

MONTHLY *Business Review*

FEDERAL RESERVE BANK OF CLEVELAND

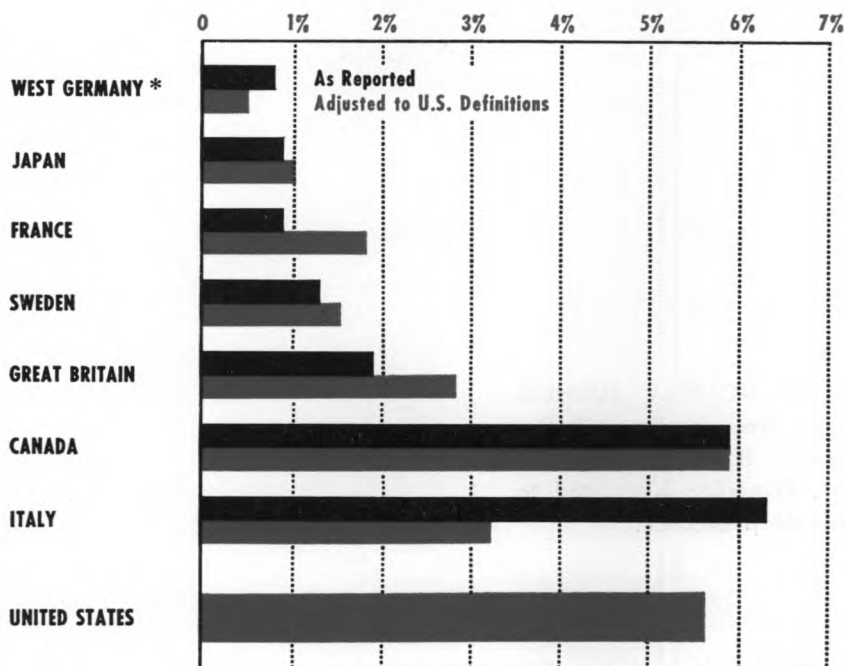
December 1963

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UNEMPLOYMENT RATES

1962 Annual Averages for Selected Countries
as a Percent of Civilian Labor Force



Even after adjustment to U.S. standards, the rates of unemployment experienced by most other industrial nations remain below the U.S. rate.

Sources of data: U.N. Statistical Yearbook; U.N. Monthly Bulletin of Statistics; U.S. Department of Labor

*1961 data

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UNEMPLOYMENT HERE AND ABROAD

COMPARISONS of rates of unemployment in this country and in other industrial nations frequently emphasize the relatively high rate of unemployment in the United States. Many analysts argue, however, that these comparisons are not valid because of the different measures of unemployment used by each of the major industrial nations.

This article briefly reviews the differences in reporting unemployment statistics in the major industrial nations and discusses the composition and expansion of the labor force — possible causes of the variations in rates of unemployment here and abroad.⁽¹⁾

Average unemployment for the United States and seven other countries for the year 1962, expressed as a percentage of the civilian labor force, is depicted by the black bars on the cover chart. The U. S. rate of unemployment in 1962, at 5.6 percent, was exceeded only by the rates for Italy and Canada and compared unfavorably with such low rates as those for West Germany or Japan.

Any attempt to compare statistics from different countries must guard against unwittingly comparing items that are not measured by the same yardstick and therefore are not truly comparable. This applies to the unemployment rates of different countries as originally issued. Although international standardization of concepts and definitions in the field of manpower statistics has come a long way, there remain some differences, primarily those growing out of different methods of data collection.

In the U. S., unemployment totals are estimated by the Bureau of Labor Statistics from the results of a survey of 35,000 households conducted each month by the Bureau of the Census. Canada and Japan have adopted the

same basic method of gathering information. In other countries, however, the number of jobless persons is still regularly derived from the records of public employment service or unemployment insurance offices, although the information is increasingly supplemented by census or household survey data, except in Great Britain. Needless to say, the statistics obtained as the administrative by-product of dealing with specific groups of people differ from those produced through a survey of the entire population. Public employment service records are likely to yield too high an unemployment rate because people registered for employment but not actually unemployed tend to inflate the count. On the other hand, data coming from unemployment insurance rosters tend to understate the true level of unemployment by excluding persons who are not covered by the insurance program. In addition, even the figures obtained from a survey may be biased by minor differences in the definitions of who is in the labor force or what constitutes unemployment.

The Bureau of Labor Statistics has recently adjusted the published unemployment statistics of several foreign countries to the definitions that are used in the U. S. monthly household survey in an effort to make the unemployment rates of those countries as nearly comparable to ours as available information will permit. The results of this modification are shown by the red bars on the cover chart. Except in the case of Italy, the differences are not startling. Even though the French, British, Swedish, and Japanese rates turn out to be higher and the German rate becomes lower when measured by our yardstick, the U. S. rate nevertheless remains the second highest, next to Canada's. This high rate in the U. S. cannot be dismissed as the result of different ways of counting the jobless.

⁽¹⁾See "Measuring Employment and Unemployment", Report of the President's Committee to Appraise Employment and Unemployment Statistics, Washington, D. C., 1962.

In the remaining portion of this article other possible explanations of our high rate of unemployment are examined, particularly the composition of our labor force and its rapid expansion in recent years.

Composition of the Labor Force

It is well known that unemployment rates vary considerably among different age, sex, and occupational components of the labor force. For example, in this country women and young people under 20 years of age are generally more vulnerable to unemployment and therefore have higher rates than those for men or for other age groups. Conversely, the incidence of unemployment is lower among agricultural workers and self-employed persons than among wage and salary employees in the nonagricultural sector of the economy. Thus, the overall level of unemployment in this country could be significantly affected by the presence of disproportionately large numbers of unemployment-prone components in our labor force.

Table I lists the percentages by which each of four vulnerable groups was represented in 1960 in the civilian labor force of the countries included in the comparison. As the first column indicates, women made up one-third of the labor force in our own country. Of the other seven countries, three had a lower percentage and in two—both being countries with a low level of unemployment—the proportion was larger than one-third. Teenage workers, shown in the second column, accounted for eight percent of the U.S. labor force in 1960, the lowest percentage among the countries listed. Thus, by comparison with other countries, the U. S. work force does not contain a disproportionate number of either women or young workers to which the high unemployment rate could in part be ascribed. (This can be expected to change during the next few years when an influx of growing numbers of young people into the work force will tend to raise the total unemployment rate unless ways can be found to curb unemployment among young workers.)

Table I
Labor Force Components
As a Percent of Civilian Labor Force
1960 Annual Averages

	Women	Persons Under 20 Yrs. of Age	Non-agricultural Employ'm't	Wage and Salary Employees
West Germany	37%	13%	86%	77%
Japan	40	11	63	45
France	33	8	74	66
Sweden	31	9	85	77
Great Britain	33	11	95	90
Canada	26	9	89	82
Italy	27	12	70	62
United States	33	8	92	84

Source of Data: U.S. Department of Labor (material prepared for President's Committee to Appraise Employment and Unemployment Statistics, 1962)

Persons engaged in agriculture and self-employed persons, including unpaid family helpers, are more likely to be found underemployed than unemployed. A country in which agriculture is still a source of employment for a large proportion of its working population—for one out of three in Japan, for example—can be expected to have a relatively low unemployment rate. For the same reason, a country like the U. S. whose labor force consists predominantly of persons in nonagricultural occupations and in wage and salary employment—with only one person in twelve employed in farming—is likely to experience relatively higher unemployment.

This point is emphasized by the figures in the last two columns of Table I. Ninety-two percent of the working population in this country are employed in areas other than agriculture, compared with only 63 percent in Japan; and five out of six persons in our work force are wage or salary employees, in contrast to less than one out of two in the Japanese labor force. Thus, in terms of its economic and occupational composition, the U. S. labor force differs significantly from that of some of the countries with lower un-

employment levels than ours. While it would be absurd to conclude that the virtual absence of unemployment in Japan is due to the fact that a large proportion of the Japanese people are tilling the soil and are self-employed, it seems fair to say that the U. S. unemployment rate would be lower, or the gap between the U. S. and Japanese rates would be smaller, if nonfarm and wage and salary employment carried similar weights in the work forces of the two countries.

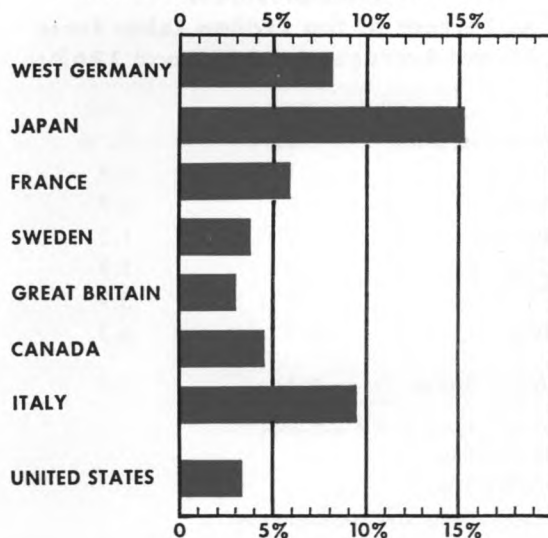
Rapid Expansion of the Labor Force

The rapid expansion of the U. S. labor force in recent years is suspected by some observers as the major cause of the high rate of unemployment. Yet an average growth rate of 1.4 percent per year during the past ten years cannot be considered excessive when compared with corresponding rates for the other seven countries, which range from below one to over two percent. Obviously, however, the not excessive rate of increase in the U. S., amounting to less than 900,000 persons per year, exceeded the country's ability to absorb the entire amount of additional job seekers. With total employment increasing by only about 700,000 annually on the average, the resulting net surplus of nonutilized labor continued to exert a steady upward push on the level of unemployment during the 10-year period.

In other words, the recent rate of economic growth in this country may not have been rapid enough to stimulate the demand for manpower and bring about a fuller utilization of the annual increase in the labor supply. Economic growth in this country, measured by the rise in industrial production, averaged above 3 percent annually between 1952 and 1962.⁽²⁾ As shown in the accompanying chart, this is less than the rate shown for any of the other seven countries except Great Britain and only about one-fifth the growth rate of the Japanese economy during the same period.

⁽²⁾Variations in the rate of growth between different portions of that 10-year span, as discussed by Clayton Gehman in the *Federal Reserve Bulletin* of August 1963, may be disregarded for present purposes.

INDUSTRIAL PRODUCTION
Average Annual Percentage Increase, 1952-1962



Sources of data: U.N. Statistical Yearbook; U.N. Monthly Bulletin of Statistics

A comparatively low rate of growth in U.S. industrial production has played some part in creating an unfavorable gap between the increase in employment and the expansion of the civilian labor force.

How did unemployment rates change in relation to the size of economic expansion? As the data in Table II indicate, two of the four countries whose economic growth rate was at least about twice the size of the U. S. rate experienced a significant reduction in unemployment between 1952 and 1962, which in the case of Germany was of dramatic proportions.⁽³⁾ The other two countries, Japan and France, showed only a minor drop in unemployment, mainly because the rate at the beginning of the 10-year period was at such a low level as to leave little room for further decline. By contrast, the remaining three countries with economic growth rates closest to the U. S. rate either showed no improvement or, like the U. S., a worsening of the level of unemployment between 1952 and

⁽³⁾Table II shows unadjusted rates because rates adjusted to U. S. definitions are not available for years prior to 1960.

Table II
Unemployment
As Percent of the Civilian Labor Force
Annual Averages for 1952 and 1962^(a)

	1952	1962
West Germany	8.4%	0.7%
Japan	1.1 ^(b)	0.9
France	1.1	0.9
Sweden	1.5 ^(c)	1.3
Great Britain	2.0	1.9
Canada	2.9	5.9
Italy	9.5	6.3
United States	3.1	5.6

(a) Not adjusted to U. S. definitions

(b) 1953 data

(c) 1956 data

Sources of data: U.N. Statistical Yearbook
 U.N. Monthly Bulletin of Statistics
 U.S. Department of Labor (from material prepared for Congressional Subcommittee on Economic Statistics, June 1963)

1962. Canada was the only country in which year-to-year fluctuations in the level of joblessness were as large as in our own country, partly because economic development in the other six countries was generally free of cyclical disturbances.

Conclusion

This brief comparison of economic growth and unemployment does not suggest a sig-

nificant degree of correlation between the two statistics or the existence of a formula whereby so many points of decline in the jobless rate can be expected to result from a given amount of rise in the rate of economic growth. The data do suggest, however, that a high growth rate in industrial production—implying a rising demand for labor—is essential for balancing a high rate of growth in the supply of labor.

An increase in total industrial production results, of course, not only from greater input of manpower but also from higher output per manhour. It may be assumed that a more mature economy such as ours, operating at an elevated level of productivity, will generally derive a sizable portion of its growth in production from increased labor productivity and will thus require an even greater amount of increase in production in order to take up its growing labor supply.⁽⁴⁾ With fewer unsatisfied consumer demands, a mature economy, perhaps, cannot be expected to match the spectacular growth rates of countries that are in the process of industrialization. A narrowing of the gap in rates of expansion, however, can be expected as the pace of economic growth in other countries begins to slow down while our own expansion continues at its recent accelerated rate.

⁽⁴⁾As estimated by the U. S. Department of Labor, total output of the private economy increased by 3.3 percent annually on the average between 1957 and 1962 while productivity rose by 3.0 percent, thus leaving very little margin for additional employment.

SURVEY OF MUNICIPAL PORTFOLIOS

Fourth District Weekly Reporting Banks

THE RESEARCH DEPARTMENT of the Federal Reserve Bank of Cleveland recently conducted a survey of the holdings of state and local government securities of selected Fourth District member banks. The survey was undertaken in response to the rapid increase in volume of state and local government issues acquired by commercial banks and the lack of information regarding the distribution and other characteristics of such holdings.⁽¹⁾

State and local government issues — municipals — have become an increasingly attractive investment for commercial banks primarily because of: (1) the tax-exempt status of the interest earned on such holdings; (2) the rapid expansion of time deposits at commercial banks; and (3) the need to offset the increase in interest cost associated with time deposits.

To determine the direction of recent patterns in bank holdings of municipals as well as the availability of such information, a questionnaire was designed and sent to each of the 26 weekly reporting member banks in the Fourth Federal Reserve District. The questionnaire was intended to derive information on maturity, type of issue, average rate of return, and quality ratings of all municipal securities held by reporting banks as of the end of each year from 1956 through 1962 and the close of the second quarter of this year.

Gathering information in this fashion permits an analysis of the investment behavior

of the selected banks over a period of six and one-half years. Furthermore, it provides an opportunity to evaluate differences in portfolio behavior between various communities and among classes of banks, e.g., banks that increased rates of interest on time deposits in response to change in Regulation Q as compared with banks that maintained existing rates.

The analysis that follows is based on information provided by the 24 respondent banks that range in total deposits from \$2.2 billion to approximately \$85 million.

Volume and Maturity

The volume of holdings of state and local government securities among the respondent banks increased substantially between the close of 1956 and mid-1963. Only 18 of the 24 banks reported holdings of municipals as of the close of 1956, with aggregate holdings totaling \$427 million. By June 30, 1963 all 24 banks held municipal securities, with an aggregate value of \$1,909 million. Nearly two-thirds of the increase occurred between the close of 1961 and June 30, 1963 (see Table I). Furthermore, municipal holdings have accounted for an increasing proportion of total investments of the 24 banks. At the close of 1961 holdings of municipals accounted for only 24 percent of total investments at all respondent banks, as compared with 41 percent in mid-1963.

Despite the increase in holdings, the average maturity was shortened. At the close of 1956, approximately 42 percent of the aggregate holdings of municipals at the 24 respondent banks were due to mature in less than five years, one-fourth were scheduled to mature in a range of five to ten years, and the remainder were more than ten years from redemption. In contrast, at the end of June

⁽¹⁾At present what information there is, is confined to the Federal Reserve System's weekly report of condition that provides limited data on total holdings of approximately 360 large member banks and the quarterly call report for all member banks. Neither of these reports provides information on changes in the maturity of holdings, type of issues, quality ratings, or average rate of interest. Moreover, in the weekly report of condition municipal holdings comprise only a portion of the "other security" category, which includes holdings of government agency issues, corporate securities, and in some cases commercial paper. It is therefore impossible to derive an actual weekly total of state and local government securities held by reporting member banks.

Table I
State and Local Government Securities
Held By All Respondent Banks By Maturity^(a)
(thousands of dollars)

Maturity	12/31/56	12/31/57	12/31/58	12/31/59	12/31/60	12/31/61	12/31/62	6/30/63
Less than 5 years	\$180,987	\$216,011	\$273,492	\$326,865	\$381,685	\$492,072	\$837,647	\$945,023
5-10 years	109,387	157,031	168,410	227,258	240,430	242,898	352,596	459,589
Over 10 years	136,765	141,445	134,714	157,674	175,148	253,090	414,065	504,806
TOTAL	\$427,139	\$514,487	\$576,616	\$711,797	\$797,263	\$988,060	\$1,604,308	\$1,909,418
Number of banks reporting holdings	18	20	20	22	23	24	24	24
Percentage Distribution								
Less than 5 years	42.4%	42.0%	47.4%	45.9%	47.9%	49.8%	52.2%	49.5%
5-10 years	25.6	30.5	29.2	31.9	30.2	24.6	22.0	24.1
Over 10 years	32.0	27.5	23.4	22.2	21.9	25.6	25.8	26.4
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(a) A total of 24 banks cooperated in the survey.

of this year issues in the less than five-year maturity range accounted for nearly one-half of the total while the proportions in the five to ten year and over ten year maturity ranges had declined. The reduction in the average maturity of municipals held by all reporting banks should not be interpreted to mean that all banks, or even a majority, shortened the average maturity of their holdings.

Explanations for the recent expansion of holdings of state and local government securities emphasize the importance of increases in rates paid on time deposits beginning in 1962. In an effort to measure the impact of higher interest costs on bank investment behavior, analysis was made of changes in holdings of municipal securities of reporting banks in those communities where the banks elected to raise rates.

Of the eight cities represented in the survey, reporting banks in four communities elected to increase the rate paid on time deposits in early 1962. Reporting banks in the four remaining communities chose to maintain the same rate that existed prior to the change in Regulation Q.⁽²⁾ Between the end

⁽²⁾The eight cities included in the survey are Akron, Cincinnati, Cleveland, Columbus, Dayton, Pittsburgh, Toledo, and Youngstown. All reporting banks, with the exception of those located in Cincinnati, Columbus, Toledo, and Youngstown increased the rate paid on time deposits in early 1962.

of 1961 and mid-1963 the aggregate holdings of municipal securities at all 24 banks increased 105 percent; however, the twelve banks which increased rates on time deposits accounted for more than four-fifths of the increase.

The information reported by district banks indicates that larger banks were more aggressive in acquiring municipals. For example, between the start of 1962 and the end of June 1963 banks located in Pittsburgh and in Cleveland increased holdings of municipals by 131 percent and 67 percent, respectively. In contrast, banks in Akron and Toledo (smaller institutions) reported increases of 40 percent and 35 percent in the same period.

The same pattern emerged in the investment behavior of nine large banks active in the money market (see Table II).⁽³⁾ These banks accounted for approximately four-fifths of the total holdings of municipal securities held by all 24 banks as of June 30, 1963 and accounted for 84 percent of the increase in holdings between the end of 1961 and mid-1963. This occurred despite the fact that four of the nine banks did not increase interest rates on time deposits.

⁽³⁾The nine banks include three banks located in Cincinnati, three banks in Cleveland, two banks in Pittsburgh, and one bank in Toledo.

Table II
State and Local Government Securities
Held By Fourth District Money Market Banks^(a)
(thousands of dollars)

Maturity	12/31/56	12/31/57	12/31/58	12/31/59	12/31/60	12/31/61	12/31/62	6/30/63
Less than 5 years	\$145,749	\$146,858	\$199,323	\$236,958	\$294,908	\$398,948	\$720,674	\$807,713
5-10 years	83,572	108,755	117,501	166,825	180,939	175,458	263,536	330,365
Over 10 years	131,305	135,397	124,421	136,297	135,327	163,223	298,322	371,703
TOTAL	\$360,626	\$391,010	\$441,245	\$540,080	\$611,174	\$737,629	\$1,282,532	\$1,509,781
Number of banks reporting holdings	7	7	7	9	9	9	9	9
Percentage Distribution								
Less than 5 years	40.4%	37.6%	45.2%	43.9%	48.3%	54.1%	56.2%	53.5%
5-10 years	23.2	27.8	26.6	30.9	29.6	23.8	20.5	21.9
Over 10 years	36.4	34.6	28.2	25.2	22.1	22.1	23.3	24.6
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(a) 9 Banks.

With one exception, reporting banks that increased rates on time deposits also extended the average maturity of holdings of state and local government securities. For example, at the close of 1961 nearly 60 percent of the holdings of the five reporting Cleveland banks were due to mature in less than five years, 27 percent in five to ten years, and the remaining 14 percent were not scheduled to mature for more than ten years. In contrast, at the end of June less than half were due to mature in less than five years, 23 percent were due in five to ten years, and those with redemption dates in excess of more than ten years accounted for 28 percent of the total (see Table III).

Despite the fact that interest rates were not raised and holdings of municipals were increased only moderately, banks located in Cincinnati, Columbus, Toledo, and Youngstown increased the average maturity of their holdings of state and local government securities. For example, 30 percent of the total municipal holdings of Columbus banks carried a maturity of less than five years in mid-1963 as compared with 37 percent eighteen months earlier.

Quality and Characteristics

The questionnaire was also designed to provide information regarding changes in the quality and the nature of the municipal securities held by the respondent banks (see Table IV). There is some evidence of a slight deterioration in the quality of municipals held after 1961. It is assumed that the reduction in the quality of holdings was a result of efforts to acquire a higher average yield on investments. Furthermore, the rapid increase in demand for municipals after 1961 may have reflected purchases of lower quality securities due to a relatively short supply of high-grade issues.

The decline in quality of municipals held did not result from shifts out of Aaa issues but rather from those bearing an Aa rating. Between the end of 1961 and mid-1963, the proportion of total holdings of respondent banks rated Aa declined from 33 percent to 25 percent. At the same time issues rated A advanced from 33 percent to 39 percent of the total and issues rated below Baa, the lowest rating, increased from 5 percent to 8 percent of reported holdings. The proportion of the total volume of municipals held by the

Table III
State and Local Government Securities
Held By Reporting Banks in Selected Cities^(a)
(thousands of dollars)

CINCINNATI

Maturity	12/31/56	12/31/57	12/31/58	12/31/59	12/31/60	12/31/61	12/31/62	6/30/63
Less than 5 years	\$16,801	\$16,953	\$19,943	\$21,221	\$24,677	\$29,048	\$29,982	\$38,053
5-10 years	8,582	8,314	10,199	9,128	8,026	20,040	22,118	24,219
Over 10 years	763	670	474	614	599	3,349	2,177	8,222
TOTAL	\$26,146	\$25,937	\$30,616	\$30,963	\$33,302	\$52,437	\$54,277	\$70,494
Percentage Distribution								
Less than 5 years	64.3%	65.4%	65.1%	68.5%	74.1%	55.4%	55.2%	54.0%
5-10 years	32.8	32.0	33.3	29.5	24.1	38.2	40.8	34.3
Over 10 years	2.9	2.6	1.6	2.0	1.8	6.4	4.0	11.7
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

CLEVELAND*

Maturity	12/31/56	12/31/57	12/31/58	12/31/59	12/31/60	12/31/61	12/31/62	6/30/63
Less than 5 years	\$112,863	\$120,855	\$131,801	\$137,636	\$138,783	\$154,741	\$229,176	\$216,846
5-10 years	53,743	72,860	78,266	81,226	87,166	71,947	82,815	101,610
Over 10 years	—	2,484	1,877	12,236	20,694	37,161	95,464	122,103
TOTAL	\$166,606	\$196,199	\$211,944	\$231,098	\$246,643	\$263,849	\$407,455	\$440,559
Percentage Distribution								
Less than 5 years	67.7%	61.6%	62.2%	59.6%	56.3%	58.6%	56.3%	49.2%
5-10 years	32.3	37.1	36.9	35.1	35.3	27.3	20.3	23.1
Over 10 years	—	1.3	0.9	5.3	8.4	14.1	23.4	27.7
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

COLUMBUS

Maturity	12/31/56	12/31/57	12/31/58	12/31/59	12/31/60	12/31/61	12/31/62	6/30/63
Less than 5 years	\$2,826	\$27,269	\$26,139	\$34,314	\$23,824	\$28,888	\$29,774	\$ 32,352
5-10 years	—	18,334	16,879	18,334	15,947	22,222	32,531	36,436
Over 10 years	—	1,645	3,917	3,572	10,658	28,037	29,771	38,867
TOTAL	\$2,826	\$47,248	\$46,935	\$56,220	\$50,429	\$79,147	\$92,076	\$107,655
Percentage Distribution								
Less than 5 years	100.0%	57.7%	55.7%	61.0%	47.3%	36.5%	32.4%	30.1%
5-10 years	—	38.8	36.0	32.6	31.6	28.1	35.3	33.8
Over 10 years	—	3.5	8.3	6.4	21.1	35.4	32.3	36.1
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table III (continued)
State and Local Government Securities
Held By Reporting Banks in Selected Cities^(a)
(thousands of dollars)

PITTSBURGH *

Maturity	12/31/56	12/31/57	12/31/58	12/31/59	12/31/60	12/31/61	12/31/62	6/30/63
Less than 5 years	\$ 19,988	\$ 16,193	\$ 60,402	\$ 85,082	\$128,389	\$208,417	\$466,393	\$571,891
5-10 years	45,221	54,542	59,758	113,311	119,776	114,609	193,834	266,225
Over 10 years	135,927	136,601	128,409	141,225	143,101	184,389	284,232	331,654
TOTAL	\$201,136	\$207,336	\$248,569	\$339,618	\$391,266	\$507,415	\$944,459	\$1,169,770

Percentage Distribution

Less than 5 years	9.9%	7.8%	24.3%	25.0%	32.8%	41.1%	49.4%	48.9%
5-10 years	22.5	26.3	24.0	33.4	30.6	22.6	20.5	22.8
Over 10 years	67.6	65.9	51.7	41.6	36.6	36.3	30.1	28.3
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

TOLEDO

Maturity	12/31/56	12/31/57	12/31/58	12/31/59	12/31/60	12/31/61	12/31/62	6/30/63
Less than 5 years	\$ 17,244	\$ 19,392	\$ 20,350	\$ 28,437	\$ 36,976	\$ 38,890	\$ 45,662	\$ 45,614
5-10 years	895	1,119	1,397	2,720	3,144	6,334	8,363	12,481
Over 10 years	—	—	—	—	—	—	1,575	3,151
TOTAL	\$ 18,139	\$ 20,511	\$ 21,747	\$ 31,157	\$ 40,120	\$ 45,224	\$ 55,600	\$ 61,246

Percentage Distribution

Less than 5 years	95.1%	94.5%	93.6%	91.3%	92.2%	86.0%	82.1%	74.5%
5-10 years	4.9	5.5	6.4	8.7	7.8	14.0	15.1	20.4
Over 10 years	—	—	—	—	—	—	2.8	5.1
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Denotes cities in which reporting banks increased interest rates on time deposits in 1962.

(a) In order to insure that information on holdings of state and local government securities of any single participating bank is not disclosed, it has been necessary to limit the analysis of selected cities to those cities which contain three or more participating banks. As a result, the information from Akron, Dayton, and Youngstown banks is not separated out by city, although the holdings of state and local government securities reported by these banks are included in Fourth District totals.

respondent banks bearing the highest rating Aaa have accounted for approximately 18 to 21 percent of the total during the past six and one-half years.

Contrary to what might be expected, smaller banks held relatively larger proportions of lower quality issues than the larger banks. For example, on June 30 of this year approximately 47 percent of the total volume of state and local government securities held by eight of the nine money market banks were rated in the two highest classifications,

Aaa or Aa. In contrast, a group of eight smaller respondent banks reported only 41 percent of their holdings as carrying ratings of less than Aaa or Aa in mid-1963. At the same time, 16 percent of the aggregate holdings of the smaller institutions carried ratings of less than Baa, as compared to only 7 percent for the eight larger banks.

The relatively larger holdings of lower rated issues among smaller reporting banks in the Fourth District may be explained in part by the fact that such banks and their

Table IV
Percentage Distribution of State and Local Government Security Holdings
of Respondent Banks by Quality Rating*

ALL RESPONDENT BANKS								
Quality Rating	12/31/56	12/31/57	12/31/58	12/31/59	12/31/60	12/31/61	12/31/62	6/30/63
Aaa	21.85%	18.79%	18.59%	20.48%	22.55%	21.12%	21.32%	21.06%
Aa	30.72	35.23	34.30	35.18	32.20	33.09	26.67	25.07
A	34.45	33.02	35.51	31.22	31.84	33.13	36.35	39.06
Baa	7.35	6.98	6.56	7.79	7.94	7.77	8.12	7.20
Less than Baa	5.63	5.98	5.04	5.33	5.47	4.89	7.54	7.61
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Number of banks reporting	12	13	12	14	15	17	18	17
MONEY MARKET BANKS								
Aaa	22.16%	19.63%	19.55%	21.49%	23.87%	22.49%	21.94%	22.48%
Aa	30.79	35.09	33.88	35.42	32.43	33.44	26.36	24.65
A	34.53	33.15	35.74	30.65	30.87	31.75	36.54	40.32
Baa	7.24	7.01	6.49	7.68	7.64	7.38	7.36	5.78
Less than Baa	5.28	5.12	4.34	4.76	5.19	4.94	7.80	6.77
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Number of banks reporting	7	7	6	8	8	8	9	8

* Moody's Investment Service Rating.

counterparts in other Districts may find it necessary to support the market for securities issued by smaller communities and political subdivisions within their banking market or region. Due to the severely limited market for such issues, the lack of market information regarding the issuing body, and the nature of the issuing body, such securities usually carry a lower quality rating. On the other hand, larger metropolitan-based banks are usually not subject to as much pressure to purchase securities of smaller political units other than the opportunity for an attractive investment. Furthermore, due to the limited secondary market for securities issued by small local governments, holders of these securities engage in only limited trading.

Despite changes in volume and average maturity, and some deterioration in the average rating of the municipals held by reporting banks, there was little change in the types of securities held. At the close of June approximately two-thirds of the issues held were general obligations of state and local govern-

ments. Roughly 22 percent were revenue bonds and the remaining 12 percent were comprised of a mixture of all other types. Moreover, there were only minor variations in this pattern during the six and one-half year period under review.

Yield

The questionnaire was also designed to provide information regarding the average yield on state and local government security holdings. Only 19 of the 24 respondent banks were able to supply any information on average yield and in many instances information could not be provided for the entire six and one-half year period. The banks were asked to furnish the average yield expressed as a before-tax rate. In turn, an average weighted yield was computed for all respondent banks, money market banks, and for selected metropolitan areas (see Table V). The weighting process adjusted differences in the volume of securities held by each of the respondent banks.

Table V
Average Weighted Yield on State and Local Government Security Holdings
of Respondent Banks in Selected Cities^(a)

	<u>12/31/56</u>	<u>12/31/57</u>	<u>12/31/58</u>	<u>12/31/59</u>	<u>12/31/60</u>	<u>12/31/61</u>	<u>12/31/62</u>	<u>6/30/63</u>
ALL RESPONDENT BANKS								
Average Weighted Yield	2.01%	2.51%	2.56%	2.83%	2.93%	2.98%	2.92%	2.75%
MONEY MARKET BANKS								
Average Weighted Yield	2.13%	2.43%	2.47%	2.69%	2.77%	2.78%	2.65%	2.57%
CINCINNATI								
Average Weighted Yield	2.09%	2.21%	2.25%	2.45%	2.63%	2.65%	2.77%	2.68%
CLEVELAND								
Average Weighted Yield	2.01%	2.30%	2.41%	2.51%	2.50%	2.52%	2.62%	2.64%
COLUMBUS								
Average Weighted Yield	n. a.	2.15%	2.24%	2.52%	2.82%	3.08%	3.22%	3.18%
PITTSBURGH								
Average Weighted Yield	2.15%	2.43%	2.44%	2.62%	2.69%	2.73%	2.65%	2.55%
TOLEDO								
Average Weighted Yield	2.03%	2.50%	2.55%	2.42%	2.86%	2.52%	2.38%	2.41%

^(a) In order to insure that information on holdings of state and local government securities of any single participating bank is not disclosed, it has been necessary to limit the analysis of selected cities to those cities which contain three or more participating banks. As a result, the information from Akron, Dayton, and Youngstown banks is not separated out by city, although the holdings of state and local government securities reported by these banks are included in Fourth District totals.

n. a. Not available

The average weighted yield for all reporting banks dropped from 2.98 percent to 2.75 percent between the end of 1961 and mid-1963. In contrast, at the close of 1956 the average weighted yield was 2.01 percent and it continued to advance until the end of 1961.

The data indicate that smaller banks have experienced greater success in maintaining higher average returns on municipal portfolios. For example, the average weighted yield for Fourth District money market banks

ranged from 2.13 percent at the end of 1956 to 2.78 percent in 1961 as compared with a range of 2.01 percent in 1956 to 2.98 percent in 1961 for all respondent banks. Furthermore, the average weighted yield for all reporting banks exceeded the rate for money market banks in five of the six years between the close of 1956 and 1961. At the end of June of this year all reporting banks had an average weighted yield of 2.75 percent as compared with 2.57 percent for the nine money market banks.

The more successful earnings experience of the smaller respondent banks is partly a result of the larger proportion of lower quality issues in their portfolios. Such issues usually carry a higher coupon rate. In addition, larger banks have been more aggressive in

acquiring additional holdings at the same time that the average rate on municipals tended to move downward. As a result the gap between the average weighted yields on holdings of all respondent banks and those of the larger reporting banks has widened.

Notes on Federal Reserve Publications

Among the articles recently published in the monthly publications of other Federal Reserve Banks are:

- October 1963** "New War Between the States"
Federal Reserve Bank of Boston
- October 1963** "The Coin Situation: Review and Appraisal"
Federal Reserve Bank of Dallas
- October 1963** "Use of the Word *Money*"
Federal Reserve Bank of St. Louis
- November 1963** "Stock Prices and Business Prospects"
Federal Reserve Bank of Chicago

Articles recently published by the Board of Governors of the Federal Reserve System in the *Federal Reserve Bulletin*:

- September 1963** "Changes in Banking Structure, 1953-62"
"Economic Change and Economic Analysis"
"Treasury and Federal Reserve
Foreign Exchange Operations"
- October 1963** "The Open Market Policy Process"
- November 1963** "Recent Interest Rate Trends"

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MARCH	Liquidity and Economic Stability Liquidity in the Agricultural Sector
APRIL	Steel in Perspective Consumer Credit
MAY	Investment Patterns of Fire and Casualty Insurance Companies The Outlook for Meat Consumption and Production
JUNE	Patterns in Federal Spending: 1900-1962 Current Trends in Retail Sales
JULY	Some Aspects of Unemployment Patterns in Bank Deposits and Earnings
AUGUST	"Fannie Mae" In The Secondary Mortgage Market Dairy Farmer Indebtedness
SEPTEMBER	Expansion and Modernization of the Japanese Iron and Steel Industry Regional Construction Patterns
OCTOBER	Capital Spending — Stimulus for Business Expansion A Look At Burley Tobacco
NOVEMBER	The Machinery Industries Monthly Business Review Survey Report Liquidity of State and Local Governments
DECEMBER	Unemployment Here and Abroad Survey of Municipal Portfolios



FOURTH FEDERAL RESERVE DISTRICT