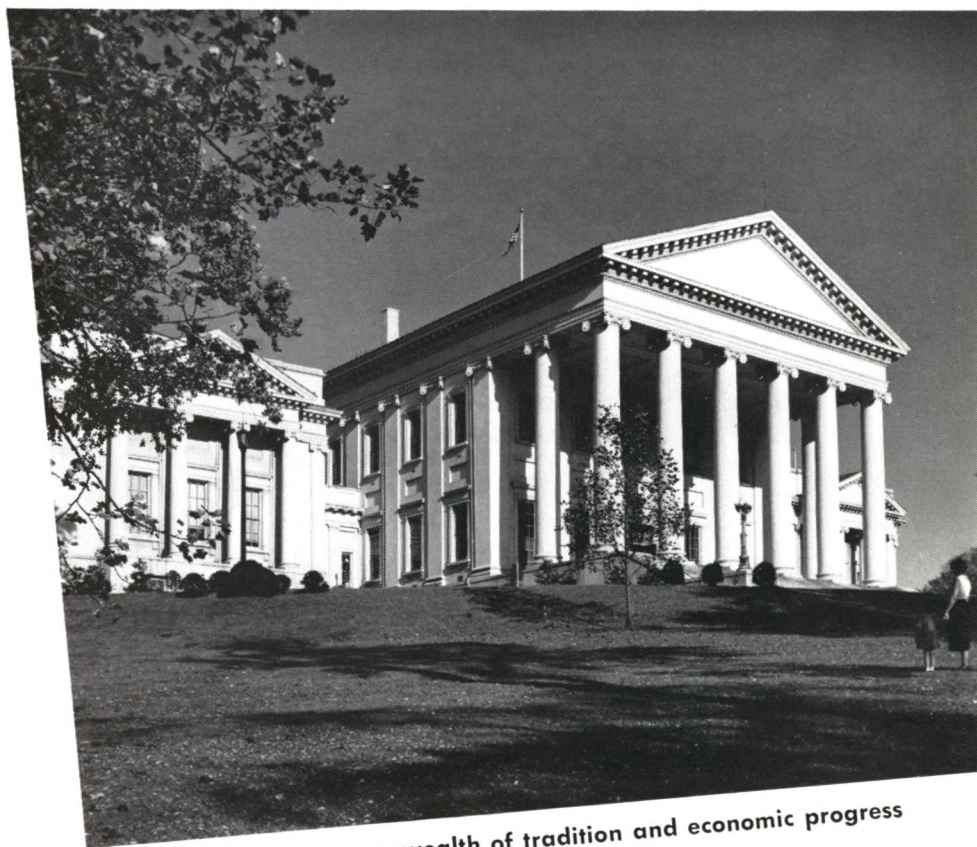


MONTHLY REVIEW



LIBRARY Virginia—a commonwealth of tradition and economic progress

OCT 20 1961

FEDERAL RESERVE BANK OF RICHMOND

OCTOBER 1961



VIRGINIA

An Economic Profile

Virginia is known throughout the world—known for Jamestown, for George Washington and Thomas Jefferson, for the historic battles of the War Between the States. But what is known of present-day Virginia, its resources and its industry? How do its people earn their living, how well off are they, on what do they spend their income? How have these factors been changing lately?

Of these things we “know” a great deal—page after page of facts collected by the Census Bureau, volume after volume of statistics issued by a multitude of agencies and firms. From these many sources come the data with which one can paint the picture of modern Virginia. Here, in broad strokes, is an economic profile of the state.

POPULATION Census takers counted 3,966,949 Virginians in 1960—almost six times the number found by the first census in 1790. They also discovered that more than half of the state’s residents now live in urban areas, which was not the case as recently as 1950. Virginia’s three major metropolitan areas—Norfolk, Richmond, and the suburbs of Washington—and other densely settled regions generally ex-

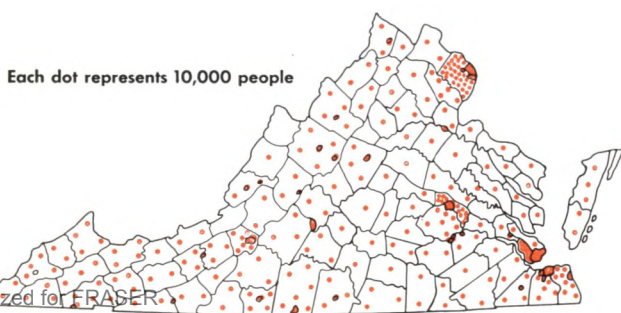
perienced large population gains during the decade, while many rural counties lost population.

During the Fifties, Virginia’s population grew by 20%, slightly more than the nation’s gain. The increase was primarily the result of more births than deaths but was also aided by a small net inward migration. This pattern of population change differed from that of earlier decades of the twentieth century. During the first 30 years of the century the state’s population gains were relatively small because many people left in search of better economic opportunity. In the Great Depression poor conditions elsewhere halted outward migration, but a relatively low birth rate held the gain of the Thirties to 10%. Then World War II brought both a higher birth rate and a great influx of defense and government workers, and population rose by almost one-fourth between 1940 and 1950.

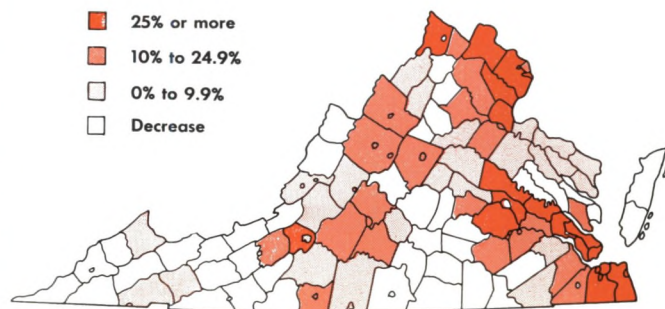
Because the population gain of the last decade resulted from natural increase, the size of the chief working-age group, persons between 20 and 64, did not keep pace with the total growth. By 1960, this group comprised only 53% of the population, as compared with 58% in 1950. The proportion of young

The 1960 Census showed that Virginians continued to move to urban areas. For the first time, urbanites outnumbered rural residents.

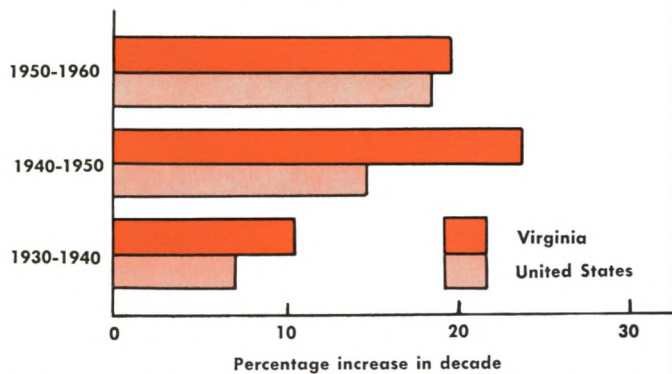
POPULATION IN 1960



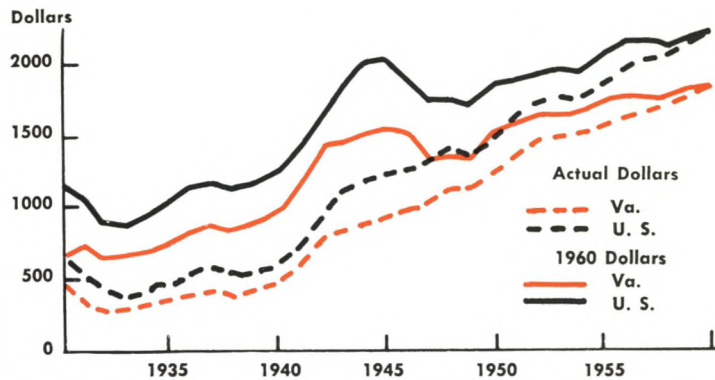
POPULATION CHANGE, 1950-1960



POPULATION GROWTH, 1930-1960 VIRGINIA and UNITED STATES



PER CAPITA PERSONAL INCOME, 1930-1960 VIRGINIA and UNITED STATES



people increased from 37% to 40% and that of persons 65 and over from 5% to 7%. The higher percentage of nonproductive persons made the tasks of raising living standards more difficult and also required capital investments, particularly in schools, to meet the needs of these people. When the young persons enter the labor force, Virginia's economy faces the further challenge of expanding sufficiently to provide adequate job opportunities. When this task is successfully accomplished, the state and nation can begin to reap the full economic benefits of a larger population.

PERSONAL INCOME In the last three decades, Virginians achieved a remarkable improvement in their income position, both in absolute terms and relative to the rest of the nation. Even after adjustment for increases in consumer prices, total personal income in 1960 was four times that of 1929, the peak year of pre-Depression prosperity. On a per capita basis, income was two and one-half times higher.

These real income gains, which, except for the immediate postwar period, have been occurring rather consistently since 1932, have pulled Virginia's per capita income up to 83% of the national average, as

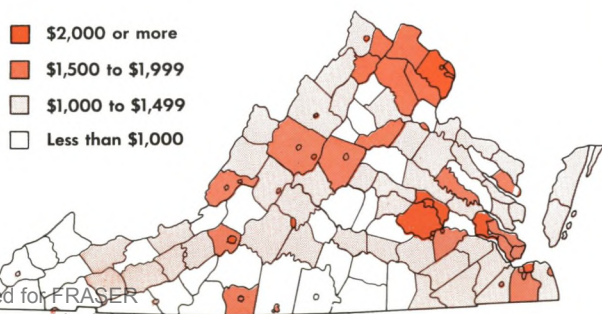
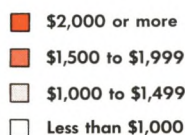
compared with only 62% in 1929. Most of the increase in this measure, however, had taken place by 1940, and there was no relative progress in the last decade. At 83%, the ratio in 1960 was the same as it had been in 1950, although it had reached 85% in both 1952 and 1954.

Per capita incomes vary widely among the 131 cities and counties in the state. In 1958, the latest year for which estimates are available, incomes ranged from \$644 in a southwestern county to \$3,080 in a small suburb of Washington, while the state average was \$1,715. The higher incomes are generally found in urban areas. These areas, which as already noted have experienced relatively large population gains, have since 1950 also achieved greater relative increases in per capita incomes than have many rural regions.

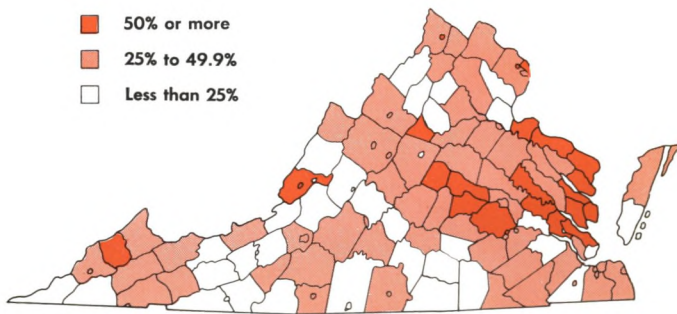
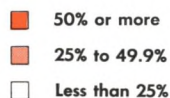
This preliminary sketch of Virginia's economy needs to be filled in with some details on employment and sources of income. These will also cast light on the interesting developments noted—the great economic growth between 1932 and the end of the war, the continued progress which has about kept pace with national growth during the last decade, and the

Average income of urban residents was generally higher and growing faster in recent years than income of persons in rural counties.

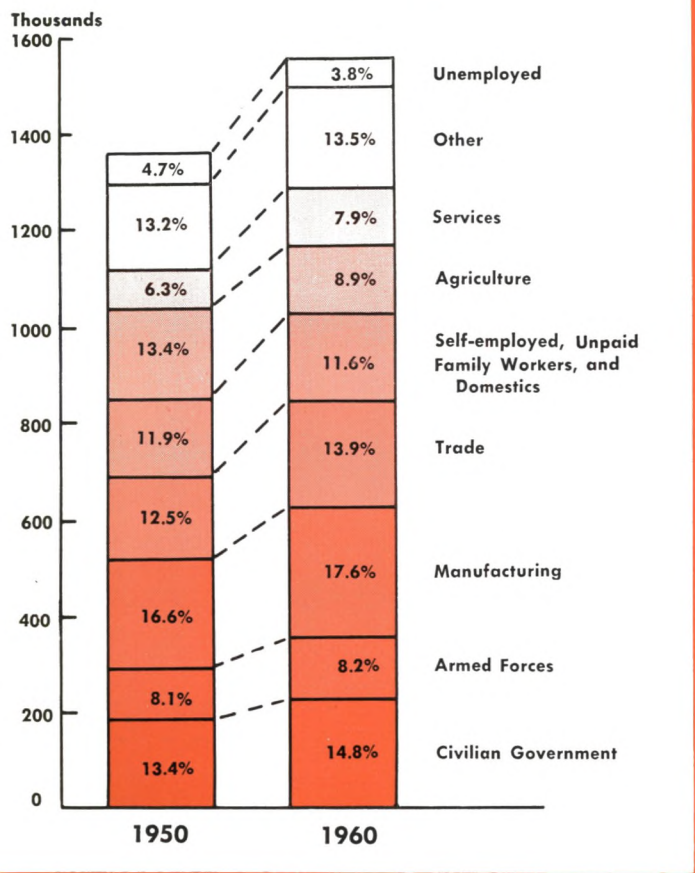
PER CAPITA PERSONAL INCOME IN 1958



CHANGE IN PER CAPITA PERSONAL INCOME 1950-1958



LABOR FORCE 1950 and 1960



recent widening of the income gap between rural and urban areas.

EMPLOYMENT AND INCOME Taken together, civilian and military employees of Federal, State, and local governments made up nearly one-fourth of the 1960 labor force of 1.6 million. Income disbursed by governments—wages, salaries, and transfer payments such as Social Security—represented 29% of personal income. By either measure, government employment is far more important in Virginia than in the average state. The difference results primarily from the large number of Virginians employed by the Federal Government in the nation's capital and at the naval center at Hampton Roads. In fact, the amount of Federal wages and salaries surpassed Virginia's total only in two comparatively huge states, California and Texas.

The great increase in the relative importance of Federal employment in Virginia was one of the major economic events of the 1930's and 1940's. During the last decade, however, Federal wages and salaries to civilians stayed around 11% of total personal income, and the proportion represented by payments to the armed forces, although spurting during the

Korean War, is again at its 1950 level. On the other hand, State and local governments increased their share of the state's employment and payroll, and by 1960 their wage and salary payments accounted for 6% of personal income.

Second in importance to government as a source of employment and income in 1960 was manufacturing, which employed 17% of the labor force. Wages and salaries paid by manufacturing firms have comprised about 15% of the income of Virginians each year since the end of World War II. During the last decade the number of jobs in this field increased by about one-fifth, or by slightly more than the increase in the labor force.

Trade as a whole ranked third as a source of employment by providing jobs for 14% of the labor force. About four-fifths of these workers were in retailing while the remainder were employed at the wholesale level. In the Fifties, jobs in the latter area increased by 16%, but in retail trade employment rose at almost double this pace. As a result, wages and salaries in trade assumed a slightly greater importance and by 1960 accounted for nearly 12% of personal income receipts.

Employment did not increase in all sectors of the economy, however. In one major area—agriculture—the number of workers declined by 43,000 during the 1950's. Adoption of improved technology enabled output per farm worker to rise greatly, and employment was reduced from 13% of the labor force in 1950 to 8% in 1960.

Services, a category which encompasses such diverse enterprises as laundries and auto repair shops, also employed 8% of the 1960 labor force. In sharp contrast to agricultural employment, jobs in these firms increased three times faster than the state's labor force during the last decade. In addition, it is estimated that about three-fourths of the large group of self-employed, domestic, and unpaid family workers were engaged in providing services.

The five major sectors thus far discussed—government, manufacturing, trade, agriculture, and services—employed 82% of Virginia's labor force in 1960. Another 4% was unemployed, and the rest worked in one of the many remaining fields—transportation, communications, public utilities, construction, finance, insurance, real estate, and mining. With the exception of transportation and mining, these activities increased their share of the labor force during the last decade. Employment in transportation increased only slightly and thus declined in relative importance, while mining joined agriculture in experiencing an actual decline in the number of workers.

In addition to wage and salary payments, some of the income originating in each of the sectors discussed was in the form of returns to proprietors for their labor, management, and capital investment. The chart below shows the dramatic decline in the relative importance of this category of income during the postwar period. For the last five years, however, proprietors' income has stabilized at just over 10% of total personal income.

Property income is another category that has significantly less relative importance now than it did in the prewar era. Since the war, however, it has grown, though with rather large fluctuations, at about the same rate as total personal income, in most years comprising about 10% of the whole.

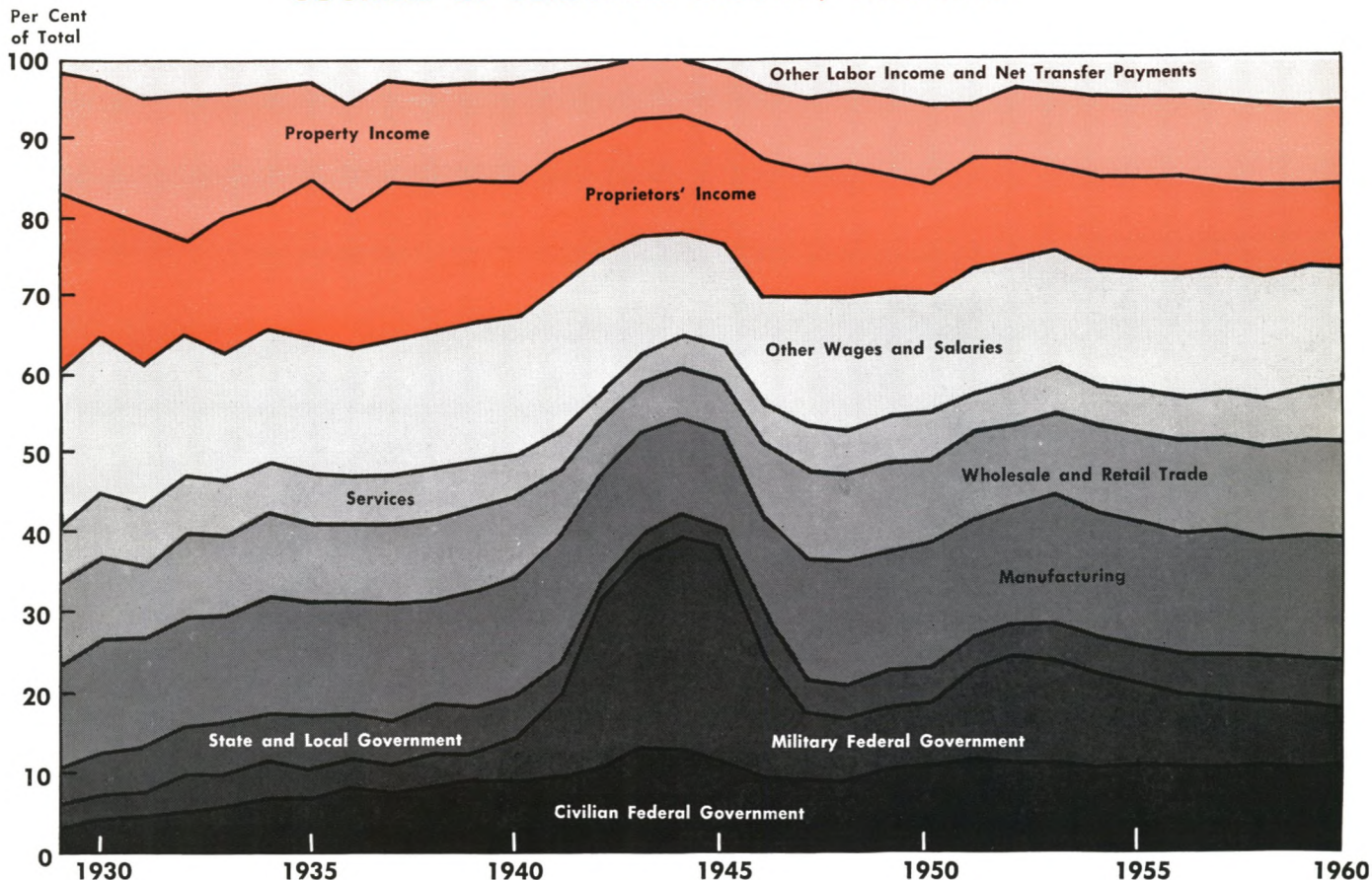
MANUFACTURING While postwar growth in the important manufacturing sector approximated the state average, the various industries within this group exhibited greatly varied trends both in employment and in the value of goods produced. The basic sources for this information on different industries are the Censuses of Manufactures taken in 1947, 1954, and 1958. The last of these provides a fairly up-to-date picture of the relative importance of the

various industries; in fact, the findings are just now being published. Taken together, the censuses divide the postwar period into two parts, which also permits investigation of recent changes in manufacturing trends within the state.

The "value added" by manufacturing is basically the value of the final product less the cost of materials; this measure avoids double counting, since the goods produced by one industry are often the "raw material" for another. For Virginia, the 1958 Census found value added at over \$2 billion. The measure showed growth of about 55% from 1947 to 1954 and 31% from 1954 to 1958, an average close to 7% per year in both periods. The number of employees in manufacturing rose by about 11% during the first of these periods and by 5% in the second. By both measures, growth in Virginia manufacturing was a trifle below the national pace during the earlier span but substantially better in the recent period, during which national manufacturing employment actually declined slightly and value added rose by only 20%.

It is interesting to compare the performances of Virginia's major industries with these averages and

SOURCES OF PERSONAL INCOME, 1929-1960

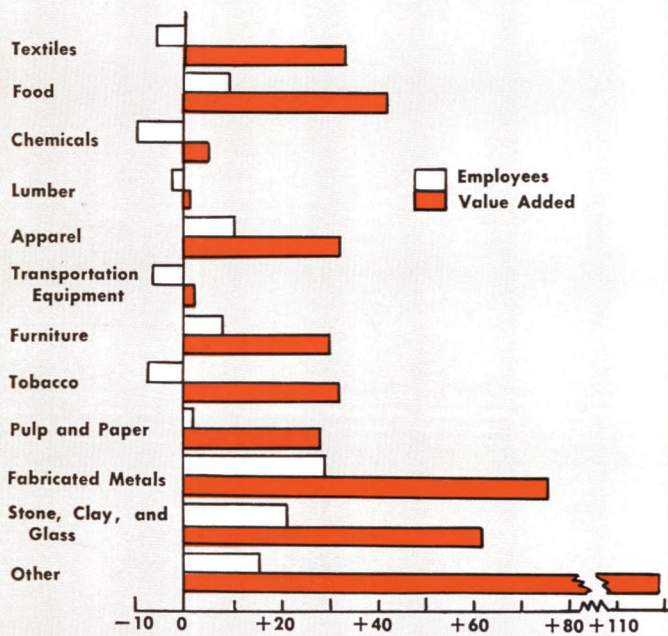


MANUFACTURING

Employees, 1958

Industry	Number	Per Cent of Total
Textiles	34,843	13.8
Food	31,312	12.4
Chemicals	31,111	12.3
Lumber	21,994	8.7
Apparel	21,604	8.6
Transportation Equipment	16,871	6.7
Furniture	16,428	6.5
Tobacco	13,404	5.3
Pulp and Paper	11,070	4.4
Fabricated Metals	9,031	3.6
Stone, Clay, and Glass	7,840	3.1
Other	36,622	14.5
Total	252,130	100.0

Percentage Change, 1954-1958



Value Added, 1958

Industry	Amount (Millions of Dollars)	Per Cent of Total
Textiles	217	10.2
Food	238	11.2
Chemicals	459	21.6
Lumber	73	3.4
Apparel	78	3.7
Transportation Equipment	132	6.2
Furniture	104	4.9
Tobacco	267	12.5
Pulp and Paper	130	6.1
Fabricated Metals	79	3.7
Stone, Clay, and Glass	75	3.5
Other	277	13.0
Total	2,130	100.0

also with the average growth of the same industries nationally. Textile mills, the biggest employer among manufacturers, added workers between 1947 and 1954 but reduced employment by 6% between the latter year and 1958. Value added, however, was about the same in both 1947 and 1954 but by 1958 had increased by one-third. Over both time periods the performance of Virginia's textile mills was better than the national average for the industry.

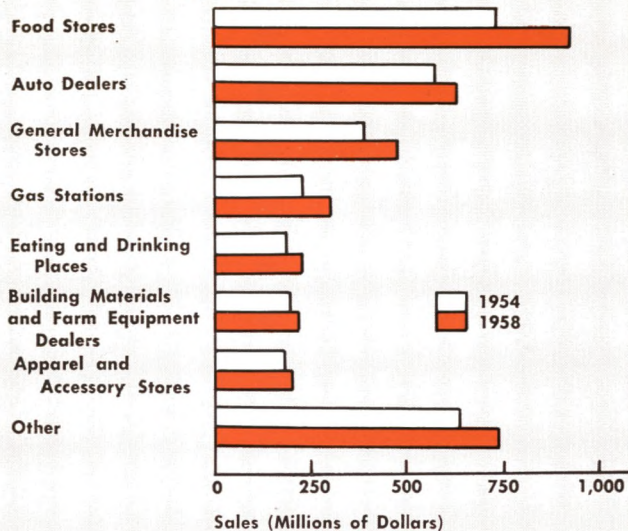
Chemicals are Virginia's largest industry in terms of value added, being responsible for over one-fifth of the state's total in 1958. They enjoyed fabulous growth between 1947 and 1954, doubling their value added during the period, but gained only 5% during the next four years while national growth of the industry continued unabated. Chemicals represented 12% of manufacturing employment in 1958 after reducing their work force by 11% over the previous four years.

Virginia's tobacco manufacturing plants are perhaps its best known industry. They produced nearly one-fifth of the nation's tobacco products in 1958, giving Virginia a rank second to North Carolina in this enterprise. Value added increased by one-third between 1954 and 1958, a somewhat faster growth than during the earlier postwar period. Over both spans, however, this rise lagged slightly behind the national pace. Furthermore, employment in the tobacco plants was cut back by 15% from 1947 to 1954 and by an additional 12% between the latter year and 1958.

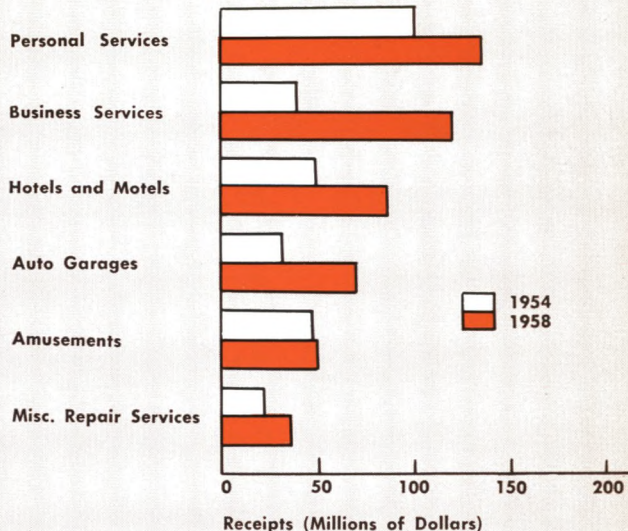
The state's other big industry, food processing, grew in both employment and value added from 1954 to 1958 and was the only one of the top four industries to achieve an increase in both categories. However, employment drops among the other large industries and in lumber and transportation equipment were more than offset by relatively large percentage increases in fabricated metals, apparel, furniture, and a number of smaller industries. Value added in all of the latter groups also increased by as much or more than the state average gain in all manufacturing.

AGRICULTURE While farming in Virginia, as in all states, covers an extensive land area, its dollar contribution to economic activity is relatively small. Farm marketings and Government payments in 1960 totaled \$477 million and after production expenses \$69 million remained as the net cash income. This income averaged only \$554 per farm, 26% less than in 1950. Farmers, of course, also had nonmoney income in the form of home consumption and the use of farm dwellings which brought total net income to \$1,497 per farm.

RETAIL TRADE 1954 and 1958



SELECTED SERVICES 1954 and 1958



Most of the farm land of the state is devoted to the growing of feed and forage for livestock, of which dairy cows and beef cattle are the most important. However, livestock accounted for only 54% of farm marketings in 1960 primarily because the tobacco crop, although grown on only 2% of the state's cropland, provided 17% of marketing receipts. Other important cash crops are fruits and vegetables, peanuts, and soybeans, with the latter showing a phenomenal increase in the last decade. In the livestock area, broilers, eggs, and turkeys are also significant sources of income.

TRADE The distribution of goods to consumers is big business everywhere; in Virginia combined sales of wholesalers and retailers totaled \$7.2 billion in 1958, and sales in the 1954-58 period grew faster than the national average.

The complexion of wholesale trade is changing as direct sales branches of manufacturers are becoming more numerous and are rapidly increasing their sales volume. However, the wholesalers who sell to retailers are still the dominant variety.

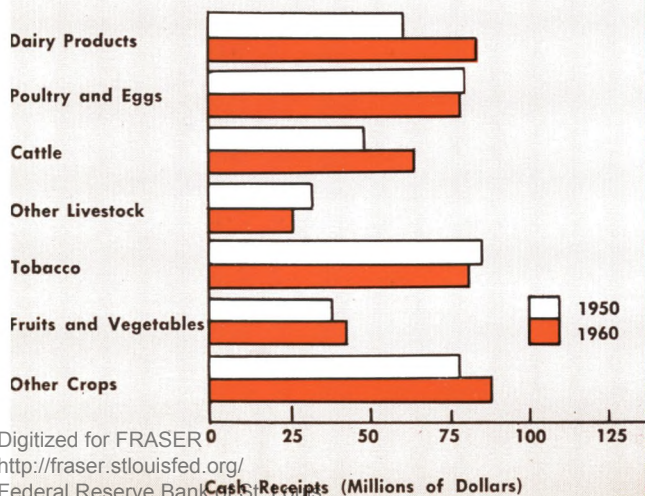
Retail trade data also show some developments in the distribution structure, such as a reduction in the number of food stores, the most important group. Sales, of course, depend on the whim of consumers. In the 1954-58 period, food stores had the biggest increase, while auto dealers and hardware stores fared most poorly.

SERVICES Virginia's consumers and businesses have increasingly been finding it profitable and convenient to hire others to perform specialized tasks. As a result, the service sector of the economy has been growing very rapidly. In Virginia, receipts of a group of service trades surveyed in 1958 approached \$500 million and were 64% greater than in 1954. The fastest growing area was the category of miscellaneous business services such as advertising, research development, and janitorial work. As a group, these enterprises more than tripled their receipts in the four-year period.

With this last highlight, it is time for a final look at the profile. While unique in respects such as the amount of government activity and the characteristic manufacturing enterprises, it basically reveals a state that is in step with the economic progress of the nation.

This article is the first in a series of economic profiles of states in the Fifth Federal Reserve District. A more detailed report on Virginia's economy will also be available on request in 1962.

AGRICULTURE 1950 and 1960





Are Banks Holding More Vault Cash?

Cash held by banks continues to serve as an important reservoir in the pipeline supplying currency to the public. Its new role as reserves, however, may have encouraged banks to reappraise policies on cash holdings.

Commercial banks deal mainly in credit, generating in the course of their credit transactions the great bulk of the United States money supply. The money so created takes the form of demand deposits, which represent some 80% of the total money held by the American public. Yet bank operations cannot be conducted without another form of money—cash, the garden variety of coin and folding money with which all Americans come into daily contact.

Holdings of coin and currency by all commercial banks in the United States at the end of July amounted to \$3.8 billion, roughly \$21 for every man, woman, and child in the country. These holdings represented under 2% of total deposit claims on these institutions and less than one-sixth of the total cash holdings of the nonbank public. Relatively, Fifth District banks belonging to the Federal Reserve System held larger amounts of currency and coin—or vault cash, as it is referred to in banking circles—than banks in the nation at large. Holdings of District member banks came to \$214 million, approximately 2.5% of their total deposit liabilities.

Despite their relative smallness, commercial bank vault cash holdings play an important role in the country's monetary system. Their importance has been enhanced recently by Federal Reserve action allowing them to be counted legal reserves, and there may be reason to believe that this change has influenced the cash-holding practices of banks.

ON THE MINUS SIDE On a bank's balance sheet, vault cash appears, of course, on the assets side, ordinarily under the heading "cash in vault." But from the standpoint of profitable operations it differs in an important respect from other bank assets, most of which are income-earners. By contrast, the cash account is an expense-generator. Large amounts of idle cash involve sizable operating outlays for storage, safekeeping, and insurance. Since there is no

offsetting return, the cash account becomes, by any immediate reckoning, a net loser. The banker keeping a close eye on costs might well regard it as a questionable asset.

WHY HOLD CASH? In the light of these negative aspects of the cash account a question naturally arises as to why banks hold cash. The answer is obvious. Banks hold cash because they must stand prepared to pay depositors' claims in legal tender money and because they can be sure that at least some of these claims will be exercised every business day. Some, of course, can be paid from new deposits of cash, but banks can never be sure that cash withdrawals and cash deposits will be equal on any given day. Thus, regardless of its unfavorable profitability characteristics, a relatively idle hoard of vault cash is a must for every bank.

The vault cash needs of an individual bank are related closely to the payments habits of the bank's customers. Banks serving a clientele which regularly makes most of its payments by check and which is content to hold most of its money in the form of demand deposits require only small cash holdings. On the other hand banks whose customers make a large fraction of their total payments with legal tender money rather than with deposits need larger amounts of cash.

In general, large city banks hold much smaller amounts of cash relative to their deposit liabilities than do banks in rural areas. In the last week in July, for example, vault cash as a fraction of total deposits at four randomly chosen rural area banks in the Fifth District ranged between 5.2% and 10.8%, while the same fraction for four reserve city banks ran from 1.5% to 2.4%. In the same week, the fraction for New York and Chicago member banks was less than 0.9%.

For the banking system as a whole, the relatively

small percentage which vault cash bears to total deposits reflects the extent to which payments by check predominate over cash payments in this country. Payments made by check normally require the use of little or no cash at any stage. They are effected chiefly by bookkeeping transfers of deposit ownership within the banking system. The greater the degree of prevalency of such payments, the smaller the public's demands for cash, and the smaller the banking system's needs for vault cash.

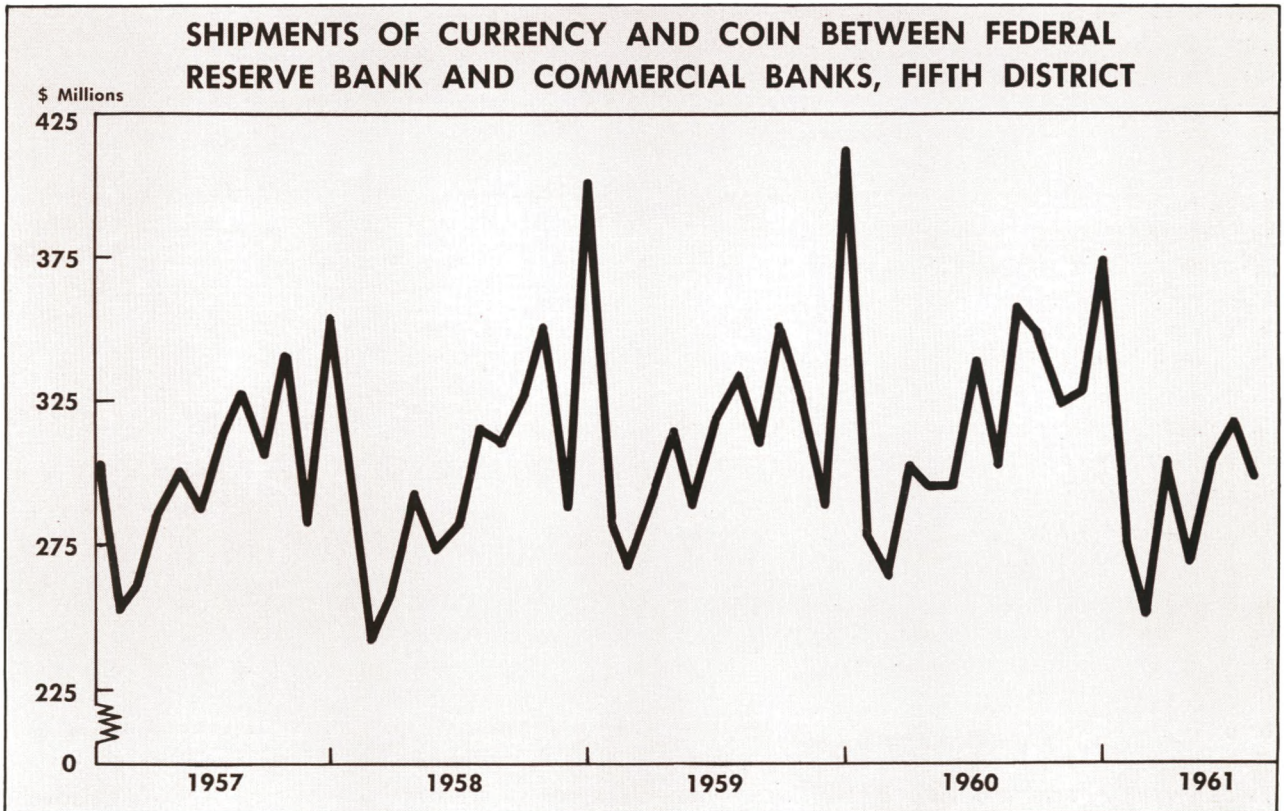
THE CASH PIPELINE In a broader perspective, the vault cash holdings of banks represent a reservoir from which the public replenishes its cash holdings at its own convenience by converting demand deposits. Commercial banks, in turn, replenish their cash holdings when this is necessary by drawing coin and currency from the Federal Reserve Banks, reducing their reserve deposits at the Federal Reserve in the process. In their turn, the Federal Reserve Banks hold coin and Treasury currency deposited with them by the U. S. Treasury, and in addition have the power to issue currency in the form of Federal Reserve Notes, which represent the largest part of total coin and currency in this country.

Thus the United States system for providing currency and coin to the public can be thought of as a

giant pipeline running from the Treasury and the Federal Reserve Banks, through the commercial banks, to the public. When the public needs more currency and coin, it can be obtained by converting deposits at commercial banks. Commercial banks losing cash can replace it by converting their reserve deposits at Federal Reserve Banks. Federal Reserve Banks can make up any shortage by requisitioning coin at the offices of the U. S. Mint, by drawing allotments of Treasury currency, and by issuing their own circulating notes.

This pipeline is a two-way street. When the public finds itself with more cash than is required, it takes the excess to commercial banks, converting it into deposits. Commercial banks ship any excess accumulations in their own vaults to the Federal Reserve Banks in exchange for reserve deposit credit. The Federal Reserve Banks dispose of unfit coin and currency and usually hold most of the remainder as an inventory out of which future demand is met.

The nation's currency system, as represented in this hypothetical pipeline, is operated solely for the convenience of the public. Its function is to allow the public to determine for itself, without impairment of the working of the monetary system generally, how its total money holdings are divided between coin and currency on the one hand and deposits on



the other. Bank holdings of vault cash comprise an important part of this system and are indispensable to its smooth functioning.

SEASONAL EFFECTS The chief variations in the public's demand for cash are associated with seasonal factors. The largest fluctuations occur during the Easter and Christmas shopping rushes. Typically, at Christmas time banks must meet an added demand for cash occasioned by burgeoning retail sales and by use of cash for gifts. Larger quantities of bills and coins flow out of banks thus requiring greater shipments from the Fed. Once the shopping rush subsides, there is a return flow of paper money and coins back to commercial banks as customers build up deposits. Last year, for instance, vault cash at Fifth District member banks averaged \$187 million for the twelve months. At the end of December, however, the balance was \$233 million. The larger December balance was accounted for by the return flow of cash after the Christmas rush had passed.

FROM CASH TO RESERVES Before 1959, vault cash at banks belonging to the Federal Reserve System served only the function described above. Cash was held only in order to meet the public's demands. In particular, member banks were not allowed to count their vault cash holdings toward meeting the reserve requirements set by law.

In December 1959 the Board of Governors of the Federal Reserve System took the first in a series of steps designed to allow all vault cash to be counted as reserves. The first measure enabled member banks to count as reserves vault cash in excess of a certain percentage of their net demand deposits. In August and September 1960 these percentages were reduced considerably, and in the following November all vault cash was given reserve status.

This series of changes gave bank vault cash a second function. Banks now hold it not only to meet the demands of the public but also to meet part of their legal reserve requirements. Prior to the Board action, cash could be converted to reserves only by shipment to the Federal Reserve Banks. Now it is a form of reserves in its own right.

EXPECTED EFFECTS This enhanced status of vault cash would appear to justify expectations that the quantity of cash holdings would rise. With the added attraction of built-in reserve status, member banks apparently have less reason to keep currency and coin holdings to a minimum. Moreover, there may also be grounds to expect that money shipments to and from the Federal Reserve Bank would be reduced by the changed status of cash. Before the Board action banks often shipped in currency in

anticipation of reserve deposit losses. Since November 1960 it has been possible to cover reserve deposit declines without these shipments if vault cash holdings are sufficient.

DISTRICT EXPERIENCE, 1961 In view of the recency of the change in the status of vault cash, any judgment as to the effects of this change is perhaps premature. However, data on vault cash holdings of Fifth District member banks suggest that expectations of larger bank cash holdings and of a smaller volume of coin and currency shipments between the Federal Reserve and commercial banks may have been realized.

For example, during the first seven months of 1960 vault cash at District member banks averaged \$186.5 million. In the like period this year average holdings rose to \$205.2 million, a 10% increase. The increase in this average between 1959 and 1960 amounted to only slightly more than 4%, between 1958 and 1959 to a shade over 5%, and between 1957 and 1958 to only about 2%.

The larger increase in District member banks' holdings of cash in 1961 may, of course, be explainable by factors unrelated to the new vault cash regulations. However, the fact that this larger increase followed immediately upon the Board action allowing all vault cash to be counted as reserves at least suggests some causal connection between the two.

Fifth District data also show the volume of coin and currency shipments between the Federal Reserve Bank of Richmond (including the Baltimore and Charlotte Branches) and District commercial banks running slightly below those in the comparable period of both 1960 and 1959, as indicated in the chart on the preceding page. Total shipments for the first seven months of 1961 amounted to \$2,021 million or 2.6% less than in the same 1960 months. By comparison, the seven-month 1960 total was 0.9% below that for the same 1959 period, while the first seven-month total for 1959 was 7% ahead of that for 1958.

Again, however, this does not establish a presumption that total currency shipments have been reduced by the new vault cash regulations. Currency movements through the pipeline described above are obviously associated closely with the over-all level of business, especially of retail trade, and the differences noted may be attributable to variations in business volume. Data for 1957-58, a period marked by much the same business conditions as 1960-61, show a reduction in shipments of about the same magnitude as that between the latter two years.

Nevertheless, the data do suggest the possibility that Fifth District banks' policies with respect to vault cash holdings may be undergoing a change.

THE FIFTH DISTRICT



Despite moderate declines in some areas, generally good business conditions still prevail in the Fifth District. Nonmanufacturing employment, about three-fourths of the District total, reached a new high in August. Substantial gains occurred in government, contract construction, financial enterprises, and services; smaller ones in mining and trade. Construction activity, a sustaining factor during the last recession, has consistently gained further strength—an indication of confidence. Trade, on the other hand, although satisfactory by comparison with recent years, has developed little if any new strength during the period of recovery. The absence so far of any extra autumnal vigor places trade among the hesitant sectors of the economy.

Many manufacturing industries experienced a slower pace in August. Factory employment and man-hours, both seasonally adjusted, were slightly down from July levels, and more than 2% below their respective 1960 highs. August declines—more marked in nondurable goods than in durables—occurred in tobacco manufacturing; the weaving and spinning components of textiles; apparel; paper; printing; metals; machinery; furniture; and stone, clay, and glass. The significance of these relatively small but rather widespread adjustments is not wholly clear. Business attitudes and expectations have been generally and quite consistently optimistic. Other facets of the District economy have for the most part maintained an upward course. It may be that usual seasonal slowdowns developed more than normal intensity this year.

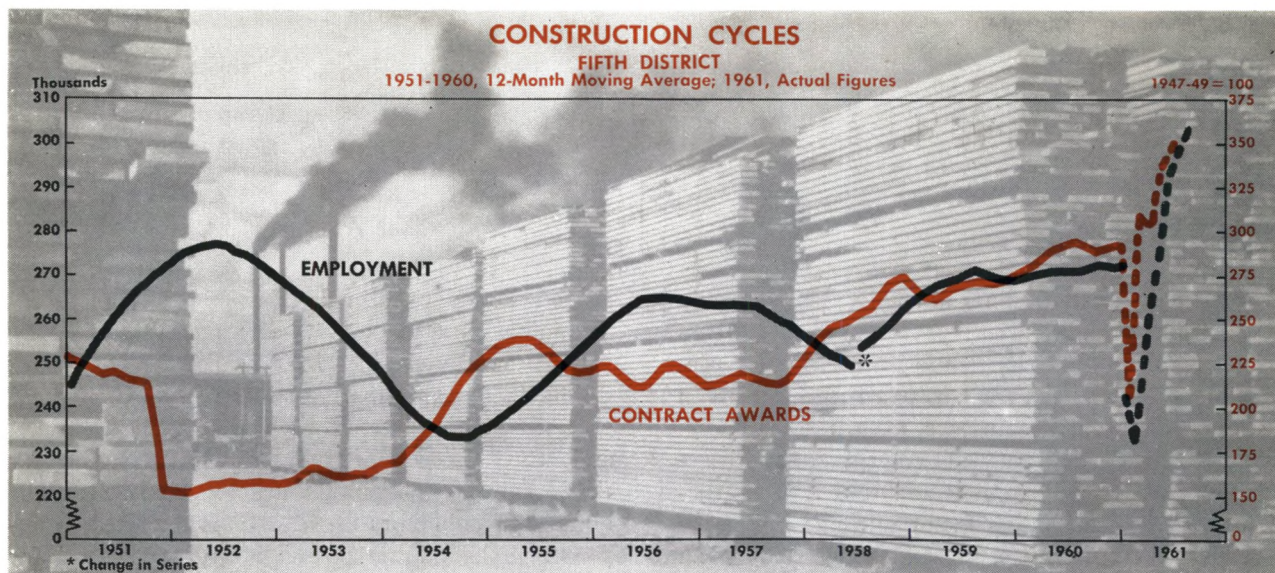
INTERNATIONAL TRADE With markets for manufactured goods becoming increasingly competitive, interest in overseas business contacts is clearly growing. Greater emphasis is being given to foreign markets as potential outlets for domestic products. The free economies of Europe and Japan have completed a remarkable recovery from almost total wartime destruction. Fifth District business groups have demonstrated their awareness of these developments in the past but are now giving them more attention than ever. The 13th Annual Virginia World Trade Conference, directed by the Virginia State Chamber of Commerce and supported by 12 other organiza-

tions, will meet October 25-27 at Old Point Comfort, Virginia. Students and faculty members from 23 colleges and universities in Virginia, the District of Columbia, and neighboring states will be Conference guests. In Charlotte, North Carolina, the Coliseum and Merchandise Mart will provide the setting for the North Carolina Trade Fair, October 12-21. The number of exhibitors at the Fair is expected to approach 400, and the potential foreign demand for products displayed will be judged by distributors from all parts of the world.

CONSTRUCTION Manufacturers are just as persistent in trying to reduce costs as they are in pursuing new markets. Frequently the quest for lower costs has produced decisions to build. Much public construction is also in progress. Contract construction workers in August numbered more than 300,000, the most ever employed in the District. Building permits in 38 District cities also reached a new high in August with a total value of more than \$72.7 million. This impressive figure was 16% higher than the series' second best value established two months earlier and 70% above last year's monthly average even though 1960 was a record year.

District contract awards are not presently at record levels but, nevertheless, do show considerable strength. Total awards have been declining gradually since mid-1960 and are slightly behind last year's pace. Awards toward the end of last year included several very large public projects, the largest of which was the Chesapeake Bay Bridge-Tunnel. These helped to provide a solid foundation for this year's construction activity and set such a fast pace for public construction and utility awards that 1961 can come in second best and still make a very good showing. Private awards, both residential and nonresidential, have maintained slightly higher average levels this year than last.

CONSTRUCTION CYCLES Erratic fluctuations in construction statistics tend to conceal the first signs of change when recovery or recession begins to affect the building business. Construction employment and the contract awards index plotted on the chart from January through July 1961 show how wide these



short-run variations are. In employment the seasonal pattern is fairly stable from year to year. In contract awards, however, it is well camouflaged by ups and downs arising from the unpredictable processes by which individuals, businesses, government agencies, and other organizations decide when to build. The employment series can be, and is, seasonally adjusted with satisfactory results, but seasonal adjustment of contract awards, especially on a regional basis, has proven difficult.

Meaningful comparisons between employment and awards require special preparation of the data. Thus, the values plotted on the chart from January 1951 through January 1961 are 12-month moving averages. This simply means that each point on the chart is an average of the values for 12 consecutive months, the six months that precede and the six months that follow the point in question. The moving averages smooth out the seasonal and random variations leaving in each case a pattern of business cycles superimposed on an upward trend.

The contracts to build the Savannah River atomic energy plant were awarded in May 1951 and were primarily responsible for high contract award averages during most of that year. Employment rose rapidly during the 12 months following this unusual event, but then went into a decline that lasted more than two years before the size of the work force had again assumed its usual relationship to the normal volume of contracts. Employment took its next upward turn in August 1954, about six months after awards began to show definite gains. New contracts then peaked in the spring of 1955, but employment continued to rise for another 18 months. The 1957 fall upturn in awards was followed about nine months

later by recovery in employment.

In general it appears that turning points ending declines in contract awards have preceded recovery in employment by six to nine months. In the last two or three years increases in contract awards have not occasioned such definite gains in employment. But last year's flurry of new contracts followed by good average levels this year would seem to indicate record or near-record employment in this sector of the District economy for some months to come.

BANKING Business loans at District weekly reporting banks rose sharply in August and September, reversing a steep July decline. These loans normally increase in late summer and early fall as inventories begin to grow. The rise so far this year has been greater than usual, 6.5% from July 26 to September 20. Most other loans also showed seasonal strength over the seven-week period. Loans to domestic commercial banks (mainly Federal funds) more than doubled, reflecting ease in the reserve positions of District money-market banks. Loans to nonbank financial institutions and security loans also registered substantial gains. Real estate loans rose slightly, while agricultural loans declined seasonally. All other (primarily consumer) loans, sluggish all year for the nation as a whole, continued to exhibit more strength than usual at District weekly reporting banks—up 3.2% in the latest seven-week period.

PHOTO CREDITS

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