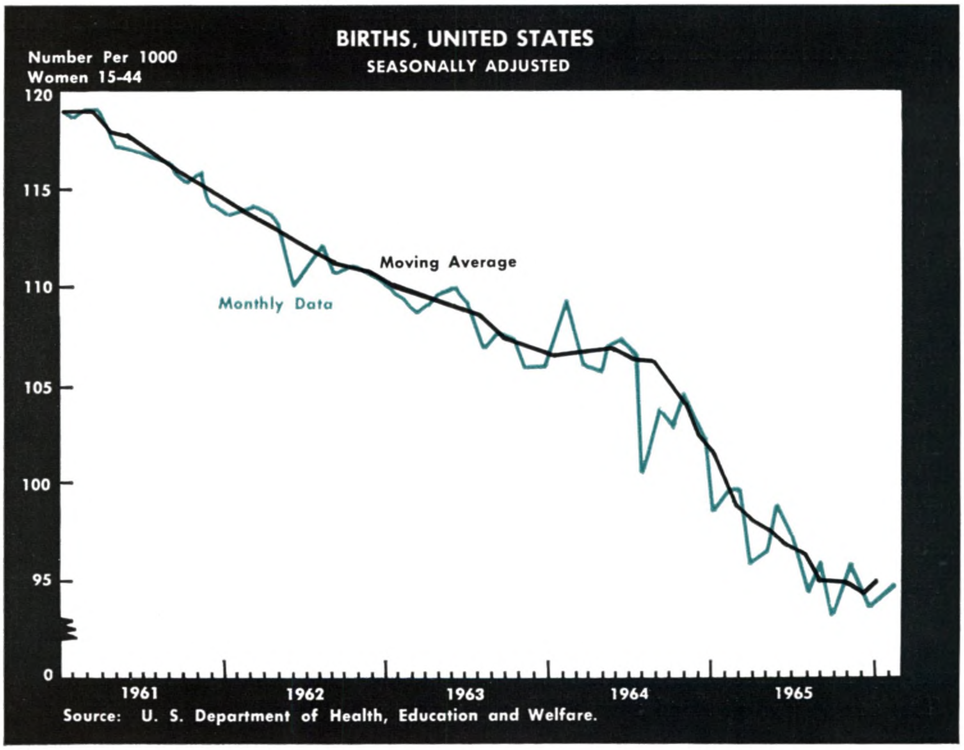
MONTHLY REVIEW



The birth rate has been declining for five years and the drop was accelerated after mid-1964.

FEDERAL RESERVE BANK OF RICHMOND JULY 1966

THE POPULATION EXPLOSION

It is no news that the population of the United States is not growing as fast as it once was. For almost ten years the birth rate has been dropping and in recent years total births and the rate of population growth have been declining. But the striking, and almost startling, development was the sharp acceleration of those declines in 1965. The outlook for future population growth has changed so sharply that population estimates for the next 20 years prepared by the Census Bureau in 1964 are already obsolete and the Bureau has now computed new projections at substantially lower levels. The purpose of this article is to note recent important changes in total births and deaths, in birth and death rates, and in population growth rates for the country as a whole and make a brief analysis of the corresponding changes in the Fifth District.

The National Picture For the first 12 years after World War II births in the United States behaved in a way to justify the term "population explosion." From a level of 2.7 million in 1945, total births shot up to 3.7 million in 1947. After a substantial drop in 1948 they moved up irregularly to a peak of 4.3 million in 1957 for a total increase of 56% over 1945. In the same period the birth rate per thousand of population rose from 20.5 to 24.9 for an increase of 21%. The rate of 24.9 was in sharp contrast to the rates prevailing between 1930 and 1945 which generally ranged between 17 and 22.

The death rate *declined* from 10.5 per thousand of population in 1945 to 9.5 in 1957, but total deaths rose slowly from 1.4 million to 1.6 million. The large excess of births over deaths plus the arrival of a significant number of immigrants raised total population from about 141 million at the beginning of 1946 to approximately 174 million at the end of 1957. The annual growth rate ranged from 1.5% to 1.8% and averaged 1.7%.

After 1957 total births dropped back a little and then increased slowly to reach a new peak in 1961 slightly above the 1957 figure. (The exact figure was 4,268,326 compared to 4,254,784 in 1957.) Then the decline started. For three years it was small, ranging between 1.7% and 2.4%. But in 1965 there was a precipitous drop of 260,000, or 6.5%, bringing the total down to less than 3.8 million, the lowest figure since 1951. The total decline from 1961 to 1965 was 11.7%. Between 1957 and 1965 the birth rate fell from 24.9 to 19.4, the lowest figure since World War II. The decline of 260,000 in total births in 1965 was the largest on record and the relative decline of 6.5% was the largest in this century except for 1919, the year following World War I.

The death rate has been quite stable at about 9.5 since 1957 and total deaths have moved up slowly from 1.6 million to 1.8 million. Net migration has been positive and has fluctuated around 400,000 per year. In recent years the falling number of births, the steadily rising number of deaths, and an approximately constant number of immigrants have provided a smaller increment to total population each year. When these dwindling figures are related to the expanding population, the result is an annual growth rate which has declined steadily and at an accelerating rate. From 1.7% in 1957, that rate dropped to 1.2% in 1965, the lowest since the 1.04% registered in 1945.

Despite this declining growth rate, the total population continued to increase substantially, rising from about 174 million in 1957 to approximately 196 million at the end of 1965.

In summary, then, we have had, in the space of two decades, a dramatic rise and an even more dramatic decline in the birth rate and in the rate of population growth. Moreover, it is quite likely that we will have another reversal of trend in the near future. The large crop of postwar babies is now reaching child-bearing age. Even the lowest of the Census Bureau's four current projections indicates an upturn in total births next year, with the birth rate holding constant at 17.0 for several years.

The Fifth District Generally, the pattern of change in all the revelant series was the same for the Fifth District as for the United States as a whole, although they applied to a population somewhat less than one tenth of the national total. There were, however, several minor but interesting differences. In the following discussion, where two rates are compared, the first one is for the District and the second for the United States. The District figures for 1964 and 1965 are partially estimated and are subject to revision.

1. In the District, total births rose less (37.1%

vs. 56.0%), peaked in 1957 instead of 1961, and declined slightly more from the peak to 1965 (11.9% vs. 11.7%) than in the whole United States. The drop in 1965 also was somewhat greater in the District (7.7% vs. 6.5%). Beginning at about 302,000 in 1945, births in the District rose to 414,000 in 1957. Thereafter they declined steadily except for a small rise in 1961 which, however, did not establish a new peak as was true for the country as a whole. The sharp drop in 1965 was a little more than 30,000, bringing the total down to 364,000.

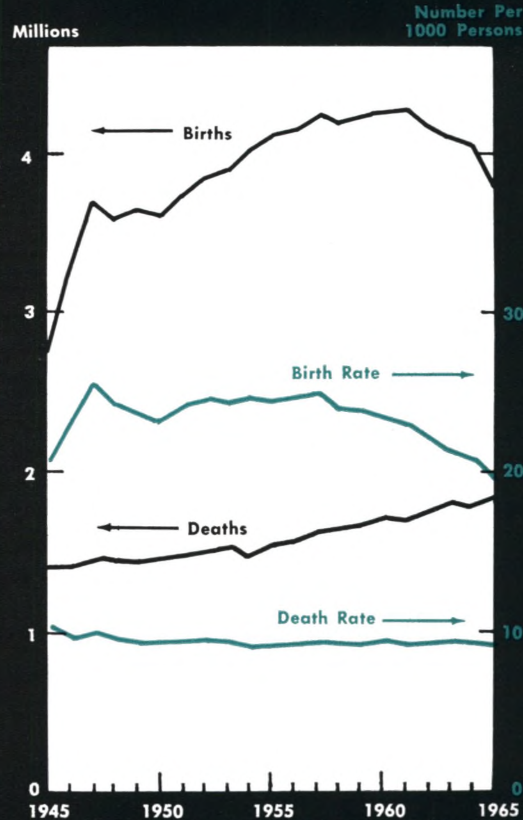
2. The birth rate in the District was significantly higher than the national figure throughout the period. It climbed abruptly to a peak in 1947, rising more (23.9% vs. 21.5%) than the national average which peaked in 1957, and then declined substantially more (27.9% vs. 22.1%) to 1965. The drop in 1965 also was significantly greater (8.6% vs. 7.6%). This rate began at 22.6 in 1945, rose to 28.0 in 1947, fell away and then rose to a secondary peak of 26.8 in 1954. It then fell to 20.2 in 1965, where it was 4.1% above the national average. In 1945 it had been 10.2% higher.

SIMMERS DOWN

3. The crude death rate in the District was distinctly lower than the national average throughout the period and showed no discernible trend. The lower District rate was probably due in large part to the fact that the median age of the population was somewhat lower. The national rate never fell below 9.0 and was at or above 10.0 in two years; in most years it varied between 9.3 and 9.6. The District figure was at or above 9.0 in only two years and in most years it moved between 8.4 and 8.8. The number of deaths in the District rose steadily, with only minor exceptions, from 122,000 in 1945 to approximately 159,000 in 1965. For the 20 years, mid-1945 to mid-1965, total births in the District amounted to 7,827,628 and deaths, 2,713,385, giving an excess of births over deaths of 5,114,243.

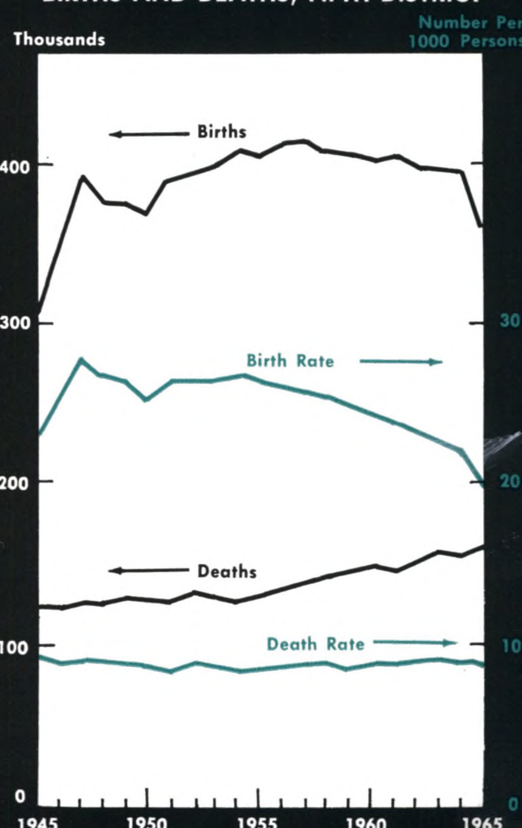
4. Over the two decades the District suffered a net loss of a little over 400,000 by out-migration. This was some 31,000 less than the amount lost by West Virginia alone, so exclusive of that state the District about broke even on migration. Further, it should be remembered that in recent years there has been a dramatic change in the flow of migrants. Between

BIRTHS AND DEATHS, UNITED STATES



Source: U. S. Department of Health, Education and Welfare.

BIRTHS AND DEATHS, FIFTH DISTRICT



Source: U. S. Department of Health, Education and Welfare.

1952 and 1960 the District lost a total of 693,000 by out-migration, or an average of about 77,000 per year. For the five years 1961-1965 inclusive, it *gained* a net of 128,000, or more than 25,000 per year.

Such a large and sudden reversal of a basic trend inevitably raises the question, Why? This is no place to attempt an exhaustive analysis but a few reasons may be suggested. First, migration out of West Virginia has slowed substantially. After more than a decade of heavy out-migration, the number leaving the state has tapered off greatly as population attains a more stable relationship to the resources and job opportunities available. Second, the Washington metropolitan area has had a very large increase in population since 1960. New and expanded programs of the Federal Government and related activities have attracted many thousands of people to the capital area and probably a majority came from outside the District. Third, in recent years factory employment has grown much faster than formerly. During the 1950's the number of workers in manufacturing moved up and down erratically, with only a small net growth. Beginning in 1961 the total has increased at an average of about a quarter of a million a year. A substantial part of this national increase occurred in three states of this District—North Carolina, South Carolina, and Virginia.

5. The net result of the operations of the above factors was to increase the population of the District by 4.7 million between mid-1945 and mid-1965. Table I shows the effect of each factor in each state and the District as a whole.

Table I
POPULATON CHANGES IN THE FIFTH DISTRICT
1945-46 to 1964-65

	Live Births	Deaths	Net Migration	Changes in Population
D. C.	402,331	172,454	−302,877	− 73,000
Md.	1,332,786	503,384	+593,598	+1,423,000
N. C.	2,189,799	681,363	−127,436	+1,381,000
S. C.	1,193,641	378,597	−207,044	+ 608,000
Va.	1,815,094	626,356	+ 75,262	+1,264,000
W. Va.	893,977	351,231	−438,746	+ 104,000
5th Dist. Total	7,827,628	2,713,385	−407,243	+4,707,000

6. The annual rate of population growth in the District fluctuated more than in the nation as a whole, largely because of the ebb and flow of migration. (Since annual population estimates by states are available only for July 1 of each year, the comparisons in this section are for years running from July 1 to June 30.) As noted above, there was a heavy outflow of migrants from the District during most of the 1950's and the average annual rate of population growth from 1952 to 1960 was only 1.2% compared to 1.7% for the nation. But this trend was reversed in the 1960's and the District has had some net gains from migration. So while the rate of growth has slowed appreciably for the country as a whole, in the District it has risen. For the five years 1961-1965, the average rate for the District was up to about 1.6% while for the whole country it dropped to approximately 1.5%.

7. A few summary figures will show the overall developments in both the nation and the District, the change of trend, and the reversal of the relationship between the nation and the District. (The following figures are for *resident*—not *total*—population and are as of July 1 rather than January 1.) For the 20 years 1945-1965, the national population increased by 45.2%, from 133.4 million to 193.8 million, while in the District the rise was 35.3%, from 13.3 million to 18.0 million. In the first 15 years the nation had an increase of 34.9% compared to 25.1% for the District. But in the five years 1961-1965, the District had the larger increase—8.1% to 7.7%. This is another manifestation of the principle which has often been noted: the South gains relative to the country as a whole in periods of prosperity and rising demand for labor.

The Individual States Just as the District followed the same broad pattern of behavior as the nation, so the individual states showed the same general trends as the District. There were, however, several intriguing and perhaps significant differences. (In this section "states" includes the District of Columbia and population figures are as of July 1 for each year.)

The District of Columbia had perhaps the largest and most distinctive developments. The median age of the population—over 32—was more than 20% higher than the average for the remainder of the District. In 1945 it had the lowest birth rate—18.4. In 1959 it attained the highest rate in the District which it held thereafter, although the rate dropped sharply from 24.5 in 1964 to 21.9 in 1965. Except for the years 1946-1948, the death rate in D.C. was the highest in the District. It moved up from 9.2 in 1946 to a peak of 11.7 in 1963, when it was 30% above the average for the District. It dropped to 10.7 in 1965. D.C. lost population by out-migration in every year except two during the period, and the numbers were sufficient to draw total population down from 899,000 in 1946 to 757,000 in 1958. Thereafter out-migration slowed and population registered small increases each year, bringing the 1965 total to 803,000 for a decline of 8.3% over the period.

This was the only area in the Fifth District to show a population decline for the period as a whole.

Despite the losses of population it has suffered in recent years, West Virginia ended the 20-year period with a net gain of about 100,000. In the years from 1945 to 1950, the state had a high birth rate and gained about 300,000 in population, including a net gain from migration of some 130,000. In those years the demand for coal was heavy and mining was prosperous. But soon the tide turned; the demand for coal began to dwindle and mechanization of the mines increased. Beginning with 1951, the state has lost population by outward migration each year. In the early 1950's the number exceeded 50,000 per year. The migrants were predominantly younger adults and as the flow continued the birth rate dropped. From 29.3 in 1947 it declined to 24.1 in 1953, when it was the lowest in the District. From there it continued downward to 17.7 in 1965, a total drop of nearly 40% from 1947. The higher average age of the population also pushed up the death rate, which rose from 8.5 in 1954 to 10.4 in 1965. In recent years both the outflow of migrants and the rate of decline in population have slowed. In the past five years outward migration has been only about half what it was at the peak and the rate of population decline has been a little less than 0.5% compared to 1.2% during seven years of the 1950's.

Maryland had the largest population gain in the District, both absolutely and relatively. The increase was more than 1.4 million, or 68%. The natural increase—the excess of births over deaths—was only 830,000, so the state had a net gain of nearly 600,000 from migration—by far the largest in the District. In several of the early years the Maryland birth rate was the lowest in the District, but in 1957 it rose above the average for the District and remained there.

Virginia is the only other state in the District which realized a net gain from migration over the whole period; the amount was about 75,000. From 1945 through 1960 the tide of migration fluctuated widely and reversed itself frequently to produce a net loss to the state of about 82,000. But in each year since 1960 there has been a substantial net inflow, amounting to a net total of 157,000 for the five years. In total population, Virginia had the second largest relative gain, barely edging ahead of North Carolina, 39.6% to 39.1%. In absolute amount, the state had the third largest gain, falling behind North Carolina slightly, 1.3 million to 1.4 million. Both birth and death rates in Virginia were close to the District averages throughout.

The two Carolinas had relatively high birth rates in the early part of the period but dropped down toward the District averages in the later years. Both states lost large numbers of residents by migration, although the losses have been cut substantially in recent years. North Carolina had the largest population in the District throughout the period, the number rising from 3.5 million in 1945 to 4.9 million in 1965. Despite the large losses by migration, both states made substantial gains in total population, as shown in Table II.

Table II
POPULATION CHANGES IN THE FIFTH DISTRICT
1945-1965

	Population 1945 (000)	Population 1965 (000)	Per Cent Change
District of Columbia	876	803	− 8.3
Maryland	2,096	3,519	+67.9
North Carolina	3,533	4,914	+39.1
South Carolina	1,934	2,542	+31.4
Virginia	3,193	4,457	+39.6
West Virginia	1,708	1,812	+ 6.1
Fifth District Total	13,340	18,047	+35.3

Summary The past 20 years have encompassed wide changes in the factors affecting population growth, both in the nation and in the Fifth District. It is difficult to say which was the more striking—the steep rise in births and birth rates immediately after World War II or the sharp drops in recent years and especially in 1965. In any event, it is doubtful that any country has ever experienced, in a period of 20 years, two more dramatic and far-reaching changes of trend. And we must still wait for a time to see the extent of the sharp and accelerating declines of recent years.

For the District, perhaps the most significant development was the change in its rate of population growth relative to that of the nation. The principal factor in this reversal was migration. In the first 15 years after 1945 the District lost some 535,000 by out-migration. In the past five years it has *gained* about 128,000. Maryland and Virginia attracted practically all the migrants, while West Virginia, D.C., and the Carolinas continued to lose through migration, although at reduced rates.

The District's comparative gain in population was aided by the traditionally high birth rates in the region. But there was a distinct tendency for birth rates in the District to decline toward the national average. Here as elsewhere there is evidence of a "regression toward the mean"—a tendency for the behavior patterns of population and other economic and social factors in the District to approach those for the country as a whole.

The Charlotte Standard Metropolitan Statistical Area, including Mecklenburg and Union counties, is one of the nation's fastest growing centers of commerce and industry. Ample support for this statement can be found in the statistical record, much of which has been condensed into average annual growth rates for comparison with national data in the table below. These rates cover the latest five years or the most nearly comparable period for which figures are available. Growth of the labor force has been considerably faster in Charlotte than in North Carolina as a whole and more than twice as fast as in the entire nation. Both the employed and the unemployed components of the labor force have increased more rapidly in Charlotte but Charlotte's unemployment rate last year was still only 3.2% compared to 4.6% for the nation. The distinctive nature of Charlotte's recent progress is perhaps most clearly reflected in the growth of wholesale trade, averaging 4% per year in number of establishments and nearly 10% per year in the value of sales. Among national trucking centers, Chicago is number one by a wide margin, but Charlotte compares favorably with other considerably bigger cities as a headquarters area for large trucking firms. Charlotte is also headquarters for two of the largest banks in the Carolinas and is a Federal Reserve Branch city.

SELECTED STATISTICS
WITH RECENT AVERAGE ANNUAL GROWTH RATES

	Annual Growth Rate Period Indicated		Charlotte SMSA
	Charlotte	U. S.	(Most Recent Year)
Population (1960-65)	3.2	1.6	370,000
Civilian labor force (1960-65)	4.5	2.1	164,600
Wage and salary employment (1960-65)	3.7	2.0	137,350
Manufacturing	3.0	0.5	35,810
Nonmanufacturing	3.9	2.7	101,540
Self-employed and other workers (1960-65)	11.1	3.3	21,950
Number of manufacturing establishments (1958-63)	4.2	0.6	626
Value added by manufacture (1958-63)	7.2	6.1	$ 279,049,000
Number of retailing establishments (1958-63)	−1.7	−1.0	2,686
Value of retail sales (1958-63)	5.2	4.0	$ 484,998,000
Number of wholesaling establishments (1958-63)	4.0	1.4	1,214
Value of wholesale sales (1958-63)	9.8	4.6	$2,810,554,000
Number of services establishments (1958-63)	3.8	1.6	2,112
Receipts of services establishments (1958-63)	7.2	6.5	$ 105,972,000
Total taxable payrolls (1959-64)*	7.8	5.5	$ 140,001,000
Total bank deposits (1960-64)	8.5	7.4	$ 632,274,000
Private bank deposits (1960-64)			
Demand	4.7	2.5	$ 272,338,800
Time	25.3	12.4	$ 142,000,300

* First Quarter only.

Sources: Board of Governors of the Federal Reserve System; Charlotte Chamber of Commerce; Employment Security Commission of North Carolina; U. S. Department of Commerce, Bureau of the Census; U. S. Department of Labor, Bureau of Labor Statistics.

CHARLOTTE
"THE QUEEN CITY"

The securities of certain Federal Government agencies have long occupied a small corner of the nation's money and capital markets. For many years, the volume of these securities outstanding was relatively small but recently it has grown rapidly, rising from $1.5 billion in 1950 to more than $14 billion in 1965, excluding participation certificates. Behind this rapid growth are a number of innovations in Federal budgetary and agency financing practices that have added new dimensions to both primary and secondary markets for agency securities. This article examines briefly the chief characteristics of agency securities, the markets for these securities, and recent developments affecting the relative important of these markets.

The Issuing Agencies Agency securities are issued by certain Federal Government corporations or agencies established by law to implement the Federal Government's various lending programs. Financing by Federal Land Banks, the Federal Intermediate Credit Banks, the Banks for Cooperatives, the Federal Home Loan Banks, and the Federal National Mortgage Association ("Fannie Mae,") constitutes the major source of agency securities. A number of other Federal agencies come to the market from time to time to offer their own debentures, to sell participations in their loan portfolios, or to sell some of their loans outright. These include the Tennessee Valley Authority, the Federal Housing Administration, the Farmers Home Administration, which are directly guaranteed by the Federal Government. Under recent legislation passed by Congress, certificates of participation in loans of several agencies pooled and sold under Fannie Mae's supervision are, in effect, guaranteed. The law authorizes the agency to make "indefinite and unlimited" drawings on the Treasury, if needed, to service the certificates.

The eligibility of agency issues as investments of regulated financial institutions and as collateral for public deposits depends, to some extent, on the guaranteed or nonguaranteed status of the agency, and the maturity and marketability of the individual issue. Most agency issues are eligible as collateral for Treasury Tax and Loan Accounts and other public deposits. A few are acceptable collateral for all types of accounts which require a specific pledge of Treasury securities. Some, although not all, are eligible as collateral for Federal Reserve advances, and there are some which qualify as legal reserve requirements of savings and loan associations.

Until recently, virtually all agency securities bore a fixed rate of interest, and interest on the longer obligations was usually paid semiannually. Exceptions include the Farmers Home Administration which pays interest only once a year, and three other agencies which pay only at maturity. The Tennessee Valley Authority, the Commodity Credit Corporation, and Fannie Mae have sold short-term notes at a discount, where the interest is the difference between the discount price and par.

FEDERAL AGENCY S

Farmers Home Administration, the Commodity Credit Corporation, the Export-Import Bank, and the Small Business Administration.

The "big five" agencies were originally financed by the Treasury, that is, the Treasury subscribed to their entire capital stock. In most cases, however, their stock either has been or is being retired and ownership is passing to member organizations. For instance, member institutions, mostly savings and loan associations, have owned all the capital stock of the Federal Home Loan Banks since 1951.

Investment Characteristics The interest and principal of most Federal agency issues are guaranteed only by the issuing agency, not by the Federal Government. Such issues are sometimes referred to as "nonguaranteed" debt. Exceptions include obligations of the Federal Housing Administration and the

The broad maturity range of agency securities, as shown in the pie chart, enables them to compete with money market instruments as well as intermediate and long-term instruments. Maturity patterns vary widely among individual agencies. For instance, the Federal Intermediate Credit Banks and the Banks for Cooperatives usually sell six- to nine-month paper, while the Federal Home Loan Banks, the Federal Land Banks, and Fannie Mae offer both short-term paper and long-term securities.

Call features also vary; some agency issues are noncallable while others are callable by the issuing agency after a specified period of time. Export-Import notes offer the investor the option of reselling the notes to the agency under certain terms. Holders of Farmers Home Administration notes may extend the maturity of the notes or redeem them, after the initial fixed maturity of the Government's insurance endorsement has been reached.

Interest income and principal on most agency issues are subject to all Federal taxes but are exempt from all state and local taxes except inheritance and gift taxes. Some, however, are not exempt from any taxes. This is true of obligations of the Farmers Home Administration and any securities issued directly or indirectly by Fannie Mae.

Certificates of Participation A certificate of participation represents a beneficial interest in a pool of agency loans or mortgages. It is a formal credit instrument carrying a contractual interest obligation on a specified principal amount. In contrast to an outright sale of assets in which the title to the asset actually is transferred to the investor, the investor does not acquire title to any of the pooled assets at any time. Rather, the issuing agency continues to hold the pooled loans and to receive interest and principal payments of them. These payments, in turn, are used to service the certificates. The Export-Import Bank initiated the practice of selling participations in its loan portfolio in 1962, but the first sale of certificates by Fannie Mae in November 1964 probably marked their beginning as a significant new instrument of agency financing.

With the passage in May of the Sales Participation Act of 1966, this method of financing was broadened significantly to include the pooling of assets of at least 13 agencies. The eligible loans will include

ECURITIES

credit extended to farmers, small businesses, veterans, colleges, and numerous types of building projects. By the end of 1966, about $39 billion of loans will be eligible for pooling. Fannie Mae will serve as trustee for all agencies using this method of financing and will supervise the sale of all participations.

The certificate sales are not designated as debt in governmental bookkeeping procedures. Proceeds from these sales are returned to the Treasury to be credited proportionately to the lending authorizations of the agencies represented in the pool. In fiscal 1966, direct and participation sales of Federal loans are expected to total about $3.8 billion; in fiscal 1967, sales of $4.7 billion are planned. For budgetary purposes, proceeds from the sales are counted as negative expenditures and the budget deficit is reduced correspondingly.

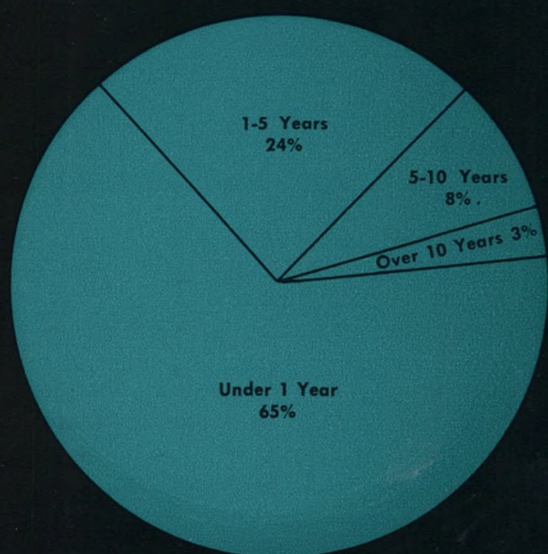
Many loans eligible for pooling originally were made at lower interest rates than will be required to attract private investors. To meet this situation, the new legislation stipulates that the Appropriations Committee of the Congress will be required to approve each package of pooled assets, and such approval will automatically assure Congressional appropriations of funds needed to bridge any gaps between the two rates.

Primary and Secondary Markets To facilitate primary market sales, most agencies have under contract a Fiscal Agent in New York City. One or more agencies may use the same Agent. When an offering is to be made, the Fiscal Agent assembles his selling group of securities dealers, brokerage houses, and dealer banks. Unlike syndicates formed for the sale of a specific stock or bond issue, the Agent's selling group does not dissolve after the issue is sold, and the selling groups do not bid against each other. Rather, each agency offering is made through only one selling group. To establish the price or price range of the new issues, the Fiscal Agent consults with the issuing agency and other members of the selling group regarding maturity, amount, coupon, and price. When the sale date arrives, the price is telegraphed by the Agent to the members of the group who then communicate subscriptions to the Agent. The latter determines the allotments, which are usually a fraction of the amounts subscribed.

This method of sale is used primarily by the five

MATURITY DISTRIBUTION OF FEDERAL AGENCY SECURITIES

December 31, 1965



Source: Board of Governors of the Federal Reserve System.

large agencies which account for the bulk of agency financing. Other agencies often use other methods. Certificates of participation, for example, have been sold generally through syndicates headed by large brokerage houses and dealer banks. The Farmers Home Administration sells notes, which represent long-term insured loans to farmers, directly to investors, primarily commercial banks. The Farmers Home then acts as middleman between farmers and investors, servicing the loan and collecting interest and principal payments which are forwarded to the owner of the note. The Export-Import Bank sells participations in its loan pool on an allotment basis directly to commercial banks. The Commodity Credit Corporation and the Tennessee Valley Authority have employed the auction method of selling short-term paper.

Some agency issues have an active secondary market while others do not. Obligations of the Federal Land Banks, the Federal Intermediate Credit Banks, the Banks for Cooperatives, the Federal Home Loan Banks, and the Federal National Mortgage Association have well-established secondary markets. Dealers' inventories usually include large amounts of these securities. The spread between the bid and offered prices is narrow on short-term issues of these agencies, and trades of $5-10 million can be made without upsetting the market.

The secondary market for issues due in five years and over is a different story. Long-term maturities are usually available in comparatively small amounts, and the spread between bid and offered prices is often as large as ten dollars. Consequently, when new issues have been placed with investors, the secondary market has been able to give only a rough indication of the issues' current value. Actual trades, particularly of large amounts, are often negotiated on an individual basis.

Among smaller agencies, secondary sales are arranged in various ways. In the case of Farmers Home Administration notes, at least one dealer has made a special effort to provide a secondary market by "packaging" notes of small denominations into larger units for large investors. No secondary market exists for Export-Import Bank participation certificates, although they may be assigned directly from one commercial bank to another and commercial banks may assign a beneficial interest to a corporation. Commodity Credit Corporation notes had no secondary market until the Comptroller's recent ruling that national banks could underwrite and deal in these securities. Formerly, these notes were held only by banks and could not be resold except to the Commodity Credit Corporation.

In 1965, dealers' daily positions in Federal agencies averaged $337 million, of which about $233 million, or 69%, was accounted for by issues due within one year. Dealers' positions in agencies were about 40% larger than in 1964. As might be expected, about 75% of dealers' gross transactions in 1965 were also in the under-one-year area. Overall dealer transactions in agencies of all maturities totaled $35 billion for the year, about 24% larger than in 1964. Data for the first four months of 1966 show an increase of over 50% in both gross transactions and dealer positions, compared with the same four months of 1965.

Demand Agency issues contain many desirable investment features and it is not surprising that the demand for them has become more broadly based. During much of the past decade, commercial banks constituted the only important buyers of agency issues. In December 1950 they held 79% of the total outstanding, but in 1960 their share of the total had fallen to about 16%. By the end of 1965, bank ownership had moved up to 21%, due in part to bank efforts to find higher yielding assets in order to cover rising time deposit costs.

Corporations and general funds of state and local governments are probably the next largest owners of agency issues, holding about 7% each at the end of 1965. Individuals and trust funds have recently become increasingly important buyers, particularly of the new participation certificates. While exact data are not available, it is possible that their holdings may now exceed those of corporations. Other owners include fire and casualty companies, mutual savings banks, savings and loan associations, and state and local government pension funds.

Recent Trends The sharp increase in agency financing will undoubtedly promote a more active and flexible secondary market. Hitherto agency offerings have retailed successfully only at yields above those on comparable instruments. In March, for instance, a Fannie Mae offering of nonrefundable participation certificates with maturities out to 15 years was priced to yield from 5.25% to 5.50%. A few days later, a large Aaa-rated corporate issue, noncallable for five years, sold out at a 5.11% yield. This disparity in yields has been due partly to the novelty of the many types of agency issues, and partly to investor disappointment in their marketability. With a broader range of maturities and a steadily expanding supply, marketability should improve. The wide spread between short-term agencies and Treasury bills of comparable maturity is due both to the deluge of agency offerings and to the limited marketability of certain types, notably the Export-Import Bank notes.

THE FIFTH DISTRICT

Expansion continues to be the dominant theme of Fifth District business conditions, although significant counter forces have developed in recent weeks to slow the rate of growth in some sectors. Outlays of consumers, businesses, and government agencies continue at high levels, but are encountering increasingly restrictive resource constraints. Labor markets have become progressively tighter, with skilled workers in especially short supply. Other forces working counter to the general expansion have emerged in a distinctly dimmer outlook for construction and in a nationwide slowdown in automobile sales. Clouded prospects in these two major sectors, coupled with growing wage pressures, have had a dampening effect on the boom psychology that characterized both the District and the nation earlier in the year.

Construction Outlook Weaker Monthly values of new construction contracts in the District, compiled by the F. W. Dodge Company, chalked up an unprecedented series of highs between August 1965 and January 1966. The seasonally adjusted figure for January, an all-time high, was followed by a sharp decline in February. The figures thereafter showed virtually no trend, although the April volume was the smallest since last July. From February through May, the latest four months for which figures are available, contract values were 3% above year-earlier levels. Compared to last fall, however, the volume of new construction contracts has declined significantly, averaging between February and May 17% lower than in the August-January period.

These District developments contrast quite sharply with the national figures which continued to rise through April and declined slightly in May. National contract values from February through May averaged 8% higher than in the preceding six months. Whereas District contract values in the latest four months were only 3% above the year-earlier level, the national fugures showed a rise of 9%.

Regional prospects also differ somewhat from the national with regard to particular sectors of the construction business. In the District during the early spring, new contract values declined more slowly in the residential than in the nonresidential classification. From February through May residential awards averaged 10% below the November-January pace while all other types dropped 19%. Nationally, on the other hand, residential contract values maintained average levels about on a par with those of last fall while the nonresidential total rose to new highs. The shortage of mortage money became more acute during April and may be expected to show up in reduced flows of new residential business both regionally and nationally when late spring and summer figures become available.

Construction Currently Strong The earlier declines in contract awards may have begun to dampen the fast pace of current construction activity in the District, although the timing of this relationship can seldom be determined with certainty. Building permits remained strong through March following an all-time high in February but dropped sharply in April and remained at the lower level in May. Employment in the District's construction industry also suggests some decline. Although the number of workers employed by private contractors rose steadily between January and May, gains in April and May were smaller than usually occur in those months. On a seasonally adjusted basis employment declined 3% in April and an additional 2% in May. At least part of this decline appears to be due to difficulties in recruiting and retaining construction labor. Builders were affected by the developing labor shortage somewhat sooner than most employers, and particularly tight labor conditions continue to be reported by contractors in some areas of the District. Whatever the prospects, the current backlog of construction work is still large enough to strain productive capacity in many parts of the District.

Labor Shortage Acute The steady advance of business over the past several months has cut deeply into the District's margin of unused labor. Experienced workers now are virtually unavailable anywhere in the District unless hired away from other employers, and in some labor markets students out of school for the summer comprise the majority of jobseekers. In all probability some of the nation's tightest labor markets during May and June were located in regions of the Fifth District where textile and garment manufacturers, furniture producers, other large-scale employers, and a host of new or growing service industries were scouring the countryside for workers. Textile and apparel firms needed more help than most could find to meet an extraordinary backlog of orders built up by a combination of strong consumer demand and the rising needs of the Defense Department. Furniture producers, with a level of demand that rose more than 50% between 1961 and 1965 and is now about one-eighth higher than last year, are trying to staff new facilities by dividing experienced workers between the new plants and the old and filling the gaps in both with whatever help is available. Prosperity in these and other District industries provided a powerful stimulant to all service-type enterprises. Labor turnover soared as workers tried new jobs which were readily available and offered such attractions as better working conditions, more pay, and larger fringe benefits.

The early consequences in markets where demand outstrips supply are well illustrated by recent events in some of North Carolina's predominantly textile counties. As backlogs mounted, textile firms pressed every unit of existing equipment into service and installed new machines as fast as they could be acquired. New facilities under construction were pushed toward completion with all practical speed. Mills intensified their efforts to use labor more efficiently. New equipment incorporating additional automatic controls and requiring less labor was pressed into service wherever possible. Workers all along the line were offered special training and other inducements to advance to higher paying jobs. Intense efforts were made to bring new workers into the mills to fill the less skilled positions and to build a reservoir of trainable workers, anticipating the labor needs of mills still under construction.

Problems of Prosperity Industrial prosperity, primarily in textiles, spread rapidly to other businesses. Service enterprises catering to both individuals and business firms soon felt the impact of rising demand. The volume of retail and wholesale trade increased. Demand for commercial transportation increased sharply. A large trucking firm headquartered in the area recently reported more than a one-fifth increase in volume over last year. A secondary wave of demand inundated the local labor market and began luring textile workers, even experienced ones, away to higher paying jobs. Local unemployment rates dropped almost to the vanishing point. Rates of insured unemployment were well below 1% in some areas with total unemployment estimated at around 2% or less. Residents saw essential services, such as trash collection, threatened by the labor shortage. Even increased wages paid for such services failed to prevent some deterioration in the quality of performance.

Local employers, educators, and employment service officials stepped up their cooperative efforts to alleviate the situation through in-migration and training. Many employers resorted to extensive advertising, spelling out details of available jobs for the first time within the memory of many observers. Advertising campaigns were extended into isolated rural areas, and in some instances representatives were sent to "sell" job opportunities and to assist those willing to enter the job market with transportation and lodging. Special training courses were organized tailored largely to the needs of the textile industry, although other kinds of instruction were also offered. Courses were designed to aid not only the unskilled workers but also to prepare experienced workers for more highly skilled jobs.

The textile mills raised wages and fringe benefits during the first half of June, hoping thereby to strengthen their competitive standing in the labor market. Their experience to date, however, leaves them wondering if the situation would have been any worse had wages remained unchanged. Some mills have taken the revolutionary step of offering four-hour shifts to moonlighters who are willing to work eight hours at their primary jobs and then put in four more at the mill.

Retired workers are a significant source of emergency labor. Despite rather advanced age in some cases, these highly skilled people are helping out where the need is greatest by coming in on regular, four-hour, or even on two-hour shifts. The most significant factor in the picture at the moment, however, may well be the availability of students out of high school and college for the summer. Workers from this group are filling many of the less skilled positions in textile mills and other industrial plants so that experienced workers can be trained up to new responsibilities. Many industries in this area are expected to have some further adjustments to make if general labor market conditions are still tight when student employees return to their classes this fall.

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