MONTHLY REVIEW

Manufacturing, government, and trade were important sources of Fifth District personal income in 1961.

FEDERAL RESERVE BANK OF RICHMOND OCTOBER 1962

PERSONAL INCOME UP IN 1961

Personal income reached new highs in 1961, both for the United States and for the Fifth District, but Fifth District gains were greater than those for the nation as a whole. These facts were revealed by data released recently by the Department of Commerce. Personal income, a Department of Commerce measure of current income payments before income taxes to persons residing in the United States, is one of the few measures of over-all economic activity for which statistics are available by states. For this reason, these data are of value in state and regional comparisons of economic activity, as well as for other purposes.

THE NATION'S PERFORMANCE Total personal income for the United States in 1961 amounted to $414 billion, a gain of $15 billion or 4% over 1960. Almost all of the states shared in the increase, although changes ranged from a decline of 10% for North Dakota to an increase of 10% for Nevada. Regionally, the highest rate of growth—5%—was achieved in the Southeast, Southwest, Rocky Mountain and Far West regions, while the lowest rate—2%—was shown by the Great Lakes area. New England and the Plains regions matched the national increase of 4%, while the Mideast was slightly below that figure.

No single factor accounts for the differences in the behavior of income in the various regions. One important factor was the differential impact of the recession and recovery on particular industries. The 1960-61 recession, which resulted in a leveling off in the flow of personal income for the country as a whole, reached a trough in February 1961. The recovery which followed resulted in a substantial growth in personal income, but the effects of the decline and subsequent recovery on economic activity were unevenly distributed with respect to industries and regions. Durable goods manufacturing appeared to be particularly affected by the fluctuation in the level of economic activity. Specifically, the manufacturing industries that were most adversely affected by these developments were automobiles, nonelectrical machinery, and primary metals, with payrolls in these three industries down 4% nationally and even more in some sections. For example, in the Great Lakes region, the only major area experiencing a decline in total earnings of factory workers, payrolls in these industries declined 7%.

Agricultural income for the nation, including wages and salaries and proprietors' income, increased by over 7% in 1961. There was little uniformity among the states, however, with changes ranging from a rise of 37% for Illinois to a fall of almost 60% for North Dakota. An improvement in agricultural income in the Great Lakes region partly offset the decline in income from manufacturing.

In considering the major sources of change in income and the causes of regional differences in the flow of income in 1961, the role of government cannot be overlooked. Relatively, income originating in government increased more than income from other sources, amounting to 9% as against a 3% rise in other income payments. Both Federal and State governments paid out more income, a reflection of a greater number of employees as well as higher wages. Increases in wage and salary payments by State and local governments were considerably larger than were those of the Federal Government, both relatively and in dollar amounts. Unemployment insurance benefits represented an important element in government-originated income, increasing from $3 billion in 1960 to $4⅓ billion in 1961. Residents of five states—New York, Ohio, Pennsylvania, Michigan, and California—received about $2 billion from this source last year.

The percentage increase in per capita personal income last year was less than the increase in total personal income. Nationally, the per capita rise was 2%, with state changes ranging from a gain of 8% for Arkansas to a decline of 10% for North Dakota. The 2% growth in per capita income for the nation was the smallest year-to-year increase since 1958. Nevertheless, per capita income for the nation did reach a record high of $2,263.

THE FIFTH DISTRICT Total personal income in the Fifth District increased by 5% in 1961, as compared with the national increase of 4%. Most of the District states showed a rate of growth greater than that of the nation, with only West Virginia's 1% rise falling significantly below the national average. The District of Columbia was only slightly below the national average, while North Carolina's 6.3% rise was the highest for District states. Maryland (5.9%), Virginia (5.0%), and South Carolina (4.6%) were all above the national average. In dollar terms, largest increases were registered by North Carolina ($446 million), Maryland ($436 million), and Virginia ($372 million), while West Virginia's $31 million increase was the smallest. The District of Columbia and South Carolina showed dollar increases of $85 million and $153 million, respectively.

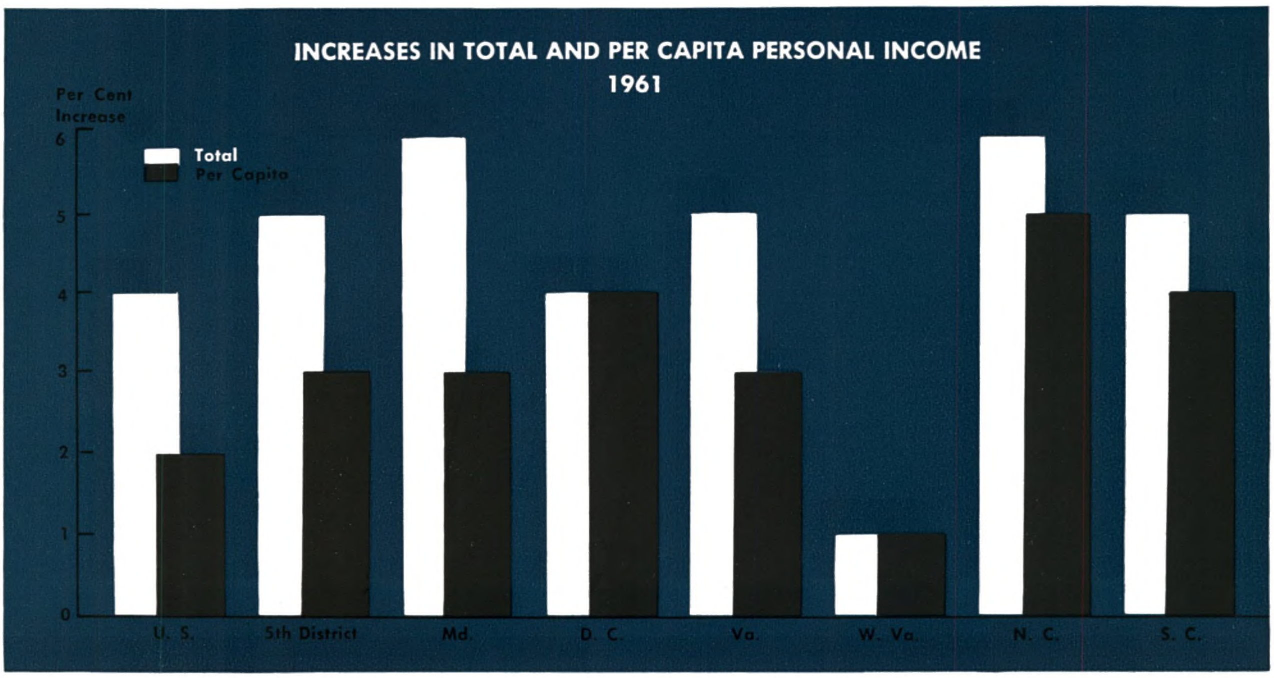
PER CAPITA INCOME Fifth District per capita personal income continued to grow at a greater rate than the national average, with a gain of 3% compared with 2% for the nation. This relatively greater increase raised District per capita income to 84% of the national average, the highest ratio it has reached since the current series began in 1929. In dollar terms, average per capita income for the District amounted to $1,905, a growth of $61 over 1960.

All District states except West Virginia realized increases in per capita income that were relatively greater than the national increase. North Carolina enjoyed the greatest percentage gain (5%), while the District of Columbia and South Carolina were close behind (4%). Maryland and Virginia equaled the District average of 3%, while West Virginia showed a gain of 1%.

The performance of Fifth District states compared favorably with that of other states. Only Kentucky, Arkansas, and Nevada, for example, had percentage increases in per capita income greater than the 5% gain shown by North Carolina. Only ten states outside the District had increases in per capita personal income larger than the 3% average for the District, while five such states equaled that rate.

The range of differences in per capita income by states remained large in 1961, running from a high of $3,124 for the District of Columbia to South Carolina's $1,433. Only the District of Columbia and Maryland were above the national average, with per capita personal income in the District of Columbia being equal to 138% of the national figure, while Maryland's $2,472 was 109%. Virginia had per capita income of $1,908 (84% of the national figure), West Virginia $1,690 (75%), North Carolina $1,642 (73%), and South Carolina $1,433 (63%). The disparity between per capita income in District states and in the nation as a whole, as well as disparities between District states, continued to diminish as they have been doing for some years.

CAUSES OF DISTRICT VARIATIONS Why did personal income grow so much more rapidly in some District states than others, and why is it that some states with relatively large increases in total personal income did not show very much change in per capita income?



MAJOR SOURCES OF PERSONAL INCOME IN THE FIFTH DISTRICT, 1961

Source	1961 Personal Income		Change from 1960	
	Amount	Per Cent of Total	Amount	Per Cent
	$ Million	Per Cent	$ Million	Per Cent
PERSONAL INCOME	32,152	100.0	1,523	5.0
WAGES AND SALARIES	22,332	69.5	906	4.2
Farms	240	0.7	9	3.9
Mining	369	1.1	−33	−8.2
Contract construction	1,188	3.7	53	4.7
Manufacturing	5,966	18.6	127	2.2
Trade	3,476	10.8	116	3.5
Finance	885	2.8	59	7.1
Transportation	1,086	3.4	−7	−0.6
Communications and public utilities	622	1.9	33	5.6
Services	2,236	7.0	134	6.4
Government	6,210	19.3	413	7.1
Other industries	57	0.2	2	3.6
OTHER LABOR INCOME	814	2.5	47	6.1
PROPRIETORS' INCOME	3,597	11.2	126	3.6
Farm	1,122	3.5	80	7.7
Nonfarm	2,473	7.7	43	1.8
PROPERTY INCOME	3,676	11.4	179	5.1
NET TRANSFER PAYMENTS	1,732	5.4	262	17.8

Differences in the behavior of income are mainly the result of differences in the economic structures of the various states and of the differential impact of cyclical and secular changes on these economies. A dynamic, growing economy is characterized by the development of new industries, the decline and disappearance of other industries, and both industrial and geographical shifts of resources, including people. Economic growth and development is also frequently accompanied by fluctuations in the level of economic activity, and as noted above, much of the impact of such cyclical fluctuations is often concentrated upon a relatively few industries. Since the industrial structures of the various states differ, it is not surprising that income flows behave differently over the course of the business cycle.

A complete answer to the question of why personal income behaved as it did in the various states comprising the Fifth District would require an analysis of the economic structure of each of these states, a description of the long-term forces at work tending to alter this structure, and a discussion of the effects of the business cycle on the major industries in the several states. Such an undertaking is beyond the scope of this brief article, but it might be of some interest to note some of the more obvious changes affecting income flows.

MAJOR SOURCES OF INCOME The accompanying table shows major sources of income in terms of their relative importance as well as changes in income from these sources in 1961. Wages and salaries accounted for almost 70% of income in the Fifth District, with property income and proprietors' income accounting for an additional 11% each. The remainder was in the form of other labor income and transfer payments such as unemployment compensation, old age retirement benefits, and relief payments.

A more detailed breakdown of these large categories provides more information on changing sources of income. The broad classification "Wages and Salaries" is accordingly broken down into 11 industrial groupings to show the sources of the wage and salary income. In like manner, proprietors' income is classified as farm or nonfarm.

These figures reveal that government was the largest single source of income in the Fifth District in 1961, accounting for almost one-fifth of total personal income for that year. Furthermore, wage and salary payments by Federal, State, and local governments showed the largest increase for any single income source last year, $413 million. This represented about 45% of the total increase in income from wages and salaries. State and local governmental units showed a whopping increase of 12.7% in wage and salary payments.

But the importance of government as a source of income varied greatly among the states making up the District. As might be expected, it was the most important source of income in the District of Columbia, with over a third of personal income coming from wage and salary payments of government, in this case mainly the Federal Government. Residents of Virginia and Maryland also received a large part of their income from this source, and while government wages and salaries were relatively less important in West Virginia, there was a substantial increase in income payments by State and local governmental units in that state also.

Manufacturing was the most important source of income in South Carolina, North Carolina, and West Virginia, and was second only to government in Maryland and Virginia. Nationally, wages and salaries from manufacturing showed almost no increase last year, but the performance of manufacturing industries in the Fifth District was somewhat more favorable, with factory payrolls increasing by slightly more than 2%. Changes in wages and salaries from manufacturing in the various states of the Fifth District reflect differences in the character of manufacturing activity in these states. Maryland's increase of 1% was below the District average, and West Virginia was the only District state to record a fall in manufacturing wages and salaries. This performance was undoubtedly a reflection of the importance of "heavy" industry, particularly primary metals, in those states. District states in which nondurables are relatively important showed up well in the manufacturing sector. Virginia scored the biggest gain among District states, recording a rise of $46 million (4%). South Carolina was second with a gain of 3.6%, while North Carolina registered an increase of 2.2%.

West Virginia is the only District state in which mining is important. And, although it was the source of almost 9% of personal income in that state in 1961, its importance has been declining for some years. As recently as 1951, wages and salaries from mining were more than a fifth of West Virginia's total income, but in 1959 and 1960 they represented only a tenth of the total. Last year income from this source was down 11.5% from 1960, and its relative importance as a source of personal income in West Virginia had fallen to a little less than 9%. Undoubtedly, part of the decline last year was brought about by the recession, but the long-term downward trend that appears to have developed in the past decade makes it doubtful that mining will ever regain its prominent position as a source of wage income in West Virginia.

The thousands of shops, stores, and markets involved in the distribution of merchandise to the ultimate consumer were an important source of personal income last year. Wage and salary payments in retail and wholesale trade accounted for about 11% of District personal income, while their relative importance in District states varied from less than 8% of total personal income in the District of Columbia to over 12% in Maryland. In the Fifth District, there has been little variation over the years in the relative importance of wages and salaries from this sector. Since 1950, they have not fallen below 10% nor risen above 11% of personal income.

The service industries, providing such services to consumers as lodging, amusement and recreation, medical care, business and repair services, and a host of personal services, are a steady and important source of income to District residents. Last year these industries contributed over $2.2 billion to the flow of personal income in the District. These industries were particularly important in the District of Columbia, ranking second only to government as a source of wage and salary income in that area. They were least important in West Virginia, accounting for less than 5% of personal income in that state, compared with 7% for the entire District.

Transportation was the only District industry except coal to show a decline in wages and salaries in 1961. This was partly a reflection of the impact of recession on the level of economic activity, but it was also the result of partially offsetting movements in the major sectors of the industry. Wages and salaries paid by railroads continued the decline that has been going on since 1958. However, a large part of this fall in railroad wages and salaries was offset by the rise in income from highway freight and warehousing, a source of income that is steadily increasing in importance.

While wages and salaries constituted almost 70% of total District income, two other important sources of income should not be overlooked: property income and proprietors' income. The former, including such types of income payments as rents, dividends, and interest, amounted to something over 11% of total income in 1961, an increase of over 5% over the previous year. Proprietors' income (net business earnings of unincorporated enterprises and of farmers, doctors and other self-employed individuals) also accounted for slightly over 11% of total income last year.

SUMMARY The growth in personal income in 1961 was good but not spectacular. It was a year of recession and recovery, and the fall in income in the early months partly offset the substantial expansion that occurred in the last three quarters. The record of the Fifth District was better than the national record for both total personal income and per capita personal income, and per capita income moved slightly nearer to the national average.

Keys for Forecasting

Unemployment

The nation's unemployment rate—perhaps more than any other key economic indicator —makes headline news. This is partly because of its poignant appeal to the general public. The business forecaster, however, looks behind the headlines to the volume of statistics published on the unemployed and relates these figures to the labor force measures discussed in the previous article in this series.

LABOR FORCE UNEMPLOYMENT The most comprehensive measure of total unemployment is derived from the monthly survey of a sample of households. The interviewer counts as *unemployed* all persons in the labor force (defined in the previous article) who, during the calendar week ending nearest the 15th of the month, are not working, and are looking for work. Included in the count are those persons not looking for work because of temporary illness or belief that work is not available and those waiting either to be recalled to a job or to report to a new job within 30 days. Prior to 1957, those laid off from a job for less than 30 days and those scheduled to start work within 30 days were classified in the employed group—"with a job but not at work."

INSURED UNEMPLOYMENT The official records of unemployment insurance plans provide another aggregate measure of the unemployed. The series represents the number of workers during a given week who filed unemployment insurance claims under the programs administered by the State employment security agencies, the program of unemployment compensation for Federal Employees (UCFE), the Ex-Servicemen's programs (UCX) and the program administered by the Railroad Retirement Board. For all but the latter program, the data are available weekly for each state and for the week nearest the 15th of each month for around 150 major labor market areas.

UNEMPLOYMENT SERIES COMPARED Labor force unemployment figures include certain groups of workers ineligible for unemployment insurance—principally farm workers, self-employed individuals, domestic workers, most State and local government employees, young persons looking for their first jobs or temporary work and the unemployed who have exhausted their benefits. Moreover, the definition of unemployed used in the labor force series does not parallel the qualifications for drawing unemployment compensation under the various insurance programs. For example, some persons with a job but not at work or employed only part-time could receive unemployment compensation and yet be counted as employed in the labor force series.

Except for the minor definitional change made in 1957, the concept of the jobless in the household survey has remained the same for the past two decades. Slight discontinuities in the series have been introduced by changes in the sample and measurement techniques. The number of workers covered by unemployment insurance, however, has changed considerably over the years. Federal employees were not covered until 1955 and the armed forces, although insured under various programs since the Forties, were not included in the total count until 1958. Also, the unemployment insurance laws have varied among the states on minimum size of firm covered and length of benefit rights.

CHARACTERISTICS OF THE UNEMPLOYED Despite differences in definition and coverage, the two series are complementary and shed invaluable light on the country's manpower resources.

Both series provide considerable detail on the social and economic characteristics of the unemployed—age, color, sex, marital and family status, occupation, industry attachment, and duration of unemployment. Some cross classifications of these characteristics—for example, sex by age group—are given.

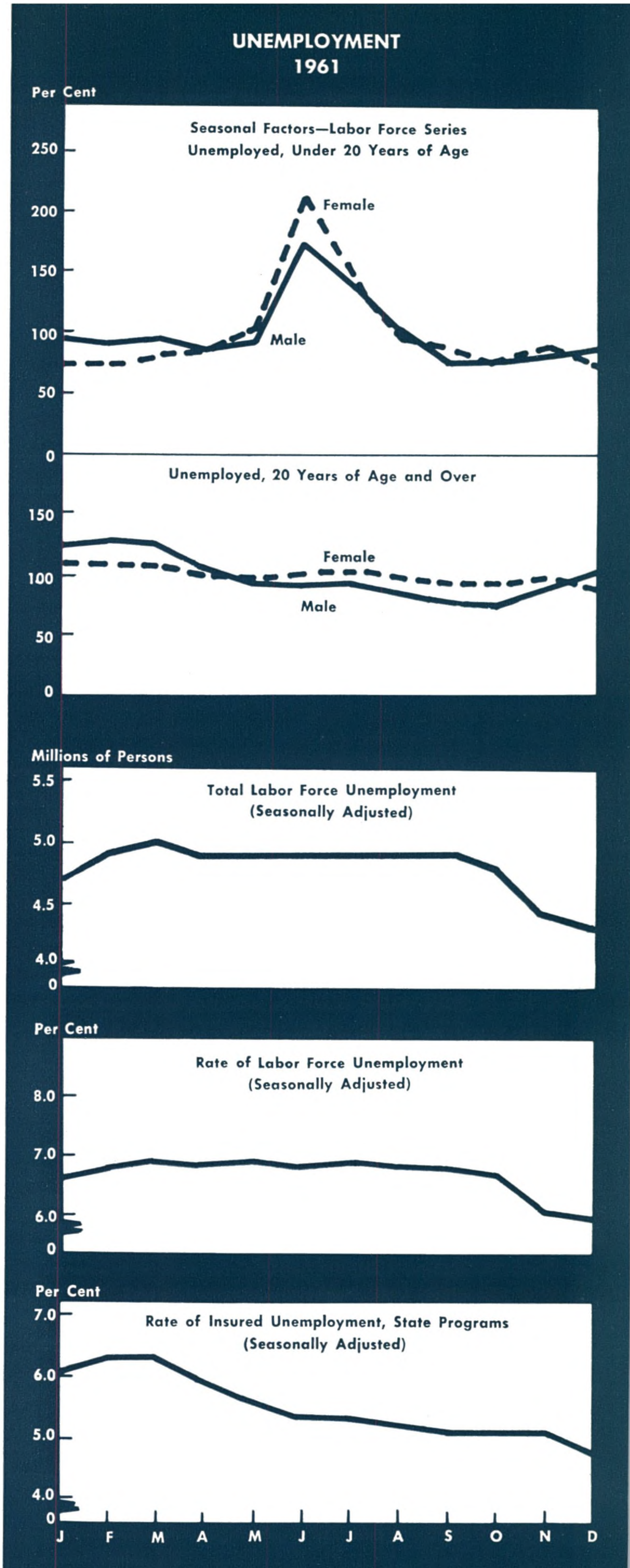
Also published are selected characteristics of the long-term unemployed—defined as persons unemployed 15 weeks or longer and further subdivided into those unemployed more than six months. The series on insured unemployment under State programs provides data on the composition of the unemployed by states. Geographical detail is not available on total unemployment as defined in the labor force series.

RATES OF UNEMPLOYMENT The unemployment rate usually cited is the per cent of total unemployed to the total civilian labor force in that month. Rates are also published for various components of the unemployment total. These rates are related to the civilian labor force in each category.

For insured unemployment, the rate is based on the unemployed covered by State programs only, and is related to average covered employment for a recent 12-month period. This rate is available weekly and by states. For the major labor market areas and smaller areas of substantial unemployment, rates of insured unemployment under State, Federal Employee and Ex-Servicemen's insurance programs are shown as a percentage of the work force in that area.

SEASONAL ADJUSTMENT In the labor force series, four age-sex groups (male and female unemployed workers under age 20 and age 20 and over) are separately adjusted for seasonal variation. The total seasonally adjusted unemployment figure is the sum of these four groups. The seasonally adjusted unemployment rate is derived by dividing the seasonally adjusted unemployment total by the seasonally adjusted civilian labor force figure. There are no seasonal factors for the over-all unemployment rate or for total unemployment. Each year the seasonal factors for the four age-sex groups to be used in the current year are published and thus the seasonally adjusted data for these components can be computed.

In the insured unemployment series, only the national rate for the unemployed insured under State programs is adjusted for seasonal variation. The weekly rates are not adjusted.



MONEY AND CREDIT DEVELOPMENTS

Around the end of last year it was the consensus of financial analysts that interest rates would rise in 1962. They foresaw a rising demand for instalment credit as consumers loosened up and began to spend and a growing demand for business loans as businessmen borrowed to finance inventories, receivables, and new plant and equipment. They envisioned a moderate increase in the demand for mortgage funds, and many expected a new record in borrowings by State and local governments. On the other side of the picture, they predicted a move by the Federal Reserve System to a position of less ease and they expected a more moderate increase in savings than had occurred in 1961. Consequently, a majority of analysts looked for rising rates in the new year.

No interest rates rose significantly during the first half of 1962 and some rates actually declined appreciably. The experience so far this year brings to mind the famous lines of Robert Burns: "The best laid schemes o' mice and men gang aft a-gley; an' lea'e us nought but grief and pain, for promis'd joy." Needless to say, investors who delayed long-term commitment of their funds in anticipation of rising rates were sadly disappointed.

INTEREST RATE MOVEMENTS Bond yields began to decline around the first of the year and continued to fall until about the second week in May. Yields on tax-exempt issues led the decline on the strength of heavy commercial bank demand. In December the Federal Reserve announced a change in Regulation Q, effective January 1, permitting banks to pay higher rates on time and savings deposits. In anticipation of higher costs, banks began to move into the tax-exempt market in mid-December. The movement accelerated early in the new year following widespread adoption of the new maximum rates, and tax-exempt yields fell sharply. From December to May yields on Aaa State and local issues declined a total of 41 basis points, reaching 2.92% on May 3, the lowest yield since the summer of 1958.

Although the tax-exempt market bore the primary impact of the change in Regulation Q, interest arbitrage soon spread the effects to other closely related markets. Yield declines in the other markets were not so precipitous, however, nor did they begin until after the turn of the new year. Yields in the market for long-term Governments actually rose slightly during January and the first half of February while yields on corporate issues remained virtually unchanged. Subsequent declines brought Governments to 3.85% and Moody's Aaa-rated corporates to 4.27% by mid-May, declines of 27 and 16 basis points, respectively.

A number of factors in addition to the change in Regulation Q contributed to the strength of the bond markets in the first few months of the year. One was the disappointing pace of the economy's expansion. Although borrowing was substantial, the demand for funds arising from increasing economic activity was less than predicted and not sufficient to bring about rising yields. Another factor was the increased rate of saving in nonbank financial institutions. Still another was the cut in the British bank rate in three successive steps of ½% each, from 6% to 4½%. These reductions, which occurred in March and April, imparted strength to the American capital markets by keeping at home some funds which might otherwise have gone abroad.

In May the markets turned around, with the tax-exempt market again setting the pace. From May 3 to August 10 yields on Aaa State and local bonds rose from 2.92% to 3.15%, a rise of 23 basis points. During roughly the same period, yields on long-term United States Government bonds and Aaa corporate bonds rose 18 and 10 basis points, respectively, to 4.03% and 4.37%.

This weakness in the capital markets initially took the form of increasing investor resistance to new issues as yields declined. Inventories of unsold bonds began to pile up on dealers' shelves. Congestion was particularly acute in the tax-exempt market, as commercial banks through April and May failed to buy State and local issues at the previous fast pace.

In July and early August upward pressure on rates was exerted by the fear of tighter monetary policy which was generated by increased concern over our continuing balance of payments deficit and talk of easier fiscal policy. Concern over our balance of payments was accentuated by the foreign exchange crisis in Canada which came to a head in late June. Investors and dealers felt that the extreme measures taken by Canada to correct her situation might worsen our balance of payments in the rest of the year and force our monetary authorities and debt managers to work for higher short-term rates. Moreover, the *Annual Report of the Bank for International Settlements* published in June suggested that in view of our international and domestic economic problems our best course might be a combination of easier fiscal policy and tighter monetary policy. Debate on this subject continued to influence the capital markets until mid-August when President Kennedy rejected a quick tax cut in his economic address to the nation.

By contrast with this movement in long yields, short-term rates have been generally stable. In view of the degree of monetary ease which has prevailed and the absence of strong business and consumer demand for short-term funds, there has been downward pressure on short rates. This pressure has been almost exactly offset by Treasury borrowing in the short-term area, and for the first six months of the year yields on three-month Treasury bills fluctuated narrowly around 2.72%. In response to the Canadian crisis, however, bill yields took a sharp jump and reached 2.98% in mid-July. Subsequently, they declined to around 2.80%.

BANK CREDIT AND DEPOSITS It has been 18 months since the trough of the recession, but the Federal Reserve System is still basically pursuing a policy of ease. Total reserves have not increased as rapidly this year as in the last half of 1961 and average excess reserves have declined about $100 million. Banks, however, have been amply supplied with reserves as evidenced by continued low levels of member bank borrowing at the discount window. Free reserves have averaged around $400 million.

In this environment bank credit and total deposits have continued to expand. Time and savings deposits, which grew rapidly throughout 1961, increased at an even faster pace in the first three months of 1962. Their rate of growth declined somewhat in the late spring, but by mid-July these deposits had increased over 14% since the first of the year—the greatest percentage increase for the comparable period of any recent year except 1958. The money supply, on the other hand, showed no net growth over the period. It increased sharply in April, reflecting an abrupt increase in private demand deposits, but subsequently the demand deposit component of the money supply declined. In the second half of July the seasonally adjusted money supply stood at $145.7 billion, unchanged from the December level.

The composition of bank credit has been greatly influenced by the moderate nature of loan demand and the change in Regulation Q. In the absence of strong demand for consumer and business loans, banks have chosen to cover the higher costs of their growing time deposits by adjusting investment portfolios and making mortgage loans. The proportion of "other securities" (primarily tax-exempts) in bank investment portfolios increased from 25% at the start of the year to 33% by mid-August at weekly reporting banks. The proportion of over-five-year Governments increased from 7% to 11%, while bills remained unchanged and coupon issues under five years declined from 39% to 27%. Real estate loans rose by about 9%, exceeding the increase in comparable periods of the big housing years of 1956 and 1959.

OTHER FINANCIAL INSTITUTIONS Contrary to the experience of most periods of economic expansion, savings at financial institutions have continued to grow at a rapid rate. Despite the change in Regulation Q and keener commercial bank competition, the increase in savings capital at savings and loan associations and deposits at mutual savings banks in the first half of this year exceeded the record rise in the first half of 1961. The increase in the assets of life insurance companies was smaller than gains in recent years, reflecting in part declines in valuations of stock held; but as indicated by the following chart, total financial savings have been in ample supply.

CORPORATE FINANCE New security offerings were in substantial volume in the first half of the year, but the demand for capital has not measured up to expectations. Issues to raise new capital in the first six months exceeded the new capital issues in the comparable periods of 1959 and 1960 but fell short of the record volume in the first half of 1961 when an avalanche of new securities hit the market in the second quarter.

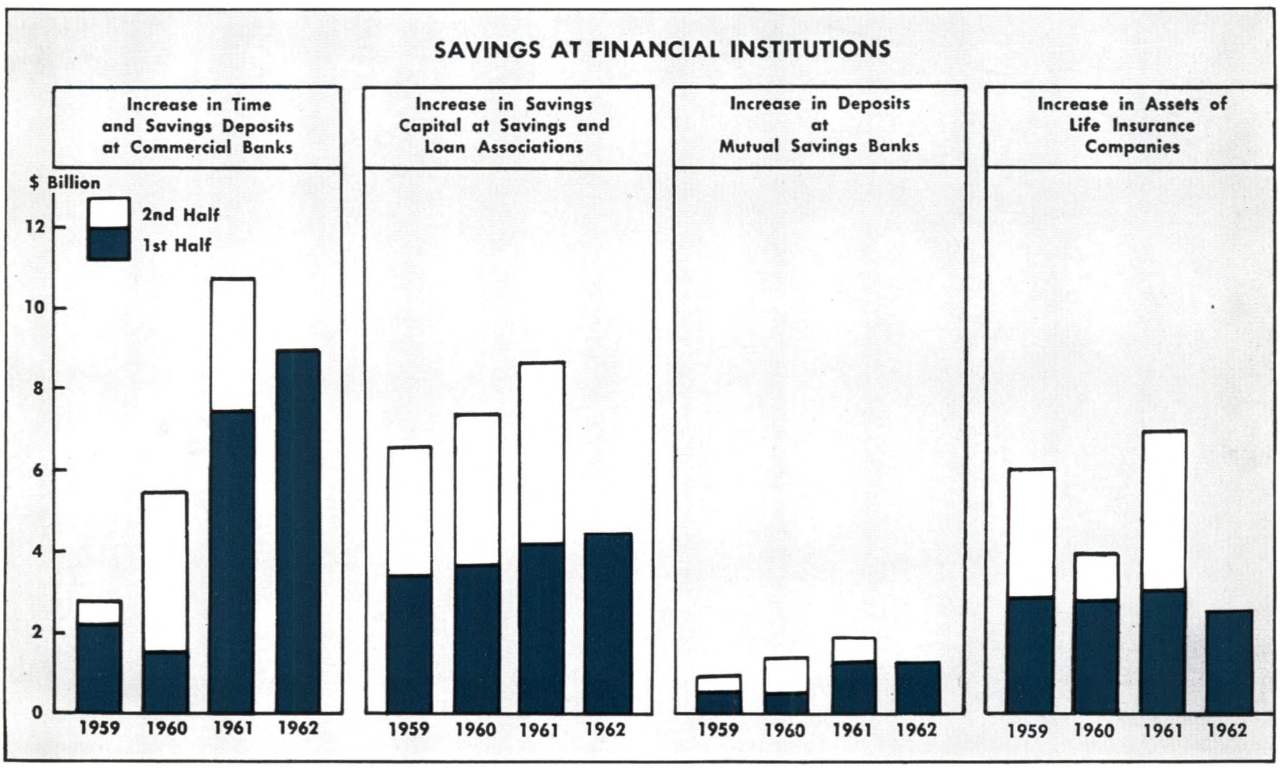
STATE AND LOCAL FINANCE The volume of new security financing by State and local governments reached a new record for a six-month period in the first half of 1962. With yields declining in response to heavy buying by commercial banks, State and local governments found the time propitious to enter the market. But even with strong demand the volume of new issues became burdensome and the Blue List of undistributed tax-exempt securities fluctuated around $500 million for most of the period. When bank demand ebbed for a while in the spring the Blue List rose to a record of $680 million. Subsequently the congestion was worked off and by mid-August the market was in strong technical shape with dealer inventories at moderate levels and the calendar of forthcoming issues light.

MORTGAGE FINANCING The mortgage market in the first half was characterized by an abundance of funds, reflecting the rapid growth of savings at financial institutions and the renewed interest of commercial banks in the mortgage market. As measured by total new construction expenditures, construction contract awards, and housing starts, 1962 so far has been a good building year with correspondingly strong demand for mortgage loans. Nevertheless, mortgage yields have declined as savings and loan associations, mutual savings banks, and commercial banks have invested a record volume of funds in mortgages. Yields on FHA mortgages in the secondary market declined from 5.72% in January to 5.60% in July.

CONSUMER CREDIT After a longer than usual lag following the upturn of economic activity, consumer instalment credit outstanding finally began to rise in October 1961. The increase in the first half of the current year amounted to $1.4 billion, which compares with a decrease of $0.7 billion in the first half of 1961 and increases of $1.8 billion and $2.0 billion in the comparable periods of 1959 and 1960.

TREASURY OPERATIONS Because of the time pattern of tax receipts the Treasury typically runs a cash surplus in the first half of the calendar year. Although this year has been no exception, net debt reduction has been small—only $133 million compared with about $2 billion in the first half of 1961. Had it not been for new cash borrowing through repeated additions to the size of the weekly bill auction, which led to the accumulation of a large Treasury balance, net debt reduction in the first half would have totaled $2.4 billion.

New borrowing through the weekly bill auction has served the dual purpose of raising needed money and maintaining a floor under short-term rates for balance of payments reasons. New money raised in the weekly auctions amounted to $2.3 billion in the first half, compared with $1.4 billion for the entire year of 1961. The heavy concentration of short-term borrowing in large part accounted for the stability of bill rates while long rates were declining.



THE FIFTH DISTRICT

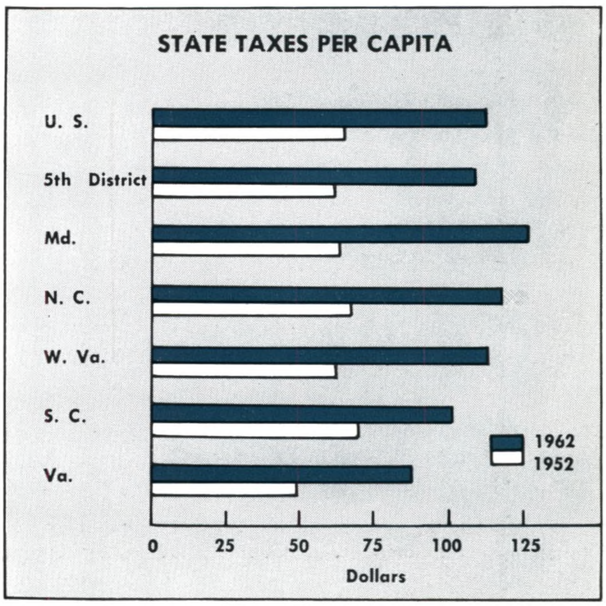
The mixture of favorable, unfavorable, and neutral factors stirred up by Fifth District economic developments in the late summer and early fall seems more complex than usual. Business is generally conceded to be operating at or near an all-time high. Bank debits and nonfarm employment confirm this. But since early this year bank debits have been quite unstable in spite of good growth, and employment has risen at an unusually slow pace compared to other periods of business expansion. Manufacturing employment and man-hours declined in August, and the downtrend in mining employment, which began again in April after a few months respite, was still in progress. On the other hand, nonmanufacturing employment extended its series of consecutive monthly gains to five, and retail sales apparently rose more than seasonally during August and the first half of September.

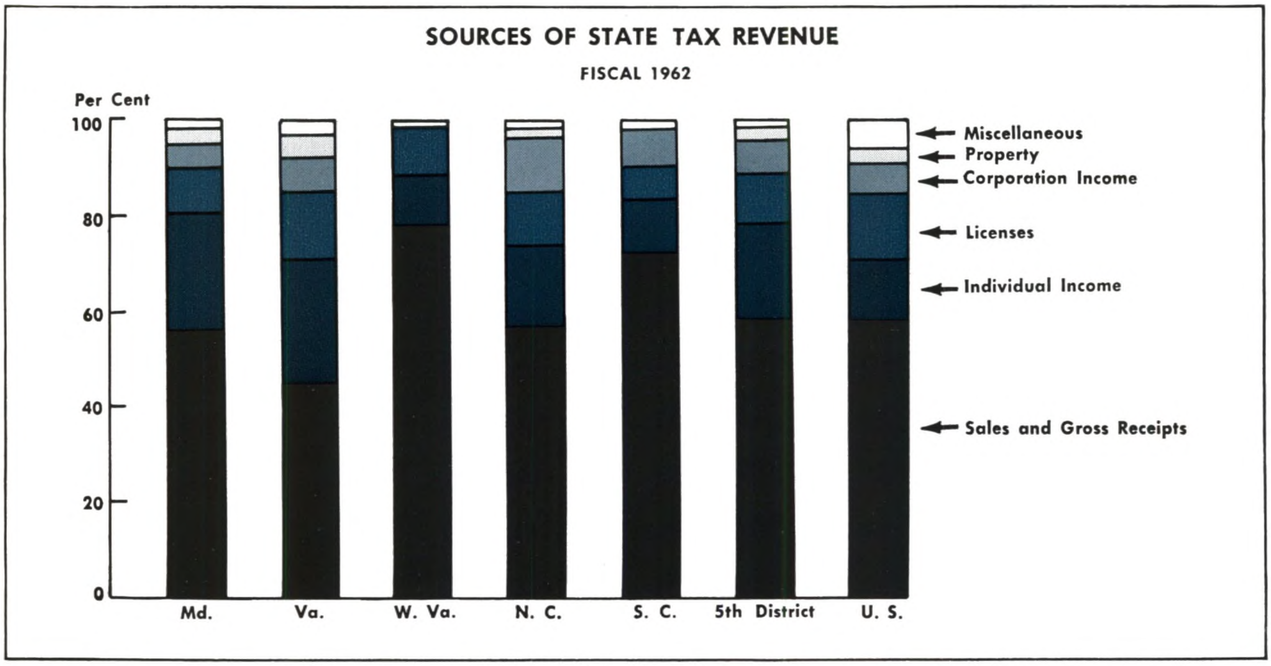
TEXTILES DECLINE All nondurable goods industries except food processing experienced a slackening of activity in August. The declines in man-hours were generally less than 1%, but slightly exceeded that figure in spinning and weaving, and reached 2% in knitting and tobacco processing. The importance of textiles becomes clear when actual figures are examined. May was the Fifth District's peak manufacturing month so far this year, and total factory man-hours, seasonally adjusted, exceeded 60.5 million. When man-hours fell below the 60-million mark in August, textiles had accounted for 79% of the drop since May. Durables contributed only 1% of the total decline. The remaining 20% was a result of man-hour reductions in apparel and tobacco partly offset by small gains in food, paper, printing, and chemicals.

PUBLIC EMPLOYMENT RISES Jobs have increased more consistently in government than in any other sector of District employment. The rise between July and August was 1%, bringing the total increase so far this year to 3%, and the gain since December 1960 to 7%. Over the last decade government jobs in the District have increased nearly twice as fast as total employment: 27% compared to 14%. District data separating State and local employment for comparison with Federal over the past ten years are not available. In the country as a whole, however, Federal employment actually declined 1% during that time while State and local jobs rose 60%. The national rise in all government jobs combined was 38%. Growth in employment and an equally significant rise in State expenditures for other purposes have been accompanied by marked increases in State tax collections.

STATE TAX PATTERNS State tax collections both in the District and in the nation as a whole more than doubled in the ten years between fiscal 1952 and fiscal 1962. Increases among Fifth District states varied considerably. Maryland's tax collections rose 166%; Virginia's, 115%; North Carolina's, 94%; West Virginia's, 73%; and South Carolina's, 66%. Increases of one-tenth or more in a single year occurred in several recent instances: in Maryland, West Virginia, and North Carolina in 1962; in Virginia in 1961; in Maryland, West Virginia, North Carolina, and South Carolina in 1960; and in Maryland in 1959.

The chart at the foot of this page presents a comparison between 1952 and 1962 per capita State taxes for the United States, the Fifth District, and individual District states. District State taxes per capita





in fiscal 1962 amounted to $109, slightly less than the $113 national figure. Per capita District tax collections were not lower than elsewhere, however, when related to levels of personal income. Thus, 1962 State taxes in the Fifth District amounted to 5.9% of personal income compared to 5% for the nation as a whole. Variations in the ratio of State taxes to personal income within the Fifth District were as follows: 5.1% in Maryland, 4.6% in Virginia, 6.8% in West Virginia, and 7.1% in both North Carolina and South Carolina.

REVENUE SOURCES DIFFER As the above chart shows, sources of State tax revenues differed somewhat between the Fifth District and the nation, and considerably among District states. Sales and gross receipts taxes accounted for 59% in both the District and the nation. Individual income taxes and corporate income taxes were slightly more important in the District than in the nation, whereas license taxes were somewhat more significant nationally than they were in the District. Among the minor sources of revenue, death and gift taxes, severence taxes, and others were more widely used outside than inside the District.

West Virginia acquired nearly four-fifths of its 1962 tax revenues through levies on sales and gross receipts. Such taxes accounted for less than half of tax collections in Virginia but for almost three-fifths in North Carolina and Maryland and three-fourths in South Carolina. License taxes, averaging 10% of District revenues, were utilized more intensively in Virginia and North Carolina, less in Maryland and West Virginia, and least in South Carolina. The individual income tax accounted for about one-fourth of tax revenues in Virginia and Maryland, one-sixth in North Carolina, and around one-tenth in South Carolina and West Virginia. The corporate income tax, which accounted for 7% of District State tax collections, was more important in North Carolina than elsewhere. West Virginia did not tax corporate profits. Property taxes made up a relatively small portion of State revenues—2.6% in the District and 3% in the nation as a whole.

GENERAL SALES TAX DOMINANT Sales and gross receipts taxes are either "general," applying a given rate to all sales excluding perhaps certain essentials such as foods and drugs; or "specific," fixing particular rates on sales of specified items such as gasoline, alcoholic beverages, or tobacco. General sales and gross receipts taxes were used by all District states except Virginia and typically accounted for the largest fraction of sales tax collections. Specific taxes on motor fuels and alcoholic beverages were in effect in all District states. In Virginia the motor fuel tax yielded the largest portion of sales tax revenues. Tobacco products were taxed by all District states except North Carolina.

PHOTO CREDITS

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