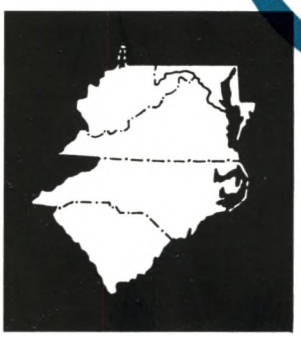
FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

The Fifth District, 1966
Origins of Industries—Glass
Industrial Aid Bonds



JANUARY 1967

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THE FIFTH DISTRICT 1966 IN REVIEW

With the close of 1966, the Fifth District business expansion which began in 1961 completed its sixth year. The optimistic mood which was evident throughout 1965 continued, and perhaps increased, through the first half of the last year. Some bottlenecks began to appear about midyear which reduced the very buoyant optimism of earlier months, but apparently they did not have a depressing effect on the economy as a whole. Shortages of labor, especially skilled workers, plagued many business firms throughout the year and contributed to pressure for substantial wage increases. The effects of tight money and costlier credit were also felt increasingly as the year progressed.

Virtually all major Fifth District industries started the year with large backlogs of orders and considerable effort was devoted to increasing output, both through additions to the labor force and through the acquisition of new plant and equipment. Private demand was strong throughout the year in most sectors of the District economy and it was further reinforced by demands of the war in Vietnam. At year-end, however, some soft spots appeared. Residential construction lagged and some portions of the textile industry found their order backlogs considerably diminished. They looked toward 1967 with somewhat less optimism than a year ago.

A closer look at individual sectors of the economy gives some insight into developments of the past year. In the accompanying charts comparisons are made with the two immediately preceding years to illustrate what happened in 1966. Complete statistics are not available for the year, so in some instances estimates have been made for the full year; in others, the discussion covers only the 9 or 10 months for which complete data are available.

Nonagricultural Employment The first chart shows the growth in nonagricultural employment in major categories and also illustrates the relative importance of each in the District economy. Government employment, the largest of the group is, of course, influenced substantially by the fact that the nation's capital is located within the District and a large number of Federal employees are therefore included in the work force. The 6.4% growth in government employment over 1965 reflects the increased demand for more government services at the state and local as well as at the Federal level. Expanded employment in education, from the elementary through the university levels, has been an important factor in the increase in government employment, which has grown 23% over the 1961 level.

Second only to government as a source of employment in the District is nondurable goods manufacturing. This includes among others, workers involved in textile and apparel manufacturing, food and tobacco processing, chemical and paper manufacturing, and printing and publishing. Employment in this rather broad category expanded by 3.8% over 1965 and was 15.5% higher than in 1961.

Wholesale and retail trade follow nondurable goods manufacturing very closely in numbers employed, but with a 2.2% rate of gain in the past year trailed slightly behind the rate of earlier years. Over the six-year period, a growth of 17.1% was experienced in trade employment.

The service industries were fourth in numbers employed but were second in rate of growth with a 27.7% gain over 1961. Only contract construction, with a gain of 34.8% over the period, had a higher rate. These two categories gained 4.7% and 5.7% respectively, over 1965.

Equal to government employment in terms of rate of gain were jobs in durable goods manufacturing, which increased by 6.4% over 1965. Employment in this sector has expanded 24% over 1961 and represents one of the more rapidly growing categories in the District. Some of the major industries in the District in this category are furniture and fixtures, primary metals, lumber and wood products, electrical equipment and supplies, stone, clay, and

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glass products, fabricated metals, transportation equipment, and machinery.

From the standpoint of numbers, transportation and communication, and finance, insurance and real estate are among the less important sources of jobs but each of these categories experienced a 3.6% gain over 1965. Mining, with a 4.6% decline in numbers employed compared with 1961, was the only major category which employed fewer people than six years ago.

Total nonagricultural employment in the District has grown 20.3% since 1961 with gains of 18.3% in manufacturing industries and 21.3% in nonmanufacturing industries. This compares with an estimated gain of about 18.9% for the nation as a whole, 17.6% in manufacturing and 19.3% in nonmanufacturing industries during the same period. Total employment gains in the District over 1965 amounted to an estimated 4.4% compared with an estimated 5.6% for the nation.

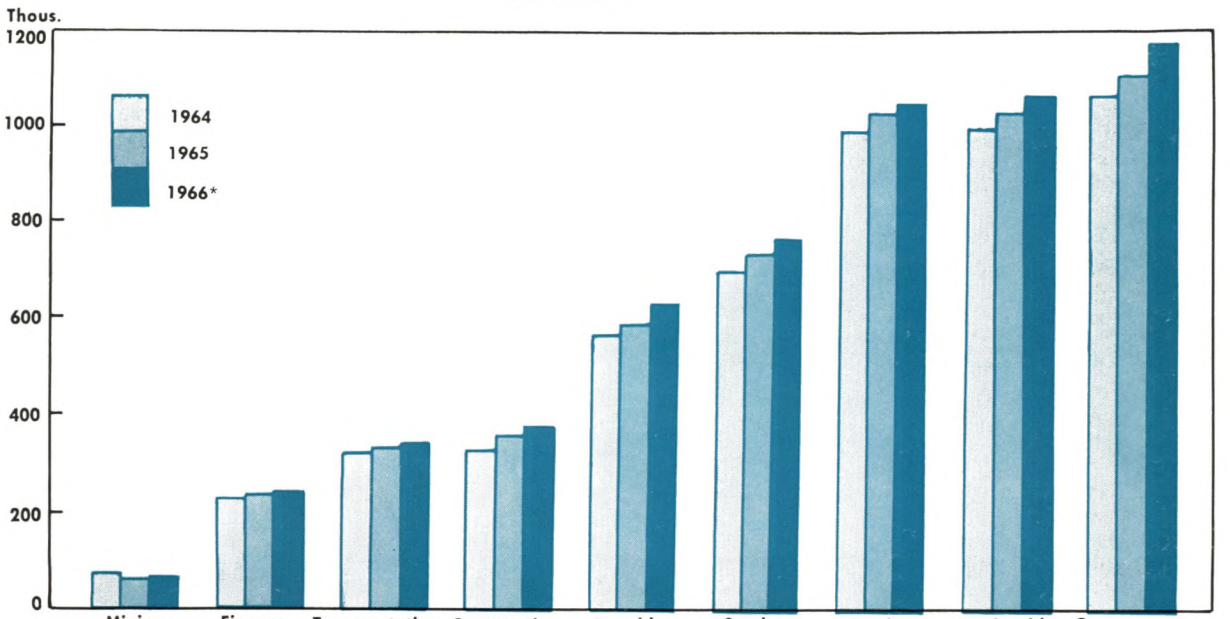
Unemployment The District unemployment rate for the first ten months was about 3.6% compared with about 4.1% for the same period a year earlier. The insured unemployment rate reached record lows in all District states during the year. The lowest recorded was 0.4% in Virginia. The improvement in the unemployment situation was particularly dramatic in many of the District's urban areas. In early August the Labor Department announced that Charleston and Huntington, West Virginia, were without serious joblessness for the first time in almost a decade. Several other areas improved their standing in a rating system maintained by the Labor Department.

Manufacturing The number of workers employed provides one key to growth of manufacturing industries of the District, but perhaps an equally important measure is manufacturing man-hours. The chart on the following page shows that total weekly man-hours in September had increased by more than 11 million over January 1964. Growth has been shared by both the durable and the nondurable goods sectors, but, the durable goods group has shown a more rapid rate of growth.

Manufacturing growth described above can be attributed primarily to two developments. First, and of a great deal of significance to the District's economy, has been the increase in numbers of new plants established in the area. A second, and perhaps equally important development, particularly in the past two years, has been the increase in the rate of plant capacity utilization.

A traveler in the District cannot fail to be impressed with the number of new plants which now dot the landscape. Consistent with this development is the substantial number of new business incorporations. Almost exactly the same number of new businesses were chartered in the first ten months

NONAGRICULTURAL EMPLOYMENT
FIFTH DISTRICT



*1966 Partially Estimated.
Source: State Departments of Labor.

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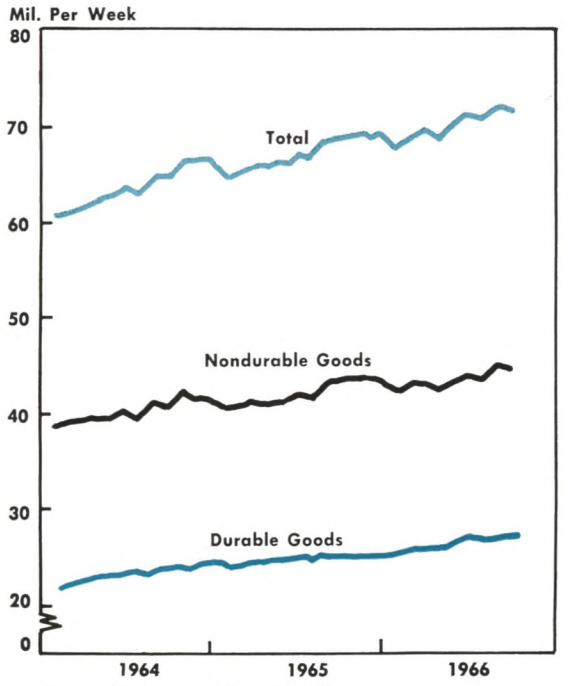
MANUFACTURING MAN-HOURS
FIFTH DISTRICT



Note: Not seasonally adjusted.
Source: State Departments of Labor.

of 1966 as in the same period in 1965, but substantial gains were recorded over 1963 and 1964. New charters were granted at a somewhat faster rate in the first few months of 1966 than had been the case a year earlier, but as the year progressed, the rate dropped below that of 1965.

During the fall of 1965 a rise in new orders and order backlogs was reported by many important manufacturers in the District. This trend continued through most of the first half of 1966 and was accompanied by pressures on factories to increase their rate of plant capacity utilization. Many of the factories went to three-shift, six-day-per-week operations. This resulted in increased numbers employed as well as in substantial amounts of overtime work. About midyear the volume of new orders began to slacken slightly, particularly in some of the durable goods industries. By the end of the third quarter the furniture industry had shown four consecutive months of slow declines in hours worked. The rate of gain in several other durable goods industries had slowed perceptibly. This trend was also apparent to some degree among nondurable goods manufacturers.

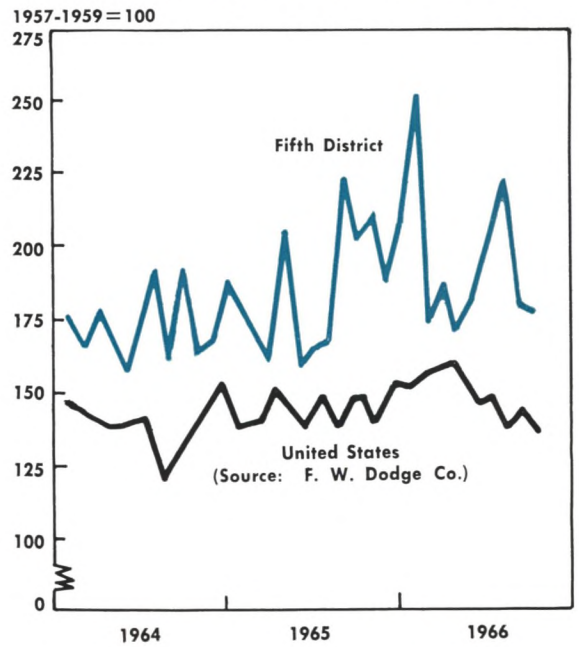
Construction Construction activity in the District was gaining in the waning months of 1965 and by January 1966 reached a record high index of 251 (1957-59=100). This figure is based on contract award values compiled by the F. W. Dodge Corporation. The Dodge report is probably the most comprehensive indicator available of regional trends in construction activity.

Construction contracts in the District fell sharply following the January peak, then regained some of their vigor and climbed again through July. From July through October, the latest month for which statistics are available, they again fell quite sharply. The fact that construction activity in the District has remained on a higher plane than in the nation as a whole throughout the three-year period shown in the accompanying chart emphasizes the rapid growth of the region's economy. Industries have been building new plants at a rapid rate and this has resulted in the need for better roads, additional fuel and power, and more workers. Increased employment has created a demand for construction of facilities to provide the many services associated with increased employment and population.

The tighter credit situation, together with a slackening demand for housing, had a significant impact on residential construction in the Fifth District. By October the index of residential contract awards in the District had dropped to 108, less than half the index of 229 that had been recorded a year earlier. It also represented a sharp drop from the 215 recorded in May, the high month of 1966.

This precipitous reduction in housing starts brought a clamor from many of the leading homebuilders and lenders in the District to eliminate or

INDEX OF CONSTRUCTION CONTRACTS



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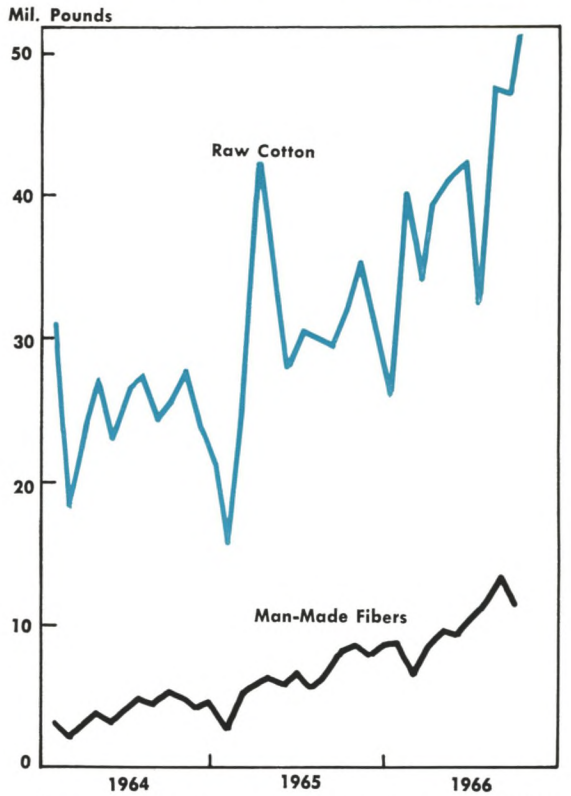
at least ease the statutory 6% interest limit on mortgage loans that is imposed by usury laws found in most of the District states. It was argued that funds which would normally be allotted to home mortgage financing in the District are being diverted to other states which have less restrictive laws. Despite the drop in recent months, the index of housing contracts in the District continues substantially ahead of the national index. Significantly, a recent survey of mortgage lenders in the District indicated that a majority of them felt that the low point in mortgage commitments had been reached.

Nonresidential construction activity did not experience the doldrums noted in housing. Nonresidential contracts exhibited considerable fluctuation, but for the first ten months of 1966 were still 21% ahead of the year earlier level. In this area of construction, as in housing, the index of contracts in the District ran ahead of that for the nation. Much of the activity in this category resulted from a combination of strong demand and a tight labor situation. Manufacturers have moved aggressively to adopt the latest technology and the most modern plants.

Textiles The textile industry occupies a special place in the District's economy. It is the largest manufacturing employer, providing jobs for over three-fourths of a million people, and it accounts for roughly half of the nation's textile output. The number of workers employed by the industry in the District reached a peak in August, and for the next two months, the latest for which data are available, eased downward slightly. Likewise, for most segments of the industry, average weekly man-hours eased downward slightly after August, though the largest segment was still averaging more than 40 hours per week.

Actually, 1966 started as a boom year for textiles. The industry entered the year with large volumes of new orders and had exceptionally large backlogs of orders. Production was expanded to meet a strong private demand as well as that caused by heavier military commitments in Vietnam, but long waits caused many textile users to turn to alternative sources of supply. As can be seen in the accompanying chart, imports rose sharply. Monthly imports of textiles using manmade fibers rose from a level of about 8 million pounds in the early months of the year to more than 12 million pounds during the July-September period, a rise of 50%. An even greater contrast is apparent when compared with the approximate 3½ million pound monthly average of early 1964.

U. S. TEXTILE IMPORTS BY FIBER CONTENT



Source: U. S. Department of Agriculture, *COTTON SITUATION*, November 1965, 1966.

Cotton textile imports increased very rapidly in 1966 and in September were about double the levels that had prevailed in 1964. They are measured in terms of the amounts of raw cotton used in their production.

The increased imports combined with growing domestic production to produce a rather mixed situation at year's end. Some segments of the industry had not been greatly affected and still maintained a favorable order backlog position, but others, particularly those involved with lighter weight cottons and manmade fibers, were adversely affected. The dominant producers of manmade fibers responded with price reductions of 4 to 12 cents in September and many of the other fabrics that had caught up with demand faced price pressures late in the year.

Retail Trade Retail sales rose 5.5% in 1966 compared to the 8% rise of a year earlier. Employment in trade also gained at a slightly slower 2.2% rate compared with average gains of about 3% per year during the 1962-65 period. Retail trade accounts for about three-fourths of the employment shown in the chart, and wholesale trade the remainder.

(Continued on Page 11, Column 2)

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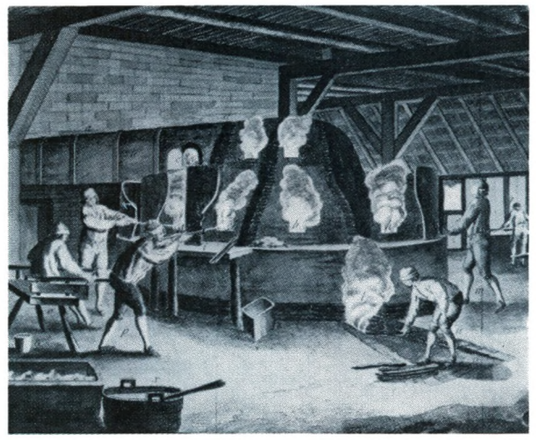
ORIGINS OF INDUSTRIES

GLASS

■ The glass industry was one of the first industries established in America. The second ship to arrive at Jamestown, Virginia carried eight skilled glass workers, who set to work early in 1608 under the direction of Captain John Smith. In spite of the fact that glass making was one of the earliest industrial arts practiced by the colonists, it was handicapped by the relatively small usage of glass in seventeenth and even eighteenth century houses. Despite these early difficulties, glass manufacturing has grown and prospered and today it is an important industry in the Fifth District and in the nation. ■ Probably no other manufactured material is made from ingredients which are available in such quantities as are the components of glass. The most commonly used "batch"—the mixture of raw materials which is to be melted into glass—is composed of about 72% silica (glass sand), 15% soda, 9% lime, and 4% other substances. For the simplest type of glass making, the ingredients are carefully weighed, mixed dry, and put into a tank or pot furnace of special heat-resistant brick. At about 2800°F., the batch melts and becomes a syrupy liquid which is allowed to cool to a taffy-like consistency so that it can be handled. The next step is to blow or press the material into the desired shape. ■ In the Fifth District, West Virginia is the leading glass manufacturing state. With a total of 47 companies, employing over 11,000 workers, West Virginia ranks second among the 50 states in glass production. The average annual wage in 1962 for the industry was $5,327. Among Fifth District States, Maryland follows West Virginia with a total of four companies while North Carolina, South Carolina, and Virginia have three each. West Virginia's prominence in the manufacture of glass is due largely to its abundant supplies of two resources: fuel and silica. In the early days of the industry, ample coal deposits were available to fire the furnaces and, more recently, ready natural gas supplies have been used. Practically pure silica is found in West Virginia's Allegheny plateau, one of the principal sources of this material in the United States. ■ The American glass industry has come a long way since its origins in Jamestown, but even today many of the same techniques used in the earliest days are still being practiced, along with the most recent innovations and improvements.

After the liquid glass is blown, it may be shaped further by swinging into shape manually.

A most important part in the glass making process is the preparation of the various iron moulds.

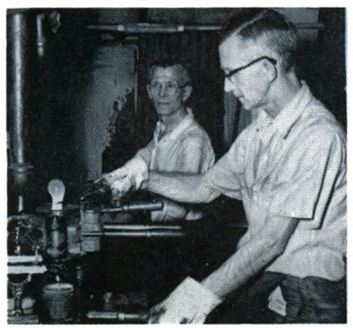


A view into a glass factory of the middle ages.

An early glass maker blowing molten glass into shape.

Blowing the glass into shape is one of the earliest glass making techniques and is still being done today.

Molten glass is attached to the end of the blower's tube nd the excess clipped off.



After the glass has reached its final shape, it is carefully polished.

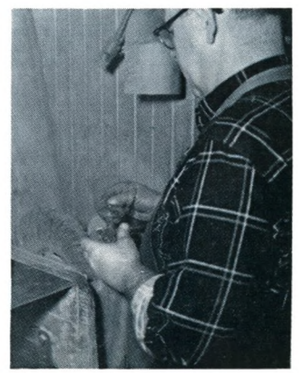


PHOTO CREDITS—Viking Glass Company, Fenton Art Glass Company, Fostoria Glass Company.

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INDUSTRIAL AID BONDS

While sales of tax exempt state and local government bonds have grown steadily since World War II, the rapid climb in the volume of one particular type of tax exempt security—the industrial aid bond—has outdistanced the field in recent years. Far from going unnoticed, the sharp increase in industrial aid financing has been attended by a welter of controversy. Discussions concerning this type of financing are frequently laced with such strong statements as:

"The subsidizing of private corporations through tax exempt bond sales is incompatible with the free enterprise system and represents an abuse of the tax exempt privilege;" or

"Any intimation that the financing of industry through tax exempt municipal bonds does not serve the public purpose is hypocritical."

Why is it that this particular type of municipal bond issue, which accounts for only about 5% of all tax exempt bond offerings, arouses such controversy? This article will summarize the development of industrial aid financing, the chief characteristics of the bonds, and the principal arguments for and against their use.

What are Industrial Aid Bonds? Industrial aid bonds are bonds sold by a state or local government, or instrumentality thereof, for the express purpose of raising funds to acquire, build, or improve a commercial site or plant which is then leased to a private corporation. The lease is generally for 25 to 40 years, and usually contains an agreement whereby the corporation may purchase the rented facility when the lease expires. Rental payments by the corporation are set to cover the principal and interest payments on the bonds. A government or authority sells industrial aid bonds because it believes that the corporation's presence will boost the local economy. The corporation finds industrial aid attractive because it is spared the expense of building a new plant and its lease payments are lower than the costs associated with other sources of financing, due in large part to the tax exempt feature of the bonds.

The bonds may be general obligations, secured by the full faith and credit of the issuing government, or they may be the nonguaranteed, "revenue" type, secured only by the capital asset they financed and by the rental payments as established by the lease. State laws generally specify which types of bonds may be sold. Because industrial *revenue* bonds must be marketed on the basis of the credit rating of the company, their use is limited generally to financing projects for fairly sizeable companies and therefore individual issues also tend to be large. In 1965, for instance, the average size of industrial revenue offerings was over $3 million, compared to only about $600,000 for general obligation industrials. General obligation bonds are used typically in behalf of small or new corporations.

Industrial aid financing has grown from slightly over $7 million in 1957 to $216 million in 1965, an average annual increase of 41% since 1960. The volume of $439 million for the first three quarters of 1966 was more than double the total for all of 1965, and industrial issues as a per cent of total municipal bond sales jumped from 2% to slightly over 5% in these 9 months. Because these data do not include issues advertised and sold locally, the total amounts are understated to some extent. Estimates for the actual volume of aid financing in 1965, for instance, range up to $1 billion. The average size of individual issues has also increased sharply, from less than $400,000 in 1957 to $2.3 million in 1965, and this figure also almost doubled in the first three quarters of 1966.

The Market According to estimates made by Goodbody & Company, a New York securities firm, about 90% of all industrial aid bonds are marketed initially through municipal bond dealers, with the remainder sold through civic groups, such as Chambers of Commerce, to local banks and residents. Not all municipal bond dealers underwrite industrial aid bonds, however. Some refuse to handle these because they disapprove of their use. Indeed, the Investment Bankers Association (IBA) adopted a negative position on aid bonds in 1951, to which it still subscribes. Reasons for such opposition are discussed later.

As the use of industrial aid bonds has become increasingly common, the average spread between the issuing yield of good grade aid bonds and good grade general obligation municipals has narrowed from about 143 basis points in 1957, to 60-70 basis points in 1965, according to estimates of Goodbody and Company. At present the yield on industrial aid

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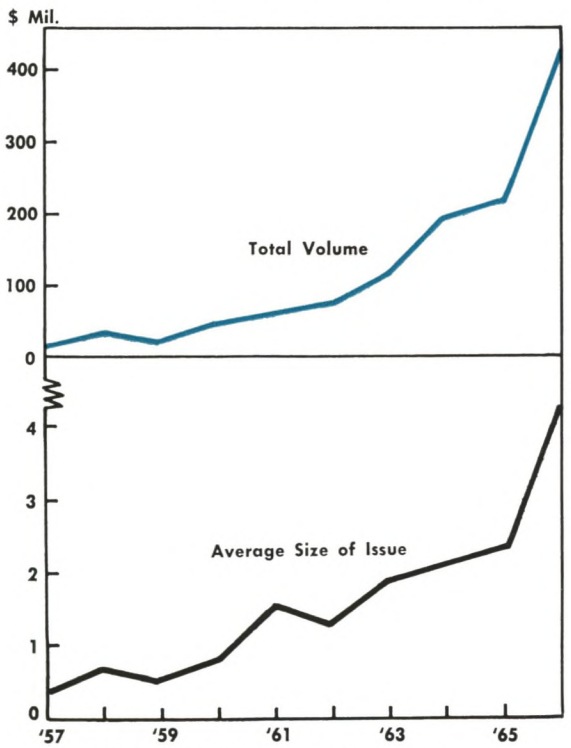
bonds falls about midway between good grade tax exempts and prime corporates.

It has been estimated that insurance companies buy around one-third of all industrial aid offerings, but commercial banks also acquire a sizeable amount.

The secondary market for industrial revenue bonds is much thinner than for most other tax exempts. Dealers often have difficulty in arriving at an appropriate price for a specific bond because of the very small turnover of this type of security, and because the quality of the bond cannot be determined without knowing the terms of the lease which secures it. Since uncovering such information may prove to be time consuming and costly, a dealer will often refer a potential buyer or seller to the original underwriter.

Development The present type of industrial aid financing originated in 1936 when Mississippi established her "Balance Agriculture with Industry" program. Changes in techniques of cotton culture, the depletion of her timber supply, combined with the Depression, left Mississippi with large pools of surplus farm labor. The state had little industry, and no large institutions able to finance the establishment of new industries. The constitution barred the use of public credit for private purposes. To circumvent this barrier, the Mississippi legislature declared industrial development to be a public purpose. Legislation was passed enabling cities and counties to raise funds through the sale of general obligation bonds for the express purpose of constructing industrial plants for lease to private industry. Between 1936 and 1950 only Kentucky followed Mississippi's example in authorizing industrial aid bonds, and few issues were sold.

INDUSTRIAL AID BOND SALES



Note: Data for 1966 covers 1st 3 quarters.
Source: Investment Bankers Association.

Although Mississippi and Kentucky set a precedent by authorizing the sale of municipal bonds to provide direct assistance to corporations, the concept of public aid for the private sector was not new. In the 1800's, railroads and canals were often financed with public credit. Partly as a result of adverse experience at this time, many states adopted constitutional provisions prohibiting municipalities from extending public credit to private business activities. Today, industrial aid bonds are not the sole financial inducement for attracting industry. Among others prevalent are loans from business and industrial development corporations, both privately and publicly financed, state financing of industrial buildings through insurance or guarantees of private loans, and the offering of various types of tax immunities or concessions to corporations.

During the 1950's 21 states passed legislation enabling municipalities to sell bonds for industrial aid, and today 29 states have such laws. Five more states are either able to issue aid bonds for certain purposes, or are in the process of passing and validating the necessary legislation. Only a few years ago, over 90% of all industrial aid bond sales originated in the southern states, reflecting their emphasis on official programs to encourage industrialization. Now, however, states in all parts of the country have authorized their use, including such heavily industrialized states as Illinois, Michigan, Delaware, and New York. It should be pointed out that, to date, these states have utilized this right very little or not at all. In the first three quarters of 1966, nine southern states accounted for almost 80%, or $345 million, of the total volume of aid issues, and 83% of the total number. Mississippi, Alabama, Kentucky, and Arkansas are the leading states in total volume of aid financing.

Many state legislatures have authorized the use of revenue bonds only, but in several states, including most of the southern ones, general obligation issues are also permitted. From 1961 through 1964 revenue bonds accounted for between 74% and 84% of the total volume of aid bonds sold, but during the past two years they have risen to 96%.

The widespread existence of constitutional and

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statutory restrictions on general obligation borrowing is to a large degree responsible for the preponderance of industrial revenue issues. In particular, the fact that in many states revenue bonds are not restricted by the necessity of holding referendums or otherwise obtaining public consent also contributes to their popularity. Mississippi is an exception to the general pattern and continues to issue mainly general obligation bonds despite legislation in 1960 permitting revenue bonds. Through the years, Mississippi has aided a large number of small, often new, corporations which might have been unable to secure financing elsewhere. In the first nine months of 1966, for example, Mississippi accounted for only 3% of the dollar volume of aid bond sales, but 24% of the number of issues.

Municipalities and statutory authorities account for the majority of all aid bond sales. In 1965, municipalities sold 36% of the total volume. Statutory authorities, which are often created by municipalities for the sole purpose of borrowing money, sold 55% of the total. Counties contributed another 7%, and states and special districts 1% each. Direct state participation in industrial bond sales is a fairly recent development.

Arguments Pro and Con A fairly common objection to aid bond financing is that it may affect adversely the financial health of the issuer. In the case of general obligations, it is pointed out that while taxpayers may voluntarily accept the liability by approving the bonds in a referendum, most of them were not in a position to assess the company's soundness or potential before voting. Although revenue bonds are not a direct liability of the government they are generally recognized as a contingent liability, in fact if not in law. Default could jeopardize a community's credit and render future borrowing for recognized public needs more difficult and costly. Small towns which attract large corporations may find their finances undermined by the property tax exemption which is virtually always granted the corporation, and by the need to expand such facilities as water and sewer works, roads, and schools, to accommodate the new plant. This situation would be most apt to occur in those instances where the size of the corporation attracted far exceeded the pool of available labor, and labor had to be imported.

In regard to these objections, it should be pointed out that an extremely small number of corporations have defaulted on their lease payments, and that so far there has been little, if any, deterioration in the credit of those localities utilizing aid bonds. However, most experience with aid bonds has been in a period of economic expansion and growth. Also, the ability of the electorate to judge soundly on such questions is usually greater the smaller the community. Whether or not a referendum is held, citizens in small towns generally are informed on current local questions. Abuses are more apt to occur in larger cities, where the interests of a smaller percentage of people would be directly involved, and where word-of-mouth news would not be effective.

Another frequently heard argument is that aid bond financing may distort the rational location of business by encouraging a corporation to establish a plant in an area which would be otherwise unfavorable. It is argued that if a certain locality is advantageous for a corporation, it could or should be attracted without aid. The contention that aid bonds encourage the "pirating" of industry is also common. It refers to instances where a corporation established in one town pulls up stakes and moves to another town which offers financing, thereby creating employment in one area while reducing it in another.

Surveys have revealed that few firms move to a new area solely because a municipality offers to build a plant. Most choose a region for various economic and financial reasons. This follows from the fact that any savings realized through aid financing, while they may seem sizeable *per se,* are only a small fraction of the firm's total cost of operation. Within a region or state, however, the offer of aid financing and property tax exemption may bias a firm in favor of a *particular* locality. While few disagree with the general censure on "pirating" of industry, it is an uncommon, not common, occurrence. Most aid bonds are used to build branches, or new plants for new companies.

Criticism of aid bonds is also forthcoming from those who fear that the tax exempt status of *all* municipal bonds is threatened by adverse publicity attending the use of aid bonds. They point out that the Treasury has been opposed to such tax exemption for some time, and that this position may receive more support than it has in the past from those who regard aid financing as an abuse of the privilege. This is one of the IBA's chief objections.

Probably the most widespread objection to tax free industrial aid bonds is their increasing use for large, financially healthy corporations, frequently in areas with no outstanding labor surpluses. The growing use of revenue bonds is symptomatic of this trend. Tight money accelerated the pace of revenue bond sales in 1966 as corporations sought less expensive sources of financing. During the first half

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of 1966, the IBA recorded 70 industrial aid bond offerings totaling about $327 million. Of this total, $267 million of bonds were accounted for by only six offerings, each of which exceeded $20 million. Of the six localities benefited, only two were areas with unemployment over 6%. Of the seven corporations to be aided, five are listed on the New York Stock Exchange and one on the American Stock Exchange. One of these six offerings was the largest single issue on record. It consisted of $70 million of bonds sold by a town with a population of approximately 1,200 to build plants for two large manufacturing concerns. Retail businesses have also benefited from aid financing recently, along with a major international hotel chain.

Two specific practices have been singled out for much criticism. One is the purchase by the corporation of the municipal bonds which were sold for its benefit. It has been argued that if the company could afford to purchase the bonds, it could have provided its own financing. Second is the sale of bonds to purchase an *existing* facility which is then leased back to the corporation already using the facility. This amounts simply to a refinancing scheme using tax exempt bonds, since no new jobs are created.

Conclusion In June 1963, after a thorough study, the Advisory Committee on Intergovernmental Relations published a report on industrial aid bonds. This committee, which was established by the Congress, concluded that this type of bond "tends to impair tax equities, competitive business relationships and conventional financing institutions out of proportion to its contribution to economic development and employment." While recognizing the beneficial uses of this device in connection with nonurban, poor regions, the Commission deplored instances of pirating, and the growing use of such bonds to finance large corporations in areas which do not have high unemployment rates.

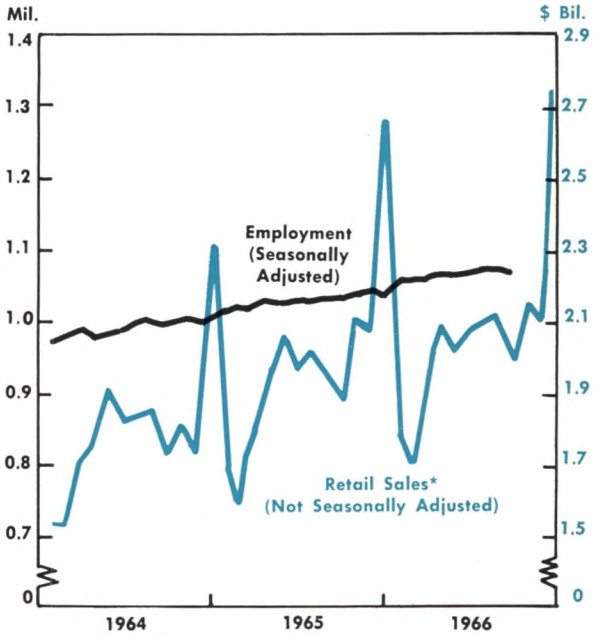
The Commission, as well as many others concerned with the present trend of aid financing, would prefer that these abuses be remedied by action at the state level. With interstate competition becoming so keen, however, it seems unlikely that any state would care to pioneer legislation of this type. Therefore, many view action by the Federal Government as the only feasible solution. Several bills have been introduced into Congress, but so far none has been acted upon. One of the most frequently suggested remedies provides that corporations be prohibited from deducting rental payments from taxable income if its facilities are financed by aid bonds.

THE FIFTH DISTRICT—1966 IN REVIEW

(Continued from Page 5)

A high degree of optimism among retailers was accompanied by record sales during the early months of the year and it appeared earlier rates of gain would be exceeded. Particularly impressive were the sales of color television and automobiles. Dealers in the District shared the national slump in auto sales that came in April, though, and sales ran behind year-earlier levels most of the rest of the year. At first it appeared that TV sales would escape these declines, but as year-end approached greater consumer selectivity was experienced even in this area.

RETAIL SALES AND EMPLOYMENT
FIFTH DISTRICT



*1966 Partially Estimated

Source: U. S. Department of Commerce and State Departments of Labor.

Hence, while it was a good year for establishments involved in trade, it did not quite come up to the expectations which prevailed as it began.

Banking Developments In the Fifth District, as in the rest of the nation, 1966 was a year of change and challenge for bankers. Loan demand in general was strong throughout the year, but finding enough reserves to meet the rising demand was a problem for many banks. Fifth District banks were much more successful in their efforts to maintain a steady rate of growth than were banks in the nation as a whole. After a seasonal dip in February, loans continued to rise fairly steadily at District banks

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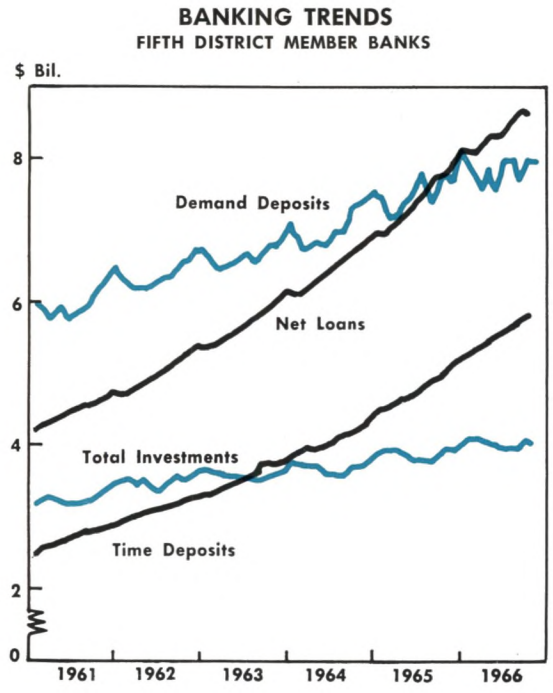

for the rest of the year. The rate of growth slowed somewhat in July, and was interrupted by a slight decline in August, but there were substantial gains for the year.

Total investments declined during the first half of the year, as securities were liquidated to provide reserves, but the decline leveled out after midyear, as many banks increased their holdings of U. S. Government securities and short-term municipals.

Demand deposits followed the usual seasonal pattern, but expanded at a faster than usual rate after August. Cumulative percentage increases in demand deposits in several weeks of September and October were the highest of the past five years. Growth in time deposits lagged during the second quarter, but picked up again in July and continued through the rest of the year at almost the same pace as other recent years except 1965. More rapid expansion in the second half of the year was not enough to offset the slow growth of the first half, however, and gains for the year were the smallest of the past five years.

The growth of loans was much more consistent and the decline in investments much smaller in the Fifth District than in the nation as a whole. The sharp decline in time deposits in September and October which appeared in the national figures also did not occur in the District. Probably the major reason for greater stability was that most District banks did not rely as heavily as many banks elsewhere on certificates of deposit to acquire and maintain reserves. The volume of CD's outstanding at District banks was relatively small, and was apparently unaffected by the interest rate squeeze. Total time deposits leveled off in midsummer, but did not decline as in the nation as a whole, and so District banks did not experience as much difficulty in maintaining the necessary level of reserves.

Agriculture Extreme weather conditions, the new cotton program, generally higher average farm prices, and the continued rise in prices paid by farmers were major factors influencing District agriculture in 1966. The locality and type of farming determined which factor exerted the strongest influence.

With weather extremes ranging from a cold, wet spring to widespread drought during the summer, and sharp cuts in cotton acreage due primarily to heavy participation in the cotton program, 1966 crop production was significantly lower than in 1965. Flue-cured tobacco output, estimated to be 6% larger, was the major exception. Average crop prices were generally higher, but with sharply reduced production, cash receipts from crop marketings were expected to be below those in 1965.

Livestock farmers as a group had a good year in 1966, although drought conditions caused problems for many. Production of broilers, turkeys, and hogs expanded, and marketings of beef cattle, milk, and eggs were about the same as the previous year. Livestock and product prices were generally strong, averaging higher than year-earlier levels, and receipts from marketings ran well above those in 1965 throughout the year.

Should the expected decline in crop receipts materialize, it seems probable that farmers' combined receipts from crop and livestock sales may well show a slight decline from, or perhaps be roughly the same as, a year earlier. Government payments were considerably larger than in 1965, however, primarily because of payments to farmers participating in the cotton program.

Prices paid by farmers, both for items used in production and for family living, advanced further. The number of farm workers continued the downward trend, and farm wage rates rose further, so many farmers found it necessary to purchase additional laborsaving machinery and equipment.

Farmland values continued to rise during early 1966, although at a slower rate than in the past two years. During the first half of the year as farmers stepped up their spending and investment, they increased their use of credit significantly.

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