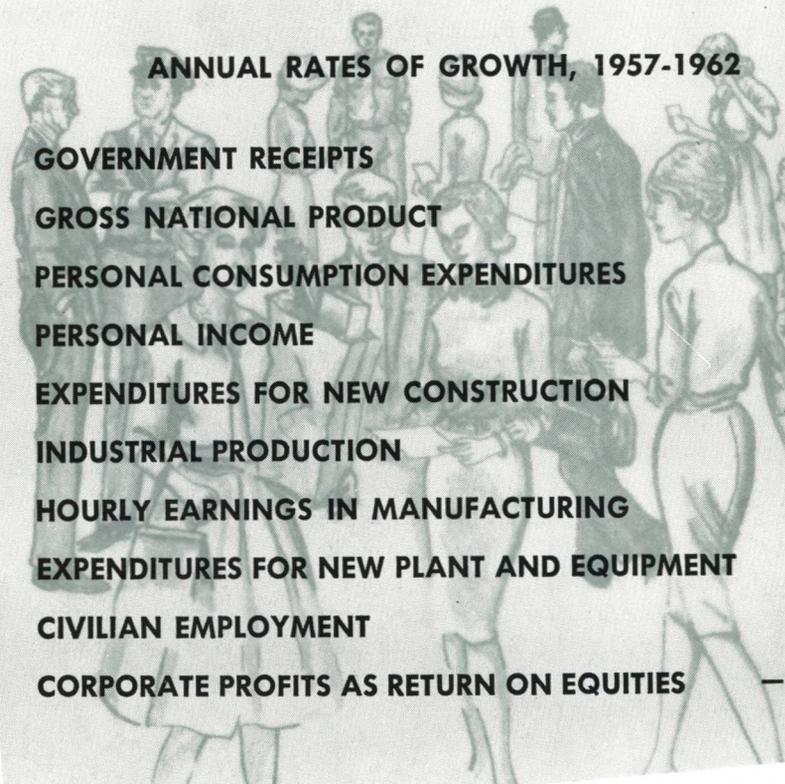


MONTHLY REVIEW



ANNUAL RATES OF GROWTH, 1957-1962

| | |
|--|-------|
| GOVERNMENT RECEIPTS | 6.8% |
| GROSS NATIONAL PRODUCT | 4.7% |
| PERSONAL CONSUMPTION EXPENDITURES | 4.7% |
| PERSONAL INCOME | 4.7% |
| EXPENDITURES FOR NEW CONSTRUCTION | 3.9% |
| INDUSTRIAL PRODUCTION | 3.8% |
| HOURLY EARNINGS IN MANUFACTURING | 3.1% |
| EXPENDITURES FOR NEW PLANT AND EQUIPMENT | 1.5% |
| CIVILIAN EMPLOYMENT | 1.1% |
| CORPORATE PROFITS AS RETURN ON EQUITIES | -2.6% |

From 1957 to 1962 employment and business investment grew more slowly than consumer and government income and spending.

MAJOR TRENDS IN THE POSTWAR ECONOMY-II

This article continues the examination of major indicators of postwar economic activity in the United States which was begun in last month's *Review*. It also begins a brief analysis and discussion of certain basic problems. The discussion will be completed in a third and last article next month. The superscriptions above the lines on the accompanying charts indicate annual rates of growth.

GOVERNMENT RECEIPTS The figures in this series include the revenue receipts of Federal, State, and local governments, adjusted to eliminate duplications. On the one hand, they indicate roughly the level of governmental activity and, on the other, they reflect the burden of taxes on the economy.

No single statistical series on public finances is entirely satisfactory for measuring the impact of public activities on the economy. Quite often public purchases of goods and services, a major component of GNP, are used for this purpose, but they are very inadequate as indicators of the tax load and they omit entirely the steadily rising total of transfer expenditures. The figures used here include some payments received by governments for goods and business-type services, but they are relatively minor.

Total government receipts nearly trebled between 1947 and 1962. As the chart shows, receipts of State and local governments rose more steadily and more rapidly than those of the Federal Government despite large increases in Federal defense expenditures. In one respect the contrast is even greater than that shown here, because Federal grants-in-aid to State and local governments were subtracted from the State and local totals in the process of eliminating duplications. Such grants have been rising steadily, both absolutely and relatively.

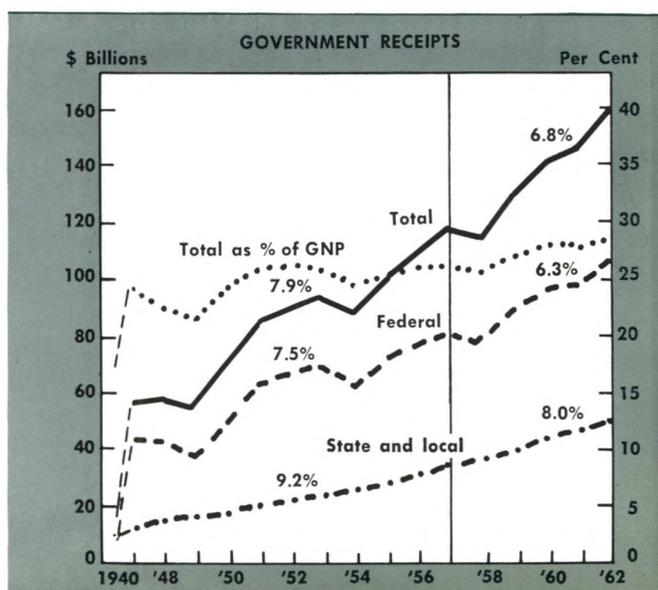
The annual growth rate for the total in the period 1957-62 was higher than that for any other major series examined here. It was only a little below the figure for the 1947-57 period despite the fact that the Korean War was included in the first period and despite smaller price rises and a slower rate of growth in economic activity during the second period. As a per cent of GNP, government receipts rose irregularly but substantially—from 24.4% to 28.5%. The increase represented a growing burden on the economy and probably exerted a restraining effect on expansion in the private sectors of the economy.

PRICES Prices are major indicators of the health of

an economy, because substantial price changes may seriously affect both production and the distribution of income. As the reference points on the chart show, most of the price increase took place before 1947, much of it in 1946, following the release of inflationary forces pent up during the war. From 1947 to 1957, both consumer and wholesale prices showed only moderate rises and rates of increase were even lower after 1957. In fact, for the past five years wholesale prices generally have been, for all practical purposes, stationary—probably the longest period of such stability in our history. Some reasons for this are examined later.

In recent years consumer prices have risen somewhat more than wholesale prices for three principal reasons. First, the consumer price index is fairly heavily weighted with prices for services, many of which are closely geared to wages and have continued to rise steadily. Second, commodities at retail are more highly processed and therefore embody more labor than commodities at the wholesale level. They are thus more sensitive to rising wages. Third, as commodities are processed and distributed they encounter many taxes (other than specific sales taxes) and some of those taxes, which have been rising, are shifted to the prices of the commodities.

INTEREST RATES Interest rates are an important financial force influencing economic activity. The chart shows the behavior of two long-term rates and one short-term rate. The two long-term rates moved approximately together and showed a somewhat lower growth rate in the second period than in



the first; in the past three years there has been no increase. The short-term rate showed considerably wider fluctuations, as might have been expected, and, in the first period, a somewhat higher growth rate than the long-term rates.

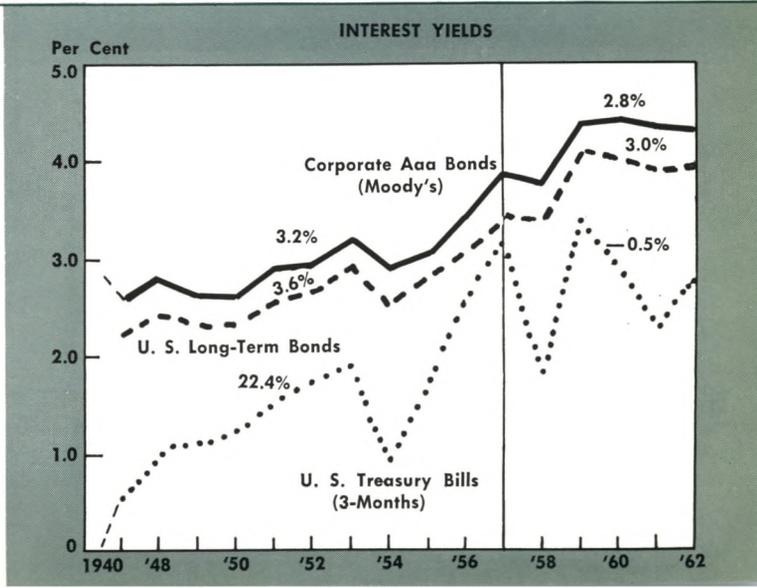
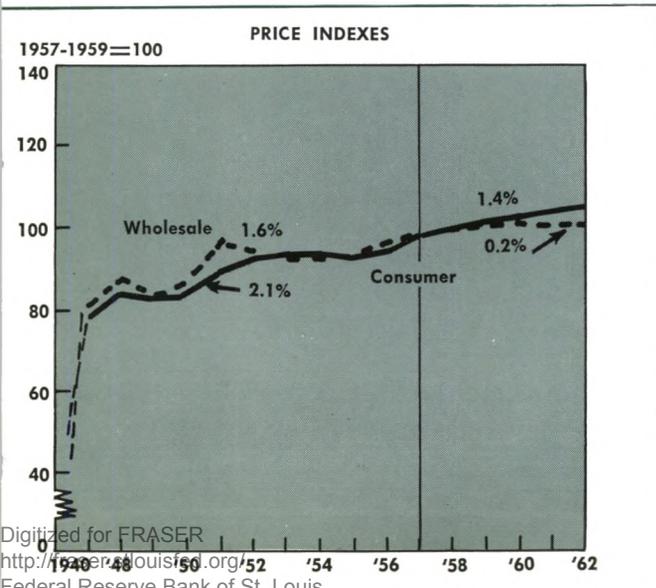
Generally, interest rates exhibit considerable cyclical fluctuations but ordinarily do not show long-term growth trends such as those often found in measures of production, consumption, and income. Hence, under ordinary conditions annual rates of growth in interest rates would be something of an anomaly. The postwar period, however, was marked by unusual circumstances. For a number of reasons interest rates reached extremely low levels during the Great Depression. During the war they were pegged at levels not much higher, a condition which continued with some modification until 1951. In recent years interest rates have been getting back to something approaching "normal," and that was primarily responsible for the annual growth rates shown in the chart. Average annual interest rates have shown smaller fluctuations during the past three years for several reasons: increased supplies of savings, more moderate movements in the money supply, and slower growth in the demand for investment funds.

BALANCE OF INTERNATIONAL PAYMENTS The deficit in our balance of international payments is one of our biggest and most intractable problems. It will be examined in more detail a little later. The country's international payments position moved from substantial surpluses in the early postwar years to large and persistent deficits in the past five years. For a residual item which shows recurring plus and minus values, it is misleading to compute annual rates of growth. Instead, the chart shows averages for the two periods. The deficit, as officially stated before adjustments, grew from an average of about \$400 mil-

lion in the first period to about \$2.5 billion in the second. After adjustments, the average for the second period is a little over \$3 billion. The adjustments are made partly for special transactions, some of which are temporary or nonrecurring but do actually reduce the deficit. Other adjustments represent essentially a different method of computing the deficit. In August, Secretary Dillon described recent trends in the deficit in these words: "This deficit on so-called 'regular transactions'—that is, all transactions that emerge from the interplay of market forces and the established policies of this and other governments—totaled over \$3½ billion in 1962, up about \$500 million from 1961. During the first six months of this year, the annual rate moved still higher to well over \$4 billion."

SUMMARY This completes the survey of major economic indicators. In summary, they show that since World War II the American economy has functioned at a high level but in recent years the rate of growth has slowed substantially in all segments. The period has been marked by recurring recessions which have become progressively shorter and milder except for the behavior of unemployment. Each recovery has peaked out with a higher rate of unemployment, and probably a larger amount of unused resources, than the one before it.

Some segments of the economy have been affected more than others by the declining rate of growth. The chart on the cover shows rates of growth from 1957 to 1962 for certain significant indicators, arranged in descending order. (Two of these indicators will be discussed later; the one on corporate profits is based on data compiled by The First National City Bank of New York.) The top four series all show annual growth rates above 4%. Except for GNP these are all in the consumer or governmental areas.



The bottom three series are in the business or investment areas; they show very small growth rates or a decline. Employment and expenditures for new plant and equipment are closely related to the behavior of corporate profits. These series would seem to be the ones which are exerting a drag on the economy and the behavior of corporate profits appears to be a major key to that behavior.

SOME OBSERVATIONS AND EXPLANATIONS

After this survey of what happened it may be appropriate to offer some observations about and, hopefully, some explanations of the larger and more significant developments and problems. The way in which inflation was overcome and wholesale prices were stabilized may be a good starting point.

PRICES Measured by wholesale prices, inflation has waned over the postwar period; for the past five years it may be said that it has disappeared entirely. Contrasted with historical developments and even with conditions in most countries of the world today, this is a most significant development. Such a degree of stability is the exception rather than the rule.

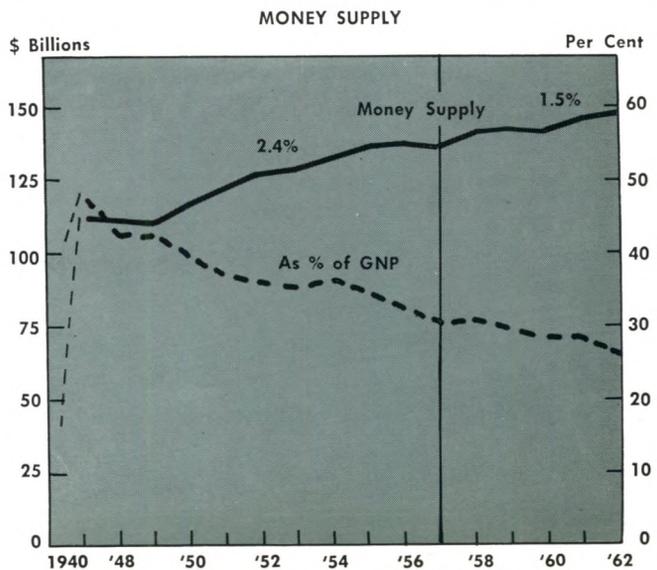
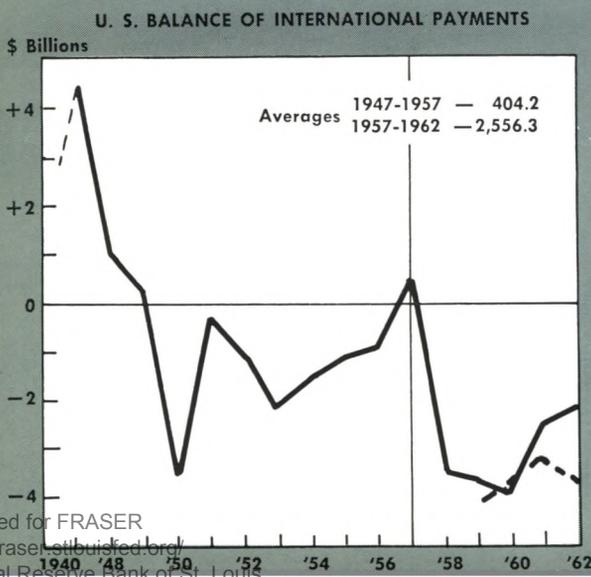
It would seem that four factors were primarily responsible for this price behavior. First, the money supply was brought under better control after a very sharp rise during the war. An accompanying chart shows the course of the money supply and its low rates of annual growth during the period. These low rates of growth resulted mainly from two factors—the large oversupply of money existing at the start of the period and the steady rise in the velocity or rate of turnover of money. These aspects of the money supply are discussed further in the following section.

A second factor was the gradual reduction in the accumulated backlog of consumer demand for houses

and durable goods. As these demands were reduced, total demand pressed less insistently on the available supply and the pressure on prices was reduced. Closely related to this was a third factor, which was a great increase in the productive capacity of American industry. Many billions of dollars were invested in new plant and equipment and great advances were made in technology. One recent study has computed the new investment in manufacturing alone between 1947 and 1957 at a little more than \$100 billion, or about \$10 billion per year. The result of this additional investment and technological progress was a tremendous increase in the capacity of industry to produce the goods consumers wanted.

A fourth factor in recent years has been increased foreign competition. Automobiles provide an outstanding example of this. The principal cause of this increased competition has been the recovery and modernization of European and Japanese industries.

THE MONEY SUPPLY AND MONEY ACTIVITY In the postwar period GNP rose more rapidly than the money supply and consequently the ratio of the money supply to GNP declined steadily and fairly rapidly from about 49% to 26%. This has been cited as evidence that the money supply grew too slowly and thereby exerted a deflationary influence and discouraged economic growth. But it is clear that the efficiency or effectiveness of the money supply depends on the velocity or speed with which it circulates as well as on its total amount. The velocity or rate of turnover of the demand deposit component of the money supply—which is by far the larger component—is fairly well indicated by the turnover of bank deposits in 343 of the largest cities in this country, excluding New York City. That rate nearly doubled between 1947 and 1962.



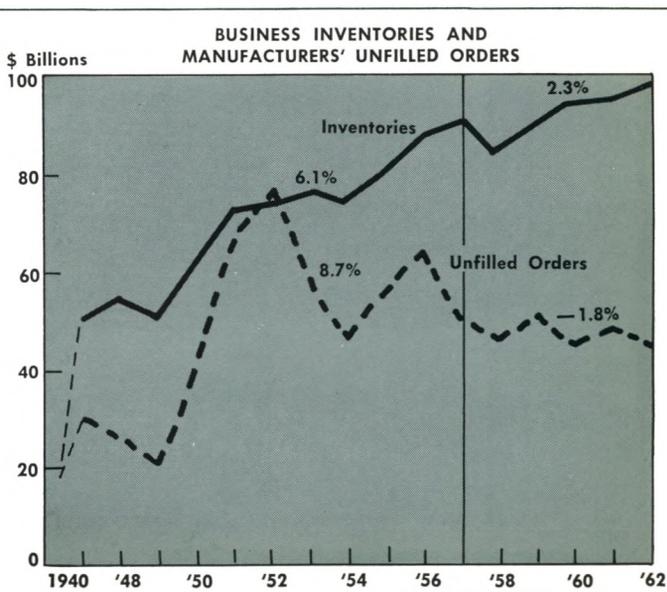
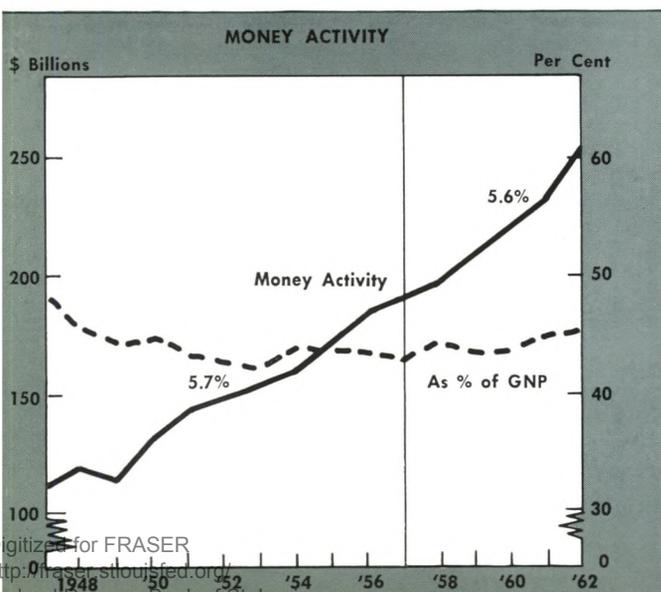
In order to show more clearly the effects of rising velocity a computation has been made which incorporates changes in both the money supply and the rate of turnover. An index of the rate of turnover of deposits in the 343 cities was computed with the year 1947 as a base. Then the demand deposit component of the money supply was multiplied by this index and the currency component of the money supply was added. For want of a better term, this total is called "money activity." An accompanying chart shows that after 1949 this total rose at a steady and fairly rapid rate. In contrast with the other series, the growth rate did not decline significantly after 1957. Over the period 1947-62 the increase was about 122% compared with increases of 31% in the actual money supply, 136% in GNP, and 80% in industrial production. As a per cent of GNP money activity declined slowly until 1952 but has been relatively stable around 42%-45% since that time. It showed a definite upturn in 1962.

BEHAVIOR OF THE BUSINESS CYCLE As noted earlier, since World War II there has been a distinct tendency for business cycles to become shorter and milder except for increasing unemployment. The present upswing, however, may be reversing this trend. There are several reasons for the shorter and milder cycles. First, the secular movements to be discussed shortly have curtailed the forces which normally push business activity up sharply in boom periods. At the same time, in periods of recession deflationary forces have been cushioned by easy money policies, by the operation of built-in fiscal stabilizers, and by the absence of speculative excesses.

Among the strictly cyclical forces, probably the most important factor has been a significant change in inventory policy. The accumulation and liquidation of inventories have always been an important

cause of cyclical fluctuations. This was especially true in the ten-year period immediately after World War II when, despite two declines, the book value of manufacturing and trade inventories grew at an annual rate of 6%. Indicative of the change which has occurred, the annual growth rate dropped to less than 2% in the past five years. The accompanying chart shows the fluctuations in these inventories and the closely related series of manufacturers' unfilled orders. The reduction in the amplitude of the swings in these two series is most striking.

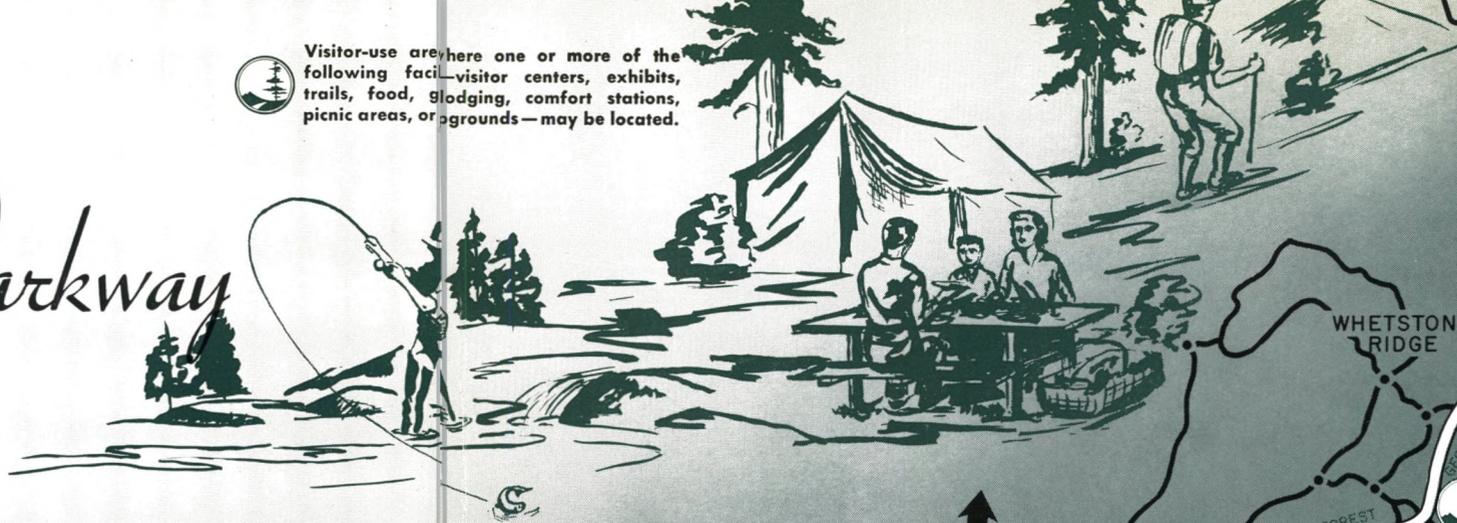
There are several reasons for these reduced swings. The first is the increasing stability of prices noted above. This reduced the temptation to speculate in inventories or to hedge against price increases. At the same time higher interest rates added to the cost of carrying unneeded inventories. Second, the appearance of excess capacity and the development of faster and more flexible transportation insured prompter delivery of orders and made it feasible to maintain a given level of sales with smaller inventories. Third, the use of electronic equipment and the development of new statistical techniques have provided better inventory controls, permitting business units to know more accurately what inventories they have and to maintain the amounts they desire. Fourth, in some cases increasing taxation of inventories has tended to keep them down. Finally, the movement has tended to feed on itself. As businessmen have come to anticipate more moderate swings in the cycle, they have not stocked up on inventories as much as formerly. An exception to this, however, is the extensive stockpiling of steel and certain other commodities in anticipation of strikes, but this is not a cyclical phenomenon except to the extent that the action itself helps to create a cycle.



the Blue Ridge Parkway



Visitor-use areas where one or more of the following facilities—visitor centers, exhibits, trails, food, lodging, comfort stations, picnic areas, or playgrounds—may be located.



Some came to enjoy the superb scenery of unspoiled nature. Many chose to come during the spring and early summer flowering season, with its colorful blossoms of mountain laurel, azaleas, and rhododendron. Others preferred the brilliant foliage of autumn. Some came to climb the rugged mountains or to hike down into the deep, narrow coves and valleys; still others chose to browse through the museum exhibits or to watch demonstrations of native handicrafts. Some came to fish; others to enjoy a picnic or a mountain sunset. Many elected to camp in tent or trailer, but others preferred the comforts of a modern lodge. ■ Whatever their reasons, some 6.5 million persons visited the Blue Ridge Parkway last year. This represents an increase of nearly 460,000 or 8% over the previous year and is nearly double the number ten years ago.

The Parkway's ever-increasing popularity is attributable to a number of factors. Among them are its location within overnight motoring distance for more than half the people of the United States, the uptrend in per capita disposable personal income, longer vacations, and the shorter average workweek. Growing employment, both on the Parkway and in the nearby towns, has accompanied this increase in visitor numbers. Employment in the Parkway in 1962, for example, reached a peak in August with 325 persons on the payroll. Of this number, 145 were permanent employees while the number of seasonal employees ranged from 80 to 180.

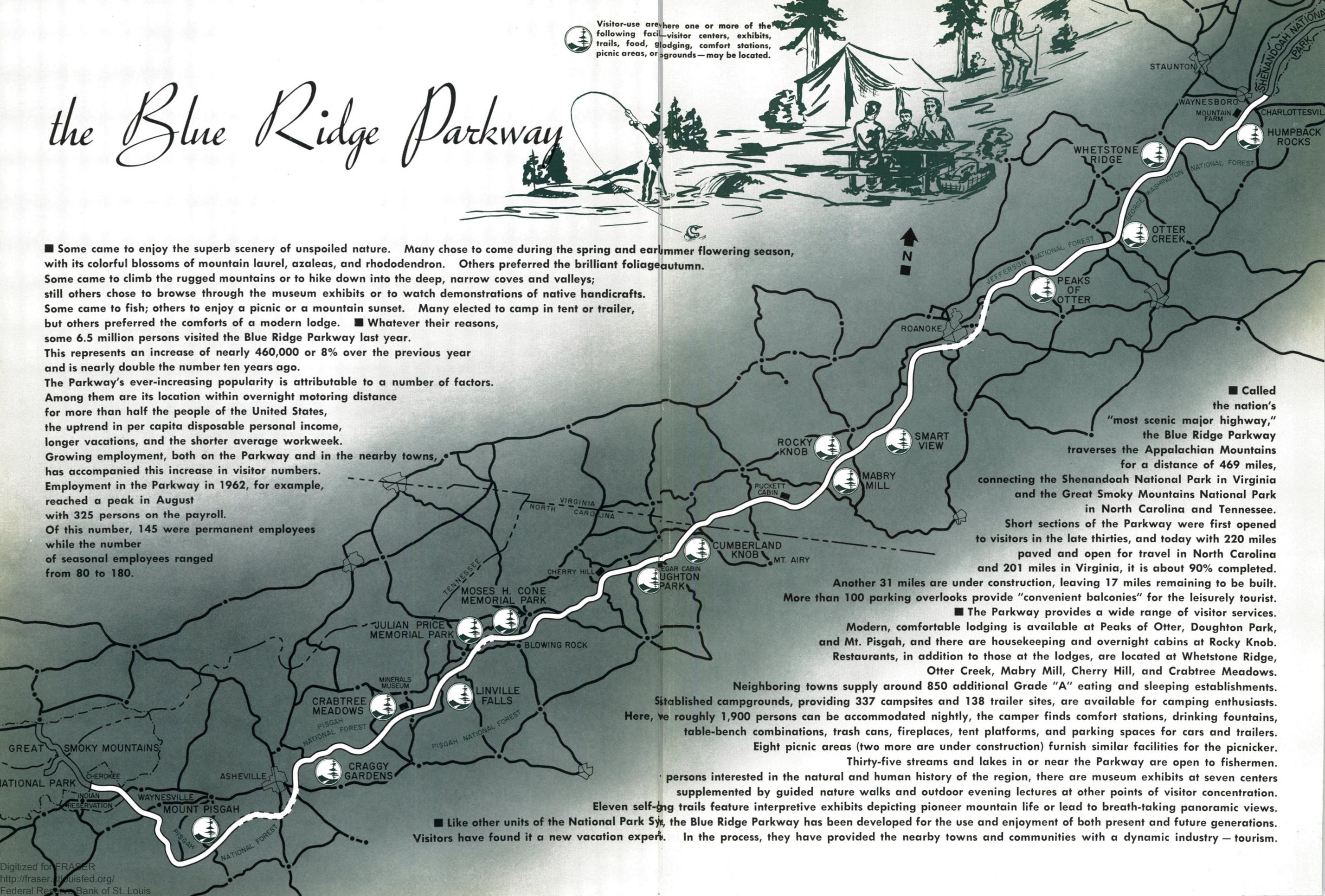
Called the nation's "most scenic major highway," the Blue Ridge Parkway traverses the Appalachian Mountains for a distance of 469 miles, connecting the Shenandoah National Park in Virginia and the Great Smoky Mountains National Park in North Carolina and Tennessee. Short sections of the Parkway were first opened to visitors in the late thirties, and today with 220 miles paved and open for travel in North Carolina and 201 miles in Virginia, it is about 90% completed. Another 31 miles are under construction, leaving 17 miles remaining to be built. More than 100 parking overlooks provide "convenient balconies" for the leisurely tourist.

The Parkway provides a wide range of visitor services. Modern, comfortable lodging is available at Peaks of Otter, Doughton Park, and Mt. Pisgah, and there are housekeeping and overnight cabins at Rocky Knob. Restaurants, in addition to those at the lodges, are located at Whetstone Ridge, Otter Creek, Mabry Mill, Cherry Hill, and Crabtree Meadows. Neighboring towns supply around 850 additional Grade "A" eating and sleeping establishments.

Established campgrounds, providing 337 campsites and 138 trailer sites, are available for camping enthusiasts. Here, roughly 1,900 persons can be accommodated nightly, the camper finds comfort stations, drinking fountains, table-bench combinations, trash cans, fireplaces, tent platforms, and parking spaces for cars and trailers. Eight picnic areas (two more are under construction) furnish similar facilities for the picnicker. Thirty-five streams and lakes in or near the Parkway are open to fishermen.

persons interested in the natural and human history of the region, there are museum exhibits at seven centers supplemented by guided nature walks and outdoor evening lectures at other points of visitor concentration. Eleven self-guiding trails feature interpretive exhibits depicting pioneer mountain life or lead to breath-taking panoramic views.

Like other units of the National Park System, the Blue Ridge Parkway has been developed for the use and enjoyment of both present and future generations. Visitors have found it a new vacation experience. In the process, they have provided the nearby towns and communities with a dynamic industry — tourism.





MONEY AND CREDIT IN 1963'S FIRST HALF

Changes in money and credit conditions usually register their immediate impact on various interest rate series. Interest rate fluctuations, however, reflect not only money and credit changes but also other forces affecting underlying supply and demand conditions in the markets for loanable funds. Information on interest rates becomes available almost instantaneously, but information on some of the many developments which occur within our complex financial structure becomes available only gradually over a period of several months. Any systematic explanation of interest rate movements in any given period must, therefore, await the collection of a mass of statistical data. This article describes recent interest rate movements chiefly in the light of money and credit conditions, but also points up other major developments in the financial scene.

INTEREST RATES Interest rates characteristically rise sharply during the upswing of the business cycle, but the current upswing has been an exception. At the end of June 1963 yields on most long-term securities were actually lower than at the trough of the recession in February 1961. As pictured in the accompanying chart, the only exception was the yield on U. S. Government long-term bonds, and even in this case the increase since the trough has been quite small.

In general the trend of interest rates during 1963 has been upward, but except for the sharp increase in short rates in early July the movement has been quite moderate. The yield on the three-month Treasury bill fluctuated around 2.90% from the first of the year to mid-May and then around 3% until early July, when speculation about a change in the discount rate boosted it to about 3.20%. The trend in long-term yields in the first half was less definite. Some rose and some fell. In general, yields on high grade issues tended to rise while yields on lower quality securities tended to remain about unchanged or decline slightly. Also, yields on mortgages declined, but the decline ended in April and after that yields on FHA's in the secondary market and on conventionals remained stable. In relation to their generally sluggish movement, however, the decline from December through April was fairly substantial.

The trend toward narrower yield spreads between mortgages and bonds and between low and high quality bond issues has been under way since roughly

the peak of the business cycle in May 1960. Such movements are common during the latter parts of the recession phases of business cycles and the early parts of the recovery phases. This probably results primarily from the spilling over of the large volume of loanable funds which are available at such times into greater-than-usual demand for lower quality issues.

The rather unusual extension of the trend toward narrower yield spreads in the current upswing in business activity is probably due in part to the easier posture of monetary policy at this stage of the cycle and to the cost squeeze which has induced financial institutions to seek high-yield investments. Commercial banks, for example, have continued to invest heavily in mortgages and tax-exempt securities and to lengthen their portfolios of Governments. Institutions which customarily invest heavily in mortgages have enjoyed an abundance of new funds and have continued to exert downward pressure on mortgage yields by their aggressive buying policies. In addition, some institutions have apparently shifted to lower quality bonds in their efforts to improve earnings.

BANKING DEVELOPMENTS Bank credit, seasonally adjusted, at all commercial banks increased at an annual rate of 10% in the first half of 1963, compared with approximately 3% in comparable periods of the two previous cyclical upswings and 9% over the whole of last year. Part of the very substantial rise in 1963's first half was due to the scheduling of a Treasury financing in June instead of July, the month when major financing normally occurs. Over the first seven months of the year, bank credit increased only 7% at an annual rate. Most of the increase in the first half occurred in loans and investments other than U. S. Governments. In the loan categories, real estate and consumer loans each rose at an annual rate of about 12% or roughly the same as in the first half last year. Business loans, however, increased at an annual rate of only 5% in the first half, somewhat less than in the first six months of 1962 and only half as fast as in the last six months of that year.

Monetary expansion has already continued longer than in the two previous periods of cyclical advance. In the first half of 1963 the seasonally adjusted money supply increased at an annual rate of 2.5%, much faster than in the first half of 1962 when the money supply did not rise at all, but slightly slower than the

3% pace in the second half. In contrast to developments at comparable stages of previous business cycles, time and savings deposits, seasonally adjusted, also continued to expand rapidly in the first half of 1963. They increased at an annual rate of 14% compared with an increase of 18% over the whole of 1962.

Reserve expansion in the first half failed to keep pace with deposit growth, and excess reserves declined from a daily average level of about \$533 million in the second half of 1962 to \$457 million in May and \$376 million in June. Daily average borrowing at the discount window increased from about \$131 million in 1962's second half to about \$209 million in May and \$236 million in June. Consequently daily average free reserves declined from \$402 million in the last six months of 1962 to \$248 million in May and \$140 million in June.

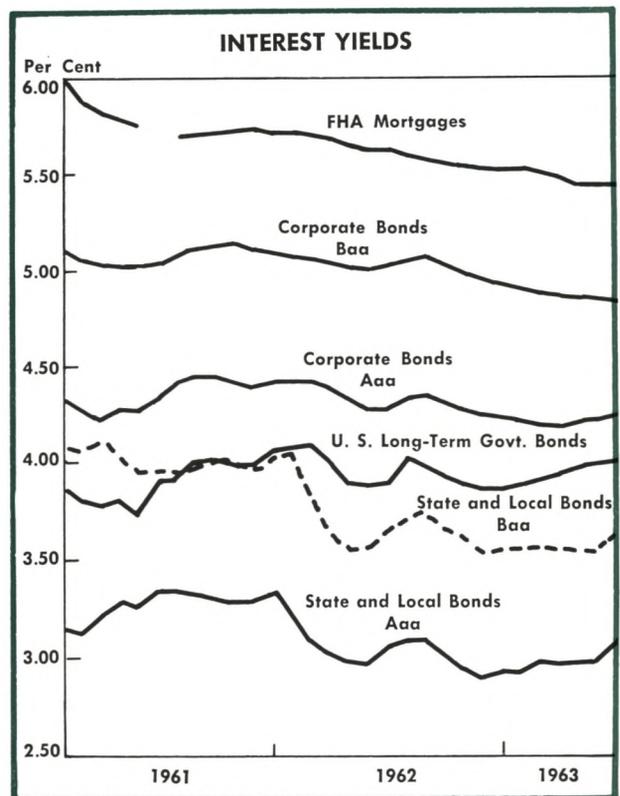
OTHER FINANCIAL INSTITUTIONS Savings flows into savings and loan associations and mutual savings banks continued at a rapid pace during the first half of this year. As shown in the chart on page 10, the absolute increase in savings at these institutions was greater than in comparable periods of recent years. Over the postwar period, the inflow of share capital at savings and loan associations has tended to increase at a fairly constant annual percentage rate regardless of the phase of the business cycle, while deposits at mutual savings banks, like time deposits at commercial banks, have tended to increase faster in periods of recession than in periods of economic expansion. In the first six months of 1963, savings shares at savings and loan associations increased at an annual rate of 14.2%, roughly in line with increases in the first half of other recent years, but well above the increase last year. Deposits at mutual savings banks grew at an annual rate of 7.7%, slightly faster than the rate of increase in the same period of 1962. Both institutions invested a record volume of funds in mortgages.

Assets of life insurance companies rose at an annual rate of 5.3% in the first half of 1963, substantially faster than in the first half of 1962 when declining stock prices reduced the value of stock portfolios, but about the same as the rate for 1962 as a whole. Mortgage investments were the largest since the first half of years 1955 and 1956.

TREASURY OPERATIONS In the first half of the calendar year the Treasury normally supplies funds to the market by retiring a small portion of the marketable debt. During the first six months of 1963, however, the Treasury neither increased nor retired debt on a net basis as attrition and repayments total-

ing \$6.8 billion were exactly matched by \$6.8 billion of cash borrowing. In contrast, the Treasury redeemed net \$400 million of marketable debt in the same period of 1962 and \$2 billion in the first half of 1961. Net debt redemption in the first half of the year usually contributes to the seasonal decline in interest rates which tends to take place in that period. The absence of net debt redemption was one factor contributing to the general increase in market yields which occurred in the first six months of the year.

MORTGAGE FINANCE Interest rates and fees which borrowers have to pay declined as lenders have competed for the existing supply of mortgages. From January to April yields on FHA new home mortgages in the secondary market declined from 5.52% to 5.44% while interest rates on conventional loans to finance new houses declined from 5.95% to 5.80%. Since then no further decline has been registered in these series. The trend toward lower rates and easier terms has been under way now for approximately three and one-half years and has probably been an important factor in the continuing strength of the construction industry. Total mortgage debt outstanding increased \$12.5 billion in the first half of 1963 compared with an increase of \$11.2 billion in the same period of 1962 and \$8.2 billion in the first half of 1961.



CORPORATE AND MUNICIPAL FINANCE In the first half of 1963 corporations and State and local governments raised new capital in substantially the same amounts as in the first half of other recent years. New borrowing by corporations totaled almost \$5.2 billion, virtually the same as in the first half of last year but about \$1.3 billion less than the record amount raised in the like period of 1961.

Although aggregate corporate borrowing has been approximately the same as in 1962, the distribution by type of borrower has differed significantly. Manufacturing industries borrowed somewhat less than in 1962; while other industries, which include extractive industries, transportation, real estate, financial and commercial enterprises, borrowed substantially more; and public utility and communications industries borrowed substantially less.

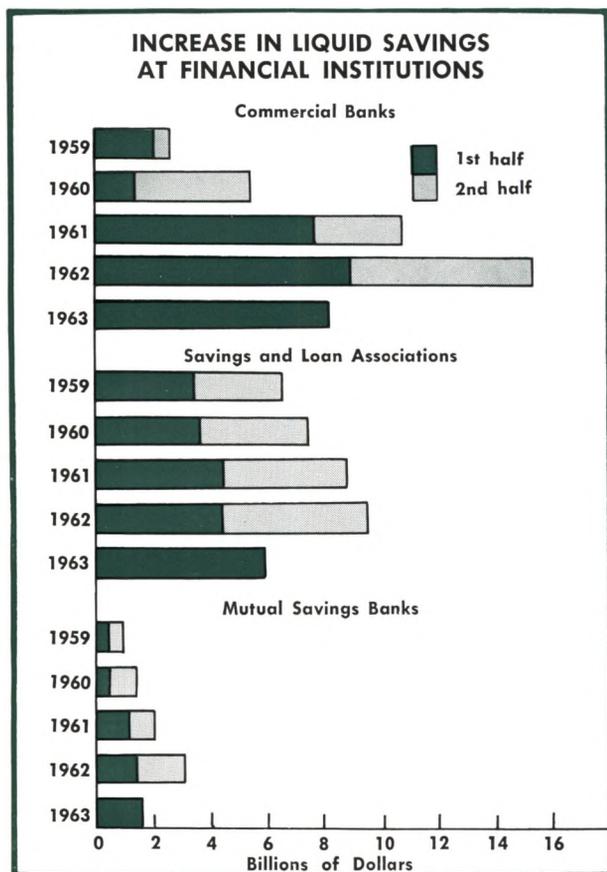
New borrowing by State and local governments amounted to almost \$5.1 billion in 1963's first half, \$150 million less than was borrowed in the same period of 1962 and \$500 million more than in 1961. Although new borrowing was little changed from recent years, refunding in the first half set a new record of \$650 million, exceeding refunding in the entire year of 1962 by two and one-half times and that in the previous peak year of 1941 by one-fifth.

The sharp rise was due primarily to the utilization of an advance refunding technique in which new bonds are sold several years in advance of the first call date on the bonds to be refunded. In the interim period the proceeds of the new issue are invested in U. S. Government securities. The rash of advance refundings has been due to a variety of conditions—the earlier build-up of a large volume of single-maturity, long-term revenue bonds, the fact that interest rates on tax-exempt issues have been declining for some time, and the widening yield spread between U. S. Government obligations and municipals.

CONSUMER CREDIT In the first six months of this year consumer credit, seasonally adjusted, rose at an annual rate of about \$5.8 billion, about the same as the yearly increase last year but about \$600 million less than the record increases in years 1955 and 1959. Most of the rise this year has been due to the \$2.8 billion (annual rate) growth in automobile instalment credit outstanding, an increase exceeded only by the phenomenal increase of \$3.7 billion in 1955. Other types of instalment credit grew at about the same rate as last year, while noninstalment credit grew much slower than in other recent years.

The ratio of repayments of instalment credit to disposable income has long been regarded as a good measure of the burden of consumer debt. Since about 1955 the ratio has fluctuated around 13% but recently has risen to a new record of 13.6%. Also, the ratio of total consumer debt to disposable income has continued to edge up, and there is some evidence that certain consumer loans are not being classified as consumer credit. Some homeowners who have substantial equity in their homes are refinancing their mortgage indebtedness to raise money for nonhousing purposes. In view of these developments, the burden of consumer debt may be somewhat greater than the ratio of repayments to disposable income suggests.

SUMMARY The supply of credit continued to be readily available in the first half of 1963. The money supply expanded at a moderate rate and savings continued to flow into commercial banks and financial intermediaries at record or near-record rates. Since corporate and State and local demand for credit remained approximately unchanged from year-earlier levels, the increased flow of funds was directed primarily into the financing of real estate and consumer durables, principally automobiles. In response to the crosscurrents of demand and supply, yields on short-term securities and high quality long-term issues rose moderately, while yields on mortgages declined and yields on lower quality bonds either declined or remained approximately unchanged.



THE FIFTH DISTRICT



Business in the Fifth District began 1963 at record levels and has moved slowly but steadily ahead. The uptrend so far this year is clearly visible in most major statistical series. The seasonally adjusted bank debits series, at a record level in January, reached new highs in April and July and in the latter month was 8% above its January level.

EMPLOYMENT AND FACTORY MAN-HOURS Seasonally adjusted nonfarm employment gained a little every month this year, but not until July did the cumulative rise exceed 1%. Gains after seven months amounted to around 1% in durable manufactures, trade, and government, and about 2% in construction, services, financial enterprises, and transportation, communications, and public utilities. At the extremes, mining employment rose nearly 5% over the period while jobs in nondurable goods industries showed little change.

Factory man-hours, seasonally adjusted, moved more irregularly than nonfarm employment in the first seven months and showed a smaller net advance. All groups of durable goods industries except electrical machinery and stone, clay, and glass products scored gains. July changes accounted for the man-hours decline in electrical machinery and the advance in lumber and wood products. Among nondurables, slight declines in paper and the knitting sector of textiles were more than offset by small gains in other lines. In the chemical industry, July man-hours were virtually the same as in January. July figures, the latest available, showed small reductions in man-hours for most nondurable goods industries and small gains for most durables.

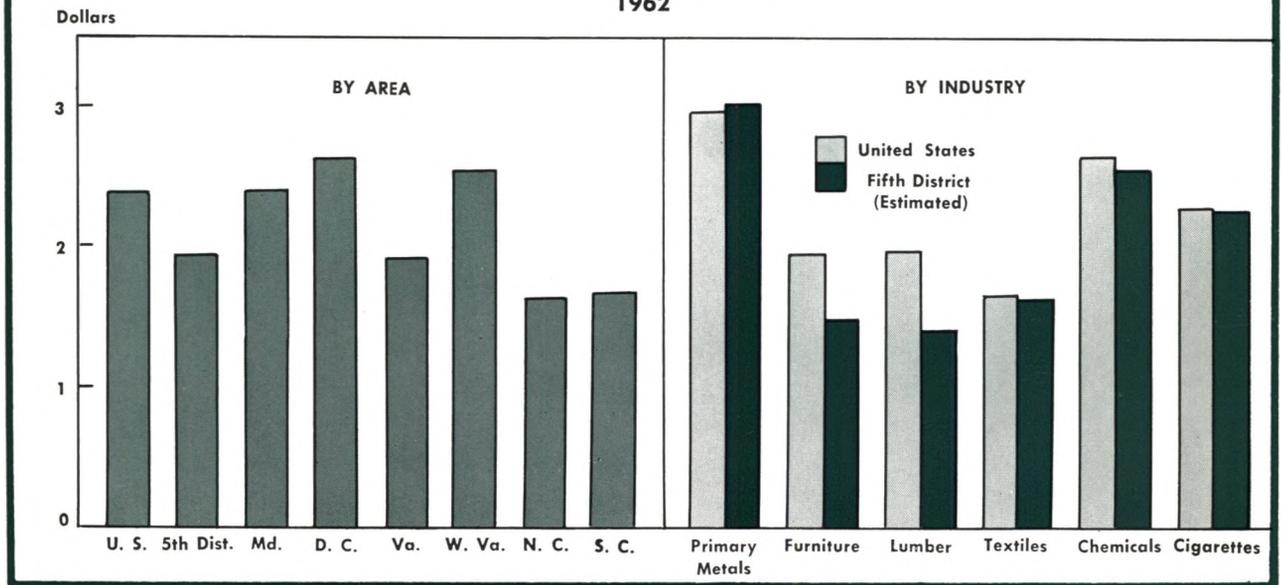
NEW MINIMUM SPOTLIGHTS WAGES As provided in the minimum wage law enacted over two years ago, the wage floor for many employees will be raised this month to \$1.25 an hour. Some actions were taken during the summer to anticipate the change. For instance, certain furniture makers increased wage rates ahead of the deadline and also made selective price increases to help cover the higher costs. Industries affected by the new minimum may find their entire wage structure moving upward to maintain the differentials needed for providing incentive, recognizing seniority, and rewarding productivity.

Wage rates are, of course, prices paid for labor and are related closely to basic supply and demand forces in markets for particular kinds of labor. For jobs requiring little specialized training or experience, the supply may be relatively large and the wage rate relatively low, as in retail trade where national hourly earnings of sales personnel averaged \$1.75 in 1962. If skill and experience requirements or other factors limit the supply, wages are likely to be higher, as in the construction industry where the typical production worker in 1962 earned \$3.29. In markets characterized by some degree of organization among employees or employers, the relative strength of bargaining positions may exert the most important immediate influence on wage rates.

WAGE DIFFERENTIALS Wages vary geographically as well as industrially. In most cases, both geographical and industrial differentials can be traced partly to basic supply and demand factors and partly to disparities in bargaining strength. Earlier in this nation's history, when both knowledge of distant employment opportunities and ability to migrate were more restricted, regional differences were far greater than they are now. Today workers receive much the same pay rates for comparable work in all parts of the country. Thus, straight-time hourly earnings of machine-tool operators in machinery manufacturing in the spring of this year were \$2.34 in Boston, \$2.41 in Baltimore, and \$2.44 in Los Angeles.

Variation in industrial composition is the principal cause of regional differences in wages. Thus in 1962 average hourly earnings in manufacturing were \$1.64 in North Carolina and \$2.55 in West Virginia. Relatively low-wage nondurable goods industries dominate North Carolina manufacturing and, in addition, the state's chief durable goods are of the low value-added variety. Local rates, for example, average \$1.60 per hour in textiles, \$1.50 in furniture, and \$1.40 in lumber. In West Virginia, on the other hand, durable goods industries are more numerous, and the dominant industries in both durables and nondurable goods categories fall near the upper end of the wage spectrum. West Virginia features metals and metal-working, paying locally about \$3.10 per hour, and chemicals, where hourly pay rates average

AVERAGE HOURLY EARNINGS OF PRODUCTION WORKERS IN MANUFACTURING INDUSTRIES 1962



close to \$3.00. Variations in average hourly earnings of manufacturing production workers both within the Fifth District and between the District and the nation, shown in the left-hand chart at the top of the page, are due mainly to differences in industrial composition.

The right-hand chart shows 1962 average hourly earnings in selected industries, actual for the United States and estimated for the Fifth District. These comparisons illustrate how differences in product specialization within an industry can influence regional wage differentials. For example, the national average hourly rate in the lumber and wood products industry is very close to \$2.00, while the Fifth District figure is around \$1.40. Pay rates are higher in the North and Northwest, which concentrate more heavily than the District on production of finished and specially processed lumber and lumber products.

INTRA - INDUSTRY DIFFERENTIALS In connection with the minimum wage increase, wage scales within particular industries are particularly interesting. Industry wage surveys released from time to time by the Bureau of Labor Statistics provide the basis for the comparisons presented here.

A June 1963 survey of sawmills and planing mills in the South (from Virginia westward to Texas and Arkansas) indicated average hourly pay of \$1.25. According to the survey, 70% of all production workers in these establishments earned less than \$1.25 per hour, 19% earned between \$1.25 and \$1.50, and only 3% earned \$2.00 or more.

In the apparel industry in 1962, national average hourly pay for production workers was \$1.67. A Bureau of Labor Statistics survey of the work clothing segment of this industry in the spring of 1961 showed hourly earnings averaging \$1.24 nationally and \$1.19 in the Southeast. At that time 68% of the surveyed workers in the Southeast received less than \$1.25 per hour as against 60% of those in the national survey.

An April 1962 survey of the footwear industry revealed average hourly production worker earnings of \$1.64 nationally and \$1.47 in the Border States (Delaware, District of Columbia, Maryland, Virginia, West Virginia, and Kentucky). The distribution showed 26% of these workers below the \$1.25 mark nationally and 36% in the region specified.

Other surveys taken at various dates in 1961 and 1962 indicate sizable numbers of workers in other important lines under the \$1.25 minimum. In the dyeing and finishing area of the textile industry, for example, 9% of surveyed workers in the Southeast and 6% in the nation were in this category. In the related hosiery sector the figure was 36% for the Southeast and 35% for the nation. The new minimum wage will apparently have a stronger impact in the South than in other parts of the country.

CREDITS

6. & 7. Map—National Park Service, U. S. Dept. of the Interior; Blue Ridge Parkway Association.