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MONETARY POLICY, FINANCIAL LIQUIDITY, AND THE OUTLOOK FOR CORPORATE PROFITS

Remarks By
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Before the
Joint Meeting of the
Boards of Directors of the
Federal Reserve Bank of Cleveland
and the
Pittsburgh and Cincinnati Branches
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One of the most striking features of the economic scene in 1966 was the considerable reduction in liquidity of financial institutions, business firms, and the general public. Since last November, one of the principal objectives of monetary policy has been the restoration of financial liquidity — along with making credit more generally available.

However, the methods used by the major lending and spending sectors of the economy to rebuild liquidity have produced significant changes in the level and structure of interest rates. For example, the demand for liquid assets — especially by financial institutions — has pushed short-term rates down substantially below last fall's peak. On the other hand, the efforts of corporations to restore their liquidity by borrowing in capital markets in record volume have tended to push up long-term rates from the low points reached earlier this year.

But behind these global developments in liquidity, a number of important changes have

occurred in specific sectors of the economy:

Commercial banks (which have had sizable inflows of time deposits but have faced a more subdued demand for loans) have added substantially to their holdings of tax-exempt securities. At the same time, they have adopted an especially cautious attitude toward negotiable certificates of deposit.

Other financial intermediaries (e.g., savings and loan associations and mutual savings banks) have also experienced particularly large inflows of funds. However, a considerable proportion of the gains has been used to repay the institutions' own debts or to acquire securities — rather than to expand mortgage loans.

In the business sector, corporations have used a sizable share of the proceeds of capital market borrowings to rebuild financial assets, to cover Federal tax liabilities made unusually large through the acceleration of collections instituted last year, and more recently to repay bank loans. However, the continued high rate of investment in facilities in the face of declining corporate profits has also been a principal force behind the record volume of borrowing by corporations.

Naturally, the recent downtrend in corporate profits has engendered much unhappiness in the business community. In view of the modest increase in total output (and actual — though small — declines in industrial production) so far this year — combined with significant advances in labor costs per unit of output — the basis of this pessimism is not hard to find. However, the actual decline in corporate profits during the first quarter of this year may not have been as large as indicated by some of the earlier estimates. Moreover, when viewed in a somewhat longer perspective, as well as in the light of improving economic conditions during the rest of this year, the outlook for corporate profits may not be quite as unpromising as some observers have suggested.

MONETARY POLICY AND THE RESTORATION OF LIQUIDITY

The expansive monetary policy adopted by the Federal Reserve System last November has had its effects throughout the financial system. In the five months following the overt shift in policy, commercial bank credit expanded at an annual rate of 12 percent — sparked mainly by the growth of time deposits at a 16-percent annual rate. Savings and loan associations have also enjoyed extremely large inflows, which from November through March rose at a seasonally adjusted annual rate of 8.8 percent. During the same period, inflows to mutual savings banks expanded at an annual rate of 9.1 percent.

The counterpart of these flows is a noticeable strengthening in the liquidity position of consumers. While they have sharply expanded their savings through intermediaries, they have not stepped up direct acquisitions of market securities. At the same time, their borrowing in short-term and in mortgage markets has remained low.

With financial institutions in a far more liquid position, the availability of credit to potential borrowers has also expanded considerably. Simultaneously, most market rates of interest have declined substantially from their 1966 highs. The declines have been es-

pecially marked in short-term rates: currently these rates are almost 2 percentage points below the peaks set last September. On the other hand, long-term rates declined more slowly following the shift in monetary policy. Moreover, since February, they have risen considerably in the wake of heavy market flotations: for example, at the end of last week the Aaa corporate new issue rate stood only 30-40 basis points below last September's high.

Undoubtedly, much of the huge volume of flotations this year reflects a real current need for funds by numerous firms and state and local governments. On the other hand, some of the borrowing in long-term markets apparently has been undertaken in anticipation of a revival of economic expansion later in the year which many believe might usher in another period of monetary restraint. Obviously, I cannot comment on this latter expectation. But in passing, I would like to observe that when so many borrowers try to squeeze into the market at the same time they should not be surprised that the consequence is a back-up in long-term interest rates. Thus, the most recent experience demonstrates again that the interplay of supply and demand in the market place remains the basic determinant of interest rates. This is not to suggest that monetary policy has not had an influence on the outcome. Through policy actions, the monetary authorities have had a substantial impact on the level and structure of interest rates. Undoubtedly, this will continue to be the case when the needs of the economy require changes in the stance of monetary policy. But the recent behavior of long-term rates presents clear evidence that private decisions on how and when to use the volume of bank reserves made available by the monetary authorities will also have a major effect on the distribution and cost of credit.

LIQUIDITY POSITION OF COMMERCIAL BANKS

Commercial banks have been particularly successful in their efforts to improve their liquidity positions. Since November, loans have accounted for less than half of the growth in bank credit. In contrast, in the first 11 months of last year, the expansion of loans exceeded total asset growth as banks liquidated securities to meet the demand — especially of business customers. Reflecting the attempt to rebuild liquidity, banks have added almost $9 billion to their securities, on a seasonally adjusted basis, since last November. However, a noticeable change has occurred in the composition of the banks' securities portfolio. At the end of April 1967, the banks held about $56 billion of U.S. Government issues, representing roughly 51 percent of all securities owned. At yearend 1965 and 1966, Federal Government issues amounted to 56 percent and 53 percent, respectively, of their total holdings. But at the same time, bank holdings of participation certificates (PCs) have increased in importance. For example, during the first quarter of this year, the banks made net acquisitions of about $4 billion of PCs, at a seasonally adjusted annual rate.

A particularly sharp increase has also occurred in the banks' holdings of state and local government obligations. In the first quarter, these holdings climbed by approximately $7 billion, at a seasonally adjusted annual rate, compared with an increase of

$3.4 billion in the first quarter of 1966 and a net liquidation of $2.5 billion in the fourth quarter. In fact, commercial banks absorbed about two-thirds of the net expansion of state and local government issues during the first quarter of this year, compared with one-third in the full year 1966. A sizable amount (over $1 billion) of the increase in the banks' holdings of municipals in the first quarter of this year consisted of short-term issues, which again is indicative of the banks' efforts to rebuild their liquidity.

Of course, we can never measure bank liquidity with any degree of precision. However, several rough indicators do suggest that bank liquidity has improved greatly. For example, by the end of March, the loan-deposit ratio of all banks was 65.4 percent, down 1.4 percentage points from last September's high. This is nearly half the average drop from peak to low point in this ratio during those periods since 1951 when monetary policy shifted from restraint to ease. But this ratio combines all forms of loans and deposits, and it hence leaves much to be desired as a liquidity indicator.

A better measure would distinguish between the liquidity of the banks' assets and the liquidity of their liabilities. Little quantitative information on the maturity of portfolios is available, although we can make some reasonable estimates. For example, the Federal Reserve Bank of Cleveland provides us with one of the very few sources of term loan data. These figures show that for the Cleveland District term loans as a percent of total business loans (after rising sharply to over 48.5 percent in the second half of 1966) have declined during the first four months of this year. In April they accounted for only 46 percent of business loans. If similar developments have occurred in other districts, bank loan portfolios are now considerably more liquid than they were last year.

We also know the maturity structure of Government securities at weekly reporting banks. Again, however, the Cleveland Federal Reserve Bank provides us with the only data on the maturity structure of municipals held by a group of banks in its District. Since most of the securities (other than U.S. Government issues) held by all banks are municipals, we can use the Cleveland District ratio to estimate the liquidity (i.e., under 5-year maturities) of other securities held by weekly reporting banks in the country as a whole. Taking the ratio of U.S. Government and other securities due in less than 5 years to total loans and investments, we find that the portfolio liquidity ratio of weekly reporting banks has expanded rather sharply—from about 14 percent last fall to over 16 percent in March. The present ratio is about the same as that which existed in the fall of 1965, but it is still considerably below that (roughly 30 percent) which prevailed in 1961.

ATTITUDE TOWARD CDs

The critical question, however, is not whether liquidity has risen by any finite amount, or is below some past peak. Rather, the key question is whether the ratio is such that banks feel relatively comfortable. After all, in the 1960's banks have developed new sources of liquidity from the use of time deposits (especially CDs) and other borrowings. At present rate levels and within the existing ceilings on rates payable, banks could great-

ly augment their holdings of liquid assets — if they desired — by aggressively seeking CDs. However, in March and April, banks purposely set CD rates at relatively noncompetitive levels to modify inflows, suggesting by implication that they felt no particular strain to add to their liquid assets.

If we turn to the liability side of bank balance sheets, we can see that the sharp growth in time deposits has been a major source of the funds used by banks to rebuild liquidity. The increase was particularly sharp until mid-February, with over one-half of the increase coming from CDs. Since then, CD growth has moderated, but consumer-type time deposits have continued strong and savings deposits have increased.

Negotiable CDs had climbed by almost $3 billion from the end of November to mid-February to a total of about $19 billion; from mid-February to the end of April, they expanded by only $100 million. Why the banks have adopted this cautionary approach is an interesting question.

The main reason apparently was that banks were already content with their liquid assets and felt under no pressure to augment their inflow, particularly with other forms of time deposits remaining so strong. In addition, loan demands have remained relatively weak as businesses financed themselves so heavily in capital markets, thus reducing in turn the need for banks to seek funds. Finally, after 1966, some banks — particularly in key money markets — may be somewhat more skeptical about using CDs as a source of funds, having lost $3.1 billion of them from last August to late November. On the other hand, in recent weeks, there have been modest increases in CD rates offered for longer maturities; but it is still too early to tell if these will develop into sustained efforts to gain additional funds on a somewhat longer term basis.

There are also indications from bank liabilities that commercial bank deposits are now in somewhat more stable forms. The average maturity of CDs (at 3.7 months) is back to prerestraint levels. Moreover, consumer-type time deposits (which proved less volatile in 1966 than corporate money) have also increased as a share of bank liabilities.

On balance, if I were to hazard a guess, I would suggest that banks will again find it desirable to bid strongly for corporate and other large time deposits if the strength of loan demand justifies such action. In my judgment, the negotiable CD still is — and will remain — a viable money market instrument — provided that interest rate ceilings are kept realistic in terms of competitive market yields.

LIQUIDITY POSITION OF OTHER FINANCIAL INSTITUTIONS

Savings and loan associations in the first quarter of this year experienced an increase in their share capital of about $10 billion at a seasonally adjusted annual rate. This was their best performance since 1964. However, also during the first quarter, S&L's repaid almost $3 billion of Home Loan Bank borrowings and reduced by nearly $1 billion their outstanding loans at commercial banks. Moreover, they made sizable additions to their holdings of cash and U.S. Government securities relative to savings capital. Their efforts to rebuild liquidity, however, limited

their mortgage acquisitions. Thus, in the first quarter of this year, S&L's holdings of mortgages on 1- to 4-family homes rose by just over $3 billion, at a seasonally adjusted annual rate, or about the same pace as in 1966 as a whole.

The S&L's repayment of loans from the FHL Banks has also enabled the latter to retire $1.8 billion of their own outstanding debt which matured during the first four months of 1967. In addition, during the same period, the FHL Banks were net buyers of $1.7 billion of U.S. Treasury bills. Consequently, the financial sector of which S&L's are the fulcrum — in effect — has channeled $3.5 billion of funds into the short-term debt market. This has been one of the principal causes of the substantial decline in short-term interest rates. Most recently, however, the S&L's have been adding to their mortgage holdings at a faster pace, and this trend will undoubtedly accelerate as the year progresses.

REBUILDING LIQUIDITY IN THE BUSINESS SECTOR

During the first four months of this year, business firms increased their bank loans by $3.7 billion, or by a relatively rapid 14 percent seasonally adjusted annual rate. However, their tax payments during this period, reflecting the acceleration in collections which began last year, were also extremely high. After allowing for tax bills turned in, the cash tax payments amounted to $35 billion during the January-April months, or one-third more than in the same period in 1966. Thus, against this background, the expansion in bank loans to business appears relatively modest.

Over the same period, however, businesses sold about $7.5 billion of long-term securities (including private placements). Several factors seem to have induced them to offer such a record volume of issues. For one thing, it provided them with funds to help pay their large tax bills. In addition, such financing fostered a desired re-structuring as well as a rebuilding of their financial asset positions. From December to mid-February, this was done mainly through the acquisition of CDs; since then they have concentrated on other types of open market paper.

Moreover, while some bank loans undoubtedly have been repaid from capital market borrowings, probably of equal importance was an effort to minimize current bank borrowing in order to preserve credit lines if monetary policy should again become restrictive. Clearly, the experiences of 1966 are still very fresh in the minds of many firms. Indeed, the effort of some businesses to broaden their sources of funds by establishing themselves in alternative markets has been an important factor in the sharp expansion of the volume of dealer placed commercial paper. In the first quarter of this year, the total outstanding in the market rose by $1.3 billion, seasonally adjusted, and probably rose further in April.

Finally, the continued pressure of a high level of investment activity on internally generated funds was also a prime factor behind heavy long-term borrowing in the capital market. For example, expenditures by nonfinancial corporations for fixed investment in the first quarter exceeded by $7.2 billion (at a seasonally adjusted annual rate) the amount of funds generated internally through undistributed profits and capital consumption allowance. When the addition to inventories is

included, total investment exceeded internal funds by $12.7 billion (at a seasonally adjusted annual rate) during the first quarter. Although this latter figure represents a sizable decline compared with the excess of close to $16 billion which prevailed during the last three quarters of 1966, it is about double the average recorded in 1965 as a whole. Thus, the liquidity position of corporations remains under considerable strain. Moreover, despite the substantial reduction in inventory accumulation which is currently taking place, outlays for fixed investment continue at a high level — while corporate profits are declining. Thus, it might be both interesting and instructive to examine profit trends more closely.

THE CURRENT PROFITS SCENE

After remaining almost unchanged throughout 1966, corporate profits declined in the first quarter of 1967. Yet the decline appears to have been less than some observers had expected and it may also have been smaller than first reports suggested. With real output declining and unit labor costs rising faster than unit prices, after-tax profit margins in manufacturing declined to about 5 percent, and total manufacturing profits were 5 to 10 percent below the level a year earlier.

Year-to-year declines in after-tax profits were especially sharp in some industries; they ranged from 25 to 40 percent for motor vehicles, building materials, and textile products. But these large declines were partially offset by much smaller declines in a number of other industries and by year-to-year increases in some, such as nonelectrical machinery, fabricated metals, and petroleum. In some nonmanufacturing groups, such as financial corporations and public utilities, profits probably declined little if at all.

All in all, the admittedly incomplete information now available would suggest that corporate profits after taxes were running at a seasonally adjusted annual rate of $45-46 billion in the first quarter of 1967, compared with levels of $48.7 billion for the first quarter of 1966 and $48.4 billion for last year as a whole. Thus, the first-quarter-to-first-quarter decline may have been in the neighborhood of 6-7 percent — rather than the approximately 10 percent figure that has been given prominence in newspapers.

Because this most recent experience has assumed such a cardinal place in current assessments of the business outlook, it may be helpful to put the profit picture in better perspective.

A LONGER VIEW OF CORPORATE PROFITS

An unusual feature of the economic expansion that began in 1961 was the prolonged rise in corporate profits and in profit margins. In each of the three previous periods of economic expansion since World War II, after-tax profits reached a peak annual rate of about $30 billion after the first year of general advance and then leveled off or declined as rising costs overtook previously rising prices.

In the most recent expansion period, however, profits rose almost steadily for five years, finally leveling off in early 1966 at an annual rate of close to $50 billion. Profits also grew relatively more than most other types of income. Thus, throughout 1965 and into 1966, the share of national income earned by the corporate sector exceeded 13 percent of

the total — the first time it had done so for any extended period since the mid-1950's.

The long advance in profits reflected, probably more than anything else, the absence of the imbalances in price-cost relationships which in previous expansions had produced sharp but short-lived increases in profit margins in the first year of rapid economic growth. Instead, materials prices and unit labor costs remained virtually stable while real output expanded substantially. Consequently, profit margins increased moderately but steadily over an unusually long period. From early 1964 through mid-1966, the ratio of after-tax profits to sales was at or above 5½ percent for manufacturing companies — higher than it had been for many years, except for about a year in 1955-1956, despite the dampening effect of depreciation liberalization on margins and the profit component of corporate internal funds in the later period.

But as 1966 progressed, pressures on capacity, materials, and labor began to be reflected in the increases in unit costs that had theretofore been avoided. And as growth in real output slowed, the long rise in profits halted.

SHORT-RUN OUTLOOK FOR PROFITS

The probable course of profits over the remaining quarters of the year depends on a variety of factors that are as yet almost impossible to assess singly, let alone in combination. However, the broad outlines of one (perhaps the most likely) course can be sketched. While the timing of renewed expansion cannot be pinpointed, the inventory adjustment has proceeded a long way, and a substantial increase in real ouput seems likely later in the year. As production increases and excess capacity declines, total profits can be expected to rise also. Yet, if unit costs continue to rise, this may bring only limited benefit to margins — and maybe even to total profits. One must recognize, however, that short of a precipitous fall — which seems most unlikely — profits should remain at levels that are high by the standards of any time prior to 1965-1966.

AN ECONOMIC PROFILE OF TOLEDO

Toledo is a major manufacturing and transshipment center for a wide variety of finished goods and materials. During the 1950's, Toledo's economy underwent a fundamental economic readjustment, and showed little economic growth. Beginning in the early 1960's, however, most measures of economic activity indicate a marked improvement in Toledo's economy.

POPULATION GROWTH AND INDUSTRIAL DEVELOPMENT

Population. Until 1930, the growth rate of Toledo's population was slightly higher than that of the State as a whole. Since then, the City's population growth has lagged that of the State and of Cleveland, Cincinnati, and Columbus—the three largest SMSA's in Ohio (see Chart 1).[1] From 1960 to 1965, a 2.6-percent rise in Toledo's population was less than the median 4-percent increase for the District's major SMSA's, the 5.5-percent gain for the State, and the median 8-percent increase for the nation's 55 major SMSA's.

[1] As of July 1, 1966, Toledo was the fourth largest city in Ohio (data from Development Department, State of Ohio) and the fifth largest in the Fourth District, following Pittsburgh, Cleveland, Cincinnati, and Columbus, and leading Dayton, Akron, and Youngstown.

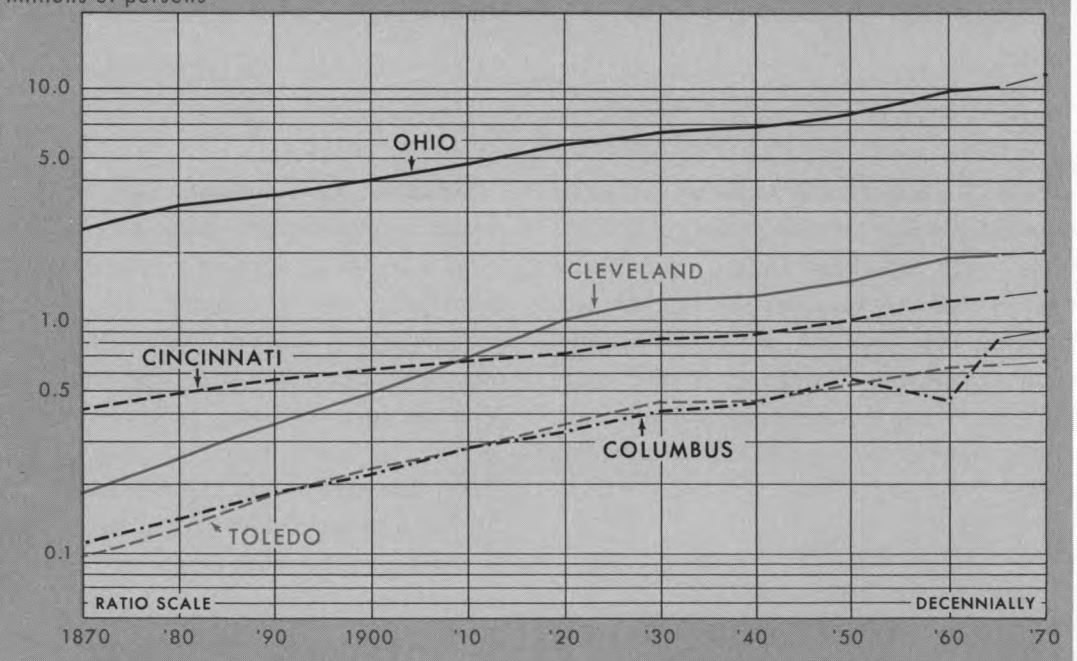
Industrial Development. The early economic development of Toledo was influenced largely by its location at a major transshipment point, and the availability of certain raw materials — iron ore, petroleum, natural gas, and quartzite. Iron ore from upper Michigan provided the raw material for Toledo's first major manufacturing, with the City's first blast furnace constructed in 1864. Although today Toledo is not a major steel-producing center, with less than 7 percent of manufacturing employment in the primary metal industry, metal-using durable goods industries rank among major employers in Toledo, providing almost half of all manufacturing employment.

During the late 1800's, two other major industries — oil refining and glass production — were established. The Lima oil field near Findlay, south of Toledo, was opened in 1885 and shortly thereafter an oil refinery was established in Toledo. Even though the Lima reserves were exhausted, refining continued to expand in Toledo, utilizing crude oil piped in from more distant sources. Primary factors in the development of the glass industry in the Toledo area were (1) availability of natural gas, considered the ideal fuel for glass

Chart 1.

POPULATION GROWTH 1870-1970

Toledo SMSA, Other Selected SMSA's in Ohio, and State of Ohio



NOTE: Toledo SMSA includes Lucas and Wood Counties, Ohio, and Monroe County, Michigan.

Source of data: U.S. Department of Commerce

production, and (2) nearness to raw materials required by the industry.

Proximity to Detroit made Toledo suitably located for various auto parts and accessories companies. Today, a large "jeep" producer and three of the major auto producers have plants in Toledo. In terms of employment in the transportation equipment industry, Toledo ranks third in Ohio (behind Cleveland and Cincinnati). When employment in the motor vehicles and parts segment of the transportation equipment industry is separated, Toledo ranks second in the State to Cleveland. (Employment in Cincinnati is heavily influenced by the aircraft component of the transportation industry.)

In addition to primary metals, oil refining, glass, and transportation equipment, three other types of manufacturing activity are important in Toledo's industrial mix — nonelectrical machinery, food and kindred products, and fabricated metals. Taken together, these

Federal Reserve Bank of Cleveland
Cleveland, Ohio

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ECONOMIC REVIEW, June 1967

Page 12

Chart 1.

POPULATION GROWTH 1870–1970
Toledo SMSA, Other Selected SMSA'S in Ohio, and State of Ohio

The data plotted for Columbus in 1960 should be 754.9 thousand persons instead of 454.9 thousand persons. Translated to the chart scale, the figure should be 0.755 million persons.

seven industries in 1963[2] accounted for over 70 percent of total manufacturing employment, value added by manufacturing industries, and capital spending by manufacturing firms.

EMPLOYMENT — DISTRIBUTION AND TRENDS

Total nonagricultural employment in Toledo averaged 214,400 during 1966, with manufacturing the largest single source of nonagricultural employment. While considerably above the national average, the share of the total accounted for by manufacturing in Toledo in 1966 was smaller than the corresponding figure for either Ohio or five of the seven other major SMSA's in the State (see Table I). In 1966, Toledo ranked first among major Ohio SMSA's in the percent of total nonagricultural employment in transportation and public utilities, and second in wholesale and retail trade and services (slightly behind Columbus in both cases). Although share of the total was larger in three other Ohio SMSA's, the percent employed in government was the fourth largest category in Toledo as well as the fastest growing. In contract construction and finance, Toledo was fifth among Ohio SMSA's, and below the State and national averages in both cases.

Complete historical information on nonagricultural employment in the Toledo SMSA is not available prior to 1958. However, some insights into employment patterns and trends in the area can be developed from data on covered employment for the two counties of the Toledo SMSA that are in Ohio.[3] These data show that total covered employment in 1965 was about the same as the annual average for 1950 to 1953, unlike the record in the nation as a whole, or in Ohio, which did not do as well as the nation (see Table II). The data also show that Toledo had substantial declines in covered employment in 1954, 1958, and 1961, which were years when the national economy experienced depressed economic conditions. Thus, despite some recovery from recession years and annual gains since 1961, the postwar high in covered employment reached in 1952 had not been regained by 1965 (latest year available in the series). Nevertheless, the annual gains since 1961 are indicative of some improvement in Toledo's economy.

Within total covered employment, the patterns of individuals groups varied substantially during 1950 to 1965. On the favorable side, employment in the service category, as well as in the finance, insurance, and real estate group, showed steady gains in Toledo throughout the period. In contrast, four employment categories did not behave favorably. Manufacturing employment in 1961 was 26 percent below its high reached in 1952, and was largely responsible for the decline in total covered employment during 1952 to 1961. More recently, manufacturing employment has increased, but not as much as total covered employment. Employment in the transportation and public utilities group also

[2] Census of Manufactures data for 1963 are the latest available for the details of manufacturing activity in Toledo.

[3] Based on employees in Lucas and Wood Counties covered by the Ohio Unemployment Compensation Law (excludes government employment). Covered employment in 1965 represented 76 percent of total nonagricultural employment in the total Toledo SMSA.

TABLE I

Percent Distribution of Total Nonagricultural Employment

Seven Major Employment Categories

Toledo SMSA, Other Selected SMSA's in Ohio, State of Ohio and United States

1966 Annual Average

Manufacturing		Wholesale and Retail Trade		Services		Government	
Canton	49.1%	Columbus	20.9%	United States	15.0%	Columbus	21.1%
Youngstown-Warren	46.7	Toledo	20.8	Columbus	15.0	Dayton	17.5
Akron	43.7	United States	20.7	Toledo	14.5	United States	17.0
Dayton	42.3	Cincinnati	20.6	Cleveland	13.9	Ohio	13.8
Ohio	39.5	Cleveland	20.4	Cincinnati	13.4	Cincinnati	13.2
Cleveland	38.6	Ohio	19.2	Youngstown-Warren	13.0	Toledo	12.8
Toledo	36.7	Akron	18.4	Ohio	12.7	Akron	12.5
Cincinnati	35.8	Canton	18.2	Akron	12.6	Cleveland	12.1
United States	29.9	Youngstown-Warren	17.8	Dayton	12.1	Youngstown-Warren	9.5
Columbus	25.8	Dayton	16.8	Canton	11.6	Canton	8.6

Transportation and Utilities		Contract Construction		Finance, Insurance, Real Estate	
Toledo	7.8%	United States	5.1%	Columbus	6.2%
Cincinnati	7.3	Columbus	4.7	Cincinnati	5.3
United States	6.5	Youngstown-Warren	4.7	United States	4.8
Akron	6.4	Ohio	4.3	Cleveland	4.7
Cleveland	6.2	Cincinnati	4.3	Ohio	3.9
Ohio	6.0	Dayton	4.3	Canton	3.3
Columbus	6.0	Toledo	4.2	Toledo	3.2
Youngstown-Warren	5.5	Cleveland	3.9	Akron	2.8
Canton	5.3	Akron	3.5	Dayton	2.8
Dayton	3.9	Canton	3.5	Youngstown-Warren	2.5

NOTE: Toledo SMSA includes Lucas and Wood Counties, Ohio, and Monroe County, Michigan.

Sources: U. S. Department of Labor and Division of Research and Statistics, Ohio Bureau of Unemployment Compensation

peaked in 1952, remaining below the peak until 1965, when a particularly sharp year-to-year increase occurred. Contract construction and trade employment also peaked during the 1950's, and remained below peak levels through 1965. The construction employment record is a reflection of the weakness in residential and nonresidential construction during much of the period (see Table IV). Thus, the covered employment record of the 1950's

TABLE II

Trends in Covered Employment

Toledo, State of Ohio, and United States

1950-1965

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Total (Less Government)																
Toledo (thous.)	136.2	148.0	150.6	150.5	136.9	145.2	145.1	145.7	131.3	134.9	137.5	129.8	131.9	134.9	137.7	145.3
Ohio (thous.)	2,465.0	2,647.2	2,696.3	2,825.9	2,696.3	2,784.6	2,862.9	2,863.9	2,627.7	2,725.8	2,748.0	2,631.8	2,675.0	2,711.9	2,771.7	2,894.9
United States (mil.)	39.2	41.4	42.2	43.6	42.2	43.8	35.1	45.3	43.5	45.2	45.9	45.4	46.7	47.5	48.7	50.0
Manufacturing																
Toledo (thous.)	72.6	80.7	83.0	81.3	68.8	73.7	72.2	71.8	63.5	66.7	67.6	61.4	63.0	65.3	66.9	69.4
Ohio (thous)	1,217.7	1,336.9	1,358.7	1,444.2	1,311.8	1,368.3	1,391.4	1,368.8	1,196.5	1,262.6	1,262.8	1,181.3	1,216.2	1,233.4	1,253.7	1,317.1
United States (mil.)	15.2	16.4	16.6	17.5	16.4	16.9	17.2	17.2	15.9	16.7	16.8	16.3	16.9	17.0	17.3	18.0
Trade																
Toledo (thous.)	34.7	35.3	35.7	36.7	35.9	37.2	38.5	39.1	34.5	35.0	36.2	35.1	35.6	36.0	36.4	38.2
Ohio (thous.)	506.1	524.7	538.3	558.1	556.7	572.0	598.6	609.9	586.5	603.4	619.2	601.1	604.9	612.4	627.7	652.4
United States (mil.)	9.4	9.7	10.0	10.2	10.2	10.5	10.6	10.9	10.8	11.1	11.4	11.3	11.6	11.8	12.2	12.7
Services																
Toledo (thous.)	10.0	10.3	10.4	10.7	10.5	10.8	11.5	11.8	11.2	11.5	11.9	12.2	12.3	12.5	13.1	14.2
Ohio (thous.)	281.4	287.4	296.1	307.9	312.6	323.4	340.0	351.9	349.2	360.9	371.9	373.2	380.9	393.2	409.6	427.6
United States (mil.)	5.4	5.6	5.7	5.9	6.0	6.3	6.5	6.7	6.8	7.1	7.4	7.7	8.0	8.3	8.7	9.1
Transportation and Public Utilities																
Toledo (thous.)	7.1	8.6	8.9	8.5	7.7	8.1	8.2	8.3	8.0	8.4	8.5	8.1	8.4	8.5	8.6	9.3
Ohio (thous.)	223.3	236.6	235.1	240.1	221.5	223.0	229.0	226.5	207.7	208.6	208.8	198.6	198.3	197.2	197.8	202.3
United States (mil.)	4.0	4.2	4.2	4.3	4.1	4.1	4.2	4.2	4.0	4.0	4.0	3.9	3.9	3.9	4.0	4.0
Finance																
Toledo (thous.)	3.8	3.9	4.0	4.1	4.2	4.4	4.7	4.9	5.0	5.2	5.3	5.4	5.5	5.5	5.6	5.7
Ohio (thous.)	81.7	85.4	91.1	95.2	98.6	102.3	106.8	110.5	112.5	116.4	120.4	123.0	124.3	126.5	128.9	131.5
United States (mil.)	1.9	2.0	2.1	2.2	2.2	2.3	2.4	2.5	2.5	2.6	2.7	2.7	2.8	2.9	2.9	3.0
Contract Construction																
Toledo (thous.)	7.5	8.7	8.2	8.7	9.2	10.5	9.7	9.3	8.7	7.6	7.5	7.0	6.6	6.7	6.6	8.1
Ohio (thous.)	126.7	149.6	152.3	157.1	174.0	173.4	174.7	173.8	154.9	153.5	144.9	135.4	131.4	130.5	134.2	144.6
United States (mil.)	2.3	2.6	2.6	2.6	2.6	2.8	3.0	2.9	2.8	3.0	2.9	2.8	2.9	3.0	3.1	3.2

NOTE: Toledo data represent covered employment in Lucas and Wood Counties available through 1965.

Sources: U. S. Department of Labor and Division of Research and Statistics, Ohio Bureau of Unemployment Compensation

points to the type of economic adjustment experienced by Toledo in that period.

The total nonagricultural employment series (excluding government) provides more complete information on the Toledo SMSA for recent years (see Chart 2). Most importantly, the data reveal patterns basically similar to those of the covered employment data. Thus, nonagricultural employment in Toledo rose each year from 1961 to 1966, despite declines in certain components that continued beyond 1961.[4] Although employment growth accelerated considerably from 1963 to 1966, Toledo continued to lag the nation.

Government has been the fastest growing component in Toledo's employment mix since 1961 (see Chart 2). Despite the phasing out of a Federal ordnance depot during the early 1960's, employment at all levels of government in Toledo increased by over a third from 1961 to 1966[5] compared with 17 percent in the State and 26 percent nationally. Beginning in 1963, State and local government employment, especially in education, expanded sharply, with much of the increase occurring at State and municipal universities in the Toledo metropolitan area.

Service employment in Toledo grew steadily from 1961 to 1966, performing markedly better than both Ohio and the nation after 1963, as shown in Chart 2. Employment in finance, real estate, and insurance also gained throughout the 1961-1966 period, with Toledo performing comparably to Ohio, but lagging slightly behind the nation. Manufacturing and wholesale and retail trade registered moderate gains from 1961 through 1966, in both cases lagging the nation but performing reasonably similar to Ohio. Employment in transportation and public utilities in Toledo improved markedly beginning in 1964, exceeding the nation's and Ohio's performance. Although employment in contract construction in the United States rose in each year from 1962 through 1966, the reversal of long-term declines in Ohio and Toledo did not occur until 1964 and 1965, respectively.

PROFILE OF MANUFACTURING ACTIVITY

The data in Table III show the relative contributions to value added, capital spending, and manufacturing employment of the major industries in Toledo that account for about three-fourths of manufacturing activity. The data clearly indicate the predominant role of the transportation equipment industry in Toledo as well as the strong secondary role played by the stone, clay, and glass industry.

About one-fourth of value added by Toledo's manufacturing industries originated in transportation equipment in 1963, much more than in Ohio or in the United States. The relative contribution of the stone, clay, and glass industry to value added was also far greater in Toledo than in the State or nation (17 percent as compared with 5 percent and 4 percent, respectively). The relative contribution to value added by the petroleum and coal products industry in Toledo also considerably exceeded that in the State and the nation.

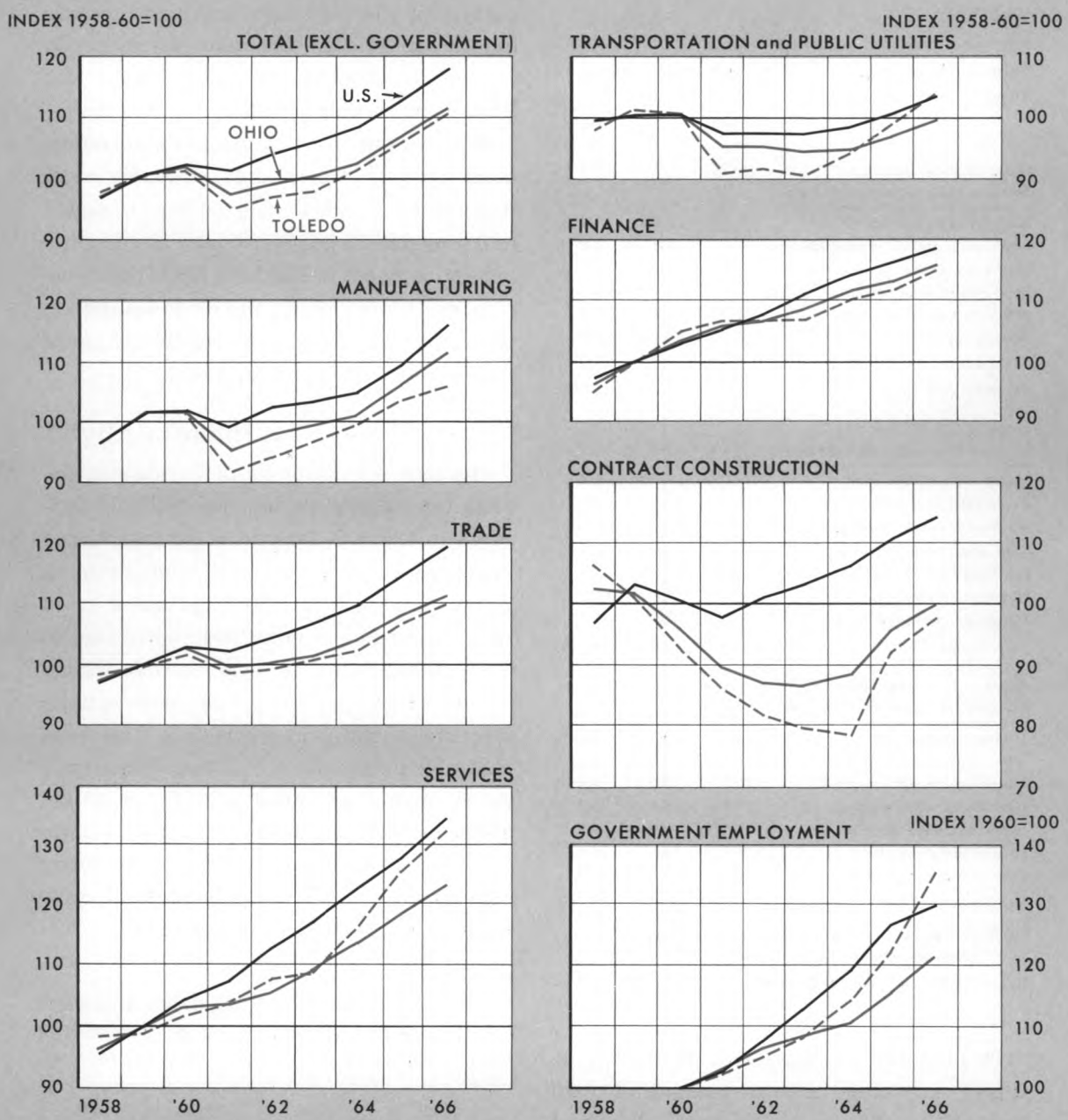
[4] The indexes shown in Chart 2 are based on averages of the years 1958-1960. The series on government employment is based on 1960.

[5] An annual average series for the Toledo SMSA, including Lucas and Wood Counties, Ohio, and Monroe County, Michigan, is available only since 1960.

Chart 2.

TRENDS in NONAGRICULTURAL EMPLOYMENT

Toledo SMSA, State of Ohio, and United States



PLOTTED ANNUALLY

NOTE: Toledo SMSA includes Lucas and Wood Counties, Ohio, and Monroe County, Michigan.

Sources of data: U.S. Department of Commerce; U.S. Department of Labor; Michigan Employment Security Commission; Personnel Department, State of Ohio; Division of Research and Statistics, Ohio Bureau of Unemployment Compensation

TABLE III
Profile of Manufacturing Activity
Toledo SMSA, State of Ohio, and United States
1963

	Toledo SMSA 1963	Ohio 1963	United States 1963
Share of Value Added by Selected Manufacturing Industries			
Transportation equipment	24.4%	15.9%	11.9%
Stone, clay, and glass products	17.4	4.8	3.8
Machinery, except electrical	8.9	13.1	8.9
Food and kindred products	7.3	6.8	11.2
Fabricated metal products	7.5	3.7	6.2
Primary metal industries	6.5	14.2	8.0
Petroleum and coal products	6.5	1.0	1.9
Seven-Industry Total	78.6%	64.4%	52.0%
Share of Capital Spending by Selected Manufacturing Industries			
Transportation equipment	31.3%	11.1%	9.4%
Stone, clay, and glass products	14.9	5.7	5.0
Machinery, except electrical	7.5	9.9	7.0
Food and kindred products	5.8	6.0	11.3
Fabricated metal products	5.2	7.3	5.5
Primary metal industries	4.6	24.7	12.3
Petroleum and coal products	8.3	0.9	3.8
Seven-Industry Total	77.7%	65.6%	54.2%
Share of Total Employment in Selected Manufacturing Industries			
Transportation equipment	23.2%	13.3%	9.5%
Stone, clay, and glass products	11.4	5.0	3.4
Machinery, except electrical	10.6	13.5	8.6
Food and kindred products	6.8	6.2	9.6
Fabricated metal products	9.4	9.3	6.4
Primary metal industries	6.6	12.5	6.6
Petroleum and coal products	2.9	0.5	0.9
Seven-Industry Total	72.9%	60.3%	45.0%

NOTE: Toledo SMSA includes Lucas and Wood Counties, Ohio, and Monroe County, Michigan.

Source: U. S. Department of Commerce

In 1963, the transportation equipment industry accounted for 31 percent of total capital spending and the stone, clay, and glass industry for 15 percent (see Table III). Capital spending by these two industries was about three times as important in the Toledo area as in Ohio or the nation in 1963. Capital outlays by the petroleum and coal products industry in Toledo were relatively heavy in 1963, and accounted for nearly half of the State total for that industry.

Employment in the transportation equipment industry was also considerably more important in Toledo than in the State or nation and provided 23 percent of total manufacturing employment in Toledo in 1963. The stone, clay, and glass industry in Toledo was ahead of the State and nation in relative share of total manufacturing employment.

TRENDS IN MANUFACTURING ACTIVITY

The marked slowdown of Toledo's manufacturing activity during the 1950's is indicated in Chart 3. Despite some intervening increases, value added by manufacturing in Toledo in 1961 was about the same as in 1956. A number of industries contributed to the failure of value added to increase, including stone, clay, and glass, nonelectrical machinery, and primary metals. The more favorable performance by Toledo's transportation equipment industry partly offset the behavior of other industries. During the early 1960's, the transportation equipment industry contributed the bulk of the increase in value added by manufacture in Toledo.[6]

[6] The value added series for Lucas County is available only through 1963. However, the U. S. Department of Commerce has prepared the following preliminary estimates for the Toledo SMSA (millions of dollars):

1963	1964	1965	1966
$911 (actual)	$1,243p	$1,350p	$1,449p

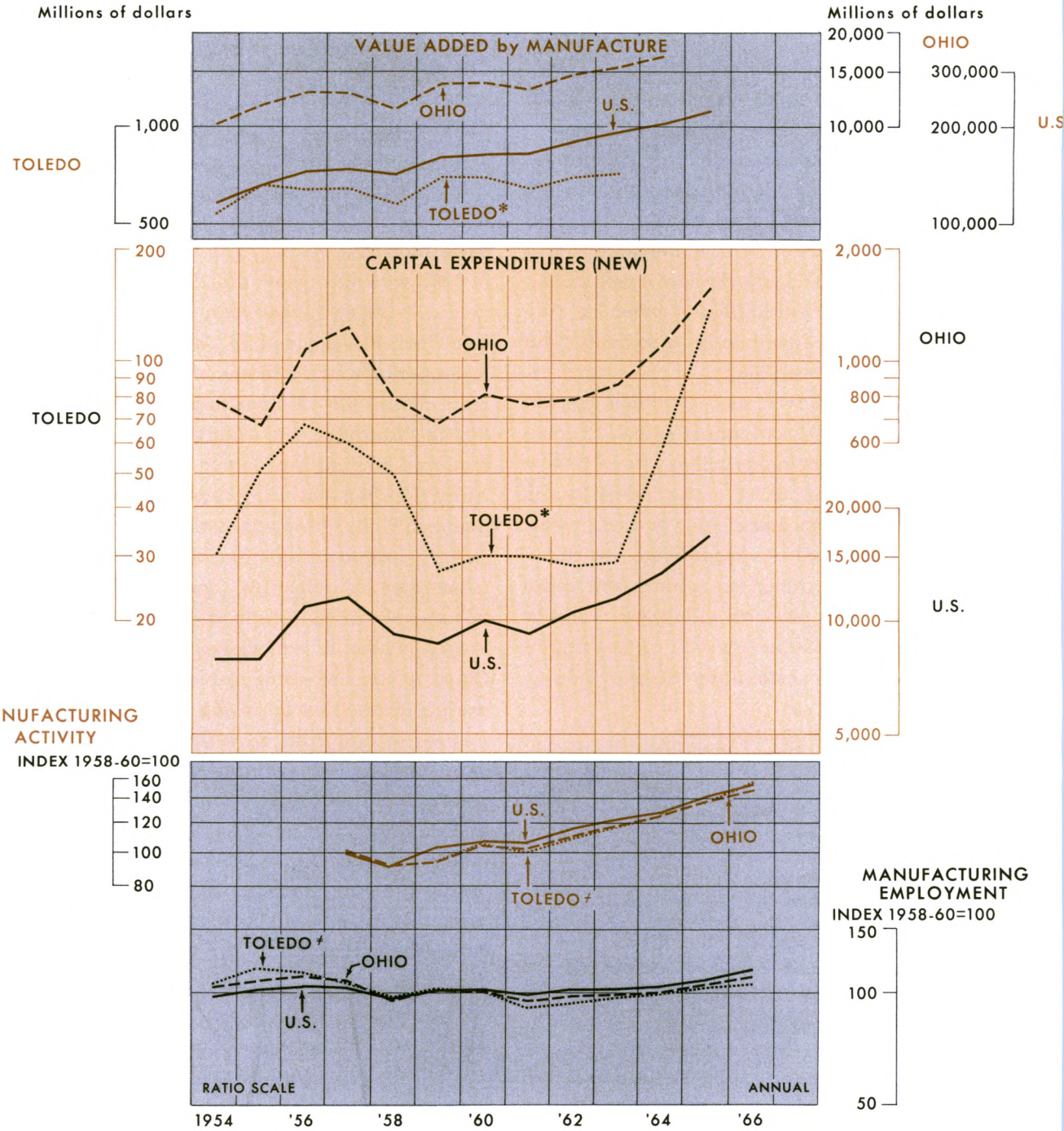
p — Preliminary.

These data indicate the marked advance in economic activity since 1963.

Chart 3.

TRENDS in MANUFACTURING ACTIVITY

Toledo, State of Ohio, and United States



*Lucas County.

≠Includes market area of electric utility firm.

≠Includes Lucas and Wood Counties, Ohio, and Monroe County, Michigan.

Sources of data: U.S. Department of Commerce; Michigan Employment Security Commission; Development Department, State of Ohio; Division of Research and Statistics, Ohio Bureau of Unemployment Compensation; Board of Governors of the Federal Reserve System; Federal Reserve Bank of Cleveland

Manufacturing activity in Toledo, as shown in Chart 3, has followed patterns similar to the value added series. Reasonably comparable data are available through 1966 for Toledo, the Fourth District, and the nation.[7] After lagging the District through 1961, and then experiencing nearly identical gains from 1962 to 1964, the Toledo index moved ahead of the Fourth District index in 1965 and 1966. (The Toledo index also caught the national index in 1966.)

Because 1966 was such a banner year in Toledo, it may be of interest to look at some details of developments in that year. A review of increased output by major industries (as reflected by their electric power use) reveals that the greatest advances were registered by the transportation equipment and petroleum and coal products industries. Gains in these two industries, as well as in primary metals, were substantially greater than in the United States.

Manufacturing Activity
Percent Changes, 1965 to 1966

Industry	Toledo*	United States†
Stone, clay, and glass products	+ 5%	+ 5%
Primary metal industries	+17	+ 4
Fabricated metal products	+12	+10
Machinery, except electrical	+15	+13
Transportation equipment	+21	+13
Food and kindred products	+ 4	+ 3
Petroleum and coal products	+22	+ 4

* Weighted electric power use, Federal Reserve Bank of Cleveland.

† Index of Industrial Production (Manufacture), Board of Governors of the Federal Reserve System.

[7] Data for Toledo and the Fourth District are based on electric power used in each manufacturing industry weighted by value added per kilowatt hour of electricity used in each industry. For a more complete discussion of this index see, "Manufacturing Activity in Metropolitan Areas," *Economic Review*, Federal Reserve Bank of Cleveland, Cleveland, Ohio, October, 1965.

The stone, clay, and glass, fabricated metals, nonelectrical machinery, and food and kindred products industries had similar gains in Toledo and the United States.

Manufacturing employment dropped to a low level in 1961. Despite steady increases since that time, manufacturing employment in 1966 was still below the 1955 peak, and, in fact, was no higher than the 1954 level (see Chart 3). As shown in Chart 4, the lackluster performance of manufacturing employment during the 1950's is explained largely by the substantial and steady decline in the food and kindred products industry, as well as by the even steeper declines in the petroleum and coal products, nonelectrical machinery, primary metal, and stone, clay, and glass products industries. (Employment also fell sharply in the electrical machinery industry, which is not shown separately in Chart 4 because comparable annual data are not available.) Since the early 1960's a number of industries have registered favorable employment performances, including nonelectrical machinery, fabricated metals, and primary metals.

Capital spending in Toledo has shown a mixed pattern. Expenditures increased substantially in 1955 and 1956, reaching a long-time peak in 1956. Slight year-to-year declines took place in 1957 and 1958, followed by a sharp drop in 1959. Expenditures were at stable, though depressed, levels from 1959 to 1963. A sharp turnaround in capital spending occurred in 1964 and a new high was reached in 1965.

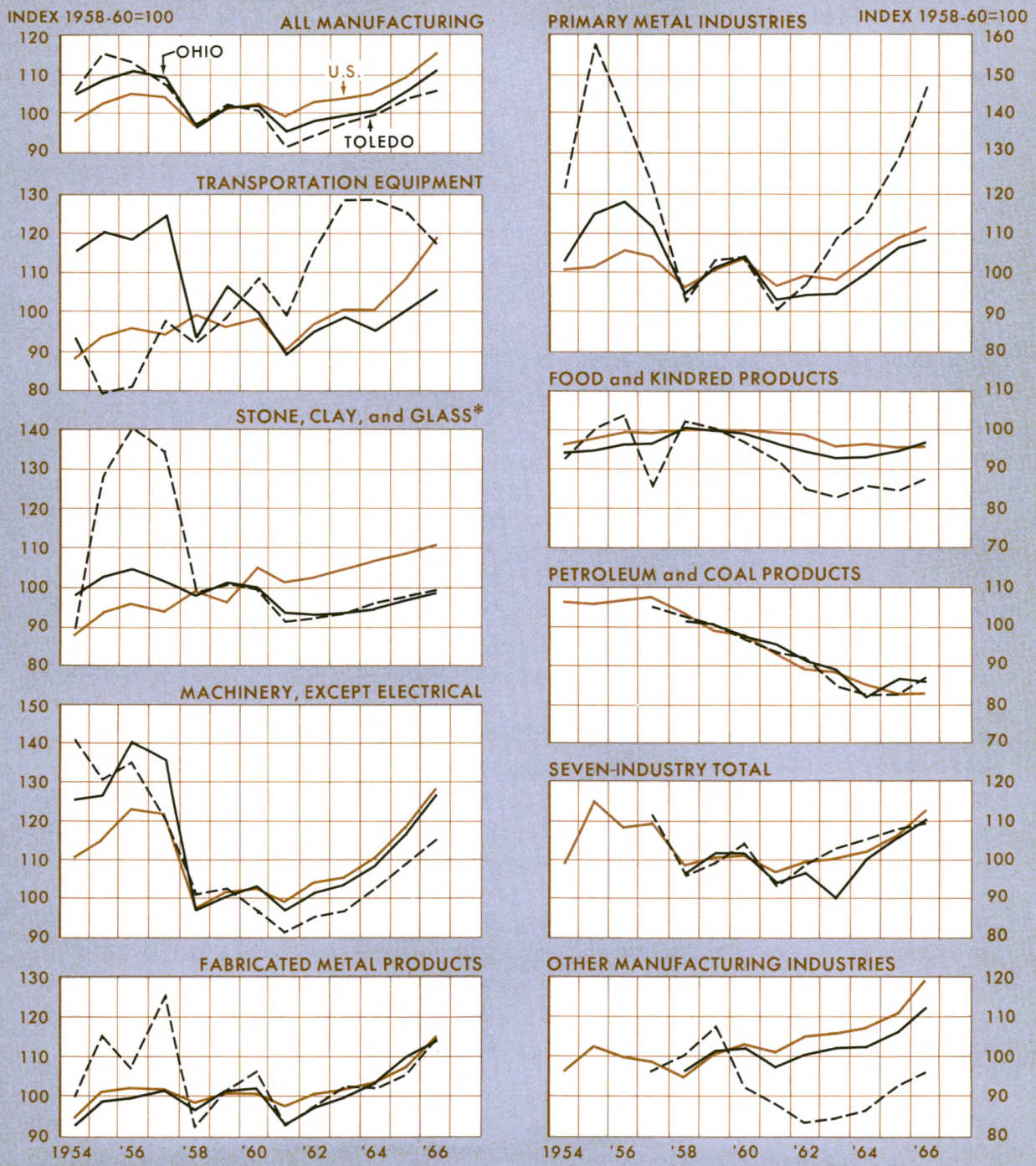
PORT OF TOLEDO

In the 1840's, the channel of the Maumee

Chart 4.

TRENDS in MANUFACTURING EMPLOYMENT

Toledo, State of Ohio, and United States



PLOTTED ANNUALLY

NOTE: Toledo includes Lucas and Wood Counties, Ohio.

*Adjusted to correspond with *Census of Manufacturers* data.

Sources of data: U.S. Department of Commerce; U.S. Department of Labor; Division of Research and Statistics, Ohio Bureau of Unemployment Compensation

River was utilized as part of two canals — the Miami and Ohio (connecting Cincinnati and Toledo) and the Wabash and Erie (connecting Evansville and Toledo) — and the City became the main lake port for the lower Ohio River Valley region (just as Cleveland, connected by canal with Marietta and Portsmouth, served the upper Ohio River territory). When the railroads subsequently followed the old canal routes, Toledo's tie with the Ohio Valley region was strengthened. As other railroads linked the City with Michigan to the north and with the grain-growing areas to the west, Toledo became a major transshipment point. Today, Toledo is served by eight major rail lines.

Bituminous coal from central and southern Ohio is the largest single tonnage item at the Port of Toledo. Toledo ranked first in coal shipments on the Great Lakes. With the activation of iron ore mines in the Lake Superior region in the mid-1800's, Toledo became an important "lower lakes" iron ore port.[8] Ore tonnage handled at the port is currently second to that of coal. Grain, which was the first major export of the Toledo port, currently ranks third among commodities handled by the Port and petroleum products rank fourth. In 1966, these four bulk cargo items — coal, iron ore, grain, and petroleum products — accounted for 98 percent of the total volume of cargo through the Port. Total tonnage advanced substantially from 1961 through 1965, and then declined slightly in 1966.

OTHER ECONOMIC INDICATORS

Several broad indicators of economic activity in Toledo provide further evidence of recent trends in the area (see Table IV). As a general matter, these series confirm the sluggish economic activity during much of the 1950's and the improvement in the 1960's.

Unemployment Rate, Help Wanted Index, and Wage and Salary Income. A decline in the unemployment rate and a rise in the help wanted index are signs of a growing demand for labor, and, by association, of expanding economic activity. The average annual rate of unemployment in Toledo decreased from 8.4 percent in 1961 to 3.4 percent in 1966; the rate in 1966 was slightly above the State level but below the national figure (3.1 percent and 3.9 percent, respectively). The improvement in Toledo's economy was relatively greater than in the nation. The help wanted index in the Toledo area more than doubled from 1963 to 1966, reflecting significant improvement in the demand for labor.[9]

Wages and salary income of those in covered employment also provides an indication of the course of economic activity, as well as of employment patterns and of buying power. From 1958 to 1965 covered employment income in Toledo climbed 38 percent, compared with gains of 43 percent in Ohio and 47 percent in the nation. The bulk of the gain in Toledo's covered payrolls occurred after 1961, with relative performance more favorable than in either Ohio or the United States.

[8] The volume of ore handled at Cleveland, however, is more than double that of Toledo.

[9] In a generally strong labor market such as prevailed nationally in 1965 and 1966, it should be recognized that industry seeks employees outside its immediate geographic area; thus, all of the increase in the help wanted index may not be due to local demand.

Electric Power Sales. In 1966, total electric power sales in Toledo were 73 percent above 1958 levels compared with an 82-percent gain in the nation. Over the 1958 to 1966 period, residential consumption of electric power in Toledo increased 51 percent compared with a 93-percent increase nationally. Industrial use of electricty in Toledo advanced 79 percent over the same period, or slightly less than the 83-percent rise nationally. However, from 1961 through 1966, the percent gain in industrial use of electricity in Toledo exceeded that of the nation.

Building Contracts. In Toledo, as in most areas, building contracts data are characterized by sharp fluctuations. For this reason, year-to-year changes may be less signficant as measures of change in business activity than longer term trends. Reasonably similar percent changes from 1958 to 1966 were registered for total and nonresidential building in Toledo and the nation, with Ohio lagging. On the other hand, residential construction in Toledo lagged both Ohio and the United States in the same period. The composition of total construction during 1958 to 1966 shows that 43 percent of the total in Toledo was residential, compared with 54 percent in Ohio and 56 percent nationally.

Commercial and Industrial Loans. Between 1959 and 1966, commercial and industrial loans outstanding[10] at Toledo's weekly reporting banks increased by 35 percent compared with gains of 79 percent in Ohio and 69 percent in the nation. Interestingly, as with other economic indicators, commercial and industrial loans advanced strongly relatively recently (1964), like the situation in Ohio and the United States. The distribution of commercial and industrial loans among major industries in Toledo differs in several respects from that in the State (see Table V). In 1966, the three most important categories of business loans at Toledo banks were trade, manufacturing, and services, in that order. In Ohio, the ranking was manufacturing, trade, and services. From mid-1962 to mid-1966, the percent change in dollar volume at Toledo banks shows much greater growth in loans to manufacturing firms (59 percent) than to trade concerns (15 percent). At all reporting banks in Ohio, the increases were trade, 72 percent, and manufacturing, 67 percent.

Bank Debits. The 79-percent rise in bank debits in Toledo from 1958 to 1966 lagged gains in the State (89 percent) and the nation (106 percent). The growth of bank debits in Toledo from 1958 to 1962 was more rapid than in the State or nation, but slowed noticeably from 1963 to 1966, in contrast to an accelerated growth in Ohio and the nation. While this may seem surprising in view of the generally more favorable performance of Toledo's economy in the recent period, it can be attributed, at least in part, to the fact that economic activity is not always financed in the same area in which it physically takes place. (See footnote 10.)

Department Store Sales. Gains in department store sales in the Toledo metropolitan

[10] The limitations of data for a single area should be considered when comparisons are made with State or national series. Because financing of large projects may not be undertaken locally, and since direct loans or participation loans by local banks may assist in the financing of business activity outside the local area, business loan data only partly reflect the course of local economic activity.

TABLE IV
Selected Economic Series
Toledo, State of Ohio, and United States
1958-1966

		1958	1959	1960	1961	1962	1963	1964	1965	1966p	Percent Change*
Unemployment Rate, Total (annual averages)	Toledo	n.a.	n.a.	5.0%	8.4%	6.2%	5.	4.4%	3.7%	3.4%	— 32%
	Ohio	n.a.	n.a.	5.3	7.3	5.7	5.	4.2	3.5	3.1	— 42
	United States	6.8%	5.5%	5.6	6.7	5.6	5.	5.2	4.6	3.9	— 30†
Help Wanted Index 1957-59 = 100 (annual averages)	Toledo	69	116	123	86	127	1	156	229	278	+ 303
	United States	78	111	104	97	110	1	123	155	190	+ 143
Wages and Salaries (millions of dollars)	Toledo	656	713	739	706	741	7	827	905	n.a.	+ 38
	Ohio	11,302	12,507	12,836	12,554	13,307	13,8	4,862	16,186	n.a.	+ 43
	United States	196,382	212,538	222,108	225,869	240,132	251,6	9,288	289,145	n.a.	+ 47
Electric Power Sales (billions of kwh's)	Toledo-Residential	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7	+ 51
	Industrial	1.4	1.7	1.8	1.7	1.9	2.0	2.1	2.3	2.6	+ 79
	Total	2.3	2.6	2.7	2.7	2.9	3.1	3.2	3.5	3.9	+ 83
	United States-Residential	165.0	180.0	196.0	209.0	226.0	242.(	52.0	281.0	318.4	+ 93
	Industrial	381.7	422.1	459.8	481.9	518.1	554.3	92.5	635.0	698.0	+ 83
	Total	570.0	628.0	684.0	722.0	778.0	833.(	92.0	953.0	1,035.3	+ 82
Building Contracts Residential and Nonresidential (millions of dollars)	Toledo-Residential	$ 26	$ 30	$ 31	$ 30	$ 30	$ 4	43	$ 36	$ 30	+ 15
	Nonresidential	36	42	53	41	28	3	62	46	62	+ 74
	Total	62	72	84	71	58	(	105	82	92	+ 49
	Ohio-Residential	681	1,056	894	852	966	1,0	1,017	1,047	951	+ 40
	Nonresidential	835	676	656	717	628	6	863	979	1,099	+ 32
	Total	1,516	1,732	1,550	1,560	1,594	1,7	1,880	2,026	2,050	+ 35
	United States-Residential	14,696	17,150	15,105	16,123	18,039	20,5	0,565	21,248	17,827	+ 21
	Nonresidential	10,948	11,387	12,240	12,115	13,010	14,3	5,522	17,219	19,393	+ 77
	Total	25,644	28,537	27,345	28,238	31,049	34,8	6,087	38,467	37,220	+ 44
Commercial and Industrial Loans Outstanding at Weekly Reporting Banks (midyear 1959-1966, millions of dollars)	Toledo	n.a.	$ 62	$ 66	$ 66	$ 64	$	63	$ 74	$ 84	+ 35
	Ohio	n.a.	1,031	1,159	1,145	1,158	1,2	1,324	1,579	1,846	+ 79
	United States	n.a.	32,904	31,632	31,769	33,354	35,5	3,748	46,839	55,769	+ 69
Index of Bank Debits 1958-60 = 100	Toledo	88.7	101.1	110.2	115.7	136.3	137.7	44.9	152.2	158.5	+ 79
	Ohio	91.9	102.0	106.1	108.4	117.4	125.9	38.3	154.0	173.3	+ 89
	United States (excl. N.Y.C.)	91.2	101.9	106.9	112.8	124.4	135.4	48.1	164.6	187.7	+ 106
Department Store Sales Index 1957-59 = 100	Toledo	n.a.	n.a.	111	114	118	12	129	140	n.a.	+ 26
	Ohio	96	105	104	106	110	1	122	131	n.a.	+ 26†
	United States	99	105	106	109	114	1	120	136	n.a.	+ 28†

Item	Definition of Toledo	Source
Unemployment Rate	1960-63, Lucas County 1964-65, Lucas and Wood Counties, Ohio, and Monroe County, Michigan	Division of Research and Statistics, Ohio Bureau of Unemployment Compensation
Help Wanted Index	Newspaper market area	National Industrial Conference Board, Inc.
Wages and Salaries (Toledo and Ohio, covered employment; United States, wages and salaries)	Lucas and Wood Counties	U. S. Department of Commerce; Division of Research and Statistics, Ohio Bureau of Unemployment Compensation
Electric Power Sales	Utility service area	Toledo Edison Company
Building Contracts	Lucas County	F. W. Dodge Company
Commercial and Industrial Loans Outstanding	Service area of commercial banks	Board of Governors of the Federal Reserve System; Federal Reserve Bank of Cleveland
Bank Debits	Service area of commercial banks	Board of Governors of the Federal Reserve System; Federal Reserve Bank of Cleveland
Department Store Sales	Lucas and Wood Counties, Ohio, and Monroe County, Michigan	U. S. Department of Commerce; Bureau of Business Research, The Ohio State University; Board of Governors of the Federal Reserve System; Federal Reserve Bank of Cleveland

p—Preliminary.
n.a.—Not available.
* Change from 1958 or earliest year in series.
† Percent change from 1960.

TABLE V
Commercial and Industrial Loans Outstanding At Weekly Reporting Banks,* By Industry
Selected Dates, 1962 to 1966

	Percent of Total Outstanding on					
	June 27, 1962	June 26, 1963	June 24, 1964	June 30, 1965	June 29, 1966	Percent Change in Dollar Volume (1962 to 1966)
Toledo						
Trade	48%	37%	41%	39%	43%	+ 15%
Total manufacturing	25	31	30	32	31	+ 59
Durable goods	15	21	21	22	18	+ 54
Nondurable goods	10	10	10	9	13	+ 66
All other, mainly services	16	18	17	18	18	+ 42
Transportation, communication, and other public utilities	3	6	4	6	5	+143
Construction	6	6	7	5	4	— 16
Mining	1	1	1	‡	‡	— 78
Total†	100%	100%	100%	100%	100%	+ 31
Ohio						
Trade	22%	22%	22%	23%	22%	+ 72
Total manufacturing	40	41	40	38	41	+ 67
Durable goods	26	26	26	25	25	+ 61
Nondurable goods	14	15	14	13	16	+ 79
All other, mainly services	17	16	19	19	16	+ 56
Transportation, communication, and other public utilities	10	10	10	11	11	+ 74
Construction	8	7	7	7	7	+ 36
Mining	2	2	2	2	3	+108
Total†	100%	100%	100%	100%	100%	+ 66%

* 19 banks in Ohio report weekly on the distribution of loans outstanding by business or borrowers.
† All columns may not add to 100 percent due to rounding.
‡ Less than 1 percent.

Source: Federal Reserve Bank of Cleveland

area from 1960 to 1965 were comparable to gains in the State, but slightly less than in the nation. A strong performance in Toledo during 1964 and 1965 matched favorable showings in Ohio and the United States.

CONCLUDING COMMENTS

Recently, activity in Toledo has followed the pattern of many developed industrial centers across the United States. As indicated earlier, Toledo's economy went through a fundamental economic readjustment during the 1950's. Since that time, however, particularly since 1963, most measures of economic activity indicate a resurgence in Toledo.

If developments in 1966 are representative of longer-run implications, Toledo appears to have an industrial mix with considerable growth potential. Three of the City's seven major industries showed relatively greater

gains than in the nation from 1965 to 1966; gains in the other four industries were similar in Toledo and the United States.

A major plus factor for Toledo has been its strength in two of the most rapidly growing nonmanufacturing components of the nation's economy — the service industries and government, especially education. Finally, the Port of Toledo is expected to share in any expansion of commerce on the Great Lakes.

CAPITAL SPENDING PLANS IN CINCINNATI AND PITTSBURGH

The 1967 spring survey of capital spending plans of business firms in selected metropolitan areas of the Fourth District again indicates that local spending may differ from the broad pattern revealed by similar surveys on a nationwide scale.[1]

CINCINNATI

Results of the latest survey by the Federal Reserve Bank of Cleveland in cooperation with the Greater Cincinnati Chamber of Commerce in the seven-county Cincinnati metropolitan area reveal that manufacturing firms in 1966 actually spent somewhat less for new plant and equipment than had been anticipated in the fall survey. While similar proportions (four out of every ten firms reporting in both surveys) reported spending either more or less than had been expected in the fall, total capital spending outlays in 1966 fell short of the figure anticipated in the previous survey.

In contrast, total spending for 1967 is now expected to exceed earlier plans (last fall's) by a small margin. Firms planning larger spending than previously for 1967 slightly outnumber the firms that reduced spending plans for this year in the interval between the two surveys.

Revised figures of 1966 actual spending and 1967 planned spending indicate that total spending by the manufacturing group will exceed last year's by about 31 percent (see Table I). Previously, a 2-percent drop between 1966 and 1967 had been reported by participating firms. The pattern of higher spending for 1967 in relation to 1966 than previously reported prevails among all individual industries in both the durable and nondurable portions of manufacturing in Table I. Following the anticipated rise this year, spending by manufacturing concerns in 1968 is expected to be 24 percent below 1967 (see Table I).

Among major industries, transportation equipment accounts for about 40 percent of total capital outlays planned by reporting manufacturing firms for both 1967 and 1968, while combined spending by the chemicals,

[1] For a discussion of capital spending plans in Cleveland and northeastern Ohio see *ECONOMIC REVIEW*, Federal Reserve Bank of Cleveland, May, 1967.

TABLE I
Capital Spending by Cincinnati Area Firms (Spring 1967 Survey)
Year-to-Year Percent Changes

	1966 (actual) to 1967 (planned)	1967 (planned) to 1968 (planned)
MANUFACTURING	+ 31%	— 24%
Durable goods	+ 8	— 15
Primary and fabricated metals*	+ 14	+ 17
Machinery	— 4	+ 51
Electrical equipment	+ 50	— 31
Transportation equipment	+ 9	— 38
Other durables†	— 10	+ 3
Nondurable goods	+ 62	— 33
Food	+ 10	-0-
Apparel	+ 83	— 90
Paper	+118	— 55
Printing and publishing	+ 31	— 49
Chemicals	+106	— 34
Other nondurables‡	+ 83	— 69
PUBLIC UTILITIES	+ 21	+ 23
TOTAL	+ 28%	— 8%

* Combined in order to preclude disclosure of individual establishment data.
† Includes furniture and fixtures, stone, clay, and glass, instruments, miscellaneous manufacturing.
‡ Includes rubber, leather.
Source: Federal Reserve Bank of Cleveland

food, and machinery industries accounts for another 40 percent. Anticipated spending in 1967 by the utilities — about two-thirds of the total reported by all participating manufacturing firms — was revised upward between the two survey dates, but the percent increase over 1966 is still expected to be less than the increase by manufacturing firms. Current spending plans of the utilities for 1968 show a further increase, unlike the anticipated decline in spending by manufacturers.

Distribution of total spending between structures and equipment varies greatly among major industries. An insignificant proportion of the massive spending in the transportation equipment industry will be for structures in 1967 and 1968 (see Table II). Figures for the food and chemicals industries indicate that a rather large share of total outlays will be for structures in both years.

Between six and seven out of every ten dollars of total spending will go for expansion

TABLE II
Capital Spending by Cincinnati Area Firms (Spring 1967 Survey)
Percent Distribution of Total Spending by Type* (Between Structures and Equipment and Between Expansion and Replacement)

	Structures †			Expansion ‡		
	1966	1967	1968	1966	1967	1968
MANUFACTURING	21%	35%	26%	62%	70%	65%
Durable goods	16	12	16	62	66	60
Primary and fabricated metals §	8	27	50	34	56	72
Machinery	25	17	11	70	57	45
Electrical equipment	20	19	16	52	54	47
Transportation equipment	14	3	2	70	77	69
Other durables #	13	15	18	69	63	62
Nondurable goods	27	51	36	62	73	70
Food	31	53	44	56	67	48
Apparel	15	71	20	55	9	10
Paper	9	47	11	49	74	57
Printing and publishing	9	16	15	28	35	66
Chemicals	36	59	39	83	87	82
Other nondurables ##	2	70	25	57	75	25
PUBLIC UTILITIES	28	32	32	75	70	74
TOTAL	22%	34%	27%	65%	70%	67%

* Based only upon returns in which these breakdowns were supplied.
† Spending for equipment equals 100 percent less the percentage shown for structures.
‡ Spending for replacement equals 100 percent less the percentage shown for expansion.
§ Combined in order to preclude disclosure of individual establishment data.
# Includes furniture and fixtures, stone, clay, and glass, instruments, miscellaneous manufacturing.
Includes rubber, leather.
Source: Federal Reserve Bank of Cleveland

of present manufacturing facilities, with higher proportions in chemicals and transportation equipment. Spending for expansion in manufacturing, although still very high, is down slightly from the proportion revealed in last October's survey. This may indicate somewhat reduced capacity pressures on manufacturing firms, since in April only 22 percent of reporting manufacturing firms considered capacity "less than required," compared with 25 percent last October.

Among manufacturing firms answering the question on financing plans, 86 percent expect to use internal financing entirely in 1967, a drop from a reported 90 percent in 1966. In total dollars, internal financing declined from an actual 95 percent in 1966 to an anticipated 93 percent in 1967. Utilities expect only 50 percent of total spending this year to be financed from internal sources, in contrast to an actual 78 percent last year.

PITTSBURGH

The most recent survey of business firms in the four-county Pittsburgh metropolitan area, conducted by the University of Pittsburgh under arrangements with the Federal Reserve Bank of Cleveland, indicates a 21-percent increase in new plant and equipment spending in 1967. Manufacturing firms anticipate a 25-percent increase in spending in 1967 (see Table III).

The latest survey reflects a considerable upward revision in spending expectations from the fall 1966 survey. At that time, manufacturing firms anticipated only a 2-percent increase in spending for 1967, while combined spending by all participating firms was expected to rise by 11 percent. The largest upward revision occurred in nondurable goods manufacturing as a group. Only the transportation industry, among reporting industries, revised its spending plans downward between the two survey dates.

TABLE III
Capital Spending by Pittsburgh Area Firms (Spring 1967 Survey)
Year-to-Year Percent Changes

	1966 (actual) to 1967 (planned)	1967 (planned) to 1968 (planned)
MANUFACTURING	+ 25%	— 28%
Durable goods	+ 21	— 24
Stone, clay, and glass	— 47	+ 81
Primary metals	+ 17	— 18
Fabricated metals	+ 13	— 63
Machinery (incl. electrical)	+143	+ 2
Nondurable goods	+ 45	— 45
Food	+ 49	— 48
Printing and publishing	+ 43	— 71
Chemicals	+ 38	— 42
TRANSPORTATION	+ 32	+ 12
PUBLIC UTILITIES	— 11	— 2
RETAIL TRADE	+ 29	— 99
TOTAL	+ 21%	— 20%

Sources: University of Pittsburgh and Federal Reserve Bank of Cleveland

Spending by the whole manufacturing group accounts for about half of total outlays reported by Pittsburgh business firms that returned completed questionnaires. Within the manufacturing group, primary metals ranks first in amount of spending, accounting for about 55 percent of total outlays by manufacturing firms in each of the three survey years. A major portion of spending by primary metal manufacturers is designated for replacement of equipment.

In 1968, spending of reporting firms is expected to drop below the 1967 level by about one-fifth for all industries and by over one-fourth in manufacturing (see Table III).

TABLE IV
Capital Spending by Pittsburgh Area Firms (Spring 1967 Survey)
Percent Distribution of Total Spending by Type* (Between Structures and Equipment and Between Expansion and Replacement)

	Structures †			Expansion ‡		
	1966	1967	1968	1966	1967	1968
MANUFACTURING	20%	19%	17%	23%	40%	35%
Durable goods	21	21	19	19	35	37
Stone, clay, and glass	43	–0–	–0–	15	2	8
Primary metals	19	18	17	12	30	33
Fabricated metals	34	12	12	36	40	6
Machinery (incl. electrical)	14	30	28	26	44	56
Nondurable goods	10	10	4	53	68	13
Food	13	1	6	2	30	8
Printing and publishing	6	22	4	64	66	45
Chemicals	10	7	3	59	77	6
TRANSPORTATION	5	3	24	1	1	20
PUBLIC UTILITIES	34	39	32	56	56	53
RETAIL TRADE	98	71	–0–	§	§	–0–
TOTAL	24%	24%	24%	28%	37%	39%

*Based only upon returns in which these breakdowns were supplied.

† Spending for equipment equals 100 percent less the percentage shown for structures.

‡ Spending for replacement equals 100 percent less the percentage shown for expansion.

§ Less than 1 percent.

Sources: University of Pittsburgh and Federal Reserve Bank of Cleveland

In 1967, slightly less than one dollar in four will be spent for structures by all firms combined, and only one dollar in five by all manufacturing concerns (see Table IV). Spending plans of machinery firms for 1967 and 1968 indicate a considerably larger proportion of total spending for structures. The large share of construction outlays by retail firms reflects the nature of retail operations.

Distribution of total capital spending between replacement and expansion shows a sharply rising share for expansion, particularly between 1966 and 1967, spurred primarily by expansion plans of the printing and publishing and the chemical industries. Capacity pressure does not appear to be a factor in the decision to expand, as a smaller portion of respondents in manufacturing than last fall reported "less than adequate" capacity in the latest survey.

In 1966, less than 60 percent of all actual capital spending was financed internally, with three-fourths of all reporting firms relying exclusively on internal financing. Plans are to finance over 70 percent of expenditures internally in 1967, with over four-fifths of reporting firms expecting to use only internal sources. Manufacturing firms expect to finance 95 percent of dollar outlays internally this year — against 70 percent in 1966.

Fourth Federal Reserve District