ Why is it used then? For the simple reason that it generally works. Okun's Law, in either its initial or current growth rate form, generally does a better job of forecasting and tracking the unemployment rate than does a completely specified supply and demand model of the labor market.

The unemployment/GNP relationship has been expanded by other researchers to take into account the impact on the unemployment rate of labor supply, productivity changes, and price expectations, as well as asymmetries brought about by extreme variations in real GNP growth rates above and

below normal growth rates. One other extension of this relationship is the degree to which changes in economic activity affect the age, race, and sex structure of unemployment. Are changes in these subunemployment rates tied to growth rates of aggregate economic activity? Only a few studies have taken up this point in the past.⁵

Today's unemployment contrasts markedly with past recessions. While the total unemployment rate is higher than in any previous postwar recession, the rates of a few key labor force groups, such as adult males, remain substantially below previous highs. Can changes in aggregate economic activity explain why some labor force groups have suffered

⁴See Benjamin M. Friedman and Michael L. Nachter, "Unemployment: Okun's Law, Labor Force, and Productivity," *Review of Economics and Statistics*, Vol. LVI, No. 2, May 1974, pp. 167-176.

⁵See Lester C. Thurow, "The Changing Structure of Unemployment: An Econometric Study," *Review of Economics and Statistics*, 47 (May 1969), pp. 137-149, and Ruth Fabricant, "The Sensitivity of Unemployment to GNP," *Staff Economic Comment* (unpublished), Federal Reserve Board, February 1969.

TABLE 1
REGRESSION EQUATIONS

$$\Delta UR_t = a + b_1 GNP^*_t + b_2 GNP^*_{t-1}$$

ΔUR	Constant (a)	GNP* _t (b ₁)	GNP* _{t-1} (b ₂)	R ²	Standard Error
Total	.333 (9.198)	-.044 (- 6.710)	-.039 (- 5.972)	.715	0.149
Males, 20 and over	.294 (7.757)	-.040 (- 9.837)	-.038 (- 5.502)	.666	0.155
Females, 20 and over	.300 (6.066)	-.036 (- 4.025)	-.038 (- 4.161)	.505	0.203
Both Sexes, 16-19	.715 (4.247)	-.122 (- 4.001)	-.054 (- 1.741)	.341	0.691
White Males, 20 and over	.279 (7.981)	-.039 (- 6.157)	-.036 (- 5.255)	.669	0.143
White Females, 20 and over	.288 (6.129)	-.030 (- 3.567)	-.041 (- 4.761)	.516	0.193
Whites, 16-19	.675 (4.439)	-.122 (- 4.449)	-.048 (- 1.716)	.381	0.625
Nonwhite Males, 20 and over	.465 (3.999)	-.043 (- 2.043)	-.093 (- 4.389)	.395	0.478
Nonwhite Females, 20 and over	.378 (2.768)	-.050 (- 2.019)	-.039 (- 1.573)	.142	0.562
Nonwhites, 16-19	1.022 (1.638)	-.191 (- 1.696)	-.017 (- .152)	.031	2.563
Part-time Workers	.248 (1.890)	-.032 (- 1.429)	-.020 (- 0.883)	.055	0.426
Full-time Workers	.296 (6.036)	-.039 (- 4.616)	-.036 (- 4.164)	.616	0.159
Household Heads	.214 (5.857)	-.026 (- 4.189)	-.028 (- 4.357)	.603	0.119

(Values in parentheses are T statistics.)

Note: Equations are estimated on data from first quarter 1960 to fourth quarter 1972.

sharper increases in unemployment than others during the current recession?

Empirical Results

It should not be expected that such a simple relationship as that tested here will explain all changes in unemployment rates. Still, the tested relationships do a pretty good job of explaining changes in the various unemployment rates (see Table 1).¹⁵ Only nonwhite teen-agers' and part-time workers' unemployment rates fail to show any ties to changes in real GNP; the nonwhite female rate is only weakly related to aggregate economic conditions. For the remaining groups, anywhere from one-third to over 70 percent of the fluctuation in unemployment rates is explained by changes in aggregate economic activity. The reasons why

part-time, nonwhite teen-ager, and nonwhite female rates have very little relationship to overall economic conditions are not certain. In general, these are the more marginal labor force groups for whom other influences, such as discrimination, educational decisions, and family ties affect demand and supply decisions. This makes overall economic conditions less important to these groups.

Current and past changes in aggregate economic activity explain over 70 percent of the fluctuation in the total unemployment rate between 1960 and 1972, over 60 percent of unemployment rate changes for adult males, heads of households, and full-time workers, and over 50 percent of rate changes for adult females and the subgrouping white adult females. About 40 percent of nonwhite male and white teen-age unemployment rate variations were explained by current quarter and one quarter-lagged real GNP growth rates.

Which labor force groups' unemployment is most responsive to changes in aggregate economic

¹⁵The results obtained here are similar to those obtained by Fabricant over an earlier time span. The adjusted correlation coefficients are slightly lower in this study than in Fabricant's. See Fabricant, *op. cit.*, p. 42.

conditions?⁷ The test results reported in Table 1 indicate that teen-agers and nonwhites are the most responsive or sensitive to economic conditions. For example, it would take overall real GNP growth of about 5.5 percent to lower the teen-age unemployment rate by 1 percentage point in one year's time, compared with a 7-percent growth rate to lower total unemployment by 1 percentage point; for nonwhite adult males, it takes about 5.3-percent growth contrasted to 7.0 percent for white adult males (see Table 2).⁸ Female labor groups' unemployment rates are actually less sensitive to aggregate economic conditions than are males, according to these tests. Why? Possibly, it is because women are employed more extensively than men in less cyclically sensitive industries such as services and trade. Also, there is some evidence, though not conclusive, that female labor force participation rates may be more cyclically sensitive than are male participation rates; this would dampen the impact of economic activity on female unemployment rates.

The unemployment rate/economic growth relationships are most useful in determining what rate of economic growth will stabilize these unemployment rates.⁹ While the statistically tested relationships are naturally subject to error, their results do confirm, in most cases, our intuitive notions about the economic growth necessary to halt rising unemployment rates among various labor force groups. For example, the two-quarter real GNP growth (at an annual rate) needed to hold total unemployment constant is 4.0 percent, according to test results. This corresponds closely to what is commonly considered the average long-run growth potential of the U. S. economy over the 1960's and early 1970's.

Growth rates needed to stabilize unemployment rates for the various labor force subgroups did vary to some extent (see Table 2). We might expect that the most rapidly growing groups, either because of population increases or greater labor force partici-

⁷Here the "b" coefficients in Table 1 are examined versus the "R" examined in the previous paragraph. These coefficients should be used with care, since they may not be symmetrical for both positive and negative growth in real GNP. This likelihood is not dealt with here. For considerations and tests of the symmetry of these coefficients, see Fabricant, *op. cit.*, pp. 41-43.

⁸The greater sensitivity of teen-agers and nonwhites to changes in economic conditions, as implied by the estimated "b" coefficients, may also be related to the traditionally high unemployment rates of these groups. A 1-percentage-point decline in these groups' unemployment rates would most likely be easier to obtain than the same absolute decline for adult white males, who traditionally have a much lower rate.

⁹Here real GNP growth should be considered in a longer-run framework. Since the relationships are tested over a fairly long span of time, they contain both cyclical and secular elements. Real GNP growth rates necessary to stabilize unemployment rates could be considered as "steady state" growth rates; that is, the long-term growth rate needed to keep labor markets in long-run equilibrium.

TABLE 2
REGRESSION EQUATION IMPLICATIONS

	Real GNP Growth Necessary To Halt The Rise In Unemployment	Annual Growth In Real GNP Necessary To Lower The Unemployment Rate By One Percentage Point In One Year
Total	4.01	7.02
Males, 20 and over	3.77	6.97
Females, 20 and over	4.05	7.43
Both sexes, 16-19	4.04	5.48
White males, 20 and over	3.72	7.05
White females, 20 and over	4.06	7.58
Whites, 16-19	3.97	5.44
Nonwhite males, 20 and over	3.42	5.26
Nonwhite females, 20 and over	4.25	7.06
Nonwhites, 16-19	4.91	5.90
Part-time workers	4.77	9.58
Full-time workers	3.95	7.28
Household heads	3.96	8.59

TABLE 3
GROWTH IN CIVILIAN LABOR FORCE
(1960-1972)

	Percent Change
Total Civilian Labor Force	24.3
Men 20 and over	11.9
Females 20 and over	40.2
16 to 19-year-olds	65.8
White men, 20 and over	11.8
White females, 20 and over	40.9
Whites, 16-19	67.8
Nonwhite men, 20 and over	12.9
Nonwhite females, 20 and over	36.2
Nonwhites, 16-19	49.5

ation, would need more economic growth to stabilize their unemployment rates. In other words, higher growth rates are needed to absorb these groups' large inflows into the labor force. According to test results, adult males, both white and nonwhite, need the lowest growth rates (around 3.4 to 3.7 percent) to stabilize their unemployment rates. Adult males have been the slowest growing sector in the labor force (see Table 3). In contrast, the adult females and teen-agers have been the most rapidly growing sectors of the labor force; test results indicate that they also need the highest economic growth rates to stabilize their unemployment rates. These results confirm our suspicions that the long-run growth rate needed to stabilize unemployment rates of different labor force groups is related to differences in labor force growth trends among these groups. Growth needed to stabilize racially different unemployment rates cannot be explained by differences in labor force expansion alone, however. Other influences such

TABLE 4
REAL GNP GROWTH RATE ASSUMPTIONS
USED IN UNEMPLOYMENT
RATE FORECASTS

		Percent Change In Real GNP (Annual Rates — S.A.)		
		Sluggish	Moderate	Supercharged
1975:	I	- 10.0	• - 10.0	- 10.0
	II	- 5.0	- 2.0	0.0
	III	0.0	3.0	5.0
	IV	2.0	5.0	10.0
1976:	I	2.0	6.0	10.0
	II	4.0	6.0	10.0
	III	4.0	6.0	10.0
	IV	6.0	6.0	10.0

as the industries and occupations the different labor force groups are centered in are also important determinants.

Do These Relationships Explain Today's High Unemployment Rates?

Okun's Law relationships are useful as rules of thumb in forecasting what the total or component unemployment rates will be in the future. The accuracy of these forecasts can be gauged by seeing how well they have tracked past unemployment rate developments.⁹ The relationships were estimated using 1960 to 1972 data. This allowed estimates of 1973 and 1974 unemployment rates based strictly on the Okun's Law relationship and the actual quarterly growth rates of real GNP for 1973 and 1974. The estimated quarterly unemployment rates for 1973 and 1974 for each of the 13 labor force categories can then be compared with the actual quarterly rates. The nonwhite teen-age and part-time worker sectors are omitted because their unemployment rate/real growth relationships were, as already noted, insignificant.

The estimates roughly predicted actual quarterly unemployment rates in 1973, total as well as the remaining 10 sectors. However, in 1974, the predicted and actual rates diverged. The rates forecasted by the estimated Okun's Law relationships overshot the actual quarterly rates. Obviously, something was going awry in 1974. Particularly, in the first half of last year, the predicted rate overshot the actual rate. Why? Labor force growth (something not captured in the Okun's Law relationship) slowed in the early months of 1974, and employment held up better than expected, partly because businessmen expected an economic recovery to begin soon.¹⁰ By the end of 1974, the estimated unemployment rates, based on the actual real GNP

quarterly growth rates, were well above the actual unemployment rates (see first two columns of Table 5). For the total unemployment rate, the actual fourth quarter rate was 6.6 percent versus a 7.6-percent forecasted rate, a 1-percentage point spread. Only for nonwhite males did the forecasted fourth quarter rate match the actual rate. As will be argued below, it is probable that the estimated unemployment rates were a better indicator of actual labor market conditions than were the actual unemployment rates at the end of last year, as subsequent developments have made clear.

Unemployment in 1975 and 1976

The critical questions facing forecasters today are "Will a recovery begin soon? And if one does, is there any prospect that unemployment conditions will improve quickly; that is, will unemployment rates quickly fall to more normal levels?" If the path of real economic activity were known for 1975 and 1976, the tested Okun's Law relationships could be used to forecast changes in the total unemployment rate as well as for the various subunemployment rates. Two points are critical here. What real GNP growth rate forecast is most likely and, second, to what fourth quarter 1974 unemployment rate to apply these forecasted changes in the unemployment rates. Three alternative real GNP paths are examined for their implications about unemployment conditions. Let's face it; any forecast made today about the pace of economic activity in 1975 and 1976 is very uncertain. Table 4 presents three possible paths the economy may follow the rest of this year and through 1976 — a "sluggish," a "moderate," and a "supercharged" recovery. None of these alternatives will necessarily be the actual path the economy will take. If a consensus could be drawn by forecasters, it would appear to be a moderate recovery beginning in the second half of this year and continuing on through 1976; this is the "moderate" alternative shown in Table 4.

The modern version of Okun's Law tested and used in this study examines **changes** in unemployment rates and not the level of the rate itself. **Changes** in unemployment rates will then be forecasted for 1975 and 1976, based on the real GNP growth assumptions shown in Table 4. To arrive at unemployment rate forecasts, these changes must be chained forward from the actual fourth quarter unemployment rates. Table 5 shows actual fourth quarter unemployment rates (column

⁹The standard errors of each regression equation are given in Table 1. They can be used for determining confidence intervals.

¹⁰A recent article by Arthur Okun discusses reasons why his rule overestimated the actual unemployment rate early in 1974. He notes that this is typical in the early stages of recession but that the forecasted rate generally comes close to the actual rate in the later stages of recession and underpredicts the rate in the recovery stage. See Arthur M. Okun, "Unemployment and Output in 1974," *Brookings Papers on Economic Activity*, No. 2, 1974, pp. 495-504.

TABLE 5
COMPARISON OF ACTUAL AND ESTIMATED UNEMPLOYMENT RATES

	(1) 1974: IV Unemployment Rates (Actual)	(2) 1974: IV Unemployment Rates (Projected)	(3) Forecasted 1975: I Unemployment Rates Based on Actual 1974: IV Rates	(4) Actual 1975: I Unemployment Rates	(5) Alternative 1975: I Forecasts Based on Projected 1974: IV Rates
Total	6.6	7.6	7.6	8.4	8.6
Males, 20 and over	4.7	5.6	5.7	6.3	6.6
Females, 20 and over	6.5	7.2	7.5	8.2	8.2
Both sexes, 16-19	17.5	21.0	19.9	20.4	23.4
White males, 20 and over	4.3	5.3	5.3	6.0	6.3
White females, 20 and over	5.9	6.5	6.9	7.9	7.5
Whites, 16-19	15.3	18.3	17.6	18.8	20.6
Nonwhite males, 20 and over	8.5	8.5	10.2	11.1	10.2
Nonwhite females, 20 and over	10.1	11.9	11.3	11.0	13.1
Full-time workers	6.3	6.8	7.2	7.8	7.7
Household heads	4.1	4.5	4.8	5.5	5.2

1) and the forecasted first quarter rates (column 3) based on the actual fourth quarter rates (along with actual fourth quarter real GNP growth and the assumed first quarter growth, which is the same in all three alternatives in Table 4).¹¹ Column 4 of this table gives first quarter 1975 unemployment rates. A comparison of these first quarter rates with the forecasted rates indicates that the forecasts are undershooting the actual rates. If fourth quarter 1974 unemployment rates were not truly reflective of labor market conditions, then it might be better to use the estimated fourth quarter unemployment rates (column 2 of Table 5) as the base for 1975 and 1976 unemployment rate forecasts.

The first quarter 1975 forecasted unemployment rates based on this alternative method are shown in column 5 of Table 5. Comparing these forecasted rates with actual first quarter unemployment rates indicates that this method is much closer to forecasting the actual rates. This methodology is used for the 1975 and 1976 unemployment rate forecasts as given in Table 6. This is a major alteration from most forecasting techniques, which generally utilize the latest available actual data. Here it is argued that estimates of fourth quarter 1974 (chained forward from fourth quarter 1972) are a better base to use than actual unemployment rates.¹²

It was apparent from the estimated Okun's Law

relationships that unemployment rates were lower than they should have been in 1974, considering the rates of economic decline. Slow labor force growth in early 1974 and labor hoarding by employers were largely responsible for this. The sharp and drastic increases in unemployment rates in the past few months have been an adjustment process in which rates have risen from below-normal rates in relation to real GNP growth to their longer-run rates consistent with real economic activity. Stated simply, the labor force had to begin growing and faced worsening business conditions, employers were forced to lay workers off.

Table 6 shows what may likely be the course of unemployment rates for the rest of 1975 and 1976, given the three alternative growth rates of real GNP as shown in Table 4. While these forecasted rates are certainly not perfect, since other factors besides the pace of aggregate economic activity can influence the unemployment rate, they probably give the general trend in unemployment rates, as well as indicating what labor market conditions will generally look like by the end of 1976, based on the assumed rates of real economic growth.

Concentrating on the "moderate" alternative for real GNP growth, the rise in the total unemployment rate is expected to continue through 1975, peaking in a range around 9.7 percent in the fourth quarter of 1975. Economic recovery will not, at least according to the Okun's Law relationships,

¹¹ First quarter data has recently been released. Real GNP fell by 10.4%, very close to the assumed decline shown in Table 4.

¹² Fourth quarter 1972's unemployment rate was used to chain forward forecasted unemployment rates for two reasons. It was the final quarter's data used to estimate the Okun's Law

relationships. And the forecasted and actual changes in unemployment rates were very similar in 1972, which suggests that fourth quarter 1972's unemployment rate was fairly representative of actual labor market conditions.

TABLE 6
UNEMPLOYMENT RATE FORECASTS
(Based on Real GNP Growth Rates Shown in Table 4)

		1975				1976			
		I	II	III	IV	I	II	III	IV
Total:	Sluggish	8.6	9.7	10.2	10.4	10.6	10.7	10.7	10.6
	Moderate	8.6	9.5	9.7	9.7	9.6	9.4	9.3	9.1
	Supercharged	8.6	9.5	9.6	9.3	8.8	8.3	7.8	7.3
Males, 20 and over:	Sluggish	6.6	7.5	8.0	8.2	8.3	8.3	8.3	8.2
	Moderate	6.6	7.4	7.6	7.6	7.5	7.3	7.1	7.0
	Supercharged	6.6	7.3	7.4	7.1	6.6	6.1	5.7	5.2
Females, 20 and over:	Sluggish	8.2	9.1	9.6	9.8	9.9	9.9	9.9	9.8
	Moderate	8.2	9.0	9.2	9.2	9.1	9.0	8.8	8.7
	Supercharged	8.2	8.9	9.0	8.8	8.3	7.9	7.4	7.0
Both Sexes, 16-19:	Sluggish	23.4	25.3	26.3	26.7	27.1	27.2	27.2	27.0
	Moderate	23.4	24.9	25.4	25.3	25.0	24.7	24.4	24.0
	Supercharged	23.4	24.7	24.8	24.0	23.0	21.9	20.9	19.8
White Males, 20 and over:	Sluggish	6.3	7.1	7.6	7.8	7.9	8.0	7.9	7.9
	Moderate	6.3	7.0	7.2	7.2	7.1	6.9	6.7	6.6
	Supercharged	6.3	6.9	7.0	6.7	6.3	5.8	5.3	4.8
White Females, 20 and over:	Sluggish	7.5	8.3	8.8	9.0	9.2	9.3	9.3	9.2
	Moderate	7.5	8.2	8.5	8.5	8.4	8.3	8.1	8.0
	Supercharged	7.5	8.2	8.3	8.1	7.7	7.2	6.8	6.4
Whites, 16-19:	Sluggish	20.6	22.4	23.3	23.7	24.1	24.2	24.2	23.9
	Moderate	20.6	22.0	22.4	22.4	22.1	21.7	21.4	21.0
	Supercharged	20.6	21.8	21.9	21.7	20.0	19.0	18.0	17.0
Nonwhite Males, 20 and over:	Sluggish	10.2	11.9	12.8	13.2	13.4	13.5	13.4	13.2
	Moderate	10.2	11.7	12.2	12.2	12.0	11.6	11.3	10.9
	Supercharged	10.2	11.6	11.9	11.5	10.6	9.7	8.8	7.9
Nonwhite Females, 20 and over:	Sluggish	13.1	14.2	14.7	15.0	15.2	15.3	15.3	15.2
	Moderate	13.1	14.0	14.3	14.3	14.2	14.1	13.9	13.7
	Supercharged	13.1	13.9	14.0	13.7	13.2	12.7	12.2	11.7
Full-time Workers:	Sluggish	7.7	8.7	9.1	9.4	9.5	9.6	9.6	9.5
	Moderate	7.7	8.5	8.7	8.7	8.6	8.4	8.3	8.1
	Supercharged	7.7	8.5	8.6	8.3	7.8	7.4	6.9	6.5
Household Heads:	Sluggish	5.2	5.9	6.2	6.4	6.5	6.5	6.5	6.5
	Moderate	5.2	5.8	6.0	6.0	6.0	5.8	5.7	5.6
	Supercharged	5.2	5.7	5.8	5.6	5.3	5.0	4.6	4.3

quickly bring down unemployment rates. By the fourth quarter of 1976, the total unemployment rate will have fallen to only about 9.1 percent.

Under the "sluggish" alternative, the total unemployment will pass 10 percent by the third quarter of this year and remain above 10.5 percent throughout next year. The "supercharged" alternative shows the unemployment rate peaking above 9.5 percent and then falling to the 7.5-percent range by the end of 1976.

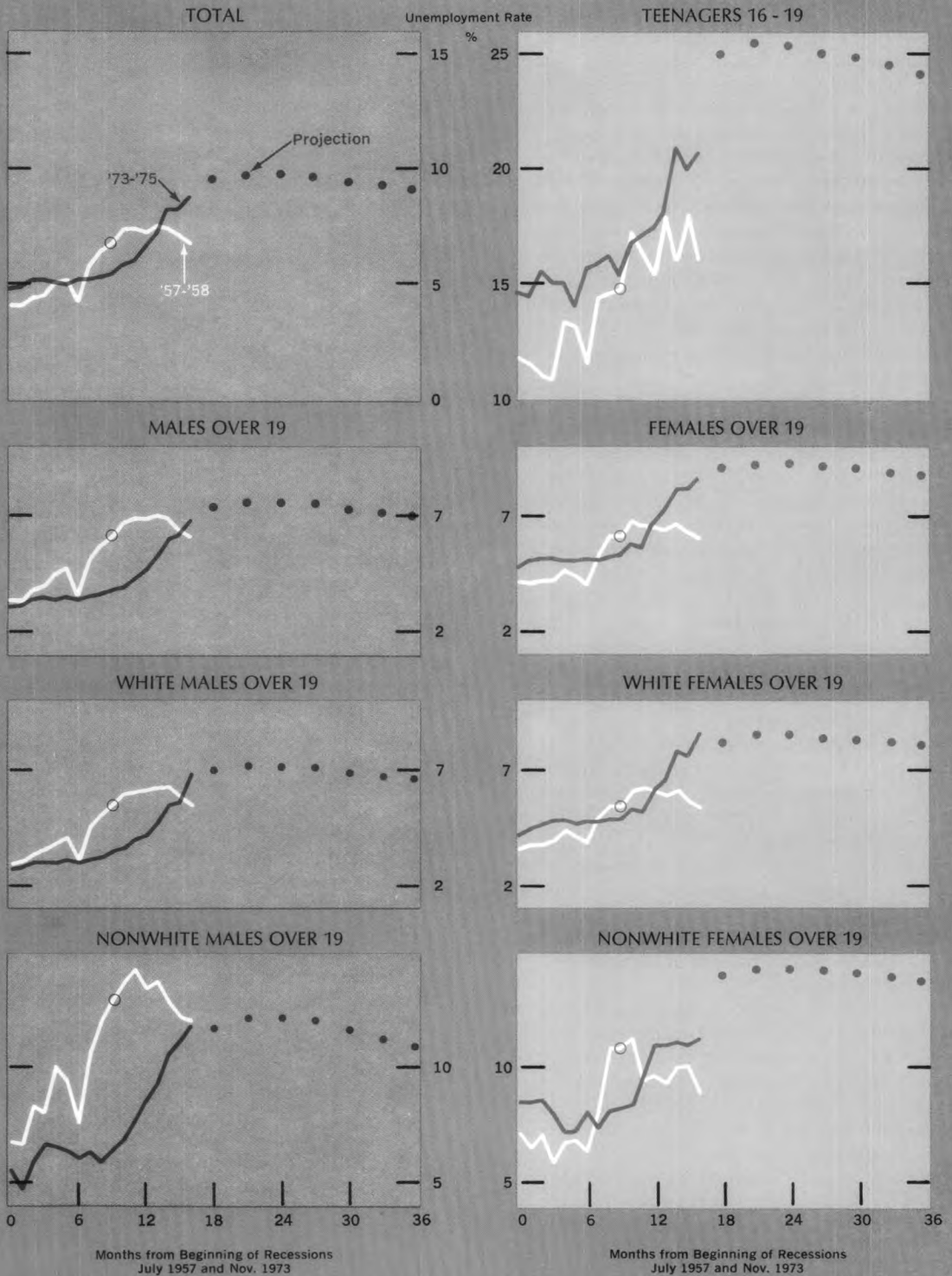
The obvious implication seems to be that even if economic recovery is very sharp in the latter half of this year, the unemployment rate will continue to rise, going above 9 percent. Further, it may be one or more years before the unemployment rate returns to more normal 5- and 6-percent rates. As the results of this study have shown, it takes

economic growth in the 4-percent range just to halt the rise in the unemployment rate.

Subunemployment Rate Forecasts

Table 6 also shows forecasts of the probable course of subunemployment rates. While historical differences in the levels of these various age, sex, and race specific rates do exist, all the subrates are, according to the simple real GNP growth relationships developed, forecasted to continue on the rise until the latter portion of this year (based on all three alternative real GNP assumptions). The extent to which these rates are forecasted to fall as economic recovery gets under way varies. The adult male unemployment rate, particularly for nonwhites, and teen-age unemployment rate should

Historical Unemployment Contrasts



Note: The circle \circ in each graph represents the month ending the 1957-1958 recession (April 1958).

respond the most to an economic recovery if past historical relationships hold.

As mentioned, although the total unemployment rate is now higher than at any time since the 1930's, several of the subunemployment rates, notably adult males, remain below previous postwar recession highs. Table 7 and the chart compare recent unemployment rate increases with those of the previous most severe postwar recession (1957-1958). The chart shows the monthly pattern of the total and subunemployment rates since the beginning of the recession (assumed to be November 1973 for the current period).¹² The dots indicate the forecasted quarterly unemployment rates shown in Table 6, based on the unemployment/GNP relationships and the "moderate" real GNP growth alternative. Table 7 indicates the forecasted peaks of each of these unemployment rates during the current recession.

While both total and nonwhite adult male unemployment rates are currently (in the first quarter of 1975) still below the 1957-1958 recession highs, only the nonwhite adult male rate is expected to remain below this previous high (even based on the "sluggish" alternative). Better job opportunities and less discrimination have probably helped out somewhat in lessening the impact of recession on nonwhites; but relative to their white counterparts, they obviously still have a long way to go.

Conclusion

This study has demonstrated that a version of Okun's Law does seem to exist both for the total unemployment rate and for at least several sub-unemployment rates. Using these estimated relationships, it was found that unemployment rates in 1974 were lower than would have been predicted, based on the declines in real Gross National Product that took place. This helps explain the sharp rise in unemployment rates at the end of last year and early in 1975; unemployment rates were simply moving up to levels consistent with the Okun's Law relationships—labor hoarding had to end and a more normal pattern of labor force growth had to begin.

The prospects for a quick drop in unemployment rates if an economic recovery begins seem doubtful, based on the Okun's Law forecasts. Even with an economic recovery beginning in the second half of this year and continuing into 1976, the total unemployment rate will probably rise to over 9.5 percent by the end of this year and not fall substantially below 9.0 percent by the end of next year. It would take a very sharp rebound for the

TABLE 7
Comparison of Subunemployment Rate Peaks

	Highest Rate Recorded (1973-75)	Forecasted Peak (Moderate Alternative)	1957-58 Recession Peaks
Total	8.7	9.7	7.5
Males, 20 and over	6.8	7.6	7.0
Females, 20 and over	8.5	9.2	6.8
Both Sexes, 16-19	20.8	25.4	17.9
White Males, 20 and over	6.8	7.2	6.3
White Females, 20 and over	8.5	8.5	6.2
Whites, 16-19	20.6	22.4	16.1
Nonwhite Males, 20 and over	11.8	12.2	14.4
Nonwhite Females, 20 and over	11.2	14.3	11.3

unemployment rate to fall below 7.5 percent by the end of 1976. Of course, abnormally low labor force growth could bring down unemployment rates more quickly. But except for a possible month or two quirk, this does not seem very likely.

While some subunemployment rates are now still below the highs of the 1957-1958 recession today, the forecasted rates for 1975 and 1976 indicate that only the nonwhite adult male unemployment rate has a chance of remaining below these previous highs. When economic recovery begins, the tested relationships between growth in real economic activity and unemployment rate changes indicate that the adult nonwhite male rates and teen-age rates will fall the fastest. Generally, the results of this study confirm past results showing that economic growth has to proceed at about a 4-percent rate before progress is made in lowering unemployment rates. However, this growth rate does vary somewhat for different labor force groups. ■

¹²Lack of historical data would not allow the comparisons to be made for full- and part-time workers and household heads.

Bank Announcements

January 2, 1975

ASSUMPTION BANK & COMPANY
Napoleonville, Louisiana

Began to remit at par.

January 2, 1975

**FIRST PEOPLES BANK OF
JEFFERSON COUNTY**
Jefferson City, Tennessee

Opened for business as a par-remitting nonmember.

January 2, 1975

STATE BANK AND TRUST COMPANY
Donaldsonville, Louisiana

Began to remit at par.

January 3, 1975

CORONADO BEACH BANK
New Smyrna Beach, Florida

Opened for business as a par-remitting nonmember.

January 3, 1975

FIRST BANK OF HOLMES COUNTY
Bonifay, Florida

Opened for business as a par-remitting nonmember.

January 6, 1975

BLED SOE COUNTY BANK
Pikeville, Tennessee

Opened for business as a par-remitting nonmember.

January 7, 1975

FIRST BANK
Delray Beach, Florida

Opened for business as a par-remitting nonmember.

January 7, 1975

FIRST BANK WEST
Lake Worth, Florida

Opened for business as a par-remitting nonmember.

January 7, 1975

FIRST BANK OF WEST BOCA RATON
Boca Raton, Florida

Opened for business as a par-remitting nonmember.

January 15, 1975

METROPOLITAN NATIONAL BANK
Biloxi, Mississippi

Opened for business as a member. Officers: E. W. Blossom, chairman; R. W. Puryear, vice chairman; J. C. Goodwin, Jr., president; David Hardy, vice president and cashier; David B. Sellers, assistant vice president and instalment loan officer. Capital, \$800,000; surplus and other funds, \$1,187,736.

January 27, 1975

BANK OF SIMPSON COUNTY
Magee, Mississippi

Opened for business as a par-remitting nonmember.

January 31, 1975

AMERICAN BANK OF LAKE WALES
Lake Wales, Florida

Opened for business as a member. Officers: W. T. Bice, chairman; W. Sidney Porter, president; Robert L. Gibson, Jr., vice president. Sandra D. Jones, assistant vice president and cashier. Capital, \$500,000; surplus and other funds, \$500,000.

February 3, 1975

NORTH FLORIDA NATIONAL BANK
Tallahassee, Florida

Opened for business as a member. Officers: Mitchell Monroe Morris, president; Jerry P. Kelly, vice president and cashier. Capital, \$800,000; surplus and other funds, \$900,000.

February 4, 1975

BANK OF OLDSMAR
Oldsmar, Florida

Opened for business as a par-remitting nonmember.

February 5, 1975

**BARNETT BANK OF WEST LAKE WORTH,
NATIONAL ASSOCIATION**
Lake Worth, Florida

Opened for business as a member. Officers: James K. Siebrecht, chairman; J. T. Jones, president; Lawrence W. Starr, executive vice president and cashier; Elona Israel, assistant cashier. Capital, \$500,000; surplus and other funds, \$500,000.

February 11, 1975

**FIRST FOREST HILL BANK OF
PALM BEACH COUNTY**
West Palm Beach, Florida

Opened for business as a par-remitting nonmember.

February 18, 1975

**FIRST STATE BANK OF
SARASOTA COUNTY**
Osprey, Florida

Opened for business as a par-remitting nonmember.

February 28, 1975

**BARNETT BANK OF TAMPA,
NATIONAL ASSOCIATION**
Tampa, Florida

Converted to a national bank from Barnett Bank of Tampa.

Sixth District Statistics

Seasonally Adjusted

(All data are indexes, unless indicated otherwise.)

	Latest Month	One Month Ago	Two Months Ago	One Year Ago		Latest Month	One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT					Unemployment Rate (Percent of Work Force) Feb. 9.4 8.7 7.8 5.5 Avg. Weekly Hrs. in Mfg. (Hrs.) Feb. 39.1 39.6 38.9 41.2				
INCOME AND SPENDING					FINANCE AND BANKING				
Manufacturing Payrolls Feb.	170.2	174.3	171.3	173.5	Member Bank Loans Feb.	267	270r	265	245
Farm Cash Receipts Jan.	254	203	247	228	Member Bank Deposits Feb.	212	209r	208	201
Crops Jan.	354	245	328	252	Bank Debits** Feb.	293	277r	281	238
Livestock Jan.	194	172	128	218	FLORIDA				
Instalment Credit at Banks* (Mil.\$)					INCOME				
New Loans Feb.	520	621r	550	704	Manufacturing Payrolls Feb.	177.6	180.7	181.2	180.8
Repayments Feb.	598	711r	638	658	Farm Cash Receipts Jan.	229	158	222	163
EMPLOYMENT AND PRODUCTION					EMPLOYMENT				
Nonfarm Employment Feb.	131.1	132.0	130.6	134.0	Nonfarm Employment Feb.	150.1	150.7	148.5	155.2
Manufacturing Feb.	109.0	111.6	111.6	119.6	Manufacturing Feb.	117.9	120.9	122.3	127.6
Nondurable Goods Feb.	107.9	110.3	110.7	116.6	Nonmanufacturing Feb.	156.2	156.4	153.5	160.5
Food Feb.	103.7	104.1	102.8	106.4	Construction Feb.	167.9	170.5	176.0	221.3
Textiles Feb.	96.3	98.8	100.1	113.5	Farm Employment Mar.	80.8r	75.3r	77.2r	84.3r
Apparel Feb.	104.1	107.2	109.3	116.3	Unemployment Rate (Percent of Work Force) Feb. 8.9 8.5 8.3 4.7 Avg. Weekly Hrs. in Mfg. (Hrs.) Feb. 39.3 39.1 39.2 40.7				
Paper Feb.	107.6	110.6	111.0	114.0	FINANCE AND BANKING				
Printing and Publishing Feb.	126.3	127.3	126.8	131.6	Member Bank Loans Feb.	308	306r	311	303
Chemicals Feb.	108.4	109.2	110.6	110.3	Member Bank Deposits Feb.	241	239r	238	240
Durable Goods Feb.	110.4	113.3	112.6	123.3	Bank Debits** Feb.	295	288	310	302
Lbr., Wood Prods., Furn. & Fix. Feb.	96.1	98.6	99.7	112.0	GEORGIA				
Stone, Clay, and Glass Feb.	119.1	122.2	122.9	134.0	INCOME				
Primary Metals Feb.	107.7	110.0	110.8	115.8	Manufacturing Payrolls Feb.	150.5	157.3	159.2	167.6
Fabricated Metals Feb.	122.7	124.2	125.7	133.8	Farm Cash Receipts Jan.	244	280	355	256
Machinery Feb.	150.9	155.3	156.0	162.2	EMPLOYMENT				
Transportation Equipment Feb.	95.4	99.1	91.8	108.8	Nonfarm Employment Feb.	125.8	127.5	127.5	131.3
Nonmanufacturing Feb.	138.1	138.4	137.3	138.3	Manufacturing Feb.	97.8	101.4	103.7	112.7
Construction Feb.	141.2	144.1	142.9	158.9	Nonmanufacturing Feb.	138.7	139.4	138.4	139.8
Transportation Feb.	125.6	126.5	126.5	128.2	Construction Feb.	132.0	135.4	139.1	150.0
Trade Feb.	135.8	136.1	134.1	137.7	Farm Employment Mar.	104.0	104.6	99.0	117.1
Fin., ins., and real est. Feb.	150.7	151.7	149.0	153.0	Unemployment Rate (Percent of Work Force) Feb. 9.5 10.4 8.5 4.9 Avg. Weekly Hrs. in Mfg. (Hrs.) Feb. 38.3 38.5 38.6 40.7				
Services Feb.	154.7	154.5	155.9	150.5	FINANCE AND BANKING				
Federal Government Feb.	106.3	106.4	105.1	103.9	Member Bank Loans Feb.	256	264r	265	265
State and Local Government Feb.	142.2	141.7	139.2	136.1	Member Bank Deposits Feb.	190	189r	189	182
Farm Employment Mar.	94.1r	93.8r	92.2r	98.5r	Bank Debits** Feb.	326	343r	340	302
Unemployment Rate (Percent of Work Force) Feb. 8.8 8.7 7.3 5.1					LOUISIANA				
Insured Unemployment (Percent of Gov. Emp.) Feb. 6.1 5.5 5.0 2.1					INCOME				
Avg. Weekly Hrs. in Mfg. (Hrs.) Feb.	38.9	39.0	38.9	40.5	Manufacturing Payrolls Feb.	170.2	172.6	171.2	157.6
Construction Contracts* Feb.	153	175	376	246	Farm Cash Receipts Jan.	346	176	261	203
Residential Feb.	110	119	128	289	EMPLOYMENT				
All other Feb.	195	230	618	204	Nonfarm Employment Feb.	121.2	121.1	119.0	119.4
Cotton Consumption** Jan.	79	50	64	82	Manufacturing Feb.	108.0	108.1	106.0	110.1
Manufacturing Production Dec.	144.4	148.4	151.1	150.7	Nonmanufacturing Feb.	123.9	123.9	121.7	121.3
Nondurable Goods Dec.	145.5	149.1	151.9	149.7	Construction Feb.	108.9	110.4	103.8	100.5
Food Dec.	133.4	132.8	132.8	134.5	Farm Employment Mar.	102.5r	102.7r	64.5r	93.8r
Textiles Dec.	134.0	136.5	142.3	149.9	Unemployment Rate (Percent of Work Force) Feb. 8.8 8.4 6.9 7.4 Avg. Weekly Hrs. in Mfg. (Hrs.) Feb. 39.6 40.3 40.6 40.6				
Apparel Dec.	122.5	130.8	133.5	142.5	FINANCE AND BANKING				
Paper Dec.	137.4	137.6	138.0	137.0	Member Bank Loans* Feb.	253	253r	256	244
Printing and Publishing Dec.	128.6	131.2	132.6	138.7	Member Bank Deposits* Feb.	201	203r	196	186
Chemicals Dec.	162.0	170.1	175.1	157.8	Bank Debits*/** Feb.	253	245	247	206
Durable Goods Dec.	143.2	147.3	150.0	152.4	MISSISSIPPI				
Lumber and Wood Dec.	122.6	131.9	143.6	154.5	INCOME				
Furniture and Fixtures Dec.	129.8	135.9	142.2	157.8	Manufacturing Payrolls Feb.	194.2	196.0	177.4	193.8
Stone, Clay, and Glass Dec.	147.8	150.7	154.8	154.4	Farm Cash Receipts Jan.	329	233	179	350
Primary Metals Dec.	106.9	108.2	110.0	108.7	EMPLOYMENT				
Fabricated Metals Dec.	117.2	118.2	119.2	137.1	Nonfarm Employment Feb.	128.3	130.0	127.9	130.0
Nonelectrical Machinery Dec.	155.3	156.8	155.6	152.4	Manufacturing Feb.	121.1	124.1	117.8	133.8
Electrical Machinery Dec.	244.9	250.0	254.9	242.6	Nonmanufacturing Feb.	131.5	132.7	132.6	128.3
Transportation Equipment Dec.	130.8	137.5	137.7	136.5	Construction Feb.	150.2	144.7	133.0	151.5
FINANCE AND BANKING					Farm Employment Mar. 86.2r 85.2r 84.6r 92.1r				
Loans* Feb.	278	278r	280	269	ALABAMA				
Large Banks Feb.	261	263	265	254	INCOME				
Deposits* Feb.	217	215r	214	209	Manufacturing Payrolls Feb.	177.1	182.6	189.2	175.4
All Member Banks Feb.	188	189	191	180	Farm Cash Receipts Jan.	300	244	334	284
Large Banks Feb.	289	289	297	267	EMPLOYMENT				
Bank Debits*/** Feb.	289	289	297	267	Nonfarm Employment Feb.	120.5	121.2	120.6	121.7
ALABAMA					Manufacturing Feb. 110.0 111.6 112.8 118.3				
INCOME					Nonmanufacturing Feb. 125.3 125.5 124.2 123.3				
Manufacturing Payrolls Feb.	177.1	182.6	189.2	175.4	Construction Feb.	137.5	138.7	137.5	143.4
Farm Cash Receipts Jan.	300	244	334	284	Farm Employment Mar.	113.6r	112.7r	115.6r	125.0r
EMPLOYMENT					MISSISSIPPI				
Nonfarm Employment Feb.	120.5	121.2	120.6	121.7	INCOME				
Manufacturing Feb.	110.0	111.6	112.8	118.3	Manufacturing Payrolls Feb.	194.2	196.0	177.4	193.8
Nonmanufacturing Feb.	125.3	125.5	124.2	123.3	Farm Cash Receipts Jan.	329	233	179	350
Construction Feb.	137.5	138.7	137.5	143.4	EMPLOYMENT				
Farm Employment Mar.	113.6r	112.7r	115.6r	125.0r	Nonfarm Employment Feb.	128.3	130.0	127.9	130.0
MISSISSIPPI					Manufacturing Feb. 121.1 124.1 117.8 133.8				
INCOME					Nonmanufacturing Feb. 131.5 132.7 132.6 128.3				
Manufacturing Payrolls Feb.	194.2	196.0	177.4	193.8	Construction Feb.	150.2	144.7	133.0	151.5
Farm Cash Receipts Jan.	329	233	179	350	Farm Employment Mar.	86.2r	85.2r	84.6r	92.1r
EMPLOYMENT					FLORIDA				
Nonfarm Employment Feb.	128.3	130.0	127.9	130.0	INCOME				
Manufacturing Feb.	121.1	124.1	117.8	133.8	Manufacturing Payrolls Feb.	177.6	180.7	181.2	180.8
Nonmanufacturing Feb.	131.5	132.7	132.6	128.3	Farm Cash Receipts Jan.	229	158	222	163
Construction Feb.	150.2	144.7	133.0	151.5	EMPLOYMENT				
Farm Employment Mar.	86.2r	85.2r	84.6r	92.1r	Nonfarm Employment Feb.	150.1	150.7	148.5	155.2

	Latest Month	One Month Ago	Two Months Ago	One Year Ago
Unemployment Rate (Percent of Work Force)	Feb. 7.8	6.9	5.8	3.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	Feb. 38.3	37.6	37.8	39.6
FINANCE AND BANKING				
Member Bank Loans*	Feb. 263	262r	263	266
Member Bank Deposits*	Feb. 215	214r	218	219
Bank Debits**	Feb. 237	270r	262	226
TENNESSEE				
INCOME				
Manufacturing Payrolls	Feb. 171.1	173.9	171.8	173.0
Farm Cash Receipts	Jan. 184	176	195	193

EMPLOYMENT

	Latest Month	One Month Ago	Two Months Ago	One Year Ago
Nonfarm Employment	Feb. 126.7	127.8	126.3	128.9
Manufacturing	Feb. 109.5	112.4	111.4	120.4
Nonmanufacturing	Feb. 136.3	136.3	134.6	133.6
Construction	Feb. 146.0	151.2	143.3	139.5
Farm Employment	Mar. 89.8r	93.6r	94.0r	91.4r
Unemployment Rate (Percent of Work Force)	Feb. 7.9	8.0	6.3	4.6
Avg. Weekly Hrs. in Mfg. (Hrs.)	Feb. 38.9	38.9	38.8	40.1

FINANCE AND BANKING

Member Bank Loans*	Feb. 287	282r	281	257
Member Bank Deposits*	Feb. 220	218r	212	201
Bank Debits**	Feb. 262	269	277	240

*For Sixth District area only; other totals for entire six states

**Daily average basis

†Preliminary data

r-Revised

N.A. Not available

Note: All indexes: 1967=100.

Sources: Manufacturing production estimated by this Bank; nonfarm, mfg. and nonmfg. emp., mfg. payrolls and hours, and unemp., U.S. Dept. of Labor and cooperating state agencies; cotton consumption, U.S. Bureau of Census; construction contracts, F. W. Dodge Div., McGraw-Hill Information Systems Co.; farm cash receipts and farm emp., U.S.D.A. Other indexes based on data collected by this Bank. All indexes calculated by this Bank.

†Data benchmarked to June 1971 Report of Condition.

Debits to Demand Deposit Accounts

Insured Commercial Banks in the Sixth District (In Thousands of Dollars)

	Percent Change						Percent Change					
	Feb. 1975	Jan. 1975	Feb. 1974	Year to date 2 mos. 1975		Year to date 2 mos. 1975	Feb. 1975	Jan. 1975	Feb. 1974	Year to date 2 mos. 1975		Year to date 2 mos. 1975
				Feb. 1975 from 1974	from 1974					Feb. 1975 from 1974	from 1974	
STANDARD METROPOLITAN STATISTICAL AREAS¹												
Birmingham	4,645,431	5,159,319	3,855,064	-10	+21	+21						
Gadsden	92,610	109,386	92,383	-15	+0	+4						
Huntsville	382,379	423,487	282,936	-10	+35	+26						
Mobile	1,290,407	1,536,766	1,027,830	-16	+26	+29						
Montgomery	700,792	749,579	599,435	-7	+17	+13						
Tuscaloosa	244,068	275,077	216,486	-11	+13	+8						
Bartow-Lakeland-Winter Haven	842,364	975,636	778,850	-14	+8	+8						
Daytona Beach	407,587	496,635	354,803	-18	+15	+14						
Ft. Lauderdale-Hollywood	1,845,823	2,126,909	1,915,772	-13	-4	-6						
Ft. Myers	402,505	495,626	405,943	-19	+1	+4						
Gainesville	256,353	321,841	255,312	-20	+0	+6						
Jacksonville	4,432,766	4,931,473	5,067,000	-10	-13	-4						
Melbourne												
Titusville-Cocoa	405,176	562,279	404,402	-28	+0	+9						
Miami	6,818,037	8,125,198	7,115,226	-16	-4	-0						
Orlando	1,479,553	1,659,738	1,546,459	11	-4	-4						
Pensacola	491,078	546,182	392,701	-10	+25	+22						
Sarasota	543,409	694,840	547,687	-22	+1	+4						
Tallahassee	789,750	841,418	1,134,812	-6	-30	-18						
Tampa-St. Pete	3,843,059	4,728,593	3,950,371	-19	3	0						
W. Palm Beach	1,202,516	1,462,795	1,214,287	-18	+1	-0						
Albany	177,289	229,292	179,405	-23	-1	+3						
Atlanta	17,650,539	20,619,620	16,621,404	-14	+6	+4						
Augusta	626,090	553,999	546,666	+13	+15	+1						
Columbus	430,472	476,606	409,826	-10	+5	+1						
Macon	737,880	818,720	648,979	-10	+14	+17						
Savannah	874,776	923,681	508,151	-5	+72	+62						
Alexandria	269,735	322,628	249,358	-16	+8	+9						
Baton Rouge	1,867,714	2,175,570	1,288,059	-14	+45	+48						
Lafayette	354,263	433,451	263,991	-18	+34	+34						
Lake Charles	301,082	312,578	227,050	-4	+33	+19						
New Orleans	5,005,252	5,763,906	4,324,051	-13	+16	+16						
Biloxi-Gulfport	263,634	285,940	213,559	-8	+23	+18						
Jackson	1,671,621	2,005,637	1,411,026	-17	+18	+20						
Chattanooga	1,181,349	1,405,563	1,292,265	-16	-9	-8						
Knoxville	1,478,845	1,756,844	1,363,017	-16	+8	+14						
Nashville	4,001,183	4,749,320	3,534,234	-16	+13	+18						
OTHER CENTERS												
Annisston	114,109	129,328	95,928	-12	+19	+18						
Dothan	167,775	195,790	170,709	-14	-2	-2						
Selma	72,044	86,738	78,064	-17	-8	-17						
Bradenton	202,926	246,381	192,273	-18	+6	+9						
Monroe County	123,950	132,675	123,301	-7	+1	+3						
Ocala	204,966	208,706	191,212	-2	+7	-2						
St. Augustine	34,570	41,091	47,163	-16	-27	-28						
St. Petersburg	886,883	1,131,309	931,287	-22	-5	-2						
Tampa	1,921,394	2,362,848	1,845,071	-19	+4	+9						
Athens	136,496	177,364	143,043	-23	-5	+4						
Brunswick	122,678	139,204	91,096	-12	+35	+30						
Dalton	149,585	163,898	177,815	-9	-16	-17						
Eiberton	22,376	24,698	19,702	-9	+14	+7						
Gainesville	147,080	185,909	139,815	-21	+5	+9						
Griffin	70,399	74,583	68,771	-6	+2	-7						
LaGrange	37,913	40,207	43,378	-6	-13	-12						
Newnan	41,240	56,676	49,616	-27	-17	-11						
Rome	137,084	141,234	127,908	-3	+7	+1						
Valdosta	95,203	119,046	94,923	-20	+0	+11						
Abbeville	16,899	20,586	13,459	-18	+26	+11						
Bunkie	13,173	18,609	9,925	-29	+33	+32						
Hammond	102,448	109,749	82,475	-7	+24	+22						
New Iberia	82,902	96,299	55,359	-14	+50	+35						
Plaquemine	28,336	34,145	19,061	-17	+49	+27						
Thibodaux	57,001	72,700	32,958	-22	+73	+58						
Hattiesburg	140,237	145,378	111,252	-4	+26	+17						
Laurel	79,055	80,112	69,042	-1	+15	+4						
Meridian	119,928	139,390	111,826	-14	+7	+8						
Natchez	55,847	65,403	51,169	-16	+9	+14						
Pascagoula												
Moss Point	177,522	163,698	176,287	+8	+1	+5						
Vicksburg	70,659	86,853	75,576	-19	-7	-11						
Yazoo City	31,527	68,121	42,690	-54	-26	-1						
Bristol	122,799	148,638	103,862	-17	+18	+25						
Johnson City	159,858	164,866	142,654	-3	+12	+1						
Kingsport	264,696	314,053	245,346	-16	+8	+7						
DISTRICT TOTAL	83,155,296	96,814,700r	77,130,218	-14	+8	+9						
Alabama	10,687,096	11,683,676r	8,666,540	-9	+23	+22						
Florida	26,059,843	30,748,653	26,592,372	-15	-2	+0						
Georgia	24,152,518	28,051,463	22,356,190	-14	+8	+7						
Louisiana ²	9,351,064	10,777,860	7,601,000	-13	+23	+23						
Mississippi	3,123,000	3,935,571r	2,974,665	-21	+9	+10						
Tennessee ²	9,781,775	11,617,477	8,939,541	-16	+9	+13						

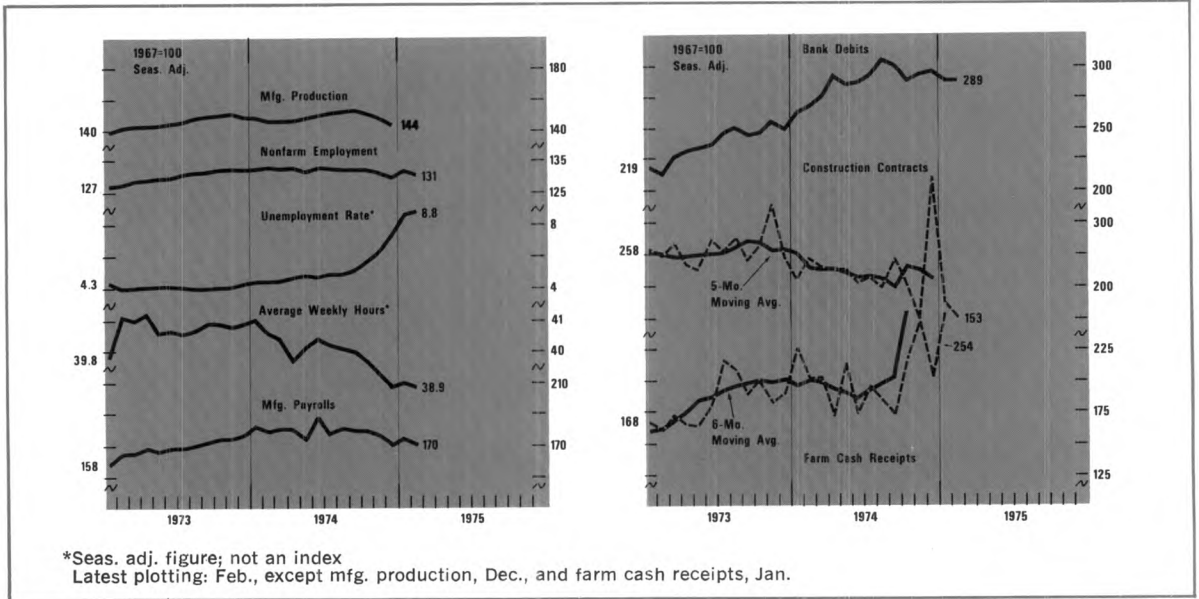
¹Conforms to SMSA definitions as of December 31, 1972.

²District portion only.

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Figures for some areas differ slightly from preliminary figures published in "Bank Debits and Deposit Turnover" by Board of Governors of the Federal Reserve System.

District Business Conditions



The Southeast's economic ebb continues. Job losses were widespread and unemployment rose. Despite month-long automobile rebate programs, consumer instalment credit owed to banks declined. Construction activity remained depressed. Bank deposits grew. Agricultural prices continued to fall, but farm borrowing increased as interest rates dropped.

The number of people holding jobs declined in February, raising the unemployment rate for the sixth consecutive month. Job losses were reported in every state except Louisiana, where total employment held steady. This reversed the previous month's slight gains in District employment. Declines were widespread in manufacturing and in the construction and trade sectors, while services and state and local governments provided the only job gains. Factory hours worked were down after two months of stability, contributing to a drop in manufacturing payrolls.

Consumer instalment credit owed to banks declined for the fifth consecutive month. Repayments again led new extensions of credit in all lending categories. Extensions of automobile credit strengthened in February as a result of rebate programs; but despite this stimulus, consumers chose to reduce their instalment debt obligations to banks. A large increase in new auto registrations confirmed earlier signs of an upsurge in auto markets. Department store sales in January showed more than a normal seasonal decline.

The value of construction contracts dropped in February. Declines were recorded in both residential and nonresidential sectors. The value of residential

contracts was the lowest since 1967. Mortgage interest rates dropped further, and there were record deposit inflows at savings and loan associations.

Demand deposits posted a sizable gain through late March, the first since early last summer. Banks have stepped up their purchases of securities, particularly short- and medium-maturity Treasury coupon issues, municipal bonds, and Federal agency issues. Bank lending, however, remains generally weak despite a pickup in larger banks' loans to retail trade and service firms.

Prices received by farmers declined again in March, according to preliminary data. Farm cash receipts dropped from 1974 levels in four of six District states, but increases in Florida and Louisiana more than offset declines elsewhere. Broiler placements were up during March, though well below year-ago levels. Georgia pork producers reduced the winter quarter's pig crop by 30 percent, and planned farrowings through the spring are one-fifth below year-ago levels. New money loaned by farm credit agencies operating in this District was up sharply in February, except in areas of concentrated cotton production. One major lender reduced interest rates further, bringing short-term rates down 2.25 percent from the peak in late 1974.

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