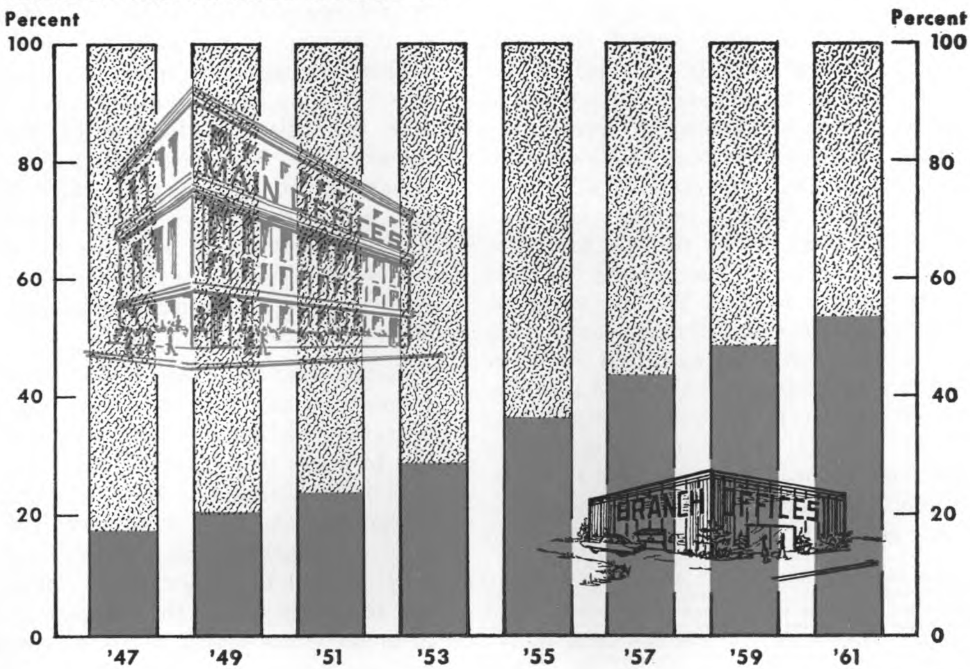
MONTHLY
Business Review

—FEDERAL RESERVE BANK of CLEVELAND—

June 1962

IN THIS ISSUE

***Branch** offices advanced from 17 percent of total **banking facilities** in the Fourth District in 1947 to 53 percent in 1961, reflecting both a rapid expansion in branch banking and a decline in the number of **banks**.*



Banking Structure in the Fourth District

Editor's Note: This article discusses the branch banking and merger developments which have taken place in commercial banking in the Fourth Federal Reserve District during the postwar period. It focuses on the reasons for branching and merging, as well as on the implications of these for banking competition.

DURING the postwar period the commercial banking system has been characterized by changes, both in the number of banks and banking offices and in the intensity and direction of competition.(1) Nevertheless, many of the postwar changes in the banking structure cannot be described as new developments. For example, branch banking has existed since the earliest years of this nation, and banks have engaged in mergers throughout our banking history.

As a case in point of changes in banking, perhaps the most striking period was from 1920 to 1934, when nearly one-half of the commercial banks in the nation passed out of existence via merger, voluntary liquidation, or failure. On the other hand, following the Banking Act of 1933, the number of branch offices multiplied rapidly because that Act permitted National Banks for the first time to establish branches outside the city in which the parent bank is located. The law specified, however, that National Banks could only operate branches where permitted by state law and in accordance with the state law. The growth of branch banking was interrupted by World War II and then resumed after the war. Thus, it would appear that the postwar branch banking and bank merger movement is a continuation of the modification of the banking system which was initiated during the 1920's.

Some changing forces in the economy, however, have been instrumental in the continued formation of bank branch offices and bank consolidations, and the acceleration in the rate of these developments in the postwar period.

The purpose of this article is to review and measure the changes in the banking structure of the Fourth Federal Reserve District during the postwar period, and discuss the causes and consequences of these modifications in the framework of District banking.

Factors Contributing to Branch Banking

The present structure of commercial banking in the Fourth Federal Reserve District is, in large part, a reflection of a strong movement toward branch banking which, in turn, reflects changes in a variety of economic factors. The major motivation behind the postwar expansion of branch banking is the opportunity for increased profits through expanded size and services. Although different factors prevail in specific instances and in specific areas, it may be of interest to review briefly some of the general underlying economic factors which have in part provided the profit potential.

Retail Banking. During the postwar period, commercial banking has undergone gradually a transformation from a "wholesale" banking business to a "retail" banking business. Wholesale banking is that in which the sole purpose of the bank is to serve the financial needs of business and various levels of government; on the other hand, "retail" banking is that in which the purpose of the bank is to serve the credit needs of consumers as well as business and government. For example, the category of loans to individuals has

(1) In this study, the term "bank" refers to an individual banking organization. A "bank" may be an organization which operates one office or an organization which operates one main office and several branch offices. Although the number of banks is equal to the number of main offices, the concept of "bank" includes the total organization. "Branch offices" are banking offices exclusive of main offices. Total "banking offices" includes both main offices and branch offices.

experienced rapid growth as a proportion of total loans of Fourth District member banks during the postwar period. This category accounted for only 13 percent of total loans in 1946 and for 17 percent in 1948. By 1960, however, the share had increased to nearly 24 percent. This increased emphasis on consumer loans has reflected shifts in consumption patterns and in consumer borrowing habits.

As a result of the increased importance of retail banking, bank operations are more frequently carried out on a community-wide level. This, in turn, has required the formation of branch offices in the outlying areas as a means of attracting the banking business of a rapidly expanding middle-income group residing in the suburban areas. The growth of shopping centers in the outlying areas has also contributed to the acceleration of branching since the end of World War II.

Furthermore, retail banking requires that a wide range of services be made available to bank customers. This requirement may create higher operating costs for individual banks. Through branch operations, however, banks are often able to attract the large volume of deposits necessary to support such services, and to distribute the additional costs over an expanded operating base.

Decentralization of Industry. Another significant factor in the acceleration of branch banking has been the movement of business firms, which has placed an increasing proportion of the new industrial and commercial sites on the periphery of the metropolitan areas. The movement to the outlying areas by industrial and commercial enterprises has been prompted in part by the desire to set up one-level production lines, to provide ample room for future expansion, and to share in the growing retail markets in these areas. The increased use of truck transportation as a means of moving goods to market has also played an important role in the business migration to outlying areas. As a result, branch offices of many metropolitan banks have been established in order both to retain and to expand commercial and industrial accounts.

Operating Factors. The formation of branch offices of existing banks rather than new unit banks, i.e., new banks without branch offices, is also a reflection of various operating advantages. For example, branch offices are often better able to provide the capital to meet legislative requirements for expanded operations and to provide a wider range of services. Moreover, branches frequently experience lower operating costs and greater mobility of funds.

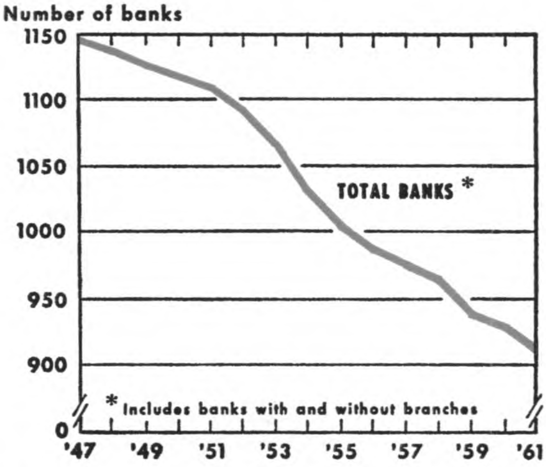
Branch Banking in the Fourth District

The various factors discussed in the foregoing section have been influential in the expansion of branch banking in the Fourth Federal Reserve District. The number of branch offices in the District has grown both in absolute amounts and in proportion to the total number of banking offices. Bank branch offices represented over half the total number of banking offices in the Fourth District in 1961 as compared with less than 20 percent in 1947. The number of banks which operate branches has also expanded considerably during the postwar period. Banks which operated branch offices represented nearly 32 percent of all banks in the District in 1961, whereas they had constituted only 6 percent of all banks in 1947. Even with the decline in the number of banks from 1947 through 1961—1,147 to 912—the expansion of branch banking in the District has meant a 40-percent increase in the total number of banking offices.

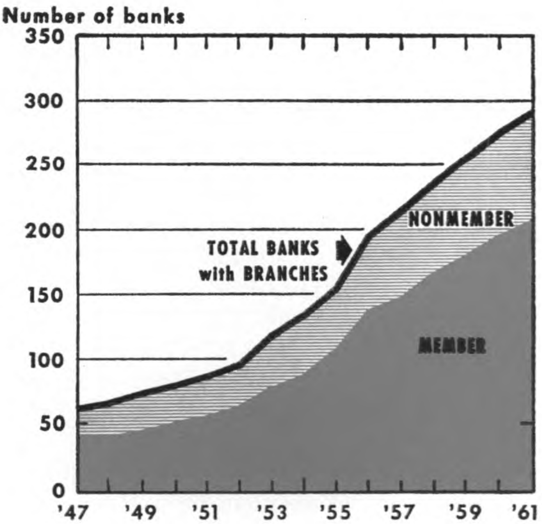
Metropolitan Counties. These developments, however, have not been uniform throughout the Fourth District, either in time or in location. The four states, lying wholly or partially within the Fourth District, have each shown different patterns in branch banking. The banks in metropolitan counties[2] deviated from the general pattern for the District

(2) The counties defined as metropolitan counties for this study are Fayette County in Kentucky, Cuyahoga, Franklin, Hamilton, Lucas, Mahoning, Montgomery, Stark, and Summit Counties, in Ohio, and Allegheny County in Pennsylvania.

COMMERCIAL BANKS
Fourth District



Although the number of banks in operation in the Fourth District has declined steadily throughout the postwar period, the number of banks operating branch offices has expanded fivefold.



as a whole in that they began their branching activities earlier than did banks in other parts of the District.

A large part of the pre-war growth in branch banking in the District, as well as in the nation, was due to bank mergers designed primarily to rescue banks in danger of failing. Within the larger cities, banks were often prevented from ending in liquidation or failure by consolidation with sounder banks, and were then successfully operated as branch offices. Thus, many of the opportunities for branching in metropolitan counties were utilized during the 1930's.

The result has been that, in recent years, both banks and branch offices operated in metropolitan counties have accounted for a declining share of the total for the entire District. The proportion of all banks in the Fourth District located in metropolitan counties has dropped steadily from 16.7 percent in 1947 to 12.5 percent in 1961. Branch offices located in metropolitan counties constituted only about 60 percent of all branch offices in the District in 1961 as compared with over 80 percent in 1947.

That branching activity has increased at a faster rate in areas other than metropolitan counties is also evident in the fact that the number of banks in the metropolitan counties of the District which operate branches has doubled during the fifteen-year period, whereas the number of banks operating branches in the entire District has multiplied by more than 4½ times.

Individual States. The structure of commercial banking in the Fourth District is determined partly by the laws governing branch banking in each of the four states lying wholly or partially in the District, i.e., Kentucky, Ohio, Pennsylvania, and West Virginia.

West Virginia law prohibits banks from operating branch offices. Consequently, the only change in the number of banking facilities operated in the six counties in West Virginia located in the Fourth District has been a decline in the number of banks in operation to 24 in 1961 from 26 in 1947.

Pennsylvania law, in contrast, permits the operation of branch offices in the same county as the home office and in counties contiguous to the county in which the home office is located. Due in large part to the growth of branch banking, the Fourth District part of Pennsylvania has experienced the sharpest decline in the number of banks of the four states or parts of states in the District, a decline of 44 percent from 1947 through 1961.

Ohio and *Kentucky* have similar laws on branch banking. Both states permit banks to operate branches only in the same county as the main office.[3] The Kentucky law, however, is relatively recent, having been passed in 1954. Prior to that date there was no clear legislation on the matter. Consequently, only 11 of the 48 branches in operation in Kentucky in 1961 were in existence before 1954. (These eleven offices were regarded as agencies and were tolerated by supervisory authorities.)

In 1961, 196 banks in Ohio operated 695 branches, as compared with 1947, when 41 banks operated 186 branches.

Forces in the Merger Movement

Any commercial or industrial enterprise which is to compete in a highly dynamic economy must maintain a strong and viable market position. Maintaining a competitive position depends upon the ability of management to respond and to adapt to changing demands of the customer, the community, and the economy. Mergers[4] have provided one of the methods which commercial and industrial organizations have employed to retain or improve their market positions. Likewise, bank management has also found the merger, in some cases, to be a sound method of responding to the changing demands imposed by the customer, the community, and the economy.

Although each bank consolidation has its own causative factors, there appear to be certain fundamental causes which are offered as the primary or secondary reasons for most postwar bank mergers.

Branch Banking. The merger movement has been, in large part, a reflection of the expansion in branch banking activity. The establishment of branch offices by the acquisition of existing banks has several advantages over establishing a "de novo" branch. The absorbing bank often derives the benefit of the existing banker-customer relationships in both loans and deposits. The acquisition of an existing bank and the retention of the existing staff permit an acquiring bank to avoid the time and expense of attracting a new staff. Establishing a branch office through a bank merger may also prove advantageous in that it eliminates both the extra expense and time involved in constructing a new branch office. In addition, it may be possible that expansion through merger rather than through new branches could result in an avoidance of intensified bank competition.

Management Succession. One of the principal factors which has encouraged bank mergers is the difficulty that many banks have experienced in attracting new personnel during the postwar period. The difficulty in attracting successor management has resulted frequently in mergers among some of the smaller, nonmetropolitan banks. Many of these banks have been unable to attract younger men to replace the retiring management.

On the other hand, when a smaller bank is absorbed and becomes part of a larger branch system, its management may receive larger salaries, and therefore it may attract more capable personnel at the top level. Furthermore, the branch manager need not be trained in all phases of bank management, as many of the more technical and specialized aspects are centralized at the head office.

Management Specialization. In addition to the economies resulting from the centralization of management in a branch system, the branch personnel are able to call upon the specialists in the central office for aid or information on various problems. This, in turn, may provide the community which the branch serves with a higher quality banking service than the unit bank could afford to provide.

(3) There are eleven branch offices in Ohio which are operated by banks in another county under the provisions of the present Ohio law on branch banking.

(4) The terms purchase, merger, and consolidation are used interchangeably in this study with the recognition that there are substantive differences among them.

Deposit Expansion. Some banks have found that deposits could be considerably larger on the basis of existing capital structure. Thus, to expand the base of operations so as to meet competition, such banks have often acquired other banks and established new branches.

Loan Limitations. Bankers have also attempted, via merger, to increase the maximum loan limitation imposed by both federal and state laws. These limitations restrict for all national banks and for all State banks in the Fourth District the size of an unsecured loan to a single borrower to 10 percent of total bank capital and surplus. Thus, because of the trend toward larger business units with larger credit needs, larger lending facilities have been necessary. In addition, many corporate customers have become attracted to the use of larger, longer-term loans to meet credit needs.

Banking Services. Another motive for many mergers is the attempt to improve the competitive position of a bank by offering a complete line of banking services. A bank can build up quickly a strong department in which it has formerly been weak by merging with another bank which is already developed in that field. In many cases a bank which has been reluctant to enter retail banking may seek to establish itself rapidly as a consumer bank by merging with suburban banks and operating them as branch offices in order to attract the deposits and loans of consumers and small businesses located in the outlying areas.

On the other hand, banks have often entered into merger agreements with other banks that have failed to develop special services where the acquiring banks believe such services would be profitable. Many small banks do not have the variety of services offered by a larger bank, and a merger might offer the larger bank an opportunity to expand its customers' services in a new and unexploited area.

Nonbank Competition. Along with the competition within the commercial banking system, commercial banks have also encountered a substantial amount of competition from other savings and lending institutions during the postwar period. Savings and loan associations, credit unions, mutual savings banks, and life insurance companies have provided increasing competition for personal savings. Furthermore, many of these non-bank financial institutions extend business, real estate, or consumer instalment loans. In many cases, banks have found it necessary to expand their services and number of offices in order to meet the increased competition for deposits and loans. One of the most expedient methods of expanding has been merging.

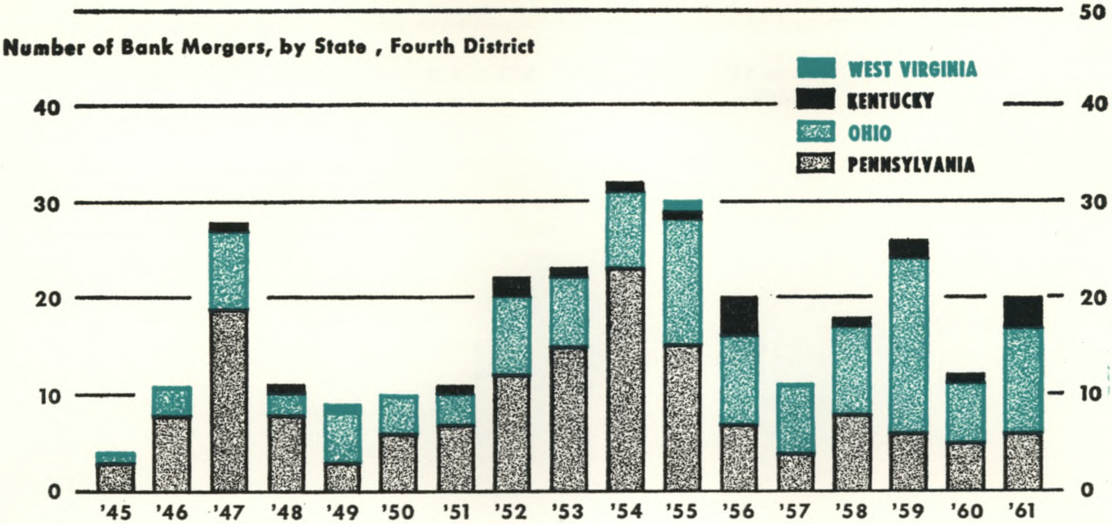
Bank Consolidations in the Fourth District

During the period from 1945 through 1961, there were 298 bank consolidations in the Fourth Federal Reserve District. The number of bank mergers per year showed a general, though not consistent, build-up to a peak level of 32 in 1954. The year 1947 — with 28 mergers — was a prominent exception to the general pattern and was probably a by-product of the immediate postwar adjustment period. As is the case with branch banking, bank mergers have not been distributed evenly throughout the four states lying wholly or partially within the Fourth Federal Reserve District.

Since the desire to acquire branch offices is one of the primary reasons for bank consolidations, some of the variations in the number of mergers among the several states is attributable partly to the variations in branch banking laws. This is particularly evidenced by the contrast between the behavior of the banks in Pennsylvania and the banks in West Virginia.

The banks in the western part of Pennsylvania, which lies within the Fourth District, were responsible for 155 consolidations during the period from 1945 through 1961, which represented more than half the total number of mergers in the entire District. The Pennsylvania branch banking laws, the most liberal in the District, permit banks to operate branches in the county of the home office or

Thus far in the postwar period, 298 bank mergers have occurred in the Fourth District, with 43 percent of these taking place from 1952 through 1956.



in counties contiguous to that county. The banks in the portion of West Virginia which lies in the Fourth District were involved in only two mergers during the postwar years. The state of West Virginia permits no branch banking.

The remaining two states, Ohio and Kentucky, permit banks to operate branches only in the same county as the home office. In Ohio, 122 bank mergers have occurred in the postwar period, ranking second to the number in western Pennsylvania. The Kentucky branch banking law went into effect in 1954. Consequently, Kentucky experienced only 19 bank consolidations during the 1945-61 period.

In order to evaluate the size of the banks involved in the bank mergers in the Fourth District during the period from 1945 through 1961, we have divided the absorbing and acquiring banks into the standard asset-size categories. (See the tables on next page.) As a general rule, the "acquiring" banks in the District were larger than the "absorbed" banks. Nearly 78 percent of the absorbed banks fell into the category of less than $10 million in assets. In contrast, approximately 77 percent of the acquiring banks had assets of over $10 million. Furthermore, more than one-third of the acquiring banks had assets of over $100 million. On the other hand, only two percent of the absorbed banks fell into this "large bank" category.

The merger movement, however, is not a simple case of large banks absorbing small banks. In 18 percent of the postwar mergers in the District, the participating banks were of approximately equal size. Moreover, instances in which banks acquired other banks in the same asset-size category or in the next smaller asset-size category accounted for 42 percent of the total number of bank mergers.

More than half the total number of acquiring banks had assets of under $50 million. Nearly a third of these banks absorbed banks of the same asset size. Three-fourths of them absorbed banks in the same or next smaller asset size category.

Banking Structure and Competition

Some observers have expressed concern regarding the effect of bank mergers upon the competitive nature of commercial banking. They contend that a continuation of the bank merger movement will result in increased concentration of the nation's banking re-

Asset Size of Banks Acquired in the Fourth Federal Reserve District 1945-1961

Year	Under $1 million	$1 to $10 million	$10 to $25 million	$25 to $50 million	$50 to $100 million	Over $100 million	Total
1945	–	3	1	–	–	–	4
1946	–	7	2	–	–	2	11
1947	2	18	8	–	–	–	28
1948	–	7	2	2	–	–	11
1949	1	7	1	–	–	–	9
1950	2	5	2	–	–	1	10
1951	1	7	2	–	1	–	11
1952	2	16	4	–	–	–	22
1953	5	14	3	1	–	–	23
1954	1	23	5	1	1	1	32
1955	2	24	3	1	–	–	30
1956	4	13	2	1	–	–	20
1957	–	11	–	–	–	–	11
1958	3	9	2	2	1	1	18
1959	1	19	5	–	–	1	26
1960	–	8	3	1	–	–	12
1961	1	15	2	2	–	–	20
Total	25	206	47	11	3	6	298

Asset Size of Acquiring Banks in the Fourth Federal Reserve District 1945-1961

Year	Under $ million	$1 to $10 million	$10 to $25 million	$25 to $50 million	$50 to $100 million	Over $100 million	Total
1945	–	1	1	1	–	1	4
1946	–	3	2	1	–	5	11
1947	–	7	1	4	2	14	28
1948	–	1	–	–	–	10	11
1949	–	2	–	2	3	2	9
1950	–	3	3	–	1	3	10
1951	–	1	1	1	1	7	11
1952	–	4	4	3	1	10	22
1953	–	6	5	7	–	5	23
1954	–	7	2	3	7	13	32
1955	–	5	6	9	5	5	30
1956	–	8	3	1	2	6	20
1957	–	3	–	2	2	4	11
1958	–	8	1	1	2	6	18
1959	–	5	8	2	5	6	26
1960	–	–	3	3	1	5	12
1961	–	6	6	2	2	4	20
Total	–	70	46	42	34	106	298

sources, reduced competition, and, presumably, lessened efficiency in banking.

On the other hand, the proponents of bank combinations point out that the large number of banks (13,000) in itself contrasts markedly with the structure of many other industries in the U. S., in which a few large firms tend to dominate the market. Thus, the proponents argue that the banking industry may be considered to be competitive on the basis of the number of participants alone. In this connection, it is argued, bank mergers in the postwar period have done little to change the basic structure of commercial banking.

It would seem that merely counting either the number of firms or banks in operation is not an adequate way of measuring competition in any industry. In fact, the major drawback may be that this method is much too simple. A more satisfactory method may be the determination of market share held by either the particular firms or banks in an industry. Merely counting the number of participants tends to overlook the amount of control which each of the individual firms or banks exerts over market conditions, as well as the extent to which competition may be limited.

Such an approach, however, presents another difficulty, that of determining what constitutes a market — in this case, a banking market. Depending upon the number and size of the banks involved, a banking market may be confined to a small community, or it may extend beyond the confines of a community to encompass a regional market or national financial markets. An individual bank may operate in more than a single banking market simultaneously and extend its influence to several markets on more than one level.

Furthermore, even within a well-defined banking market, the problem remains of measuring the actual effects of a merger upon banking competition. Simply reducing the number of participants in a given market should not be accepted as *prima facie* evidence of a reduction in competition.

Although in most instances a bank merger results in a reduction in the number of banks, the remaining banks may be larger and thus be better able to help create a vigorous and competitive banking market. The remaining banks may be better able to provide the community with desired banking services, in contrast to the previous banking structure which may not have had a single bank large enough to serve the community's banking and credit needs efficiently. An attempt, therefore, to judge whether a banking market is competitive by only counting the number of participants is fallacious reasoning. A banking structure in which there are many participants may still provide inadequate banking services.

Theoretically speaking, the advantage to be gained from a competitive market structure stems from the efficiency of operation which is required of those firms that function within the market. A market in which the number of participants is so large as to prevent the attainment of a satisfactory scale of operation by individual firms may be an inefficient market. In that case, a higher level of efficiency may not be attained until the number of participants is reduced and the average scale of operation is expanded.

Still another difficulty with determining competition in commercial banking by counting numbers alone is that such an approach fails to acknowledge other nonbank financial institutions which serve as an important source of competition for commercial banks.

Fourth District. Although it is not a conclusive method of measuring the effects of bank mergers and branch banking on commercial banking within the Fourth District, let us examine the concentration of banking resources in the twenty largest banks in the District during the postwar period.

In 1947, the twenty largest banks, on the basis of deposit size, held 48.6 percent of the total deposits in the Fourth District. In 1960, these banks held 52.1 percent of total deposits, an increase of only 3.5 percent. As shown in an accompanying table, the proportions of

Total Deposits Held by 20 Largest Banks as Percent of Total Deposits at All Fourth District Banks

	1960	1947
5 largest banks	30.6%	29.3%
10 largest banks	41.1	38.9
20 largest banks	52.1	48.6

total deposits held by the ten largest and the five largest banks increased by even smaller amounts.

The increase in the proportion of total deposits which were controlled by the twenty largest banks is surprisingly small in view of the number of mergers which have involved these banks either directly or indirectly. Nearly 46 percent of the total number of bank mergers in the District during the period from 1947 to 1960 involved the twenty largest banks. These 120 consolidations included the combination of four of the banks, which were in the top twenty in 1947, into two banks by 1960.

Since the twenty largest banks are located in the metropolitan counties discussed earlier, it might be helpful to narrow the market to the metropolitan counties in order to determine whether there has been a decrease in competition as a result of the slight increase in the share of deposits controlled by the subject banks.

The percent of total District deposits which are centered in the metropolitan counties has held constant at approximately 63 percent for the years from 1947 through 1960. Consequently, the increased control of deposits by the twenty largest banks has taken place within the more narrow market of the metropolitan counties. But even here the increased control has been small, amounting to only 4.4 percent.

Thus, the statistics do not appear to indicate a substantial increase in the concentration of total resources among the largest banks in the Fourth District as a result of postwar bank merger and branch banking movements.

Notes on Federal Reserve Publications

The Federal Reserve Bank of New York has reprinted from its 1961 Annual Report a section dealing with "The Quest for Balance in the International Payments System." The reprint discusses the factors involved in strengthening the international financial system, the attempt being made to deal with the basic payments difficulties of the United States, and the task of achieving financial stability and economic balance. The publication may be obtained free of charge from the Public Information Department, Federal Reserve Bank of New York, New York 45, New York.

Exports From the Fourth District

Editor's Note: The U. S. Department of Commerce recently released the first comprehensive survey of the state-by-state sources of products exported from the United States. The Commerce study, which involved merchandise exports made in 1960, was based on interviews made by the Bureau of the Census and on information provided by the Departments of Agriculture, Labor, and Interior. This article summarizes that portion of the study which applies to the Fourth Federal Reserve District.

Background

During the postwar period, the United States consistently has had a surplus in its merchandise trade account with the rest of the world. That is, the dollar value of U. S. merchandise exports in each postwar year has exceeded the value of imports. In 1960 the trade surplus amounted to $4.7 billion, and in 1961 merchandise exports exceeded imports by more than $5 billion.

Favorable trade balances, however, have not been large enough to offset U. S. payments made abroad because of other types of transactions, e.g., government grants and aid to foreign nations and the flows of short- and long-term capital funds. As a result, there have been serious deficits in the U. S. balance of payments since 1957, accompanied by a substantial outflow of gold.

In an effort to reduce or eliminate both the large deficits and the loss of gold, the Government has instituted a number of programs, some in an attempt to cut down on U. S. spending abroad and others to encourage the export of goods and services from this country. The measures aimed at encouraging exports include a program of export credit insurance, greater publicity and information about foreign markets, and a fresh look at U. S. trade programs in general, including the mutual re-negotiation of tariffs between the United States and the European Economic Community.

The emphasis on exports will not introduce a new activity to the Fourth Federal Reserve District. On the contrary, the recent study by the Department of Commerce reveals that the District is already a major contributor to the present export trade of the United States. For example, the state of Ohio, which lies wholly within the Fourth District, ranked fourth in the nation in the value of exports shipped abroad in 1960. Pennsylvania, of which the western third lies in the Fourth District, ranked fifth in the nation. The value of exports in each of these two states was exceeded only by exports from New York, Illinois, and California. Let us therefore take a look at the export trade of each of the states lying wholly or partly within the Fourth District.

Exports from Ohio

The estimated value of manufactured goods exported from Ohio amounted to $1.3 billion in 1960, or about 8 percent of all such exports from the United States. Ohio's estimated total was based on actual reports from 785 companies, each exporting more than $25,000 in goods during the survey year. The study also indicates that manufacturing for export has created employment opportunities in Ohio. The Ohio firms that reported in the survey employed nearly 629 thousand workers in 1960. Since the total number of manufacturing workers in the state amounted to 1.2 million, it is apparent that foreign trade

Manufacturing Exports From Fourth District States
1960

Estimated Total Exports[1]
(value in millions of dollars)

Industry Group	Ohio	Pennsylvania	West Virginia	Kentucky
Nonelectrical machinery	372.2	254.0	11.5	29.2
Transportation equipment	324.3	120.7		(5)
Electrical machinery	122.8	94.1	7.2	(4)
Primary metal industries	119.3	188.9	(2)	(9)
Rubber and plastics products	85.5		(9)	
Chemicals and allied products	67.6	109.2	78.2	44.2
Fabricated metal products	59.6	81.4	4.4	7.0
Food products	47.1	48.7	2.6	12.3
Stone, clay, and glass products	26.2		5.4	7.6
Miscellaneous manufactures	16.4			
Petroleum and coal		64.4		
Instruments		41.1		
Textile-mill products		31.8		
Lumber and wood products			1.5	
Tobacco products				33.1
TOTAL	1,299.4	1,189.5	156.1	178.4

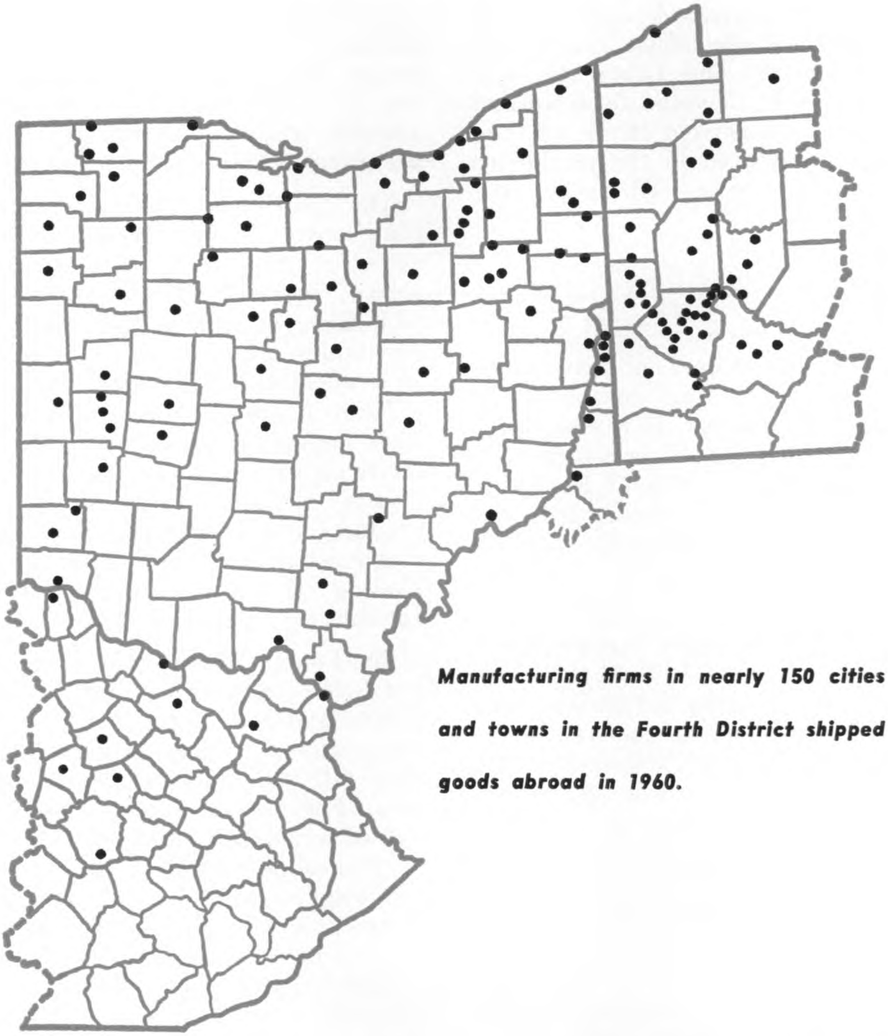
(1) Nine or ten top-ranking export groups were chosen for each state. In a few cases, actual data were withheld to avoid disclosing figures for individual companies. In these cases, only the ranking of the group is listed in parentheses.

played a part in the employment of about half of all the manufacturing workers in Ohio.

An illustration of the type of goods exported from Ohio is presented in the accompanying table. As might be expected, the chief products for which Ohio industry is known domestically also make up the bulk of the state's foreign exports. As estimated by the Department of Commerce, roughly half of the value of total exports from Ohio in 1960 consisted of shipments of non-electrical machinery and transportation equipment. Next in rank of value were exports of electrical machinery. For each of these groups, Ohio supplied about 12 percent of the estimated total value shipped from the United States as a whole in 1960.

The next four categories in the table reflect exports of goods which are produced by industries that are also highly important in the economy of Ohio. Ohio's exports of primary and fabricated metals in 1960 accounted for roughly 11 percent of total U. S. shipments of products in each category. Exports of rubber and plastics, however, amounted to almost one-third of all such goods shipped from this country. Somewhat in contrast, chemical exports equalled less than 4 percent of the national total.

The export of manufactured goods affects a large number of communities in Ohio. Companies that permitted themselves to be identified by name in the Commerce study were located in at least 80 cities and towns throughout the state. These cities are found in 54 different counties, with no county having more than five cities in which exporting companies were identified. (See map at the end of the article.) In general, it is the larger cities that take part in the export trade, since it is in such centers that manufacturing firms tend to be located. All of the major metro-



Manufacturing firms in nearly 150 cities and towns in the Fourth District shipped goods abroad in 1960.

politan centers of Ohio contain companies whose products go into export; the smaller centers in which reporting firms were located are usually the largest cities in their respective counties.

Several different types of economic areas are represented by the exporting centers: heavy industry cities, such as Youngstown and Lorain; cities with a more diversified economy, such as Cincinnati and Columbus; and mainly agricultural counties, represented by Leipsic and Napoleon in northwestern Ohio.

Although concentrating on exports of manufactured goods, the Department of Commerce study also reveals that, in addition to the processed food products which are included in manufactured goods, Ohio exported nearly $120 million in unprocessed agricultural commodities in 1960.(1) Field crops, such as wheat and soybeans, made up 80 percent of the estimated farm exports, with

(1) All estimates of agricultural shipments do not reflect actual exports. Instead, they are "equivalent shares" derived from the states' contribution to total U. S. output as determined from agricultural census data. This relationship also determines the proportion of different crop exports from each state.

smaller amounts in livestock and livestock products, fruits, and vegetables. The Departments of Agriculture and Labor also estimated that nearly 15 thousand farm workers in Ohio, or about six percent of the total for the state, were employed in the production of processed and unprocessed agricultural exports.

Exports from Other Fourth District States

Although the Department of Commerce survey of export origins does not include data according to the areas that correspond to Fourth District boundaries, it is possible to gain some understanding of the contribution to foreign trade by the parts of Kentucky, West Virginia, and Pennsylvania that fall within the District by studying the data for each of the states as a whole.

In Pennsylvania, total manufactured exports in 1960 were estimated to have amounted to $1.2 billion, or about 7½% of the U. S. total. The major exporting industries in the order of their importance in the state were: non-electrical machinery, primary metals, transportation equipment, chemicals, electrical machinery, fabricated metals, petroleum and coal, food and kindred products, instruments, and textiles. In addition, the state as a whole exported an estimated $57 million in agricultural commodities and $32 million in coal.

The *western third of Pennsylvania,* which lies within the Fourth District, is characterized by heavy manufacturing industries, coal mining, and some petroleum recovery. More than 50 cities and towns in this region contain companies that exported manufactured products in 1960. These cities are located in 12 of the 19 counties that are within the Fourth District. A number of the exporting centers are grouped around Pittsburgh.

The *"panhandle" of West Virginia* lies in the Fourth District. Manufacturers in seven cities in this small area reported export activity in 1960. All of the cities border the Ohio River in an area which is known for its coal mines and steel mills. In West Virginia as a whole, the total value of manufactured exports in 1960 was estimated at $156 million. The major exporting industries in the entire state of West Virginia were: chemicals, primary metals, machinery, clay and glass products, and fabricated metals. Exports of coal, amounting to $100 million, were a major item in the state's economy. The value of agricultural exports, in contrast, was low.

The Fourth District also includes the *eastern half of Kentucky,* which is primarily a mining and agricultural area. About half of the relatively few exporting centers of the state fall within the boundaries of the District. For the most part, these cities are located in northern counties. The Department of Commerce estimated that exports from Kentucky amounted to $178 million in 1960. Kentucky's major exports were chemicals, tobacco products, machinery, transportation equipment, and food products. It was also estimated that there were substantial shipments of agricultural products (mainly field crops) valued at over $100 million. Exports of coal amounted to about $35 million in 1960.

Around the Fourth District—

In the *steel industry,* there is as yet no sign of a pickup and mills in almost every part of the nation are operating well below their 1957-59 weekly averages. During the first week of June, steel plants were operating at 82% of their 1957-59 weekly average in Pittsburgh, 69% in Youngstown, 76% in Cleveland, and 86% in Cincinnati. For the nation as a whole, production amounted to 85% of the 1957-59 average.

* * *

Combined sales at all reporting department stores in the Fourth District during the first four months of this year were 5% higher than they were a year earlier. The largest year-to-year increases in the individual metropolitan areas were 22% in Akron, 10% in Toledo, 9% in Lexington (Kentucky), and 8% in Columbus. The smallest increases were 3% in Canton, Youngstown, and Cleveland, and 4% in Pittsburgh (Pennsylvania), Wheeling (West Virginia), and Springfield (Ohio).

* * *

Claims for unemployment compensation in Cleveland have been tapering off at a very slow rate. However, a great deal of improvement has accumulated over the long run and the current level of claims—17,700 at the beginning of June—is the lowest in about two and a half years.

* * *

Commercial and industrial loans outstanding at 26 weekly reporting member banks declined during the last half of May and the first week of June. Volume in early June was virtually at the same level as a year earlier.

* * *

On a daily average basis, *bank debits* during May declined about 2% from the previous month in 35 Fourth District centers. On a seasonally adjusted basis, the decrease amounted to about 1%.

(The above items are based on various series of District or local data, which are assembled by this bank and are available to the public in the form of printed releases.)

FOURTH FEDERAL RESERVE DISTRICT