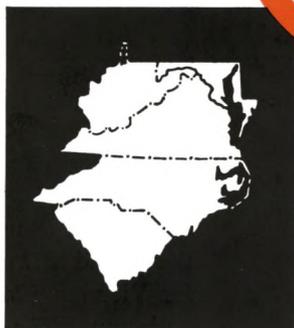


FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

Forecasts 1968
Foreign Tourism in the U. S.
Automation at 5th District Banks
The Fifth District



FEBRUARY 1968

FORECASTS 1968

The Question Marks Grow Bigger

Each year business forecasters are plagued by certain imponderables which seem at the time to complicate severely the forecast of the year ahead. The year 1968 would seem to be no exception in this regard. Major problems for the forecasters in 1968 include government policy, especially the proposed surtax and Federal spending, the course of international economic and financial events following the recent British devaluation, the outcome of labor settlements, the Vietnam War, and last but not least the November elections. All of these issues, however resolved, will have important effects on the economy in 1968.

One indication of the number and seriousness of the complications affecting 1968 is the relatively small number of forecasts currently available. Tardiness on the part of forecasters is usually a sign that they are still puzzling over some major uncertainties. This brief article will attempt to convey the general tone and pattern of the predictions we have been able to assemble. This year they number about 40, including several group efforts.

The views and opinions set forth here are those of the various forecasters. No agreement or endorsement by this Bank is implied.

PROLOGUE

The last few months of 1967 saw an acceleration in the pace of economic advance. Most forecasters expect continued expansion of the economy this year at a pace that will produce continuing upward pressure on prices, even with the passage of a tax increase and some tightening of monetary policy. They envision especially rapid expansion in the first

half, followed by more moderate growth in the second. This pattern they explain primarily by special developments in the automobile and steel industries.

Automobile production rebounded sharply following the labor settlements late last year, and production is expected to continue strong for some time as demand from the last two quarters of 1967 is being pushed into the first half of 1968. This bunching of demand is expected to be worked off by the second half, however. The steel industry is also expected to be busy in the first half as steel users build up inventories to hedge against a possible late summer strike. But the pace at most steel mills is expected to slacken in the second half as steel users pare their inventories to more normal levels. In addition to these two major influences on the pattern of expansion, most forecasters see the effects of tighter money, already evident, being felt more heavily in the second half, especially since large Federal financing requirements will put some limitations on Federal Reserve policy early in the year. Also, forecasters generally opine that any tax increase will not take effect until spring and hence will not have much impact on the economy before the second half. They feel that by midyear spending for Vietnam, already tapering off, may have reached a plateau. The only possible area of slowdown seen for the first half is the housing sector, but most observers believe that commitment backlogs are sufficiently large to keep the housing industry rolling at about the present pace through the first half.

Whereas possible recession was the prime concern of forecasters last year, inflation seems to be the main

worry for 1968. In addition to the forces of "demand-pull" which are expected to be widely evident in the first half, pressures on prices from the cost side will continue strong. Labor contracts covering 2.8 million workers will expire in 1968 and unions are now aiming at the 6% per year increases achieved by the auto workers, well in excess of the old 3.2% guidepost. Despite large productivity increases which may result in a slower rate of growth of unit labor costs, forecasters expect strong upward pressures on both the wholesale and consumer price indexes as strong demand will permit producers to pass along such costs increases as occur.

1967 IN PERSPECTIVE

Predictions for 1967 ranged from minor recession to near boom. A sharp reduction in inventory investment was widely expected as was a substantial slowdown in expenditures on plant and equipment. The principal uncertainty was whether or not a cumulative downturn could be averted and, if so, how fast the economy would rebound in the subsequent recovery. The pattern most commonly expected was one of slow growth or actual decline in the first part of the year followed by a rapid resurgence in the second half, perhaps with the reemergence of excess aggregate demand. In actual fact, the quarterly increases in current dollar GNP during the year were \$4.2 billion in the first quarter, \$8.8 billion in the second, \$16.1 billion in the third, and \$16.4 billion in the final quarter. A larger increase in the fourth quarter was prevented only by the occurrence of strikes in major industries.

The overall growth of the economy in 1967 was about in line with most of last year's forecasts. Forecasts for 1967 ranged mainly from \$780 billion to \$790 billion, with a median estimate of \$785 billion. In current dollars, GNP actually turned out to be about \$785 billion, or 5.7% above the 1966 figure. This increase was low, both absolutely and relatively, compared with increases in the previous six years of expansion. The increase in real GNP was only 2.6%, the lowest since the 1.9% gain in 1961 and considerably below the 5.8% growth in 1966. Prices increased about 3.0% in 1967, accounting for about half the rise in GNP.

Although the overall economy performed about as expected in 1967, some of the component parts were variously higher and lower than the predictions. Gross private domestic investment, for example, at \$111 billion in 1967 was some \$6 billion below the average forecast and \$6.5 billion, or 5.5%, less than in 1966. This shortfall was due largely to the fact that inventories rose by only half the expected \$8

billion increase, and also to a leveling off in capital spending. Expenditures on plant and equipment rose only 1.5%, well below expectations. Notably, however, gross private domestic investment turned up in the third quarter and in the fourth quarter equaled the 1966 figure at an annual rate. Government purchases of goods and services, on the other hand, grew at a 14.3% annual rate to \$177 billion, about \$7 billion more than generally forecast. Both Federal and local government expenditures rose sharply. The largest part of the growth in Federal expenditures occurred in the first quarter. Personal consumption expenditures, the largest component of GNP, were close to most projections at \$492 billion, an annual growth rate of 5.7%. Spending for durables, however, grew less than 2.0%, reflecting in large part lower auto sales. Sales of domestic autos fell 9.6% to about 7.6 million units, down considerably from estimated sales of about 8.5 million units. Net exports, a very small part of GNP, grew greatly in the first quarter, experienced a similarly sharp decline in the fourth quarter, and for the year as a whole totaled \$5.1 billion, somewhat above predictions; forecasts had called for a 10%-20% decline from 1966's \$5 billion of net exports.

On the employment front, forecasters were generally on target. During the year the total civilian labor force grew by over 1.6 million while the 3.9% unemployment rate was up very little from 3.8% in 1966. After some declines late in the first half, total employment rose fairly steadily through the rest of the year and for the year was over 1.4 million greater than in 1966. Nonfarm employment rose by some 1.6 million while the secular decline in farm employment moderated somewhat. The number of farm workers fell by a little less than 150,000.

Industrial production, burdened by the greatly reduced rate of inventory accumulation and slow car sales, declined from a record 159.5% of the 1957-59 average in December 1966 to 155.6% in June. The index rose less than a point over the next four months but jumped 2.6 points in November and another 2.3 points in December to reach 161.6 at yearend. For the year the index rose about 0.5%, well below the 4.2% projected growth. Capacity utilization, meanwhile, fell from an annual rate of 90.5% in 1966 to 84.7% in 1967. Corporate profits before taxes totaled about \$79 billion in 1967. This was in the range of expectations but about \$3 billion, or roughly 3.6%, less than in 1966. After declining by 7.7% in the first quarter, profits then leveled off, and rose in the last two quarters.

Prices in 1967 rose generally less than was expected. Consumer prices increased about 2.7% while

the wholesale price index was virtually unchanged. Increases in the prices of services and nonfood commodities were principally responsible for the rise in the consumer index. The stability of wholesale prices was attributable to declines in farm product and processed food prices; industrial commodity prices rose sharply in the second half, however.

Monetary policy was easy throughout the year, but showed some signs of tightening in December. Despite the easy policy, long-term rates rose to 30-year highs in the face of record private demand for funds, and short rates turned up after midyear. Fiscal policy was highly stimulative during the year.

THE FORECASTS IN BRIEF

Gross National Product Forecasts for 1968 GNP are heavily concentrated in the range from \$840 billion to \$845 billion. The midpoint of this range—\$842.5 billion—represents an increase of 7.3% in current dollars. After allowance for expected price increases, the growth in “real” GNP would be about 4.0%.

The forecasters are generally in close agreement that government purchases of goods and services will range from \$193 billion to \$196 billion. The midpoint of this range represents a 9.9% increase, considerably below the large 14.3% increase in 1967. Defense expenditures are expected to level off as the year progresses. The bulk of the growth in non-defense public expenditures is expected to occur at the state and local level where the increase, if realized, will be exceeded only by 1967's record rise.

Most forecasters see gross private domestic investment increasing about 7.7% over 1967, but the full range of forecasts—\$114 billion to \$127 billion—indicates considerable diversity of opinion. Increasing inventories are expected to provide the major boost in the investment area, but most observers expect an assist from plant and equipment expenditures and from residential construction.

Consumer spending is most commonly forecast to grow by between \$31 billion and \$35 billion. The midpoint of this range amounts to about a 6.7% rise from 1967. Durable goods spending should recover sharply from 1967 and spark the growth. Rising wages and increased Social Security benefits will push up personal income, and many forecasters expect the personal savings rate to decline from the high 7% level of last year. Recent surveys of consumers' buying intentions, however, have tempered optimism somewhat. The effect of higher Social Security benefits will also be moderated by larger contributions.

Predictions for net exports range from \$1.0 billion

below to \$1.0 billion above 1967's \$5.0 billion total. The forecasters' inability even to agree on whether this small but significant variable will rise or fall in 1968 reflects the present turbulence in international markets.

Industrial Production Most predictions call for a 1968 average of 163-166 on the Federal Reserve index of industrial production. The midpoint of this range represents a 4.8% increase from the 1967 average, still well below the 6.7% annual rate of increase from 1961 to 1966. The predicted resurgence of automobile sales and inventory building in steel and other industries will provide the main stimulus, especially in the first half. Increases in construction and in consumer spending for durables will further improve the index.

Construction The value of new construction put in place is most often expected to be between \$80 billion and \$84 billion. The midpoint of this range represents a 6.5% increase over 1967. Residential construction, usually about a third of the total, is expected to be a bright spot if the interest rate structure does not create any acute shortage of mortgage funds. Forecasters seem to expect about a 15% growth in 1968. Housing starts may be as high as 1.5 million units if the 1967 pace continues through the year, but most forecasts are for about 1.45 million new starts, assuming a tax increase.

The large public construction sector, also about a third of the total, is expected to grow by about 7%. This sector includes such items as schools, hospitals, highways and streets, and sewer and water facilities. Industrial and commercial construction—covering such things as factories, warehouses, and office buildings—is forecast to rise by about 3% after falling to \$13 billion in 1967, principally as a result of reduced industrial expenditures.

New Plant and Equipment Most forecasters agree that plant and equipment outlays will grow around 5% in 1968 to some \$65 billion. A few, however, feel expenditures may decline unless business and monetary conditions become more favorable early in the year. Restoration of the investment tax credit last year should provide incentive for investment in 1968 but the effect is hard to measure.

Corporate Profits Corporate profits before taxes are most often expected to be in an \$83-\$87 billion range, an increase of about 6.2% at the midpoint. Business hopes to cover some of the higher costs of labor and materials through price increases but will also try to protect profit margins by improving productive efficiency. Increased payroll taxes for Social

ECONOMY IN 1967 AND EXPECTATIONS FOR 1968

	<u>Unit or Base</u>	<u>1967*</u>	<u>1968**</u>
Gross national product	\$ Billions	785	840 to 845
Personal consumption expenditures	\$ Billions	492	523 to 527
Government purchases of goods and services	\$ Billions	177	193 to 196
Gross private domestic investment	\$ Billions	111	118 to 121
Net exports of goods and services	\$ Billions	5	4.5 to 5.5
Index of industrial production	1957-1959	157	163 to 166
Sales of domestic automobiles	Millions	7.6	8.2 to 8.3
New construction put in place	\$ Billions	77	80 to 84
Private housing starts	Millions	1.3	1.4 to 1.5
New plant and equipment expenditures	\$ Billions	61	64 to 65
Change in business inventories	\$ Billions	+4	+5 to +7
Corporate profits before taxes	\$ Billions	80	83 to 87
Rate of unemployment	Per cent	3.9	3.9 to 4.0
Wholesale price index	1957-1959	106.1	108.0 to 108.5
Consumer price index	1957-1959	116.3	119 to 121

*Estimated.

**Rough approximations of typical forecast.

Security, and higher costs of money will tend to reduce before-tax profits while passage of the surtax bill would cut into after-tax profits.

Employment and Unemployment Periods of full employment seem to provide forecasters with little incentive for discussion. Most forecasters contented themselves with simply predicting the rate of unemployment. Predictions in most cases were either 3.9% or 4.0%, virtually the same as in 1967. Some of those who discussed the employment situation expressed the opinion that the main labor problem will be a continued shortage of skilled labor with attendant upward pressure on wages.

Prices Estimates of consumer and wholesale prices call for a faster rate of inflation than in 1967. The consumer price index is forecast to rise by about 3.2%, somewhat more than the 2.7% rise in

1967. The three components of this index, food, nonfood commodities, and services, are expected to rise, with the largest rise in the services. The increase in wholesale prices, foreseen at about 2.0%, is in marked contrast to practically no change in 1967.

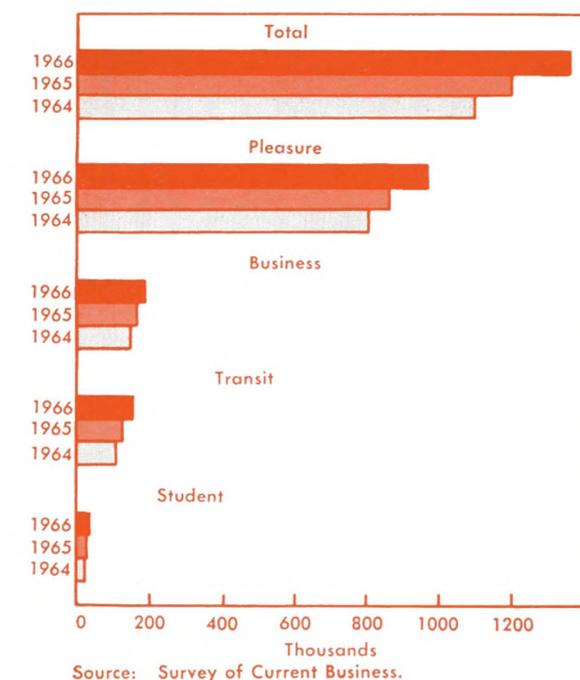
Summary Growth in the public sector and an expansive monetary policy last year prevented a recession in the face of a slowdown in private investment and consumption. In 1968 the private sector should move strongly upward while the public sector will continue to grow but at a slower rate. In general, the forecasters see 1968 as a year of rising economic activity. Although they do not characterize it as a boom year, they generally predict that inflation will be a serious problem as strong aggregate demand supports upward price pressures which will continue to arise from the cost side.

Joseph C. Ramage

Foreign Tourism in the United States



FOREIGN VISITORS TO THE UNITED STATES FROM OVERSEAS

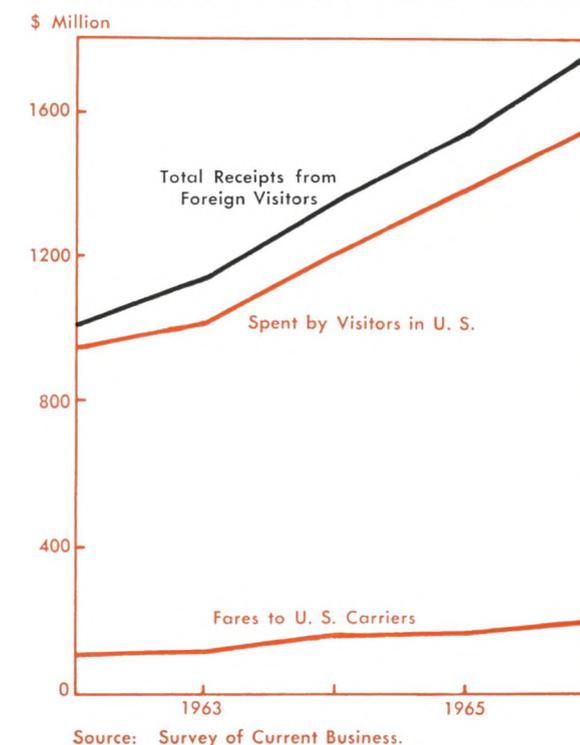


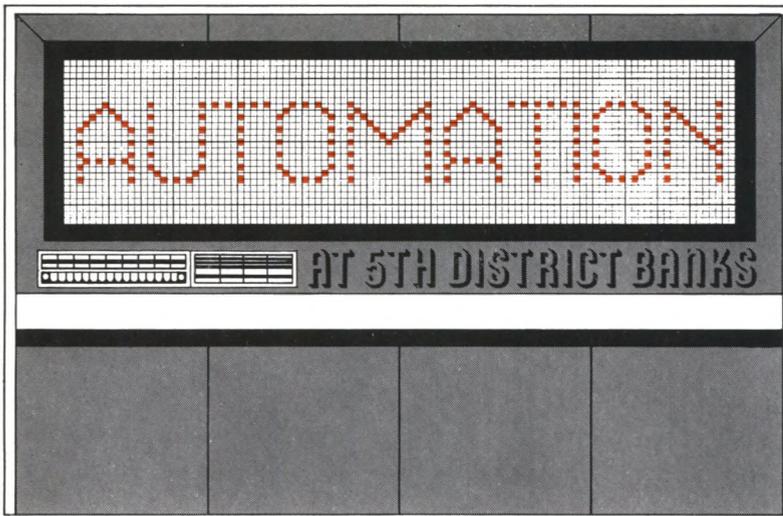
□ The United States welcomed more foreign visitors to her shores in 1966 than ever before, and indications are that an even greater number arrived in 1967. Needless to say, this greatly cheers the U. S. Government which is energetically seeking to persuade more foreign travelers to visit the United States. The United States Travel Service, a division of the Department of Commerce, is now in full swing, and government-paid advertisements extolling the wonders of America are appearing regularly in overseas countries. □ In 1966, 1,360,000 foreign tourists visited the United States—an increase of 12% over the number of visitors in 1965. They spent about \$550 million in addition to the \$195 million they paid to U. S. transoceanic carriers. The growth of pleasure travel kept pace with increases in business travel, but total receipts from overseas visitors rose relatively less than the volume of visitors. □ The greatest number of visitors to the United States arrived from Europe and the Mediterranean area—with over

one-third of them from the United Kingdom. These 660,000 Europeans spent about \$215 million here in 1966. Visitors from South and Central America and the West Indies numbered 517,000, and they spent \$226 million while on visits to the United States. 185,000 visitors came from other overseas areas and spent about \$110 million. Those from Japan, around 50,000 visitors, spent nearly \$35 million. Average outlays of Japanese visitors are relatively large, partly because a large proportion come for business purposes. □ There are, however, many problems facing the foreign visitor in the United States. The most crucial is the problem of expense. Travel by air, rail, and automobile in this country is more expensive than equivalent transportation in foreign countries. The United States covers a wider geographical area than does any European country, and consequently more money and time is involved in seeing all the significant points of interest. □ One of the most popular attractions for foreign visitors is the

nation's capital, Washington, D. C. Multi-lingual guides are now available and this has enhanced the attractiveness of Washington as a leading tourist mecca. There are other areas within the Fifth District which also attract scores of foreign visitors. Williamsburg, Virginia, has always been popular with overseas travelers because of its historic link with Great Britain. □ Our balance of payments problem, however, has created some uncertainties about the future of foreign tourism. Americans are being discouraged by the government from traveling abroad in order to cut down the flow of dollars out of the country. Some overseas countries, especially Great Britain, are also experiencing large deficits in their foreign accounts and they, too, may discourage their citizens from traveling abroad. The recent devaluation of the pound will make visiting the United States more expensive to citizens of the United Kingdom, which may reduce the number of Britons traveling to the United States.

U. S. RECEIPTS FROM FOREIGN VISITORS





Fifth District commercial banks have made spectacular advances in automation according to a survey conducted by the Federal Reserve Bank of Richmond last November. Nearly three-fourths of all banks with total deposits of \$25 million or more are using electronic computers for some of their bookkeeping operations. Another one-fifth plan to automate within three years. Only 12 of the 103 larger District banks surveyed indicated that they had no plans for computer processing within three years.

These findings contrast sharply with the results of a similar survey made in March 1962. At that time, fewer than one-fifth of District banks with deposits over \$25 million had computers in operation or being installed; another one-sixth had computers on order or had definite plans to begin using computer systems within three years. In September 1959, only three of the 70 District banks in the over \$25 million size class were using computers. In all three surveys, a reply was received from every one of the Fifth District banks canvassed: each survey was confined to banks with deposits over \$25 million.

Status of Automation As expected, the November 1967 survey revealed that the larger the bank the higher the degree of automation. In fact, all 19 banks in the over \$250 million deposit size have on-premise computers. Twelve of the 13 banks in the deposit size class of \$100-250 million are computerized; 11 operate their own computer and one uses a service bureau. Many of these larger banks use several computers located in the head office city or at various strategic marketing areas. The largest number of computers reported by any bank was eight.

Banks in the smaller size categories also have made impressive strides towards automation. All but one of the banks with total deposits ranging from \$50 to \$100 million are currently using computers (62%) or plan to do so within three

years (33%). Of the 13 banks with computer systems, nine operate their own computers and four use an off-premise service. In contrast, the large majority of the computerized banks in the \$25-50 million deposit class use off-premise rather than on-premise computers. Also a somewhat smaller proportion of these banks are using computers (56%) or are planning to automate within three years (24%). Only one of the latter banks is planning for an on-premise computer; seven indicated they are planning to use an off-premise service, and four did not specify which approach they might take.

Automation of Checking Accounts Demand deposit accounting, the No. 1 paperwork job of most commercial banks, was by far the most popular ap-

Automation Status	Total banks		Over 250	
	Number	Per cent	Number	Per cent
Total number of banks	103	100	19	100
Computers in operation or planned				
In operation	72	70	19	100
Planned within 1 yr.	9	9	....	....
Planned within 2-3 yrs.	10	10	....	....
No plans for computer processing within 3 yrs.	12	12	....	....
Banks with computer systems	72	100	19	100
On-premise ¹	46	64	19	100
Off-premise service	26	36	....	....
Service bureau	8	11	....	....
Correspondent bank	11	15	....	....
Holding company ²	7	10	....	....
Banks with plans to automate within 3 yrs.	19	100	....	....
On-premise	6	32	....	....
Off-premise service	9	47	....	....
Unspecified	4	21	....	....

¹ Computers operated by subsidiaries of holding companies are

² Two banks jointly owning a computer are counted in th

plication of the computer; 59 of the 72 automated banks had some checking accounts computerized, and 55 banks reported more than 50% of these accounts on the computer. By the end of 1970 all but two of the banks now using computers plan to have the vast majority of checking accounts automated.

Demand deposit accounting was given top priority also by the nine banks which currently do not have a computer or use off-premise service but have firm plans to automate within a year; an additional seven banks of the ten with plans for computer processing within two to three years indicated that checking accounts would be automated. As a step for future automated processing, 17 of these 19 banks have checks with account numbers as well as transit numbers encoded in MICR (magnetic ink character recognition) language.

The December 1958 adoption by the American Bankers Association of the MICR common language and a standard location for the depositors' account numbers on checks was a major break-through in demand deposit accounting. Even as early as the March 1962 automation survey, all 12 banks with computers installed or on order indicated that some of their checking accounts were either on the computer or were planned for early automation. Account codes had been assigned and MICR sorters installed in all but one of the banks with computers.

In the September 1959 survey, which was less than a year after the MICR program was introduced and when only a small proportion of banks were

automating, demand deposit accounting was the least mechanized bank operation. Although two of the three banks with computers had demand deposits automated, only three of the 18 banks with punch card equipment were using this equipment for checking accounts. In 1959, all but one of the banks using computers or punch card equipment were in the over \$100 million deposit size class. Six banks in this deposit size class had MICR sorters on order and an additional nine banks had this equipment under active consideration. Significantly, five of the 45 banks with deposits under \$100 million were considering the MICR sorter.

Currently 42 Fifth District banks have a total of 81 on-premise MICR sorters and an additional 16 sorters are on order. Some of these sorters, of course, may be used solely for proof and transit operations. Also, off-premise sorters are used by a number of District banks for both transit operations and demand deposit accounting and are not included in the above count.

Other Computer Applications Following closely on the heels of demand deposit accounting are the two other high-volume activities of commercial banks: of the 72 banks with computer systems in operation, 45 have automated a portion of their savings and time deposits; over one-half of these automated banks have instalment loans on the computer. Transit operations and corporate trust accounting were next in line as popular computer applications. Around one-fifth of the banks had auto-

AUTOMATION STATUS OF FIFTH DISTRICT BANKS By Size of Bank and by Area

Size of bank Total deposits, in millions of dollars)						Area											
100-250		50-100		25-50		District of Columbia		Maryland		North Carolina		South Carolina		Virginia		West Virginia	
Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent
13	100	21	100	50	100	9	100	18	100	19	100	7	100	35	100	15	100
12	92	13	62	28	56	8	89	13	72	11	58	5	71	27	77	8	53
.....	.....	4	19	5	10	1	11	1	6	.....	.....	1	14	4	11	2	13
.....	.....	3	14	7	14	.....	.....	2	11	2	10	1	14	1	3	4	27
1	8	1	5	10	20	.....	.....	2	11	6	32	.....	.....	3	9	1	7
Management arrangement of computer systems																	
12	100	13	100	28	100	8	100	13	100	11	100	5	100	27	100	8	100
11	92	9	69	7	25	4	50	8	62	9	82	3	60	18	67	4	50
1	8	4	31	21	75	4	50	5	38	2	18	2	40	9	33	4	50
1	8	1	8	6	21	4	50	.....	.....	.....	.....	1	20	2	7	1	12
.....	.....	2	15	9	32	.....	.....	5	38	2	18	1	20	2	7	1	12
.....	.....	1	8	6	21	.....	.....	.....	.....	.....	.....	.....	.....	5	19	2	25
.....	.....	7	100	12	100	1	100	3	100	2	100	2	100	5	100	6	100
.....	.....	5	71	1	8	.....	.....	.....	.....	.....	.....	2	100	3	60	1	17
.....	.....	2	29	7	58	1	100	2	67	1	50	.....	.....	2	40	3	50
.....	.....	.....	.....	4	33	.....	.....	1	33	1	50	.....	.....	.....	.....	2	33

THE MOST POPULAR BANK APPLICATIONS
PRESENTLY ON THE COMPUTER

	Deposit size of bank (\$ mil.)				
	Total	Over 250	100- 250	50- 100	25- 50
	(Number of banks)				
Banks with computer systems	72	19	12	13	28
Demand deposits	59	19	11	10	19
Savings and time deposits	45	17	6	8	14
Instalment credit	37	14	7	6	10
Proof and transit	20	11	2	5	2
Corporate trust	20	13	3	2	2
Mortgage loans	15	11	1	....	3
Personal trust	14	8	2	2	2

Note: Includes applications in which only a portion of the accounts are automated.

mated their mortgage loans and personal trust accounts. Use of computers was also popular for internal bank operations such as payroll, bank cost accounting, and general ledger maintenance.

Automated Customer Services The showing of the District banks also was impressive in the field of automated customer services. Of the 72 banks with computer systems, 40 currently provide or plan to offer automated services to other banks, primarily in the field of demand deposit accounting. The greatest number of bank customers listed by any one bank was 13; bank customers were generally in the under \$25 million deposit size class. Also 45 of the computer banks provide or plan to offer services, such as account reconciliation and payroll, to non-bank customers. Automated services were offered by the medium size banks as well as by the larger District banks. Banks with on-premise computers were more heavily involved in this field than those using an off-premise service. Even those banks which currently have none of their operations on the computer are considering the possibility of offering customer services after their internal operations are automated.

CURRENT AND PLANNED AUTOMATED CUSTOMER SERVICES

	Deposit size of bank (\$ mil.)				
	Total	Over 250	100- 250	50- 100	25- 50
	(Number of banks)				
Banks with computer systems	72	19	12	13	28
Services to other banks:					
Currently provided	20	10	4	1	5
Plan to offer	20	5	5	5	5
Services to non-bank customers:					
Currently provided	33	16	5	4	8
Plan to offer	12	....	2	5	5
Banks planning to automate	19	....	....	7	12
Plan to offer services:					
To banks	5	....	....	4	1
To non-bank customers	4	....	....	2	2

What's in the Future The movement towards automated banking has greatly accelerated from the trend indicated in past surveys. Not only are a greater number of banks, particularly those in the medium size category, using computers than planned to do so in the March 1962 survey, but the computer is being used for more bank operations and for a greater proportion of accounts within a particular application.

The survey revealed that half of the banks with on-premise computers will make additions to their present computer configuration; ten banks have on order or plan to order a higher-powered system; six banks plan additional computers of the same type as presently used; and 11 banks plan to add equipment to their present computer system. Three of the 26 banks presently using an off-premise service plan to acquire their own computer. Three of the six banks planning on-premise computers within three years indicated a definite machine configuration under consideration.

Primarily because of the prevalence of state-wide branching within the District, banks have designed to their own specifications courier systems, airplane or motor carrier, to transport paperwork to one centralized computer or to several computers located throughout the area serviced by the bank. Electronic data-processing-communications systems are in use and others are on the planning board.

Fifth District banks are using the computer as a research and management tool as well as for high speed accounting applications. A few banks have inaugurated sophisticated customer classification systems; others indicated a desire to do so. Although only one District bank presently has an automated central information file, 17 indicated such a file planned for future implementation. A strong central data file is germane to an automated payments system.

The November 1967 survey on the current status and future plans for automation revealed that Fifth District banks are rapidly acquiring the know-how and equipment essential for electronic transfers of funds. Much needs to be done, however, before there is a nationwide automatic payments mechanism connecting bank computers with terminal devices located at businesses and homes. Such a system of credit transfers will reduce immeasurably the number of checks required by society. How far in the future is the "checkless society"?

Elizabeth W. Angle

A statistical compilation of replies to the 1967 Bank Automation Survey is available upon request.

THE FIFTH DISTRICT



SAVING IN 1967

Both personal and business-type saving in the United States increased significantly during 1967. The tendency to save by individuals and businesses increased in the Fifth District as well as in the rest of the country, as evidenced by larger increases in time and savings deposits in the District's member banks.

Total saving out of after-tax income in the United States increased to 7.1% in 1967. This amounted to about \$39 billion. The fourth quarter rate for the U. S. was 7.5% of after-tax income, the highest quarterly rate since 1953. Several reasons are cited for the higher rate last year. Uncertainty about the Vietnam war and higher taxes, as well as reduced availability of automobiles late in the year seem primary.

Based on data for the first ten months of 1967, total time and savings deposits in commercial banks increased at an annual rate of 15.7%, while those in mutual savings banks grew at an annual rate of 9.5%. According to U. S. Savings and Loan League figures, shares in savings and loan associations increased about \$10.7 billion, considerably more than the \$3.7 billion gain of 1966. The annual increase in savings in savings and loan associations

had been declining since 1963, and the 1967 bulge almost matches the 1963 gain of \$11 billion.

Regulation Q ceilings, determining maximum rates member banks can pay on time deposits, as well as the maximums set by the FDIC for insured non-members, remained fixed throughout 1967. The ceilings are 4% on savings deposits and on multiple maturity time deposits of less than 90 days, 5% on multiple maturity time deposits of 90 days or more and on single maturity time deposits of less than \$100,000 denominations, and 5½% on single maturity time deposits of denominations larger than \$100,000. Rates that banks actually paid edged up toward the ceilings during the year, and a number of new forms of deposits and certificates were introduced by individual banks as they competed for the savings dollar.

The information shown in Tables 1 and 2 is based upon a survey of Fifth District member banks for October 31, 1967, and comparative figures are shown for a similar January 31, 1967, survey. Table 1 shows the amounts held by District member banks in each form of time and savings deposits. Pass-book savings accounts comprise 68.7% of all time and savings deposits at District banks, and savings certificates along with negotiable and non-negotiable

Table 1
SURVEY OF TIME AND SAVINGS DEPOSITS*
FIFTH DISTRICT MEMBER BANKS
October 31, 1967

Type of Deposit	No. of Banks	Amount		Weighted Average Max. Rate	Per Cent of District Total by States					
		(\$ millions)	% change from 7-31-67		Md.	D. C.	Va.	W. Va.	N. C.	S. C.
Savings Deposits	391	4,191	1.7	3.96	19.6	12.5	37.3	12.1	14.6	3.8
Savings Bonds	9	9	0.0	4.61	15.7	0.0	7.9	0.0	74.2	2.2
Savings Certificates	91	561	+10.4	4.96	2.3	9.6	63.1	3.6	19.9	1.5
Non-Negotiable CD's	263	807	+ 5.5	4.94	3.2	16.5	38.2	3.8	34.0	4.4
Negotiable CD's	183	397	+ 0.8	4.99	5.8	26.1	29.7	11.1	26.2	1.0
Time Deposits, Open Account	142	137	+10.5	4.90	5.0	16.5	28.4	3.6	46.7	0.0

*Includes individuals, partnerships and corporations.

Table 2

GROWTH OF TIME AND SAVINGS DEPOSITS BY STATES
Fifth District Member Banks, 1967

State	Total Time and Savings Deposits			Savings Deposits			Consumer-Type Deposits*			Business-Type Deposits		
	Jan. 31 (\$ millions)	Oct. 31 (\$ millions)	Annual Growth Rate	Jan. 31 (\$ millions)	Oct. 31 (\$ millions)	Annual Growth Rate	Jan. 31 (\$ millions)	Oct. 31 (\$ millions)	Annual Growth Rate	Jan. 31 (\$ millions)	Oct. 31 (\$ millions)	Annual Growth Rate
Maryland	833	893	9.8	767	823	9.8	39	44	17.4	27	26	- 4.9
District of Columbia	780	837	9.9	505	524	5.0	101	136	48.7	174	178	3.1
Virginia	2,152	2,384	14.6	1,506	1,564	5.2	568	746	43.8	77	74	- 5.2
West Virginia	550	606	13.8	464	507	12.5	78	90	21.0	8	9	17.0
North Carolina	1,004	1,173	23.1	553	613	14.7	311	394	37.1	140	167	26.5
South Carolina	179	209	22.9	141	161	19.4	34	40	24.0	5	8	87.1
Fifth District	5,498	6,102	14.9	3,936	4,191	8.7	1,130	1,449	39.3	432	461	9.0

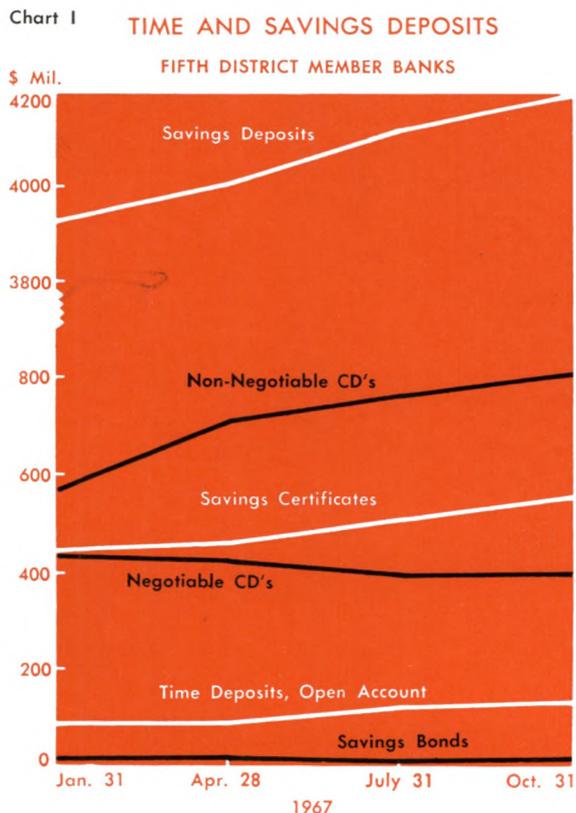
*Excludes Christmas savings and other special fund accounts.

Note: Details may not add to totals because of rounding.

certificates of deposit make up another 28.9%, leaving only 2.4% in the other two categories. Also given in Table 1 is the distribution of these totals by states. In certain cases, a given type of time and savings deposit is concentrated in one or two states. Member banks in Virginia and North Carolina, for example, have 83% of the District's savings certificates.

Table 2 shows a comparative distribution by states for January and October with estimated annual rates of growth. The information in Table 2 suggests that Fifth District savings activity during 1967 was consistent with the rapid growth of savings throughout the United States. In Maryland and Virginia, business type deposits, i.e., denominations larger than \$100,000, declined slightly. Total savings of all types in District member banks increased by \$604 million, representing an estimated annual rate of growth of 14.9%. This is very close to the 15.1% mentioned above as the rate of growth in time and savings deposits in commercial banks throughout the nation in 1967.

Chart I presents a more detailed view of the growth of the six types of time and savings deposits, based upon data from four quarterly survey dates during 1967. Negotiable certificates of deposit and savings bonds declined slightly in District member banks during the year, while all other forms increased. By far the largest rate of increase was in open time deposits which advanced \$46 million by October from January's \$91 million level. Most of this was in small denomination open account time deposits. The largest actual increases, however, occurred over the same period in savings deposits of \$255 million, and in non-negotiable certificates of deposit of \$235 million. Savings certificates increased in the same period by \$107 million, while the declines in savings bonds and negotiable certificates of deposit were \$8 million and \$32 million, respectively.



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