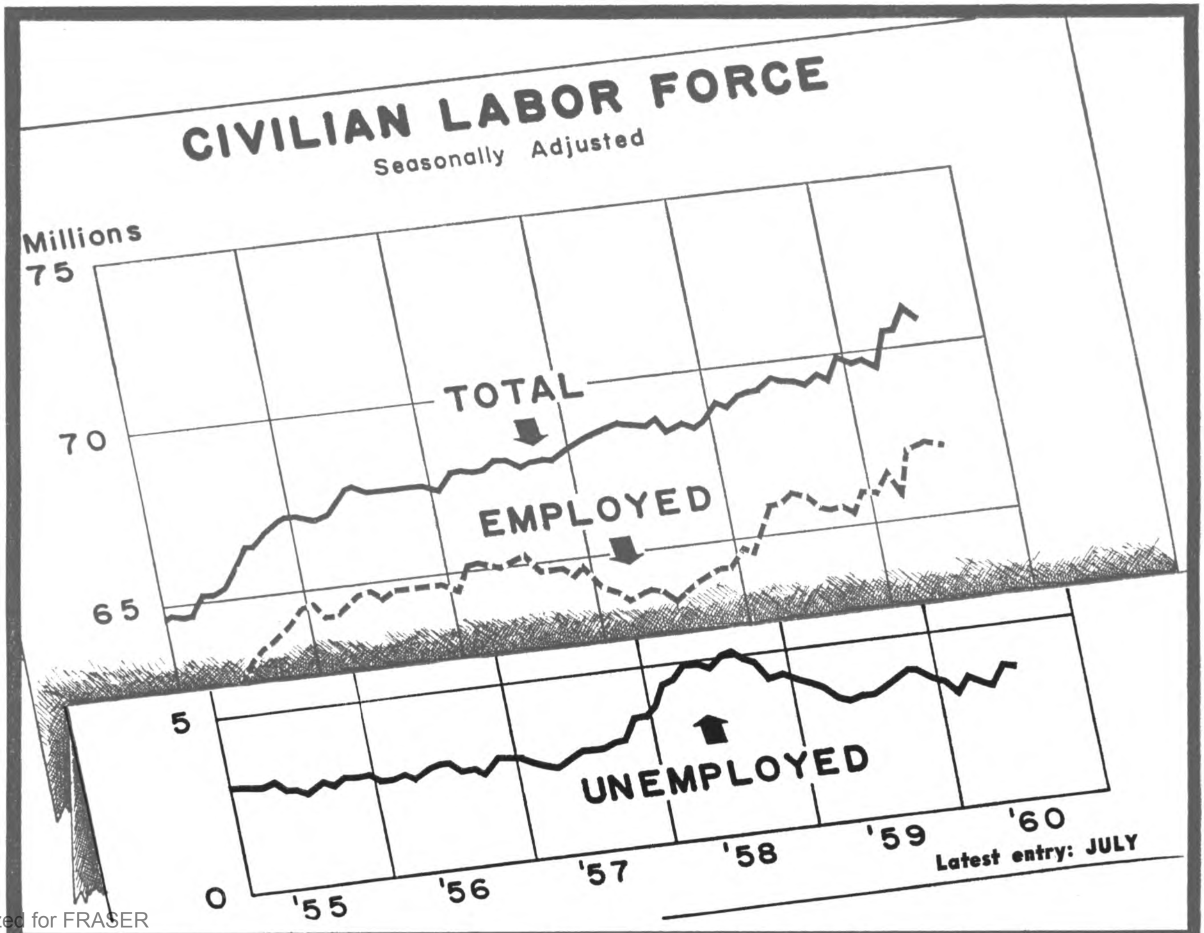
MONTHLY

Business Review

FEDERAL RESERVE BANK of CLEVELAND

September, 1960

IN THIS ISSUE



Additional copies of the MONTHLY BUSINESS REVIEW may be obtained from the Research Department, Federal Reserve Bank of Cleveland, Cleveland 1, Ohio.

Unemployment Problems In A Prosperity Period

THE NUMBER of persons at work in mid-July was about 300,000 lower than the record total reached in mid-June. The number of persons looking for work in mid-July was at the same level as in December, 1959, when employment levels and activity in steel-consuming industries, as well as in industries ancillary to the steel industry, had not recovered to the pre-steel-strike level. Excluding the last four months of 1959, because of the influence of the steel strike, and June, 1960, when jobseeking teenagers temporarily swelled the unemployment total, unemployment in July was the largest for any month since March 1959. (Adjustments are made for seasonal variation.)

Roughly the same comparison can be made of unemployment expressed as a proportion of the civilian labor force, which is defined as those persons looking for work as well as those who are working. Such a ratio constitutes a more meaningful comparison than one confined to numbers of jobseekers alone, because it takes account of the growth in the number of jobholders. The number of persons looking for work in mid-July represented 5.4 percent of the civilian labor force, one of the highest monthly ratios reported since March 1959 (again excepting the months of the steel strike).(1) Probably more important than such shorter-term comparisons is the fact that the rate is considerably higher than in the comparable stages of the 1955-57 business expansion. (Seasonal variations, here also, are allowed for.)

Composition of Unemployment

Thus, there has clearly been a difference between the state of the labor market in the current expansion and its condition in the business boom of 1955-57. An examination of the composition of unemployment in the two periods should throw light on the reasons for the higher incidence of unemployment in the current period. As will be shown later, there are several basic causes of the current higher level of unemployment; no single course of action is likely to be an effective remedy.

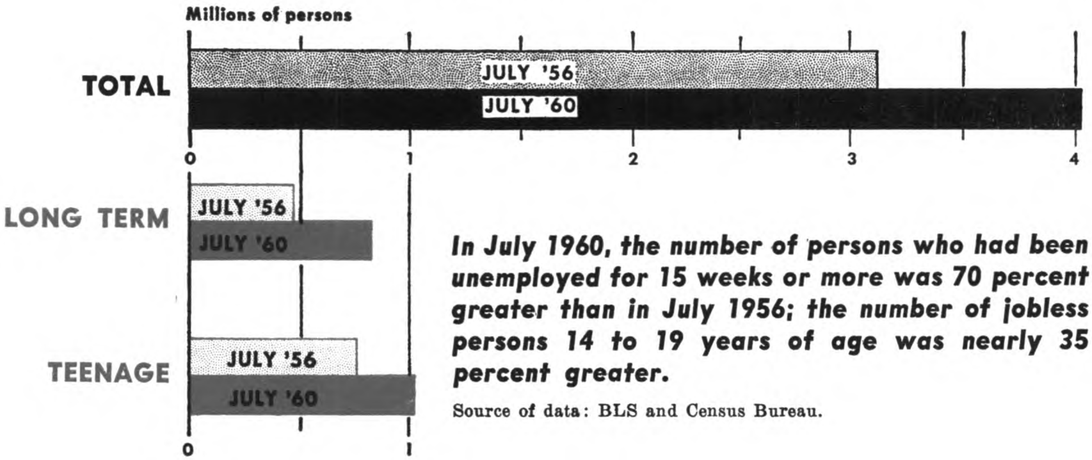
For the purpose of analyzing the composition of unemployment, a comparison will be made between unemployment in July, 1960, and July, 1956. Both months represent the same time span from the pre-recession peak month—July, 1957, and July, 1953, respectively. By selecting the same month of the year for comparison, seasonal disturbances are minimized. (It does not seem likely that a comparison covering a somewhat longer time period, such as an average of the first seven months of the year, would have produced materially different results.)

The increase in unemployment between July, 1956, and July, 1960, will be analyzed in terms of the characteristics of the affected workers. The first, and most important, is the large increase in the amount of "long-term" unemployment, that is, joblessness which has lasted longer than 15 weeks.

In July, 1960, there were 834,000 persons who had been unemployed *consecutively* for more than 15 weeks, and many of these had been out of work for a much longer time. Even this figure understates the true extent of long-term unemployment by some unknown amount, because any work, even a part-time odd job, breaks the continuity of the period of unemployment. In any case, the figure has significance as a measure of long-duration joblessness; it was more than 70 percent larger in the most recent July

(1) At press time, the report for August had become available, showing a rise in the rate of unemployment from 5.4 percent of the labor force to 5.9 percent.

UNEMPLOYMENT



In July 1960, the number of persons who had been unemployed for 15 weeks or more was 70 percent greater than in July 1956; the number of jobless persons 14 to 19 years of age was nearly 35 percent greater.

Source of data: BLS and Census Bureau.

than in July, 1956. The increase of 352,000 in the number of long-term unemployed over the four-year period represented nearly 40 percent of the rise in all types of unemployment during that interval.

Several factors appear to have been responsible for the larger amount of long-term unemployment. These are:

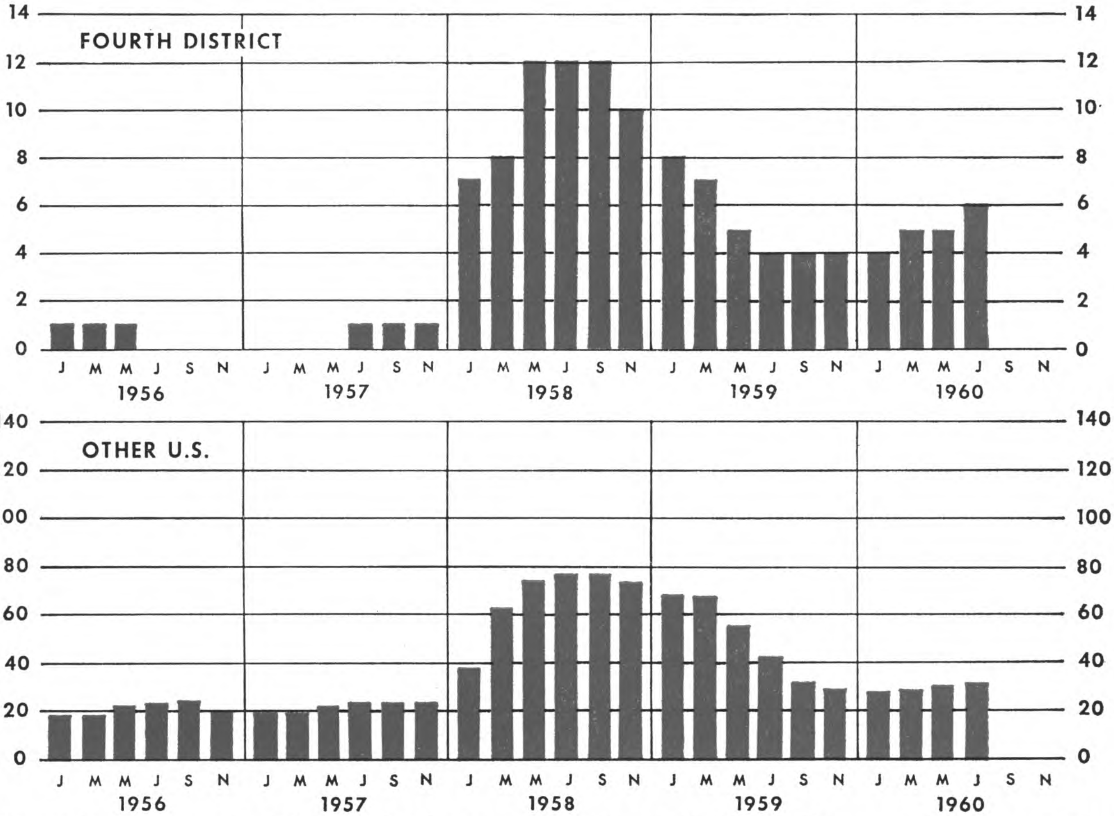
1. The displacement of workers through technological change or other productivity improvements.
2. The closing or decline of industries on which communities depended for their livelihood, together with the lack of alternative employment opportunities.
3. The inability of displaced workers to transfer their skills to other occupations of industries, or to qualify for jobs in other industries requiring higher levels of skill.
4. Employer reluctance to hire older workers (those more than 45 years of age) who are also those most likely to be displaced by technological or market shifts.

More Young Persons in Labor Force

Another large factor in the increase in unemployment between July, 1956, and July, 1960, was the teenage group of unemployed (14 to 19 years old), which numbered 1,020,000 in the recent month. Over the four-year span this group of unemployed increased in number by 261,000, or about 30 percent of the rise in total unemployment. The increase reflects in part the larger number of 14-to-19-year-olds in the population and the labor force, but more importantly, the higher incidence of joblessness in this age group. In turn, the increase in unemployment in the 14-19 age group was due entirely to higher joblessness among 16-to-19-year-olds; unemployment in the 14-to-15-year group declined slightly.

The unemployment rate for the 14-19 age group in July, 1960, was 12.9 percent, as compared with 10.7 percent four years earlier. If the rate had remained the same during the four-year period, the number of teenage unemployed would have increased by only 81,000 between 1956 and 1960, instead of the 261,000 advance which actually took place. These rates are far above those for the population as a whole, of course, but unemployment has always been relatively higher among younger people. What is disturbing is the sizable increase in the rate over the past four years. No final conclusion on the reasons for this phenomenon is yet possible, but it would appear to be the consequence of the inability of today's labor market to absorb

NUMBER OF MAJOR LABOR MARKETS WITH A SUBSTANTIAL LABOR SURPLUS
(6% or more of the labor force unemployed)



Although the Fourth District had no areas of substantial labor surplus four years ago, it now has six. This contrasts with a corresponding increase of only eight in all the rest of the U. S.

Note: Scale of top panel is enlarged. Each bar refers to the month of the bimonthly classifications, which are made as of January, March, May, July, September, and November.

Source of data: BES

a larger number of predominantly unskilled or semiskilled teenagers in an environment where unskilled labor is increasingly at a disadvantage.

Trends in teenage employment will become of increasing interest during the next ten years when the teenage population will accelerate as a result of the post-war baby boom. Whereas this year 2.6 million people will reach the age of 18, in 1970 there will be 3.8 million reaching that age. In addition, there will be 16 million 14-to-17-year-olds in 1970 compared with 11 million in the population this year. While part of these young people will be drawn off into colleges and universities, a great many will enter the labor force directly.

A third aspect of the increase in the number of jobseekers from 1956 to the present is that of the industry in which the jobseekers had last worked. This type of breakdown excludes, by definition, those who have not previously held jobs, and thereby, many teenagers. It does, nevertheless, help to give a fuller picture of the increase in unemployment among all those persons who have held jobs.

In terms of the most recent work experience of the unemployed, the industry group which accounted for the largest single share of the increase in unemployment between July, 1956, and July, 1960, was manufacturing, closely followed by trade. The causes of the large increase in unemployment attributable to manufacturing are largely the same as those previously cited for the larger number of long-term unemployed, since long-term unemployment is closely related to previous employment in manufacturing.

The fact that a large proportion of the unemployed have most recently been employed in trade does not invalidate the fact that trade has been one of the service-type industries which have been responsible for the growth in employment since 1953. Unemployment rates in the industry have risen since 1956, however, and the growth in employment in trade in the current period is markedly less than in the 1954-56 period.

More Labor Surplus Areas

The larger amount of unemployment in the current period as compared with 1956, and especially the greater incidence of long-term unemployment, is reflected in the larger number of labor market areas which are classified as having "substantial" labor surpluses, or unemployment of 6 percent or more. This is particularly true of the Fourth Federal Reserve District which, as shown in the accompanying chart, as of July had six major labor markets with unemployment estimated at 6 percent or more of the labor force, as compared with an absence of such areas in mid-1956. The comparable totals of substantial labor surplus areas in the U. S. outside the Fourth District are 31 at present and 23 in mid-1956.

An accompanying table shows for July, 1960, and July, 1956, the standings of the major labor market areas in the District in terms of the bimonthly area classifications of the Bureau of Employment Security of the U. S. Department of Labor. These classifications are made primarily on the basis of the proportion of jobseekers in the labor force, but also take account of the employment outlook in the next two to four months, and the effects of seasonal or temporary factors on the labor supply.

Jobseekers As A Proportion of the Labor Force in the Fourth District

<table>
<tr><th></th><th>July, 1956</th><th>July, 1960</th></tr>
<tr><td>Akron</td><td>1.5-2.9%</td><td>3.0- 5.9%</td></tr>
<tr><td>Canton</td><td>1.5-2.9</td><td>3.0- 5.9</td></tr>
<tr><td>Cincinnati</td><td>3.0-5.9</td><td>3.0- 5.9</td></tr>
<tr><td>Cleveland</td><td>1.5-2.9</td><td>3.0- 5.9</td></tr>
<tr><td>Columbus</td><td>1.5-2.9</td><td>1.5- 2.9</td></tr>
<tr><td>Dayton</td><td>3.0-5.9</td><td>3.0- 5.9</td></tr>
<tr><td>Hamilton-Middletown</td><td>1.5-2.9</td><td>3.0- 5.9</td></tr>
<tr><td>Lorain-Elyria</td><td>1.5-2.9</td><td>6.0- 8.9</td></tr>
<tr><td>Toledo</td><td>3.0-5.9</td><td>3.0- 5.9</td></tr>
<tr><td>Youngstown (incl. Warren)</td><td>1.5-2.9 (a)</td><td>9.0-11.9 (b)</td></tr>
<tr><td>Erie</td><td>3.0-5.9</td><td>6.0- 8.9</td></tr>
<tr><td>Pittsburgh</td><td>3.0-5.9</td><td>6.0- 8.9</td></tr>
<tr><td>Huntington-Ashland</td><td>3.0-5.9</td><td>9.0-11.9</td></tr>
<tr><td>Steubenville-Weirton (c)</td><td rowspan="2">3.0-5.9</td><td>3.0- 5.9</td></tr>
<tr><td>Wheeling (c)</td><td>9.0-11.9</td></tr>
</table>

(a) Including Sharon, Pennsylvania.

(b) Excluding Sharon, Pennsylvania, following change in definition of Youngstown area in January, 1960.

(c) These two areas resulted from the division in January, 1960, of the former Wheeling-Steubenville area.

The contrast between the employment and unemployment situation in the Fourth District in the spring[2] of 1956 and 1960 is shown not only in the number of areas of substantial labor surplus in the recent period, but also in the fact that in 1960 only one area—Columbus—was classified as having a slight labor shortage (unemployment from 1.5 to 2.9 percent of the labor force); seven areas had been so classified in July, 1956. In addition, there were 17 smaller areas in the Fourth District classified as having a substantial labor surplus in July, 1960, as compared with 11 in July, 1956.

(2) Although the classifications nominally relate to the July situation, they are based on estimates of total employment and unemployment in May.

Recent Developments In Fourth District Banking

Since the turn of the year a number of significant developments which are particularly relevant to banks and the banking system have taken place in financial and business conditions. For example, nonbank interest rates have moved downward steadily from early-year peaks, reflecting in part a reduction in the demand for credit relative to the supply of loanable funds available. This reduction in demand has been featured by the Federal Government's becoming a net supplier of funds as it moved, after the turn of the year, to a surplus in its cash budget position. The decline in interest rates has also in part resulted from a relative dampening of a hitherto general inflationary psychology.

Insofar as the general business picture is concerned, the various indicators of business activity have been quite uneven and sometimes contradictory. However, indications are quite clear that the economy has not maintained its previous rate of advance, with the business record so far this year not as bullish as had been anticipated earlier.

Reflecting these developments has been the Federal Reserve System's shift to a less restrictive monetary policy. The shift is revealed in the System's open market operations in the past few months which have provided net additional reserves to the banking system. It is also shown in the reductions in the discount rate — the cost to the member banks of borrowing from the Federal Reserve Banks—which took place early in June and again in August. In addition, existing regulations were amended in August to permit member banks to count additional vault cash toward meeting reserve requirements, and also to lower reserve requirements for central reserve city banks. In both instances the action is designed to provide for seasonal currency needs as well as to expand the lending capacity of the banking system.

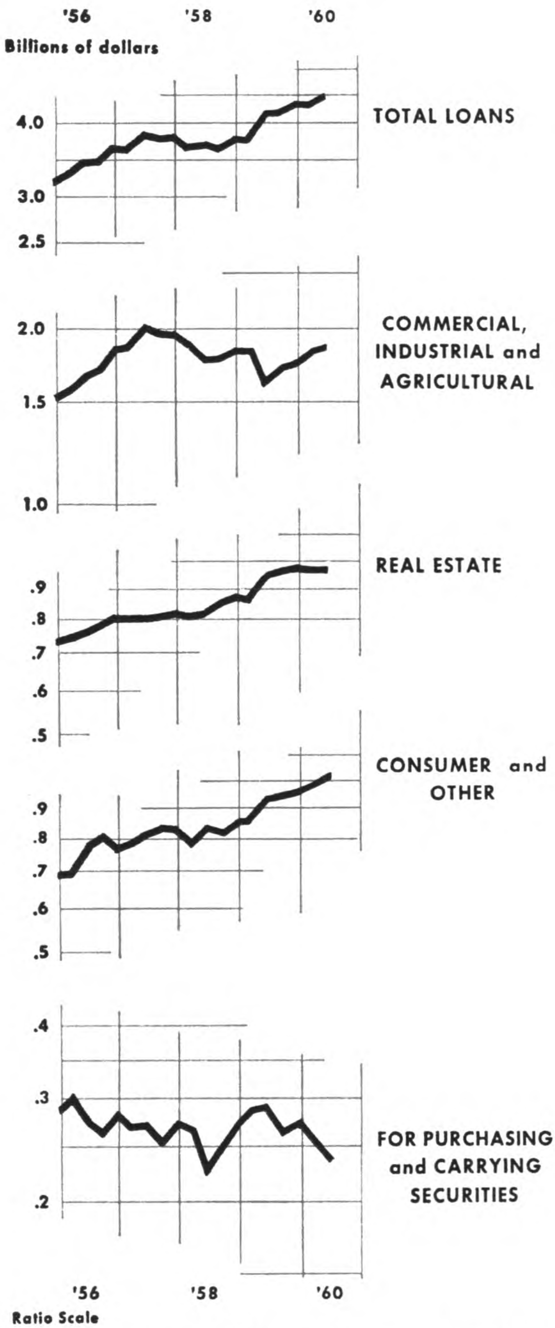
Emerging from the general background just indicated are the recent trends in banking in the Fourth Federal Reserve District which may now be identified. Wherever there are large variations between the national and District showings, these can usually be explained by the ways in which the industrial composition of the District differs from that of the national total.

Loans and Investments

Banks in the nation showed a more-than-seasonal decline in total credit extended during the January-June period as relatively large reductions were made at money market centers. During the same period, total credit extended at all member banks in the Fourth District remained unchanged. Following a normal first-quarter decline, total loans and investments in the District rebounded in the second quarter to the 1959 year-end record level of $13.2 billion. The second-quarter increase reflected in part the increased reserves made available through the Federal Reserve System's open market operations.

The mainspring in the return of total bank credit to an all-time high was the continued strength of loan demand. Fourth District member banks liquidated nearly $300 million in investments in the January-June period, which was the same amount by which total loans increased, with investment holdings during the half-year period averaging less than in the like period of the past few years. The tendency toward liquidation of investments conformed closely with the national

LOANS
by Type
17 Fourth District Weekly Reporting Banks



Note: Loans to nonbank financial institutions, not charted separately, are included in the total.

tendency. It reflected an apparent preference of banks to increase their holdings of loan assets and, in some cases, to pay off their indebtedness to the Federal Reserve Bank at the expense of investment holdings, mainly Government securities.

More detailed information on the composition of bank credit extended in the Fourth District is found in the data obtained from a sample of large banks which report weekly to the Federal Reserve Bank of Cleveland.

Loans

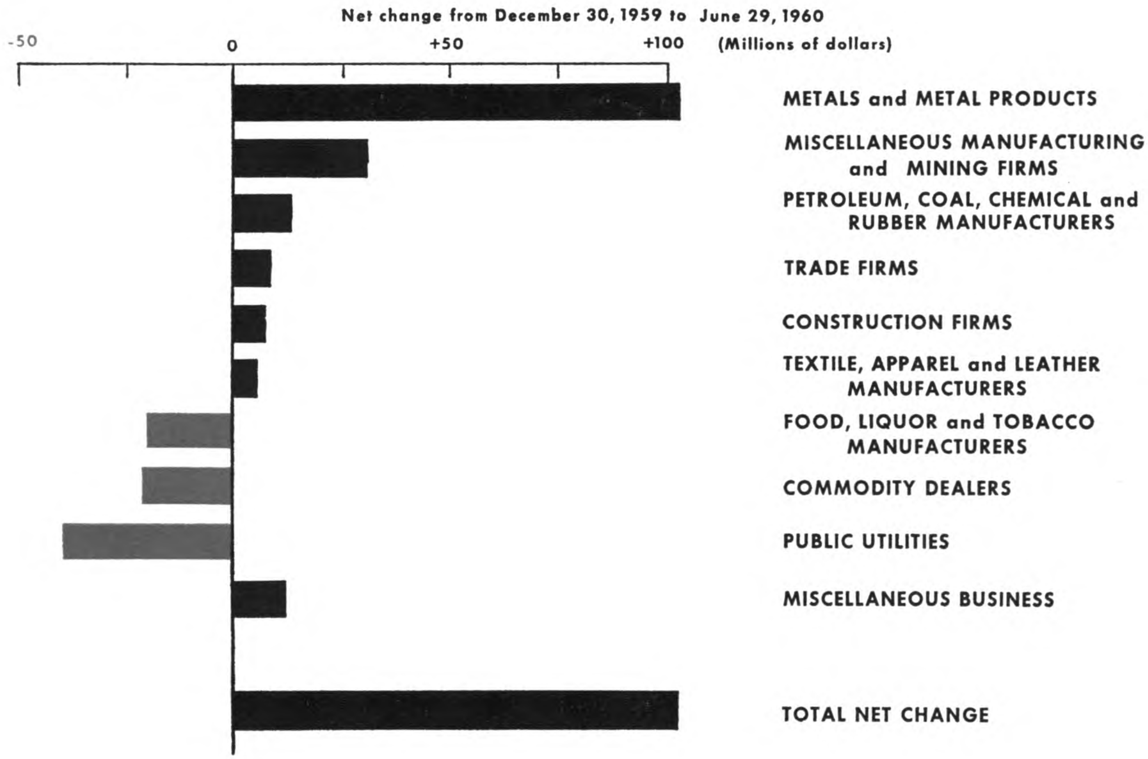
By the end of the second quarter of this year, total loans adjusted at 17 weekly reporting banks had reached a record high, with an increase in the second quarter more than offsetting a normal decline after the turn of the year. The bulk of the increase in the January-June period was in commercial, industrial, and agricultural loans. Such loans outstanding at the end of the second quarter amounted to $1.9 billion, up about $130 million from the year-end level, but below the all-time high of $2.0 billion reached in the second quarter of 1957.

During the first half of the year, consumer loans reported by these large banks also showed substantial gains, reflecting the continued strong demand for consumer credit and the sustained strength in consumer spending, as revealed in retail sales and other important economic indicators. Real-estate loans outstanding during the January-June period were virtually unchanged from the year-end figures, indicating in part the effect of the slowdown in homebuilding activity. Following a sharp decline in the first quarter, loans to nonbank financial institutions were slightly above the end-of-year level by the close of the second quarter. Loans for purchasing and carrying securities declined more than seasonally in the January-June period, but were in line with the over-all national trend.

Business Loans

Changes in business loans are reported in detail by 14 large banks in the District. The

BUSINESS LOANS
14 Fourth District Weekly Reporting Banks



data from these banks show that the amount of business loans outstanding during the January-June period apparently responded to substantial strength in business demand for bank credit. At the end of the second quarter, business loans outstanding had reached a new high of $1.8 billion, up $104 million from the year-end figure and $227 million from the year-ago level. The January-June increase was well above the rise which occurred in the same period of 1959, and was exceeded in recent years only in 1957. Business borrowing at these banks during the first half of 1960 appeared to follow the national trend, although there were divergences among various types of borrowers.

Virtually all of the net increase in business loans outstanding was accounted for by the metals and metal products group, which increased its net borrowing from January through June more than in any recent year. Much of this resulted from the borrowing to rebuild inventories, following the late 1959 rundown. The increase in net borrowing by this group in the first half of 1960 was appreciably above that of the year-ago period, which was also a time of inventory buildup.

Other groups of business borrowers also increased their net borrowing at the 14 banks during the January-June period. Construction firms continued to increase their net borrowing, in the face of a usual seasonal decline. Net loans to retail and wholesale trade concerns rose over the year-end figure, but were less than the year-ago figure. Processors of petroleum, coal, chemical, and rubber products increased their net borrowing, but the magnitude of their loans outstanding was still below the levels of earlier years. Manufacturers of textiles, apparel, and leather products, and other manufacturing and mining firms increased their net borrowings from year-end levels in line with usual seasonal patterns.

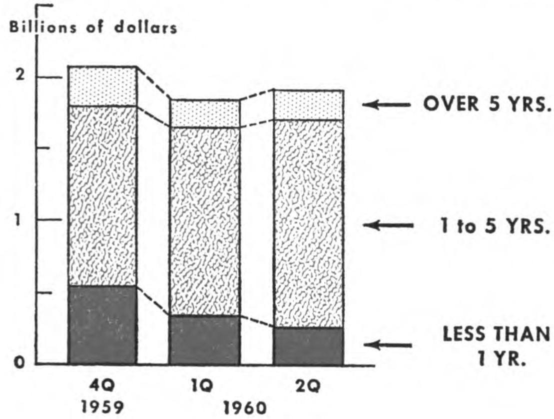
The net increase in borrowing by a number of groups other than the metals and metal products group was practically offset by net declines in borrowing by food, liquor, and tobacco dealers, commodity dealers, and public utilities. Food, liquor, and tobacco dealers and commodity dealers continued to repay loans by about the same amounts as in previous periods, but reduced substantially their new loans, thereby decreasing appreciably their loans outstanding. Loans outstanding to public utilities, although down from year-end figures, were still above the level of a year ago.

The average interest rate on short-term loans as reported by 9 large Fourth District banks during the first half of June was just a shade below the average rate during the like period of December. This relationship was practically the same as that existing on rates reported by banks in 19 large cities throughout the country over the same period. The relative firming of the average short-term bank rate was in marked contrast to the steady decline in short-term money rates other than banking rates. The average interest rate reported on loans made by the 9 reporting District banks during the first 15 days of June was 5.32 percent as compared with 5.35 percent in the like period of December.

Investments

The data for the 17 weekly reporting large banks show that investment holdings in the January-June period declined slightly from the year-end level, which was in sharp contrast to the increase during the like period of a year ago. The decline, however, was relatively less than that which occurred nationally during the first half of the year. The liquidation of investments by large District banks was concentrated in U. S. Government

INVESTMENTS IN U. S. "GOVERNMENTS"
17 Fourth District Weekly Reporting Banks



securities, as holdings of other securities, mainly those of state and local governments, increased. Second-quarter increases in investment holdings offset in part the reduction in the first quarter of the year.

A discernible shift took place in the maturity composition of U. S. Government securities held by banks of the District in the first half of 1960, which was in part a reaction to the downward trend of interest rates from early-year peaks. Holdings of securities maturing in less than 1 year were reduced by more than half of the year-end amount, while holdings of long-term governments, i.e., securities maturing in more than 5 years, declined slightly. At the same time, increases were registered in holdings of securities maturing in 1 to 5 years. As a result, since the 1-to-5 year maturity group constitutes the bulk of Government securities held by District banks, the shifts among maturities increased the average maturity of bank-held investments.

Deposits

Total deposits at Fourth District banks as of the end of the second quarter were down from the year-end level, keeping in line with the national trend. A small, normal second-quarter gain in total deposits offset only in part the sharp more-than-seasonal first-quarter decline. The January-June decline in total deposits, in both the nation and the District, was moderated to some extent by the continued growth in time deposits, which after slowing down somewhat in the latter half of 1959, reached an all-time high by the end of the second quarter of 1960. Demand deposits were substantially below the all-time District high of $8.1 billion attained at the end of 1958.

Loan-Deposit Ratio

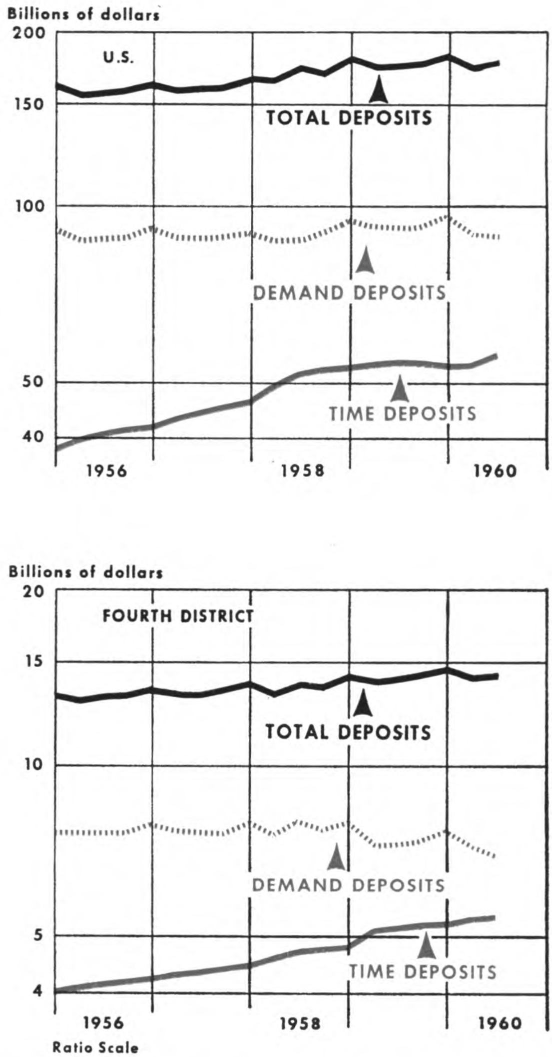
A measure of the impact on bank liquidity of recent changes in bank credit and deposits at District member banks is provided by the loan-deposit ratio. In general, this ratio reflects the portfolio preferences of banks, and it also suggests what may be expected in the near future regarding possible credit expansion. As of the end of June, the ratio of total loans to total deposits of member banks in the District had risen to nearly 55 percent, which was also approximately the national average for all member banks; for reserve city banks of the District, the ratio was slightly in excess of 57 percent, and for country banks it was slightly over 51 percent. Such ratios represent substantial increases over the year-ago figures; they continue the steady upward trend in the loan-deposit ratio of recent years, which was interrupted only in 1958. The relatively high loan-deposit ratios indicate to a large extent the disposition of banks to liquidate investments in order to make additional loans.

Reserve Position

Early in the January-June period, as mentioned previously, the Federal Reserve System moved toward a less restrictive monetary policy. The net additional reserves supplied through open-market operations to the banking system, as well as the apparent easing in money and credit conditions in general, showed up clearly in the change in the reserve position of member banks. During the first half of the year, borrowing by all member banks in the nation from the Federal Reserve Banks declined appreciably from the year-end level. By the end of May, the reserve position of member banks showed free reserves — the difference between excess reserves and member bank borrowings — for the first time since early in 1959.

Unlike banks in the nation as a whole, the

DEPOSITS
All Member Banks



Although time deposits have increased since the turn of the year, total deposits have declined.

member banks in the Fourth District had free reserves, in the aggregate, during December 1959. Indebtedness of Fourth District member banks to the Cleveland Federal Reserve Bank during the second biweekly period of December amounted to $26.3 million on a daily average basis. By the like period of June, member bank borrowings had declined to $13.6 million. As a result, although excess reserves were down slightly over the same period, net free reserves of Fourth District member banks increased from $30.3 to $39.1 million.

Developments Since Midyear

The above analysis has been focused on the showing of the first half of the year. Since midyear there have been mixed patterns in Fourth District banking activity. Total credit extended by all District member banks through the last Wednesday in August amounted to nearly $13.3 billion, up $102 million from the end-of-June level. In contrast to the January-June period, however, the increase in total credit extended occurred in total investments held by the banks, as loan liquidation amounting to $64 million took place. The bulk of the $166-million increase in bank-held investments was in U. S. Government securities, and resulted mainly from the Treasury's July financing which permitted the use of tax and loan accounts at commercial banks. Enlarged holdings of Government securities maturing in less than 1 year accounted for nearly all of the increase in investments held by these 17 reporting weekly banks. A by-product of the increase was a reduction in the average maturity of securities held by the 17 reporting banks.

Total deposits at all District member banks rose in August to $14.4 billion, up more than $141 million from the end-of-June figure. Practically all of the increase resulted from a rise in demand deposits (adjusted), which were up nearly $200 million. Time deposits registered a $87-million gain, reaching a new record high of $5.5 billion by the end of August.

Data from 17 weekly reporting member banks show that at the end of August, total loans adjusted were down slightly from the end-of-June figure. Virtually all of the decline was due to a decrease in commercial, industrial, and agricultural loans.

Loans outstanding to business borrowers at 14 large banks through the last Wednesday in August were down $99 million from the end-of-June level. Nearly all of the net decline was accounted for by the metals and metal products group, with the miscellaneous manufacturing group also showing a relatively large decline. Net borrowing by commodity dealers and public utilities was up appreciably from the end-of-June figure.