

MONTHLY REVIEW



Many forecasters see tax reduction and business investment as the forces which will make 1964 a good year.

MODERATELY MORE IN '64



Moderate optimism in the forecasts for '64 extends further the generally exuberant tone which has dominated the annual Forecasters' Derby for several years. Near the end of 1958, forecasters generally agreed that the recovery then in progress would continue throughout 1959. As 1960 approached, there was talk of the "Soaring Sixties," with strong optimism the feature of the forecasts. The first of the sixties did not soar, but as it drew to a close, most economic seers predicted a rapid end to the recession then under way and a vigorous recovery to follow. The behavior of the economy bore out this consensus and 1961 closed on a strong upward trend. The typical forecast for 1962 expected this uptrend to continue throughout the year, although there was some concern about high stock prices and the ever-shortening business cycle typical of the postwar era. A distinct lull in economic activity in the latter part of 1962 generated some doubts about 1963, but these were dissipated by a brightening of business sentiment following the Cuban Crisis.

In addition to the general but moderate optimism, the forecasts of recent years have been marked by a narrowing of the range of predictions and a growing uniformity of views. Some observers have noted that these characteristics may result from either a follow-the-leader practice or a general tendency to project existing trends. Elements of both tendencies may well be present. In late 1962 the rate of growth was low and the forecasts for 1963 predicted only small gains. As it turned out, the gains were somewhat greater and so the predictions were mostly on the low side, as the accompanying table shows. They

were, nevertheless, fairly accurate forecasts.

The forecasts for 1964 are more nearly unanimous on the optimistic side than most earlier ones. As one observer has noted, this could be dangerous. If businessmen and labor leaders believe that business activity can move only upward, they may be inclined to raise prices and make larger wage demands—and those things could upset some of the forecasts and start a spiral of inflation.

The paragraphs which follow summarize the prognosticators' output in the current forecasting season. As usual, this discussion attempts to present the general tone and pattern of the predictions, based on all available forecasts which this year number over fifty, including several group efforts.

The views and opinions set forth here are those of the forecasters. No agreement or endorsement by this Bank is implied.

THE CONSENSUS

A great majority of the forecasts call for a moderate gain in business activity in 1964. The expected gain over 1963 in most major sectors of the economy range between 4% and 6%. This would be a little more than the *predicted* gain for 1963 but roughly in line with the gain actually realized. As for trends within the year, nearly all forecasters expect continued growth in the early part of the year; some foresee a continued growth throughout the year; a few think there may be a leveling off in the latter part of the year; a still smaller number think there may be some recession near the year end.

Not all forecasters tell *why* they expect the econ-

omy to perform as they say it will. For those who do elaborate, a rough composite of their reasoning might run as follows: there are very few excesses in the economy now which might trigger a recession; in particular, inventories are quite low relative to sales and there has been no overexpansion of plant capacity. Business activity is likely to be stimulated considerably by both increased business investment, especially in new plant and equipment, and the expected cut in Federal income taxes. Government expenditures almost certainly will continue to rise, with probably some slowing of the growth rate in the Federal sphere. Neither residential construction nor the production of automobiles is expected to increase substantially, but both are seen as sustaining factors, holding at about their 1963 levels.

Concerning most other major sectors of the economy, there is general agreement, in so far as opinions on them are expressed. Retail sales are seen as rising in line with personal income and perhaps a little less than the rise in GNP. Very few forecasters foresee any great progress in solving the unemployment problem or in reducing the deficit in the international balance of payments. Farm income is expected to be somewhat lower than in 1963—perhaps by as much as 5%. Interest rates, it is predicted, will probably be a little higher than in 1963, but funds will be available to finance the moderately higher level of business activity. Consumer prices are expected, as in the past several years, to inch up a little, and there are quite a few predictions that wholesale prices will move up fractionally for the first time in several years. At least one prediction notes that a reduction in the corporate income tax rate may exert downward pressure on prices as competition forces producers to pass on some of their savings to consumers.

THE ECONOMIC CLIMATE

Forecasters necessarily are influenced considerably by the prevailing economic and political climate. In late 1963 two developments in these areas stood out—the assassination of the President and the advanced age of the current cyclical expansion.

The assassination of the President occurred after some forecasts had been made and while most others were in preparation. It caused no perceptible change in the tone or pattern of the forecasts, however, and discussion of it is limited to passing reference in those forecasts which mention it.

The advanced stage of the current upswing received more attention. Even a year ago several forecasters had misgivings as to how long the advance could continue. This year a number of analysts

pointed out that the upswing would soon equal or exceed the average duration of cyclical expansions in peace time for the past century. Two explanations were offered by some who expect the advance to continue another year despite its age. The first is that the several pauses or lulls in activity in the past three years have permitted adjustments to be made without the necessity for a recession or actual decline. The second is that the expected tax cut and the anticipated rise in plant and equipment expenditures may be sufficient to keep the advance going another year.

The deficit in the international balance of payments probably appeared as a less urgent problem in the current forecasting season than in previous years for two reasons. First, the loss of gold in 1963 was sharply reduced from that of 1962. Second, the deficit was reduced dramatically in the third quarter from its very high level in the second quarter. Much of this improvement continued in the fourth quarter so that, while the improvement for the year as a whole was not great, the situation was much less urgent in the last half of the year than in the first.

The signing of the limited test ban treaty and some apparent easing of international tensions were probably responsible for the reduced attention devoted to “the garrison state economy” and to the threat of war which were mentioned frequently in earlier years. Domestically, there was, for the first time in several years, no prospect of a major steel strike to mar the outlook for the year ahead.

Domestic business sentiment, as reflected in stock prices, was moderately optimistic. There was no major decline in prices except in the very brief panic immediately following the President’s assassination. Prices moved up irregularly over most of the year, in the largest volume in history, to establish new all-time highs as the year ended.

A great majority of the forecasts assume that there will be a reduction of Federal income taxes in the first half of 1964, and in most cases that it will be retroactive to the first of the year. Without a tax cut, predicted gains are somewhat smaller and there are frequent references to a leveling off in the latter part of the year, but very few students foresee a recession even in that case. As to the extent of the gain to be attributed to a tax cut, one analyst sets the figure at \$12 billion of GNP. One other forecast, however, calls for a GNP level of \$618 billion without a tax cut and \$646 billion with it—a difference of \$28 billion. The \$646 billion figure is by far the highest prediction found in the survey.

SOME DETAILS OF FORECASTS

Gross National Product For GNP, the most comprehensive measure of economic activity, a large majority of the forecasts are closely grouped in the range between \$610 and \$620 billion. The midpoint of this range, \$615 billion, would represent an increase of \$30 billion, or 5.1%, over 1963. Assuming early and favorable tax action by Congress, the Council of Economic Advisers set a figure of \$623 billion with a possible variation of \$5 billion one way or the other. Generally, GNP is expected to rise steadily throughout the year, with the annual rate in the last quarter rising to the area of \$625 to \$630 billion. Some of the more optimistic predictions call for rates between \$635 and \$640 billion in the last quarter. While some shifting of income and spending between particular areas is foreseen, apparently nobody expects any significant shifting between major sectors of the economy.

Consumer Income and Expenditures Personal income is expected to continue its steady rise of the past three years. Special factors which should sustain or boost it are tax reduction, higher salary scales for civil service and military personnel, and a higher level of business investment.

Estimates of total consumer expenditures are concentrated slightly above the \$390 billion level. This would be an increase of nearly \$20 billion, or 3.3% over the 1963 figure. The general opinion seems to be that expenditures for nondurable goods will increase most, that services may decline very slightly in relative importance, and that expenditures for durables will increase relatively little.

Expenditures for durables will, of course, be dominated by automobile sales. After two years of very high sales, few forecasters are bold enough to predict any substantial further increase in 1964. A large majority, however, do expect that they will be a sustaining factor by holding at about the 1963 level. They reason that this result will be brought about by, among other things, a high level of personal income, a high rate of scrappage of cars sold eight to ten years ago, the growing number of two- and three-car families, and an increasing number of teenagers reaching driving age. The principal factor restraining sales is the high level of consumer credit. For each of the past two years the increase in consumer credit has been of near-record proportions, and the level of instalment repayments has reached a ratio to disposable income which in the past has been regarded as a "ceiling." To some extent these same considerations apply to other durable goods;

together they explain why only limited increases are expected in this area.

Business Income and Investment Corporate profits after taxes were up significantly in 1962 and again in 1963, setting new records each year. This was the first time since 1949 that these profits rose significantly for two years in succession. Even more significant in the eyes of some students was the fact that as 1963 neared its end the economy was completing nearly three years of expansion without any weakening of the profit rate; profits as a per cent of sales were holding up well, something which had not happened at this stage of the cycle for many years. Most estimates are that corporate profits, aided by high levels of business activity and a reduction in Federal taxes, will continue to rise in 1964. The tax cut could add a billion dollars to profits if it is not eroded by price reductions.

Opinions differ somewhat about the 1964 level of business expenditures for new plant and equipment, but a majority expect a substantial increase—8% to 10% or even more. A 10% increase would raise the level to about \$43 billion. A well-known survey has indicated an increase of only about 4%, but it is often pointed out that in periods of rising outlays such surveys have always proved to be substantially too low; one analyst put the shortage this time at five percentage points.

Those who have made the most detailed studies of plant and equipment outlays cited a number of reasons for expecting a large increase this year. First, as noted above, corporate profits are rising and prospects appear good for the year. Second, cash flows of corporations are large because of retained profits and more liberal depreciation allowances. These sources will provide most of the funds needed to buy new equipment.

Third, corporations are beginning to need more equipment for several reasons. The rate of plant utilization is slowly rising. The average age of equipment has been rising because of the lag in replacements between 1957 and 1963; between those dates expenditures for plant and equipment increased only one fifth as much as GNP and one fourth as much as industrial production. Competition remains keen and frequently producers are forced to install new equipment to turn out new models or new products.

A fourth factor which is heavily emphasized by several analysts is the high levels of new and unspent capital appropriations by manufacturing corporations. These have been rising for some time and in the third quarter of 1963 reached the highest levels since 1956. Actual outlays usually are made

RESULTS OF 1963 AND EXPECTATIONS FOR 1964

	Unit or Base	1963*	1964**
Gross national product	\$ Billions	585	609 to 620
Personal consumption expenditures	\$ Billions	373	389 to 397
Government purchases of goods and services	\$ Billions	125	130 to 134
Gross private domestic investment	\$ Billions	82	82 to 90
Net exports of goods and services	\$ Billions	4	3 to 5
New plant and equipment expenditures	\$ Billions	39	41 to 44
Change in business inventories	\$ Billions	+4	4.0 to 7.7
Corporate profits before taxes	\$ Billions	51	53 to 56
New construction put in place	\$ Billions	62	64 to 67
Balance of international payments	\$ Billions	-2	-1 to -2
Private nonfarm housing starts	Millions	1.5	1.5 to 1.7
Sales of domestic automobiles	Millions	7.3	6.8 to 7.8
Rate of unemployment	Per cent	5.7	4.7 to 5.7
Index of industrial production	1957-59	124	129 to 133
Wholesale price index	1957-59	100.3	101 to 102
Consumer price index	1957-59	106.7	108 to 109

*Preliminary or estimated figures.

**Figures are rough approximations of the typical forecast for 1964.

about three or four quarters after the appropriation, so it is reasoned that these growing appropriations go far to insure a high level of capital spending throughout 1964. New orders for machinery and equipment have been rising also, lending further support to optimistic views in this area.

These considerations have convinced most forecasters that 1964 will see a high level of expenditures for new plant and equipment. One forecaster was so strongly convinced that he was prepared to predict a record level of expenditures even if there were no tax reduction.

Construction Total expenditures for new construction rose substantially in 1963, considerably exceeding most advance estimates. The same was true of housing starts. Very few forecasters are willing to predict further significant gains from these high levels in 1964. On the other hand, apparently nobody expects any substantial decline.

A great many different kinds of activities are included in this general field, and many students expect considerable shifting among the components even if there is no great change in the totals. Thus, in housing starts some expect to see a decline in apartment units and some rise in single-family units, which have not increased much since 1960. In the same way, others foresee a decline in office building and shopping center building activity in 1964 at the time that increases are going on in educational, health, and rest home construction activity.

Most forecasters cautiously estimate residential

construction activity for 1964 in view of the continued strength for the past two years. In the past several business cycles, interest rates rose relatively early in the expansion phase, and that had the effect of curtailing residential construction activity. In the current cycle, mortgage interest rates have remained low and construction activity has remained high, both to the accompaniment of rapidly rising levels of mortgage debt. The debt on one- to four-family homes has doubled in the past eight years. Thus, most estimates of residential construction activity are for little change because of: saturation or overbuilding in some areas; the possibility of rising interest rates; and the rising level of mortgage debt.

CONCLUSION

The tone of the forecasts for 1964 is perhaps slightly more optimistic than were the predictions for 1963 made a year ago. Three problems carry over from that earlier period, although perhaps in a slightly less intense form—unemployment, a less than satisfactory rate of growth, and the deficit in the balance of payments. A fourth worry—corporate profits—has diminished considerably. Aided by tax reduction and increased business investment, most forecasters expect an aging period of business expansion to maintain its moderate vigor for another year.

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

I. Measurements of . . .

Farm Income

Farm income statistics, published regularly by the U. S. Department of Agriculture, cover two broad concepts: (1) income of farm operators from farming, and (2) personal income of the farm population from all sources. Corresponding income series are derived from individual components or building blocks, each of which is a useful measuring rod in its own right. Meaningful use of these statistics requires exact knowledge of what each component in each series does and does not measure.

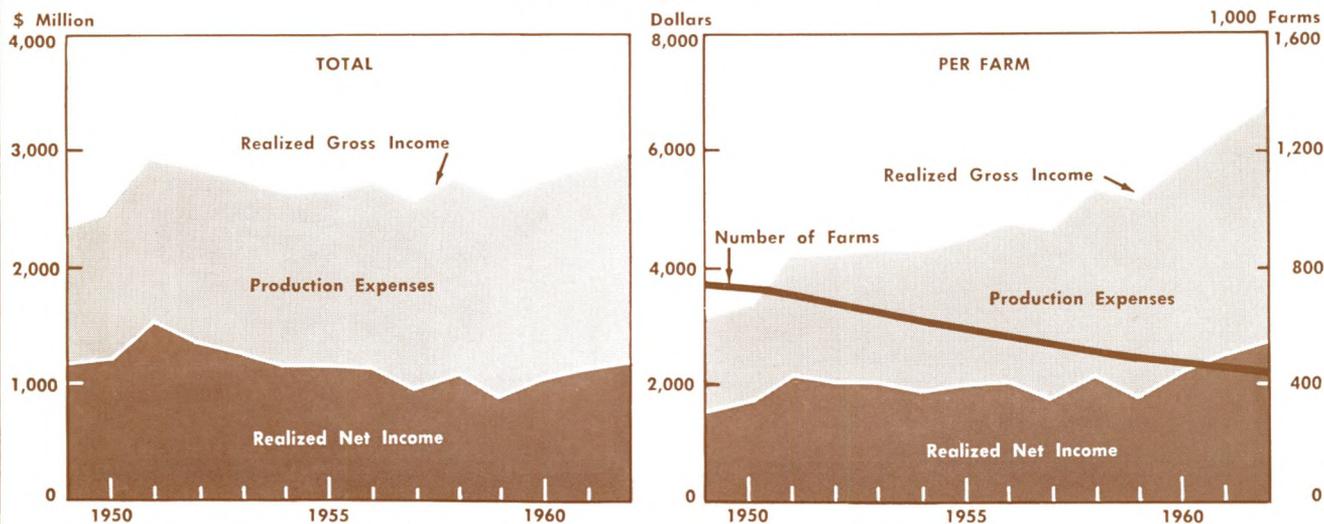
The nine series on farm operators' income from farming treat agriculture as a single business, measuring net income by first computing gross income and then subtracting total production expenses. This look at the measurements of farm income will be confined to this concept. Personal income of the farm population from all sources will be taken up in a subsequent article.

REALIZED GROSS INCOME Realized gross income from farming is the sum of cash receipts from farm marketings, Government payments, and nonmoney income comprising the value of home consumption of farm products and the gross rental value of farm dwellings. Income from nonfarm sources is not included. Figures on realized gross farm income provide the best measure of the total income from farming operations that farm operators have available to spend for all purposes—production expenses, family living, and investment.

Cash receipts from farm marketings, the largest component of farm income, give farmers their biggest source of cash. This money represents gross receipts from the sale of all farm products on commercial markets. The value of price support loans of the Commodity Credit Corporation, minus redemptions, is also included. Cash receipts data are generally taken as an indicator of general market conditions for farm products.

Government payments provide farmers with an additional source of cash income. These

REALIZED GROSS INCOME AND NET INCOME FROM FARMING
Fifth District, 1949-1962



Source: U. S. Department of Agriculture.

payments include all money paid directly to farmers by the Government under such programs as the soil bank, feed grain, and conservation programs.

Realized nonmoney income—the *value of home consumption and the gross rental value of farm dwellings*—represents the noncash elements of realized gross farm income. The first of these shows the consumption of food and firewood on farms where grown, valued at prices received for the sale of similar products. The second is an estimate of the rent farmers would have to pay for their homes if they were rented separately from their farms.

PRODUCTION EXPENSES Farm production expenses comprise the total costs incurred in operating the farm business. They include current operating expenses such as wages paid for hired labor; purchases of feed, seed, livestock, fertilizer and lime; repairs and maintenance of farm buildings; and repairs and operation of farm machinery and equipment. Overhead-type costs include taxes on farm property, interest on farm-mortgage debt, net rent to nonfarm landlords, and depreciation of farm buildings and equipment.

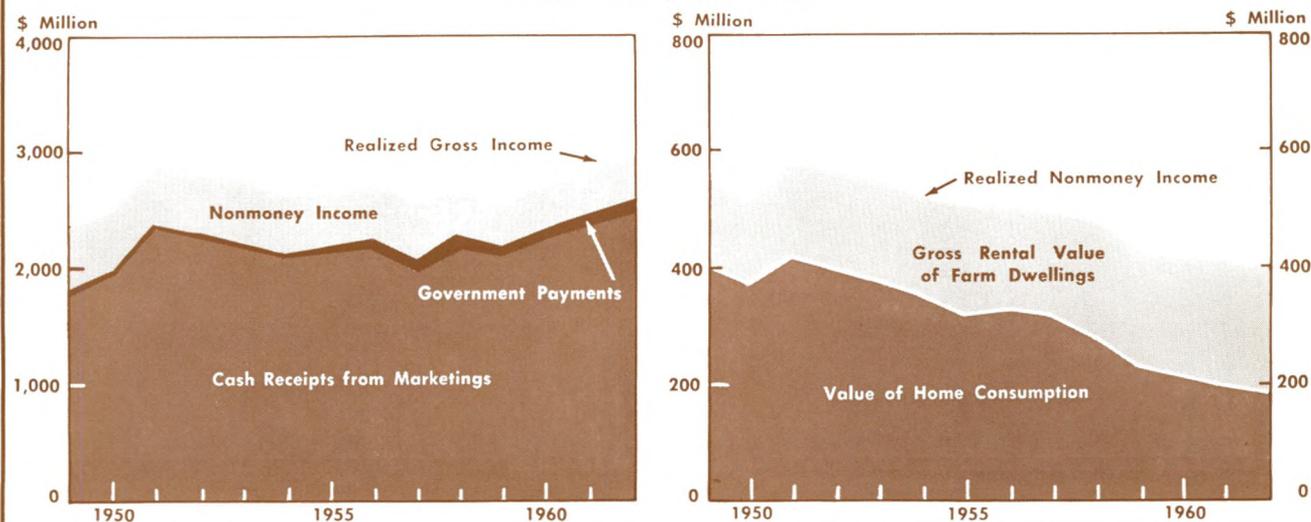
REALIZED NET INCOME Realized net farm income, the most widely used yardstick of the net return from farming, represents the amount left from realized gross income after production expenses have been deducted. It measures the income from farm production available to farmers to spend for family living or investment. It does not include farm operators' non-farm income nor the wages received from work on other farms. It is the income figure which shows the net return to farmers for their labor, the unpaid labor of their families, and their invested capital. The term "realized," used to describe this and other farm income statistics, indicates that the figures have not been adjusted for changes in inventories.

NET CHANGE IN INVENTORIES These data measure the net value, at calendar-year average prices, of the change in farm inventories of crops and livestock from one year to the next. An increase in inventories indicates potential income that will be realized at a later date. A reduction in inventories, however, usually means that farmers sold more during the year than they produced. Money from these sales is included with cash receipts from farm marketings.

TOTAL NET INCOME Farmers' total net income is their realized net income from farming plus or minus the net change in inventories. This figure, included in the national income estimates of the Department of Commerce as "net income of farm proprietors," is the statistic to use if one wants to compare net farm income with national income.

Annual data for the nine statistical series comprising the "income from farming" concept of farm income are published by states as well as for the nation. State and national cash receipts figures, with a crop-livestock breakdown, are issued monthly. National data for most series are also available by quarters, seasonally adjusted at annual rates.

COMPONENTS OF REALIZED GROSS AND NONMONEY INCOME FROM FARMING
Fifth District, 1949-1962



Source: U. S. Department of Agriculture.



MONETARY AND CREDIT DEVELOPMENTS IN THE SECOND HALF OF 1963

Credit availability and interest rates in the second half of 1963 felt the impact of the move toward a less easy monetary policy last summer. While policy continued "on the easy side," the Federal Reserve supplied additional reserves at a slower rate than at any time since the middle of 1960. Reflecting this and the July increase in the discount rate from 3% to 3½%, interest rates, especially in the short-term area, recorded a fairly general upward movement. The rate of growth of bank credit declined only slightly, although commercial banks apparently found it necessary to liquidate some Governments in order to meet loan demand. This contributed to the upward tendency in interest rates.

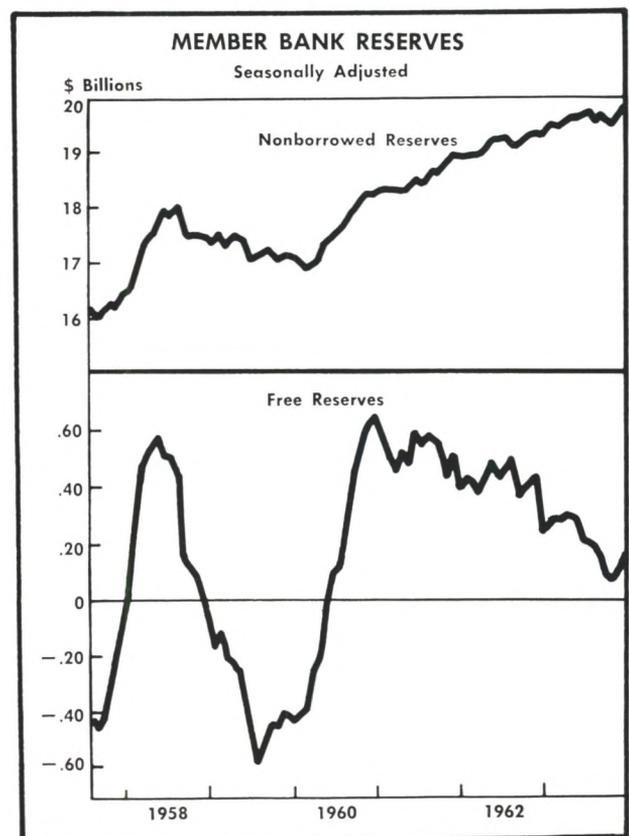
This article sketches some of the details of these developments. Attention is focused first on the supply side of the equation, then on the demand side.

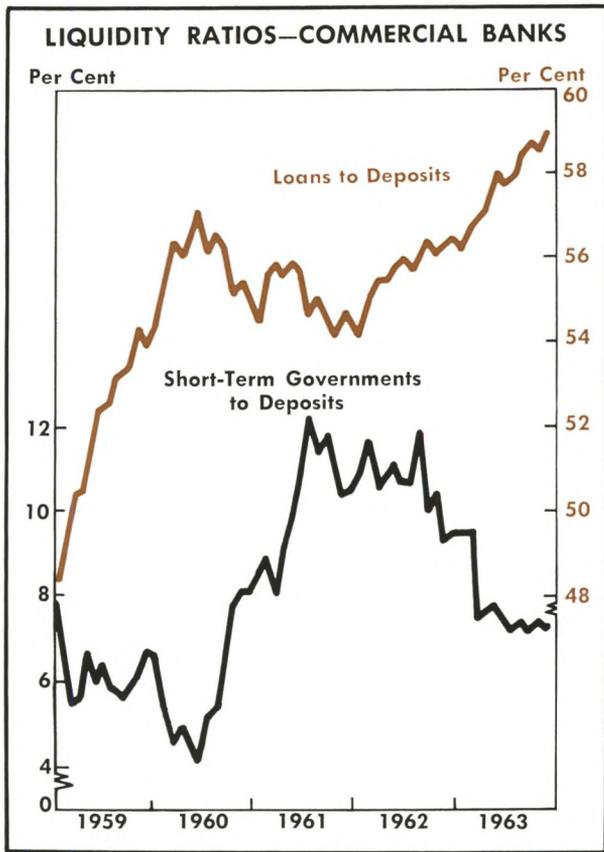
Banking The banking system in the second half was definitely less active in supplying funds to the money and capital markets. In that period, commercial banks' total loans and investments increased at a seasonally adjusted annual rate of only 5%, compared with an increase of 8% for the year as a whole and 9% in 1962. Not only did the growth of bank credit slow down, but its composition shifted also. Total loans continued to expand at about the same pace as before, but banks became less aggressive buyers of tax-exempt securities, and holdings of U. S. Governments actually declined. The latter investments decreased at a seasonally adjusted annual rate of almost 16% in the second half compared with a 5% reduction for the year as a whole and a 1% liquidation in 1962. Thus bank credit behaved in a manner consistent with less easy monetary policy and continued business expansion.

As an indicator of business strength and a possible forerunner of increased expenditures on business plant and equipment, much attention has recently been focused on the strong demand for commercial and industrial loans. Business loans rose at a seasonally adjusted annual rate of 19% in the last quarter of 1963 compared with a gain of only 10% in the same period of 1962. The dramatic expansion in late 1963 may reflect several unusual factors, or it may reflect something more fundamental. It is too early to tell. Business loans for the year as a whole in-

creased 9.4%, compared with 8.6% in 1962. Real estate loans increased steadily throughout the year, chalking up a record 15% rise. The rate of expansion in consumer loans declined perceptibly in the second half, but for the year as a whole amounted to 13%, compared with 11% in 1962.

Monetary Growth As in 1962, the seasonally adjusted money supply grew at a brisk pace in last year's second half. The spurt of growth in the latter part of each of the last two years may have been due primarily to declines in the cash balances of the Federal Government, which are not counted as part of the money supply. The Treasury in recent years has allowed its cash balances to build up in the first half of the year and run down in the second. The effect is to contribute to slow growth of the money supply in the first half as an excess of tax receipts over expenditures moves deposits from private to Government accounts. In the second half the reverse occurs, contributing to faster growth.





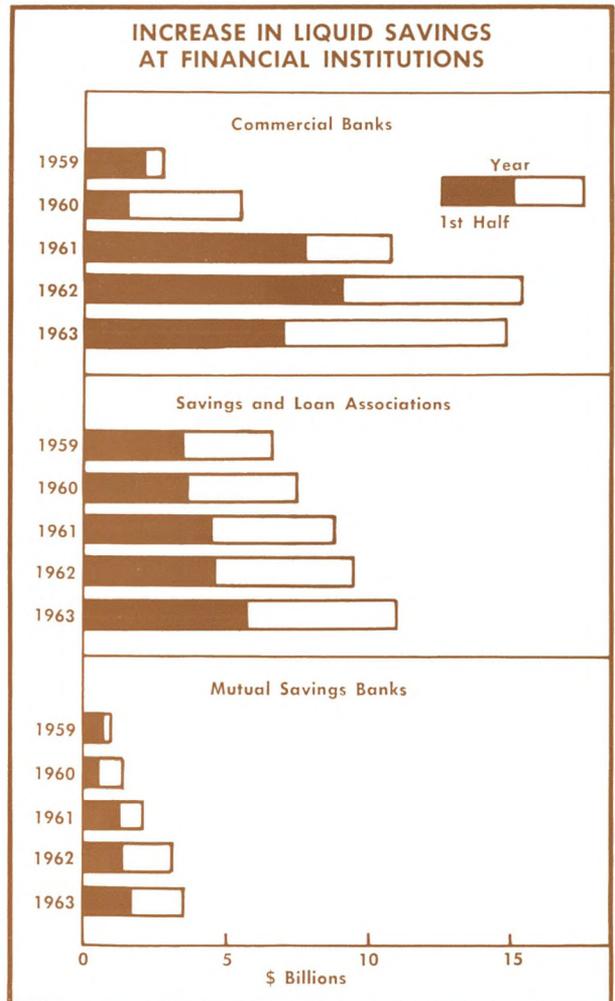
In 1963, the money supply grew at a seasonally adjusted rate of 4.6% during the second half and 3.7% for the year as a whole.

Bank Liquidity Because of the continued growth in deposits and the shifting composition of bank credit, the liquidity of the banking system as measured by the familiar ratios declined. As shown in the chart at the top of this page, the ratio of loans to total deposits at all commercial banks rose steadily to a new postwar high of 59% in November. The ratio of short-term Governments to deposits was lower in November than a year ago, but little changed from mid-year. Stability in this ratio since June may seem surprising in view of the liquidation which occurred in Government securities. Obviously this liquidation was concentrated in banks' holdings of longer-term Governments. In part, this course may have been chosen to avoid the capital losses associated with gently rising interest rates which were widely predicted in market letters and the financial press.

Institutionalized Saving As shown in the chart at the right, time and savings deposits at all commercial banks did not increase as much in 1963

as in the previous year. Preliminary estimates indicate an expansion of almost 15% compared with a gain of over 18% in 1962. The slower expansion probably reflects the waning of the initial attractiveness of the higher interest rates which went into effect early in 1962.

Savings at other savings-type institutions continued to grow rapidly. The increase in savings deposits at mutual savings banks was approximately the same as in 1962, but the gain at savings and loan associations was substantially larger, reflecting their continued aggressive search for funds. The Federal Home Loan Bank Board took various steps to curb "excessive aggressiveness," but the curbs did not show up in any diminution in the rate of savings flows into these institutions. The greater growth in savings and loan shares more than compensated for the smaller growth in time and savings deposits at commercial banks, and total savings at all three types of institutions increased slightly more in 1963 than in 1962.



Complete information is not available for other types of institutions which provide funds to the money and capital markets. Data through the first ten months of the year indicate that assets of life insurance companies grew much more rapidly than last year, but this was due in large part to the movement of stock prices. New funds available for investment, however, probably increased at roughly the same rate as in other recent years. Pension funds and corporations also supplied funds to the markets, but the volume is not yet known.

Credit Demands Although information is not yet complete, it appears fairly certain that credit demands reached all time highs last year. Mortgage debt, for example, rose a record \$21.8 billion in the first three quarters of the year, compared with a rise of \$18.1 billion in the same period in 1962. State and local governments last year borrowed an estimated \$9.1 billion of new capital, which was a new record by a substantial margin. The \$10.6 billion new capital raised by corporations was exceeded in only three years of the postwar period—1957, 1958 and 1959. New capital issues of both corporations and State and local governments may have increased more than seasonally in the last quarter of 1963.

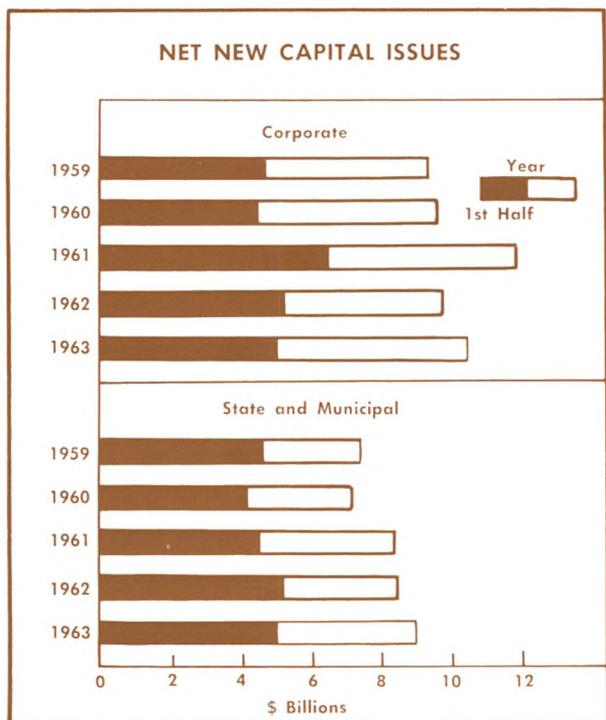
Reflecting continued consumer optimism, high and rising levels of personal income, and general satisfaction with merchandise, consumer instalment credit rose at a record or near record rate in 1963. Through

November, instalment debt grew at a seasonally adjusted annual rate of \$5.6 billion, equaling the record expansion in 1959. Repayments continued to rise, reaching about 14% of disposable personal income in the fourth quarter. This is a postwar high for this ratio and may mean that consumers will be somewhat more reluctant to incur additional debt in the near future. It may be significant that instalment debt did not increase as rapidly in the last half of the year as in the first half.

Treasury borrowing was somewhat less in calendar 1963 than was predicted at the beginning of the year. This was due chiefly to higher-than-expected tax receipts and lower-than-expected expenditures. Net cash borrowing through marketable issues last year amounted to about \$3.1 billion, compared with \$6.6 billion in 1962 and \$5.9 billion in 1961. Normally, the Treasury retires some marketable debt in the first half of the calendar year, when tax receipts are large, and borrows on a net cash basis in the second half, when tax receipts are smaller. Last year, however, the Treasury raised a small amount of new money during the first half. Thus the impact of Treasury borrowing on the money and capital markets in the second half was somewhat less than the yearly figures indicate.

Also of significance was the absence of new borrowing through the regular Treasury bill auctions. Before July of last year, the Treasury had raised a substantial proportion of its new cash by increasing the amount of bills sold in the weekly auctions. The purpose, in part, was to help keep short rates up for balance of payments reasons. Due to the increase in short-term rates resulting from the policy moves at mid-year, the Treasury found it unnecessary to add further to the size of the weekly auctions.

Interest Rates The less easy posture of monetary policy combined with the high demand for credit produced a significant upward adjustment in yields in the second half. As is typical in periods of advancing yields, short rates rose somewhat faster than longer rates. The three-month Treasury bill rate rose from about 3% in early July to 3.5% in early November and fluctuated narrowly above that level for the rest of the year. Yields on longer-term high grade bonds rose steadily but moderately throughout the year and closed the year at approximately the levels which prevailed in early 1962. Mortgage yields, which have been declining since early 1960, stopped falling in April and remained roughly unchanged through November, the latest month for which information is available.



THE FIFTH DISTRICT



BANKING SUMMARY, 1963

The year 1963 was an eventful one for Fifth District banking. It was marked by continued growth in bank credit, important shifts in the composition of earning assets held by banks, and rapid growth in time and savings deposits. More significant from the long run viewpoint, perhaps, were the numerous changes in banking structure during the year.

Healthy Growth in Bank Credit The most readily available information on changes in bank credit in the District is provided by data for the nineteen member banks that report weekly. While experience of these banks, the District's largest, is not necessarily identical to that of all District banks, they account for a sizable fraction of total loans and investments, and their experience is fairly representative of District banking as a whole.

Total loans and investments of District weekly reporting banks increased almost 5% in 1963. While this was a healthy growth, it failed to match the 6.6% gain achieved by weekly reporting banks throughout the United States and was less than the 6.3% expansion for District weekly reporters in 1962.

In addition to the overall increase in bank credit last year, there were significant changes in the com-

position of earnings assets of District weekly reporting banks. First, a substantial expansion in gross loans was accompanied by a sizable reduction in total investments. This is in marked contrast to experience in 1962 when gross loans increased almost as much as they did last year, but total investments also increased. Second, real estate loans and consumer loans grew more rapidly than gross loans, and although total investments declined, holdings of municipal securities rose sharply.

These changes in the composition of assets reflect increased pressure on bank reserves and efforts by weekly reporting banks to acquire higher yielding assets to offset the increased cost associated with the growth of time and savings deposits and with higher rates of interest on such deposits.

Loan Demand Strong The 9.5% increase in gross loans at District weekly reporting banks last year was one of the largest in recent years. It fell short of the gains achieved by weekly reporting banks throughout the United States, however, and was only slightly ahead of the gains realized in 1962.

Among specific loan categories, real estate loans showed the most spectacular growth, a whopping 20.5% increase. This was the best gain in recent years, surpassing by a wide margin the impressive

CHANGES IN LOANS, INVESTMENTS, AND DEPOSITS WEEKLY REPORTING MEMBER BANKS (% Change)

	Fifth District		United States
	January 2, 1963- January 1, 1964	January 3, 1962- January 2, 1963	January 2, 1963- January 1, 1964
Gross Loans	9.5	9.3	10.0
Commercial and Industrial Loans	8.8	5.9	9.7
Real Estate Loans	20.5	16.6	15.2
All Other (Primarily Consumer) Loans	11.3	10.8	10.8
Total Investments	- 2.8	1.6	0.5
U. S. Government Securities	-10.9	- 2.2	-10.4
Other Securities	21.8	15.1	22.9
Total Bank Credit	4.9	6.3	6.6
Demand Deposits	2.5	5.0	2.2
Time Deposits	15.6	15.2	17.5

16.6% gain in 1962 and the 15.2% growth for the U. S. weekly reporting banks in 1963.

All other (primarily consumer) loans also displayed strength, but the gain in this category was short of the record in recent years. The 11.3% growth in these loans last year exceeded the 10.8% realized in 1962. U. S. weekly reporting banks had an increase of 10.8% last year.

Demand for business loans at District weekly reporting banks remained strong in 1963. Their 8.8% growth exceeded the 5.9% gain in 1962, but failed to equal the performance of weekly reporters throughout the country. Growth in these loans lagged behind the expansion in gross loans, with a resulting small decline in their relative importance.

Significant Shifts in Investments Last year was the first year since 1959 in which the total investments of District weekly reporting banks declined. The year 1959 was one of substantial economic expansion and the strong loan demand put pressure on the resources of commercial banks which resulted in a sizable reduction of investments. In 1963, for the first time since early 1960, banks experienced some pressure on reserves and once again investments were reduced. The reduction for District reporters last year, however, was relatively small, amounting to 2.8%.

The decline in total investments was less significant than shifts within investment portfolios. The most noteworthy was a sizable reduction in holdings of U. S. Government securities and a sharp rise in other securities, mainly municipals. Other securities have been rising for several years and at the end of 1963 represented 31.0% of total investments of District weekly reporting banks. This compares with 18.7% at the end of 1960 and 24.8% at the end of 1962. As the accompanying table shows, changes in the investment portfolios of U. S. weekly reporting banks in 1963 closely paralleled those of District weekly reporters, except that increases in other securities held by U. S. weekly reporters slightly exceeded declines in Governments.

The decline in the relative importance of Governments was accompanied by an extension of their average maturities. Governments with less than one year to maturity fell from 21.7% of total investments at the end of 1962 to 15.6% at the end of 1963.

Deposits Changes on the liability side of bank balance sheets were closely related to the changes in earning assets, not only quantitatively but also in terms of the structure of liabilities. As the accom-

panying table indicates, the growth in demand deposits at District weekly reporters in 1963 was only half that of the preceding year. Time and savings deposits, on the other hand, recorded a third straight year of rapid expansion.

As a result of these changes, time and savings deposits at all District member banks rose from 30.1% of total deposits in December, 1961, to 32.6% in December, 1962, and 34.6% in December, 1963. Coupled with rising interest rates on these deposits, this rapid growth has significantly increased the cost of bank funds.

There is little doubt that the higher costs of funds has induced many bankers to seek more remunerative outlets for these funds and this has been at least partly responsible for many of the changes in asset structure described above. There is also little doubt that changes in the composition of assets have reduced bank liquidity, but at the same time the increase in the relative importance of savings deposits has reduced liquidity needs of the banks.

Fewer Banks But More Offices Changes in District banking structure in 1963 resulted in a reduction in the number of banks and an increase in the number of banking offices. This type of change has characterized banking in the United States for many years, but the changes in the District last year were unusually numerous.

New banks organized in Fifth District states in 1963 totaled 19, of which 12 were national banks and 7 state banks. At the same time, there were 41 bank mergers, with a net reduction of 22 in the number of banks in the District. State nonmember banks were reduced in number by 14, state member banks declined by 5, and national banks by 3.

Banking offices, on the other hand, increased by 170, mainly as a result of the opening of 157 new branches. The 19 new banks organized during the year added to the total of banking offices, but 5 branches were discontinued and one banking office was eliminated as the result of a merger.

Among District states, Virginia's banking system experienced the greatest change with 8 new banks, 20 mergers, and 46 new branches. In North Carolina one new bank was chartered, 56 new branches established, and 6 mergers completed. Three new banks were organized in South Carolina, 7 mergers were consummated, and 21 new branches established. Maryland had 5 new banks, 8 mergers, and 30 new branches. The District of Columbia gained 2 new banks and 4 new branches, while one branch was discontinued. There were no changes in West Virginia.