

MONTHLY *Business Review*

FEDERAL RESERVE BANK of CLEVELAND

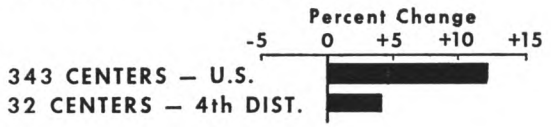
November, 1959

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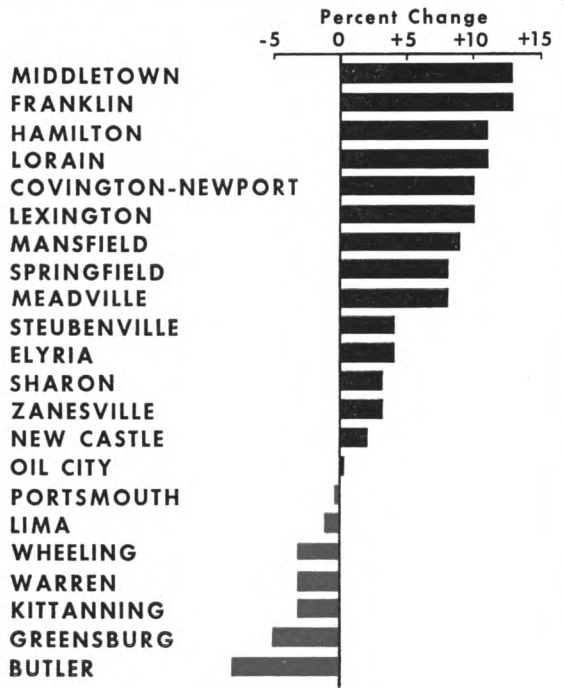
CHANGES IN BANK DEBITS IN 32 FOURTH DISTRICT CENTERS

Percentage change from first half 1957 to first half 1959

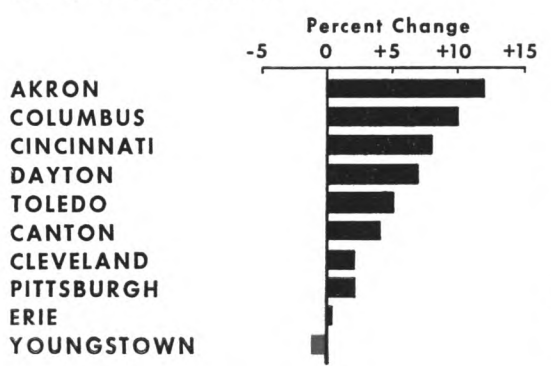
FOURTH DISTRICT AND U.S.



TWENTY-TWO OTHER CENTERS



TEN LARGEST CENTERS



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Bank Debits In Heavy Industry Areas

RECENT DATA on the volume of bank debits in the third quarter of 1959 show a mild decline both on a District and a national level from the large volume recorded in the second quarter of the year. Thus bank debits (which are the total dollar amounts of checks written by individuals, businesses, and state and local governments) reflect the moderate decline in the over-all level of business activity resulting from the effects of the record-long steel strike on general economic activity. Prior to the strike, however, bank debits were showing a vigorous forward movement.

Bank debits differ from most other measures of business activity as they include payments for unfinished goods at each stage of production and distribution rather than the value of final output. The total volume of debits is, therefore, many times larger than the total value of goods and services produced.⁽¹⁾

Bank debits also differ from many other measures of economic activity as they include, among other things, charges to deposits that are purely "financial" transactions. Debit statistics, however, have been available on a monthly basis for a relatively long period of time and they are available for 344 individual localities. For some of these places, debits are the only economic data available both on an extended historical and on a current basis. For many communities in which the proportion of financial transactions in-

cluded in local debits data is small, debit statistics representing the bulk of local payments for business and personal transactions, as well as payments by local and state government units, afford a useful barometer of fluctuations in economic activity on a local level.⁽²⁾

Cyclical Changes

The pattern of fluctuations in the volume of bank debits during the recent recession and recovery reflect the changes which occurred between mid-1957 and mid-1959 in general business activity at District reporting centers. Bank debits at the 32 reporting centers in the Fourth District declined 7 percent between the first half of 1957 and the first half of 1958, compared with a 1 percent decline for banks in 343 cities scattered throughout the country. This group of centers is exclusive of New York City where the amount of debits is strongly affected by changes in the volume of financial transactions.

Since mid-1958, the volume of bank debits at District and national reporting centers have shown roughly the same percentage increase, gaining 12 percent between the first half of 1958 and the first half of 1959. Consequently, for the Fourth District a combination of a sharper-than-national decline on the downswing and an equal-to-national rate of rise on the upswing produced a net change

(1) See *Debits and Clearing Statistics and Their Use*, by George Garvy, Adviser, Federal Reserve Bank of New York; published by Board of Governors of the Federal Reserve System, Washington 25, D. C.

(2) This is particularly so when bank debits are taken over an extended period of time. In the case of month-to-month fluctuations, however, bank debits may be influenced by special factors such as unusual financial transactions as well as by variations in the number of working days.

BANK DEBITS IN 32 FOURTH DISTRICT REPORTING CENTERS

Changes in Debits Volume 1st Half 1957 to 1st Half 1959	Reporting Centers	Debits to Demand Deposits*	Indexes of Dollar Volume 1st half 1957 = 100		
		1959 1st Half (Millions of dollars)	1957 1st Half	1958 1st Half	1959 1st Half
Gain More than 12%	Middletown	393	100	97	113
	Franklin, Pa.	62	100	94	113
Gain 8% to 12%	Akron	3,392	100	93	112
	Hamilton	461	100	98	111
	Lorain	247 E	100	91	111
	Covington-				
	Newport, Ky.	405	100	96	110
	Lexington, Ky.	768	100	99	110
	Columbus	6,391	100	107	110
	Mansfield	494	100	94	109
	Cincinnati	10,090	100	99	108
	Springfield	461	100	91	108
	Meadville, Pa.	142	100	101	108
Gain 4% to 8%	Dayton	2,898	100	93	107
	Toledo	3,791	100	94	105
	Steubenville	221	100	96	104
	Canton	1,151	100	91	104
	Elyria	239	100	90	104
Gain 4%	All Centers, Fourth District	85,487	100	93	104
Gain 0 to 4%	Sharon, Pa.	273	100	89	103
	Zanesville	253	100	95	103
	Cleveland	21,636	100	89	102
	New Castle, Pa.	266	100	91	102
	Pittsburgh, Pa.	26,662	100	90	102
	Erie, Pa.	889	100	93	100
	Oil City, Pa.	181	100	91	100
	Portsmouth	156	100	92	100
Decline 0 to 4%	Lima	405	100	93	99
	Youngstown	1,548	100	88	99
	Wheeling, W. Va.	509	100	88	97
	Warren	492	100	83	97
	Kittanning, Pa.	94	100	93	97
Decline 4% to 8%	Greensburg, Pa.	187	100	93	95
	Butler, Pa.	328	100	83	92

* Debits, which are charges made to demand deposits as owners of these accounts write checks against them, measure the dollar volume of checks paid. Debits reported here are to demand deposits of individuals, partnerships, corporations, states, and political subdivisions only.

E Estimated Figure.

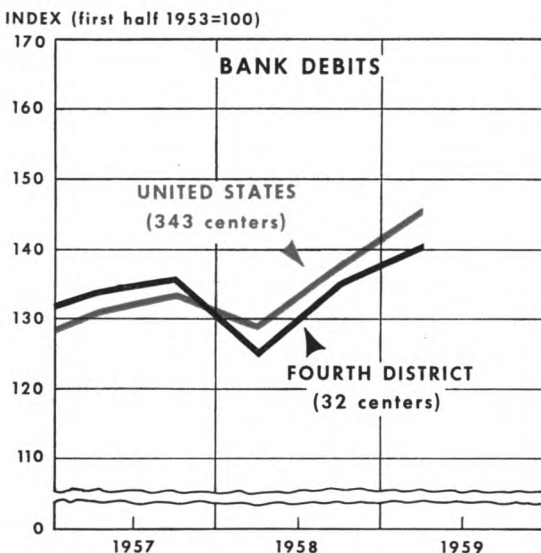
over the two-year interval which resulted in a relatively less favorable showing for the District than the nation. Thus, in the interval between the first half of 1957 and the first half of 1959, bank debits in the reporting centers of the Fourth District scored a net rise of 4 percent, while debits throughout the country (excluding New York City) scored a 12 percent rise.

The sharper decline which occurred in the volume of bank debits at District centers during the recession can be seen in an accompanying chart which measures the relative changes at District and national centers in terms of a common base period. In these terms, bank debits at centers representing the Fourth District dropped off about ten points during the recession, compared with a decline of less than two points for the 343 centers representing the U. S. Since the first half of 1958, the volume of bank debits has risen roughly seventeen points on a national level and fifteen points on a District level.

The sharper drop in the volume of debits at centers in the Fourth District than at the 343 centers in the United States during the recession is not unusual in view of the heavy-industry manufacturing which characterizes a number of cities in Ohio, in the "pan-handle" part of West Virginia (which is part of the Fourth District) and in western Pennsylvania; such industry is subject to relatively wide fluctuations during periods of recession and recovery. The level of activity in these industries influences activity in other industries and plays an important part in determining the volume of bank debits in areas where such industries are important.

The previous record, however, should also be taken into account. Thus, the rapid expansion in business activity and the sharp upturn in the volume of bank debits at District centers which had occurred between 1954 and 1957 explains to some extent the relatively small increase in debits volume in the 1957-1959 period, which is under review. The volume of bank debits at a number of reporting centers in the District was at record levels

Between the second half of 1957 and the first half of 1958, debits in the Fourth District dropped off more sharply than the total for the U. S. Since then, the relative increase in debits in the Fourth District has been about the same as for the country as a whole.



at the end of the first half of 1957. This was particularly true in the case of the steel-producing centers of the District which, with few exceptions, showed the greatest increase in volume of bank debits between the first half of 1954 and the first half of 1957. In contrast, these centers as a group experienced only mild gains in the volume of bank debits between mid-1957 and mid-1959.

Individual Cities

The changes in debits volume at all thirty-two District reporting centers from the first half of 1957 to the first half of each of the succeeding two years are shown in an accompanying table in the form of index numbers employing the first half of 1957 as a base period. Although the cities where heavy industry is of particular importance tend to show only a mild gain, or even a decline, in debits volume between mid-1957 and mid-1959, a number of interesting exceptions can be found.

Middletown, Ohio, for example, where the largest single employer in the area is an integrated steel mill, showed the greatest percentage gain in debits volume of all the District centers, over the two-year interval. It appears that Middletown, in contrast to other steel producing areas in the District, experienced a relatively small decline in the volume of bank debits during the 1958 recession. In this case, the debit figures accurately reflect the relatively mild decline which occurred in employment in this area during the 1958 recession, as the steel mill in Middletown maintained, on the average, higher rates of production than many of the other mills in the District. In the subsequent recovery period, Middletown shared in the general upward movement.

Lorain, Ohio, is another example of a city characterized by heavy manufacturing which experienced a substantial gain in debits volume since the first half of 1957. Although the volume of debits declined sharply between mid-1957 and mid-1958 in that city, the recovery in business activity stimulated by stepped-up steel production produced a very marked increase in debits volume, more than

offsetting the previous decline. (All of this was prior to the steel strike.)

Finally, Covington-Newport, Kentucky, provides a third example of a steel producing community which recorded substantial gains in debits volume between mid-1957 and mid-1959, as the recession failed to cause more than a mild decline in bank debits from the first half of 1957 to the first half of 1958.

Most recent data on the volume of bank debits at District steel centers for the third quarter of 1959 show a tendency toward declines from the high levels recorded in the second quarter of the year, reflecting the impact of the steel strike.

Debits at banks in Pittsburgh, Sharon (Pa.) and Warren (Ohio) for example declined between the second and third quarters by amounts ranging from 6 percent to 10 percent. Exceptions among steel centers include Middletown (Ohio) and Butler (Pa.), and Portsmouth (Ohio) where the mills continued operation and where debits volume increased in the third quarter. On the average, debits in reporting centers of the District declined 2 percent between the second and third quarters.

NOTES ON FEDERAL RESERVE PUBLICATIONS

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

“Autos in '60”, Federal Reserve Bank of Chicago.

“Congress Looks at Ceilings”, Federal Reserve Bank of Richmond.

“Forces Behind the Growth in Trade Credit”, Federal Reserve Bank of Kansas City.

Copies may be obtained without charge by writing to the Federal Reserve Bank named in each case.

Sales of Hard Goods and Soft Goods at Department Stores

(Fourth District)

RETAIL SALES in the United States recovered rapidly after the downturn of the business cycle in late 1957 and early 1958. A speedy upturn from a mild decline in sales was in contrast to the slow recoveries that followed the 1949 and 1954 downturns, when sales activity changed little for a number of months after the cyclical lows were reached.

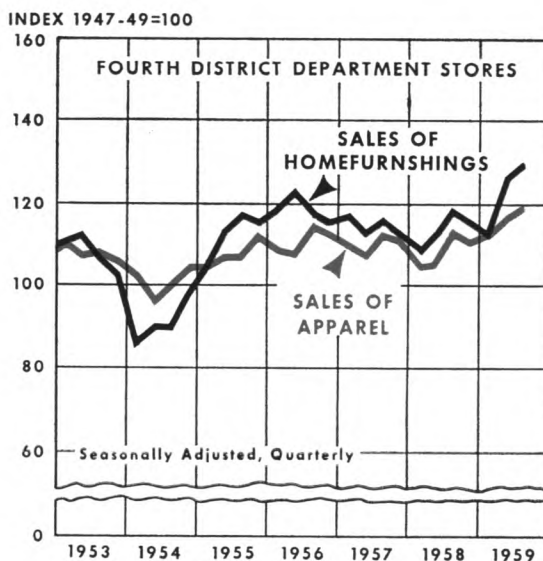
A related characteristic of the most recent episode was the relative strength in hard goods sales; during the recession, sales of hard goods appeared to follow approximately the same moderate downward movement as soft goods instead of the more accelerated decline typical of previous downturns of the business cycle.⁽¹⁾

A study of department store sales in the Fourth Federal Reserve District reveals in more detail the general pattern which was described above as broadly characteristic of the national scene. The figures are for a group of department stores which report their sales on a departmental basis. It should be understood that the commodity lines referred to here are taken only in the context of department store outlets in the Fourth District and that the particular sales behavior described here may not be representative of total retail sales of the lines under consideration, even in the District.

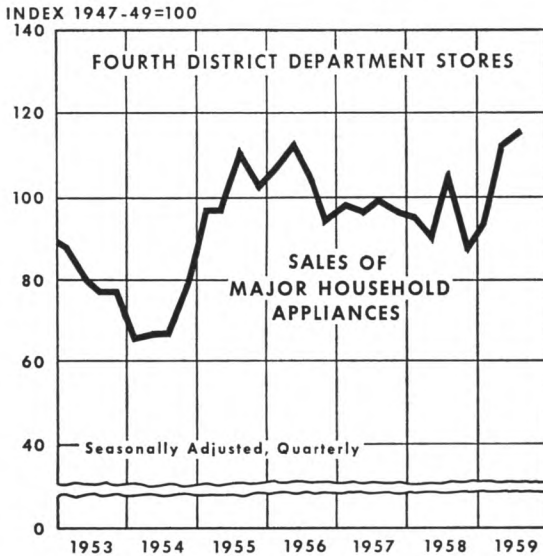
(1) "Hardgoods" refers here to durable consumer goods excluding automobile sales.

The homefurnishings and the apparel group of departments, according to department store classifications, may be considered as broadly equivalent to "hard" and "soft" goods lines respectively, although there are

The decline in homefurnishings sales during the business setback of 1957-58 appeared to follow approximately the same moderate downward movement as apparel sales instead of the more accelerated decline typical of previous downturns of the business cycle.



Sales of major household appliances, after a false start in the third quarter of 1958, began a rapid and lasting recovery in the early months of 1959, reaching a new high (after seasonal adjustment) in the late summer months of this year.



some specific lines of homefurnishings which could not strictly be regarded as "hard" goods.⁽²⁾

In the group of stores which report on a departmental basis, the distribution of store sales for the year 1958 was as follows: apparel departments, 43%; homefurnishings departments, 21%; other departments, 36%. These proportions have not changed beyond a single percentage point, within the past ten years.⁽³⁾

Two Cycles

After the 1949 recession, Fourth District department store sales continued to expand

⁽²⁾ The homefurnishings group (hard goods) is composed of furniture and bedding, domestic floor coverings, major appliances, and radios, television sets, and phonographs. The apparel group (soft goods) consists of women's and misses' accessories, women's and misses' apparel, men's clothing, men's furnishings and boys' wear. "Other departments" include: piece goods, small wares, and basement store departments.

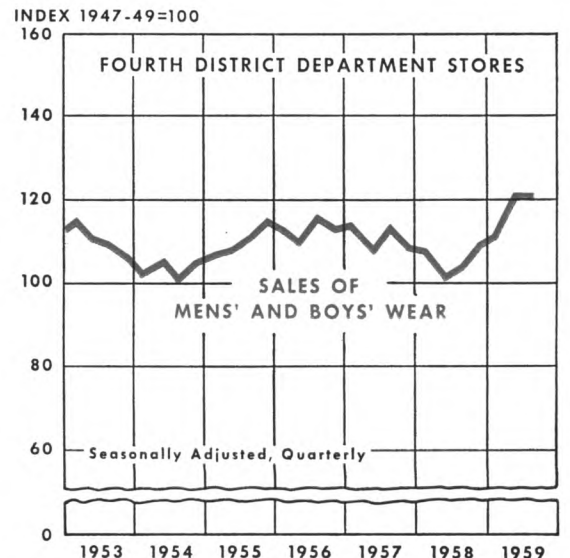
⁽³⁾ An important qualification attached to the percentage distribution of departmental lines as cited in the text is the fact that retail outlets of mail-order chains are not included in the departmental reports received by the Federal Reserve System. In the figures of total department store sales as published by the Federal Reserve, however, the sales of such retail outlets of mail-order chains are included, wherever the establishment offers the variety of goods indicated by the general definition of "department store".

for about three years, or until the second quarter of 1953. A year of contraction followed. Total seasonally adjusted sales by Fourth District department stores declined by nearly 16 percent between May 1953 and March 1954, when sales reached their low point.

Sales of homefurnishings reached a peak in the second quarter of 1953. The contraction that followed was extremely sharp, as shown by an accompanying chart; in less than a year, sales of homefurnishings dropped 23 percent, whereas total department store sales in the same period dipped only 16 percent. Many consumers apparently deferred their purchases of hard goods, some because they were unemployed and some probably because they preferred to retain their savings as a buffer against the possibility of a prolonged recession.

On the other hand, apparel sales registered only a 13 percent decline from the 1953 sales peak. The smaller decline experienced by apparel sales occurred in spite of a more protracted period of contraction in these lines.

Men's and boys' wear sales have climbed from their low point in mid-1958 to a new high level with practically no interruption of their forward movement.



As the 1953-54 recession faded, total Fourth District department store sales began to expand moderately and continued erratically upward until a new peak was reached in August of 1957. Contraction of department store sales began thereafter, reaching the low point of the recent recession in the first quarter of 1958. The downturn was sharper than in 1954, but shorter in duration. By the third quarter of 1958, sales were close to the 1957 peak.

In the 1958 downturn of the business cycle, homefurnishings sales dipped much more gradually than in previous recessions and performed favorably in comparison with the trend in apparel sales. Apparently, consumers did not defer purchases of hard goods in 1958 to the extent that they did in the 1954 contraction. Contributing to the strength of homefurnishings sales was the relatively high level of personal income, which was aided during this period through the granting of extensive unemployment compensation benefits.

When the upturn in department store sales began in the second quarter of 1958, homefurnishings sales expanded sharply, as shown by the chart. The rise is well illustrated by the rapid recovery in sales of major house-

hold appliances, one of the important departments in the homefurnishings group.

Selected Departments

Sales of major household appliances had shown signs of recovery in the third quarter of 1958, only to slip in the fourth quarter to a new low point for the period. (See chart.) A more lasting and stronger recovery of major household appliances started in the early months of 1959. Sales rose 23 percent above the recession low to a new peak in the late summer months of this year. The improvement in residential construction, apparently coupled with favorable price policies for appliances on the part of department stores, gave strong support to the demand for new appliances.

Among the apparel departments, the trend of sales of men's and boys' wear is especially interesting in the period under review, because of the strength of the showing. (See chart.) Sales of men's and boys' wear climbed 20 percent from their low point in mid-1958 to a new high level in the late summer of 1959, with practically no interruption of the forward movement. Evidently the gentleman's wardrobe has been coming back into its own.

SPECIAL PUBLICATION

“The Money Side of ‘the Street’”, by Carl H. Madden, Federal Reserve Bank of New York.

The above is an illustrated booklet (104 pages) which provides a layman's account of the New York money market and its mechanics, particularly as they are related to Federal Reserve operations.

Order from the Federal Reserve Bank of New York. Price 70 cents per copy. The booklet will be furnished free, upon request to the Federal Reserve Bank of New York, to libraries and teachers at educational institutions, to public libraries, to government agencies and to the press.

Impact Of The Steel Strike On Business In Cleveland*

THE BUSINESS OUTLOOK in Cleveland is anything but clear at present. The steel strike, which for a while was regarded as a transient hurdle to be taken in stride, has taken on the aspect of a major force of uncertain dimensions.

In one way, the steel situation has had an exceptionally strong influence on Cleveland business activity all year long. Early in 1959, the probability of a steel strike in July began to be talked about, with increasing frequency and conviction as time went on. As a result, steel producing and stockpiling expanded on such a large scale that all-time production records were easily surpassed. At the same time, employment and some other Cleveland business indicators failed to rise to positions which had been reached prior to the 1957-58 recession.

In Cleveland, additions and improvements at steel plants during the last two or three years had raised capacity to a level about one-fifth above the 1956 potential. As a result, the local mills were enabled to produce 3.8 million tons in just six months, or only 16% less than in the first nine months of 1957. Although almost no steel has been turned out here, and very little elsewhere, since mid-July, steel shortages did not become acute until October.

Effect on Other Industries

Some industries, like *railroad and lake shipping*, were directly affected by the swift rise and the subsequent halting of steel production. In the first half of 1959, outbound railroad carloadings in Cleveland rose briskly, although not to record heights, and were up 65% from last year. In

July, when the steel mills closed down, carloadings slumped by about one-half to the lowest level in at least ten years. No improvement has occurred through October and none is in sight until steel production is resumed.

In the first part of the year, *electric power production* in Cleveland and northeastern Ohio benefited from the accelerated pace of business and particularly from intensive steel output. By mid-1959, cumulative output totaled 4.3 billion kwh., setting a new six-month record that was 11% above the previous all-time high reached three years earlier. As measured against recession 1958, year-to-year increases last spring ranged as high as 30% in certain weeks and averaged 18%.

The shutdown in the steel industry caused a sharp cutback in electric power production. In the second week of July, the volume of electricity generated in the Cleveland area dropped from 168 million kwh. to 144 million kwh., or about 15%. Except in sporadic fluctuations, electric power production has not recovered from that drop. In October, weekly output was still ranging between 146 and 150 million kwh. It was beginning to slip below the year-ago level and was noticeably below production two years ago.

The trend of new *auto sales* has been in some degree parallel to changes in steel output during 1959, even before the most recent situation when steel shortages have resulted in curtailment of auto output. Auto sales expanded during the first quarter of 1959, reached a high plane in the second quarter, and then contracted during the third quarter. While volume never approached the record 1955 level, sales of nearly 23,000 new cars in the April-June quarter were above the level in the corresponding months of every other recent year. But before that, in the January-March quarter, and afterward, in the July-September

* Reprint of a broadcast, in the weekly "Business Trends" series, by the Research Department, Federal Reserve Bank of Cleveland, over Station WGAR, Cleveland, Nov. 8, 1959.

quarter, auto sales were trailing all other recent years except recession 1958.

Consumer attitudes exert an important influence on auto sales. Last spring the general economic outlook appeared encouraging. Recovery from the recession had been prompt and rapid, steel was breaking records, unemployment was declining, industries were operating briskly and often paying substantial overtime. Average gross earnings in Cleveland manufacturing plants rose to a record high of nearly \$110 per week, up \$17 a week, or roughly \$70 per month, from a year earlier. That was a large gain, even after deductions.

The outlook inevitably changed after the steel mills actually shut down. Third-quarter auto sales in Cleveland dropped 20% from the strong previous quarter. By way of comparison, the corresponding declines in the years 1955, 1956, and 1957 ranged from 5% to 9%.

Although there has been no improvement in the economic outlook, auto sales in Cleveland have recently staged a remarkable advance. In mid-October, sales jumped 28% in one week to 1,615 units, and continued on up to 1,869 and 1,883 in the last two weeks of October. These latest weekly sales totals compare very favorably with the 1,750-per-week pace last spring and were well above the 1,373-per-week average in the dull summer months. The recent advances may have been spurred in part by the popularity of the new models and sizes, and in part by fears of limited selection and actual shortages of cars because of the prolonged steel shutdown.

Retail trade other than automobile sales has been relatively brisk throughout the year. In Cleveland, seasonally adjusted department store trade reached a high level during the early summer months, and a very favorable increase from last year has been maintained into October.

Employment

The steel boom contributed in a direct way to the substantial rise in employment from the recession low. In June 1959, when the steel mills were operating at peak rates, employment at Cleveland blast furnaces and steel mills was reported at 24,000, indicating 12,000 more jobs at the time than had existed a year earlier.

Other industries were also expanding their workforces up to mid-1959. The June year-to-year increase of 12,000 jobs at primary steel plants could account for only about one-fourth of the simultaneous year-to-year reduction in claims for unemployment compensation. About three-fourths of the continuous year-long decline in unemployment compensation claims evidently resulted from the opening of employment opportunities in other industries.

It is significant that, immediately after the steel strike began, claims for unemployment compensation in Cleveland stabilized for several months, indicating that employment in other industries ceased to improve. Additionally, of course, some 18,000 local steel jobs vanished, so to speak, for the duration of the shutdown, since the jobholders were on strike.

In October, unemployment compensation claims were no longer merely stable; steel shortages precipitated layoffs of about 4,000 in one week, with the prospect of more to come, all in addition to the thousands of idled steelworkers.

The ramifications of the steel shortage in its impact on industry and business in general have only recently begun to emerge. The effects are not yet fully measureable. Even in the period following a resumption of steel production, it may take some time to overcome the dislocations and to return to a clear road ahead.



FOURTH FEDERAL RESERVE DISTRICT