

MONTHLY

Business Review

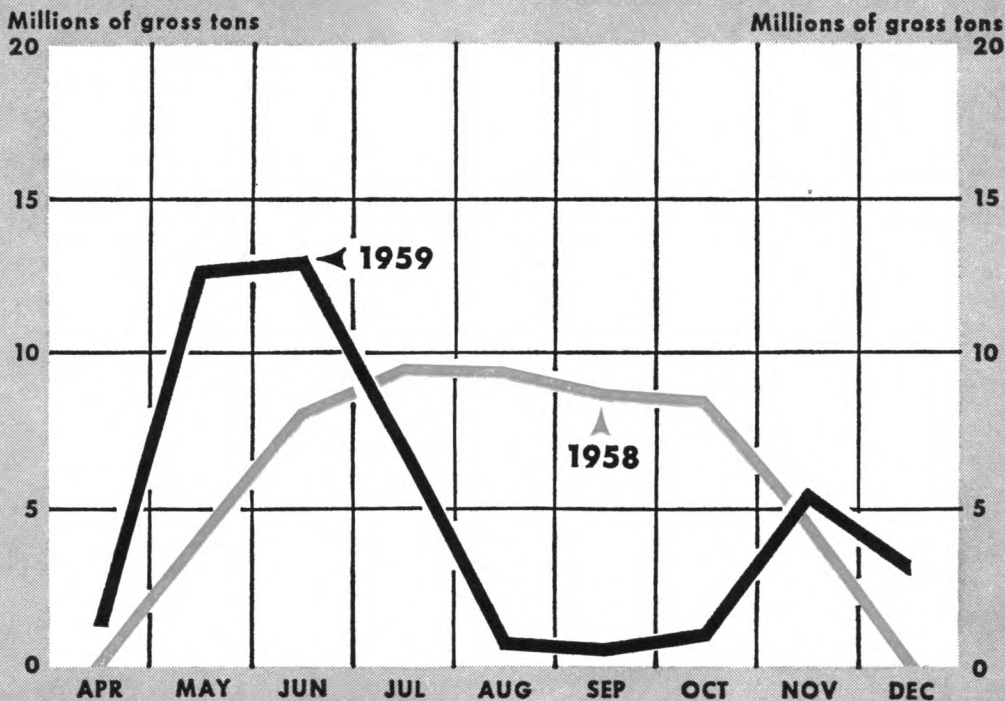
FEDERAL RESERVE BANK of CLEVELAND

January, 1960

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Iron ore shipments from Lake Superior ports in 1959 were about 12 percent below the 1958 total, despite a record-for-the-month rate of shipments in December.



Source of data: American Iron Ore Association

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A Year of Fluctuations in Heavy Industry

THE MOST conspicuous single factor affecting the change of pace of business activity within the year 1959 was the steel strike. In the first half of the year the extension of the recovery movement into a phase of strong business expansion was due in large part to the stockpiling of steel by metalworking industries, as well as to a steady increase in final demand. In the second half of the year the steel strike and its aftermath of steel shortages exerted a depressing effect on business activity and sentiment, although continued gains in other lines provided a considerable offset.

Industrial activity in the Fourth Federal Reserve District usually fluctuates more than in the nation as a whole because of the greater importance of heavy industries in the District's industrial makeup and the well-known tendency of business-cycle fluctuations to center in the durable goods industries. Thus the upsurge in industrial activity after April 1958 was apparently steeper in the District than in many other parts of the nation; furthermore, the effects of the steel strike in stimulating production in the first half of the year and depressing it in the second half were magnified in the District because of its concentration of steel plants and steel-consuming industries.

The following review describes developments during the year as they affected several industries in the District. These are: iron ore mining and transportation, coal mining, as well as the manufacture of portland cement, automobiles, rubber products, and machine tools. All of these industries are important in the District; in the treatment below, some of

them are discussed from the national standpoint while other industries are treated from a regional standpoint only. In addition, manufacturing employment is included as a general indicator of manufacturing activity in the District.

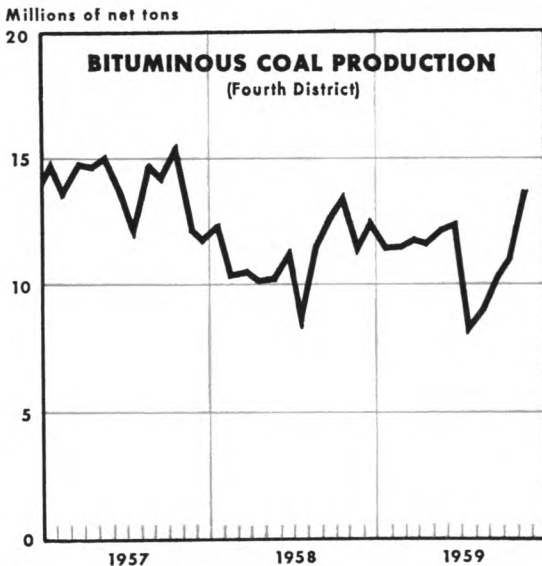
Iron Ore

The cover chart shows the effect of the steel strike on shipments of iron ore from Lake Superior ports. Following a slack season in 1958, when fewer tons of ore were shipped from upper lake ports than in any year since 1939, as many as 230 ships of a total fleet of 241 were put into operation at the beginning of the 1959 season and shipments were begun as soon as weather in the mining areas permitted. (The actual mining of iron ore is not a District industry but the mining and transportation of Lake Superior ore are largely controlled by companies in the District and operations are closely related to the level of output in the steel industry.)

In June, 13 million tons of ore were loaded at Lake Superior ports. From that point, shipments dropped to about 750,000 tons in September; that was the smallest September total since 1932. The resumption of steel industry operations in November was the signal for a concerted effort to ship as much ore as possible before the onset of cold weather; November shipments of 5.3 million tons were the largest for that month since 1956.

Helped by favorable weather conditions, ore carriers continued to operate until just before Christmas, so that shipments in December amounted to 3.1 million tons (the highest December total on record). The total

The revival of coal production in District mines after mid-1958 reflected increased consumption by electric utilities and steel mills.



Source of data: U. S. Bureau of Mines

of 46.7 million tons shipped in 1959 was, however, about 12 percent below the 1958 total.

Coal

Last year's production of bituminous coal at mines in the Fourth District⁽¹⁾, which account for about one-third of national production, was probably close to the 1958 total of 136 million tons, despite the steel strike which cut output primarily in areas producing coking coal. Of the several coal mining areas in the District, the main impact of the strike was felt by the mines in western Pennsylvania, where about 40 percent of the coal produced is used in coke ovens.

Mines in Ohio, two-thirds of whose output is sold to electric utilities, were only slightly affected by the strike. Coal output in eastern Kentucky showed some effects of the steel strike; in that area coke ovens and electric utilities each account for about one-quarter of sales.

(1) Mines in eastern Kentucky, Ohio, and western Pennsylvania.

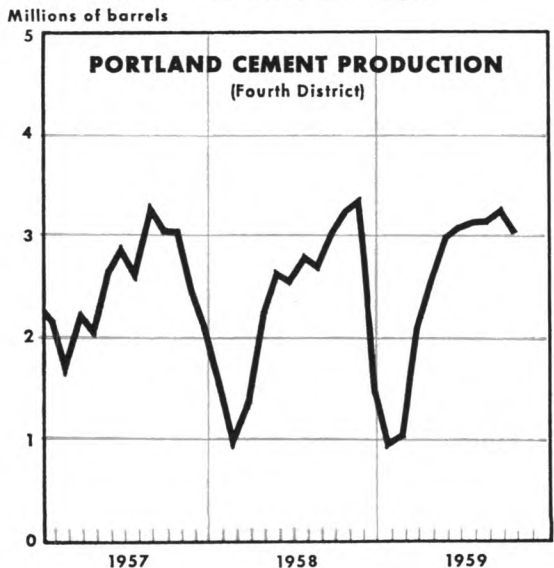
Coal mines in the District have, of course, been affected by the longer-term decline in demand for coal. The cutback in total U. S. exports from the 1957 peak, when European demand was stimulated by the effects of the Suez crisis, has, however, had a smaller effect on mines in the District than in other producing areas, where export markets have been more significant.

Portland Cement

Cement production at District mills⁽²⁾ in the first ten months of 1959 averaged about 10 percent larger than in the comparable period of 1958. That was about the same margin of increase as shown by cement production in the nation as a whole. In terms of the industry's major markets, an increase of one-fifth in the value of highway construction in the first nine months of 1959 as compared with the same period of 1958 was partly offset by declines in industrial building and in school construction.

(2) Mills in Ohio, Western Pennsylvania, and West Virginia.

Cement production in District mills in 1959 was apparently somewhat larger than in 1958, after allowing for the usual seasonal changes.



Source of data: U. S. Bureau of Mines

Annual capacity of cement mills in the District was estimated at about 42 million barrels in September, an increase of about 13 percent from the year-ago figure. This compares with an increase of about 4 percent in the capacity of the industry in the nation as a whole. As a result of the greater increase in capacity than in output, District mills were apparently operating at a somewhat lower rate of capacity utilization in 1959 than in 1958.

Manufacturing Employment

The best general indicator of shorter-term changes in over-all manufacturing activity in the District is provided by data on factory employment. As shown by an accompanying chart, such employment in June, the most recent high, was about 11 percent above the recession low point reached in May, 1958. About half of the increase in the number of factory jobs during that period took place in the primary metals group of industries, in which the steel industry is dominant. Data for August, September, and October show the effects of the steel strike on the number of persons on manufacturers' payrolls. The gain from October to November represents the resumption of activity by District steel mills, partly offset by layoffs in auto plants and other metal-working industries.

District factory employment in June was, however, 8 percent below the previous peak reached in December 1956. Such a shortfall reflects in part the gains in productivity per employee, which were especially sharp during the early stages of the business recovery.

Autos

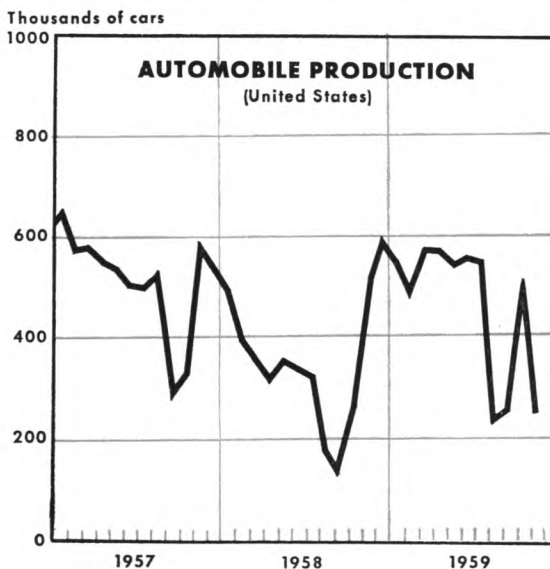
New car production in the nation in 1959 was about 5.5 million, representing a 30 percent increase from the 10-year low reached in 1958; the number would probably have surpassed the total of 6.1 million cars turned out in 1957 if the steel strike had not been of such a length as to result in virtual exhaustion of the automobile industry's stocks of steel.

Increased activity in District steel mills accounted for almost half of the gain in factory employment from May 1958 to June 1959.



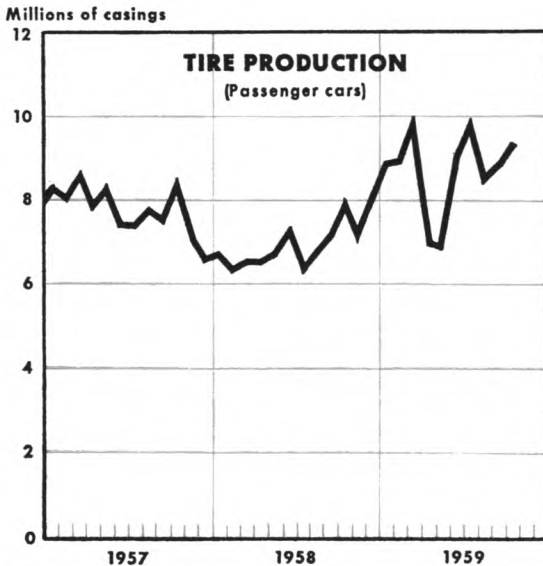
Source of data: Division of Research and Statistics, Ohio Bureau of Unemployment Compensation

Automobile production in the U. S. in 1959 averaged 30 percent higher than in 1958, despite the cutbacks in output in November and December.



Source of data: Ward's Automotive Reports

Most of the gain in tire production in 1959 was due to larger auto output.



Source of data: Rubber Manufacturers Association, Inc.

The result of the rundown of steel supplies by auto manufacturers early in November (at about the time the steel industry resumed operations) was to subtract an estimated 700,000 cars from 1959 output. The industry was forced to lay off more than 200,000 workers in November, but by mid-December output had been boosted to the highest level of the year and the industry was able to turn its attention to building dealer inventories of 1960 models.

Factors behind the increase in production and sales in 1959 were the gains in personal income and spending associated with the advance in general business activity as well as the generally good reception of 1960 models, especially the new "compact" cars.

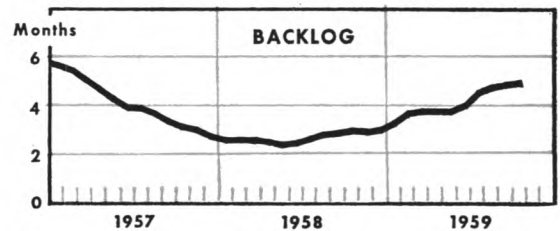
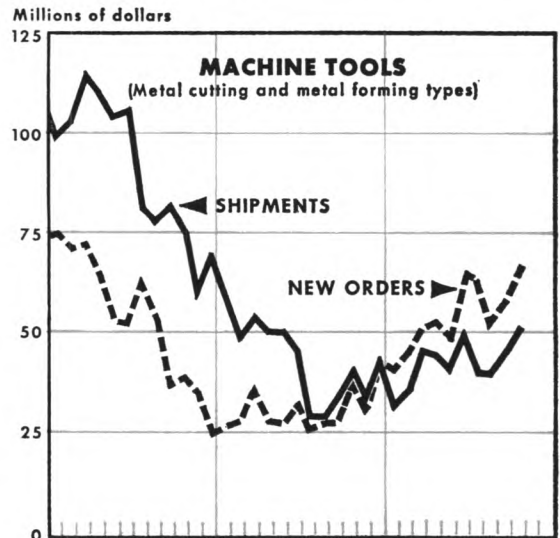
Employment in District plants producing autos, trucks, and parts was 15 percent smaller in November than in November 1958, reflecting the shutdowns caused by steel shortages. (The expansion program of the "Big Three" auto manufacturers in Ohio had been completed in 1958, with five new assembly and parts plants having been added since 1956.)

Rubber

The rubber industry attained several new records in 1959, under the stimulus of larger auto and truck production, increased demand for replacement tires, and sharply higher consumption of industrial products. Estimated consumption of new rubber in 1959 was 1.6 million tons, or 5½ percent above the 1958 total.

The higher level of car production in 1959, although far from a record for the auto industry, was responsible for most of the gain in tire production shown in the chart. Preliminary industry estimates of total passenger tire production in 1959 indicate a gain of about 10 percent over the 1958 total, despite

The increase in machine tool orders during the year accompanied an upturn in business spending for new plant and equipment.



Source of data: National Machine Tool Builders Association

a strike which reduced output in April and May; most of that gain was in original equipment tires.

Employment in factories producing rubber and plastics products in Ohio in November was about 3 percent above the year-ago figure; nationally, employment in this industry group had increased 6½ percent over the same period.

Machine Tools

The upturn in business expenditures for new plant and equipment which began in the

fourth quarter of 1958 had been anticipated by a turnaround in net new orders for metal-cutting and metal-forming tools; order intake reached a low point of \$26.6 million in July 1958 and has been moving up irregularly since, except for November, when an appreciable decline occurred. (The November figure is not shown on the chart.)

Machine tool shipments have increased at a somewhat slower rate than orders, resulting in a lengthening of order backlogs to 5.1 months in November; that was about the same point as in early 1957.

NOTES ON FEDERAL RESERVE PUBLICATIONS

“Deposit Velocity and Its Significance”, by George Garvy, Federal Reserve Bank of New York. A booklet (88 pages) which discusses the behavior of deposit velocity, over the business cycle and over longer periods, with emphasis on the institutional and structural forces determining this behavior. 60 cents per copy.

“Monetary Policy Under the International Gold Standard: 1880-1914”, by Arthur I. Bloomfield, formerly of the Federal Reserve Bank of New York. A booklet (62 pages) which analyzes the operations and policies of central banking against the background of the pre-1914 gold standard. The author finds, among other things, that central banks during that period played a much more active role than is usually assumed. 50 cents per copy.

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Growth of Selected Savings Media During the 1950's

FINANCIAL institutions of different types have been in sharp competition during recent years to attract the savings dollars of individual citizens.⁽¹⁾ Rates of interest which are offered to the saver, as well as various service angles and other aspects of financial arrangements, have been involved in the terms of competition.

Although no attempt is made here to review the entire story of competition for the savings dollar, the *results* may be shown in convenient graphic form. Thus, the accompanying chart depicts the contrasting growth rates which have characterized a selected group of savings media during the past decade.

The various savings media which are shown in the chart and identified below are in some cases (as, for example, in the case of credit unions) practically equivalent in coverage to the assets of the named type of financial institution. In the case of commercial banks, however, the savings deposits (i.e., time deposits) which are here under consideration make up only part of the total deposits of the institution.

The chart is designed to bring out simultaneously the differences among the various media with respect to absolute amounts and the differences with respect to rates of growth during the past decade. The key to the general showing is the fact that the savings media which are still largest in dollar volume (e.g., life insurance reserves and time deposits at commercial banks) are *not* the media which

have been leading in growth rates. Rather it is the shares of savings and loan associations, and the shares of credit unions, as well as the assets of mutual funds, which have shown conspicuously large growth rates in percentage terms.

The order of treatment below begins with the media which account for the largest dollar volumes. At a later point, however, a table is presented which shows growth rates of the various media, ranked from high to low.

Reserves of Life Insurance Companies. The reserves of life insurance companies are the funds set aside in accord with legal requirements to provide for future policy and supplemental contract benefits. Thus they may be regarded as a measure of investment of savings in the form of life insurance. From December 1949 to December 1958, reserves of life insurance companies expanded at an average rate of 6.2 percent, compounded annually.

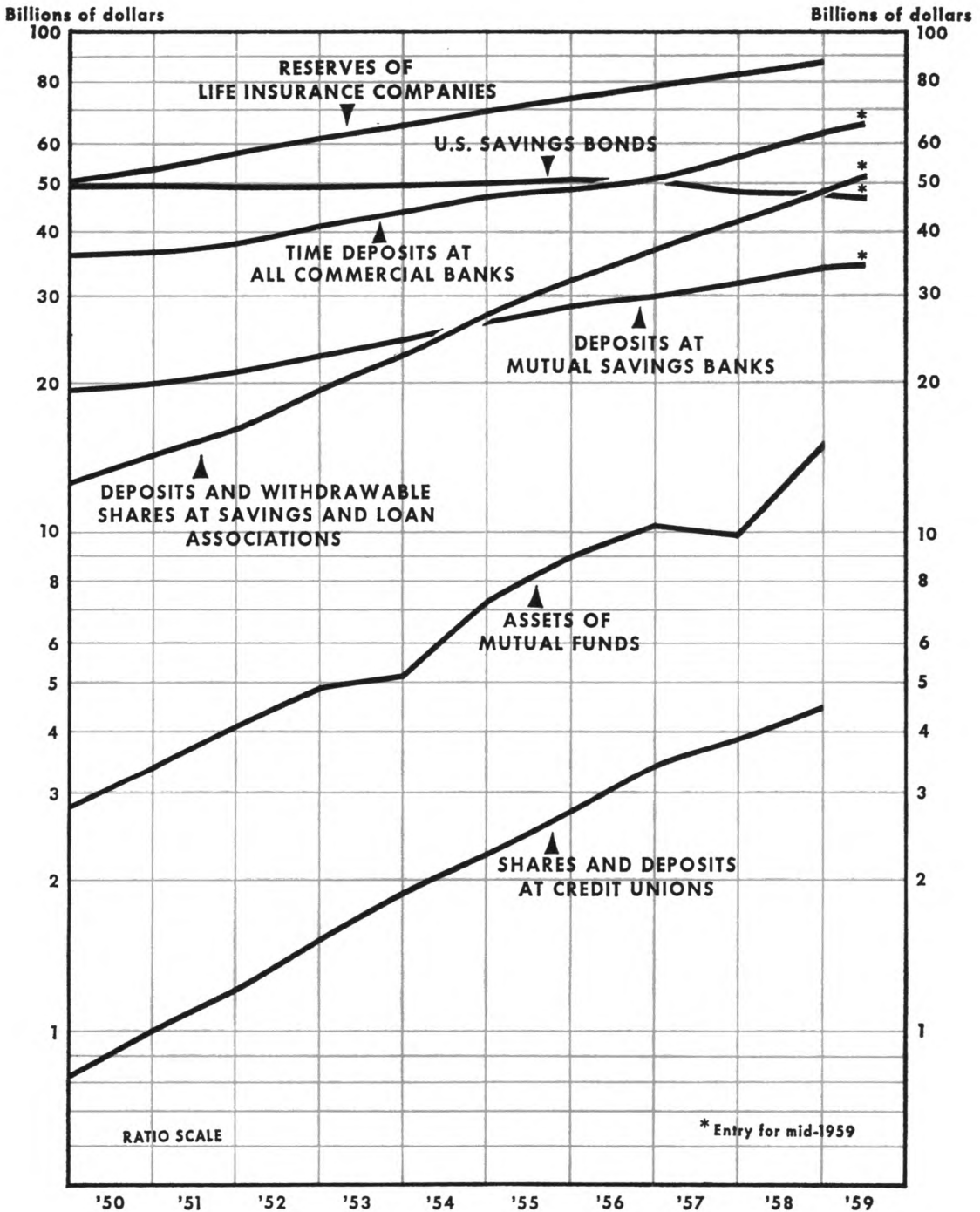
Time Deposits at Commercial Banks. Commercial bank deposits are primarily demand deposits; however, most commercial banks do accept time deposits. Time deposits are in many respects similar to savings deposits at mutual savings banks and to deposits and withdrawable shares at savings and loan associations. The average annual growth rate for time deposits at commercial banks between December 1949 and December 1958 was 6.4 percent.

Deposits and Withdrawable Shares at Savings and Loan Associations. This figure represents savings placed with savings and loan (or "building and loan") associations. The very rapid growth of these institutions is a

⁽¹⁾ For a characterization of various types of financial institutions, together with a graphic analysis of their asset composition, see *Business Review*, Federal Reserve Bank of Philadelphia, October 1959.

SAVINGS IN SELECTED MEDIA

At year-end, 1949-58



comparatively recent phenomenon. From December 1949 to December 1958, deposits and withdrawable shares expanded at an average annual rate of 16 percent.

Savings Deposits at Mutual Savings Banks. Deposits at mutual savings banks include only the amounts credited to individual accounts. The figure does not include surplus and reserve accounts, which in theory belong to depositors and would be distributed to depositors in the event of liquidation. Mutual savings banks are largely concentrated in northeastern United States, particularly in New York and Massachusetts. During the period from December 1949 to December 1958, the annual growth rate of mutual savings bank deposits was 6.5 percent.

United States Savings Bonds. This figure includes savings invested in series E, F, G, H, J, and K Savings Bonds. Between December 1949 and December 1958, savings in this form declined at an annual average rate of 3/10 of one percent. (This figure is given for purposes of comparability with the others. In fact, the decline has been limited to the past few years. During most of the decade under consideration, as the chart shows, savings in the form of government savings bonds have shown a horizontal tendency.)

Assets of Mutual Funds. Mutual funds constitute a type of investment company which provides the inexperienced investor of moderate income with a means of securing professional management of a diversified portfolio. In recent years, these institutions have expanded substantially. Over the Decem-

ber 1949 - December 1958 period, assets of mutual funds climbed at a 20.3 percent annual rate.

Shares and Deposits at Credit Unions. While the aggregate of shares and deposits at credit unions is not large in comparison with other savings media represented in the chart, the dollar volume has been expanding at an average annual rate of 20.4 percent.

Annual Growth Rates

(Compound basis, 1949-59)

Shares and deposits at credit unions	20.4%
Assets of mutual funds	20.3%
Deposits and withdrawable shares at savings and loan associations	16.0%
Deposits at mutual savings banks	6.5%
Time deposits at commercial banks	6.4%
Reserves of life insurance companies	6.2%
Savings invested in U. S. savings bonds	-0.3%

Note on sources:

Federal Reserve Bulletin, Board of Governors of the Federal Reserve System

Annals, United States Savings and Loan League

Savings and Home Finance Source Book, Federal Home Loan Bank Board

Savings and Loan Fact Book, U. S. Savings and Loan League

The Credit Union Yearbook, Credit Union National Association

A Survey of Mutual Fund Shareholders, National Association of Investment Companies

Assets, Liabilities, and Capital Accounts, Commercial and Mutual Savings Banks, Federal Deposit Insurance Corporation

Mutual Savings Banking, Annual Report, National Association of Mutual Savings Banks

Around the Fourth District—

Department Store Sales, November and Year-to-Date

	Nov. '59 % change from year ago	Jan.-Nov. '59 % change from year ago
Columbus	+14%	+ 9%
Cincinnati	+13	+ 8
Springfield	+12	+10
Cleveland	+12	+ 9
Pittsburgh	+11	+ 7
Akron	+10	+ 2
Portsmouth	+ 9	+11
Lexington	+ 8	+ 9
Wheeling	+ 5	-0—
Youngstown	+ 5	+ 6
Canton	+ 4	+ 6
Erie	+ 3	+ 4
FOURTH DISTRICT TOTAL.....	+10	+ 8

* * *

The volume of *bank debits* at 33 Fourth District centers declined seasonally during November, but posted an 11 percent increase from the year-ago month. For the three-month period ended with November, debits were 7 percent above the like three months of 1958.

* * *

The increasing availability of steel has been reopening the doors to many *jobs*. Between mid-November and Christmas week, there was a net drop-off of over 9,000, or roughly one-third, in the number of claims filed in Cleveland (Cuyahoga County) for jobless benefits.

* * *

Reports by Fourth District department stores for November show that *instalment sales* scored the largest year-to-year gain of the last five months, with a margin of 16 percent. (Reports on instalment sales of *autos*, however, showed no significant increase in November.)

* * *

Dealers' buying *prices for fluid milk* were higher in November than in October at most of the major Ohio markets operating under Federal Milk Marketing Order programs. Exceptions were the Cincinnati and the Dayton-Springfield marketing areas where the November price for Class 1 milk declined.

* * *

The relatively poor showing of *auto sales* in the final month of 1959 reflects the sharp cutbacks in new car production as manufacturers depleted their steel supplies late in October. In Cuyahoga County, December sales of new automobiles were held to a total of 4,978, the smallest December total in six years. It was the first time in six years that December sales failed to show at least a nominal month-to-month increase.

* * *

(The above items are based on various series of District or local data, which are assembled by this bank and distributed upon request in the form of mimeographed releases.)



FOURTH FEDERAL RESERVE DISTRICT