# MONTHLY REVIEW

The high rate of steel output in recent weeks has begun to replenish supply lines depleted by the 116-day strike.

FEDERAL RESERVE BANK OF RICHMOND FEBRUARY 1960

# 1960

# A YEAR OF DELAYED REACTION

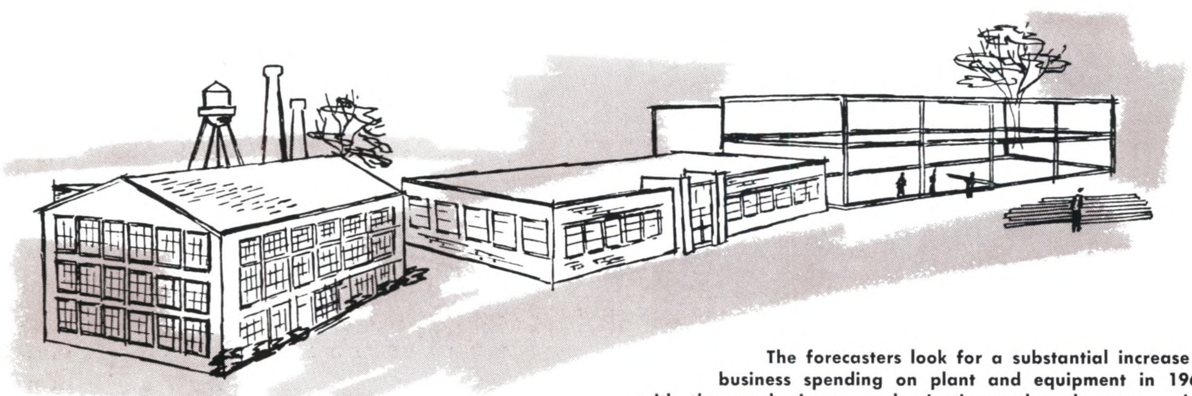
The peak of the forecasting season has passed and most of the returns are in for this year. The turnout at the polls seems to have been a bit heavier than usual and the diversity of opinion is as great as ever. This article summarizes about 130 forecasts of the trend of economic activity in 1960. No views or opinions of this bank are implied or expressed.

In addition to the usual factors that enter the picture, forecasters this year had two other situations to weigh. Foremost in everyone's mind at forecast time was the steel strike. Would there be a permanent settlement or another stretch of closed steel mills? Just how much pent-up demand on the part of producers and consumers would be carried forward from 1959 to 1960 as a result of the steel strike? The second big question was how much influence the national elections would have on the economy as the year passed on.

As a sort of sidelight, one other situation attracted considerable comment. This was the first year of the "Golden Sixties," a decade which many analysts view as one of great economic growth and which many writers have described for quite some time in the most glowing terms. Thus 1960 invited special attention as the threshold of a period with an exciting potential for business opportunities and growth.

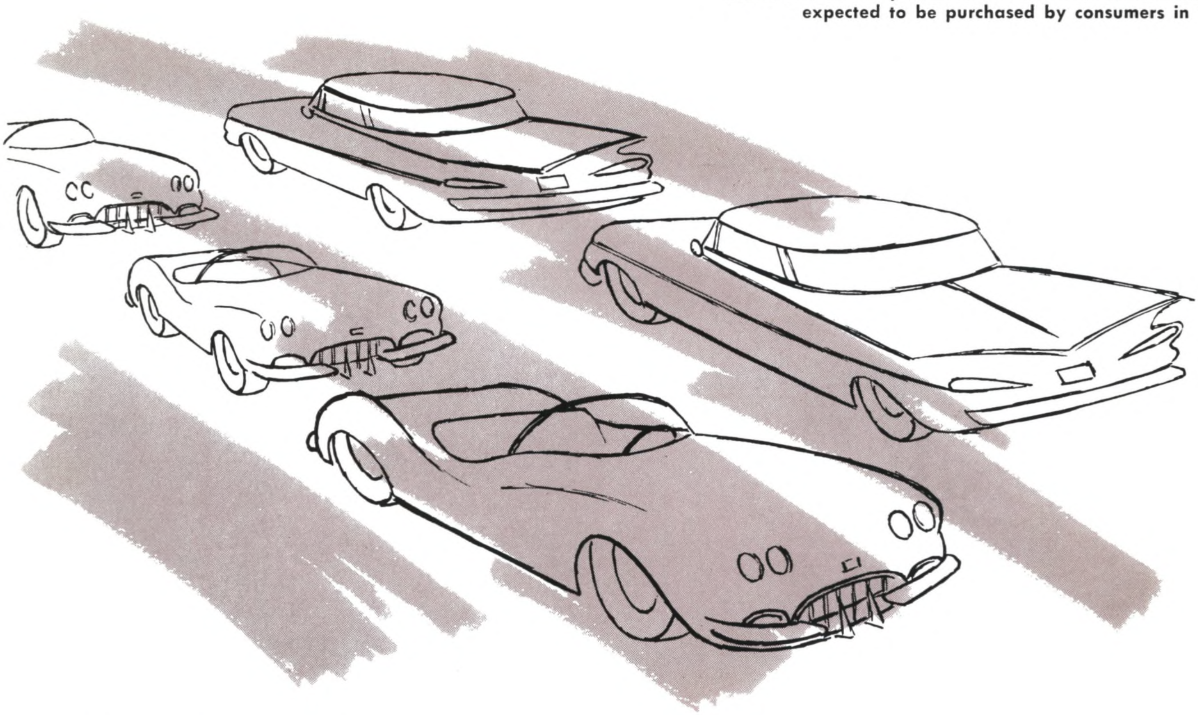
**THE MAJORITY VIEW** Last year the forecasters were almost unanimous in estimating that 1959 would be a year of prosperity and expansion from beginning to end. The steel strike largely upset the estimates for 1959 business activity as the record length of the shutdown was generally omitted from the basic assumptions. The many uncertainties in the 1960 outlook—not the least of which is the prospect of labor troubles in industries other than steel—led one well-known writer about midway in the forecasting season to say, ". . . there are too many bewildering crosscurrents in the economy, at the present time, to enable us to tell where we are, let alone where we are going." Nearly all the experts, however, still predict the economy will climb to new heights in 1960 but the pattern of growth anticipated varies. The majority of forecasters predict rapid increases in output in the first half of the year with a slow-up in the rate of growth occurring in the second half of the year. A much smaller number look for the economy to move sideways in the second half, and a very few point out that the economy may start turning downward during the last six months. A handful of forecasters look for the expansion to continue at the same pace throughout the year.

Those forecasts made in September and October when it was expected that the steel strike would be settled any day often looked for a peak in the poststrike business upturn in the first quarter or early in the second quarter of 1960. Forecasters nearer the turn of the year generally felt the real test of business strength had been moved further away, probably into 1961.



**The forecasters look for a substantial increase in business spending on plant and equipment in 1960, with the emphasis on modernization rather than expansion.**

Big cars and little cars, foreign and domestic, all makes and colors . . . as many as seven million new automobiles are expected to be purchased by consumers in 1960.



**ANOTHER "MODERATE" YEAR** The vast majority of forecasters predict that the gross national product in 1960 will pass $500 billion. Where specific figures are mentioned, there is a cluster of estimates around $510 billion as the value of the nation's final output of goods and services. A surprising number leave their estimates in the indefinite range of "above the $500 billion mark." The $510-billion figure would mean an increase of about 7% over the estimated 1959 average of $478.8 billion. In four of the past ten years, GNP had a larger-than-7% gain, in four other years a smaller gain and in two years a decline.

A representative statement of this thinking holds that, "Business in 1960 . . . will rise to the highest levels in history. But . . . the year's gains are expected to be on the 'moderate side' in relation to 1959's top performance."

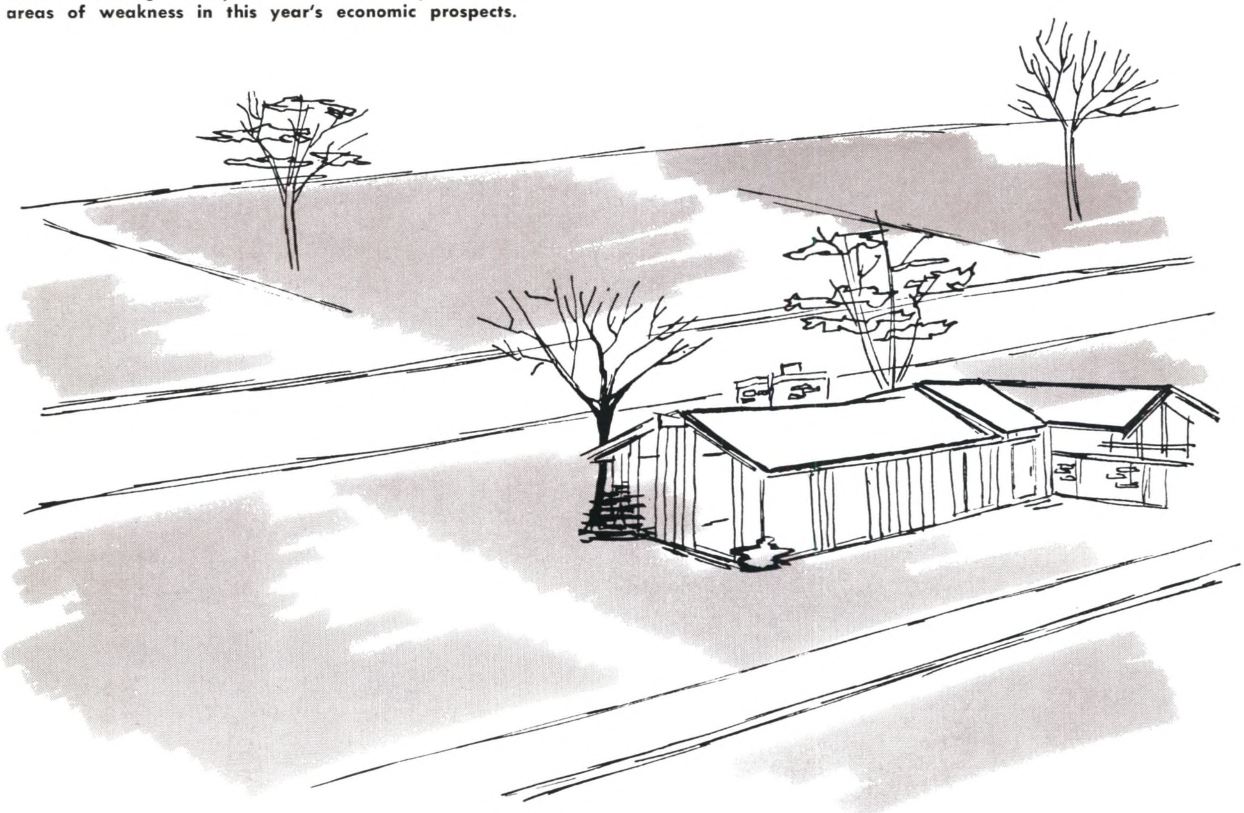
**SHELVES NEED RESTOCKING** Among the experts there is almost unanimous agreement that because of the 116-day steel strike businesses need to rebuild their inventories. Generally it is expected that inventory buying will be greater in the first half of the year than in the second half. While inventory accumulation might continue in the second half, the rate will probably be considerably lower. Most forecasters do not look for the rate of accumulation in the first half of 1960 to reach the $10-billion level of the second quarter of 1959, but there are some who look for an annual rate of $8 or $9 billion. The figures most often cited for 1960 as a whole are $6 billion or $7 billion. This compares with an annual rate of $3.9 billion in 1959.

Although most inventory buying will be in durable goods fields, the experts also look for a big jump in nondurables stocks. The importance of the inventory situation led one forecaster to say: "The spreading effect of this inventory expansion on employment, incomes, and sales will probably be the outstanding feature of the business picture in the year ahead."

**A SLACK TAKER-UPPER IN SECOND HALF** Almost without exception the forecasters expect the economy to get a lift this year from continued increases in business spending on plant and equipment. Some call it a "moderate increase," others a "rapid rise." The majority of estimates of capital outlays by business are in the $37-$38 billion range. This compares with an indicated expenditure in 1959 of $32.6 billion. A $37-billion figure would represent a 13% gain over the 1959 rate, an annual increase exceeded only twice in the last decade. The consensus is that the larger part of business spending will be for modernization of present plants rather than building new ones.

A question which has raised some controversy among the forecasters is whether or not business

**Nearly all forecasters see private residential building activity as one of the major areas of weakness in this year's economic prospects.**



spending in the final six months of 1960 will continue strong enough to keep the advancing economy from losing momentum or possibly from turning downward if inventory restocking has been largely accomplished by midyear. This essentially is presented as the big unknown in the forecasts of 1960 economic developments. Some forecasters point out that with the economy expanding in early 1960, much of the present excess in productive capacity will be reduced. The need to increase capacity to take care of normal growth will thus reappear as an expansionary force. Among the more recent forecasts there is the opinion that businessmen will revise upward their plans for capital outlays when they see the strength of the economy at midyear. If this becomes a reality, it could be an important source of continued growth in over-all economic activity in the last half of the year.

**"STRONG CONSUMER DEMAND . . .** will continue to exert an element of strength in the months ahead." Surveys of consumer attitudes in recent months have shown the consumer to be generally optimistic. Expanding business spending and rising employment and incomes will enable consumers also to increase their spending. While the typical forecast looks for the nondurable and service categories to reach new highs in 1960, the big push is expected in durable goods—mostly from automobile sales.

Industry spokesmen are hopeful that automobile sales in 1960 will be close to 7 million cars, including imports. This would be a 15% increase over sales in 1959 and a figure topped only once before, in 1955. The rationale for the 7-million figure includes such factors as the already fairly good reception given 1960 models and the fact that some automobile purchasing has been pushed forward from 1959 into 1960 due to a shortage of cars resulting from the steel strike.

**A DAMPENING FACTOR** The only key area in the economy where all the experts look for a decrease in activity is residential building. Generally they do not suggest any drastic decline from the level of starts at the end of 1959 but rather a leveling off at the year-end rate. The figure most frequently cited as the number of nonfarm private houses to be started in 1960 is 1,200,000 units although one forecaster puts the figure at 800,000.

The 1,200,000 annual rate compares with 1,210,000 units in November and 1,310,000 in December, on a seasonally adjusted basis. It is considerably below the 1,434,000 starts of last April, however, and 11% below 1959 as a whole.

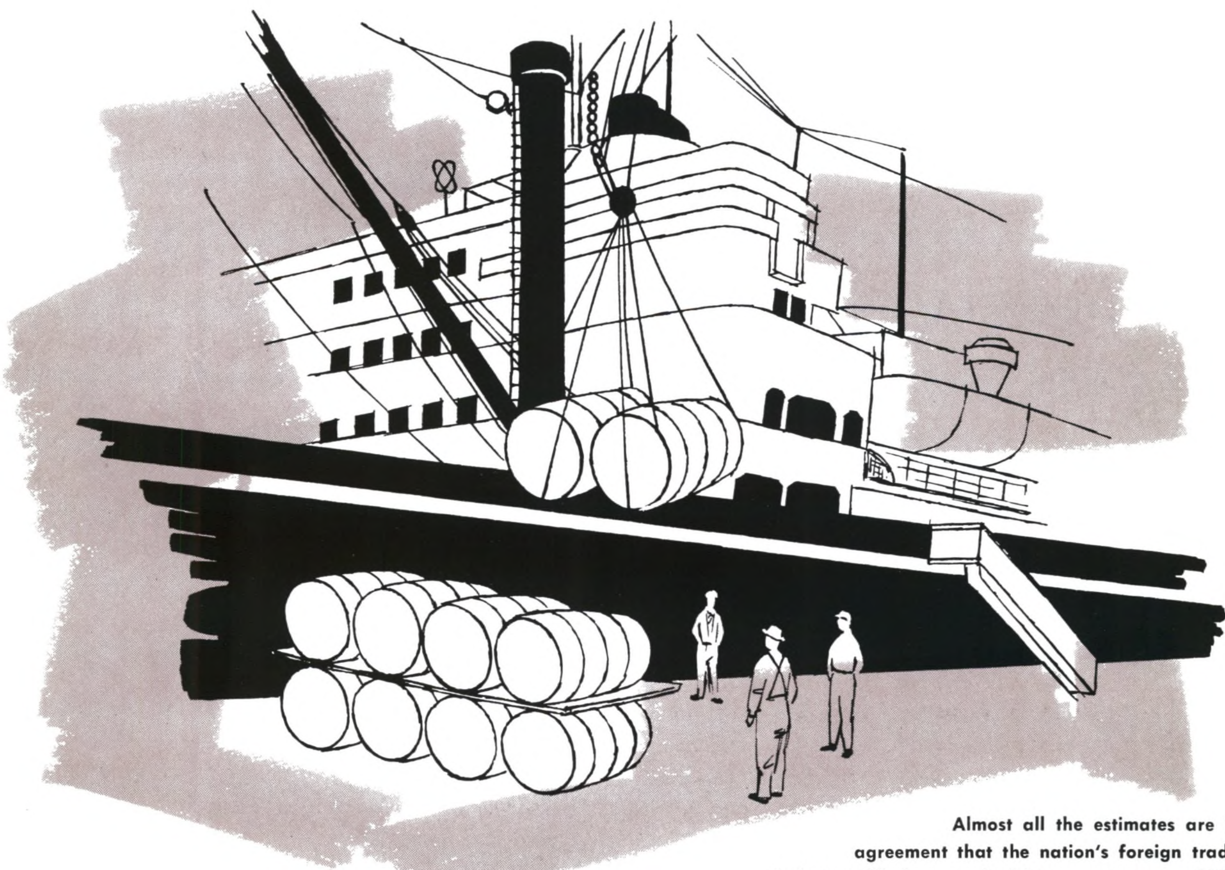
**"A MODERATELY EXPANSIONARY FORCE"** The consensus is that total government expenditures will tip the scales on the plus side in 1960 but most of the push will come from state and local government outlays rather than Federal spending. Most feel that Federal spending will increase by only a nominal amount or hold steady but a few foresee a decline in this sector. In many instances the forecaster points out that this is an area where disarmament talks or the elections could exert considerable influence later on in the year.

State and local outlays have shown an increase each year, through recession or prosperity, since 1944. Not a single forecaster expects them to decline this year. The amount of increase expected ranges from $2 billion to $4 billion with a cluster of estimates around $3 billion. Such an increase would put state and local expenditures in 1960 around $47.5 billion.

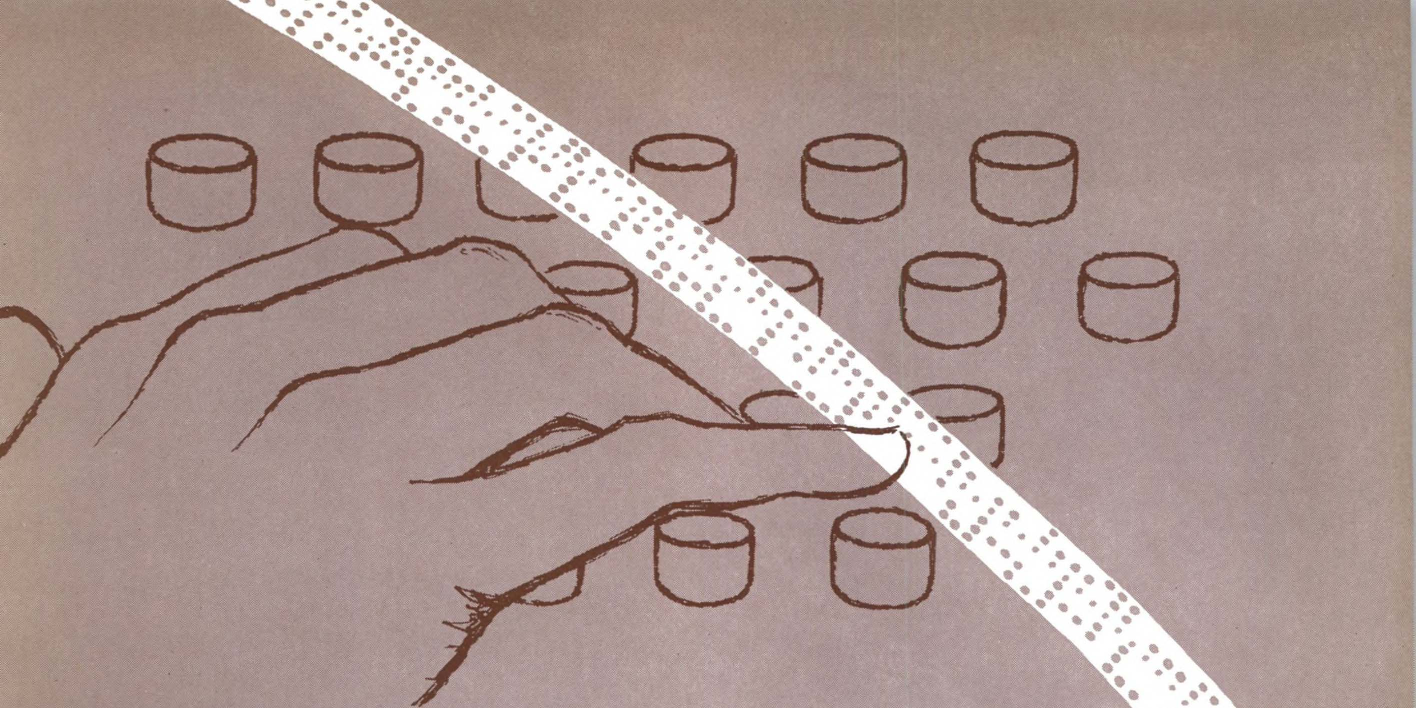
**A NEW TOPIC** More than usual interest has been expressed by the forecasters in the nation's foreign trade situation. Merchandise exports for the first 11 months of 1959 were 15% below the peak year 1957 and 3% below 1958. Merchandise imports, on the other hand, were 19% above 1957, the previous peak year. Almost all the forecasters are confident that the trade balance will improve in 1960. They also look for the balance of payments deficit, which is estimated between $3.5 billion and $4 billion for 1959, to decrease to around $2 billion.

**PRICES SLIGHTLY HIGHER** The forecasters are virtually unanimous in holding that there will be over-all price increases, of around 1% or 2%. Many mention, however, that this may be the result of declining food and farm prices offsetting rising industrial prices. The gain in the total economy in 1960, the forecasters point out, will largely be "real" product gains rather than increases based on price rises.

*A compilation of 60 forecasts with names of forecasters and details of estimates may be obtained from the Federal Reserve Bank of Richmond.*



**Almost all the estimates are in agreement that the nation's foreign trade balance will show marked improvement over 1959.**

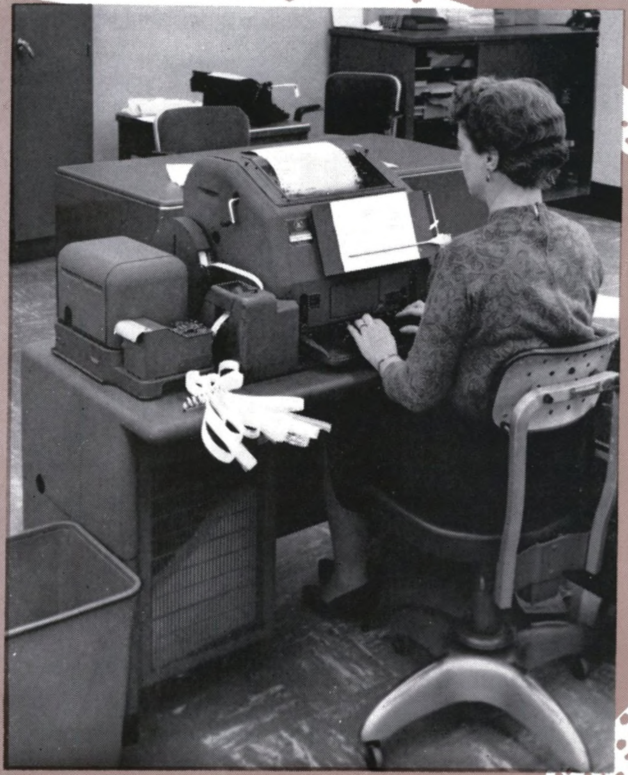


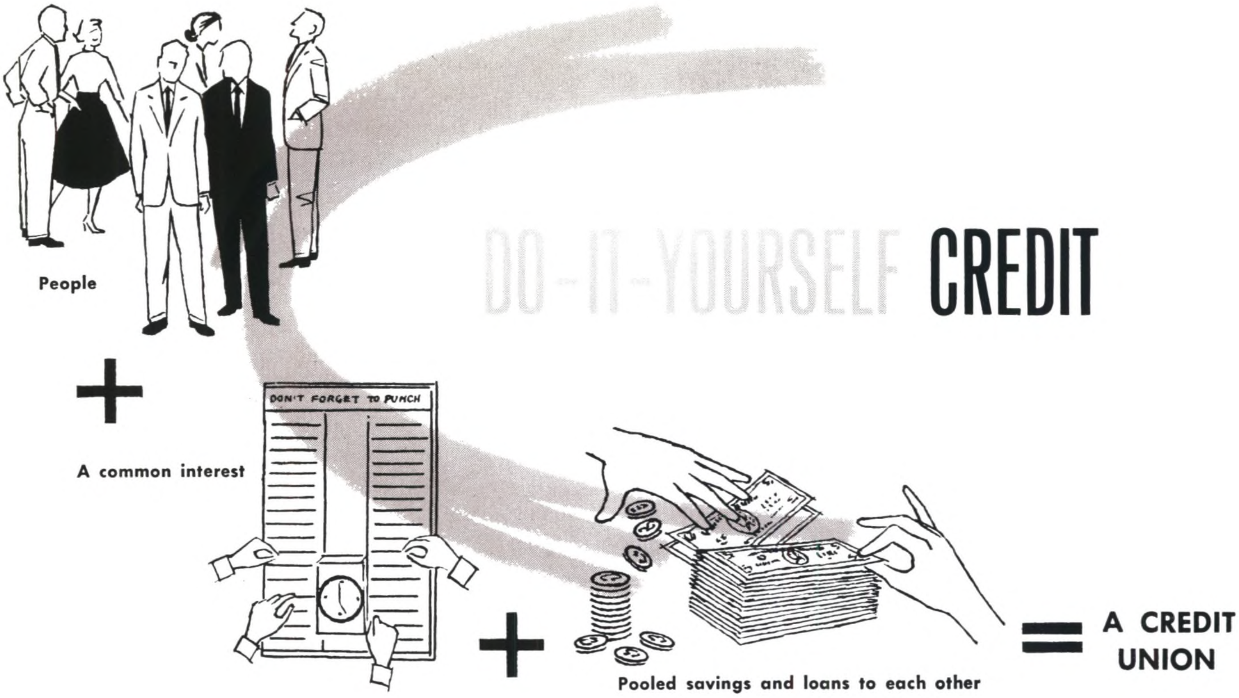
# FEDERAL RESERVE WIRE TRANSFER SERVICE

**One of the essential ingredients in the functioning of a modern economy is an effective means for making payments between its business centers on very short notice. Such a means is provided the American economy by the wire transfer service of the Federal Reserve System. Huge sums of money are transferred daily to and from the major centers of the nation, completing transactions which keep a never ending stream of commodities and services flowing to all corners of the country. Not only is money transferred across the nation in less time than it takes to write these few sentences, U. S. Government marketable bearer securities may be transferred just as readily and as quickly. As a matter of interest, every dollar of funds or Government securities transferred over the Federal Reserve Leased Wire Network to or from any part of the country comes through the Switching Center at the Richmond Federal Reserve Bank.**

**MONEY TRANSFERS** Only a special kind of money may be transferred over the Federal Reserve wire service; namely, member banks' deposits with the Federal Reserve Banks. Transfers are accepted from and paid to member banks only, but the transfer by a member bank may be for the use of any bank, individual, firm or corporation. Although transfers may be made for member banks for any purpose and in any amount, transfers of bank balances in multiples of $1,000 for member banks only are made without charge. There is a charge for other transfers approximating the commercial rate for telegrams. The necessity as well as the popularity of this transfer service is attested to by transfers handled by the Richmond Reserve Bank and its branches in 1959 totaling a staggering $89,316,835,500.71. Transfers handled by the System as a whole exceeded $1 trillion.

**SECURITIES TRANSFERS** How is it possible for the seller of a Treasury Bond in San Francisco to deliver the bond to a purchaser in Richmond in less than half an hour? By telegraphic transfer. The San Francisco seller surrenders his bond for cancellation by the Reserve Bank there. Following telegraphic instructions, the Richmond Reserve Bank issues a bond to replace the one cancelled and delivers it to the Richmond purchaser. The Reserve Banks and branches are authorized to make such transfers only for the owners of marketable bearer U. S. Government securities (Treasury Bonds, Notes, Certificates of Indebtedness, and Bills) and only where a sale is involved. No charge is made for transfers of securities within one year of maturity or "call redemption date." In 1959 the Richmond Reserve Bank and its branches handled the transfer of about $3 billion of securities.






# DO-IT-YOURSELF CREDIT

A group of people + a common interest + pooled savings + loans to each other = a credit union. If a financial institution has just two of these features, it's not a credit union. If it has three, it's not one either. It takes all four ingredients.

**WHAT IS A CREDIT UNION?** A credit union is a cooperative self-help thrift and loan society composed of individuals bound together by some tie such as membership in a labor union, a church, or a fraternal order. "Members" purchase ownership "shares" resembling savings accounts, and each in turn may borrow from the association—a privilege not extended to nonmembers. Income from these loans and other investments provides funds from which members are paid dividends.

**WHAT MAKES IT TICK?** Members own, control, and operate the credit union themselves under either a Federal or a state charter. Officers typically include a president, one or more vice presidents, a secretary, and a treasurer. The treasurer is the most active officer—the one who actually "runs" the organization on a day-to-day basis. Ordinarily, he is the only salaried official and may even work full time at the job. Other officials usually serve on a voluntary part-time basis.

Just as in the case of most corporations, the board of directors is the policy-making body. Directors' duties usually include the election of officers from among the board's own membership, the approval of applications for new membership, the establishment of loan policy, the appointment of committees, and so on. Directors are elected by members, each of whom has only one vote regardless of the size of his holdings. Members also elect at the minimum a credit committee to pass upon borrowers' loan applications. In all elections, proxy voting is prohibited.

**THE CREDIT UNION KITTY** Member purchases of shares provide nearly 90% of credit union funds. Retained earnings and reserves also contribute fairly sizeable portions. Minor sources include borrowings from other credit unions, banks, and other lenders. In some states, credit unions can also solicit deposits from members.

The real bulwark of the credit union is the small saver. To join, a saver ordinarily has to pay only a small membership fee and purchase a single $5 share. Regular purchases are encouraged, and sponsoring employers often cooperate by making payroll deductions at the request of savers. The average volume of shareholdings has been creeping up, but at last report it was still only $358.

**THE MONEY MAKING PROCESS** The big moneymaker for credit unions is loans, which account for 70% of assets. Mostly, these are consumer loans, but where permitted many state associations are fast becoming important real estate lenders as well. Maximum loan maturities, amounts, and rates are often set by law and vary somewhat from state to state. Federal credit unions must limit maturities to 5 years, rates to 1% per month on the unpaid balance, and amounts to $750 if the note is unsecured. Loans may run as high as 10% of unimpaired capital and surplus if that part in excess of $750 is secured. The average Federal credit union loan during 1958 had a face value of $535 and a maturity of 238 days.

Credit unions are permitted few other outlets for their funds. Except for member loans, Federal credit unions can invest only in time deposits of commercial and mutual savings banks, accounts of insured savings and loan associations, Government or Government-guaranteed securities, and loans to other credit unions. In some states, state-chartered organizations are permitted in addition to purchase such conservative issues as high-grade municipal and corporate bonds.

**THE NET RESULTS** Credit unions are quite profitable institutions because of their heavy consumer loan portfolios. During 1958, for example, Federal credit unions grossed around 7.7% on their total assets and about 9.8% on their loans. Expenses absorbed income amounting to 3.1% of total assets, leaving net income totaling 4.6% of total assets. Expenses would have been much heavier except for the valuable free services rendered by officers and sponsoring institutions.

Because they are explicitly exempt by law from all taxes except those on property, all net income of Federal credit unions is available for paying dividends, making interest refunds, or building reserves or undivided profits. Roughly the same is true of state credit unions, which are exempt from Federal taxes and often from many state taxes as well.

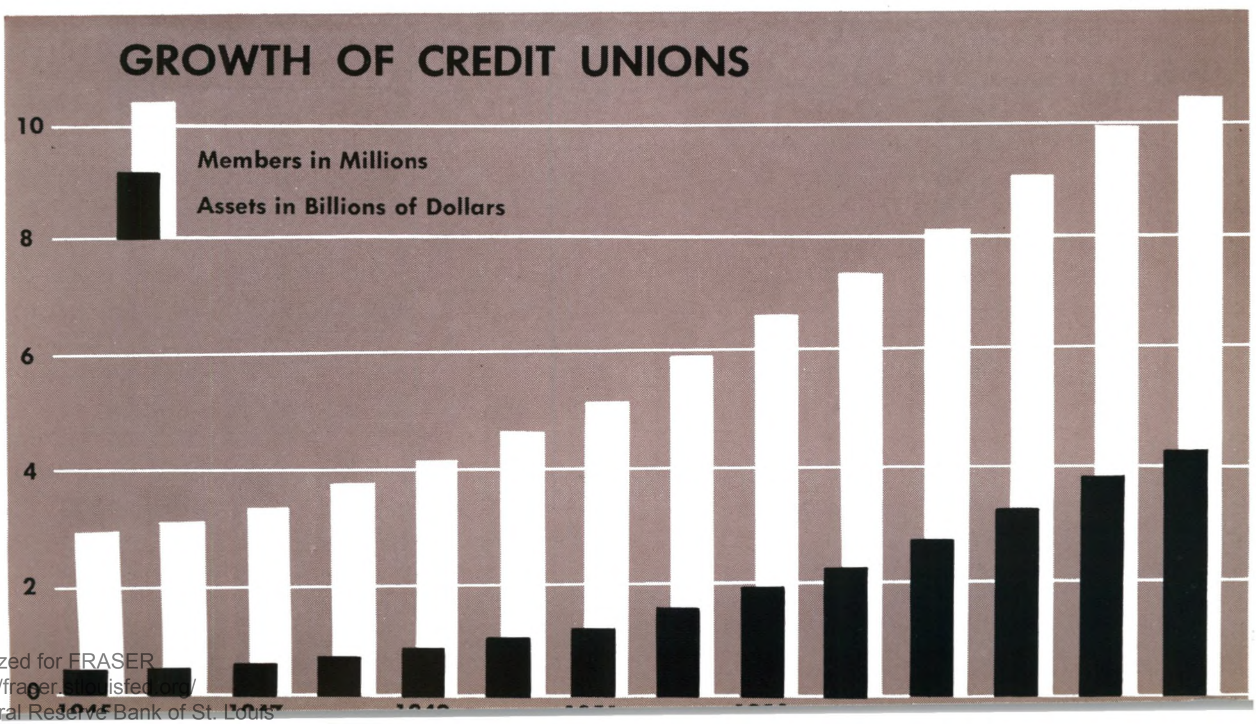
Dividends paid to members from 1958 operations topped $127 million. Among Federal—and probably among state—credit unions the most common rate was 4% to 5%. The range extended from no dividends paid to 6%. About 14% of reporting state and Federal associations also made interest refunds—usually 10%—to their borrowing members.

**SUPERVISION AND OTHER SAFEGUARDS** Credit unions—like most financial institutions—are supervised both internally and externally. Internal control rests in the hands of an elected or appointed supervisory committee which typically has the power to audit books, make reports, and even suspend officers or committeemen in extreme cases. The state superintendent of banks ordinarily is responsible for outside supervision of state-chartered credit unions. In the case of Federal credit unions, the Bureau of Federal Credit Unions does the job.

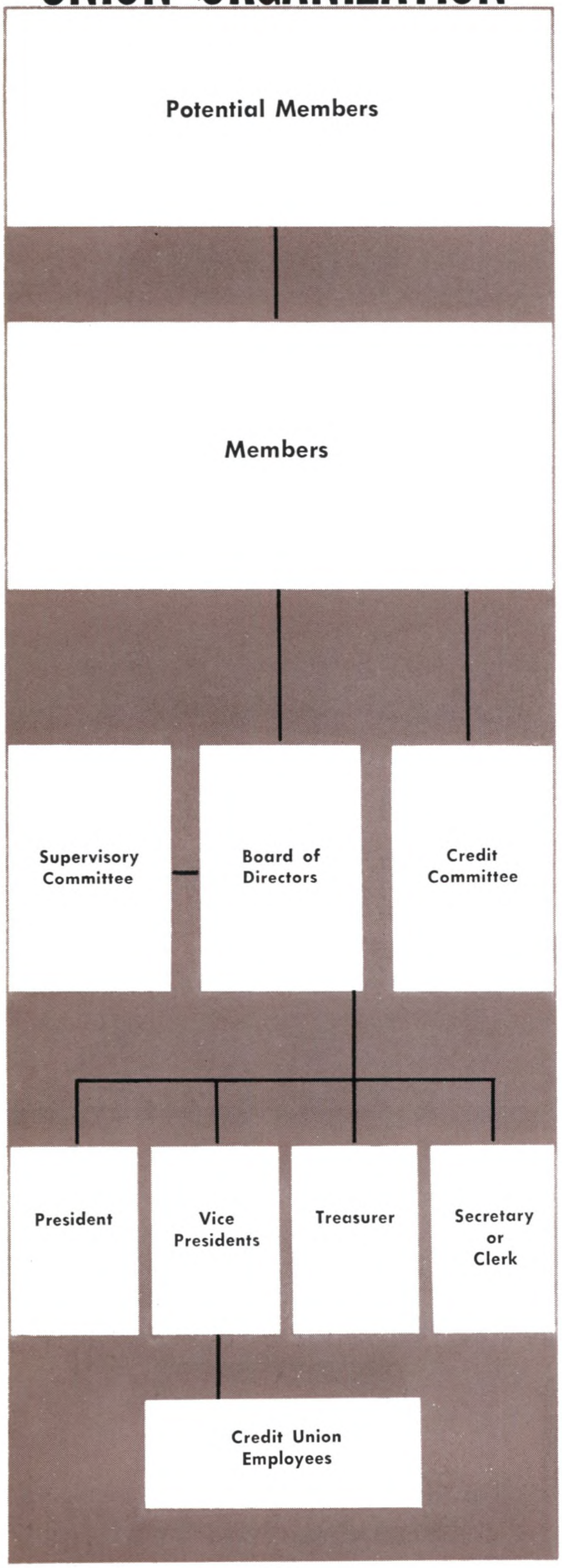
Member shareholdings have no $10,000 Federal account insurance such as many financial institutions have. The majority, however, provide without cost credit life insurance that pays off loans of borrowers who die or become disabled.

There are also other safeguards. Officials are, of course, bonded if they handle funds, and reserves are set up for contingencies. In some cases, also, employers have assisted in repaying shares of failed credit unions under their sponsorship. State credit leagues in some instances assume loans of distressed member credit unions.

Credit unions boast surprisingly low loss ratios in view of the inexperience of many loan committees and the small degree of portfolio diversification. By the end of 1958, chargeoffs of Federal credit unions throughout their history had aver-



# THE FEDERAL CREDIT UNION ORGANIZATION




aged less than one-fifth of 1% of all loans extended. Around 7%-10% of their loans are usually delinquent, however, largely no doubt because of the informal nature of the operation.

**FROM DOUGHNUTS TO DOLLARS** It took a number of years after Alphonse Desjardins founded the first U. S. credit union in Manchester, New Hampshire in 1909 before the credit union movement really began to gain steam. Today they are mushrooming faster than any group of major financial institutions. Credit union membership within the U. S. and its territories has about quadrupled and assets have skyrocketed over tenfold since World War II alone. The number of associations has jumped from less than 9,000 to more than 19,000.

Credit unions are dotted throughout all 50 states and the District of Columbia. About one out of every seventeen Americans is a credit union member. Over 51% of those eligible for Federal credit union membership belong. At last report, Illinois had the largest number of credit unions—1,638—but California, Michigan, New York, Ohio, Pennsylvania, and Texas each had more than 1,000. The heaviest concentration was in the District of Columbia, however, where about 26% of the population were members.

Credit unions can be found in all sorts of organizations. They are most important among manufacturing employees, who operate 29% of the total number; labor unions have 5%, church congregations control 9%, and residents of the same community operate another 10%.

**A COG IN THE FINANCIAL WHEEL** Despite the industry's spectacular growth, the typical credit union is still quite small in comparison with commercial and mutual savings banks, savings and loan associations, or life insurance companies. At the end of 1958, credit unions averaged only 562 members and held just $232,000 in assets. A significant number were multimillion dollar operations, but assets of even more did not top $10,000. Well over half the Federal—and probably state—associations were less than $100,000 institutions.

Collectively, credit unions still control a comparatively small part of the country's financial assets. They hold about 8% of all consumer instalment credit and less than 3% of the dollar volume of all savings accounts. Their assets at the end of 1958 totaled $4.4 billion—about 2% of commercial bank assets, 4% of life insurance company assets, 8% of savings and loan association assets, and 12% of mutual savings bank assets.

# the FIFTH district

Persistent reports of business prosperity constitute one type of monotony which few would consider tiresome. Fifth District industries are continuing to produce this kind of monotony in good measure. Few areas of enterprise have preserved their individuality by not conforming to the common pattern. Currently prominent among the nonconformists are transportation equipment manufacturers and bituminous coal producers who have been lagging behind while other industries were moving ahead in the general business expansion.

The decline in transportation equipment activity has persisted since the 1957 peak, and was especially sharp during 1959. Man-hours worked in the last month of 1959, seasonally adjusted, were fully one-third below the monthly average for 1957. The coal mines, however, are operating at fairly good levels when compared with the record of recent years. In general the expansion of business activity in the District has definitely been continuing. Many if not most District industries are near their all-time high levels.

**CONSTRUCTION SIGNALS GROWTH** There is no more convincing indication of growth than the sight of new factories, warehouses, office buildings, and homes in process of construction. Such projects are very much in evidence throughout the Fifth District. A very large tobacco processing plant and a large tool manufacturing plant will be built in one locality. Synthetic fiber plants, a textile machinery factory, and large, modern distribution facilities are typical of projects about to be started in others.

The value of contracts awarded for public works and utilities and for nonresidential building remained strong during the final months of 1959. Residential contract awards diminished unevenly after April. The rather erratic seasonal patterns which have appeared in contract awards statistics in recent years are a hindrance to ready interpretation. Nevertheless, careful attention to available evidence is warranted as some analysts consider the awards outlook to be one of the major weak points in this year's picture.

December contract awards for the nation showed a better than seasonal improvement over November. In the Fifth District the value of contract awards of all types showed unusual December strength by holding up within 10% of the November figure. The most favorable November to December comparison was in nonresidential building, but apparently more than seasonal strength was evident in residential awards also. These somewhat unexpected developments carried the value of all December contract awards to a level 40% above December of 1958 and the value of residential awards to 8% above the level of one year before. Public works and utilities awards in the District during December were noticeably stronger than in the comparable period of 1958.

**The variety of new construction projects visible in almost all commercial areas bears witness to the vitality of Fifth District industry.**

The seasonally adjusted index of District employment in contract construction hit the high for the year in November and remained at practically the same figure in December. New projects must have replaced old ones at a fairly uniform rate in recent months in order to keep employment steady. These considerations support the opinion that the rising levels of activity in District building which followed the resumption of steel making may have carried over into early 1960 with no signs of real weakness in any category.

**TEXTILES** The demand for cotton goods has not been very active in recent weeks. Cotton fabric prices have held firm, while yarn prices are continuing their gradual upward tendency. The demand for synthetic fabrics remains strong, as evidenced by recent extensions of order backlogs. There is a current tendency to hold the forward buying of hosiery to a minimum in anticipation of price reductions which are expected to result from the cut in nylon yarn prices of some weeks ago.

Man-hours in textile manufacturing adjusted for normal seasonal changes declined last year by about 4% between June and September, and then remained at or near that level for the rest of the year. The bottlenecks in carding and spinning reported earlier were probably aided and abetted by shortages of cotton at the mills caused by tight inventory policies. Also, a good portion of recent capital outlays represent installation of more efficient equipment enabling the industry to satisfy rising demand with fewer actual man-hours.

Instances of the resale of print cloths from converters' inventories have been reported. The prices were slightly under the present market, indicating that the initiative was with the seller.

**BITUMINOUS COAL** District coal production has moved gradually upward since its initial response to the reactivation of the steel mills. Output during the first half of January shows a continuation of this rise, and even suggests the possibility of an increased rate of growth as compared with the final months of 1959.

The long-run outlook for bituminous coal is being viewed with considerable optimism by some authorities to whom three main market areas look good for the future. (1) Domestic steel and utilities industries will continue to grow and may be expected to increase their coal consumption. (2) Appalachian coal's comparative cost advantage in European markets over European coal may be expected to increase as the already high costs of operating deep European mines continue to increase. (3) Steel and utilities industries which are developing in South America and the Far East represent potential new markets.

**DURABLE GOODS** Manufacturing activity in the District, as measured by seasonally adjusted man-hours, increased by a fraction of a percentage point between November and December. This gain resulted from a 1.3% increase in the durable goods industries offset by a small decline in the non-durables group. The primary metals industries achieved a gain in excess of 5% between November and December. Lesser increases were registered in lumber and wood products; stone, clay and glass; fabricated metals; and electrical machinery. Transportation equipment was down by more than 3% between November and December and down 21% relative to December of 1958. Shipyard employment has held firm in recent months, even increasing slightly since September. The recent announcement of a $300 million reduction in the Navy's current shipbuilding plans, however, discourages hopes for any general improvement in the transportation equipment industry.

**BUSINESS IN GENERAL—GOOD** Tobacco manufacturing, as measured by man-hours statistics seasonally adjusted, increased 5% between November and December. Furniture by the same yardstick maintained about the same level of activity in the last two months of 1959, more than 8% above the year before. Where the manufacturing pace slackened, losses were generally small. Trade showed definite strength in December, equal to or slightly better than would be seasonally expected. It is estimated that seasonally adjusted department store sales set a new record in January.

As yesterday's facts and figures fade into the past, and current reports come up for evaluation, the observer is especially alert for evidence of weakness at any stage in the circular process of economic cause and effect. As long as real (as opposed to speculative) demand sustains or increases production, providing the purchasing power which the next round of demand must have to maintain its stimulus to production, then all may be judged to be well.

**PHOTO CREDITS**

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