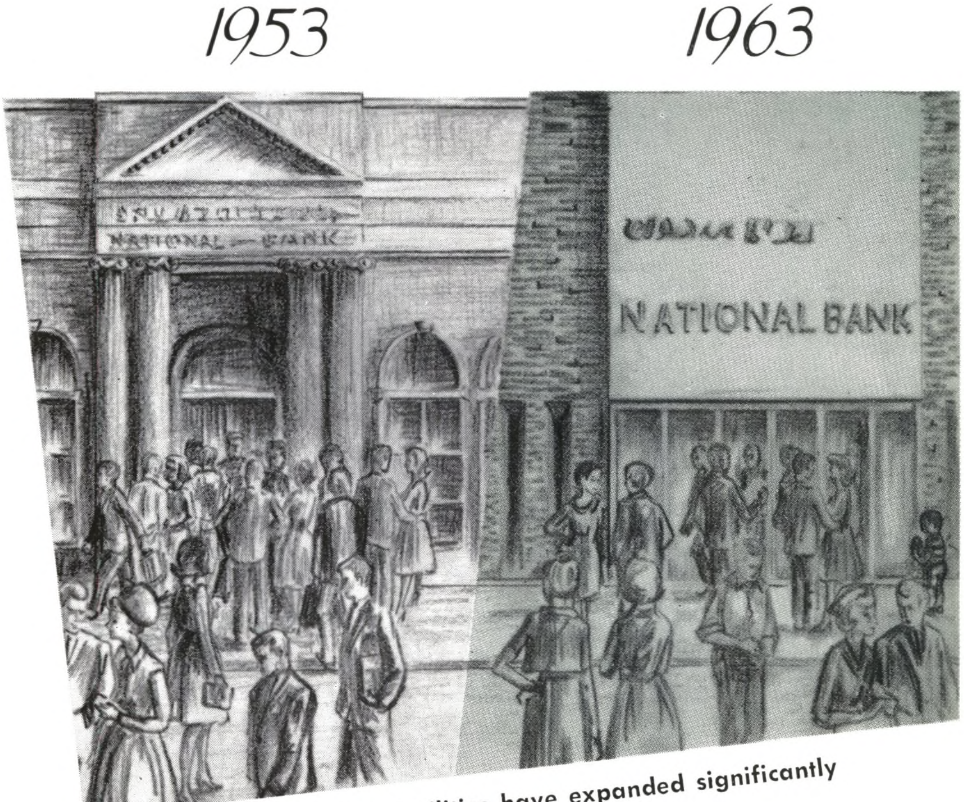
MONTHLY REVIEW



District banking facilities have expanded significantly over the last ten years.

FEDERAL RESERVE BANK OF RICHMOND

JULY 1964

RECENT CHANGES IN DISTRICT BANKING STRUCTURE

The banking system of the United States has undergone significant structural changes in the past decade. The general direction of these changes has been toward a reduction in the number of banks and an increase in the number of branches, with a steady growth in total banking offices. In large measure, these trends represent the effort of the banking community to accommodate its facilities to such basic economic and social forces as those associated with population growth and urbanization, rising personal income, rapidly increasing business volume, the development of new industries, and the relocation of existing industries. These and other changes have created a need for additional and different banking services and for banking services in new areas.

The District and the Nation Generally, the same forces making for change nationally have also appeared in the Fifth District. It is not surprising, therefore, that changes in the banking structures of Fifth District states have closely paralleled those in the rest of the nation. In many respects the rate of economic and social change in the District in the past ten years has exceeded that in the nation as a whole. Per capita income has grown faster in the District, rising slowly and steadily toward the national average. In manufacturing, both the number of establishments and total employees as well as payrolls and value added by manufacturing have risen faster in the District than in the nation. At the same time, employment and income in Fifth District agriculture have declined in relative importance.

Since state law largely determines the banking structure within a state, the way in which additional banking services were provided in a particular state depended greatly on the banking laws of that state. The Fifth District is a remarkably good model of the nation insofar as state banking legislation is concerned, with some District states imposing very few restrictions on branching, one state prohibiting branching entirely, and others falling somewhere between these extremes. Accordingly, some states have experienced a rapid growth in branches, while in others legal restrictions ruled out or limited this method of providing additional facilities. Also, in one Fifth District state bank holding companies are an important element in banking structure.

While changes in District banking structure in the 1954-1963 period generally followed national trends, there have been some significant differences. Both the District and the nation have experienced a decline in the number of banks, for example, but the rate of decline in the District has increased while that for the nation has fallen.

The number of new banks formed and the number absorbed through mergers and consolidations largely determine the change in the total number of banks. For the United States, new banks have been organized at an accelerated rate in recent years, especially in 1963, and the reduction in numbers resulting from mergers and consolidations has been somewhat smaller than in earlier years. In the District, on the other hand, the rate of new bank formations has also risen recently, but it has been more than offset by consolidations and mergers.

Thus, in the five years 1954-1958, the number of banks in the United States fell by 480; in the next five years there was a net increase of 69. In contrast, the number of banks in the Fifth District declined by 50 in the 1954-1958 period, and by 109 in the succeeding five years. The striking difference between national and District experience in the latter period, however, is greatly influenced by developments in 1963. The national increase of 143 in that year more than offset small declines in the preceding four years, while in the District the decline continued at about the same pace as in other recent years.

In both the District and the nation the number of branches and additional offices has grown at a steadily increasing rate. This has much more than offset the decline in head offices, and the total number of banking offices has grown rapidly. Nationally, the average annual increase in branches and additional offices was about 50% larger in the five years ending with 1963 than in the immediately preceding five years. In the Fifth District, the average annual increase in the most recent five-year period was more than double that of the earlier period.

District Changes At the end of 1953 there were 1,047 banks and 645 branches in the Fifth District.

By the end of 1963 the number of banks had fallen to 888 and branches had increased to 1,681. The number of state banks declined by 122 in the decade and the number of national banks was reduced by 37, for a total reduction of 159. The result of these changes was a growth of 877 in total banking offices.

The tempo of change in the District has stepped up significantly in recent years. From 1954 through 1961, the number of new banks organized each year ranged between four and six. In 1962, ten were organized and in 1963 the number jumped to 19. Between 1954 and 1961 the number of banks absorbed through merger or consolidation varied from nine to 25 per year, but it was 40 in 1962 and 42 in 1963.

Similarly, the number of branches and additional offices also grew at an increasing pace. Mergers have contributed to this growth as most merged banks have been converted into branches. But *de novo* branching was a more important factor, especially after 1960. Between 1954 and 1959 the number of *de novo* branches established annually ranged between 51 and 76, but it soared to 137 in 1962 and 166 in 1963. The number of branches discontinued each year has also risen in recent years, but this has not been a very important factor.

Changes by States There were some banking changes in all District states in the past decade, although the number and kinds of changes varied greatly from state to state. For the most part, changes within particular states were associated with fundamental changes in the economic environment. In some instances, notably Virginia, the banking developments were significantly influenced by new legislation.

North Carolina had the largest increase in banking offices during the decade, with a net addition of 328. It also showed the largest decrease in banks, however, as 74 were absorbed through merger and only four were newly organized. The establishment of 355 *de novo* branches, conversion of 70 banks into branches, and the discontinuance of 27 branches resulted in a net increase in branches of 398.

Although Virginia had a smaller net gain in banking offices than North Carolina, alterations in that state's banking structure were among the most significant in the District. For example, Virginia had the largest number of new banks organized of any District state, with 24, and was second only to North Carolina in mergers and consolidations, with 60. The increase of 282 in the number of branches also was second to North Carolina. This resulted from the establishment of 232 *de novo* branches, conversion of 57 banks into branches, and the discontinuance of seven branches.

Changes in Virginia's banking structure were greatly influenced by banking legislation passed in 1962, which permitted banks to acquire branches anywhere in the state through the merger process. Prior to that, Virginia banks generally were permitted to operate branches only within narrowly restricted geographical limits. The most obvious result

CHANGES IN NUMBER OF COMMERCIAL BANKS AND BRANCHES
FIFTH DISTRICT*
1954-1963

	1954-1958	1959	1960	1961	1962	1963	Change 1954-1963
All Commercial Banks							
Number of banks, beginning of period	1,047	997	981	960	941	911	....
New banks organized	24	6	4	5	10	19	68
Mergers and absorptions	73	22	25	24	40	42	226
Voluntary liquidations and suspensions	1	....	....	....	....	....	1
Number of banks, end of period	997	981	960	941	911	888	....
Net Change	− 50	− 16	− 21	− 19	− 30	− 23	− 159
Branches and Additional Offices							
Number of branches, beginning of period	645	996	1,085	1,207	1,319	1,483	....
De novo branches established	303	76	102	98	137	166	882
Banks converted into branches	63	21	25	23	38	40	210
Branches discontinued	15	8	5	9	11	8	56
Number of branches, end of period	996	1,085	1,207	1,319	1,483	1,681	....
Net Change	+ 351	+ 89	+ 122	+ 112	+ 164	+ 198	+1,036
Change in Banking Offices	+ 301	+ 73	+ 101	+ 93	+ 134	+ 175	+ 877

* Including five West Virginia counties which fall outside the Fifth District.

of the new law was a sharp jump in the number of mergers and the emergence of several regional and statewide branching systems. Of the 60 mergers involving Virginia banks in the decade ending December 1963, 33 occurred in the final two years, and experience in the first half of 1964 indicates no reduction in the rate at which mergers are occurring.

Maryland was third in terms of net increase in banking offices in the decade. As in Virginia, the rate of change increased greatly toward the end of the period. Of 12 new banks formed in the decade five were established in 1963, and of 48 mergers consummated, 20 occurred in the final two years. More than one third of the 153 *de novo* branches established were formed in the final two years.

South Carolina was second only to Virginia in the number of new banks formed during the period, but ranked fourth in the number of mergers effected. The rate at which banks were organized did not change markedly over the period, although the average number organized per year was higher in the second half than in the first half of the decade. In terms of mergers and absorptions, however, the experience of South Carolina was similar to that of the three states discussed earlier. Of the 29 mergers consummated, 15 occurred in the final three years of the decade.

The number of banking offices in the District of Columbia increased by 19 in the decade. The net change resulted from the establishment of three new banks, the absorption of eight banks through merger, and an increase of 24 in the number of branches.

West Virginia was the only District state to show no change in the number of banking offices in the ten-year period. The seven new banks organized were exactly offset by the absorption of seven banks through merger. West Virginia law does not permit the operation of branches.

Effects on District Banking The structural changes described above resulted in most District states in an increase in banking offices relative to the population served and an increased concentration of deposits and control over banking outlets. As the chart on page 5 shows, population per banking office has declined in every District state in the last ten years in spite of substantial growth of population in most of these states.

The District of Columbia experienced the largest decline in population per banking office, a drop of 3,254. This was partly because of a growth in banking offices, but a decline in population was also a contributing factor. It should be noted, however, that the District of Columbia had one of the highest figures throughout the period.

North Carolina and South Carolina had the largest relative growth in banking offices among District states, and both experienced relatively large declines in population per banking office. The drop of 3,200 in South Carolina was second only to that in the District of Columbia, but the number of people per bank was still above the Fifth District average in 1963. North Carolina recorded a decline of 2,626, and in 1963 had the smallest number of people per banking office of any District state.

In Maryland and Virginia, where population grew relatively more rapidly, population per banking office declined considerably less than in other District states. Nevertheless, only North Carolina had fewer people per banking office in 1963 than Virginia.

West Virginia had the smallest reduction in population per banking office, in spite of a loss of population during the period. This was because the number of banking offices remained unchanged.

Banking Concentration Another result of the changes in banking structure has been an increase

CHANGES IN THE NUMBER OF COMMERCIAL BANKS AND BRANCHES
FIFTH DISTRICT STATES
1954-1963

	D. C.	Md.	Va.	W. Va.*	N. C.	S. C.	Total
All commercial banks	− 5	− 36	− 36	....	− 70	− 12	− 159
Member banks	− 4	− 19	− 20	− 1	− 20	− 2	− 66
National	− 2	− 12	− 10	+ 2	− 15	....	− 37
State	− 2	− 7	− 10	− 3	− 5	− 2	− 29
Nonmember banks	− 1	− 17	− 16	+ 1	− 50	− 10	− 93
Branches	+ 24	+ 187	+ 282	....	+ 398	+ 145	+1,036
Total banking offices	+ 19	+ 151	+ 246	....	+ 328	+ 133	+ 877

* Including five counties which fall outside the Fifth District.

in concentration of control over banking outlets and an increased concentration of deposits. In 1953, about 20% of District banks maintained branches, with an average of 3.0 branches for each bank having branches. In 1963, about 35% of the banks had branches, and the average number of branches per branch system was 5.4.

Branch banking appears to be more extensive in Maryland and North Carolina than in other District states, although in recent years both South Carolina and Virginia have had a substantial growth in the number of banks having branches. Because the District of Columbia is a small area entirely metropolitan in character, branching and concentration figures for that area are not comparable to those for Fifth District states.

In Maryland, over 43% of all commercial banks operated branches in 1963, compared with about 21% in 1953. Over the decade, the average number of branches operated by branching banks rose from 4.1 to 6.3 and in 1963 more than two thirds of commercial banking offices were operated by five banks.

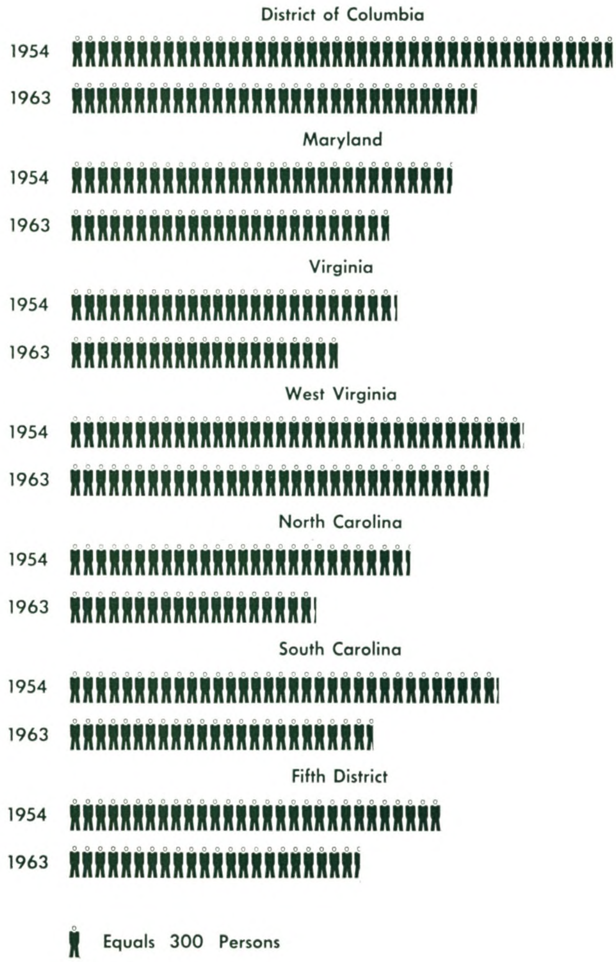
About one third of North Carolina banks operated branches in 1953, and by 1963 more than one half did so. During this period the average number of branches per branch system rose from 3.5 to 8.1, and five banks operated well over half of all offices in 1963. North Carolina has more regional and statewide systems than other District states. At the end of 1963, for example, less than one third of all branches were located in the head office city or county. This compares with about 40% in South Carolina, almost 60% in Maryland, and 67% in Virginia.

Less than 15% of South Carolina banks had branches in 1953, but the number had risen to almost 37% by 1963. The number of offices per branch system also increased, and by 1963 more than two thirds of the banking offices in the state were operated by five banks.

Although over 40% of Virginia banks had branches in 1963, branch systems in Virginia were generally smaller than in the three states just mentioned. In 1963, for example, the average number of branches in each branch system was 3.5, compared with an average of 5.4 for all District states permitting branching, and the five largest branch systems accounted for only about one third of the banking offices in the state.

Accompanying the growth of branch banking was an increased concentration of deposits in several District states. This was most pronounced in North Carolina, where the percentage of total deposits held

POPULATION PER BANKING OFFICE



by the five largest banks rose from just under 42% in 1954 to just over 63% in 1963. In the same period, the share of total deposits held by the five largest Maryland banks rose from about 44% to almost 53%, and in Virginia it went from 25% to 34%.

Two District states showed declines in deposit concentration in the period. In South Carolina, the share held by the five largest banks fell from 45% to about 43%, and in West Virginia it dropped from 27% to about 21%.

Conclusion In a world of social and economic change the survival of an institution may well depend upon its ability to adapt to a new environment. The many changes in the commercial banking system in recent years, of which structural changes are only a part, reflect the efforts of the banking community to meet challenges presented by a changing environment. In the process, there have been changes in the very nature of commercial banking itself.

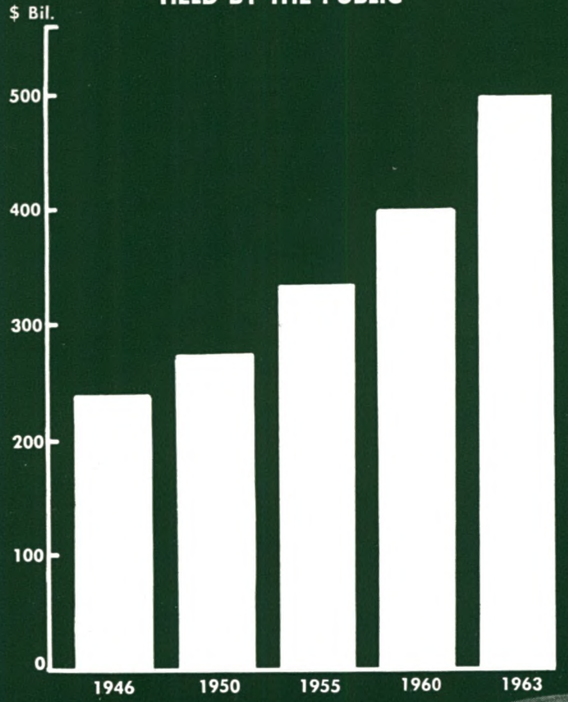
THE PUBLIC'S IQUID ASSETS

Americans have steadily expanded their ings of liquid assets over the postwar period. The public's holdings of such wealth are of n economic significance, as they bear importantly on individual decisions to spend or notpend.

The charts on these pages reproduce data éled by the Board of Governors of the Federal Reserve System. They record total liquid asholdings of all individuals, businesses, institutions, governmental units, etc., except the UGovernment, U. S. Government agencies and trust funds, domestic commercial banks, and Federal Reserve Banks. Liquid assets are defined to include money holdings, i.e., demadeposits plus currency, time and savings deposit claims on commercial and mutual savinanks, savings and loan shares, U. S. Government savings bonds, other marketable U. S. Gnment and Federal agency securities maturing within one year, and deposits with the PSavings System.

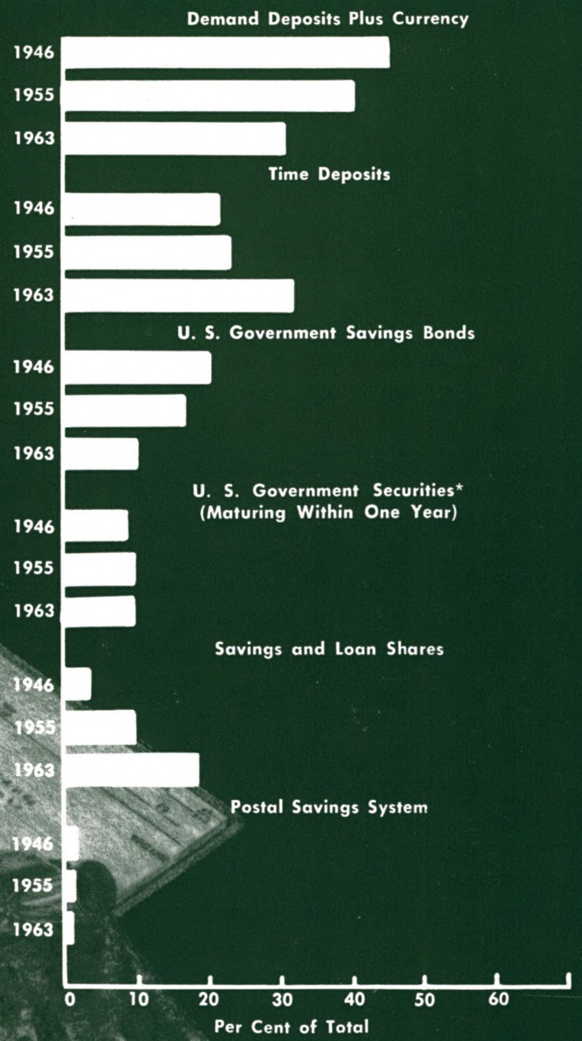
To avoid double counting a number of aments have been made in the data. Consequently the figures shown here may not agreth other data for the same categories. Thus the charted figures for demand deposits adjuplus currency outside banks differ somewhat from daily average money supply data becaumand deposits held by mutual savings banks and savings and loan associations have beenucted. Similarly, postal savings redeposited with commercial banks are subtracted from time and savings deposits. Data on U. S. Government savings bonds and other U. S. Gment and Government agency securities exclude those held by mutual savings banks andinning with 1960, those held by savings and loan associations as well.

TOTAL LIQUID ASSETS HELD BY THE PUBLIC



The public's holdings of liquid assets amounted to nearly $495 billion at the end of 1963. Since 1946, they have increased steadily, at an average annual rate of better than 4%, compounded annually.

COMPOSITION OF LIQUID ASSETS

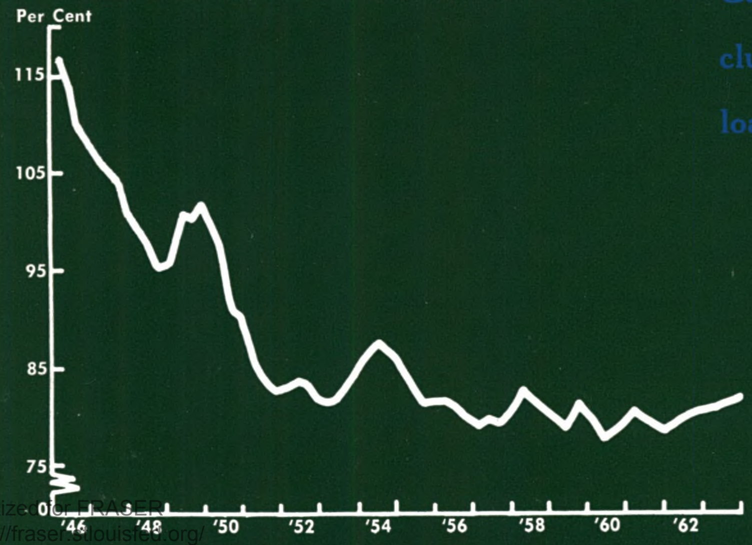


*Valued at par and including Federal agency securities. Data before 1950 include securities callable within one year.

The composition of liquid assets has undergone a significant change since 1946. Generally, the public has shown a growing propensity to hold less wealth as money balances and more in the form of interest-bearing liquid assets. Time and savings deposits, including those at mutual savings banks, and savings and loan shares have grown in relative importance chiefly at the expense of money balances and U. S. Savings Bonds.

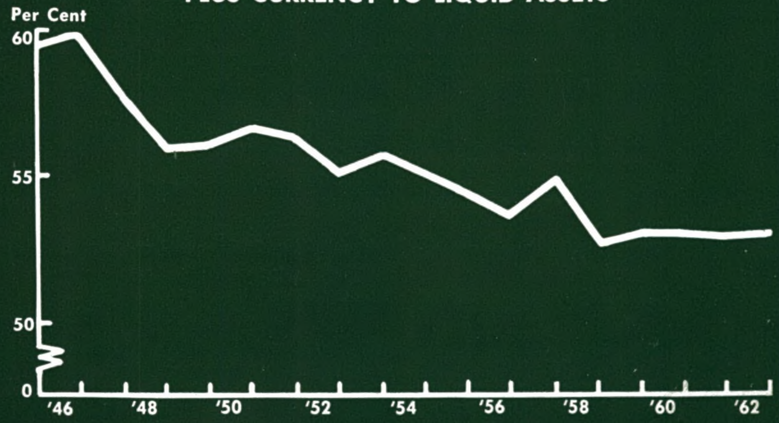
RATIO OF LIQUID ASSETS TO GROSS NATIONAL PRODUCT

(Based on Quarterly Figures at Seasonally Adjusted Annual Rates)



As a fraction of GNP, liquid assets holdings declined sharply in the early postwar period and remained on a gentle downward trend through 1960. This trend has been reversed, at least temporarily, in recent years. The rather rhythmic movement in this series is due mainly to cyclical swings in GNP.

RATIO OF COMMERCIAL BANK DEPOSITS PLUS CURRENCY TO LIQUID ASSETS



As a fraction of total liquid assets, commercial bank deposits and currency fell from 60% in 1947 to 53% in 1959. This fraction has remained remarkably stable, however, since 1960.

PRIME COMMERCIAL PAPER*

Commercial paper, defined to include what the *Federal Reserve Bulletin* calls "commercial and finance company paper," means short-term promissory notes which some large business companies sell at a discount to dealers or institutional investors to raise cash. Since the notes are usually unsecured and bear only the name of the borrower, only large corporations with impeccable credit ratings are able to obtain funds in this way. Notes are issued in even denominations ranging upward from $5,000. Maturities commonly vary from four to six months on paper placed through dealers and from 30 to 270 days or longer on paper placed directly with investors.

Since about 1920, when the General Motors Acceptance Corporation pioneered in placing paper directly, commercial paper has been distinguished as either dealer paper or directly placed paper. The first type is sold by borrowers to dealers, who in turn sell it to investors in the market. Directly placed paper, on the other hand, is sold by the borrower to the lender directly, by-passing the dealer. Due to the necessity of maintaining a trained staff and a complex network of contacts, only about 18 large finance companies placed paper directly in 1963.

History of Commercial Paper The history and development of commercial paper have been almost exclusively American. In its early use, commercial paper was issued by a buyer to a manufacturer or seller in payment for a specific shipment of goods. The recipient usually endorsed the note and sold it either to his own bank or to a dealer specializing in such paper. Early notes carried the names of both maker and payee and were issued in odd denominations, according to the value of the transactions.

In the 1920's, borrowers included manufacturers, wholesalers, and retailers in a wide variety of product lines. Virtually all paper was handled by dealers, and banks held by far the largest portion of the amount outstanding. In our system composed of thousands of banks, and especially before the Federal Reserve System was established in 1914, the commercial paper market allowed banks, in effect, to make loans outside their local market areas. Thus, commercial paper provided a means whereby idle bank funds could be shifted from one part of the country to another.

Although no secondary market existed, banks regarded commercial paper as highly liquid because the impersonal nature of the loan usually meant there would be no requests for extensions or renewals. Moreover, paper provided banks with an opportunity to diversify portfolios at rates of interest which compared favorably with yields on alternative investments. Since borrowers were subjected to thorough credit investigations and were required by dealers to maintain open credit lines with banks equal to the amount of paper outstanding at all times, commercial paper proved a relatively safe investment. As an additional advantage after 1914, paper defined as "eligible" by the Federal Reserve could be rediscounted when banks needed temporary funds.

Although the volume of directly placed paper increased during the 1920's, the total volume of commercial paper outstanding declined. One factor contributing to this decline was the great bull market in stocks in that period. Rising stock prices apparently induced many borrowers to meet their needs for working capital by floating new stock issues. Between 1929 and 1933, when the demand for short-term business credit was drastically curtailed as the economy plunged into depression, the outstanding volume of commercial paper fell off precipitously.

From 1933 to the outbreak of World War II the amount outstanding increased rapidly, reflecting general economic improvement, the growing role of consumer credit in financing consumer durables, and the rapid rise of finance companies. The dearth of consumer goods during World War II produced a decline in outstandings from 1940 through 1945. In the postwar period, however, the amount outstanding rose from $178 million in January 1946 to $7,765 million in January 1964. Despite this growth, commercial paper continues to comprise only a relatively small segment of total money market paper.

Direct Placements The rapid growth of directly placed paper justifies separate treatment of this sector

*This article relies heavily on the following excellent work: Richard T. Selden, *Trends and Cycles in the Commercial Paper Market*, National Bureau of Economic Research, 1963.

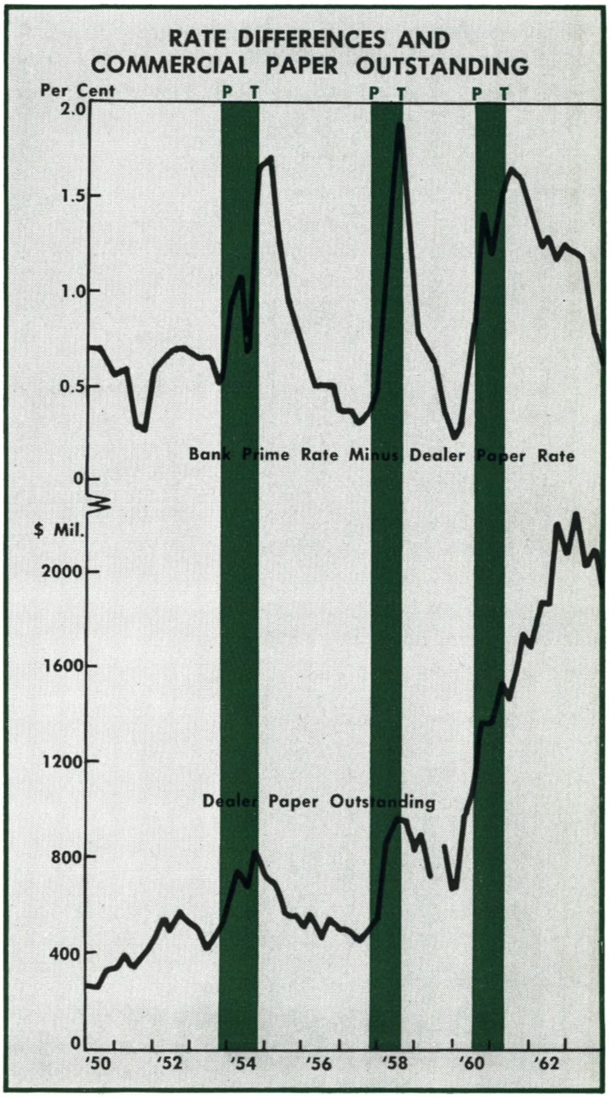
of the commercial paper market. General Motors Acceptance Corporation began placing paper directly in 1920, and in 1934 several other large finance companies adopted the practice. From the beginning, the amount of direct paper outstanding grew impressively. There was a sharp, though temporary, decline during the Great Depression, but by 1935 direct paper outstanding equaled the volume of dealer paper. During World War II direct placement ceased entirely but was resumed shortly after the end of hostilities. The volume of directly placed paper grew rapidly and in most recent years has exceeded by a substantial margin the volume placed through dealers.

Before World War II commercial banks were reluctant to hold directly placed finance paper, partly because bankers tended to look askance at paper which arose mainly out of financing consumption rather than production. This reluctance has continued down to the present time but for a substantially different reason. In the postwar period bankers themselves have entered the consumer credit field, and some have hesitated to finance competitors in this area. The large growth in alternative secondary reserve assets, such as Treasury bills, has also been a factor. As a result, the great bulk of direct paper is held outside the banking system and chiefly by nonfinancial corporations.

Market Changes Practices in the commercial paper market today differ significantly from those in the 1920's. For one thing, the number of both dealers and borrowers has declined sharply. This has been due mainly to the emergence of large finance companies which rely almost exclusively on the commercial paper market for their working capital. Many of these companies place their paper directly, while those which borrow chiefly through dealers tend to dominate the dealer market. Unlike industrial and commercial companies, finance companies that borrow through dealers are in the market for large amounts on a more or less continuous basis. Dealers have, therefore, found it more profitable to work with these and have tended to drop borrowers who seek funds only intermittently. As the number of borrowers has declined, competition among dealers has become more intense and attrition has taken its toll.

The growth of finance companies has contributed to improving the quality and liquidity of commercial paper, broadening the range of maturities, and lowering the cost of borrowing. The quality of dealer paper has improved because the fewer borrowers per dealer permit closer scrutiny of the financial condition of borrowers. Moreover, the borrowers themselves are larger, better-known firms with higher credit ratings. Liquidity has improved because direct borrowers frequently agree to repurchase their notes in case lenders should suddenly need cash. Maturities have become better suited to investor purposes as direct borrowers have tailored terms to coincide with investors' needs for cash. To some extent this practice has also been adopted by finance companies which place their paper through dealers.

The cost of borrowing has been lowered as a result of increased competition among dealers and also as a result of declining interest rates during the Great Depression. In the twenties dealer commissions were usually a flat ¼%, regardless of maturity. This amounted to an annual cost of 1% on 3-month paper. When short-term interest rates dropped



below 1% in the thirties the commission was more than half of the total borrowing cost. In the face of this movement dealers abandoned the flat commission and began to derive their compensation from the spread between the buying and selling prices which varied with conditions. For some years now the minimum spread for the best paper has been ¼% per annum, which, on 3-month paper, is only one fourth of a flat ¼% commission.

Borrowers The number of manufacturers, wholesalers, and retailers borrowing in the commercial paper market has decreased from about 2,250 in 1922 to about 280 in 1963. Firms in these lines rely heavily on bank credit for working capital and turn to the commercial paper market for supplementary funds only in times of heavy seasonal or cyclical demand. Most of their paper is placed through dealers.

By contrast, the number of finance companies borrowing in the commercial paper market has increased from nine in 1920 to 137 in 1963. Although these companies represent only 32% of all borrowers in the market, they accounted for about 87% of outstanding commercial paper at the end of 1960. Today, there are three major types of finance companies—sales finance, personal loan, and business finance companies. Of the three, sales finance companies are the most important, from the standpoint of both the number that borrow and the amount of paper outstanding. In 1963, 74 such companies borrowed in the commercial paper market. The 18 large firms which place paper directly accounted for 73% of all commercial paper outstanding.

Personal loan companies, business finance companies, and the smaller sales finance companies rely primarily on bank credit to meet their short-term needs and use the dealer paper market as a supplementary source. Nevertheless, they probably account for the bulk of dealer paper outstanding. The large sales finance companies, on the other hand, rely primarily on commercial paper for short-term funds and use banks as a sort of back stop.

Advantages to Borrowers The principal advantage of commercial paper over bank credit is its lower relative cost. Its total cost is generally below the prime rate on bank loans, even after allowing for the dealer commission charge (or the administrative cost of direct placement) and the cost of maintaining open credit lines as insurance. From 1960 through 1962, the cost advantage of commercial paper has been particularly pronounced and explains in large part the sharp increase in commercial paper outstanding which occurred during the period.

Evidence of borrower sensitivity to cost differentials is provided in the chart on page 9 which shows the behavior of dealer paper over the course of the business cycle. Dealer paper normally declines during the expansion phase of the cycle and expands sharply during the recession phase. This is due mainly to the fact that bank rates are sticky while commercial paper rates are flexible, closely paralleling the fluctuations in Treasury bill rates. As rates fall during recession periods, borrowing through the commercial paper market becomes relatively cheaper and borrowers shift from bank loans to paper. The converse tends to occur during expansion periods.

A factor on the supply side is also important in explaining the cyclical behavior of dealer paper. Banks still hold a sizable fraction of dealer paper, and during recessions when customer loan demand slackens, they become more willing to supply funds to the dealer paper market. In the expansion phase, on the other hand, banks prefer to extend customer loans and, therefore, buy less dealer paper than formerly.

Lenders The most striking change in the lender side of the commercial paper market since the 1920's has been a substantial increase in the number of nonbank investors and an accompanying decline in the role of banks. This trend has been especially pronounced in the postwar period. Although banks hold more paper now than ever before, their share of the total market has been drastically reduced.

The most important new lenders in the market are the nonfinancial corporations, which have gone heavily into commercial paper for several reasons. In the 1930's they were greatly attracted to commercial paper when banking legislation forbade the payment of interest on demand deposits. Corporations found a ready substitute for demand deposits in direct paper which finance companies would tailor to mature on dates corresponding with corporate cash needs. In the postwar period rising interest rates have induced corporate treasurers to look intensively for appropriate short-term investments. While short-term Government securities, especially Treasury bills, are the most popular means of employing temporary cash funds, commercial paper offers a greater yield for only a small additional risk. Corporations are increasing their commercial paper holdings and presently hold over half of the paper that is directly placed.

In addition to banks and nonfinancial corporations, trust funds, college endowment funds, and insurance companies also find commercial paper an attractive investment.

THE FIFTH DISTRICT

Despite some uncertainties, Fifth District business appears to have made the transition from spring to summer with little if any loss of momentum. The evidence is somewhat more mixed than a month or so ago, but this may be due to some extent to random variations or mere statistical aberrations. Such inconsistencies, which may arise in any data series, serve as constant reminders that business analysis is far from an exact science. Even without such complications, when an indicator turns downward it takes some time to ascertain whether or not it has passed a true peak.

Questions of this kind affect the interpretation of recent declines in some major District indicators. The behavior of seasonally adjusted bank debits is often erratic, and the 6% drop that occurred in May after a record high in April could be largely a reflection of random influences. Some man-hours and employment series displayed weakness in April and May, but chiefly in the form of less-than-seasonal increases. Thus, on a seasonally adjusted basis, total nonfarm employment declined in April and employment in durable goods manufacturing, mining, and contract construction fell in May. Factory man-hours data for the latter month also showed some weakness in textiles, fabricated metals, paper products, electrical machinery, and stone, clay, and glass.

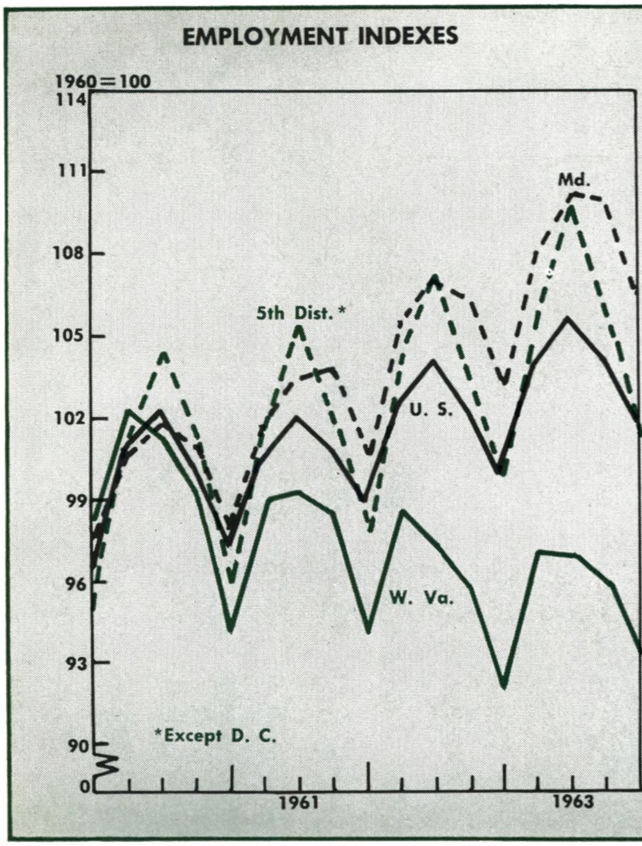
Despite these declines, total factory man-hours, seasonally adjusted, rose 0.4% in May and total nonfarm employment, on the same basis, also recorded a slight increase. Man-hours gains were larger in the District's durable goods industries than in nondurables, with primary metals, lumber, furniture, and transportation showing notable strength. Among the District's nondurables industries, substantial increases were scored in foods, tobacco products, apparel, and chemicals. Except for the hesitation in April, District nonfarm employment has risen more than seasonally every month since last September.

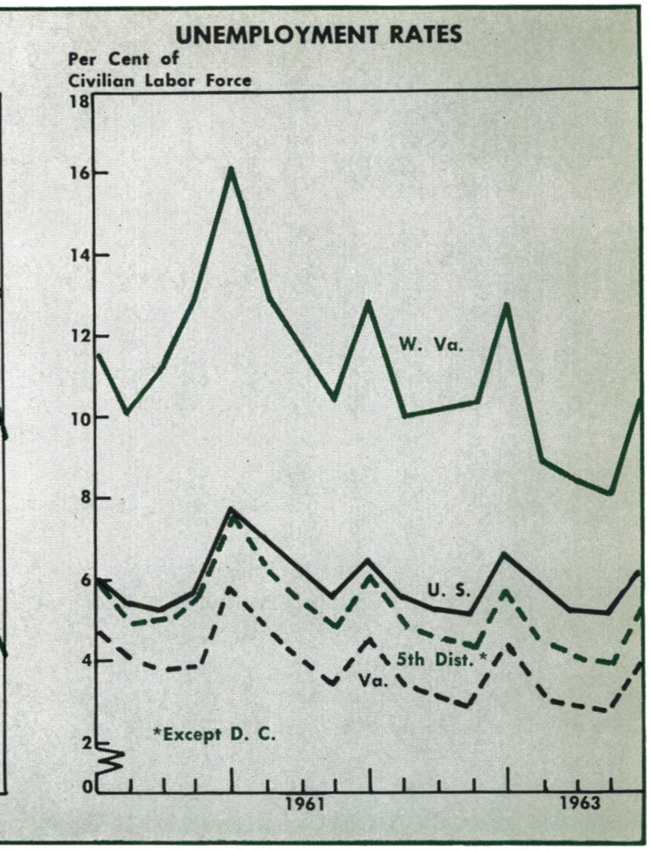
Fast Pace in Furniture Seasonally adjusted furniture factory man-hours rose sharply in May and were just a hair below the all-time high set in March of this year. Most of the industry's indicators continue to show strength with gains over last year in the neighborhood of 15%. Seasonally adjusted sales of furniture and home furnishings retail stores nationally declined slightly in April from a record level of $711 million in March. The May figure is not yet available, but there is some evidence of renewed gains. Cumulative for the year to date, these sales are running 16% above 1963 and 34% ahead of 1961. Population changes and high-level construction activity are basic factors in the recent surge of furniture demand and these factors continue to augur well for the industry's near-term future.

Perspective on Furniture District furniture manufacturers have been riding the crest of the current business expansion. The growing teen-age and young married population has been an important factor in the present wave of residential building, and new homes almost always call for at least some new furniture. Young folks increasingly display firm, well-defined interests in furniture. Older couples are also moving to new homes, frequently apartments, and in the process often brighten their new surroundings with new furniture. With the current fast pace in new construction extending to business structures, public facilities, and institutions such as schools, hospitals, and churches, prosperity in the furniture industry seems solidly based indeed.

The statistical indicators reflect this strength. District furniture employment last year averaged 73,000, almost one fifth of the national total. By April this year District furniture jobs had increased to 75,800, up 12,800 since February 1961. Furniture employment has been rising about twice as fast in the District as in most other parts of the country. Such gains in employment are especially impressive in a mature industry and in a period of rising efficiency. Nationally over the past three years, furniture industry man-hours have increased about one fifth compared to a one-third rise in output as measured by the furniture and fixtures component of the Industrial Production Index. Prices rose in 1961, 1962, and 1963 but have remained stable so far this year. Wholesale prices are now about 2.4% higher than in early 1961 on household furniture and 1.5% higher on commercial furniture.

Labor Markets Improve District labor market conditions continue the steadily improving trend





that began in 1961. In April, unemployment in the Fifth District (excluding the District of Columbia) had declined to 259,700, 4.3% of the labor force. The national rate was exactly one percentage point higher. Rates among the five states varied considerably. Maryland's and South Carolina's, each 4.0%, and Virginia's, 3.1%, were below the District average. North Carolina equaled the District rate. West Virginia's 8.2% exceeded the national as well as the District figure.

The need for seasonal adjustment, not yet available for District labor force data, is quite apparent in the accompanying charts. These charts show quarterly changes in employment and unemployment from 1960 through the first quarter of 1964 for the nation and the District. For purposes of comparison, data are also shown for the states that mark extremes of variation within the District. Despite sharp seasonal fluctuations, the trends in these series over the four years are clearly apparent. District employment rose in April to 5,832,000, nearly 96% of the labor force. April employment was 1.7% higher this year than in 1963 and 6.6% greater than in the same month of 1961. The April unemployment rate was 4.3% this year, down from 6.6% in 1961, 4.8% in 1962, and 4.5% in 1963.

Maryland's growth, from 1,050,000 jobs in April 1961 to nearly 1,150,000 in the same month this year, a gain of 9.5%, was the fastest among District states. All major sectors of employment increased except mining, with the sharpest gains occurring in government, services, and construction.

West Virginia, on the other hand, continued to experience slow contraction in its job markets. Employment decreased from 542,100 in April 1961 to 539,500 in the same month this year. Most of the lost jobs were in mining, but small reductions also occurred in trade; in transportation, communication, and public utilities; and in finance, insurance, and real estate enterprises. Contract construction employment, however, rose 25% over the three-year period, and jobs in durable goods manufacturing increased nearly 10%.

Employment and unemployment would normally be expected to trend in opposite directions and this has been the case in all District states except West Virginia, where the labor force declined. The Mountain State's labor force numbered 629,500 in April 1961 but only 588,800 in the same month this year, a drop of 40,700 or 6.5%. The employed segment of the West Virginia labor force has changed only slightly in the past three years, but the number of unemployed has dropped to about half its previous magnitude.