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During the first six months of the current recovery period (February through August) seasonally adjusted unemployment showed no significant decline, while "insured unemployment" dropped appreciably.

UNEMPLOYMENT

United States



Source of data: U.S. Department of Labor
 Seasonal adjustment of insured unemployment data supplied by the
 Board of Governors of the Federal Reserve System

Interpreting Recent Unemployment Data

STATISTICS describing the national level of unemployment for the past few months have been disappointing to those who had hoped to see a significant drop in unemployment following the turn from business recession to recovery. While both the actual number of unemployed persons and the rate of unemployment based upon the civilian labor force have receded from the high marks registered in February of this year, the declines have generally failed to exceed seasonal expectations. As shown on the cover chart, the number of persons unemployed in August, adjusted for seasonal variation, was still close to 5 million, a number which has been virtually unchanged since last December.

A delay in the reduction of unemployment during the early stages of a recovery period is, of course, no new development. Unemployment as an indicator of business conditions is usually regarded as a lagging series in the regular pattern of business cycles; such a lag was quite noticeable, for example, during the early part of the 1958 recovery. Furthermore, by the time this article is in print, the figures on unemployment for the early fall months may begin to show some appreciable hoped-for improvement.⁽¹⁾ But the fact remains that the "stickiness" of unemployment through the spring and summer of 1961 has been disconcerting and (to some observers) puzzling.

The failure of unemployment to come down promptly has occurred despite the fact that employment has increased in recent months at more than a seasonal pace, from

(1) Unemployment data for September, released by the U.S. Department of Labor after the completion of this article, show no significant departure from the pattern as described herein.

66.8 million in February to 67.0 million in August.

As a further complication for the observer, the number of claims filed for unemployment compensation (referred to as "insured unemployment") has shrunk during the same period, which is highlighted on the cover, from almost 2.8 million to 2.3 million after seasonal adjustment.⁽²⁾

Such a mixture of apparently favorable and apparently unfavorable news has meant that the casual reader needs help in interpretation. The first step in providing such help may be a re-emphasis of the role played by changes in the size of the labor force.

More Employment Does Not Mean Less Unemployment

The employment and unemployment data for the first six months of the current recovery period (not seasonally adjusted) reveal that between February and August total employment expanded by 3.9 million persons. Since, during the same period, the civilian labor force was expanding by 2.7 million persons, this means that only 1.2 million formerly unemployed individuals were absorbed

(2) Employment and unemployment data, including seasonal adjustment factors, are those released in the Monthly Report on the Labor Force, issued by the Bureau of Labor Statistics and based upon primary data collected by the Bureau of the Census in household interviews. Insured unemployment totals represent continued claims under regular programs (i.e., claims filed for complete weeks of unemployment under state programs, programs for Federal employees, for ex-servicemen, and for railroad employees) as reported by the Bureau of Employment Security for the week ending nearest the 15th of the month. Seasonal adjustment has been supplied by the Board of Governors of the Federal Reserve System.

(3) These figures, not being seasonally adjusted, are not identical with the ones in the cover chart. When seasonally adjusted data are substituted, the sum of the changes in unemployment and in the civilian labor force does not equal the change in employment because the three quantities are adjusted separately.

by the gain in employment⁽³⁾. However, after allowance for seasonal factors, there was no significant shrinkage in unemployment between February and August.

The above figures underscore the important point that the level of unemployment is affected not only by the volume of employment but also by the size of the labor force; only if the latter remains constant does an increase in employment bring with it a corresponding reduction in unemployment. If the population increases, and with it the labor force, employment must rise by an equal amount merely to prevent higher unemployment, and it must be boosted even more if a lower level of unemployment is desired.

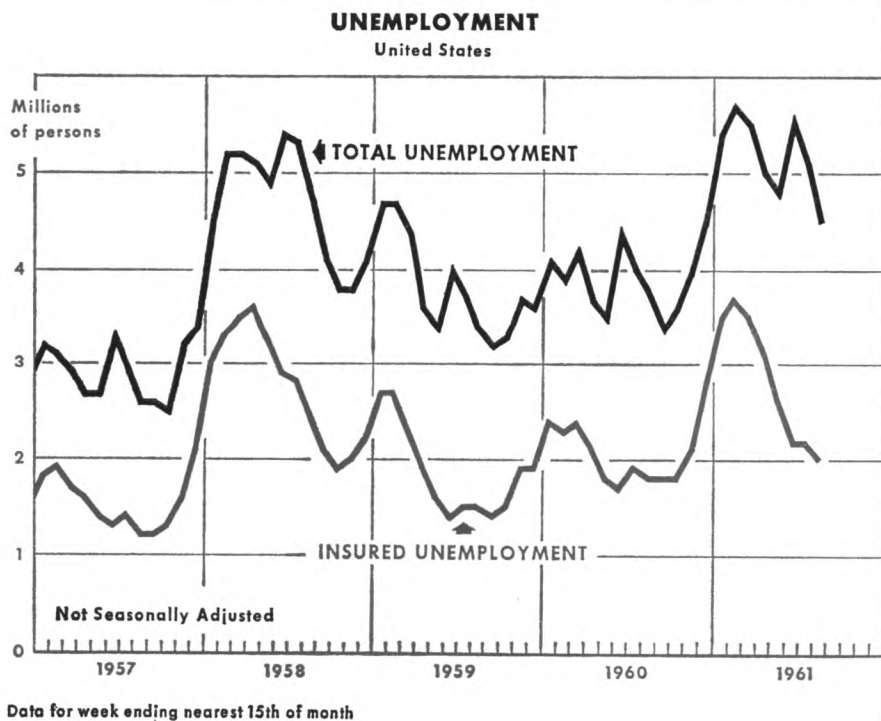
The generally rising trend of the labor force is clear. During the 1950's the average

annual growth in the labor force came to about three-fourths of a million people. From 1959 to 1960 the labor force grew by 1.2 million people as the high birth rate of the mid-1940's made itself felt and more adult women sought employment. By 1970 an annual labor force growth of 1.5 million people is expected.

High Unemployment Despite Fewer Claims

While unemployment, after seasonal adjustment, scarcely changed in the first six months after the upturn in the business cycle, the number of unemployment insurance claims, as mentioned earlier, declined during the same period by almost half a million, representing an 18 percent reduction from the February total, seasonally adjusted.

Both insured unemployment and total unemployment reflect generally the same seasonal influences. However, total unemployment tends to rise sharply in June, while insured unemployment tends to rise in July.



Source of data: U. S. Department of Labor
Total unemployment from Bureau of Labor Statistics
Insured unemployment (regular programs) from Bureau of Employment Security

Several points will be considered in attempting to explain the divergence between the two series and to test the seeming disparity in responsiveness. Such points stem from a combination of conceptual differences as to coverage and administrative differences as to reporting procedures. As a result, the two statistical series follow somewhat different patterns of behavior. Both insured and total unemployment, of course, follow the seasonal rhythm which reflects the summer expansion and winter curtailment of outdoor activities and causes low unemployment levels in September or October and peak levels in January or February; however, they also display individual variations due to their intrinsic differences, as indicated by the chart on page 3.

Differences Between Series

Total unemployment, as reported by the Bureau of Labor Statistics, aims to include all persons of at least 14 years of age who

have indicated by their responses during a household interview that they would like to be employed but are unemployed because they cannot find a job.

By contrast, insured unemployment data, as issued by the Bureau of Employment Security, account for only a portion of the unemployed, namely, those who have actually lost a job, and a particular kind of job, at that.

The latter concept of unemployment—imposed by the substantive provisions of relevant legislation—automatically eliminates all persons from being counted who fail to find work as they enter the labor market for the first time. Such new entrants cause heavy bulges in labor force and unemployment estimates, especially during the summer months, but leave insured unemployment totals unaffected. On the other hand, the figures on insured unemployment reflect quite fully, and without complication, the recall of workers who previously had been laid off in covered industries, while such recalls might fail to show up as a reduction in estimated total unemployment if their effect were cancelled by the unemployment of new entrants into the labor force.

UNEMPLOYMENT INSURANCE CLAIMS AND EXHAUSTIONS

United States
(in thousands)

	REGULAR CLAIMS				TEC ¹ CLAIMS
	Change from previous month ²		Exhaustions ³		
	Actual change 1961	Seasonally expected change	Actual count 1961	Average 1955-60, excl. 1958	Actual count 1961
March	— 196	— 100	245	147	—
April	— 373	— 469	231	135	430
May	— 481	— 448	249	118	733
June	— 432	— 257	235	110	714
July	— 9	+ 125	209	107	542
August	— 183	— 104	205	101	462

(1) Data for mid-month week.

(2) Data for mid-month week (all regular programs).

(3) Data for entire month (state programs).

The exclusion of entire industries and of establishments below a specified size from the coverage of unemployment insurance programs, causing insured unemployment, for example, to be more sensitive to manufacturing (high coverage) than to service-type (low coverage) industries, is probably the largest single factor in explaining the gap between the levels of insured and of total unemployment.⁽⁴⁾ An additional factor, which has been especially important in recent months, is the removal of workers exhausting their benefit rights from the count of claims. These workers are still presumably included in the total unemployment data.

Exhaustions of claims should at all times be offset against reported reductions in claims

(4) The size of the gap varies both seasonally and cyclically. For example, if the amounts shown in the cover chart were converted into a series of ratios of insured to total unemployment, their individual values would range between 46 and 64 percent over the span of the four and two-thirds years pictured.

totals in order to obtain the true picture. This becomes doubly necessary in the months following a cyclical trough when, due to the larger backlog of long-term unemployment, the number of exhaustions is high—as shown in the accompanying table—and may significantly reduce the claims total, thereby falsely suggesting an improved employment outlook.

It is difficult to determine how many persons, after exhausting their benefit rights, remain unemployed and for how long, during different phases of the business cycle. Exhaustees disappear, statistically, after they have been written off the rolls of the insured unemployed under regular programs; no consistent records on post-exhaustion unemployment are maintained. A recent BES estimate concluded that, since claims under an extended Federal unemployment insurance program were filed by only about one-half of the potentially eligible persons (exhaustees after June 30, 1960), the other 50 percent can be assumed to be composed of those who have found employment, or those who have withdrawn from the labor force, or those who have delayed filing.

A measure of post-exhaustion unemployment became recently available after the Temporary Extended Compensation program went into effect last April. The reported total numbers of continued claims for extended benefits—listed in the accompanying table—draw attention to the size of this type of continued, but usually obscured, long-term unemployment.⁽⁵⁾ Such data suggest that the low claims figures of recent months were not so much a true reduction in insured unemployment as they were a transfer of claims

to another program. For example, between mid-June and mid-July 1961, new applications for extended benefits were virtually equal to the number of exhaustions of regular benefits, which suggests that very few persons found employment or left the labor force upon removal from the regular programs. Prior to April of this year, there was no way for this segment of unemployment to be reflected in any of the claims data.

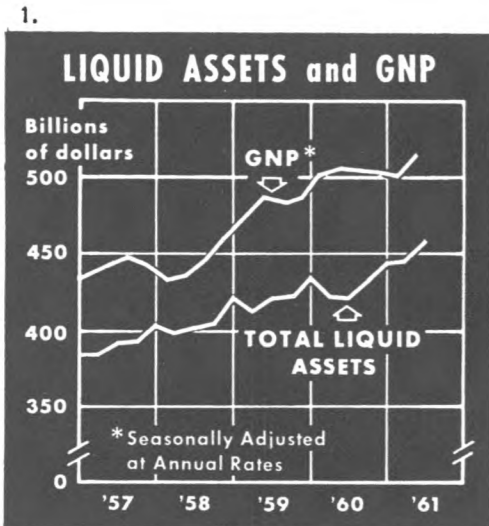
It may thus be concluded that the divergence between the two indicators of unemployment stems from other than economic causes. The principal factors in the difference, as discussed above, are the fact that insured unemployment does not reflect changes in the labor force and that unemployed persons are counted among the insured unemployed only if, and as long as, they are entitled to regular unemployment compensation.

Emphasis here upon the limitations in coverage of the unemployment claims series should not lead to the conclusion that the claims series should be disregarded in any appraisals of unemployment conditions. On the contrary, the claims series represents a valuable complement to the total unemployment series, provided it is correctly interpreted. The distinctive contribution of the claims series lies especially in its timeliness, as well as in its accuracy within its limited sphere and the availability of geographic breakdowns of the data. Thus, the claims series is available more promptly and more frequently than the total unemployment series; it is based upon an actual count of filed claims, whereas the total unemployment series is based upon estimates which are subject to errors of sampling and errors of response to questions asked by interviewers.

⁽⁵⁾ At their peak level, TEC claims were equal to over one-fourth the number of regular claims, nationwide; they reached from 50 percent to more than 100 percent of regular claims in some local areas with much heavy industry. Over half of TEC claims in the country, in June, represented factory employees.

A Look at LIQUIDITY

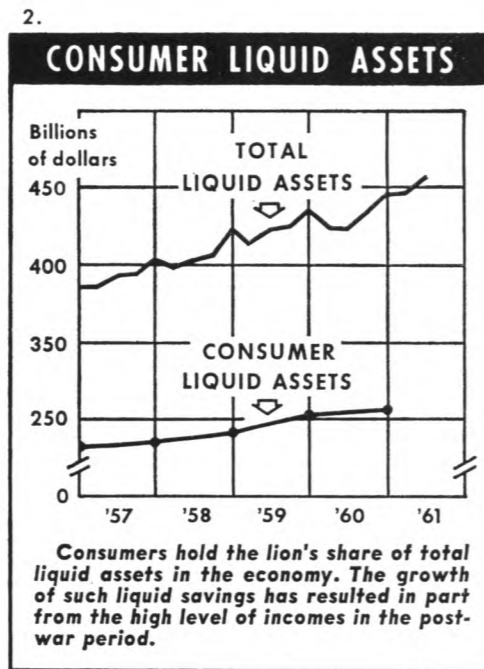
The strength and sustainability of the current economic recovery will be determined by the level of spending in the economy. The level of spending, in turn, is influenced in part by liquidity. As holdings of liquid assets increase, so do ability and inclination to spend.



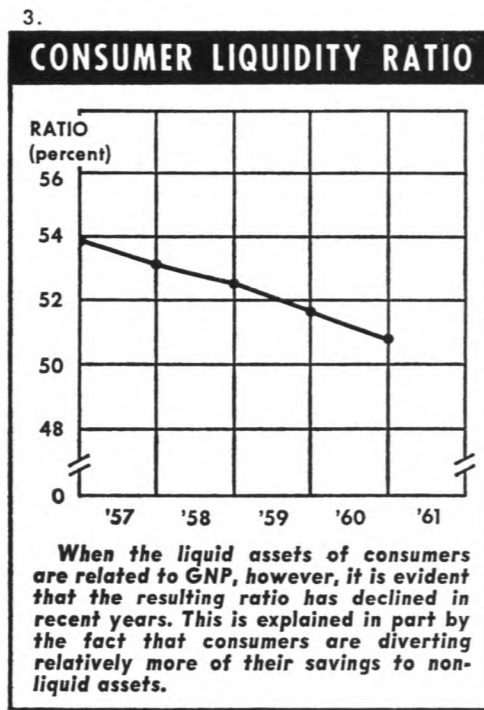
Although not always at the same pace as the gross national product, total liquid assets¹ have climbed steadily in the post-war period, reaching a record level of \$458 billion in the second quarter of 1961.

¹ Includes here currency, demand deposits, all time and savings deposits, shares in savings and loan associations and credit unions, U. S. Savings Bonds, and marketable U. S. Government securities maturing within one year.

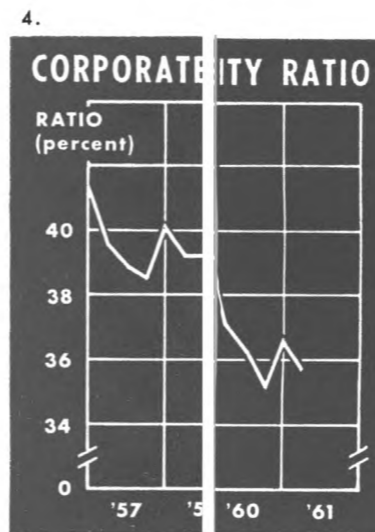
Source of data: Board of Governors of the Federal Reserve System



Consumers hold the lion's share of total liquid assets in the economy. The growth of such liquid savings has resulted in part from the high level of incomes in the post-war period.



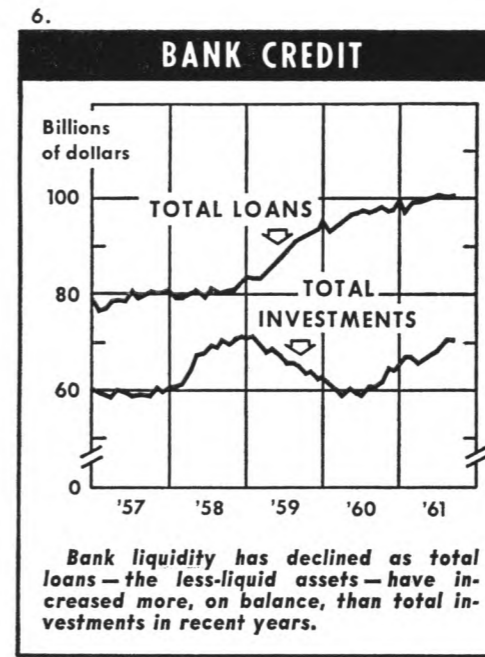
When the liquid assets of consumers are related to GNP, however, it is evident that the resulting ratio has declined in recent years. This is explained in part by the fact that consumers are diverting relatively more of their savings to non-liquid assets.



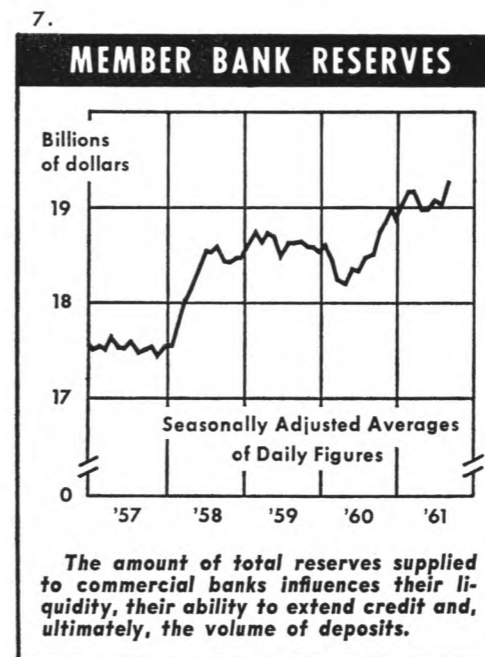
As measured in terms of cash assets in relation to current liabilities, the liquidity of the corporate sector of the economy has also declined.



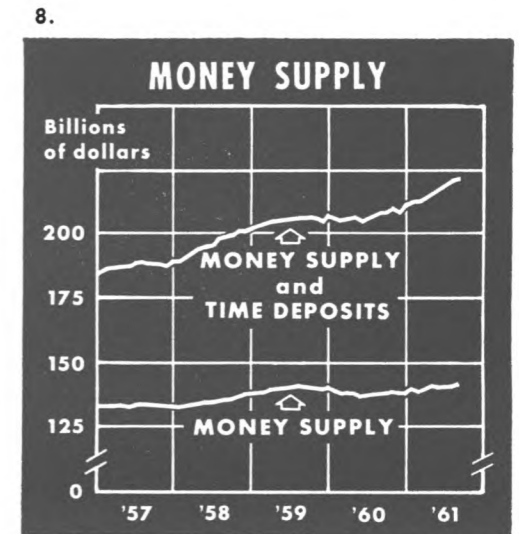
Those sectors of the economy that lack adequate liquid funds through borrowing but the liquidity of commercial banks has increased moderately since 1957, owing to a decline in loanable funds.



Bank liquidity has declined as total loans—the less-liquid assets—have increased more, on balance, than total investments in recent years.



The amount of total reserves supplied to commercial banks influences their liquidity, their ability to extend credit and, ultimately, the volume of deposits.



Since early in 1960, the Federal Reserve System has supplied, on balance, additional reserves to member banks. This period of reserve growth has been featured by a more rapid rise in time deposits than in demand deposits, as shown above.

The Federal Reserve System turned to a monetary policy of less restraint some months before the recent recession. The System continued to provide reserves during the recovery period. This has been accompanied by expansion in the money supply (including time deposits) and increased availability of credit.

Trading In Federal Funds

THE LAST day of August 1961 marked the end of the second year in the national survey initiated by the Federal Reserve System to reveal the scope and characteristics of the Federal funds market. The survey began on September 1, 1959, in each of the twelve Federal Reserve Districts.

Transactions in Federal funds consist of the purchases and sales of excess reserves of member banks. Such transactions are made usually for the purpose of adjusting the reserve position of the purchasing bank. That is, a bank that finds its total reserves—those on deposit with the Federal Reserve bank plus vault cash—are less than the amount required, may choose to achieve its required reserve position by “purchasing” (borrowing) additional reserves—in the form of Federal funds—from another bank. Over the years, a wide market for Federal funds has developed, with trading carried out across the nation, and with the participants including banks, Government securities dealers, corporations, and agencies of foreign banks. Transactions in Federal funds have tended to become formalized, including both secured and unsecured transactions.

A comparison of the data obtained from the second, or most recent, year of the Federal Reserve study with those from the first year⁽¹⁾ reveals a number of similarities in Federal funds transactions in the Fourth Federal Reserve District in the two periods. On the other hand, the comparison also reveals that some interesting changes took place between the two periods. (See table.)

(1) See “Trading in Bank Reserves”, this Review, December 1960, for a summary of the first year of the study in the Fourth District. The article included background information and detail which are not repeated here.

Similarities Between Study Years

In short, the data show that the group of eighteen banks in the Fourth District that report in the survey for the most part still trade—buy and sell Federal funds—with other banks. In fact, this preference was somewhat more evident in the second year of the study than in the first year. Transactions with “others” (mainly corporations located in the Fourth District) continued to account for a negligible share of total transactions.

With reference to the different types of transactions, purchases of Federal funds continue to be concentrated in the “one-day unsecured” type. In addition, the use of one-day repurchase agreements bought and sold among banks declined in the 1960-61 period, as revealed by the data in the table. Finally, the pattern of the flows of Federal funds in and out of the Fourth District remained basically the same in the second year of the study, as revealed in the fact that the majority of the transactions were made with banks, dealers, and agencies in New York City.

Some Changing Patterns

The most significant change revealed in the data reported from September 1960 through August 1961 was that in the Fourth District purchases of Federal funds exceeded sales—in fact, by a margin of nearly 2 to 1. In sharp contrast, during the first year of the study the dollar volume of total sales had been half again as large as the volume of purchases. The greater volume of Federal funds purchases may explain the increase in the proportion of total transactions made with banks in 1960-61.

Percentage Distribution of FEDERAL FUNDS TRANSACTIONS

Fourth District

BY TYPE OF TRANSACTION					BY LOCATION OF BUYER OR SELLER				
Business of Buyer or Seller	PURCHASES		SALES		Federal Reserve District	PURCHASES		SALES	
	Second Year 1	First Year 2	Second Year	First Year		Second Year	First Year	Second Year	First Year
With Banks	99.8	91.4	82.1	89.2	New York City	51.8	62.9	63.5	53.7
1-day unsecured	93.6	86.7	44.0	69.2	San Francisco	16.7	5.5	10.2	5.0
1-day secured	3.8	2.9	36.0	17.6	Cleveland	7.3	11.7	8.5	6.8
1-day R.P.	0.4	0.7	0.1	0.7	Chicago	6.2	2.6	6.7	9.7
Over 1-day	2.0	1.1	2.0	1.7	Boston	3.3	6.0	2.2	1.9
With Dealers	0.2	8.2	17.8	10.8	Philadelphia	2.3	2.3	2.8	5.9
1-day unsecured	—	7.1	—	4.4	New York (exclud- ing New York City)	2.6	2.9	1.3	0.6
1-day secured	—	0.3	0.2	0.6	Richmond	2.6	1.7	0.9	2.0
1-day R.P.	0.1	0.2	14.7	3.9	St. Louis	2.6	2.4	0.5	1.3
Over 1-day	0.1	0.6	2.9	1.9	Minneapolis	1.6	0.1	1.0	9.5
With Others	*	0.4	0.1	—	Atlanta	1.4	0.8	0.9	1.6
1-day unsecured	—	—	—	—	Kansas City	1.1	0.7	0.4	0.9
1-day secured	—	—	—	—	Dallas	0.6	0.4	1.0	1.1
1-day R.P.	*	0.4	0.1	—					
Over 1-day	*	—	*	—					
Total	100.0	100.0	100.0	100.0	Total	100.0	100.0	100.0	100.0

1 Period covering September 1960 through August 1961.

2 Period covering September 1959 through August 1960.

* Less than 0.05%.

It is also evident from the data in the table on the preceding page that the use of one-day secured transactions which are *not* repurchase agreements increased among banks in the second year of the survey. This was particularly true on the sales side, where the proportion of secured sales more than doubled between the first study year and the second.

The increase in secured sales by Fourth District banks was most evident in transactions with banks in New York City. Some of the latter banks apparently prefer to purchase Federal funds regularly on a secured basis, perhaps in order to obtain larger blocks of funds. Purchases of funds that are secured raise the legal limit on the size of loans which can be made by a bank to any one borrower.

Since March 1, 1960, it is estimated that about 18 additional banks in the Fourth District have traded in Federal funds, mainly with their larger correspondent banks in the District. All of the new participants have assets of less than \$100 million, with most having total assets of less than \$50 million. At the end of August 1961, about 60 Fourth District banks, out of a total of 556 member banks, had been known to buy or sell Federal funds. (It is not intended to imply that each of the 60 banks is active in the market every day. On the contrary, some banks trade Federal funds only a few times in a 3-month period, while others are inactive for as much as a year at a time.)

Still another changing pattern evident during the second year of the Federal funds study was a noticeable shift in the directions of flows of Federal funds. For example, an earlier demand for excess reserves by banks in the Minneapolis Federal Reserve District abated, so that only a small volume of the

Fourth District transactions in the 1960-61 period were made to banks in that area. A smaller decline took place in the proportion of transactions made with the Philadelphia Federal Reserve District, as the demand for excess reserves by banks in that region apparently shifted.

A particular comment may be made about transactions with the San Francisco District. As the table shows, the proportion of sales to that District doubled between the first and second study years, while the proportion of purchases tripled. The importance of branch banking in the San Francisco District, plus the time differential factor, has tended to contribute to a rising volume of Federal funds transactions in that District. Some of the larger banks in the San Francisco District have come to act as clearinghouses for funds from the numerous branch banks and from banks in the Dallas, Kansas City, and Minneapolis Districts. As a result, the banks in the San Francisco District often can be counted on to have a supply of Federal funds to sell, or to be able to absorb (and perhaps distribute) purchases of funds. The trading banks in the Fourth District evidently have found this arrangement to be convenient and have stepped up their transactions with the San Francisco District.⁽²⁾

A final difference in the second study year concerned the rate charged on Federal funds transactions. Between late 1959 and late 1960, the Federal funds rate held close to the level of the Federal Reserve discount rate. In contrast, the Federal funds rate in recent months has tended to be substantially below the discount rate, reflecting in part generally easier credit conditions.

⁽²⁾ For an account of the role of the San Francisco District in the Federal funds market, see the June 1961 issue of the *Monthly Review* of the Federal Reserve Bank of San Francisco.

Around the Fourth District—

Total *department store* sales in the Fourth District for the four weeks ended October 7 were unchanged from the year-ago level as compared with a corresponding nationwide increase of 4%.

* * * *

During the first week of October, the *steel* production index for the Cleveland-Lorain district declined 5 points to 143 (1957-59=100). Unsettled conditions in the auto manufacturing industry, which is a large consumer of the area's steel output, were a factor in the decrease.

* * * *

September *savings deposits* were at an all-time high in six of the twelve reporting centers in the Fourth District. Banks in Pittsburgh showed the largest gain from the preceding month, followed by banks in Akron and Toledo. Among the twelve centers, Cleveland was the only one to post a decline.

* * * *

For the third quarter of 1961, *bank debits* volume in 35 Fourth District centers was up 3 percent from the third quarter of 1960, and more than 1 percent from the second quarter of this year.

* * * *

By October 1, *total credit* extended at 26 weekly reporting member banks in the Fourth District had increased by about 4 percent since the beginning of the year as compared with an increase of 1 percent in the same period of 1960.

* * * *

Farm loan volume at member banks in the Fourth District continues to rise over the long term, although not as fast as at all member banks in the nation. Outstandings at Production Credit Associations continue to move upward at a faster pace than non-real-estate loan volume at member banks in the District and throughout the nation.

(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