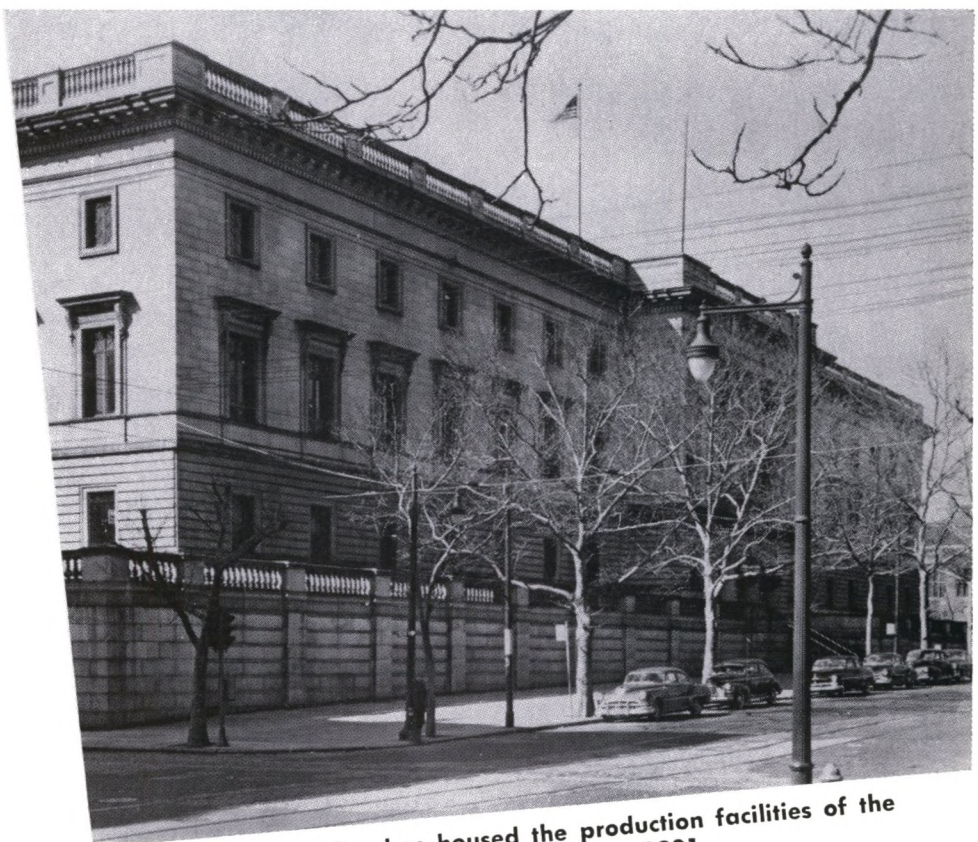
MONTHLY REVIEW



This stately edifice has housed the production facilities of the Philadelphia Mint since 1901.

FEDERAL RESERVE BANK OF RICHMOND

APRIL 1964

THE UNITED STATES MINT AND THE SUPPLY OF COIN

A New England bank recently made national news by sponsoring a "green sale." The public was invited to buy new $1 Federal Reserve Notes for 98 cents in coin. This not only enabled the bank to acquire badly needed coin, but in a unique and effective way focused public attention on a serious problem—the coin shortage.

In recent years the demand for coin has risen rapidly, and existing mint facilities are being strained to keep pace with the growing need. A number of recent studies have delved into the demand side of the equation and have explained the growing demand for coin in terms of a growing population, rising economic activity, increased use of vending machines, and so forth. This article shifts emphasis to the supply side of the problem for a somewhat detailed look at the United States Mint, the institution which produces our coin.

History Mint facilities in this country are almost as old as the Constitution, which vests Congress with the authority ". . . To coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures." In the early history of this country money consisted of precious metals, numerous other commodities, different foreign coins, and a few land bank notes secured by real estate mortgages. Jefferson, Hamilton, and others hoped to correct this disorderly state of affairs by specifying the metallic content of the monetary unit and providing a facility which would strike precious metals into standard coin. Under the Coinage Act of 1792, the dollar, defined in terms of both gold and silver, was adopted as the standard monetary unit. The U. S. Mint was established in Philadelphia, then the Capital, and was the first public building authorized under the Constitution.

During the 172 years since the Mint was founded, the monetary system of the United States has undergone extensive change. The country operated first on a bimetallic coin standard, then the gold coin standard, and since 1934 on a limited gold bullion standard. The composition of the money supply shifted from one consisting primarily of currency and coin to one made up primarily of demand deposits. Through all of these changes the Mint has performed the vital service of supplying the coin which is so necessary to commerce and trade.

Changing Outputs With changing coinage laws, the composition of the Mint's output has, of course, changed too. Gold coins, which were minted in six different denominations ($50, $20, $10, $5, $3, $2.50, and $1) accounted for most of the value of the Mint's production before 1934. This was especially the case in periods of unusually large domestic gold production. For example, in the ten years following the California gold rush, gold coins made up over 90% of the dollar value of the Mint's total output. The Mint has produced no gold coins since May 1933, and the Gold Reserve Act of January 1934 prohibits both the production and monetary use of such coins.

The composition of the silver and minor coinage has been affected by numerous coinage laws, especially those making additions to and deletions from the coinage list. At one time or another the authorized silver coinage has included a 20-cent piece, a half-dime, and a 3-cent piece. Among early minor coins were a 3-cent piece made of nickel and copper, a 2-cent bronze piece, and a copper half-cent.

The metallic content of the various coins has been subject to numerous legislative adjustments, but the definition of most of today's silver and minor coins has been fixed for many years. The silver dollar, for example, has not been changed since 1837, and the half dollar, quarter, and dime have not been altered since 1873. Except for a brief time during World War II, when some metals were in short supply, the composition of the nickel has not been changed since 1866 nor that of the bronze penny since 1864.

Growth in Production Facilities Until the 1830's the Philadelphia Mint had ample productive capacity. Most of its output in terms of numbers of pieces consisted of minor coin, and other coinage was limited in part by the scarcity of precious metals. Domestic production of gold and silver was quite small, and raw materials for larger-denomination coinage consisted chiefly of foreign coin and bullion earned in foreign trade. Production was also limited by Jefferson's decision in 1806 to stop minting silver dollars. These shiny new coins disappeared from circulation almost immediately as they were shipped to the West Indies where they could be traded for heavier, more valuable Spanish coin. Foreign coin, therefore, continued to constitute the bulk of the domestic coin supply for several years. As a result, a

significant part of the Mint's work load consisted of assaying a variety of foreign coins in order to furnish current estimates of their respective values.

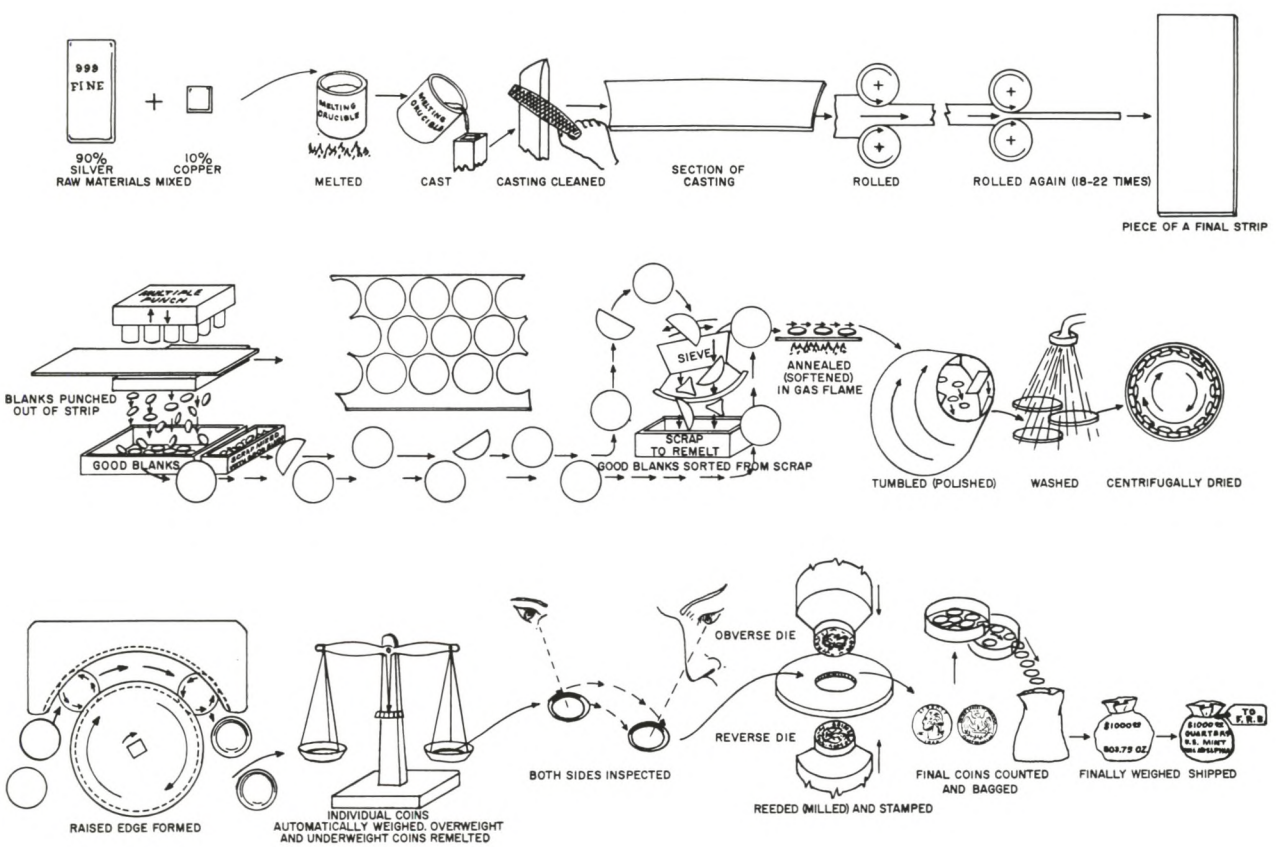
In the late 1820's and early 1830's the volume of coinage expanded appreciably as new supplies of metal became available. Several of Spain's colonies in Latin America became independent during these years, and large quantities of silver from these new nations began to come into the United States, principally through New Orleans. Gold, also, became available in larger quantities as new strikes were made in the lower Appalachians.

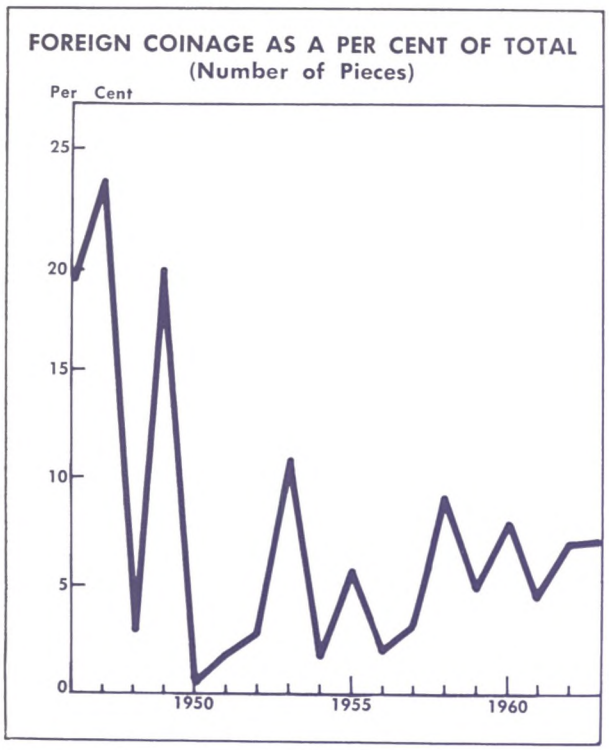
Congress decided to establish branch mints close to the sources of the new supplies of raw materials in order to minimize the problem of transportation. In 1835 the Philadelphia Mint opened branches in Charlotte, North Carolina, Dahlonega, Georgia, and New Orleans. These continued in operation until the outbreak of the Civil War. After the war the one in Charlotte was reopened as an assay office, and the one in New Orleans first as an assay office and then as a mint, which remained in operation until 1909.

Even after the Appalachian gold discoveries, foreign coins continued to be the chief raw material for mint operations. Robert J. Walker, who was Secretary of the Treasury under President Polk, was impressed with the wastefulness involved in melting foreign coin and striking it into U. S. coin, while foreigners did the reverse. To avoid this waste, he conceived a plan to standardize coin internationally. Nothing came of this venture, however, and foreign coin continued to be the principal raw material for our coinage until the great California gold strikes.

In the second half of the 19th century, three branches of the Philadelphia Mint were opened in the West to handle that region's expanded output of gold and silver. Close on the heels of the tremendous gold discoveries in California, a branch was opened in San Francisco. This facility continued in operation until 1955 at which time it was closed because of its high-cost operation. Coins could be minted in Denver and shipped to the West Coast cheaper than they could be produced in San Francisco. For this reason the coinage facilities in San Francisco were dismantled and usable items were shipped to Denver and Philadelphia. The Denver branch was legally established in 1862 but was operated only as an assay office until 1906, when it began to produce coin. In

MINTING OPERATIONS





1870, a branch was established in Carson City, Nevada, but this plant handled so small a volume of business that it was permanently closed in 1893.

For many years, the Director of the Philadelphia Mint was responsible not only for the work in Philadelphia but also for the operations of the branch mints and assay offices. To achieve better coordination and more effective control, Congress in 1873 created the Bureau of the Mint within the Treasury Department. At the present time, only two mints are in operation —one in Philadelphia and one in Denver. In addition, the Bureau of the Mint consists of the Office of the Director in Washington, assay offices in New York and San Francisco, the West Point Depository, and the Fort Knox Depository.

Supply and Demand That the demand for coin has increased very dramatically in recent years is evident from the black line on the accompanying chart, which shows the net shipment of coin by Federal Reserve Banks to member banks. Although net shipments probably provide the best indicator of demand that is available, they probably understate actual demand because of Federal Reserve rationing.

The purple lines show that coinage production has not quite kept pace with net shipments, much less with demand. This deficiency has occurred despite the fact that existing facilities have been utilized more intensively; that is, more shifts have been added and more days a week have been worked. This mode of operation is expensive because of shift premiums and payment of overtime for weekends.

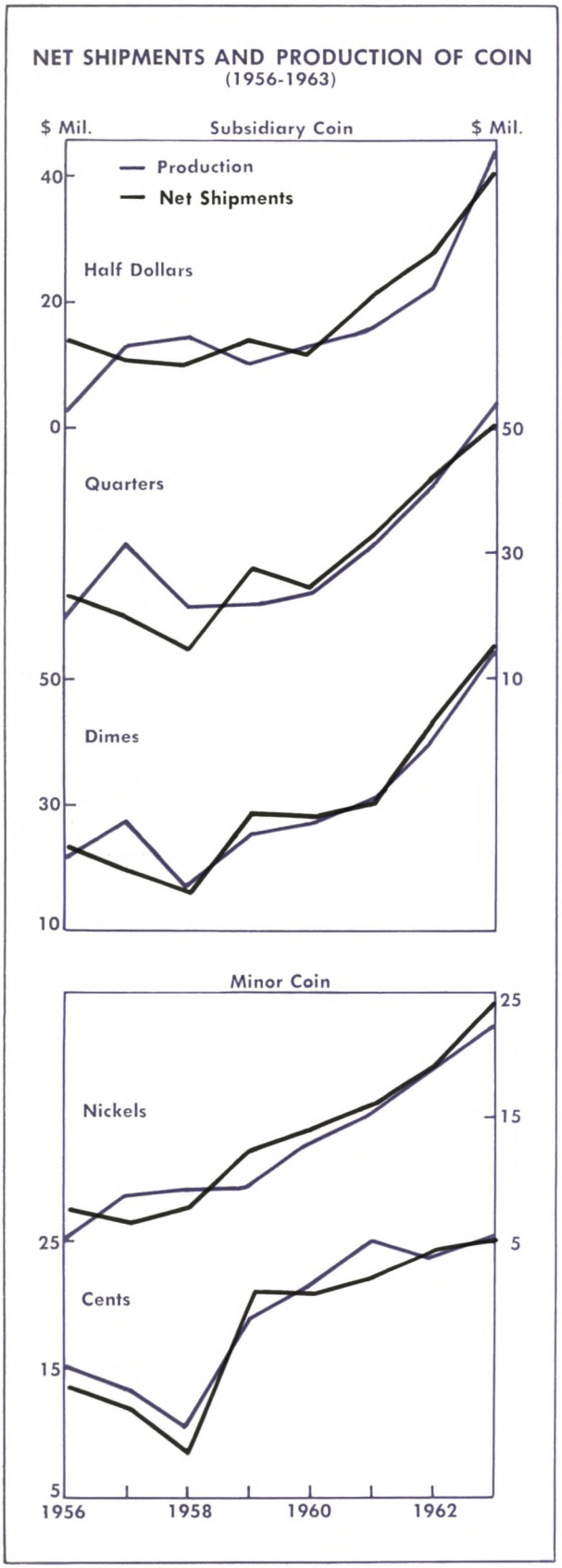
The disparity between net shipments and production has been met by reducing inventories, but obviously this cannot continue indefinitely. The Federal Reserve Banks, which serve as an intermediary between the Mints and the public, must have on hand an adequate inventory of the various denominations of coin to meet seasonal or random shifts in demand. At times in the recent past, some of the Federal Reserve Banks have had to ration certain denominations of coin. This aggravates shortages because it discourages some banks from returning their own excess coin to the System for recirculation.

No one can read the future, but it is fairly safe to assume that the demand for coin will continue to increase. The Arthur D. Little Company, which recently conducted a study for the Bureau of the Mint, predicted that new demand plus necessary inventory maintenance will amount to 4.1 billion coins in fiscal 1964, 4.3 billion coins in 1967, and 4.9 billion in 1969. When this demand is measured against manufacturing capability, it becomes obvious that existing facilities are inadequate. According to the Little estimates, if existing facilities were operated normally (two shifts, five days per week), total output would amount to only 3.1 billion coins or substantially less than current needs. If three shifts were used and both mints were operated seven days a week, maximum output would still amount to slightly less than 5 billion pieces.

Until new capacity becomes available, the existing facilities will have to be operated at greater-than-optimum rates. As an emergency measure, coinage for foreign governments, which in recent years has amounted to approximately 6% of the total, may have to be curtailed.

Existing Facilities The mint building at Philadelphia was constructed in 1900, and the space it affords cannot house a modern manufacturing process. Of the 3.6 billion coins produced in fiscal 1962, only 1.1 billion were produced in Philadelphia.

The Denver Mint was also erected at the turn of the century, but two major additions have made possible the use of more efficient equipment. As a result, production is significantly cheaper in Denver, where the minting cost per thousand coins is only $.72 compared with $1.02 in Philadelphia. Because of its greater capacity and lower cost, the Denver Mint has carried the bulk of the coinage load in recent years. In fiscal 1962, for example, it was operated using three shifts, six days a week; with the blank



annealing process on a seven day basis. The resulting output was 2.5 billion coins.

Although most of the coin has recently been produced in Denver, the greatest demand for coin is concentrated along the Eastern Seaboard. In fiscal 1962 approximately 70% of coin production was delivered to banks nearer Philadelphia than Denver. It follows, therefore, that transportation costs are a significant consideration in developing plans for plant expansion.

Proposed Expansion To meet the demand for coin in the next few years, the Mints will have to operate three shifts, six or seven days a week. The projected demand for coin can be met in this fashion, but this solution is only temporary and also expensive.

Unfortunately, existing facilities do not permit the use of larger, more efficient equipment. The Arthur D. Little study recommended the use of a semi-continuous casting process rather than the book-mold process currently in use, and the use of larger, heavier rolling mills to handle the larger ingots which the semi-continuous casting process will produce. Due to space requirements, this improved equipment cannot be installed in the existing buildings. In its report, the Little Company proposed three possible alternatives: 1) construct a new mint at Philadelphia and install in the Denver Mint a blank annealing furnace, a new rolling mill, and ten stamping presses by rearranging equipment and utilizing space which is no longer used for refining; 2) expand the existing Philadelphia Mint and make the above changes in the Denver Mint; 3) abandon both mints and build a single new mint in some central location. The study recommended that, regardless of the alternative chosen, the facilities be operated on a two shift basis, the least-cost method of operation.

In response to the need for new facilities, Congress last fall authorized the Secretary of the Treasury to acquire suitable building sites, and to construct and equip the buildings needed for the operations of the Bureau of the Mint. No money has yet been appropriated, however.

According to testimony of the Director of the Mint before the Senate Banking and Currency Committee, the Treasury plans to abandon the inadequate Philadelphia Mint and construct a new facility on land in an urban redevelopment area which the Secretary of the Treasury has formally requested the Mayor of Philadelphia to set aside for that purpose. In Denver, the Treasury plans a new addition behind the existing mint on land the Government already owns. Until new capacity is available, the Mint will continue round-the-clock operation of existing facilities.

II. Measurements of . . .

Farm Income

Farm income statistics showing the "personal income of the farm population from all sources," published at regular intervals by the U. S. Department of Agriculture, cover the second of two major concepts of farm income. Unlike the statistical series comprising the concept of "farm operators' income from farming," discussed in a previous article, these data measure the total income of *all* people who live on farms. Persons in this group include not only resident farm operators and their families but also farm laborers and their families, retired persons, and people living on farms but working at nonfarm jobs. This series shows the combined net income of the farm population from both farming and nonfarm sources.

PERSONAL INCOME FROM FARM SOURCES Personal income of the farm population from farm sources is the sum of resident farm operators' total net income from farming and the farm wages of laborers living on farms, *minus* the contributions of farm resident operators and workers to social insurance.

Resident farm operators' total net income from farming is total net income from farming operations, as defined in the first article of this series, *minus* the net income of nonresident operators. These data measure the returns from farm production to resident farm operators for their capital, labor, and management after farm production expenses have been deducted. There is no charge in production expenses for a return on farm operators' equity in land and other farm capital.

Farm wages of laborers living on farms include the wages, salaries, and other labor income received for farm work by resident farm workers. These wages, both in cash and in

PERSONAL INCOME OF THE FARM POPULATION FROM FARM AND NONFARM SOURCES
United States, 1949-1962

Year	Total Net Income of Farm Operators, Including Government Payments	Less: Net Income of Nonresident Operators	Plus: Wages, Salaries and Other Labor Income of Farm Resident Workers	Less: Contributions of Farm Resident Operators and Workers to Social Insurance	Equals: Personal Income of Farm Population from Farm Sources	Personal Income of Farm Population from Nonfarm Sources	Total Personal Income of Farm Population from All Sources
	$ Mil.	$ Mil.	$ Mil.	$ Mil.	$ Mil.	$ Mil.	$ Mil.
1949	12,926	1,254	1,792	——	13,464	5,580	19,044
1950	14,000	1,372	1,703	——	14,331	6,045	20,376
1951	16,334	1,617	1,805	11	16,511	6,329	22,840
1952	15,337	1,534	1,922	11	15,714	6,553	22,267
1953	13,278	1,328	1,828	13	13,765	6,271	20,036
1954	12,691	1,269	1,746	17	13,151	5,850	19,001
1955	11,767	1,177	1,717	133	12,174	6,140	18,314
1956	11,617	1,162	1,719	157	12,017	6,565	18,582
1957	11,780	1,178	1,749	171	12,180	6,649	18,829
1958	13,548	1,355	1,784	182	13,795	6,712	20,507
1959	11,371	1,137	1,792	193	11,833	7,143	18,976
1960	12,021	1,202	1,746	229	12,336	7,242	19,578
1961	12,800	1,280	1,756	232	13,044	7,040	20,084
1962	13,284	1,328	1,719	240	13,435	7,100	20,535

Source: U. S. Department of Agriculture.

kind, represent a production cost to farm operators, but they are income to the hired farm workers who live on farms. Wages paid by farm operators to migrant and other nonresident farm laborers are not included.

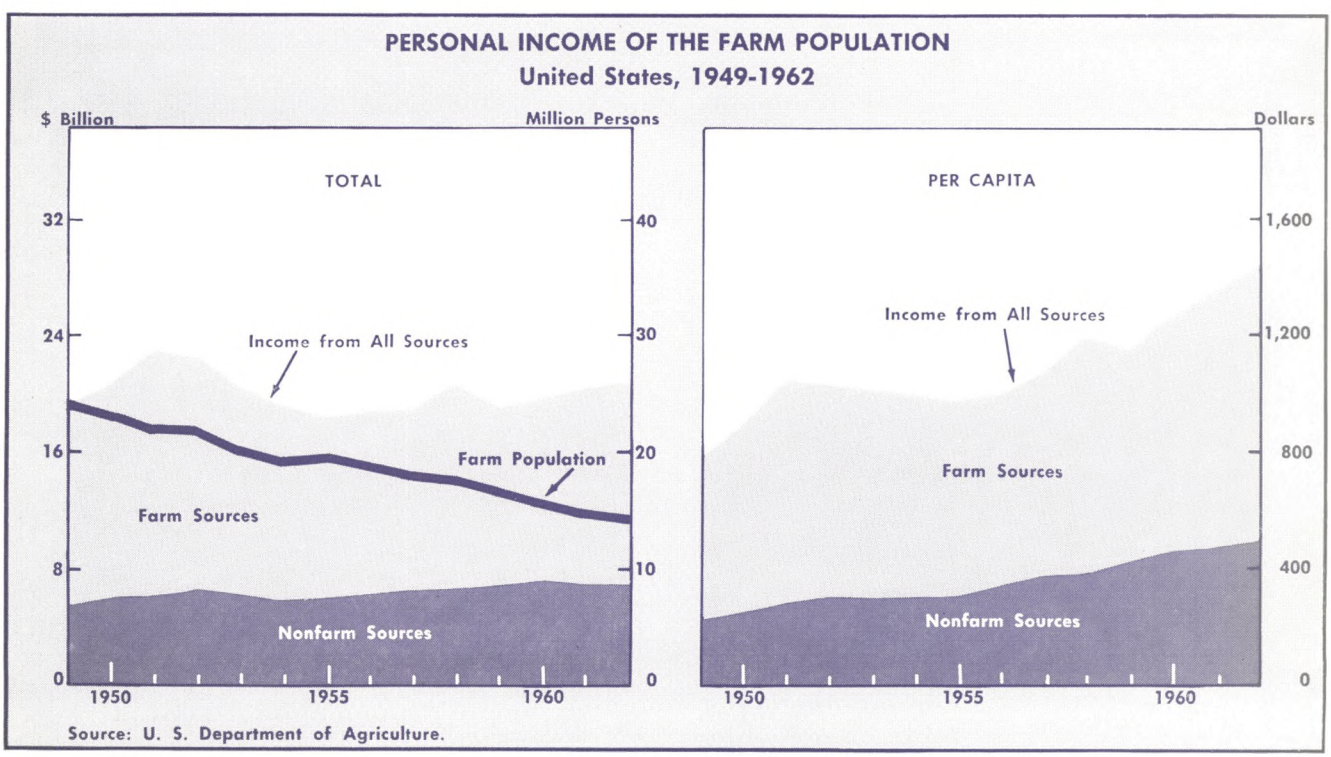
Contributions of farm resident operators and workers to social insurance are the taxes paid in accordance with the old-age and survivors' insurance provisions of the Social Security Act.

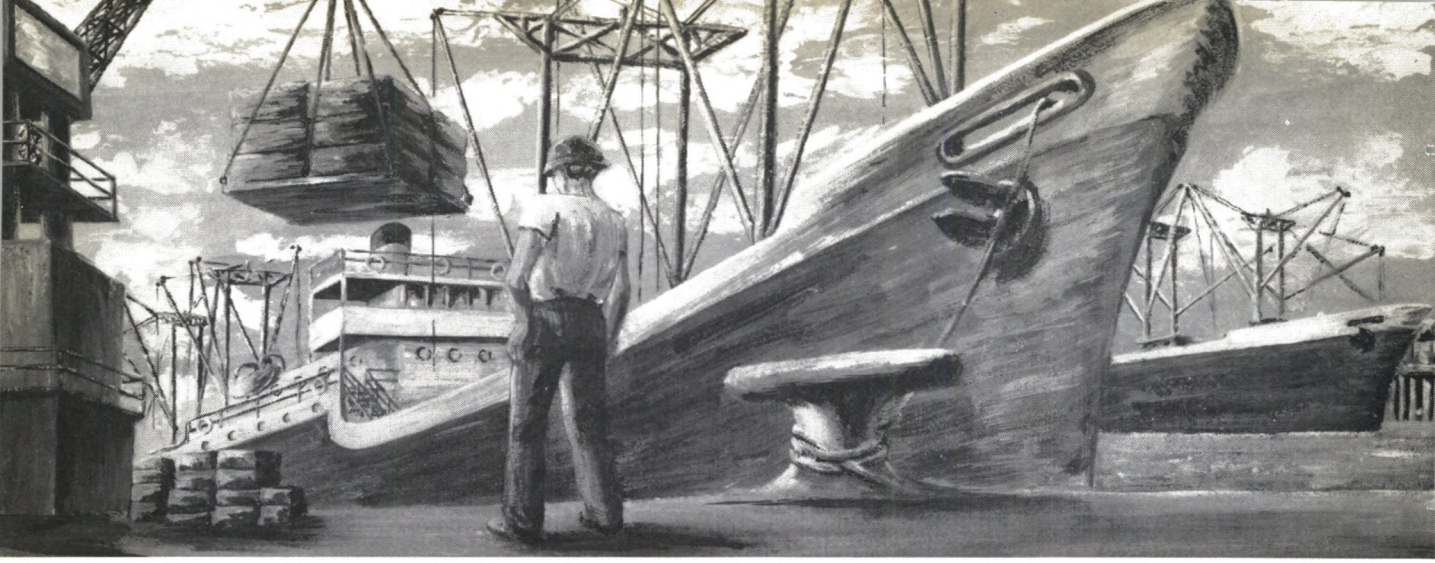
Personal income of the farm population from farm production is, then, derived from a series of component parts as can be seen in the accompanying table. It is farm operators' total net income from farming, including Government payments, *less* the net income of nonresident operators, *plus* the wages, salaries, and other labor income of farm resident workers, *less* farm resident operators' and workers' contributions to social insurance.

PERSONAL INCOME FROM NONFARM SOURCES Personal income of the farm population from nonfarm sources has made up slightly more than one-third of the total personal income received by farm residents in recent years. This statistical series provides a measure of all the income farm residents receive from nonfarm sources. Included in this yardstick are wages and salaries from nonfarm employment, income from nonfarm business and professions, and rental income from nonfarm real estate. Income obtained from dividends, interest, royalties, and transfer payments, such as unemployment compensation, social security, and veterans' benefits, is also included.

FARM POPULATION'S PERSONAL INCOME FROM ALL SOURCES Total personal income available to all persons living on farms thus consists of two major components: (1) personal income from farm sources, and (2) personal income from nonfarm sources. The three principal series—income from all sources, from farm sources, and from nonfarm sources—comprising the "personal income of the farm population" concept are published on both a total and a per capita basis. Historically, these statistics, issued annually and available only for the nation as a whole, cover the years since 1934.

Figures showing the personal income of the farm population from all sources represent the total income available to all people who live on farms for purchasing goods and services and paying income taxes. These data, which can be compared with the personal income statistics of the U. S. Department of Commerce, are the statistics to use when making comparative studies of income figures of farm people and the personal income of nonfarm people or of the total population.





Foreign Trade Tonnage at Fifth District Ports

Sustained expansion in this country's foreign trade is exerting a notable, though little publicized, impact on activity at Fifth District seaports. Extensive programs for renovation and expansion of cargo-handling facilities are currently in process in each of the four District states fronting on the Atlantic. These programs, which have already involved millions of dollars of new investment and have created thousands of new jobs, are designed to maintain or improve the relative position of District ports in the nation's foreign waterborne commerce.

The District's Ports The District's coastal contours form some of the best natural harbors on the Atlantic Seaboard. The well-sheltered ports of Baltimore, Hampton Roads, and Charleston have played a leading role in the nation's foreign trade since early colonial times. The excellent transportation networks converging at these three port areas enable them to service the seaport needs of a vast hinterland extending far beyond the boundaries of the Fifth District. Favorable transportation connections and rates allow them to compete effectively with Gulf and other Atlantic ports for the foreign traffic of areas as far removed as the Upper Mississippi Valley. Today the Hampton Roads ports (Norfolk, Newport News, and Portsmouth) rank second among Atlantic Coast seaports in foreign trade tonnage, while Baltimore ranks fourth and Charleston ninth.

Recent improvements in the District's port facilities have centered heavily in Baltimore, Charleston, and the Hampton Roads complex. Lesser ports, however, are also receiving attention and some have experienced remarkable expansion in recent years. For example, Wilmington and Morehead City, in North Carolina, are currently among the fastest growing ports on the Atlantic. In South Carolina, improved facilities at Georgetown and Port Royal (Beaufort) have led to a significant traffic acceleration at these ports. New deepwater terminal facilities at Cambridge, on Maryland's eastern shore, were opened early this year and are scheduled for prompt expansion.

The bulk of the District's foreign trade traffic flows through the seaports mentioned here. A minor part, however, proceeds through river ports, the most important of which are Richmond and Alexandria, in Virginia. While terminal facilities at both these ports have been improved in recent years, they still account for only a negligible fraction of the District's foreign trade tonnage.

U. S. Waterborne Foreign Trade The country's waterborne foreign trade has grown dramatically in recent years. Figures for 1962, the latest year for which complete data are available, show that combined export and import tonnage at all United States ports amounted in that year to 359 million short tons. This represents an increase of nearly 9% over 1961 and a cumulative gain of just under 65% since 1953. The 1962 figure was also a shade higher than the record level reached in 1957, when the totals were artificially swollen due to trade disruptions occasioned by the Suez Crisis.

For the country as a whole, increases in import tonnage in recent years have outpaced gains in export tonnage. Import tonnage in 1962 came to 223 mil-

lion short tons as compared to export tonnage of 136 million. The gain over the preceding year amounted to over 11% for imports against slightly more than 5% for exports. Export tonnage was still well below the 1957 peak while import tonnage was at an all-time high, 74% above the 1953 level.

The relatively larger figures for imports do not imply a deterioration of the nation's trade balance with the rest of the world, as they say nothing of the value of the shipments. Rather they reflect the nature of the commodities brought in from abroad. United States imports are made up, in large measure, of bulky materials destined for further processing: ores, petroleum, sugar, coffee, and other primary products. While similar commodities are important in the country's exports, manufactured goods are, in value terms, of far greater significance. In terms of the value of shipments, export volume rose 69% between 1953 and 1962 while import volume increased only 40%.

District Tonnage The combined export and import tonnage at Fifth District ports in 1962 amounted to 61 million short tons. This represents an increase of 11% over 1961. The cumulative gain between 1953 and 1962 was just over 50%, as compared with 65% for all United States ports and 61% for all Atlantic ports. In recent years, District ports have accounted for approximately 17% of total foreign trade tonnage at all United States ports and a third of that at all Atlantic ports.

At District ports, export tonnage is relatively more important and has increased more rapidly in recent years than import tonnage. District ports handled 34 million export tons in 1962, nearly 10% more than in 1961. Import tonnage in 1962 was 27 million, 11% greater than a year earlier. But between 1953 and 1962 export tonnage grew 83% while import tonnage expanded only 23%. Over the same period, export tonnage at all United States ports gained 59%; and at all Atlantic ports it rose 74%. District ports in 1962 handled 25% of all United States waterborne export tonnage and 72% of all such tonnage at Atlantic ports.

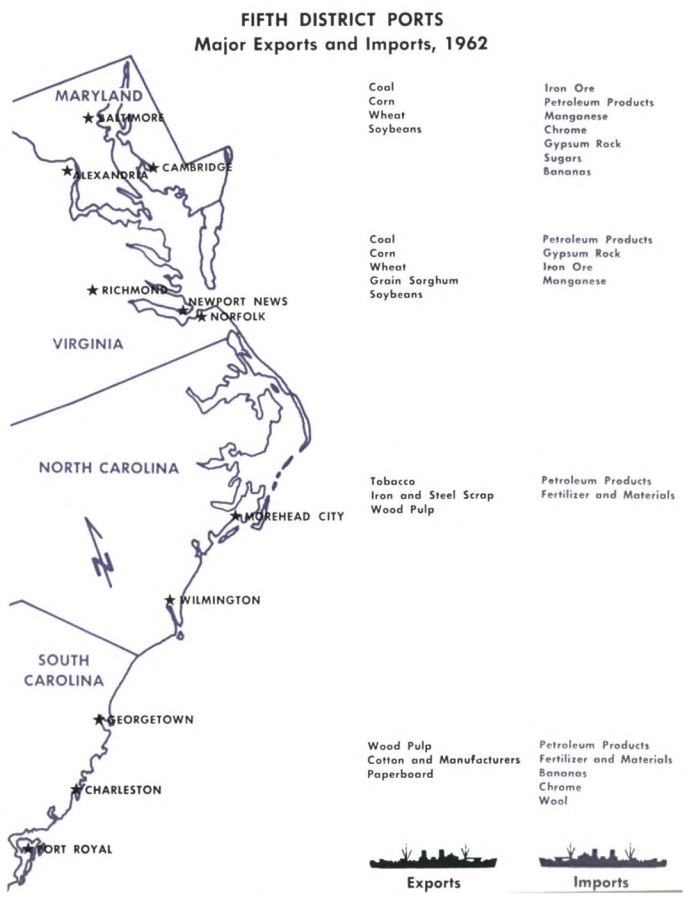
The greater relative importance of export tonnage in the District is accounted for entirely by Virginia ports. At Maryland ports and at those of each of the Carolinas, import tonnage makes up the bulk of the total. In 1962, Virginia ports handled more than 28 million short tons of exports and just under 6 million tons of imports. On the other hand, 5 million tons of exports left the ports of Maryland, while almost 19 million tons of imports were received. Tonnage figures for the ports of North and South Carolina showed similar relationships. In both cases the tonnage of imports was about three times greater than that of exports.

Virginia ports thus accounted for more than four-fifths of all export tonnage of Fifth District states in 1962. In fact, nearly three-fifths of total export tonnage leaving all United States Atlantic ports were handled through Virginia facilities. This is explainable in large measure by the kinds of commodities shipped through the ports of that state.

Kinds of Commodities Foreign trade tonnage through Fifth District ports is dominated by bulk shipments of such commodities as coal, petroleum products, wheat, corn, grain sorghums, and soybeans. General cargo items such as tobacco, steel mill products, wood pulp, and cotton swell the total.

The largest single item of export tonnage leaving Baltimore in 1962 was bituminous coal. This product accounted for almost one-half of total export tonnage shipped through the Baltimore harbor in that year. Grains, mostly wheat and corn, and soybeans provided more than a fifth of the total, and iron and steel mill products accounted for another one-eighth.

Import tonnage through Baltimore consists chiefly of bulk cargo of raw and semi-finished materials. Imports of iron ore and concentrates amounted to over 10 million short tons in 1962 — more than half the total. Chrome and manganese also



accounted for a sizable proportion of import tonnage. In 1962 Baltimore accounted for almost half of total United States chrome and manganese imports and more than one-fourth of the country's imports of iron ore and concentrates. Like all major ports in the Fifth District, Baltimore also received large quantities of petroleum and petroleum products. Receipts of these items amounted to about 19% of the port's import tonnage. Other important imports include bananas, sugar, and gypsum rock.

Coal dominates export tonnage through the Hampton Roads ports. In 1962 two-thirds of total exports of bituminous coal from the United States passed through Virginia ports, and this product accounted for almost 90% of foreign trade tonnage leaving Virginia ports. Grains, mostly corn and wheat, soybeans, and unmanufactured tobacco provided most of the remaining exports.

Petroleum and petroleum products accounted for a large fraction of import tonnage arriving at Virginia ports in 1962. Imports of crude petroleum, gas oil, distillate fuel oil, and residual fuel oil in that year amounted to 3.7 million short tons, more than three-fifths of total import tonnage. Gypsum or plaster rock, iron ore, manganese, chrome, fertilizers, and tobacco provided most of the remaining import tonnage.

Unmanufactured tobacco was the most important commodity exported through North Carolina ports in 1962. Sixty thousand tons, representing more than one-fifth of total United States exports of this product, left Wilmington and Morehead City in that year. Shipments of iron and steel scrap and wood pulp accounted for a large part of the remaining export tonnage.

Almost one-half of import tonnage received at North Carolina ports in 1962 was petroleum products. A large part of the remaining import tonnage was made up of fertilizer and fertilizer materials and iron and steel mill products. Imports of Turkish and other unmanufactured tobacco, while amounting to only 10,000 tons in 1962, point up the importance of the State as a manufacturer of cigarettes. The ports of Virginia and North Carolina together accounted for 75% of total United States imports of foreign unmanufactured tobacco in 1962.

Wood pulp accounted for 27% of total export tonnage through South Carolina ports in 1962. Reflecting the importance of South Carolina and contiguous areas in textile manufacturing, cotton manufactures ranked next in importance in export tonnage Paperboard, clays, and iron and steel scrap provided a good part of remaining exports.

As in other Fifth District states, petroleum products provided much of the import tonnage of South Carolina ports in 1962. These products made up about 55% of total tonnage received. Other important products were unmanufactured wool, bananas, fertilizers, and chrome. With the growth of the textile industry in the southeast, imports of wool have grown spectacularly. In 1962 receipts of unmanufactured wool at Charleston accounted for almost one-fourth of total United States imports of that product.

Summary Steady expansion in world trade over the past ten years has exerted an important impact on port activity in the Fifth District. Increasing export and import tonnage has generated additional manpower needs for handling the growing traffic and has thus created new jobs. Moreover, the rapid tonnage growth has stimulated ambitious programs to expand existing port facilities in District states. This has meant millions of dollars of new investment and corresponding increases in opportunities for construction-type employment. As the outlook for further expansion in world trade improves, prospects for this important facet of the District's economy will brighten commensurately.

WATERBORNE FOREIGN TRADE

	EXPORTS						IMPORTS					
	Weight Thous. Short Tons			Value $ Millions			Weight Thous. Short Tons			Value $ Millions		
	1953	1962	Per Cent Change 1953-62	1953	1962	Per Cent Change 1953-62	1953	1962	Per Cent Change 1953-62	1953	1962	Per Cent Change 1953-62
United States	85,703	136,046	+ 59	8,320	14,035	+ 69	127,915	222,522	+ 74	8,715	12,210	+ 40
Fifth District	18,618	34,122	+ 83	1,051	1,617	+ 54	21,591	26,552	+ 23	717	1,179	+ 65
Maryland	4,839	5,190	+ 7	430	575	+ 34	16,893	18,619	+ 10	487	659	+ 35
Virginia	13,500	28,233	+109	519	814	+ 57	3,049	5,784	+ 90	163	288	+ 77
North Carolina	25	236	+841	15	107	+606	332	692	+109	13	51	+295
South Carolina	254	463	+ 82	87	121	+ 38	1,318	1,456	+ 11	54	181	+234

Source: U.S. Department of Commerce, Bureau of the Census, FT-985.

THE FIFTH DISTRICT

Business barometers in the Fifth District and across the country continue to indicate a broadly favorable outlook. Recent reports suggest, in fact, that activity may be livelier now than it was just a few weeks ago. The most significant new development is, of course, the tax cut, which appears to have boosted business optimism at least as much as consumer buying power.

District Contrasts Noted Business conditions in the District resemble those in the nation, although a few contrasting features mark the local scene. Construction has been especially strong in the District, as heavy flows of new contract awards have raised the volume of work to consecutive new records. Most manufacturing sectors and many service-type enterprises have moved steadily into new high ground. Retail sales have maintained record levels, while the District's general indicators, such as nonfarm employment, factory man-hours, and electric power consumption, have advanced to new highs.

The less favorable side of the District picture focuses largely on agriculture where, according to preliminary figures, last year's realized net income dropped 10%. This year's prospects thus far offer little hope of recovering the lost ground. Manufacturing also displays a few uncertainties, with the tobacco business currently in the limelight.

Recent banking statistics have been inconclusive at best. In contrast to the rather strong note on which the year began, February and March data on weekly reporting member banks displayed little more than seasonal strength, either in loan demand or in deposit growth. The March tax date was accompanied by no more than a normal increase in loans. The absence of distinctive features in the banking picture may be a temporary result of seasonal uncertainties associated with the early Easter and with variable weather conditions.

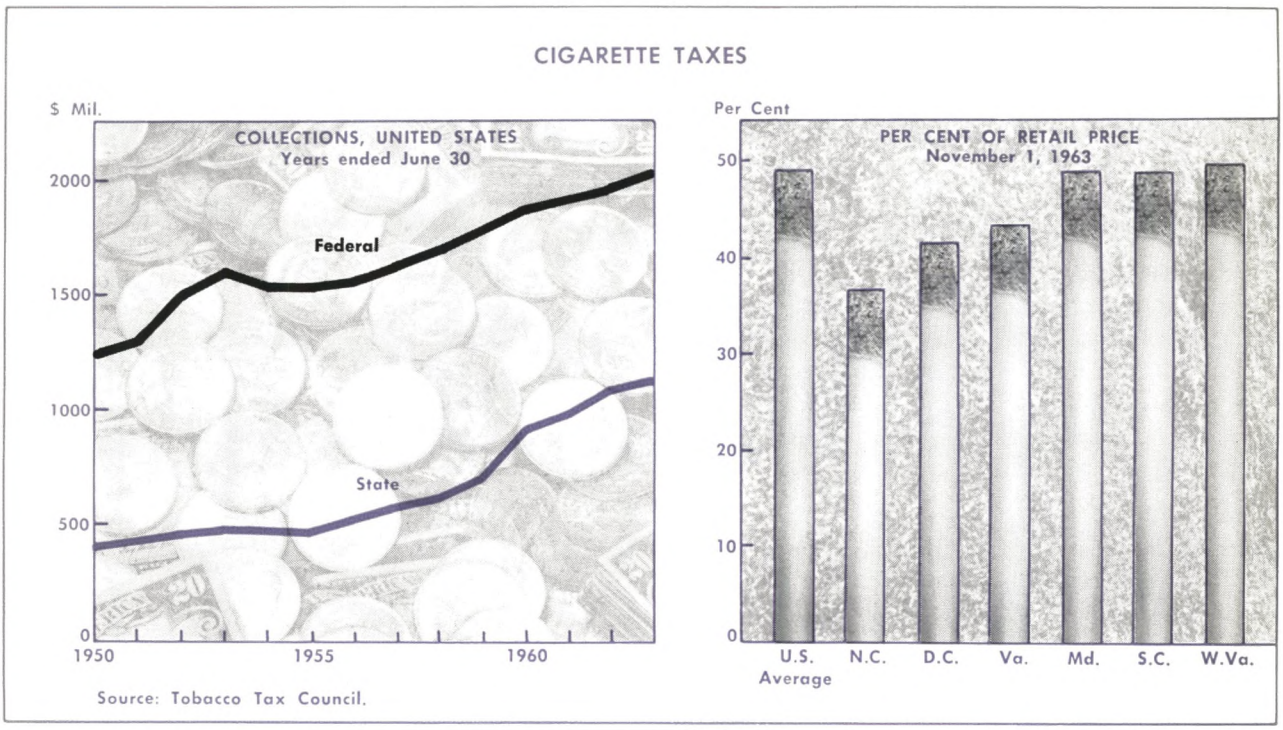
Automobile Trends Sustained demand for automobiles helps to set the current upswing apart from its predecessors. All signs point to a third successive year with sales above the 7-million-unit level, a phenomenon which not too long ago would have been considered highly unlikely. Data on new car registrations suggest that the District has accounted for its share of the market. The year 1955 set District and national sales records that were unapproached until 1960 and unexcelled until 1962. In that year, the previous District high for new car registrations was passed by a 6% margin, and a further gain of 13% was recorded in 1963. District registrations in January 1964 were down from the previous month, perhaps more than seasonally, but still exceeded the year-ago figure by a wide margin.

A comparison of automobile registrations to personal income figures suggests that, despite the strength of current demand, District residents may be devoting progressively smaller fractions of income to new car purchases. In 1950, the record year prior to 1955, District residents registered 27 new cars per million dollars of personal income. The figure in 1955, when total car sales were 11% higher, was only 23 cars per million of income. Although registrations in 1962 and 1963 averaged 13% above the 1955 level, cars per million dollars of personal income dropped to 17. The figures were lower during the recessions of 1958 and 1961, but this is not surprising in view of the fact that automobile sales are much more sensitive to business cycles than are personal income data.

For the nation as a whole, new car registrations per million dollars of personal income dropped 31% between 1955 and 1963, compared with 28% in the Fifth District. New car prices during this period rose 14%, and the proportion of national personal income spent on new cars dropped about 22%.

Builders Seek Labor The volume of construction work accumulating in the District is also worthy of note. Its most recent manifestation appears to be an incipient shortage of labor. Skilled construction workers have occasionally been in tight supply, but now some areas are reported to be short of unskilled labor as well. Last winter produced fewer seasonal layoffs than usual, and normal strength in the spring upswing promptly took the seasonal slack out of the labor market. Demand has apparently continued to grow, but the supply has been slow to respond.

Recent statistics tend to bear out this picture. Seasonally adjusted construction employment increased quite rapidly last year, declined slightly in



January, then rose sharply again in February. February gains were unusually large, averaging 5% and ranging as high as 10% in West Virginia and 11% in the District of Columbia. The volume of new business has also been extraordinary. Contract awards set records by sizable margins for each month from August through February. Similarly, building permits were high all last year and hit all-time January and February highs this year. Regional wage data are not available, but national figures show hourly earnings of construction workers rising along with the volume of work, although less rapidly. During the twelve months ending in January, hourly earnings increased 5% in construction compared to 3% in manufacturing.

Tobacco Dilemma While the tobacco industry steps up research to reduce the questionable effects of its products on health, other observers are giving some serious thought to the industry's economic significance. Among these, Federal and state fiscal authorities appear to have about as much at stake as any group outside the industry itself.

Federal and state taxes on tobacco products exceeded $3.2 billion in fiscal 1963. With roughly one-third going to the states, tobacco taxes represented 5½ cents of every state tax dollar. In 1963, Federal tobacco taxes amounted to $2.1 billion, nearly 2% of all Federal taxes.

In fiscal 1963, cigarettes accounted for 97% of Federal tobacco tax receipts and 98% of state tobacco revenues. The accompanying charts show the growth of these taxes since 1950 and their effects on retail prices as of November 1, 1963. Only three states—North Carolina, Colorado, and Oregon—levied no cigarette tax. In North Carolina, as the chart shows, the 8-cent-per-pack Federal tax was close to 37% of the average retail price, 21.6 cents per pack. Since shipping costs and other price components vary among the states, a higher bar on the chart does not necessarily mean higher taxes. Maryland and West Virginia, for instance, each added a 6-cent state tax to the 8-cent Federal, but this raised the total tax to 50% of a 28-cent average retail price in West Virginia compared to 49% of a 28.6-cent average price in Maryland. In South Carolina, the average price was only 25.5 cents per pack, so that a total tax of 13 cents also represented 49% of the price. In 24 states, taxes accounted for more than half of average retail price during 1963. Thus it seems reasonably clear that, however the tobacco industry may figure in the national health picture, it is at present significantly involved in the fiscal health of numerous governmental units.

PHOTO CREDITS

Cover—United States Mint, Philadelphia, Pennsylvania

12. Federal Reserve Bank of Richmond.