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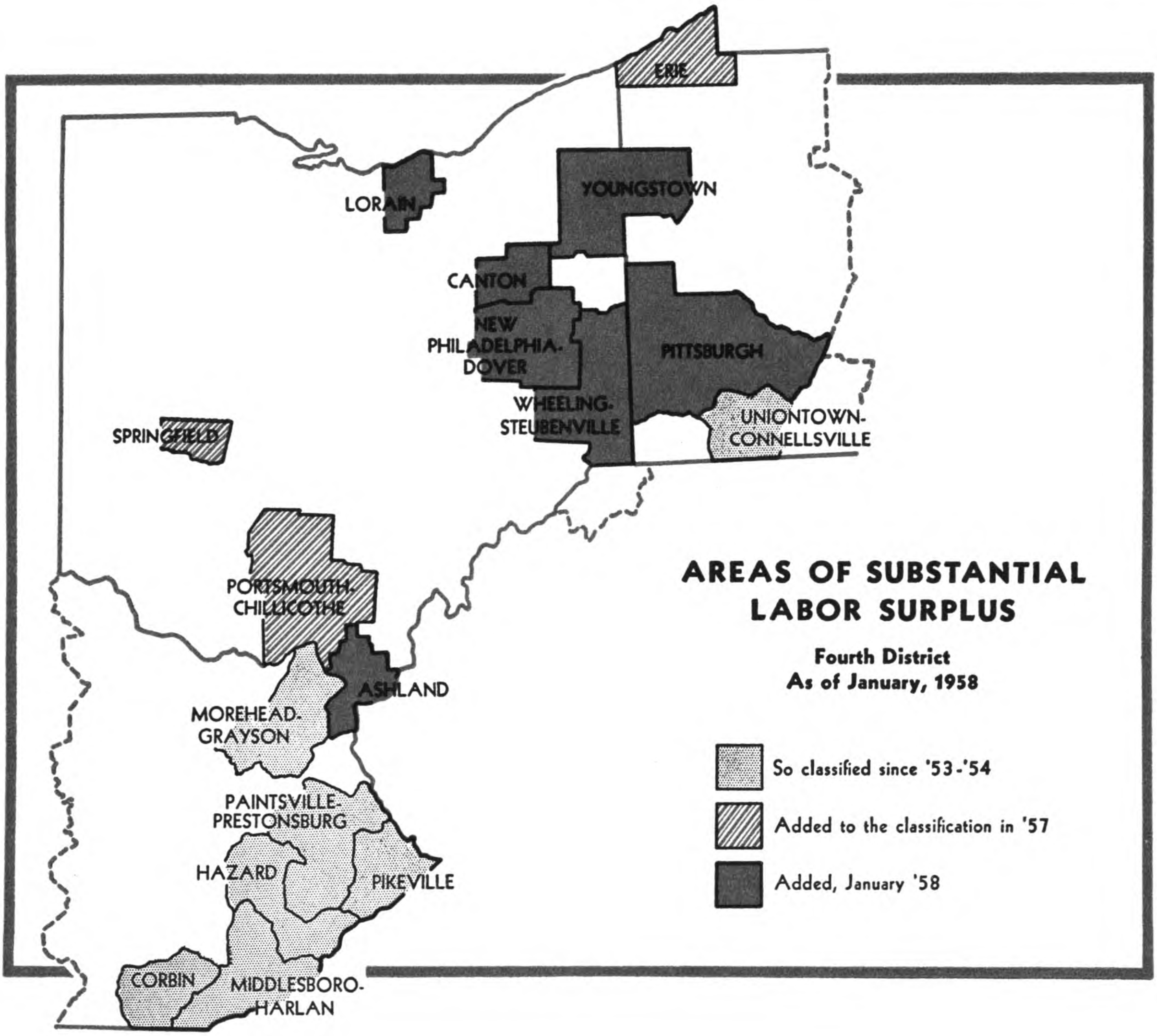


AREAS OF SUBSTANTIAL LABOR SURPLUS

Fourth District
As of January, 1958

Local Impacts of Unemployment

THE CURRENT DECLINE in business activity and employment has been reflected in a sharp drop in manufacturing employment in the principal industrial areas of the Fourth Federal Reserve District. Unemployment in the District has increased to levels higher than any experienced since the bottom of the 1949 recession.

In the Fourth District, 17 labor market areas, comprising 45 counties, were classified in mid-January as areas of ''substantial labor surplus,'' which is defined as unemployment in excess of 6 percent of the total labor force.(1) Those 17 areas of the District are divided into three groups. (See cover map.)

The first group consists of 7 areas which were placed in the substantial labor surplus category during the 1953-1954 recession and have remained so classified since that time. The longer-term decline in employment in the bituminous coal industry has been primarily responsible for chronic unemployment in those areas; in 6 of them, coal mining was, and still is, the principal source of employment.

In the second group are Springfield, Erie, and Portsmouth - Chillicothe, which were classified as areas of ''substantial labor surplus'' in 1957. All three of these areas had experienced substantial unemployment in the 1953-1954 recession but had later shared in the business recovery and expansion. In Erie, the re-emergence of substantial unemployment in 1957 was associated in part with the gradual reduction of activity by the city's major employer. Springfield's unemployment problem in 1957 was caused mainly by the closing of a large printing plant in the city.

(1) These classifications are made bi-monthly by the Bureau of Employment Security, U. S. Department of Labor.

Higher unemployment in the Portsmouth-Chillicothe area resulted from the closing of a large shoe factory and curtailments in steel production. These three additions during 1957 to the District's list of substantial labor surplus areas were partly offset by the removal of Lexington from that category in July, as a result of the opening of several large new plants in the city.

Steel and Machinery

The effects of the decline in general business activity on employment in the manufacturing industries of the Fourth District can be seen most clearly in the case of the seven additional labor market areas designated as having substantial labor surpluses in January of this year. (See cover map.) These include some of the larger cities and metropolitan areas in the District. All except one (New Philadelphia-Dover) are areas in which the steel industry is the principal employer or a very large employer. Other large employers in these areas are the machinery group of industries and the clay products industry.

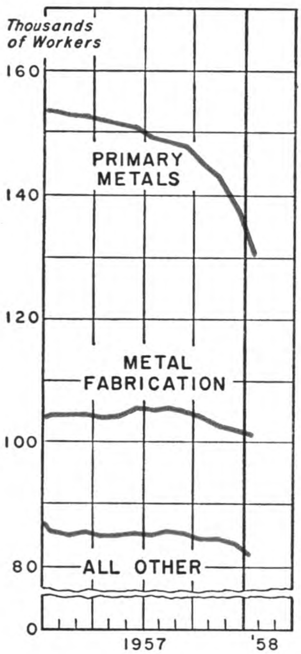
Although unemployment in the major cities of the Fourth District appears to be somewhat larger than during the 1953-1954 recession, the spread of unemployment among the less industrialized areas in the present episode is less serious. This is indicated by the fact that the number of smaller labor-market areas now included in the list of ''substantial labor surplus'' areas falls short of the comparable list in 1953-54.(2) This pattern appears to be a result of the very sharp drop in ac-

(2) This remains true, despite an announcement received at press time that the Defiance, Ohio area had been classified as "substantial labor surplus" as of February. This area is not shown on the cover map nor included in the Fourth District total of 17 such areas.

tivity in the steel and machinery industries, coupled with a lesser decline in other industries which furnish employment to the smaller areas in the District. Youngstown and Lorain, both important steel-producing centers, are now experiencing large-scale unemployment and are in the category of "substantial labor surplus"; neither was so classified in the 1953-54 recession. On the other hand, unemployment in Toledo, important for its automobile parts and nonelectrical machinery industries, was large enough in 1954 to classify the area as one of substantial labor surplus; as yet, the number of jobless in Toledo is still considerably below that point.

Recent declines in manufacturing employment in four larger labor market areas of the Fourth District are depicted in accompanying charts, which show the more important industry groups involved. These areas are Erie and

MANUFACTURING EMPLOYMENT IN PITTSBURGH



Employment in the primary metals group fell 15 percent from December 1956 to January 1958, while the work force in the metal fabricating group edged off only 2 percent during the same period.

"Metal Fabricating" includes machinery, fabricated metal products and transportation equipment.

Source of data: Bureau of Employment Security, Pennsylvania State Employment Service.

Pittsburgh, in Pennsylvania, and Cleveland and Youngstown, in Ohio. All except Cleveland were classified as areas of substantial labor surplus as of January, and Cleveland was designated an area of "moderate" labor surplus, which indicates that 3 to 6 percent of the total labor force was unemployed at that time.

In Pittsburgh and Youngstown, manufacturing employment is dominated by the primary metals group, which consists mainly of the iron and steel industry. Factory employment in Erie and Cleveland, on the other hand, is more heavily concentrated in the metal fabricating industries, defined here as including the fabricated metals, machinery, and transportation equipment groups.[3]

Pittsburgh

In the Pittsburgh area[4], where the primary metals group of industries comprises nearly half of total manufacturing employment, the drop in activity and employment in the iron and steel industry has accounted for about three-quarters of the decline in manufacturing employment from December 1956[5] through January 1958. As the chart shows, the drop was especially steep after September, paralleling the slide in operating rates in the local industry; these fell from near-capacity levels in January 1957 to between 60 and 70 percent of capacity in December, and to slightly above 50 percent (of an enlarged capacity) in January 1958. (Data for charts are not adjusted for seasonal variations.)

Concurrently, employment in the metal fabricating industries in the Pittsburgh four-county area has shown only a relatively small drop; in fact, during the late spring and summer of 1957 there was an increase. The

(3) Standard Industrial Classification Codes 34, 35, 36, and 37.

(4) Allegheny, Beaver, Washington, and Westmoreland counties.

(5) That month was selected as the base point of comparison because it marked the most recent high point in manufacturing employment both in the nation and in most areas of the District.

group of all industries other than primary metals and metal fabricating (in which the stone, clay, and glass products industry is the largest) accounted for about one-sixth of the net decline in total manufacturing employment during the thirteen-month period.

Erie

Erie's predominant metal fabricating industries were responsible for almost three-quarters of the 7,000 factory jobs lost in the Erie area[6] from December 1956 to January 1958. The primary metals group (pig iron and nonferrous metals) accounted for most of the remainder. The decline in employment in the nonelectrical machinery and transportation equipment group, which contains Erie's largest employer, was resumed in the summer of 1957, after almost two years of relative steadiness in employment following the sharp drops experienced from 1953 to 1955. In January 1958, however, that group employed only about half as many people as in the peak month of **May 1953.**

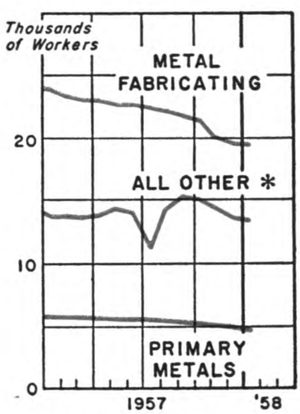
(6) Erie county

Cleveland

The Cleveland area[7] contains the second largest aggregation of manufacturing employment in the Fourth District, most of it in the metal working industries, of which the largest are nonelectrical machinery and transportation equipment (largely motor vehicles and parts). Even though employment in Cleveland's steel mills and foundries has fallen off as rapidly as in the Pittsburgh area, the drop in jobs in those industries accounted for only about 20 percent of the decline in total employment in manufacturing; the metal working group accounted for more than 60 percent of all factory jobs lost from December 1956 through January 1958. Sharply declin-

(7) Cuyahoga and Lake counties.

MANUFACTURING EMPLOYMENT IN ERIE



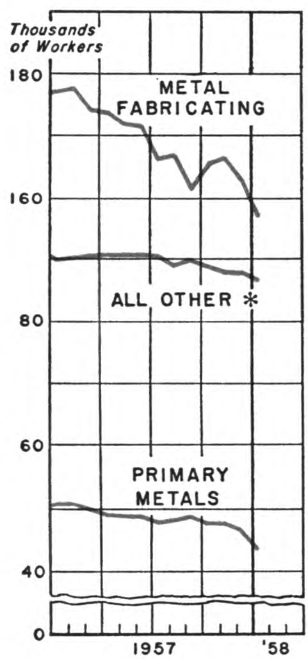
Between December 1956 and January 1958, the number of workers in metal fabricating plants in Erie was reduced by 20 percent; concurrently, employment in primary metals dropped 16 percent.

"Metal Fabricating" includes machinery, fabricated metal products and transportation equipment.

* All manufacturing other than primary metals and metal fabricating.

Source of data: Bureau of Employment Security, Pennsylvania State Employment Service.

MANUFACTURING EMPLOYMENT IN CLEVELAND



In January, metal-working industries in the Cleveland area had 11 percent fewer employees than in December 1956. The labor force in the area's steel mills and foundries declined by about 14 percent during the same period.

"Metal Fabricating" includes machinery, fabricated metal products and transportation equipment.

* All manufacturing other than primary metals and metal fabricating.

Source of data: Division of Research and Statistics, Ohio Bureau of Unemployment Compensation.

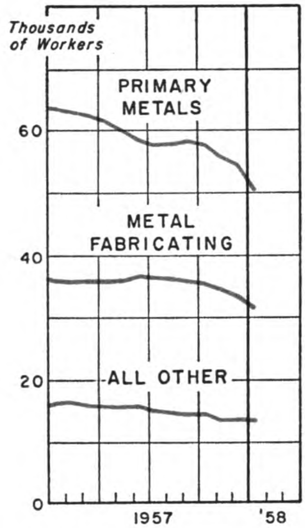
ing order backlogs in the machinery-producing industries, cutbacks in defense orders, and a disappointing level of automobile sales were factors behind the drop in employment. As previously mentioned, the classification of the Cleveland area in January was that of "moderate" labor surplus, as distinguished from "substantial" labor surplus.

Youngstown

Employment in the Youngstown area[8] is more concentrated in the primary metals group than in Pittsburgh. The drop in activity and employment in the Youngstown area's steel industry was very sharp in recent months, as its operations were steadily reduced. About two-thirds of the decline in total manufacturing employment in the area took place in the primary metals group, and most of the remainder occurred in the metal fabricating industries, the largest of which are the machinery-producing industries.

(8) Mahoning and Trumbull counties, Ohio, and Mercer county, Pennsylvania.

MANUFACTURING EMPLOYMENT IN YOUNGSTOWN



The labor force in the primary metals group dropped by about one-fifth from December 1956 to January 1958, while employment in the metalworking industries decreased 14 percent.

"Metal Fabricating" includes machinery, fabricated metal products and transportation equipment.

Source of data: Division of Research and Statistics, Ohio Bureau of Unemployment Compensation, and estimates by Federal Reserve Bank of Cleveland.

NOTE ON AREA CLASSIFICATIONS: There are four areas of "substantial labor surplus" which overlap the boundary lines of the Fourth District. In the case of two of these, Huntington-Ashland and Pikeville-Williamson, the map shows only that portion of the area which lies within the Fourth District, and shows as the name of the area the largest town or city in the District portion.

Two of the overlapping areas are not shown on the map. The largest part of the population as well as unemployment in the Johnstown (Penn.) area is located outside the Fourth District, and this area is not included in the Fourth District tally of 17 areas of "substantial labor surplus". The Gallipolis (Ohio) area, which is also not included in the District total of 17, was classified as substantial labor surplus in July 1955, when the Point Pleasant area of West Virginia (so classified since November 1953) was extended to include Gallia and Meigs counties in Ohio.

NOTES

Among the articles recently published in monthly business reviews of other Federal Reserve banks:

"State and Local Borrowing in 1957", Federal Reserve Bank of New York, February 1958.

"State-Local Spending in the Year Ahead", Federal Reserve Bank of Chicago, February 1958.

"Reserve Adjustments of City Banks", Federal Reserve Bank of Kansas City, February 1958.

"The Aluminum Industry — Part III: Location Factors and Aluminum in the Pacific Northwest", Federal Reserve Bank of San Francisco, January 1958.

(Copies may be obtained by writing to the Federal Reserve Bank named in each case.)

Interest Rates on Large and Small Bank Loans

WHETHER the interest rates on small bank loans and large bank loans are equally affected by general upward and downward swings in prevailing interest rates is a question which is of some significance for general analysis of banking and business trends. A factual answer can, in some degree, be yielded by a quick review of available data, without recourse to the results of the broader studies of small business experience which are now in process.

General conclusions to be drawn from the facts presented below, including any implications for the economic welfare of small business concerns, would require many considerations beyond the scope of this brief factual summary.

With the passing of the business boom, it now becomes possible to measure the level of interest rates charged on short-term business loans to both large and small borrowers through an entire period characterized by business expansion and monetary policies of restraint. This can be accomplished by referring to bank rates on short-term business loans which are reported regularly in the *Federal Reserve Bulletin* for nineteen cities distributed throughout the entire country. Banks from these nineteen cities report the interest rates of short-term business loans made in the first fifteen days of the last month of each calendar quarter. At the close of each year, the quarterly figures are combined to obtain yearly rates.

For the Fourth District, the data from Cleveland and Pittsburgh, included in the larger group of nineteen cities, are supplemented by data from Cincinnati banks. A total of ten banks report, but they account for a large percentage of the business loan volume in the District. The quarterly figures for the ten banks were combined to obtain annual rates for this summary.

Interest Rates at Three Large Cities of the Fourth District

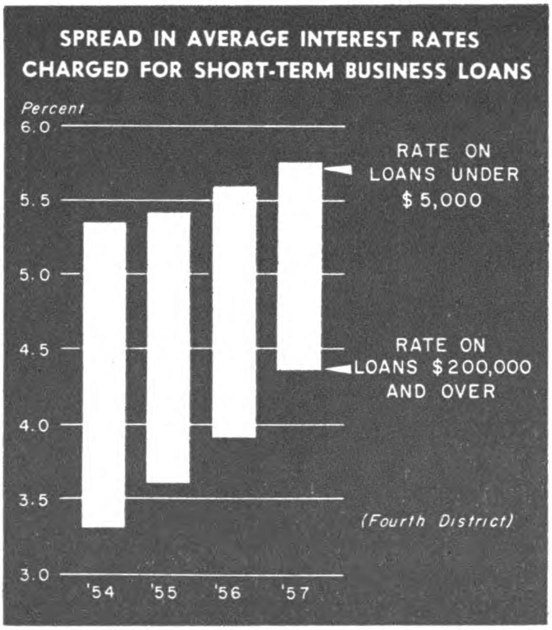
In the Fourth District cities, the average interest rates on short-term loans to businesses

Table 1

AVERAGE INTEREST RATE OF SHORT-TERM BUSINESS LOANS

(Ten Reporting Fourth District Banks)

Size of Loans (in dollars)	1953	1954	1955	1956	1957
$1,000-5,000	5.37	5.34	5.42	5.58	5.75
$5,000-100,000	4.39	4.44	4.53	4.85	5.32
$100,000-200,000	3.83	3.96	4.01	4.34	4.74
$200,000 and Over	3.49	3.31	3.51	3.93	4.36
Average Rate All Loan Sizes	3.69	3.57	3.75	4.11	4.48



During the recent expansion period, average rates on large loans increased more than rates on small loans, thus narrowing the spread.

increased substantially from 1954 to 1957. The increase in interest cost was not distributed equally among all sizes of loans. Table 1 shows that as short-term interest rates rose after 1954, the increase for the small loans was appreciably less than the increase for the largest size loans. The larger the loans, the greater the percentage increase in the interest rate. The difference in interest costs between large and small loans thus became less in 1957 than it was in 1954. The spread narrowed from 2.0 percent in 1954 to about 1.4 percent in 1957, as can be seen by an accompanying chart.

The data suggest that interest rates to small borrowers are not as flexible as rates to larger ones. Probably this is because it is a long-standing practice in many communities for banks to place a customary 6 percent maximum rate on short-term business credit, no matter how large or small the loan is, or how tight the reserve pressure becomes.

When reserve pressures diminish, it should follow that the greatest drop in interest rates would be in the large-loan category, thereby increasing once again the differential between large and small loans. Table 1 gives some indication of this tendency between the years 1953 and 1954, when the Federal Reserve eased the pressures on bank reserves. The average rates on smaller loans remained constant while average interest costs on the largest loans dropped from 3.49 percent in 1953 to 3.31 percent in 1954.

In the present period, as of early 1958, the same situation appears to be recurring as illustrated by the drop in the large commercial banks' prime interest rate, following closely the drop in the Federal Reserve discount rate.

Fourth District Experience in Line with National Trends

In order to compare the above findings with those of cities distributed throughout the entire country, Table 2 was prepared from data appearing in the *Federal Reserve Bulletin.* An examination of the data shows that the Fourth District experience was in line with the national trends. For the nineteen large cities, loans from $1,000 to $10,000 experienced a 10 percent increase in interest rates from 1954 to 1957, while the interest rates on loans of $200,000 and over increased over 32 percent. In 1954, the difference between the highest and lowest average interest rates was 1.6 percentage points, while in 1957 the dif-

Table 2

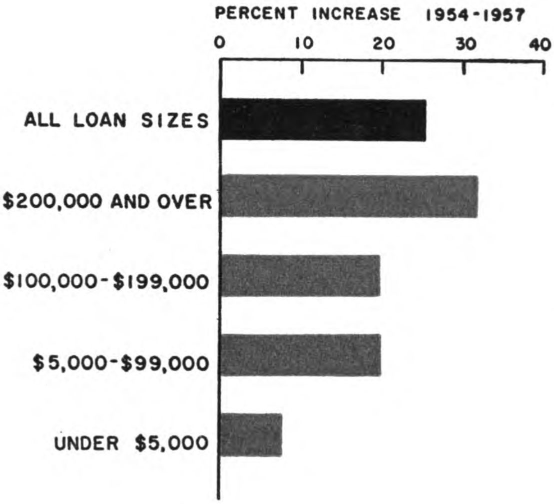
AVERAGE INTEREST RATE OF SHORT-TERM BUSINESS LOANS, U.S.

(Reporting Banks in Nineteen Large Cities of the U.S.)

Size of Loans (in dollars)	1953	1954	1955	1956	1957
$1,000-10,000	5.0	5.0	5.0	5.2	5.5
$10,000-100,000	4.4	4.3	4.4	4.8	5.1
$100,000-200,000	3.9	3.9	4.0	4.4	4.8
$200,000-and Over	3.5	3.4	3.5	4.0	4.5
Average Rate All Loan Sizes	3.7	3.6	3.7	4.2	4.6

PERCENT INCREASE IN AVERAGE INTEREST RATES

By Size of Loan, 1954-1957
(Fourth District)



ference was 1.0 points. The smallest size loan category for banks of the Fourth District is "from $1,000 to $5,000"; for the nineteen national reporting cities, it is "$1,000 to $10,000"; therefore, the difference between the highest and the lowest interest rates is not as pronounced for the nineteen reporting cities as for the Fourth District cities. Nevertheless, in both instances, there was a decided narrowing of the spread over the indicated period of time.

Taking into account the difference in the classification of the smallest loan sizes, the average interest rates for the Fourth District cities and for the nineteen large cities show great similarity. With the stage set for somewhat lower rates on business loans, it is probable that the rates for smaller loans will continue to show relatively smaller changes than for the large loans, as was the case during the recent period of rising rates.

NOTES

Recent statements on Federal Reserve policy include:

William McC. Martin, Jr., Chairman of the Board of Governors: Statement before the Joint Economic Committee, Washington, D. C., February 6, 1958. (15 pp.)

Also by Mr. Martin: Statement before the Subcommittee on the Federal Reserve of the Senate Committee on Banking and Currency. Washington, D.C., February 19, 1958. (11 pp.)

Woodlief Thomas, Economic Adviser to the Board of Governors: "Monetary Aspects of Inflation and Recession". Address at the Dean's Day Conference, Graduate School of Business Administration, New York University, New York. February 15, 1958.

Karl R. Bopp, President, Federal Reserve Bank of Philadelphia: "A Flexible Monetary Policy". Address before Group Two, Pennsylvania Bankers Association, Philadelphia, Pennsylvania. February 8, 1958.

(Copies of the first three statements mentioned above are available at the Board of Governors of the Federal Reserve System, Washington 25, D. C. Copies of Mr. Bopp's address are available at the Federal Reserve Bank of Philadelphia.)