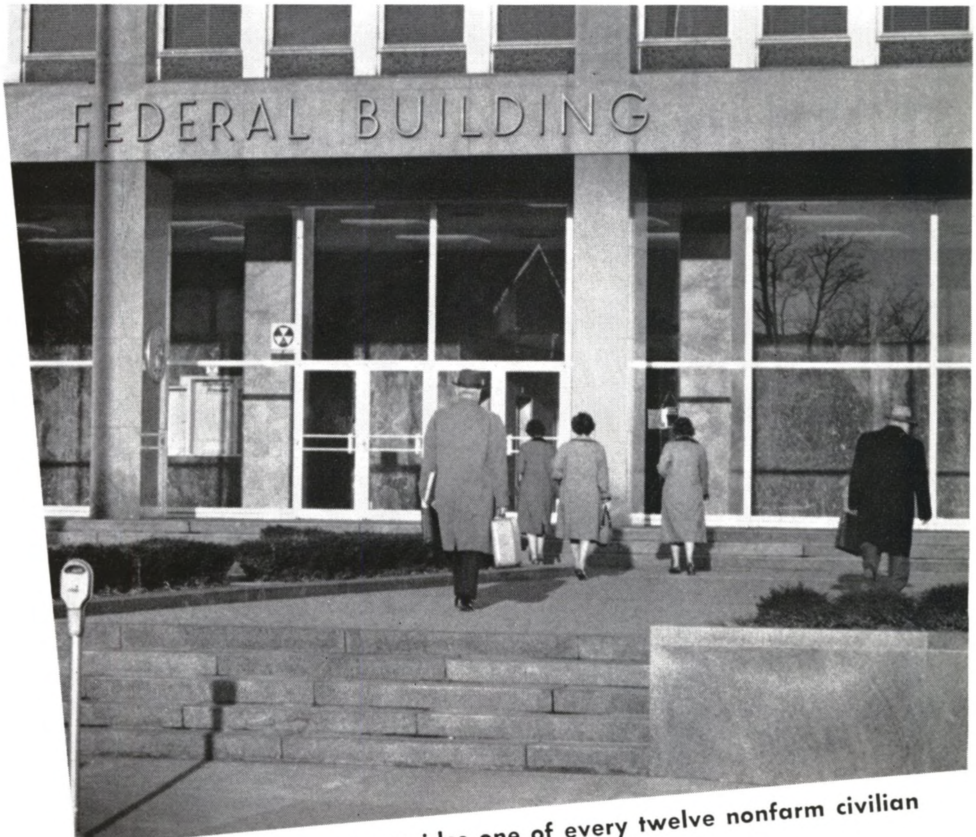
MONTHLY REVIEW



Federal employment provides one of every twelve nonfarm civilian jobs in the Fifth District.

FEDERAL RESERVE BANK OF RICHMOND

MARCH 1964

The Federal Government in Fifth District Employment and Income

Federal Government activity is an important element in the economy of the Fifth Federal Reserve District. In 1963, one of every eight nonagricultural employees in the District was a Federal civilian employee or a member of the Armed Services on active duty. The payrolls of these two groups of Federal employees accounted for $1 of every $9 of the District's personal income. In the United States as a whole, only one of every fifteen employees worked for the Government and Federal payrolls amounted to only $1 of every $21 of personal income.

Measured by numbers of employees and payroll dollars, the civilian component is the more significant part of total Federal employment. At the end of last year, the District's 469,000 Federal civilian employees accounted for 8.1% of nonagricultural employment (defined here to include military personnel). Military personnel numbered 285,000, raising the Federal Government's share to 13% of the nonagricultural total. Federal civilian payrolls of approximately $3.1 billion and military payrolls of just over $1 billion amounted to 11.4% of personal income.

When compared with other major sectors of the District economy, the size of employment in the Federal sector is impressive. Last year, the Federal Government had the third largest number of employees in the District. Only the manufacturing sector, with 26.4% of all nonagricultural employees, and the trade sector, with 16.6% of the total, employed more people. The other major sectors of the economy had shares of total employment which were substantially smaller.

A complete breakdown, by major source, of the District's personal income in 1963 is not available yet. At the end of 1962, however, Federal payrolls were the second most important source of income in the District. Manufacturing payrolls, which accounted for 18.7% of personal income, were first in importance; payrolls in the trade sector, 10.7% of income, were third.

FEDERAL GOVERNMENT EMPLOYEES AND PAYROLLS

FIFTH DISTRICT — DECEMBER 1963

	Employees			Annual Payrolls ($ mil.)		
	Civilian	Military	Federal	Civilian	Military	Federal
Washington Metropolitan Area*	263,100	62,094	325,194	746	72	818
Maryland*	52,700	36,412	89,112	937	187	1,124
North Carolina	37,900	88,366	126,266	192	313	505
South Carolina	27,300	41,086	68,386	157	159	316
Virginia*	76,000	56,403	132,403	1,001	332	1,333
West Virginia	12,300	596	12,896	66	2	68
Fifth District	469,300	284,957	754,257	3,099	1,065	4,164

* Employment figures are for the Washington Metropolitan Area and payroll figures are for the District of Columbia. Maryland and Virginia employment figures exclude employment within the Washington Metropolitan Area.

Sources: Civil Service Commission, U. S. Department of Commerce, U. S. Department of Defense and U. S. Department of Labor.

Federal Civilian Employment by State As would be expected, Federal civilian employment is a greater part of the total in Washington, D. C. than in any of the Fifth District states. Last year, 29.3% of all employees in the Washington Metropolitan Area were Federal employees. In Virginia, the state with the largest number of Federal civilian employees, the comparable fraction was only 6.4%. Fractions in the other four states were: Maryland, 4.5%; South Carolina, 4.1%; North Carolina and West Virginia, 2.7% each. The table on page 2 shows the numerical distribution of these civilian employees among the states of the District at the end of 1963.

Distribution Among Departments The latest data on the division of the District's Federal civilian employment among the various departments and agencies of government are shown in the table on this page. These figures show considerable variation among the different states of the District.

In the nation's capital, the only area in which all departments and agencies are represented, the Department of Defense was the largest single employer of Federal civilians, and the Department of Health, Education, and Welfare was second. In the two Carolinas and Virginia, the Department of Defense was also the principal employer, with the Post Office ranking second and the Department of Agriculture third. The presence of a number of important military installations in these three states explains the large numbers of Department of Defense civilians.

Federal employment in Maryland differed from the Carolinas-Virginia pattern in that a larger number of people worked for the Department of Health, Education, and Welfare and a smaller number for the Department of Agriculture. Most of the Health, Education, and Welfare group were employed by the Public Health Service in The Institutes of Health at Bethesda. The relatively minor role of agriculture in the state's economy explains the small number of Department of Agriculture employees.

West Virginia's Federal employment is characterized primarily by the small numbers of personnel in all the departments and agencies represented. At the end of 1962, only the Post Office, the Treasury, and the Department of Agriculture employed more than 1,000 West Virginians.

Geographical Distribution Within the States The geographical distribution of Federal civilian employment within the several Fifth District states differs markedly from state to state. There are no substantial concentrations in North Carolina. Federal civilian employees are spread among

FEDERAL GOVERNMENT CIVILIAN EMPLOYMENT

FIFTH DISTRICT — DECEMBER 1962

Agency	Washington Metropolitan Area	Maryland*	North Carolina	South Carolina	Virginia*	West Virginia	Fifth District
Congress	7,629	0	0	0	0	0	7,629
Five Legislative Agencies	14,211	0	0	0	37	0	14,248
Executive Departments:							
Agriculture	11,803	394	2,376	1,498	1,444	1,018	18,533
Commerce	14,831	172	590	137	619	92	16,441
Defense	74,595	23,987	10,183	15,313	46,636	863	171,577
Health, Education, and Welfare	21,792	10,773	533	260	919	237	34,514
Interior	7,352	106	817	83	562	447	9,367
Justice	9,124	255	190	88	631	243	10,531
Labor	4,617	42	18	28	48	33	4,786
Post Office	13,442	6,889	9,122	4,489	8,716	4,646	47,304
State	9,515	8	3	0	11	0	9,537
Treasury	12,155	2,419	1,250	534	1,138	1,068	18,564
Eight Executive Agencies	1,380	9	0	0	25	0	1,414
Judicial	845	61	115	68	96	55	1,240
Forty-one Independent Agencies	50,273	4,044	4,832	1,667	9,777	2,748	73,341
Nine Other Agencies	1,779	0	0	2	0	0	1,781
TOTAL EMPLOYMENT	255,343	49,159	30,029	24,167	70,659	11,450	440,807

* Maryland and Virginia employment figures exclude employment within the Washington Metropolitan Area.

Source: Civil Service Commission.

urban centers and military installations throughout the expanse of the state. In contrast, civilian employees in Maryland, South Carolina, and Virginia are concentrated in a few large urban centers, usually with important military installations nearby.

In Maryland, excluding that part of the state in the Metropolitan Washington Area, Baltimore is the chief locus of Federal employment. Figures for December 1962 show 4.5% of that city's nonagricultural workers employed by the U. S. Government. South Carolina's areas of concentration are Charleston, where Federal civilian employment in 1962 was equal to 19.5% of the nonagricultural total, and Columbia, where the fraction was 7.2%. The heaviest concentrations in Virginia (excluding the area falling in Metropolitan Washington) are in the Richmond area and the Norfolk area, including Hampton, Newport News, and Portsmouth. In December 1962, Federal civilian employment was 4% of nonagricultural employment in the former area and 20.2% of the total in the latter.

In West Virginia, Charleston has the largest number of Federal employees, but even there Federal employment during recent years has been less than 2% of the nonagricultural total.

Military Personnel By State At the end of 1963, there were more military personnel stationed in North Carolina than in any other part of the Fifth District. The military population was a more important part of total employment, however, in the District of Columbia. There, personnel from the five military services accounted for 6.9% of total nonagricultural employment. Among the five states, the fractions of total nonagricultural employment accounted for by military personnel ranged from 6.3% in North Carolina to 0.1% in West Virginia. The figure in South Carolina was 6.2%; in Virginia, 4.7%; and in Maryland, 3.1%.

In the District of Columbia and Maryland, the Army has the largest number of personnel. Navy and Marine Corps personnel outnumber the other services in North Carolina and Virginia. The Air Force has the largest representation in South Carolina and West Virginia.

Military Installations in the States Virginia, with the third largest military population in the District, has the largest number of military installations—a total of 33. Most are located in the eastern half of the state. Locations of the major military installations throughout the District are shown by the map on pages 6 and 7.

South Carolina has 16 installations, the second largest number in the District. The majority are located in the state's central and coastal areas. The District of Columbia, Maryland, and North Carolina have 13 military installations each. Maryland's are scattered over the state, while North Carolina's are chiefly in the coastal plain area. In marked contrast to the other states, West Virginia has only one active installation, an Air Force Station near Charleston.

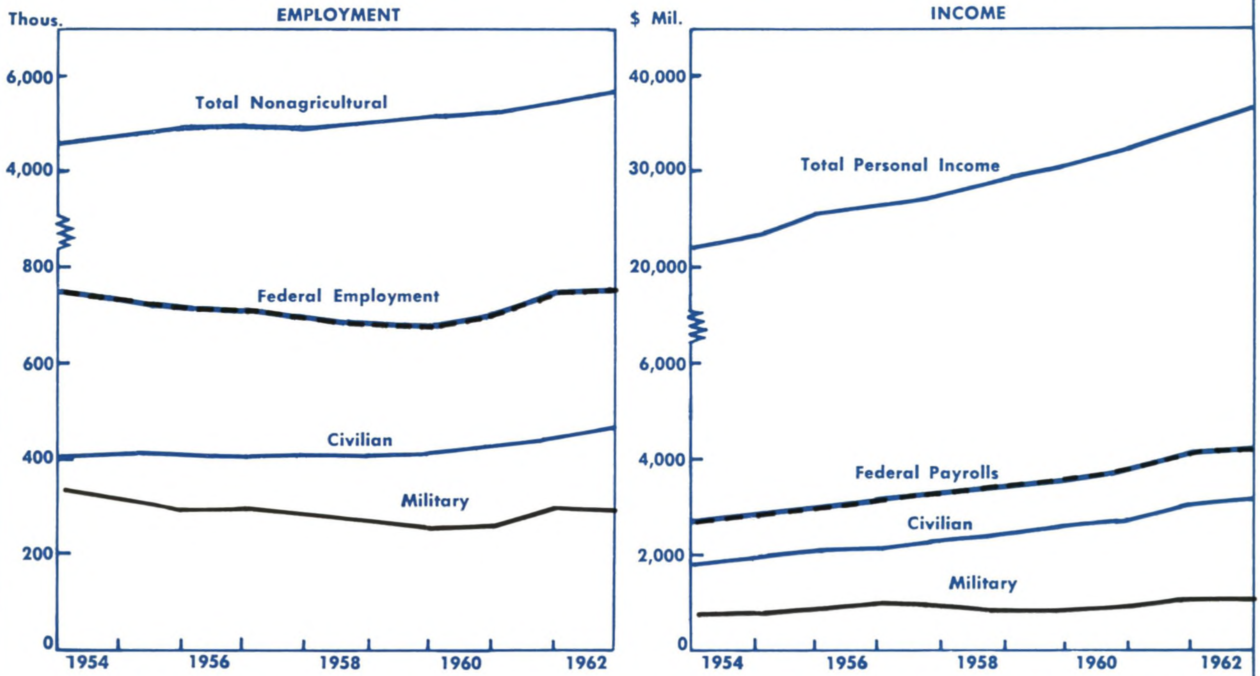
Income From the Federal Government The Federal civilian payroll is, of course, most significant in the District of Columbia economy, where in 1963 it came to 27.7% of personal income. The comparable fractions were 11.2% in Virginia and 10.2% in Maryland. Civilian pay, as a share of income, was lower in the other states, amounting to only 4% in South Carolina, 2.3% in North Carolina, and 1.9% in West Virginia.

Throughout the Fifth District, military payrolls in 1963 were small relative to total income. Pay received by military personnel amounted to 4% of personal income in South Carolina, 3.7% in North Carolina and in Virginia, 2% in Maryland, and only 0.06% in West Virginia. Even in the District of Columbia, military pay was only 2.7% of income.

Growth Over the Last Ten Years In contrast to the rapid growth of nonagricultural employment, Federal civilian and military employment in the Fifth District grew but little over the last ten years. Total nonagricultural employment grew at an average annual rate of 2.4%, while combined Federal civilian and military employment, declining slightly for part of the period, increased at an average annual rate of only 0.1%. Civilian employment increased at a 1.7% rate and military employment declined at a 2.1% rate. The left-hand chart at the top of page 5 traces the growth of nonagricultural employment and the two major components of Federal employment in the period.

Changes in the relative importance of Federal employment over this period varied among the District states. In Maryland and Virginia, where nonagricultural employment grew substantially, Federal civilian employment expanded but little and the number of military personnel fell sharply. The District of Columbia pattern was similar, except that military personnel grew slightly. In the Carolinas, Federal civilian employment rose more rapidly than the impressive upward pace of the nonagricultural total. Military personnel, however, increased only slightly in North Carolina

THE FEDERAL GOVERNMENT IN FIFTH DISTRICT EMPLOYMENT AND INCOME



Source: Civil Service Commission, U. S. Department of Commerce, U. S. Department of Defense, and U. S. Department of Labor.

and decreased in South Carolina. In West Virginia, where total nonagricultural employment declined steadily throughout the period, both types of Federal employment rose a little.

As shown in the right-hand chart at the top of this page, personal income has grown at a faster rate than Federal payrolls in the Fifth District since 1954. The average annual rate of growth in personal income was 5.8% while the combined Federal payrolls grew at an average annual rate of only 4.8%. Hence, the share of personal income accounted for by Federal payrolls declined.

This comparison is modified somewhat when the two Federal payrolls are viewed separately. The Federal civilian payroll alone grew faster than income, rising at an average annual rate of 6.2%. On the other hand, military payrolls rose at an average rate of only 1.6% per year, far below the pace of personal income expansion.

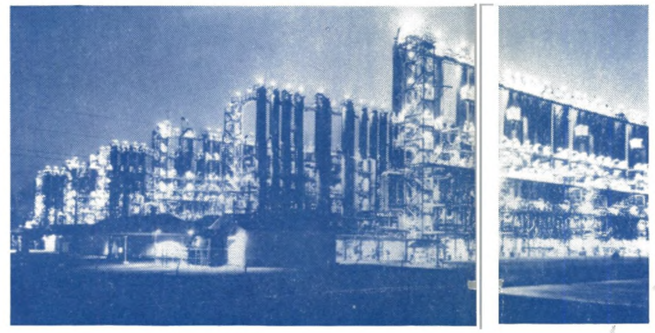
The Fifth District's Federal civilian payroll increased more rapidly than its Federal civilian employment over the period. This happened because of a series of pay raises for Government workers. For the same reason, the military payroll increased despite a reduction in the number of military personnel.

Generally, the relationship between the growth of personal income and the growth of Federal payrolls in each District state conformed to the pattern for the entire Fifth District. The exceptions were West Virginia, where both Federal payrolls grew more rapidly than personal income, and the District of Columbia, where both grew less rapidly. In West Virginia, as in the nation's capital, the average annual rate of growth in personal income was well below the District average. There were also slight departures from the general pattern in Maryland and South Carolina, where military payrolls decreased.

Concluding Comment The data examined in this article show that the United States Government is today the District's most important single employer. Income from Federal employment is clearly a significant part of total personal income in every state in the District. These data, however, tell only a part of the story. Federal agricultural programs, defense procurement activities, housing programs, welfare programs, and many other activities are significant parts of the Fifth District's economic life. A complete examination of the impact of Federal activity on the District economy would require a greatly expanded treatment of the subject.

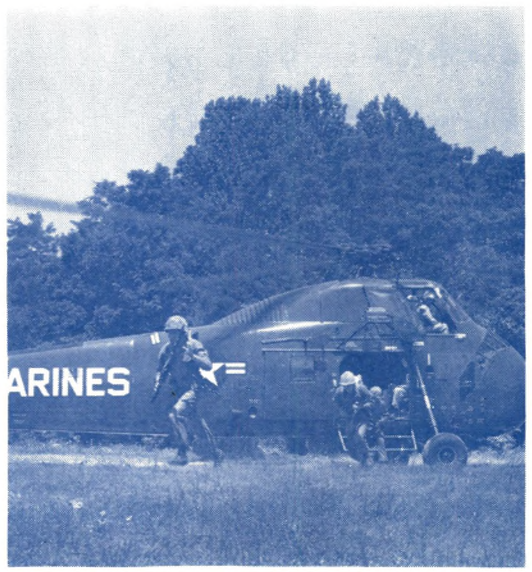
FEDERAL EMPLOYMENT IN THE DISTRICT

Last year, the Federal Government provided jobs for more than 469,000 men and women in the Fifth District. Federal clerical and office workers, like those shown, left, are a significant white-collar element in many of the District's larger cities.



This night scene, taken at the Atomic Ene ommission's plant in Aiken, South Carolina, evidence District's share in Federal Government research a lustrial efforts.

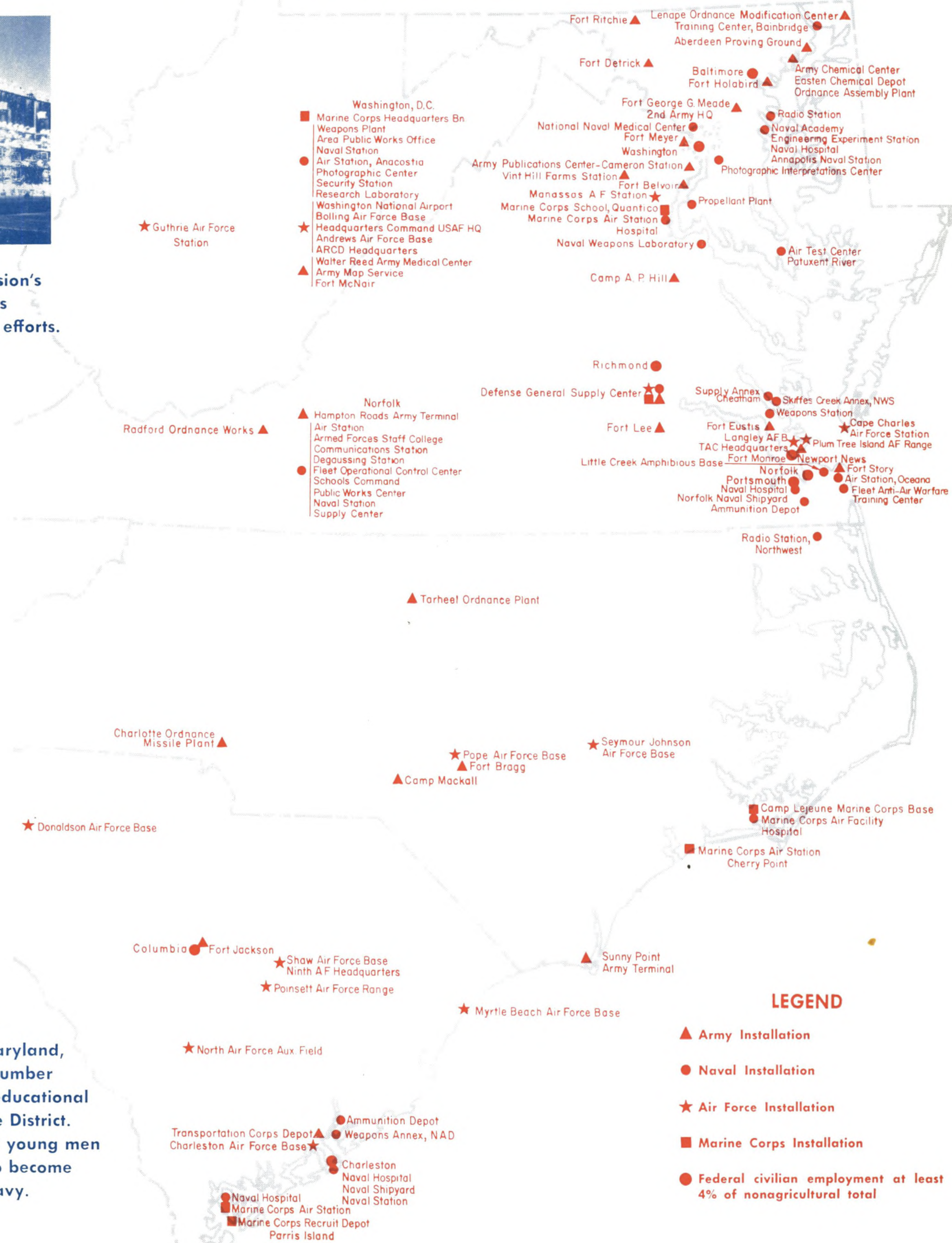
Throughout the District, Federal employees work for 75 different departments and agencies of the Government. The most familiar of these is, of course, the Post Office Department.



With Military personnel in the District totaling 285,000 last year, training exercises like this one at the large Marine base at Quantico, Virginia, are common occurrences.

The Army accounts for more than a third of the 89 military installations in the District. At Fort Bragg, North Carolina, training exercises like the above keep the 82nd Airborne in a constant state of combat readiness.

The Nav cademy at A olis, Maryland, is b e of a number of G nment educational insti hs in the District. Her e 4,000 young men are hining to become leac the Navy.



TREASURY BILLS

For some years now, Treasury bills have been the single most important money market instrument. Before World War II, the amount of these bills outstanding rarely exceeded $2.5 billion. By 1945 it had risen to over $17 billion, with commensurate growth in the popularity of these instruments as liquid investments. By late 1963 their outstanding volume reached $51.5 billion.

What Is a Treasury Bill? A Treasury bill is an obligation of the United States Government to pay the bearer a fixed sum on a specified future date within a year of issue. These debt instruments are sold by the Treasury at a discount through competitive bidding, and the return to the investor is the difference between the face value of the bill and the amount paid for it.

Treasury bills are issued in a variety of maturities and denominations, tailored to meet the needs of a diverse group of investors seeking both liquidity and money income in a single investment. Currently bills are offered with maturities of 91 days, 182 days, and 1 year on a regularly scheduled basis. In addition, the Treasury has made occasional offerings of Tax Anticipation bills with maturities ranging up to 268 days. The 91- and 182-day issues are sold at regular weekly auctions. Until August 1963, the one year bills were sold and matured at quarterly dates in January, April, July, and October. In August, however, the Treasury sold $1 billion of one year bills as a first step in a plan to replace the quarterly auctions with a monthly pattern. The Tax Anticipation bills are scheduled to mature about a week after the quarterly tax date for corporations, and those which are not turned in for taxes may be redeemed for cash at maturity. Treasury bills are issued in six denominations ranging from $1,000 to $1,000,000. All may be exchanged at maturity for new issues or redeemed for cash.

History In their modern form, U. S. Treasury bills were first offered in 1929. The first issue, for $100 million, was sold in December 1929 and had a maturity of 90 days. From then until 1934, 30, 60, and 90 day maturities were offered. Between February 1934 and October 1937, the Treasury experimented with longer bills (182 days to 273 days) in order to reduce the frequency with which they had to be rolled over. In 1937, largely at the insistence of commercial banks, the Treasury reverted to exclusive issue of 91-day bills. Then in December 1958, these were supplemented with 6-month bills in the regular weekly auctions.

Tax Anticipation bills were first offered in October 1951. The first issue was for $1.3 billion and matured in 144 days. Since that time offerings have varied between $0.8 billion and $3.7 billion and maturities have ranged from 54 to 268 days. These instruments were designed to raise money when Treasury cash receipts are normally low by offering to corporations an investment outlet for funds set aside for future tax payments. They are sold when the Treasury needs money and are accepted in payment of taxes or redeemed for cash at a time when tax collections are high. This, in effect, reduces the impact on the money market of seasonal fluctuations in tax receipts. Since the maturity date falls about a week after a quarterly tax date, the investor earns about 7 extra days of interest if he chooses to turn in his bills at par in payment of taxes.

The Treasury initiated the sale of a series of special 289-day bills in April 1959. This was the first step in a move to establish a pattern of one-year maturities coming due on a quarterly basis. The initial offering was for $2.0 billion, and subsequent offerings have ranged from $1.5 billion to $2.5 billion. Replacement of the quarterly auction with a monthly auction of $1 billion of one-year bills began in August 1963.

Auctioning New Bills New offerings of 3- and 6-month bills are made each week by the Treasury. Ordinarily, subscriptions, or bids, are invited on Thursdays, and the amounts of the offerings are set at that time. The auction is usually conducted on the following Monday, with delivery and payment on the following Thursday. In contrast to the first issue of bills, which amounted to a scant $100 million, recent weekly auctions have involved $1.3 billion of 3-month and $800 million of 6-month bills, or a total of $2.1 billion.

Bids, or tenders, in the weekly auctions must be presented at Federal Reserve Banks or Branches, which act as agents for the Treasury, by 1:30 P.M., New York time, on the day of the auction. Bids may be on a competitive or a noncompetitive basis. Competitive bids are usually made by large investors who are in close contact with the market and comprise the largest portion of subscriptions on a dollar basis. In this type of tender the investor states the quantity of bills desired and the price he is willing to pay. A subscriber may enter more than one bid indicating the various quantities he is willing to take at different prices. Individuals and other small investors usually enter noncompetitive bids, which are awarded in full up to some limit established by the Treasury. Currently this limit, per subscriber, is $200,000 on 91-day bills and $100,000 on 182-day bills. Noncompetitive awards are sold at the average price of accepted competitive bids.

Subscription books at the various Federal Reserve Banks and Branches close promptly at 1:30 P.M., and the bids are then opened, tabulated, and submitted to the Treasury for allocation. The Treasury first makes all noncompetitive awards. The remainder is then allocated to those competitive bidders submitting the highest offers, ranging downward from the highest bid until the amount offered is allocated. The "stop out price" is the lowest price, or highest yield, at which bills are awarded. Usually only a portion of the total bids made at this rate is accepted. The average issuing price, which is usually closer to the lowest accepted price than to the highest, is then computed on the basis of the competitive bids accepted.

By bidding noncompetitively, small investors avoid several risks inherent in competitive bidding. In the first place, they do not risk losing their chance to buy through bidding too low. Nor do they run the risk of bidding too high and paying a price near the top. It is not surprising, therefore, that most bids are noncompetitive, although the dollar amount they represent is relatively small.

In addition to the weekly auctions, special auctions are held for Tax Anticipation bills and for one-year bills. As noted earlier, auctions for the latter are now being moved to a monthly basis. The auction procedure for both Tax Anticipation and one-year bills is similar to the regular weekly auctions of 90- and 180-day bills except that banks are sometimes permitted to make payment by crediting their Treasury Tax and Loan accounts.

Advantages of Auctions For the most part, the auction technique of marketing new Government securities has thus far been confined to the bill area. The marketing of other Governments is considerably more complicated, involving usually an effort on the part of the Treasury to estimate approximately the maturities and amounts that can be offered without spoiling the market. Prior to sales of certificates, notes, and bonds, the Treasury discusses market conditions with representatives of the Federal Reserve System, Government securities dealers, and investor groups in order to assess the existing demand. An attempt is made to approximate how much the market can absorb in various maturity areas without disrupting price and yield relationships in the market as a whole. Only after such study does the Treasury decide what maturities and how much of each it will offer and what interest rates it will set. Decisions on interest rates are usually delayed until just before the financing is announced in order to appraise the mood of the market more exactly. Otherwise, interest rates might be selected which would prove unattractive to investors or provide them a windfall gain at the Treasury's expense.

In general, the auction method of marketing new bills is simpler and much less time consuming than the more involved technique employed in marketing longer maturities. In auctions the market establishes a price for the bills and it is not necessary for the Treasury to second-guess market conditions. Also, auctions eliminate the problems associated with over-subscriptions or under-subscriptions. The Treasury merely sets the amount and maturity of the issue and the market does the rest.

Successful use of the auction technique, however, presupposes a market of great depth and breadth. In periods of general market weakness, the market for long-term securities may be so thin that an offer of several millions of new securities cannot be absorbed without serious price reductions, i.e. yield increases. By contrast the bill market is enormous and has been known to absorb several hundred millions of net new supplies with only minimal yield effects. The great popularity of the Treasury bill as a short-term liquid investment among banks, other financial institutions, nonfinancial corporations, state and local governments, and other investors underlies this characteristic of the bill market. It is largely because of this characteristic that the auction technique is especially suited to Treasury bills.

From the Treasury's standpoint, bill auctions provide an eminently convenient means of raising new cash. As noted above, the Treasury can raise large amounts of new money without upsetting the market and with a minimum of bother. Also, the auctions provide the debt managers with a very flexible tool. When the total marketable public debt is close to the statutory limit, for example, the Treasury can enter the market quickly and raise small amounts by adding to the supply of bills in the weekly auction. Conversely, it can squeeze under the debt ceiling by allowing bills to run off, that is, by failing to replace the full amount coming due.

Advantages also accrue to investors. Bill auctions are now part of the regular routine of the money market and as such have a minimum impact on investment values. They provide short-term investors with a predictable supply of highly liquid assets in a wide range of maturities.

Economic Significance Treasury bills perform an important role in the implementation of monetary policy since it is primarily through the purchase and sale of bills that the Federal Reserve System influences the reserve positions of commercial banks. The Federal Reserve's purchases supply reserves to the banking system and their sales have an opposite effect. While the Federal Reserve can, and does, operate outside the bill area, as a practical matter most of its purchases and sales must be concentrated in short maturities, principally Treasury bills. In an absolute sense, Federal Reserve transactions are very large and such operations in the relatively thin long-term market would result in wide swings in prices and yields.

Apart from their significance in the implementation of policy, Treasury bills comprise an important element in the general public's assets structure. The private sector's great demand for these bills is attributable chiefly to their high degree of liquidity or "nearness to money." Financial and nonfinancial institutions often find themselves with idle cash balances which may have been built up for payment of taxes or other outstanding debts, or as reserves against any of numerous contingencies. Often it is expedient to put such balances into short-term investments which earn interest and which can be readily converted to cash with little risk of loss.

Treasury bills neatly fill these requirements. The highly-organized market for bills insures their easy convertibility into cash and decreases the risk of loss should the investor need cash before the maturity of the bills. Their short maturities minimize the risk from price fluctuations associated with changing market conditions. Available in the market are bills ranging in maturity from a week or less to one year, and therefore appropriate to a variety of short-term investment needs. Moreover, yields on bills are generally competitive with other short-term investments.

Since Treasury bills meet so fully the requirements of a short-term investment, they constitute an important part of commercial banks' "secondary reserves." Through purchases of bills banks can quickly convert excess reserves into earning assets with little loss of liquidity. Through sales, they can promptly acquire additional funds for lending. Bank holdings of Treasury bills typically vary seasonally and over the course of the business cycle. When business is slack and loan demand is shrinking and the Federal Reserve is adding to bank reserves, banks generally turn to Treasury bills as a temporary investment outlet. Conversely, when business is expanding and loan demand is increasing, banks generally liquidate bills in order to expand loans.

Treasury bills are also important to corporations as a temporary investment and a source of ready cash. In the postwar period rising interest rates have induced corporate treasurers to economize cash balances and to seek liquidity, where possible, in income-earning assets. In managing their cash positions, they have become increasingly sophisticated in the use of techniques to project future cash flows. Frequently they time the maturities of their short-term investments to coincide with future cash needs. On occasion, however, unforeseen cash needs arise and it becomes necessary to raise money in a hurry. For these purposes, Treasury bills are ideally suited. At the end of October 1963 nonfinancial corporations in the Treasury's Survey of Ownership held an estimated $6.4 billion of Treasury bills, or almost 13% of the total outstanding.

Summary Treasury bills provide a convenient means through which the Treasury raises funds with little disturbance to the money market. They are the chief vehicle through which the Federal Reserve System influences the availability of bank reserves. Finally, for investors they provide an excellent temporary investment at an attractive rate, with no credit risk and little risk of trading loss. Their wide range of maturities assures them a place in most portfolios.

THE FIFTH DISTRICT

The District economy seems to be performing distinctly better than usual for this time of year despite a few uncertainties. For one, the latest efforts to separate fact from fiction regarding tobacco's effects on health have placed some restraint on activity in this important industry. For another, textile manufacturers remain in doubt respecting the important two-price cotton issue and the extent to which textile products will be involved in forthcoming tariff revisions. Both the tobacco and the cotton questions will affect farmers, whose 1963 cash receipts were down a little from 1962 and who face a 10% cut in tobacco allotments this year. None of these factors, however, or occasionally severe weather in parts of the District, has substantially affected key business indicators for the District.

Business At Record Level In the District, as in the nation, February marked the thirty-sixth successive month of expansion. As a result of the sustained uptrend, District business, as reflected in the usual data, is at an all-time high. The advance has been comprehensive both geographically and industrially. Most sections of the District have continued to show gains, as have most major business sectors.

Recent performance of District business indicators suggests that the current uptrend retains considerable vigor despite its advanced age. Seasonally adjusted bank debits in January, while slightly below the December 1963 peak, were 6% above a year ago. Other banking series have followed normal seasonal patterns, but at all-time high levels. Gross loans of weekly reporting member banks fell less than seasonally in January and turned up again in the first week of February, some weeks earlier than usual. Business and consumer loans at these banks were moderately strong over the first six weeks of the year, while real estate loans continued to expand in line with the rapid 1963 pace.

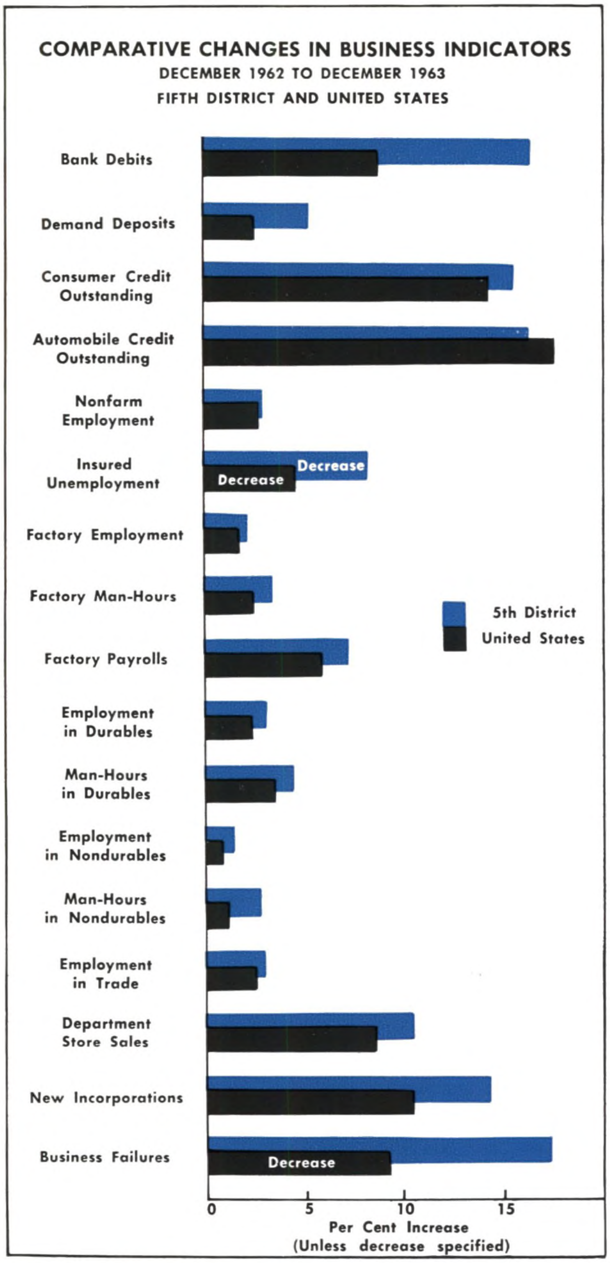
Seasonally adjusted nonfarm employment has increased steadily since September. Gains have been widespread in each month, with intermittent declines affecting construction, services, mining, trade, and nondurable goods manufacturing.

A Boost From Construction Contract construction employment decreased more than seasonally in January but has otherwise displayed unusual resistance to seasonal declines. Builders have plenty of work and are almost certain to remain as busy in the months ahead as weather and availability of men and materials permit. Contract awards reached record volume in 1963, surpassing the 1962 figure by one-sixth and the 1961 total by one-third. Awards were strong in all categories, but residential awards showed the most improvement.

The surge in residential building has been a major factor in the improved market conditions noted recently in the lumber business. Large industrial buyers and railroads have also stepped up orders, and some retail lumber dealers have begun building inventories in anticipation of heavy volume in the spring and summer.

The job of equipping new buildings is expected to give added support to the already brisk demand for both home and commercial furnishings. This promises yet another good year for the District's furniture industry, which for two consecutive years now has been operating close to an expanding capacity. Since furnishings include upholstery materials, rugs, draperies, and a variety of other fabrics, the textile industry also stands to benefit. Considering the uses that modern builders and furnishers make of a wide variety of other materials and equipment, many of the District's manufacturing industries have a stake in the optimistic outlook for construction and housing nationally.

Cigarette Production Slows Recent changes in the demand for cigarettes and other tobacco products have been well publicized. Recognizing these changes, cigarette companies in early February announced production cutbacks for most plants, from the normal five-day week to four days and in some cases to three. Seasonally adjusted cigarette factory man-hours have fallen every month but one since last summer. These declines, however, have been more than offset by gains in other sectors which raised total factory man-hours and man-hours in nondurables every month in 1963's final quarter. Small declines in man-hours occurred in most of the District's major classes of industry in January.



Uncertainties In Textiles The textile industry has been operating in an unusually fluid environment for some time, shifting and adjusting in response to a host of changes in its markets, materials, methods, and machines. Recent evidence suggests that the industry's current price structure remains firm despite a relatively slow pace of forward buying. Mill backlogs on big-volume items are of fair size, and customer inquiries for forward delivery are numerous, although relatively few are being translated into actual orders. Buyer caution apparently stems largely from a belief that pending Federal legislation may lower the price structure by reducing the effective price of cotton to domestic users to bring it closer to world prices.

The same uncertainty temporarily delayed the flow of orders at times last year. Yet strong demand and efforts to reduce costs pushed profit margins for most large producers to the highest level in several years. Part of the improvement in profits resulted from a continuing move away from cotton to synthetics and blends, a trend which cotton interests hope to see checked by the new legislation.

Compounding the uncertainties associated with cotton prices are equally significant questions about the eventual effects of current and prospective tariff negotiations. Neither the cotton price nor the textile tariff issue has the popular appeal of the tobacco inquiry. Yet these issues bear directly on the prosperity of the District's largest manufacturing industry and could affect the welfare of numerous localities which depend on textile mills.

District Versus Nation The 1963 statistical record is not yet sufficiently complete to allow detailed study of last year's progress in the District relative to the nation. Interesting comparisons based on a number of individual business indicators can be made, however. The accompanying chart shows percentage changes, nationally and for the District, in 17 indicators between December 1962 and December 1963. It should be noted that year-to-year comparisons of figures for a single month are subject to large distortions from random occurrences and cannot be relied upon to give an accurate measure of annual growth. Accordingly, the chart should not be interpreted as a comparative growth profile.

District figures compare especially favorably in banking, in manufacturing, in employment and unemployment, and in trade. Expansion in District banking was accompanied by a sizable increase in the number of offices. A continuing influx of new industry, particularly in coastal and Piedmont areas, again contributed to the increase in factory activity. All sectors of District employment except mining advanced and unemployment declined. The fact that 15 of the 17 comparisons favor the District suggests that the region as a whole shared generously in last year's broad economic advance.

PHOTO CREDITS

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