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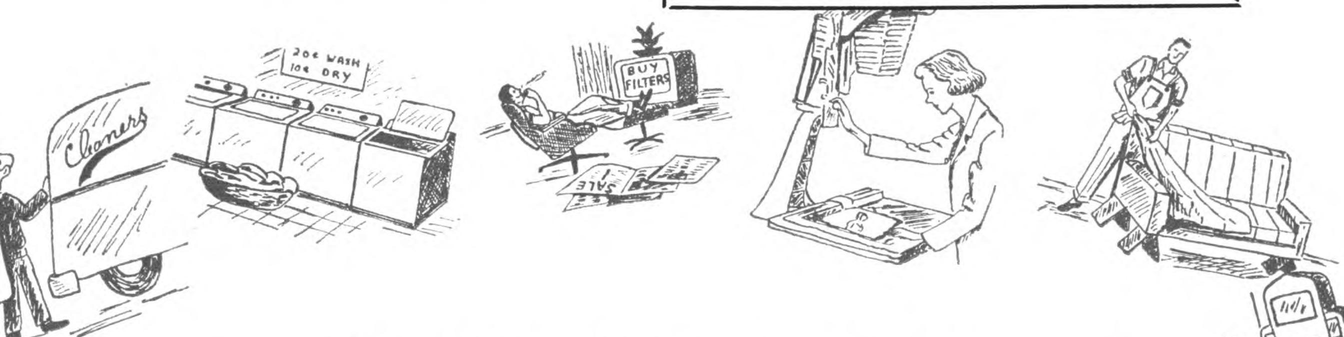
IN THIS ISSUE

Commercial Services on the Rise 2

Six-Month Review of Cleveland Business . . 7

Notes on Federal Reserve Publications . . 11



The growth of spending for services has been one of the more important developments of the postwar period. This growth trend, together with the almost infinite variety of the services performed, reflects the higher living standards of the American people, in which services play an increasing role, as well as reflecting the increasing complexity and specialization of business activity.

Commercial Services on the Rise

THE STEADY growth of the service industries[1] has been one of the principal factors of growth in business activity in the postwar period. That generalization is supported by any of the measures of service industry activity — consumers' expenditures for services, national income produced by the service industries, or employment in services.[2] The services sector has also attracted attention because of the continuous advance in prices of personal services and the contribution of this advance to the creeping up of the Consumer Price Index.

Perhaps because of the latter factor, there has been some tendency to think of the service industries as exclusively purveyors of services used by individuals — for example personal, medical, recreational, and auto repair services. In fact, however, business firms are also large consumers of services. The group identified as "business services" has been one of the fastest-growing of the service industries covered by the 1958 Census of Business — Selected Services, from which data have recently become available.

Business Services in the Lead

Of the seven groups of services included in the Census of Business,[3] the *business services* group (Standard Industrial Classification 73) is the largest in terms of total receipts and registered the largest increase in receipts between 1954 and 1958, the two most recent years in which a Census of Business has been taken. In 1958, business services accounted for 30 percent of the receipts of all the service industries covered by the Census. The group also accounted for 42 percent of the gain in the receipts of the Census-covered services between 1954 and 1958. In terms of receipts, advertising, in turn, accounted for half of the business services group in 1958 as well as for half of the gain in spending on all business services between the two years. The remainder was divided between many other types of activities, ranging from window-cleaning to research laboratories and management consulting services.

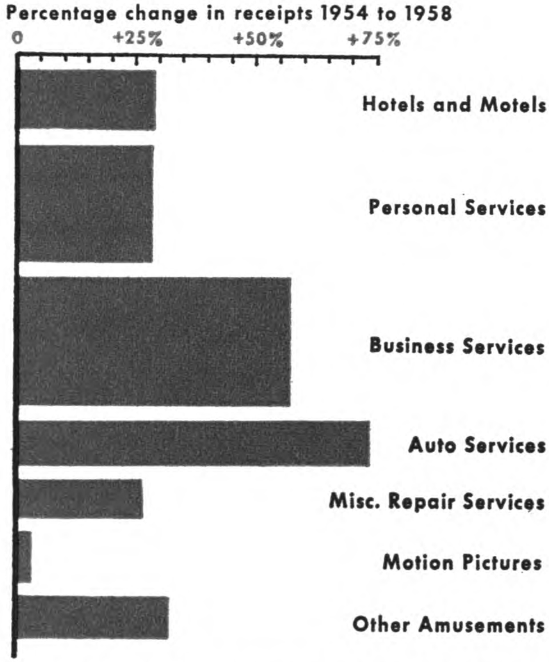
(1) See appendix for the concept and coverage of "service industries".

(2) The growing importance of the service industries, broadly defined, in employment was discussed in the May issue of this *Review*.

(3) See third paragraph of Appendix for a description of the coverage of the Census of Business.

UNITED STATES

Percentage change in receipts 1954 to 1958



Length of bars indicates percentage gain or loss in receipts between 1954 and 1958. Thickness of bars represents the share of the various groups in the total receipts of commercial service industries in the year 1954.

The second largest group of services included in the Census is the *personal services* group, which contains such familiar activities as barbering, shoe repairing, dry cleaning, and laundering; personal needs of the customer are filled from infancy to death, i.e., from diaper services to funeral services. Expenditures on this group of services increased by nearly 30 percent from 1954 to 1958.

The third most important group of services in terms of volume is that which includes *hotels, motels, trailer parks, and camps.* Hotels account for about two-thirds of the receipts of this group and the largest part of the dollar increase in the group total; in terms of percentage increase, however, the gain in motel receipts was larger.

The largest percentage increase in receipts of the industry groups included in the Census was in the *auto repair, parking, and rental* group, which in total receipts is somewhat smaller than the hotel and motel group. The rapid growth of auto repair services, which account for two-thirds of the group's receipts, was evidently due largely to the concurrent increase in the motor vehicle population. Of the other industries composing the group, the automobile and truck rental agencies, whose receipts were one-sixth of the group total in 1958, scored an impressive gain, more than doubling their receipts between 1954 and 1958.

Much smaller dollar and percentage gains were registered by the *miscellaneous repair services* group and the *amusement* and *recreation* group (excluding motion pictures). In the former group, the largest contributor to the increase was the radio and television repair industry. Among the amusement and recreation industries, bowling alleys more than doubled their receipts from 1954 to 1958, and racetracks and commercial sports scored large gains. Change in that short time period cannot be limited to a recital of growth, however; some traditional amusements, such as carnivals and circuses, as well as the services entitled "coin-operated amusement devices," had smaller receipts in 1958 than in 1954.

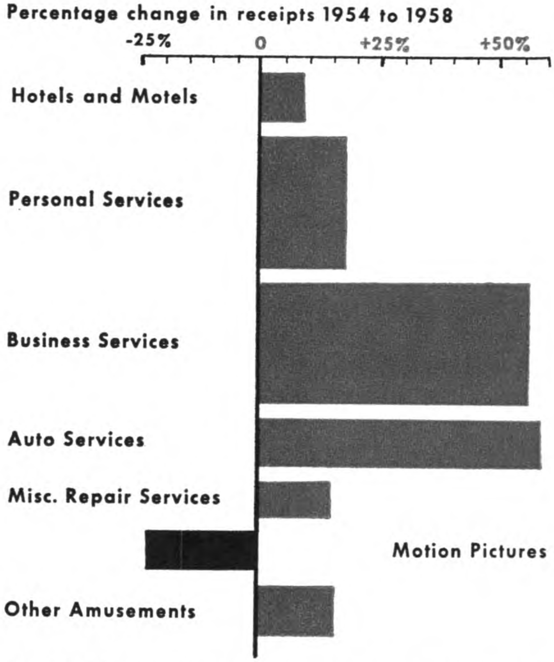
An adverse impact of changes in consumer taste on spending for particular types of services was also felt by *motion picture* theaters, whose receipts (exclusive of "drive-ins") showed a sizeable drop between the two Census years, no doubt due largely to competition afforded by television. The drop in receipts by the regular motion-picture theaters was more than offset by gains in drive-in theaters' receipts and in production and distribution services of the motion picture industry, but the very small increase for the motion picture group as a whole contrasted with the sizeable increases for the other service groups covered by the Census.

Effect of Price Changes

Mention was made earlier of the effect of rising prices of services on the Consumer

4th DISTRICT Metropolitan Areas

Percentage change in receipts 1954 to 1958



Length of bars indicates percentage gain or loss in receipts between 1954 and 1958. Thickness of bars represents the share of the various groups in the total receipts of commercial service industries in the year 1954.

Price Index. The availability of measures of price change for some services makes possible a somewhat more balanced picture of growth in the service industries.

Thus, based on the implicit price indexes of the Gross National Product accounts,[4] prices of services apparently rose by 9 percent between 1954 and 1958. This price measurement covers much more of the economy than the services included in the Census of Business, but it suggests broadly that about one-quarter of the increase between Census years in dollar receipts of the services covered by the Census, taken as a whole, may have represented price increases.

For some specific types of services, price information is available to shed light on the extent to which increases in dollar receipts between the Census years is attributable to the price factor. Thus, the 12 percent increase in the price of auto repair services from 1954 to 1958, as shown by the Consumer Price Index, was a small part of the 74 percent increase in receipts of auto repair shops. More important was the 13 percent increase in the price of personal services in the CPI. Although this CPI component covers only a portion of the personal services group and includes some commodities, it has marked significance when set against the 28 percent increase in receipts of personal service industries, as revealed by the Census.

In the case of motion picture theaters, the Consumer Price Index shows a 17 percent increase in prices, indicating an even sharper drop in industry activity than that shown by the receipts figure alone.

Fourth District Patterns

One of the most useful features of the Census of Business is its presentation of data in terms of state, county, and metropolitan area basis. The remainder of this discussion will make use of the Census information to point out trends in the service industries in major metropolitan areas of the Fourth Federal Reserve District for which data on service industry groups are available.

Changes in service industry receipts from 1954 to 1958, for sixteen major metropolitan areas combined, are shown in the accompanying chart. Except for the business services group, where the percentage increase was about the same for the United States and the sixteen metropolitan areas of the Fourth District, gains were smaller in the Fourth District, and in the case of the motion picture group, receipts in the metropolitan area of the Fourth District showed a sizeable drop. The impact of the 1958 recession, which, as is shown elsewhere by employment data, was appreciably greater in the Fourth District than in the rest of the nation, apparently accounted for the regional differences.

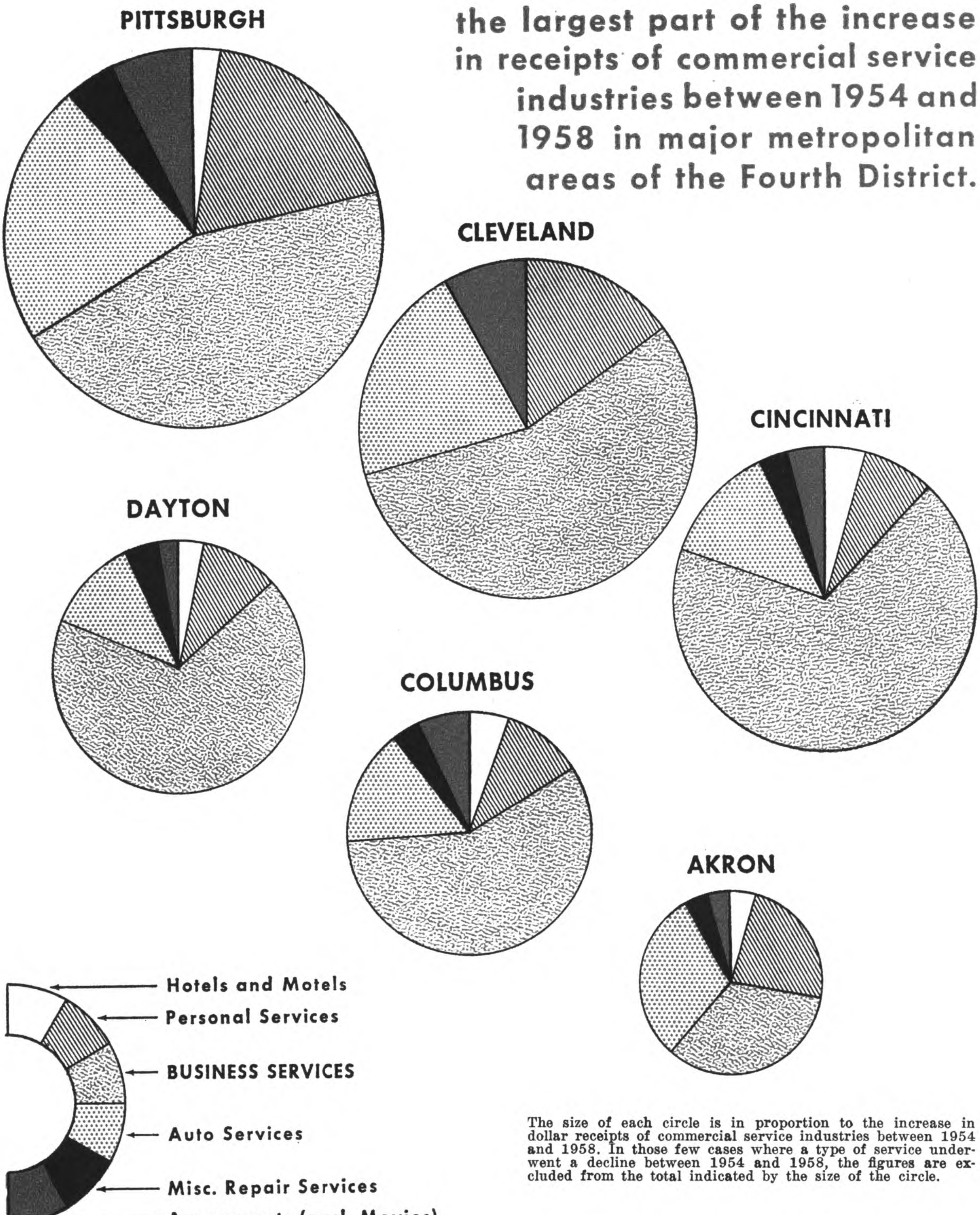
Among the metropolitan areas of the Fourth District, gains in expenditures on services between the two Census years ranged from 47 percent in Lexington, Kentucky, to 13 percent in Toledo. In general, increases in receipts of all services were smaller in percentage terms in the larger cities than in the smaller areas, except for Columbus, where service expenditures showed a large 43 percent gain. Lexington showed the largest increase of all metropolitan areas of the District in service receipts as it did in total retail trade volume. However, except in Lexington, there was little correspondence between the percentage gains in service receipts and in total retail trade volume between 1954 and 1958.

Business Services Dominate District Gains

The key role of business services in the growth of service industries nationally was paralleled in the pattern of increases in service industry expenditure in metropolitan areas of the Fourth District between 1954 and 1958. In all the larger areas, and in some of the smaller areas as well, the major part

(4) An implicit price index, or "deflator", is the ratio of a series expressed in current dollars to the same series expressed in constant dollars of a certain base year. The base year currently in use is 1954. The indexes are "implicit" because each constant dollar series is the sum of several series, for each of which a separate price adjustment is calculated.

Business services accounted for the largest part of the increase in receipts of commercial service industries between 1954 and 1958 in major metropolitan areas of the Fourth District.



The size of each circle is in proportion to the increase in dollar receipts of commercial service industries between 1954 and 1958. In those few cases where a type of service underwent a decline between 1954 and 1958, the figures are excluded from the total indicated by the size of the circle.

of the increase in total service receipts was accounted for by the gain in business service receipts, as is shown in the following table, which expresses the increase in the dollar amount of business service receipts from 1954 to 1958 as a percentage of the increase in receipts of all selected services.

Cincinnati	87%	Columbus	58%
Dayton	69%	Springfield	55%
Lima	62%	Pittsburgh	49%
Cleveland	61%	Akron	35%

The pattern of change was somewhat different in other metropolitan areas of the Fourth District.

In *Lexington,* amusement and recreation services (excluding motion pictures) accounted for the largest single share (38 percent) of the increase in total service receipts, with an approximate doubling between 1954 and 1958.

In *Youngstown,* the increase in expenditures for miscellaneous repair services was the largest single part (37 percent) of the increment in service spending. This group includes firms which repair radios, television sets, watches, furniture, and electric motors. Increased spending for auto services was also important in Youngstown, accounting for 30 percent of total gain in service receipts.

In *Canton* and *Hamilton-Middletown,* increased spending for personal services represented the largest part of the increase in receipts of all services — 40 percent and 35 percent, respectively.

In the *Wheeling-Steubenville* area and in *Erie,* auto services accounted for the major part of the gain — 42 percent and 40 percent, respectively.

The *Cleveland* area was unique in that three of the seven service industry groups showed declines in receipts from 1954 to 1958. These groups were hotels and motels, miscellaneous repair services, and motion pictures.

In contrast to the business services group, receipts of the motion picture group declined in every metropolitan area of the District except Hamilton-Middletown and Lexington.

APPENDIX

What Are the Service Industries?

The term ''service industries'' is used most broadly to describe those industries which do not produce physical commodities. Thus defined, the category excludes agriculture, mining, manufacturing, and construction; it includes trade, banking and finance, transportation and public utilities, government, and business and personal services. The distinction between the two groups is probably best expressed by the terms ''goods-producing'' and ''service-type''.

What then, are the personal and business service industries, that is, the service industries proper? The latest (1957) edition of the Standard Industrial Classification (SIC) Manual lists 14 major groups in the Services Division (Division H), including such diverse entities as hotels, motion pictures, legal services, nonprofit organizations, and domestic service.

The 1958 Census of Business, the third such census to be taken in the postwar period (earlier censuses having been taken in 1947 and 1954) covered Retail Trade, Wholesale Trade, and Selected Services. As the title indicates, the portion of the Census of Business relating to services included only certain service industries — 7 industry groups of the 14 listed in the Services Division of the SIC Manual. The service industries included are the *non-professional services operated commercially.* (These are the "service industries'' discussed in the present article.) Excluded are medical, legal, and educational services, as well as nonprofit service organizations and domestic service (''private households'').

The services included in the Census of Business thus represent less than half of payroll employment in the whole Services Division of the SIC Manual and, because there are many self-employed persons in the service industries, an even smaller proportion of total employment. In terms of their contribution to income, the services included in the Census of Business represent a little more than one-third of income produced by enterprises of the Service Division, or about 4 percent of National Income, in 1958.

Six-Month Review of Cleveland Business

Business activity totals for the first half of 1960 reached relatively high levels in Cleveland, one of the major industrial cities in the Fourth District and in the nation. The six-month aggregates were somewhat higher than might have seemed to be the case in view of the harsh light that has been sharply focused on the recent downturn in steel production and related activities.

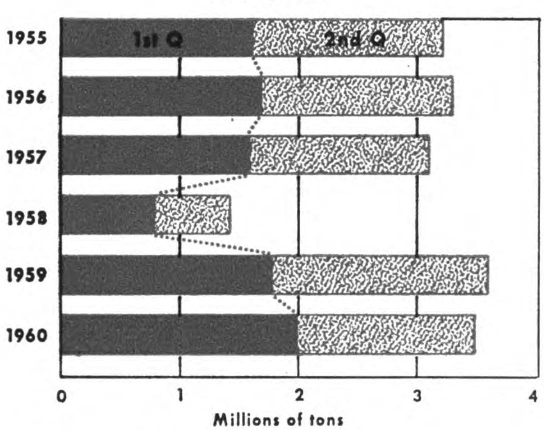
Fluctuations in Steel

The recent steep drop in steel output was from an extremely high position reached by this industry in the early months of the year. Despite the successive cutbacks that began in April, the 3½ million tons of steel turned out in the Cleveland-Lorain district during the first half of 1960 was second only to the record high established during the unusual inventory-building period a year ago, when enough steel was produced nationally to carry steel-consuming industries through several months of operations with very little additional steel.

STEEL PRODUCTION

Cleveland-Lorain District

January-June



Source of data: STEEL Magazine

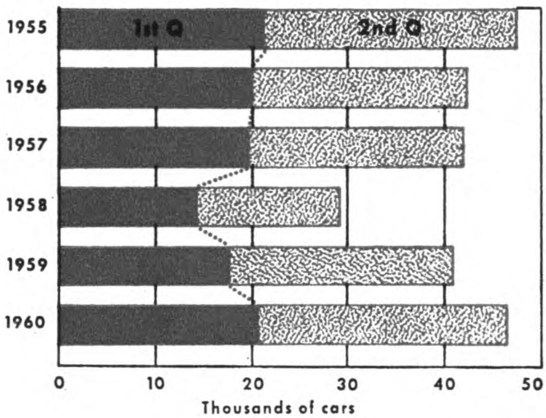
While averaging a year-to-year decline of 3 percent, the steel production rate for the Cleveland-Lorain district in the first six months of 1960 was marked by extreme variations. In the first quarter, volume was without parallel. It amounted to 2 million tons, or nearly 10 percent more than the peak achieved in the second quarter of 1959 at the height of the concentrated stock-building drive. However, the accelerated pace of steel production in the first quarter was clearly unsustainable; it overshot its mark of refilling the pipelines that had been drained during the 1959 steel strike, with the result that second-quarter production fell away rapidly and, at midyear, mills in the Cleveland-Lorain area, like those of the nation as a whole, were in a trough, operating at about half their capacity.

If volume in the second half of 1960 should equal that of the first half, the 7-million-ton total for the full year would set a new high mark for Cleveland-Lorain mills, 7 percent above the standing annual record established in 1955. This comparison serves not only to demonstrate how large a quantity of steel was made during the past six months, but the comparison also throws doubt on the likelihood of a recovery in the steel industry in the second half to levels equal to those of the first half.

New Car Sales at High Level

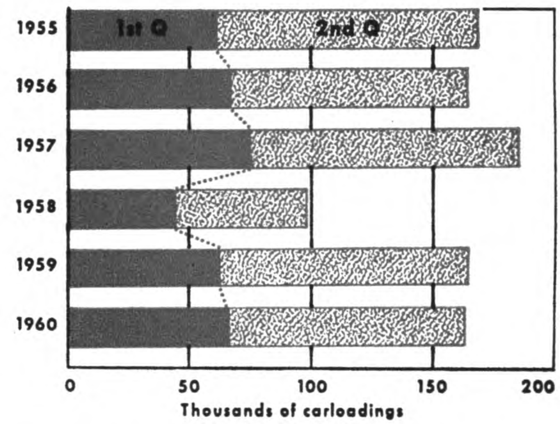
As sales of new passenger cars maintained a vigorous pace throughout the first half of

NEW PASSENGER CAR REGISTRATIONS
Cuyahoga County
January-June



Source of data: Cuyahoga County Clerk of Courts

OUTBOUND RAILROAD CARLOADINGS
Cleveland
January-June



Source of data: Cleveland Chamber of Commerce

1960, total volume in Cleveland reached a 5-year peak of 46,331 units and showed a strong year-to-year rise of 14 percent.

The consistency of new-car sales performance throughout the six-month period is worth noting. Fears that strength in early 1960 rested principally on carry-over demand from late 1959 (when auto production suffered from a lack of steel) were dissipated when every month from January to June marked a peak of some sort. Sales set an all-time April record of nearly 9,000 units (and were second only to March of 1955). In May and June, when some business indicators exhibited softness, new car sales continued at high levels, second only to 1955.

Used car sales, however, were considerably less brisk as the six-month total of 43,803 units fell 1 percent below the year-ago level. The sag was most evident in the April-June quarter when volume dropped to a point 3 percent under the year-ago level, after first-quarter sales had shown a small 2 percent year-to-year rise.

Since the market impact of the popular compact models has undoubtedly aided new car volume while working to the detriment of used car volume, the 6 percent year-to-year increase in total auto sales, both new and used, probably provides a better gauge of year-to-year trends than the figure for either the new or used cars taken separately.

Carloadings Bolstered by Ore Shipments

Rail freight shipment in and out of Cleveland were above year-ago levels — by 12 percent and 5 percent, respectively — during the January-March quarter, but the favorable margins were lost in the April-June period when inbound carloadings averaged 11 percent below the strong year-ago level and outbound freight dropped 5 percent below year-ago volume. As a result, the totals for the full six months were virtually unchanged from last year.

The fact that outgoing freight shipments equaled those of last year would seem to be a reasonably satisfactory achievement, but a partial analysis of the make-up of outgoing rail cargoes is less reassuring. Rail shipments of iron ore out of Cleveland have been running very heavy this year, totaling 56,000 cars through June as compared with 38,000 cars last year. What is significant is that there remains a balance of only 107,000 cars during the six-month period for other outgoing shipments and those other shipments thus declined 15 percent from last year.

The expansion in iron ore volume moving off lake boats and into rail cars in Cleveland should be taken in the context of the fact that total iron ore volume handled at Lake Erie docks through June was slightly short of year-ago volume. It happens that a larger portion of the ore has passed through Cleveland this year.

CLEVELAND BUSINESS ACTIVITY

Comparative Data
First Half, 1960 and 1959

		% Change '59 to '60	First Six Months	
			1960	1959
Permits to Build, Estimated Cost:				
City of Cleveland – Total	dollars	+11%	$ 35,983,000	$ 32,282,000
Residential (new & alterations)†	dollars	—13	$ 11,713,000	$ 13,531,000
Nonresidential (new & alterations)†	dollars	+27	$ 24,269,000	$ 19,128,000
Suburban – Total	dollars	— 6	$102,651,000	$109,130,000
Cuyahoga County – Total	dollars	— 2	$138,634,000	$141,412,000
1- & 2-family residential	dollars	— 8	$ 64,833,000	$ 70,109,300
New Passenger Car Sales*	number	+14	46,331	40,714
Used Passenger Car Sales*	number	— 1	43,803	44,066
New Truck Sales*	number	+12	2,788	2,494
Used Truck Sales*	number	—13	1,299	1,494
Electric Output	million kwh.	+ 3	4,397	4,289
Steel Ingot Production	est. tons	— 3	3,500,000	3,625,000
Department Store Sales	dollar volume	+ 6	n.a.	n.a.
State Unemployment Compensation:				
Total Claims	average weekly number	+21	22,375	18,461
Total Nonagricultural Employment	monthly average	+ 2	696,000	683,000
Carloadings:				
Inbound	number	–0–	159,140	159,525
Outbound	number	–0–	163,601	164,320

† Based on weekly figures and therefore do not add exactly to Cleveland total, which is based on monthly figures.

* By dealers n.a. Not available

Sources: Builders Exchange; Cuyahoga County Clerk of Courts; City of Cleveland, Light Division; City of Cleveland, Building Dept.; Federal Reserve Bank of Cleveland; Cleveland Chamber of Commerce; Cleveland Electric Illuminating Co.; Magazine STEEL; Division of Research & Statistics of the Ohio Bureau of Unemployment Compensation.

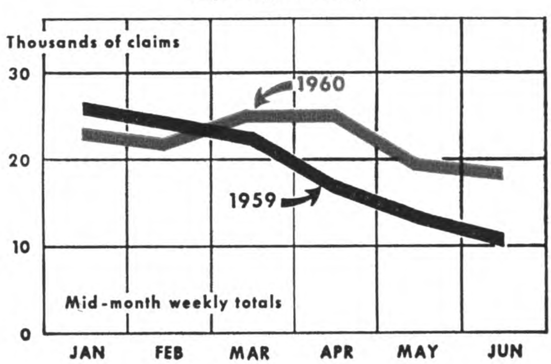
Other Business Developments

Total dollar volume of *department store sales* in the Cleveland metropolitan area during the first half of 1960 measured 6 percent above last year. Substantial increases from the 1959 level were scored during the first four months of 1960 when the seasonally adjusted monthly index (1947-49 = 100) averaged 143, or 9 points above the year-earlier level. In May and June, however, as the index subsided to 135, sales volume dipped below the year-ago level for the first time in 16 months.

Claims for *unemployment compensation* averaged 22,375 during the first six months of 1960, up 21 percent from the first half of 1959. The gap between this year and last widened as unemployment rose to a peak of 27,000 in March, declined less than seasonally in April and May, and turned up counter-seasonally in June. At the end of June, the claims level was nearly twice as high as a year earlier.

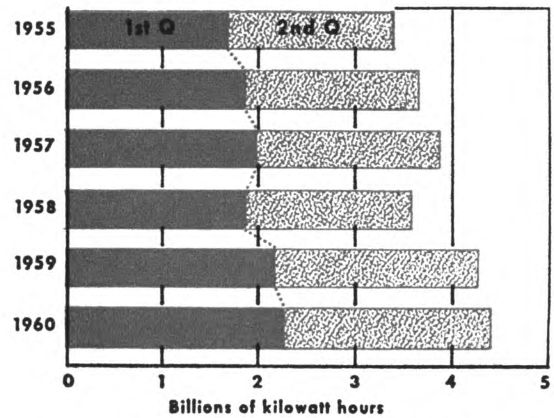
Total nonagricultural employment during the first half of 1960 averaged 696,000 per month, somewhat above the corresponding 683,000 monthly average a year earlier. Starting from a January 1960 level of 693,000, considerably above the year-earlier month, employment expanded by 8,000 during the next few months to 701,000 in June. The

UNEMPLOYMENT COMPENSATION
Cuyahoga County



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

ELECTRIC POWER OUTPUT
Cleveland & Northeast Ohio
January-June



Source of data: Cleveland Electric Illuminating Company; City of Cleveland, Light and Power Division

June employment total was about the same as a year earlier, whereas the unemployment total exceeded the year-ago level, thus indicating a corresponding increase in the total labor force of the area.

Output of *electric power* reflected the steel downturn. While first-quarter production was up 6 percent from last year, second-quarter production dipped 1 percent below a year earlier. Nevertheless, the 6-month total of 4.4 billion kwh. showed a gain of 3 percent from last year's record and thus marked a new all-time high.

Total *building permits* issued throughout Cuyahoga County in the first half of 1960 amounted to $139 million, off 2 percent, or $3 million, from last year. The decline was concentrated in suburban areas of the county where year-to-year decreases were reported in each of the first six months of 1960 except February. In all, suburban volume dipped $6 million, or 6 percent, to $103 million. At the same time, however, the six-month total of building permits in Cleveland proper expanded from the previous year's level by nearly $4 million, or 11 percent, to $36 million, and this rise offset much of the suburban decline.

In the longer-range view, these relatively minor year-to-year changes are less important than the fact that building in Cuyahoga County has remained well below pre-recession levels for three successive years. Thus, in the three years 1958-1960, January-June building permit totals ranged from $122 million to $141 million, with the annual average falling 22 percent short of corresponding volume in the previous three years, 1955-1957, when the range was in a higher bracket from $164 million to $184 million.

Regardless of variations of both degree and timing in the fluctuations of individual Cleveland business indicators, there is no doubt that the Cleveland economy in general shifted course somewhat over the January-June period. The sharpest downturns, as in the steel industry, represented corrections of earlier over-stimulation. Nevertheless, the six-month totals for many indicators made a favorable showing in comparison with the corresponding periods of previous years.

NOTES ON FEDERAL RESERVE PUBLICATIONS

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

''The Economy's Changing Money Needs'', Federal Reserve Bank of Chicago.

''Labor Resources in the Sixties", Federal Reserve Bank of Chicago.

''Time and Savings Deposits at Member Banks'', Federal Reserve Bank of New York.

''Woolens and Worsteds — A New District Industry'', Federal Reserve Bank of Richmond.

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

FOURTH FEDERAL RESERVE DISTRICT