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RECENT TRENDS IN THE RETAIL TRADE INDUSTRY: UNITED STATES AND FOURTH DISTRICT

Retail trade involves a myriad of establishments selling many different commodities for personal, household, or farm use. Although an establishment may be involved in processing or preparing a product in some way before its sale, the main focus of attention must be selling the product to the general public. This article discusses the types of establishments included in the components of retail trade and changes in the various components. It also reviews the continuing growth in importance of urban areas in trade and the recent increase in the number of small, independent merchants.

COMPONENTS OF RETAIL TRADE

There are eight major groupings of retail trade, as defined by items 52 through 59 of the Standard Industrial Classification Manual (SIC). The Census of Business for Retail Trade, however, provides eleven breakdowns by further disaggregating some of the SIC groupings. The components from the census, as used in this study, are building materials, hardware, and farm equipment dealers; general merchandise stores; food stores; automotive dealers; gasoline service stations; apparel and accessory stores; furniture, home furnishings, and equipment stores; eating and drinking places; drug stores and proprietary stores; miscellaneous retail stores; and nonstore retailers. (For definitions of these categories, see Appendix.)

Retail Sales. Because the primary function of retail trade is to sell a particular good to consumers, the primary measure of each component of retail trade is its total sales. Although the impact of each component can be measured as its share of total retail sales, the unit price of the various goods varies widely from the cost of a large piece of farm equipment to the cost of a bar of soap.

Sales of all retail trade establishments in the United States amounted to $244.2 billion in 1963 and $310.2 billion in 1967, the years in which the Census of Retail Trade was taken. Total sales in the Fourth District were $18.7 billion in 1963 and rose to $23.4 billion in 1967.[1] The consumer price index rose from an average of 106.7 in 1963 to an average of 116.3 in 1967, thereby accounting for part of the increase in dollar sales.

The most important component of retail trade in terms of total sales was food stores, which accounted for $70.3 billion, or 23 percent, of retail sales in the United States and $5.6 billion, or 24 percent, of retail sales in the Fourth District in the 1967 census. Both shares were slightly lower than they were in the 1963 census (see Table I).

The second largest component in terms of sales was automotive dealers. Although new and used car dealers continued to be the most important part of this component in 1967, airplane, motorcycle, and boat dealers registered significant gains between 1963 and 1967.

The third largest component was general merchandise stores. Between 1963 and 1967, this component's share of retail sales rose from 12 to 14 percent ($43.5 billion in 1967) in the nation and from 14 to 16 percent (or $3.8 billion) in the Fourth District. In 1967, these three components—food stores, automotive dealers, and general merchandise stores—accounted for 54 percent of retail sales in the nation and 58 percent of retail sales in the District (see Table I).

Total retail sales rose at an average annual rate of 6.2 percent in the nation and 5.0 percent in the District from 1963 to 1967, with sales by general merchandise stores having the fastest rate of increase and building materials dealers the slowest (see Table I). Furniture and home furnishing stores also showed a higher than average annual rate of growth. Because data for general merchandise stores are not provided by department, it is not possible to tell if consumers were buying more clothing in department stores (thus accounting for the slower than average growth in apparel and accessory stores), or if increased disposable income was causing consumers to spend a larger proportion of their income on other commodities, such

[1] The Fourth District includes the state of Ohio, 19 counties in western Pennsylvania, 56 counties in eastern Kentucky, and six counties in the West Virginia panhandle.

TABLE I

Distribution of Total Retail Trade
By Volume of Sales
United States and Fourth District
1963 and 1967

	United States			Fourth District		
	1963	1967	Average Annual Rate of Growth	1963	1967	Average Annual Rate of Growth
Total retail trade	100.0%	100.0%	6.2%	100.0%	100.0%	5.0%
Building materials, hardware, and farm equipment dealers	6.0	5.5	4.2	5.7	4.9	2.1
General merchandise stores	12.3	14.0	9.8	13.8	16.3	10.2
Food stores	23.4	22.6	5.3	25.2	23.7	4.3
Automotive dealers	18.6	17.9	5.2	19.1	18.4	4.8
Gasoline service stations	7.3	7.3	6.3	7.7	8.0	6.8
Apparel and accessory stores	5.7	5.4	4.4	4.7	4.3	3.3
Furniture, home furnishings', and equipment stores	4.5	4.7	7.4	4.2	4.6	8.3
Eating and drinking places	7.5	7.7	6.7	7.5	7.4	5.5
Drug stores and proprietary stores	3.5	3.5	6.5	3.2	3.3	6.4
Miscellaneous retail stores	8.7	8.8	6.4	6.7	6.7	6.1
Nonstore retailers	2.5	2.5	5.3	1.9	1.8	4.0
Not elsewhere classified	——	——	——	0.3	0.5	(15.5)

NOTE: Details may not add to totals because of rounding.

Source: U. S. Department of Commerce, Bureau of the Census, *Census of Business, Retail Trade,* 1963 and 1967

as home furnishings, both in specialized shops and in general merchandise stores.

Sales of eating and drinking establishments also rose at a higher than average annual rate, although their share of retail sales showed little change between 1963 and 1967. The fastest growing subgroup of eating and drinking establishments was refreshment places, which includes franchised "fast-food" establishments. Nationally, sales of the latter rose at an average annual rate of 15.1 percent in the period studied, as compared with an average annual increase of 5.7 in restaurant sales.

Payroll Contributions. One important way in which the retail trade industry contributes to economic activity in both the nation and the District is through employees' salaries. Data for retail payrolls, as published in the Census of Business, are somewhat understated because they do not include payments to individual proprietors in establishments that do not have payroll employees. Small shops that are run by an individual, often with the help of his family, are, therefore, not included. However, this group only accounts for a small share of retail payrolls and should not significantly affect the data. Moreover, gratuities and tips received by employees from their customers and reported to their employers were included for the first time in the 1967 census. This inclusion was probably most important in the eating and drinking places component, but it should not make the data for 1967 noncomparable with those for 1963.

Total retail trade payrolls in the United States rose from $27.6 billion in 1963 to $36.2 billion in 1967, a 30.9 percent increase. In the Fourth District, payrolls rose from $2.1 billion in 1963 to $2.7 billion in 1967, an increase of 31.6 percent. This increase in payrolls can be accounted for by a rise in the number of payroll employees as well as by the growth in average compensation per employee. The number of paid retail trade employees in the United States rose from 8,410,199 in 1963 to 9,380,616 in 1967, while in the District, the number of paid retail trade employees increased from 646,651 to 714,812.[2] These increases amounted to 11.5 percent in the United States and 10.5 percent in the District. Similarly, average weekly earnings in retail trade climbed from $63.18 to $74.16 in the nation and from $61.61 to $73.38 in the District.[3] Wages in retail trade, however, remain significantly lower than wages in manufacturing.

Average weekly earnings shifted upward between 1963 and 1967, but large differentials between the various components of retail trade continued to exist. The components paying the highest wages per employee in 1967 were automobile dealers, followed by building materials dealers. The lowest paid employees were in gasoline service stations and eating and drinking establishments. On average, employees in eating and drinking establishments earned less than half as much as employees of automobile dealers.

[2]The number of paid employees includes all employees who are working, on paid sick leave, paid vacations, or paid holidays for the week closest to November 15, 1963 and the week ended March 12, 1967.

[3]Average weekly earnings are calculated by dividing total payroll for the year by 52 to get average weekly payroll, which is then divided by the number of employees in selected weeks. See footnote 2.

URBAN VERSUS RURAL RETAIL SALES IN THE FOURTH DISTRICT

The population of the Fourth District is centered in urban areas.[4] In 1966 (the mid-decade year for which complete data are available), 74.0 percent of all persons in the Fourth District lived in urban areas. The distribution of personal income also heavily favors urban areas. In 1962 (a year for which complete data are available), 77.5 percent of all personal income in the Fourth District was received by persons living in urban areas; this share rose to 79.8 percent in 1967, reflecting the continued shift in the population from rural areas.

As would be expected, most retail sales are in urban areas. In 1963, 75.5 percent, or $14.1 billion, of retail sales in the District were made in metropolitan areas; this share rose to 77.9 percent, or $18.2 billion, in 1967 (see Table II). In other words, in urban areas the share of retail sales is greater than the share of population, but less than the share of personal income.

The component that most closely approximated the distribution of total retail sales in rural and urban areas in both 1963 and 1967 was food stores. The share of sales of food stores in urban areas (77 percent in 1967) was greater than the share of population in urban areas (74 percent in 1966), which may be accounted for by the fact that some persons living in rural areas grow part of their food in their gardens. At the same time, persons in urban areas may tend to buy both the more expensive packaged food items and out-of-season fruits and vegetables.

As shown in Table II, the component of retail trade with the highest share of metropolitan sales

[4]Urban areas of the Fourth District include all counties that are part of a Standard Metropolitan Statistical Area.

TABLE II

Distribution of Retail Sales
Fourth District
1963 and 1967

	1963		1967	
	Urban	Rural	Urban	Rural
Total retail trade	75.5%	24.5%	77.9%	22.1%
Building materials, hardware, and farm equipment dealers	64.4	35.6	64.1	35.9
General merchandise stores	84.8	15.2	87.0	13.0
Food stores	75.0	25.0	77.0	23.0
Automotive dealers	73.5	26.5	76.2	23.8
Gasoline service stations	72.2	27.8	73.3	26.7
Apparel and accessory stores	78.2	21.8	81.3	18.7
Furniture, home furnishings', and equipment stores	77.8	22.2	79.8	20.2
Eating and drinking places	80.5	19.5	82.5	17.5
Drug stores and proprietary stores	80.1	19.9	80.8	19.2
Miscellaneous retail stores	67.9	32.1	72.7	27.3
Nonstore retailers	79.2	20.8	86.0	14.0

NOTE: Details may not add to totals because of rounding.

Source: U. S. Department of Commerce, Bureau of the Census, *Census of Business, Retail Trade*, 1963 and 1967

in the Fourth District is general merchandise stores. Although this component contains some smaller variety stores, the most important segment includes department stores, which are usually located in a metropolitan area. A rural area usually cannot adequately support a large department store. Moreover, because of the growth of suburban shopping centers in the past ten years, the branches of metropolitan department stores are now more convenient for both the suburban and rural population.

Nonstore retailers also tend to locate in metropolitan areas. Sales by mail-order houses, which accounted for nearly one-half of the sales by nonstore retailers, are recorded at the place where the order is received; therefore, many goods ordered from mail-order houses may be destined for rural delivery, but are recorded as sales in urban areas. At the same time, direct selling is often not economical in rural areas where houses are widely separated.

Another component of retail trade shown by the data to be more important in urban than rural areas in the District is eating and drinking establishments. This phenomenon is probably due to the fact that urban dwellers are more likely to eat and entertain in restaurants than are rural residents. One example of this is business entertaining, including the lunch-time trade. Another factor is the larger number of urban restaurants from which to choose, including the "fast-food" establishments.

Apparel and accessory stores also have a higher than average share of sales in urban areas. This may be accounted for by the fact that people in rural areas often prefer to come to urban areas to shop for clothing and because people engaged in agriculture generally do not choose the variety of clothes as do people who work in offices. This latter explanation is probably not as important now as it was in the past, because a smaller share of the population is now employed in agriculture.[5]

A fifth component with greater than average sales in urban areas is drug and proprietary stores. No supposition has been brought forward to account for this deviation from the average. Perhaps the higher proportion of medical specialists in urban areas, who may prescribe some of the more expensive medicines, accounts for some of the difference.

The final component in which the proportion of sales in urban areas was larger than the average proportion of total retail sales in urban areas was furniture and home furnishings. Consumers in urban areas tend to spend a larger share of their income on furniture and appliances; at the same time, consumers from rural areas may do some of their shopping for these items in urban areas where there is a wider selection of merchandise.

Five components of retail trade had a higher than average proportion of sales in rural areas in the Fourth District. No definite reason can be given for automobile dealers falling into the category of being relatively more important in rural areas. However, sales of small trucks are included in sales made by new and used car dealers and may have some impact. At the same time, distances involved in rural living may require two or more cars per family, while urban (as opposed to suburban) families may use public transportation more extensively and demand fewer autos per family. Some urban residents may also travel to rural areas to purchase an automobile because of lower prices, including lower taxes.

Gasoline service stations also have higher than average sales in rural areas. This is due to the fact that greater distances must be traveled, and, as noted above, families tend to have more cars. At the same time, fuel is needed to operate farm machinery.

One reason for the strength of miscellaneous retail stores in rural areas is the inclusion of farm supply stores and feed stores in this component. In addition, many rural areas can economically support small independent stores, whereas a large department store would not be viable.

The final component, and the one which is most important in rural areas, is building materials, hardware, and farm equipment dealers. Nearly one-fourth of the sales of this component in Ohio comes from farm equipment dealers, reflecting the continuing trend toward larger, more mechanized farms.

RETAIL TRADE ESTABLISHMENTS

The number of retail establishments in the nation rose from 1,707,931 in 1963 to 1,763,324 in 1967. This is a 3.2 percent increase, which contrasts with a 4.8 percent decline in the number of establishments from 1958 to 1963. The most striking note in the increase in the number of establishments is that much of the gain came in establishments with no payroll. It would seem that the small, independent merchant is staging a comeback in retail trade in the nation.

Not all components of retail trade experienced an increase in the number of establishments from 1963 to 1967, as shown in Table III. Building materials dealers, food stores, and apparel and accessory stores all experienced a decline in numbers, with losses in both payroll and non-

[5]See Charles E. Van Tassel, *An Analysis of Factors Influencing Retail Sales,* Marketing and Transportation Paper, Bureau of Business and Economic Research (East Lansing: Michigan State University, 1966).

TABLE III

Number of Establishments
Retail Trade
United States
1963 and 1967

	Total Establishments			Establishments with Payroll		
	1963	1967	Percent Change 1963-1967	1963	1967	Percent Change 1963-1967
Total retail trade	1,707,931	1,763,324	+ 3.2%	1,206,087	1,191,546	+ 1.2%
Building materials, hardware, and farm equipment dealers	92,703	86,373	− 6.8	74,803	69,015	−7.7
General merchandise stores	62,063	67,307	+ 8.4	51,417	51,770	+ 0.7
Food stores	319,433	294,243	− 7.9	178,170	171,700	−3.6
Automotive dealers	98,514	105,500	+ 7.1	75,538	76,887	+ 1.8
Gasoline service stations	211,473	216,059	+ 2.2	165,863	165,190	−0.4
Apparel and accessory stores	116,223	110,164	− 5.2	96,015	91,430	−4.8
Furniture, home furnishings', and equipment stores	93,649	98,826	+ 5.5	69,393	71,264	+ 2.7
Eating and drinking places	334,481	347,890	+ 4.0	263,941	271,182	+ 2.7
Drug stores and proprietary stores	54,732	53,722	− 1.8	50,452	49,079	−2.7
Miscellaneous retail stores	244,868	288,772	+ 17.9	163,229	158,129	−3.1
Nonstore retailers	79,792	94,468	+ 18.4	16,766	15,900	−5.2

Source: U. S. Department of Commerce, Bureau of the Census, *Census of Business, Retail Trade,* 1963 and 1967

payroll establishments. Drug stores suffered an overall drop in total number, but establishments with no payroll increased.

The most notable gain in the number of establishments was experienced by nonstore retailers; however, more than 80 percent of this component was accounted for by direct selling establishments, such as house-to-house canvassing or sales from a truck. Moreover, sales of ice cream or other refreshments from a truck were included in the eating and drinking stores component in 1963, but added to nonstore retailers in 1967, thereby further inflating this figure.

Miscellaneous retail stores had the next largest overall growth in the number of establishments. Because the number of establishments with a payroll actually declined from 1963 to 1967, all of the growth came from establishments with no payroll. It is impossible to judge exactly where the largest gains occurred, because complete data are unavailable for the sector of "other miscellaneous retail stores," which includes more than one-half of all establishments in this component. The number of these miscellaneous establishments with no payroll grew by 124 percent in the period under review. The second fastest growing sector of miscellaneous retail stores was sporting goods stores and bicycle shops. Only one subgroup, fuel and ice dealers, showed a decline in the number of establishments with no payroll.

Several other components of retail trade registered a substantial increase in the number of establishments between 1963 and 1967 (see Table III). In almost all of these rapidly growing components, there was a dramatic increase in nonpayroll stores specializing in a limited line of merchandise. The small, independent merchant who obtains voluntary help from his family and friends is still an important part of retail trade, albeit a small part in relation to total sales. Although there was an increase in the number of establishments between 1963 and 1967, we have no accurate measure of the number of stores that opened *and then closed* within this period.

Fourth District. The Fourth District registered a decline of 4.2 percent in the number of retail establishments between 1963 and 1967. Establishments with a payroll dropped by 5 percent, while establishments with no payroll dropped by only 2 percent. The largest decline in the Fourth District came in rural areas where the number of payroll establishments declined by 6.6 percent, and the number of nonpayroll establishments fell by 8.2 percent. The small annual growth in rural retail trade and the movement of large stores to nearby suburban shopping centers undoubtedly forced many rural merchants out of business. In urban areas, the total number of establishments declined by nearly 3 percent, with all of the loss coming in establishments with a payroll. Establishments with no payroll registered a modest increase of 2 percent.

CONCLUDING COMMENTS

In the period covered by this study, there was a small proportionate shift, both nationally and regionally, away from sales of essential commodities, such as food and clothing. As per capita personal disposable income increased, the consumer spent a smaller share of his total income on essentials, and he could spend a larger share on nonessentials, such as home furnishings and dining out. The sharp increase in sales by general merchandise stores is underscored by the fact that the largest share of furniture, home furnishings, and appliances is sold through department stores. The home furnishings sector, both specialized stores and department stores, is one of the fastest growing sectors of retail trade at the present time.[6]

The Fourth District in particular had a dramatic rise in sales of both general merchandise stores and furniture and home furnishings dealers. This occurred even though retail sales in the District rose less rapidly than in the nation.

Another important change in the picture of retail trade is the continued shift of stores from rural to urban areas. Retail trade is not only keeping up with, but also slightly surpassing population shifts to urban areas because people from rural areas do some of their shopping, especially for clothing, furniture and appliances, in urban areas where a larger selection of merchandise is available. This trend appears to be continuing as the population continues to move to the cities and as urban areas continue to expand.[7]

Finally, there was an increase in the number of small, family-operated stores, particularly in urban areas. Many small shops have opened that specialize in a limited merchandise line. Historically, however, these small shops have a high rate of failure because the owners may not understand the complexities of operating a business, or they may be unable to raise sufficient capital for growth or to weather a temporary slump in sales.

The next Census of Retail Trade, which will take place in 1972, will indicate whether changes from 1963 to 1967 were part of a long-range trend or a temporary aberration. The increase in the number of retail establishments in 1967 was the most noticeable change, and it may indicate some alteration in the course of retail trade.

[6] "Home Furnishings: Is it the Glamour Industry of the Seventies?" *Forbes,* CVI (November 15, 1970), pp. 24-38.

[7] Following the 1970 Census of Population, the Office of Management and Budget will issue revised definitions of Standard Metropolitan Statistical Areas that reflect the expansion of the suburbs into former rural counties.

APPENDIX

Building materials dealers includes firms selling lumber and other building materials such as bricks, tiles, sand and gravel, storm doors, and roofing materials, as well as firms selling plumbing, heating, and air conditioning equipment. These firms can sell to both the general public and contractors, and establishments are considered to be in retail trade if 15 percent of their sales are to the public or 50 percent of their sales are to the public and contractors combined. Firms selling paint, glass, or wallpaper are included in retail trade, but those firms that are primarily engaged in the application or installation of these items are excluded. Electrical supply stores, hardware stores, and farm equipment dealers are also part of this component.

General merchandise stores includes department stores, variety stores, other general merchandise stores, dry goods stores, and sewing and needlework stores. Discount stores are included as either department stores or general merchandise stores, depending on the number of employees and the importance of various lines of merchandise.

Food stores comprises all establishments that sell food designed for consumption *away* from the stores; therefore, supermarkets and groceries as well as specialty stores, such as meat markets, vegetable markets, and bakeries, are listed in this category.

Automotive dealers includes not only those establishments that sell new and used cars, but also home and auto supply stores, boat dealers, household trailer dealers, and aircraft and motorcycle dealers as well.

Gasoline service stations is actually a subcategory of automotive dealers under the SIC listing and is self-explanatory.

Apparel and accessory stores includes men's, women's, and children's clothing stores, as well as accessory shops, such as milliners, furriers, custom tailors, and shoe stores.

Furniture, home furnishings, and equipment stores contains all establishments that sell merchandise to furnish a home. This merchandise involves a wide range of items such as furniture, rugs, carpets, floor tiles, draperies, upholstery fabric, china, glassware, cookware, lamps, picture frames, window shades, household appliances, radios, television, phonograph records, and musical instruments.

Eating and drinking places includes all establishments that sell food that is to be consumed *on* the premises. These establishments range from restaurants specializing in gourmet cookery to cafeterias and franchised "fast-food" outlets. Caterers are also included in the grouping, as are establishments whose receipts stem mainly from the sale of alcoholic beverages by the drink.

Drug stores and proprietary stores sell the same general lines of merchandise, but the latter do not fill prescriptions. This grouping is a subcategory of miscellaneous retail stores in the SIC listing.

Miscellaneous retail stores includes a wide variety of establishments that do not fit into any other component. Included are packaged liquor stores, antique shops, sporting goods stores, jewelry stores, fuel dealers, florists, tobacco shops, book stores, farm supply and feed stores, newsstands, camera stores, souvenir shops, and junk shops, as well as others too numerous to mention.

Nonstore retailers consists of mail-order houses, vending machine operators, and direct selling establishments, such as door-to-door salesmen. Unfortunately, the data for vending machine operators are not complete because machines owned and operated by manufacturing plants, wholesale establishments, or retail establishments classified elsewhere are not included. In addition, coin operated machines such as washing machines, car washes, and juke boxes are included in the Census of Selected Services data, rather than in retail trade.

CAPITAL SPENDING IN MAJOR METROPOLITAN AREAS OF THE FOURTH DISTRICT

The latest semiannual survey of capital spending that was conducted in the fall of 1970 by the Federal Reserve Bank of Cleveland among manufacturing and selected other business concerns in the Cleveland, Cincinnati, and Pittsburgh metropolitan areas represented a reassessment of spending plans for 1970 and 1971 that participating firms had submitted in the spring of 1970.[1] The fall survey generally reaffirmed the direction of changes in capital spending for 1970 and 1971, as indicated by the spring survey, but revised the margin of change in each of the three areas. Thus, spending in the manufacturing sector in 1970 will now be reduced more in Cleveland and Cincinnati, and raised more in Pittsburgh, than had been anticipated in the spring, and spending reductions for 1971 are now expected to be smaller than predicted at the time of the spring survey, or to disappear altogether.

[1] The Pittsburgh area survey was conducted for the Federal Reserve Bank of Cleveland by the University of Pittsburgh.

CLEVELAND AREA

When surveyed in the spring of 1970, manufacturing firms in the four-county Cleveland metropolitan area indicated that their spending for new plant and equipment in 1970 would be substantially less than in 1969. The latest survey conducted in the fall of 1970 confirmed that prediction. Manufacturing concerns participating in the fall survey reported that their total capital outlays for 1970 would be 35 percent below actual outlays for 1969 (see Table I), a 14 percentage point greater reduction than the group anticipated in the spring. Almost one-half of the firms participating in both surveys revised their spending plans for 1970 downward between the two survey dates, while the remainder of the group either made upward revisions or left earlier spending plans unchanged.

For 1971, Cleveland area manufacturers in the most recent survey expected a further decline in capital investments (10 percent). Although this decline in spending is somewhat smaller than the 17-percent cut that was indicated by the spring

TABLE I

Capital Spending by Cleveland Area Firms
(Fall 1970 Survey)
Year-to-Year Percent Changes

	1969 (actual) to 1970 (planned)	1970 (planned) to 1971 (planned)
MANUFACTURING	−35%	−10%
Durable goods*	−35	−12
Primary metals	−41	− 5
Fabricated metals	−43	−14
Machinery	−26	−17
Electrical equipment	−26	+28
Transportation equipment	−28	−30
Nondurable goods*	−33	+ 1
Food	+11	+47
Printing and publishing	−59	−30
Chemicals	−16	− 8
Rubber and plastics	−47	+16
PUBLIC UTILITIES	+10	+20
TOTAL	−23%	+ 1%

* Includes industries not listed separately to avoid disclosure.

Source: Federal Reserve Bank of Cleveland

TABLE II

Capital Spending by Cleveland Area Firms
(Fall 1970 Survey)
Percent Distribution of Total Spending by Type*
(Between Structures and Equipment and Between Expansion and Modernization)

	Structures†			Expansion‡		
	1969	1970	1971	1969	1970	1971
MANUFACTURING	26%	12%	12%	57%	49%	43%
Durable goods§	25	9	10	57	47	40
Primary metals	9	4	4	73	68	65
Fabricated metals	58	2	2	24	11	15
Machinery	45	15	13	64	52	28
Electrical equipment	32	8	12	47	26	40
Transportation equipment	27	15	22	15	30	23
Nondurable goods§	33	29	25	59	55	54
Food	14	44	35	42	60	55
Printing and publishing	49	38	12	64	29	33
Chemicals	37	28	25	77	74	70
Rubber and plastics	3	2	18	9	8	19
PUBLIC UTILITIES	22	26	27	73	87	81
TOTAL	25%	18%	20%	61%	61%	58%

* Based only upon returns in which these breakdowns were supplied.
† Spending for equipment equals 100 percent less the percent shown for structures.
‡ Spending for modernization equals 100 percent less the percent shown for expansion.
§ Includes industries not listed separately to avoid disclosure.

Source: Federal Reserve Bank of Cleveland

survey, the combined declines in spending for 1970 and 1971, as currently expected, represent a total reduction over the two years that is seven percentage points larger than had been anticipated in the spring of 1970.

The expected 35-percent reduction in capital spending in the manufacturing sector for 1970 is widespread. It is of nearly the same relative size in the durable as in the nondurable goods portion of manufacturing and affects all but one of the major industries listed in Table I. More than 60 percent of the responding firms expect their total capital outlays for 1970 to remain below the actual amount spent in 1969.

The expected decline in manufacturers' capital spending in 1971 is concentrated in the durable goods group where three-fourths of total spending is generally accounted for by the primary metal and transportation equipment industries. In the nondurable goods group, reductions planned in some industries are offset by increases planned in other industries, leaving the level of spending for the group as a whole virtually unchanged.

Public utilities in the Cleveland area expect their capital outlays in 1970 to exceed the level of spending in 1969 by 10 percent and to rise further by 20 percent in 1971. This is a revision of spending plans as reported in the spring survey, when a 15-percent increase in spending for 1970 and a 4-percent reduction for 1971 were anticipated.

The most severe effect of the cutback in spending by manufacturing firms in 1970 will be on outlays for new construction. Although planned spending for new machinery and equipment in 1970 will equal three-fourths of total outlays for machinery and equipment in 1969, spending for new construction is expected to reach barely one-third of the amount actually spent for structures in 1969. That shift in spending can also be seen in Table II. From 26 percent of total spending in 1969, the share of spending for structures in the manufacturing sector is expected to drop to only 12 percent in 1970 and to remain at that low level in 1971. The cut in spending for construction is most noticeable in the durable goods group.

Manufacturing firms, particularly in the durable goods industries, have earmarked a smaller proportion of their total spending in 1970 for expansion and a larger proportion for modernization of present facilities than in 1969 and plan to allocate outlays in the same proportions again in 1971 (see Table II).

In contrast to manufacturing firms, public utilities in the Cleveland area expect to increase the respective portions of their total spending for construction and for expansion in both 1970 and 1971, as compared with 1969.

The continued nationwide decline in capacity utilization rates is reflected in the replies from manufacturing firms concerning the adequacy of current production facilities. More than 40 percent of firms responding to the question on capacity considered their present facilities "more than required," while only 26 percent did so at the time of the spring survey. The number of responses indicating "less than required" facilities declined further between the spring and the fall of 1970.

Manufacturing concerns that supplied information on methods of financing their capital investments indicated that they expect to finance more than 90 percent of their planned spending in 1970 and 1971 from internal sources. The same proportion applied to those firms' actual spending in 1969. More than four out of every five responding firms plan to rely solely on internal sources of funds for capital investments in 1970 and 1971. Both the share of the total dollar amount earmarked for internal financing and the proportion of firms using only internal sources of funds are greater than the figures indicated in the spring survey.

CINCINNATI AREA

Total spending for new plant and equipment by manufacturing concerns in the seven-county Cincinnati metropolitan area is expected to be 17 percent less in 1970 than in 1969 and to rise by 7 percent in 1971 (see Table III). The results of the latest survey indicated a slightly larger decline in spending for 1970 than participating manufacturing firms had anticipated at the time of the survey conducted in the spring of 1970. Downward revisions made by responding firms in spending plans in the interval between the two survey dates outnumbered upward revisions. In contrast, the currently expected 7-percent increase in spending planned for 1971 represents an upward revision of earlier plans, since the previous survey had indicated that total spending would be 1 percent less in 1971 than in 1970.

The currently expected reduction in total spending from 1969 to 1970 affects most severely the durable goods portion of the manufacturing

TABLE III

Capital Spending by Cincinnati Area Firms (Fall 1970 Survey)
Year-to-Year Percent Changes

	1969 (actual) to 1970 (planned)	1970 (planned) to 1971 (planned)
MANUFACTURING	−17%	+ 7%
Durable goods*	−27	+ 10
Primary and fabricated metals†	−13	+281
Machinery	−18	− 30
Electrical equipment	−21	+151
Transportation equipment	−40	− 21
Nondurable goods*	− 2	+ 5
Food	− 9	+ 21
Paper	−41	+ 65
Printing and publishing	−66	+ 8
Chemicals	+33	‡
PUBLIC UTILITIES	+18	+ 1
TOTAL	+ 2%	+ 4%

* Includes industries not listed separately to avoid disclosure.
† Combined in order to preclude disclosure of individual establishment data.
‡ Less than 0.5%.

Source: Federal Reserve Bank of Cleveland

sector where spending in 1970 will fall short of the 1969 level in all major industries, particularly in the machinery and transportation equipment industries. In the nondurable goods group, the much smaller decline in spending in 1970 reflects increased outlays by almost all responding firms in the chemical industry that offset most of the spending cuts planned in other nondurable goods industries.

For 1971, higher capital outlays are expected in both divisions of the manufacturing sector. The relative increase should be larger in the durable than in the nondurable goods group, due mainly to a very substantial project for modernizing and expanding production facilities in the primary metal industries that is scheduled for 1971. Outlays for this project will more than offset continued spending reductions expected in the machinery and transportation equipment industries.

Public utilities in the Cincinnati area, following their own pattern of capital investment, expect 18-percent higher outlays in 1970 than in 1969, but a further rise of only 1 percent in 1971. The planned total for 1970 differs little from the estimate made in the spring of 1970, but the figure for 1971 represents a sharp downward revision of the previously reported 20-percent increase in spending for 1971.

Cincinnati area manufacturing concerns expect to spend smaller dollar totals for construction in 1970 and 1971 than they did in 1969, a year marked by a high level of investment for new structures in the area. Spending for structures will decline by 40 percent in 1970 and further by 15 percent in 1971. As a result, such spending will drop from more than one-third of total capital spending by manufacturing firms in 1969 to 25 percent in 1970 and to 23 percent in 1971 (see Table IV).

The proportion of total spending earmarked for expansion of facilities is expected to rise in 1970, due largely to the substantial and rising share of spending for expansion in the chemical industry and in the nondurable goods group as a whole. In 1971, spending for expansion is expected to drop back in both groups, most sharply among the durable goods industries (see Table IV).

More than 60 percent of the Cincinnati area manufacturing firms that replied to the question concerning present manufacturing capacity reported "adequate" facilities, a proportion unchanged from the previous survey. However, only

TABLE IV

Capital Spending by Cincinnati Area Firms (Fall 1970 Survey)
Percent Distribution of Total Spending by Type*
(Between Structures and Equipment and Between Expansion and Modernization)

	Structures†			Expansion‡		
	1969	1970	1971	1969	1970	1971
MANUFACTURING	35%	25%	23%	58%	63%	54%
Durable goods §	38	26	18	51	50	27
Primary and fabricated metals#	9	8	23	23	6	37
Machinery	38	28	7	65	59	27
Electrical equipment	15	17	9	12	22	2
Transportation equipment	46	22	n.a.	69	63	n.a.
Nondurable goods §	31	23	25	65	73	70
Food	27	19	13	35	32	40
Paper	18	12	25	32	17	12
Printing and publishing	52	15	20	55	41	24
Chemicals	18	25	29	80	88	82
PUBLIC UTILITIES	26	34	38	45	50	58
TOTAL	32%	28%	29%	54%	59%	55%

n.a. Not available.
* Based only upon returns in which these breakdowns were supplied.
† Spending for equipment equals 100 percent less the percent shown for structures.
‡ Spending for modernization equals 100 percent less the percent shown for expansion.
§ Includes industries not listed separately to avoid disclosure.
# Combined in order to preclude disclosure of individual establishment data.

Source: Federal Reserve Bank of Cleveland

11 percent reported "less than required" facilities (down from 21 percent in the spring), while 26 percent reported "more than required" facilities (up from 16 percent). Responses from individual firms in the machinery industry, for example, were evenly divided between "adequate" and "more than required" facilities, while several responses in the spring survey had indicated "less than required" facilities.

More than eight out of every ten manufacturing firms reporting on methods of financing their capital investments expect to use only internal sources of funds to finance capital spending in 1970 and 1971, which is the same as the proportion of firms that relied solely upon internal sources of funds in 1969. Between 82 percent and 85 percent of the planned amount of spending by all responding manufacturing firms in 1970 and 1971 is scheduled to be financed with internally generated funds. This is slightly less than the proportion indicated for 1970 and 1971 in the spring survey, but slightly more than the proportion of actual spending in 1969 that was financed from internal sources of funds.

PITTSBURGH AREA

Manufacturing concerns in the four-county Pittsburgh metropolitan area that participated in the fall 1970 survey will spend more for new plant and equipment in 1970 than they actually spent in 1969 (see Table V). Moderately increased capital outlays for 1970—contrasting with reduced spending expected by manufacturers in the Cleveland and Cincinnati areas—were already indicated in the survey conducted in the spring of 1970. However, the 34-percent increase in spending now anticipated for 1970 far exceeds the 4-percent increase that manufacturers were expecting in the spring. Among the firms that responded to both the spring and the fall survey, those raising their spending plans for 1970 between the two survey dates outnumbered those making downward revisions in their plans.

Pittsburgh area manufacturers also upgraded their spending plans for 1971 between the spring and the fall 1970 survey. Although still expecting total outlays for 1971 to remain below the 1970 level, they now anticipate a reduction in spending

TABLE V

Capital Spending by Pittsburgh Area Firms (Fall 1970 Survey)
Year-to-Year Percent Changes

	1969 (actual) to 1970 (planned)	1970 (planned) to 1971 (planned)
MANUFACTURING	+ 34%	−13%
Durable goods*	+ 29	− 5
Stone, clay, and glass	+ 33	−27
Primary metals	+ 34	− 4
Fabricated metals	+ 55	−14
Machinery	+ 26	−54
Electrical equipment	− 17	+71
Nondurable goods*	+ 90	−64
Food	+100	−50
NONMANUFACTURING	+ 44	+16
Transportation	+163	+70
Public utilities	+ 14	−10
Retail trade	− 3	−62
TOTAL	+ 39%	+ 5%

* Includes industries not listed separately to avoid disclosure.

Sources: University of Pittsburgh and Federal Reserve Bank of Cleveland

of only 13 percent, in contrast to the 35-percent cut indicated at the earlier date. Therefore, capital spending in 1971 is now expected to rise 17 percent above, rather than drop one-fourth below, the level of actual spending in 1969.

Public utilities and firms in selected other nonmanufacturing industries in the Pittsburgh area expect to increase their capital spending in 1970 by an even greater margin than manufacturing firms. The most recent survey indicated that in 1970 there will be an increase of 44 percent above the level of actual spending in 1969. This is to be followed by a more moderate (16-percent) rise in 1971. The upsurge in spending in the nonmanufacturing group largely reflects substantial capital investments scheduled for 1970 and 1971 by some firms in public transportation. Those increases will more than offset spending cuts planned for 1971 by public utilities and retail trade firms.

The most recent capital spending plans of Pittsburgh area manufacturers, particularly those in the durable goods industries, reveal a substantial shift toward spending for new plant construction and away from spending for machinery and equipment. Spending for structures is expected not only to rise at a faster rate than spending for machinery in 1970 but also to continue rising at the same fast pace in 1971, when spending for machinery is expected to drop back almost to the 1969 level. This shift is reflected in the data in Table VI that show, for example, that in the durable goods group, the share of total outlays allocated to structures will double between 1969 and 1971, as sizable construction projects in the electrical equipment and fabricated metal industries develop.

About the same proportions of total spending as in 1969 will be used in 1970 for expansion and for modernization of manufacturing facilities. In 1971, however, the share of spending for expansion is expected to decline sharply in favor of spending for modernization, with a particularly large swing in the primary metal industries.

Present production facilities were considered adequate by two out of every three manufacturing firms that responded to the question, while one-fifth of the responses indicated "more than required" facilities. These proportions do not differ from those reported in the spring of 1970.

Among Pittsburgh area manufacturing concerns that supplied information on methods of financing their capital investments, three out of every four used only internally generated funds in 1969 and a slightly greater proportion expect to do so in 1970 and 1971. While 90 percent of the actual dollar

TABLE VI

Capital Spending by Pittsburgh Area Firms (Fall 1970 Survey)
Percent Distribution of Total Spending by Type*
(Between Structures and Equipment and Between Expansion and Modernization)

	Structures†			Expansion‡		
	1969	1970	1971	1969	1970	1971
MANUFACTURING	18%	26%	35%	41%	44%	24%
Durable goods §	18	27	37	41	41	23
Stone, clay, and glass	1	1	#	19	39	–0–
Primary metals	19	15	17	34	40	7
Fabricated metals	52	65	73	61	72	71
Machinery	9	47	12	56	35	41
Electrical equipment	14	14	39	52	25	25
Nondurable goods §	15	17	–0–	42	63	41
Food	5	–0–	–0–	48	56	49
NONMANUFACTURING	23	21	25	41	28	49
Transportation	50	20	63	1	6	50
Public utilities	22	21	21	55	53	52
Retail trade	53	45	62	81	81	85
TOTAL	22%	22%	27%	41%	37%	39%

* Based only upon returns in which these breakdowns were supplied.
† Spending for equipment equals 100 percent less the percent shown for structures.
‡ Spending for modernization equals 100 percent less the percent shown for expansion.
§ Includes industries not listed separately to avoid disclosure.
\# Less than 1%.

Sources: University of Pittsburgh and Federal Reserve Bank of Cleveland

amounts invested in 1969 was financed from internal sources of funds, internal financing is expected to be used for only 83 percent of manufacturers' total capital outlays in 1970 and for 85 percent in 1971.

CONCLUDING COMMENTS

The nationwide survey of capital spending plans undertaken in late October and early November by the U. S. Department of Commerce and the Securities and Exchange Commission indicated that, despite a slight decline between the third and fourth quarters of 1970, average spending by all manufacturing industries for 1970 would be 2 percent above the average for 1969. Manufacturers' expected outlays in the first half of 1971, however, were estimated to remain below the total for the second half of 1970, due particularly to reduced spending in the durable goods group. The latest McGraw-Hill survey (conducted in October 1970) indicated a 2-percent decline in spending among manufacturers for the year 1971, as compared with 1970.

The results of the three surveys in the Fourth District coincide only partially with the national picture. For 1970, spending in the manufacturing sector is expected to fall short of the 1969 level in Cleveland and Cincinnati. Only in Pittsburgh is such spending in 1970 expected to be higher than in 1969, but the margin of the expected increase is much greater than the modest 2-percent rise expected nationally for 1970.

As to manufacturers' spending plans for 1971, survey results in Cleveland and Pittsburgh appear to be in step with expected national developments, although considerably larger cutbacks in spending are anticipated in the two areas than in the nation as a whole.

Increased spending in 1970 and 1971 planned by public utilities in the three areas generally agrees with the national pattern, except for the Pittsburgh area where a reduction in the level of spending is anticipated for 1971.

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* Out of print.