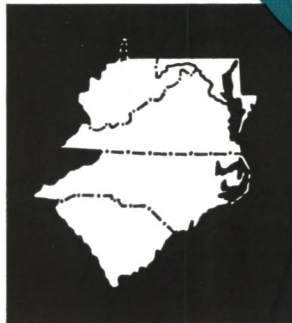


FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

The Prime Rate
Local Revenues
District Dairy Farming
The Fifth District



OCTOBER 1969

THE PRIME RATE

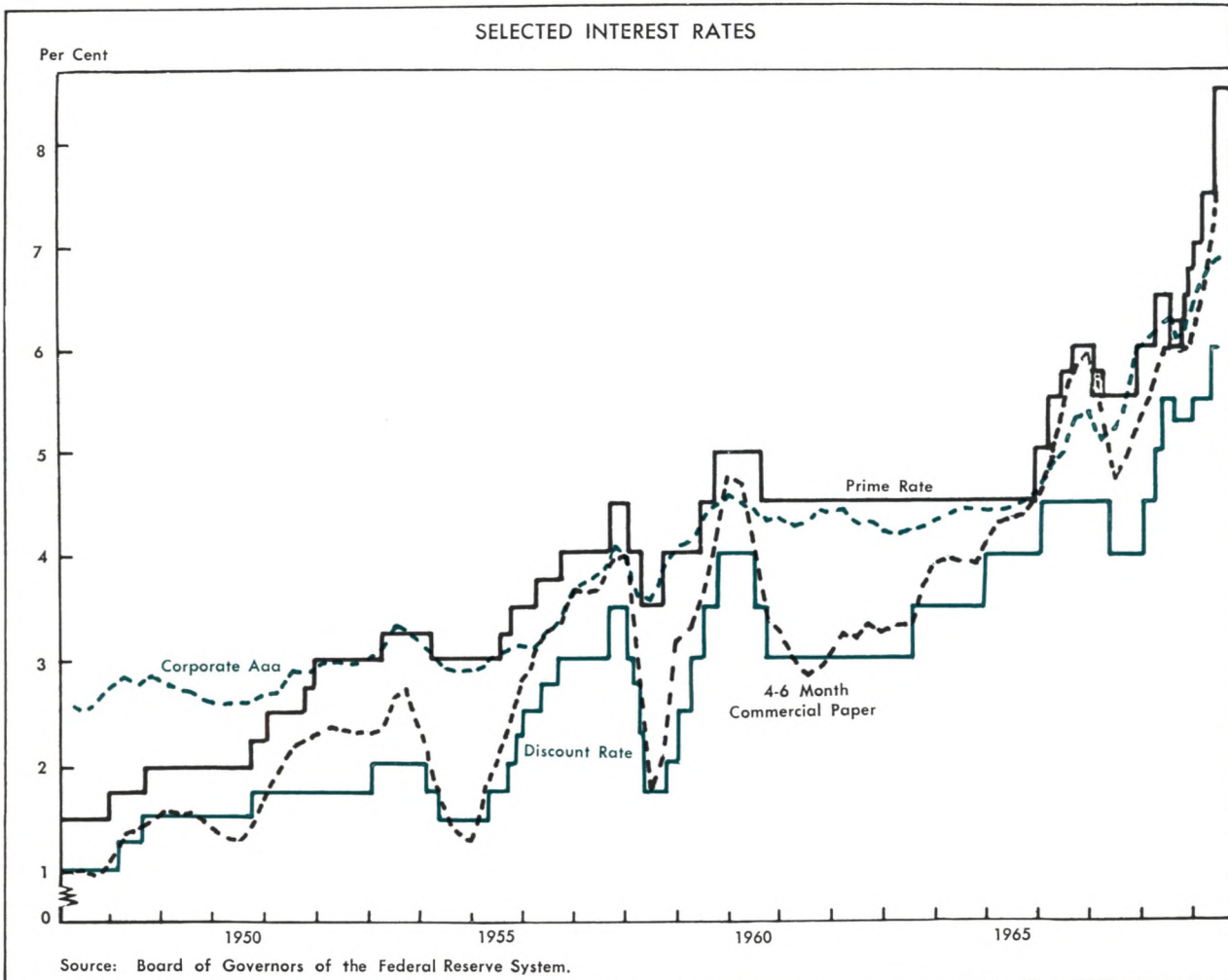
Between December 2, 1968 and June 9, 1969 the prime rate was increased five times, from $6\frac{1}{4}\%$ to a record high $8\frac{1}{2}\%$. The last of these increases was a full percentage point, the first time a change of more than a half per cent had been made in the 35-year history of the prime rate. In that time, the rate has trended steadily upward but never before had it undergone such a precipitous rise and such frequent increases.

The prime rate is the interest rate charged by banks on loans to their most credit-worthy business borrowers. These loans are unsecured but generally the borrower is required to maintain an interest-free demand deposit at the bank; this compensating balance is often thought to be 20% of the amount of the loan but no one knows for sure the prevailing percentage. A 20% requirement means that the effective cost of the loan is 25% higher than the prime

rate when the interest payment is computed as a per cent of the face amount of the loan less the compensating balance. Actually, the deductibility of interest payments from taxable income means that, in the case of corporations, about half of the interest payment is borne by the Federal Government, with varying amounts borne for other businesses. Prime rate loans are generally short-term, due in one year or less, and are most often used for financing inventories and other short-term investments, and for interim financing of major improvements pending the sale of a bond issue. It has been estimated that anywhere from 500 to 1,000 of the three million corporations in the nation may borrow at the prime rate.

Uniformity Although the prime rate is usually uniform across the country, from time to time different prime rates are posted at different banks. This

Chart I



is often referred to as a split in the rate. Splits between the prime rate at hinterland banks and at large money market banks, especially those in New York, are infrequent, but even more unusual is the existence of a split for any extended period of time at the large New York banks which usually initiate rate changes. Only twice has this occurred since the prime rate was established (Chart I). In both cases Chase Manhattan Bank lowered its rate below the rate at other New York banks. In the first instance, in late January 1967, Chase moved from 6% to 5½% while the other banks dropped to 5¾%. About two months later the other New York banks adopted the 5½% rate. The second instance occurred in late September 1968 when Chase Manhattan again lowered its prime rate by half of a percentage point, to 6%, while the other banks only went to 6¼%. In this case, however, on November 13, 1968, Chase Manhattan raised its rate to the prevailing level.

A split rate can also refer to one bank offering different prime rates to different "prime" borrowers. For example, after several of the most recent changes, some regional banks which were not as pinched for funds as their counterparts in the money market centers charged a lower rate to local customers than to national accounts. In most cases, the local bank lends to national corporations in association with large money market banks and on such loans must charge the rate listed by the leading bank in the group.

History A uniform, national prime rate first emerged in the Depression of the 1930's. From 1934 to 1947 the prime rate was set at 1½%, which was initially thought of as a "floor rate" which banks

established to prevent competition from driving rates below levels necessary to cover administrative and servicing costs.

In the 1920's individual banks had rates which they charged their best customers. Records show that rates comparable to today's prime rate ranged as high as 6% in the 1920's. Of course, prior to the Banking Act of 1933 interest on demand deposits was permitted and in many cases rates of 2% were paid on demand deposits of borrowers, partially offsetting the charge on the loan. In those times businesses usually borrowed from only one bank and did not contact a number of different banks to obtain the lowest rate available. Consequently, considerable differences in rates charged to prime borrowers existed. The emergence of a uniform prime rate was due in large part to improved communications and probably also to increased cost-consciousness on the part of corporate treasurers.

Since 1947 the prime rate has been changed by most or all the banks in the country on 33 occasions. In only six of those instances was the rate lowered. Twenty-three of the changes were initiated by three New York City banks—Bankers Trust Company, Chase Manhattan Bank, and First National City Bank. The longest span of time in which the rate remained unchanged was from August 1960 to December 1965, when it was at 4½%. The rate has remained unchanged for more than one year in only three other instances (Chart I). Prior to August 1957 all prime rate changes had been a quarter of a percentage point. From then until June 1966 all changes were a half percentage point. Since that time there have been eight changes of a quarter percentage point and three of a half percentage point.

Table I
SHORT-TERM BUSINESS LOAN RATES
New York City

	Prime Rate	Change Period to Period	All Loans	Change Period to Period	\$1,000,000 and over Loans	Change Period to Period	\$1,000- \$9,999 Loans	Change Period to Period
1967								
Feb. 1-15	5.75		5.86		5.77		6.55	
		-.25		-.19		-.18		-.14
May 1-15	5.50		5.67		5.59		6.41	
		....		-.01		-.01		-.08
Aug. 1-15	5.50		5.66		5.58		6.33	
		....		+.05		+.05		+.04
Nov. 1-15	5.50		5.71		5.63		6.37	
		+.50		+.43		+.43		+.34
1968								
Feb. 1-15	6.00		6.14		6.06		6.71	
		+.50		+.46		+.46		+.40
May 1-15	6.50		6.60		6.52		7.11	
		....		+.07		+.08		+.19
Aug. 1-15	6.50		6.67		6.60		7.30	
		-.25		-.27		-.28		-.14
Nov. 1-15	6.25		6.40		6.32		7.16	
		+.75		+.73		+.74		+.60
1969								
Feb. 1-15	7.00		7.13		7.06		7.76	

Source: Board of Governors of the Federal Reserve System.

Relation to Other Rates The prime rate is the base rate from which other business loan rates are scaled upward; it should be noted, however, that a few loans are usually made below the prime rate (Table III). While related to money market rates, the prime rate changes infrequently relative to these rates with changes determined not so much by day-to-day changes in the supply and demand for funds as by a longer term outlook. Changes generally lag behind changes in business conditions and other rate changes. (Chart I shows selected rates.)

Since 1952 the prime rate has generally been higher than the prevailing rate on Aaa-rated corporate bonds, a primary source of long-term funds for prime borrowers. Rarely, however, has the spread been more than a half per cent. In most of the ten instances where the prime rate has turned up or down, a similar turn in the rates on Aaa-rated corporate bonds has occurred about three to nine months in advance.

Comparisons of the dealer rate on four-six month commercial paper and the prime rate show the former has changed more frequently than the latter, being more closely linked to the day-to-day money market. The commercial paper rate has tended to approach the prime rate in periods when both have risen while in periods of rate declines the commercial paper rate has moved over one and a half percentage points below the prime rate, e.g., in late 1954, in 1958, and again in 1961. Similar to the Aaa corporate bond rate, the commercial paper rate has usually turned up or down several months to a year in advance of a like turn in the prime rate. Comparisons of commercial paper and prime rate loans, both of which are unsecured, show the cost of the former, including the commission charge on dealer paper or the administrative cost of direct placement and the cost of maintaining open lines of credit as insurance for the paper, to be generally below the cost of the latter adjusted for a 20% compensating balance.

The discount rate has mostly ranged from a half to one and a half percentage points below the prime rate. Since 1947 the discount rate has been changed

Table III
PER CENT OF SHORT-TERM BUSINESS LOANS
MADE AT AND BELOW THE PRIME RATE

May 1967-February 1969
(Based on dollar volume)

Size of Loan	At	Below
\$1,000,000 and over	44.8-54.0	1.6- 8.2
500,000 - 999,999	26.6-33.2	1.3- 6.6
100,000 - 499,999	16.0-21.4	1.0- 9.3
10,000 - 99,999	4.6-13.1	0.5-10.3
1,000 - 9,999	1.2-10.0	0.7-16.0
All loans	30.9-38.4	1.5- 7.3

Source: Board of Governors of the Federal Reserve System.

34 times, only one more time than the prime rate. The timing of these changes has frequently coincided with prime rate changes.

Changes in the overall structure of business loan rates at banks are closely linked to changes in the prime rate. Loan rates have changed little over periods when the prime rate has remained unchanged while periods of a prime rate change have witnessed adjustments in the rate structure which have been in the same direction but generally smaller than the change in the prime rate (Table I). In general, the magnitude of the changes in the average rate for larger loans has been closer to the amount of the prime rate change than for smaller loans.

Size and Volume of Prime Loans The dollar volume of prime rate loans is dominated by large loans, those of \$1 million and over, made to large corporations. Table II, compiled from data collected from 126 commercial banks in 35 financial centers during eight two-week survey periods (like Table III), shows that the larger the loan, the closer the average rate is to the prime rate. The spreads from the prime rate, incidentally, were in the lower part of the ranges during 1968 and 1969 when the prime rate ranged from 6% to 7% and in the higher part during the three 1967 survey periods when the rate was at 5.50%. This in large part reflects the preferred status of prime customers; during periods of business expansion credit demands from all borrowers grow but the result of the rationing process sees the prime customer more often accommodated, thus increasing his share of business credit and lowering the weighted average interest rate closer to the prime rate.

Table III reveals that between 31% and 38% of the dollar volume of all reported short-term business loans was transacted at the prime rate. (This figure is subject to fluctuations; during most of the 1950's, for example, a smaller sample of banks which reported short-term loans transacted a larger fraction of their loans at the prime rate.) For large loans the proportion of the dollar volume made at the prime rate was higher, ranging from 45% to 54%

Table II

SPREADS BETWEEN THE PRIME RATE AND
WEIGHTED AVERAGE INTEREST RATES
ON SHORT-TERM BUSINESS LOANS

May 1967-February 1969

Size of Loan	Range of Spreads (in percentage points)
\$1,000,000 and over	.15 - .23
500,000 - 999,999	.29 - .40
100,000 - 499,999	.46 - .67
10,000 - 99,999	.70 - .98
1,000 - 9,999	.68 - 1.11
All loans	.32 - .46

Source: Board of Governors of the Federal Reserve System.

for loans of \$1 million and over. (Since prime borrowers are preferred customers, it follows that these percentages were in the higher part of the ranges during the 1968 and 1969 survey periods and in the lower part of the ranges during the 1967 periods.) Furthermore, prime rate loans of \$1 million or more accounted for around 70% of the dollar volume of prime loans reported in the surveys. Since large loans are made to large organizations, it follows that these organizations account for the preponderance of the dollar volume of prime loans. If large firms can be considered, on average, better credit risks than smaller firms, it also follows that the average rate on large loans would naturally be closer to the prime rate than the average on smaller loans.

In most of the eight survey periods, the number of prime rate loans transacted accounted for less than 30% of the total number of short-term business loans which were reported and on several occasions were less than 15% of the total. Although the largest size-group of loans accounted for about 70%

of the dollar volume of all prime loans, that group represented a smaller proportion of the total number of prime loans. In the eight surveys there were generally more prime loans of less than \$1 million than of more than \$1 million. In the four size categories of less than \$1 million, prime loans appear to have been most prevalent on loans ranging from \$10,000 to \$500,000. Thus, smaller businesses are certainly not excluded from the prime rate.

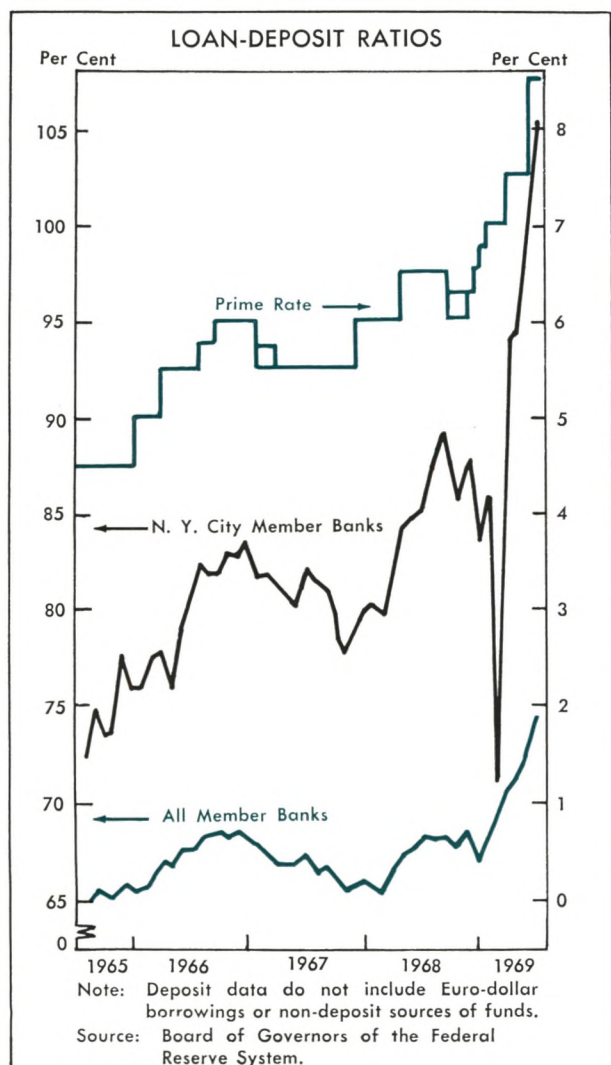
Reasons for Prime Rate Changes Any bank can change its prime rate. A final decision, which may be several weeks or several months in the making, must weigh current and prospective conditions in credit markets and in the economy. Thus, supplies of loanable funds and their cost to the bank, loan demand, and related interest rates all play an important role. For some banks, a desire for leadership in a rate change and the publicity that attends the leader can be important.

While leadership may be a motivating force, any bank contemplating a change, whether it be leading or following, must also think of its competitive position. Naturally, a bank which is merely following an established change can change more easily than a bank contemplating a rate different from the established rate. Banks with outstanding lines of credit must conform to a general rate increase or face being drained of funds by those to whom they have extended lines of credit. If a bank initiating a downward change is not followed by other banks its loan demand could quickly exceed its loanable funds, while a bank standing alone at a rate above its competitors' rate could experience a sharp curtailment of loan demand. The ability of large banks to undertake such risks as well as to appraise business conditions probably explains in part their prevalence as initiators of prime rate changes. Split prime rates, of course, occur when banks differ in their analysis of business conditions or when their individual situations differ.

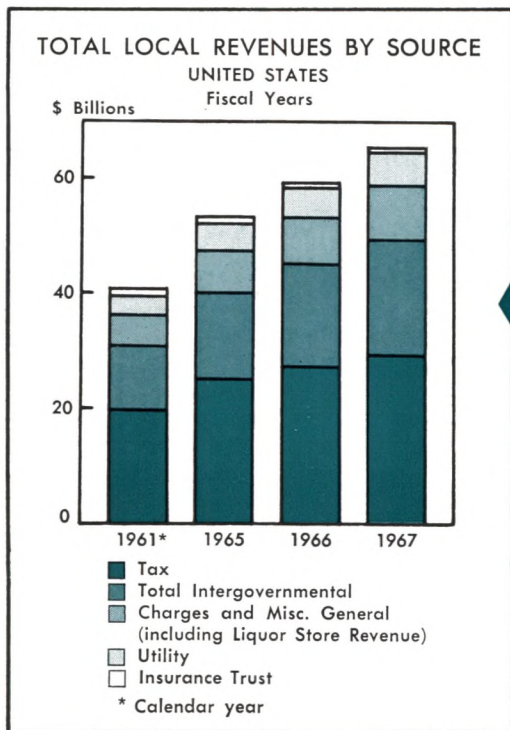
A given bank's loan demand and its supply of funds are probably the critical elements determining its prime rate. These influences are reflected in the loan-deposit ratio chart. The prime rate clearly moves in a pattern similar to banks' loan-deposit ratios. The ratio at New York City banks, which take the lead in servicing large, national firms which qualify for the prime rate, is higher than at other banks and tends to fluctuate more sharply. Swings in the ratio reflect swings in business activity and thus in business credit demands. Over the past two decades loan-deposit ratios have trended upward. In that time, the growth of loan demand has outstripped the growth of loanable funds, in part accounting for the uptrend in the prime rate. In addition, the fantastic growth of interest-paying time deposits has forced banks to charge higher rates on loans to protect profit margins.

Joseph C. Ramage

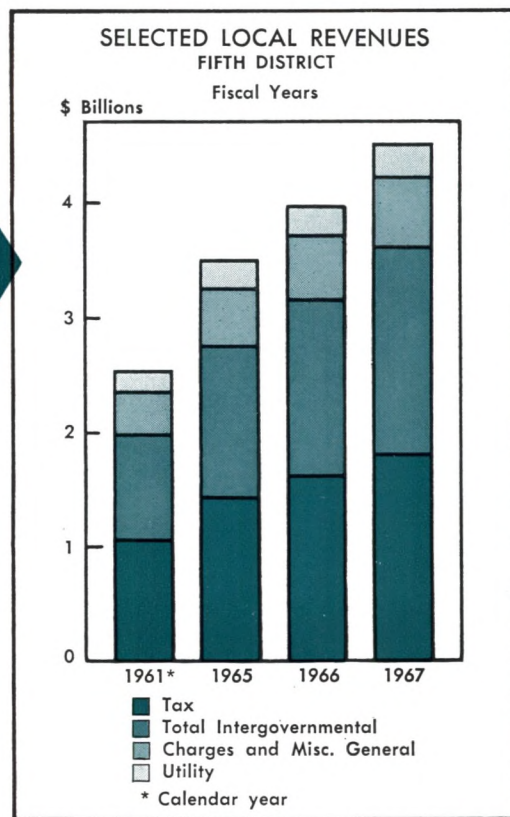
Chart II



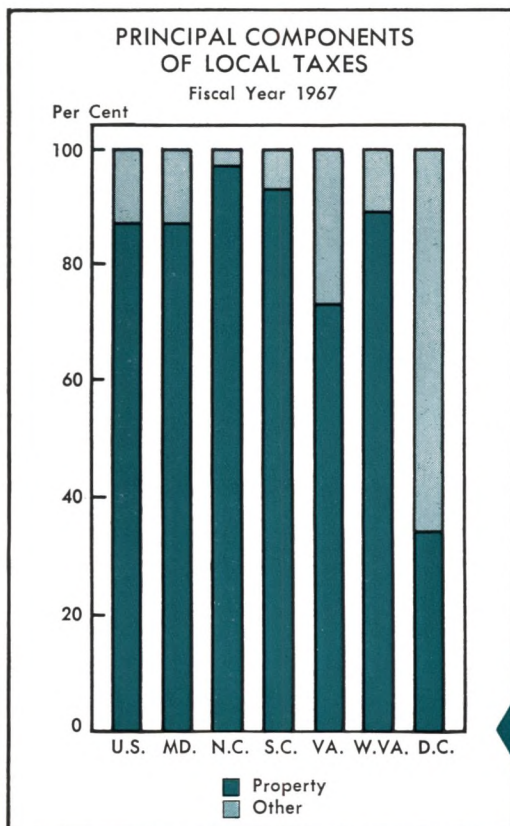
LOCAL VENUES



In 1967 total local government revenues in the U. S., including those in the District of Columbia, were over one and a half times their 1961 volume. Even though taxes remained the major source of local revenue, taxes declined between 1961 and 1967 from almost 49% of total revenues to about 45%. At the same time, intergovernmental revenue grew from almost 27% of total revenues to 31% and nearly doubled in size in the process. As percentages of total local revenues, current charges and insurance trust revenue each remained virtually unchanged during this period while utility revenue declined slightly.

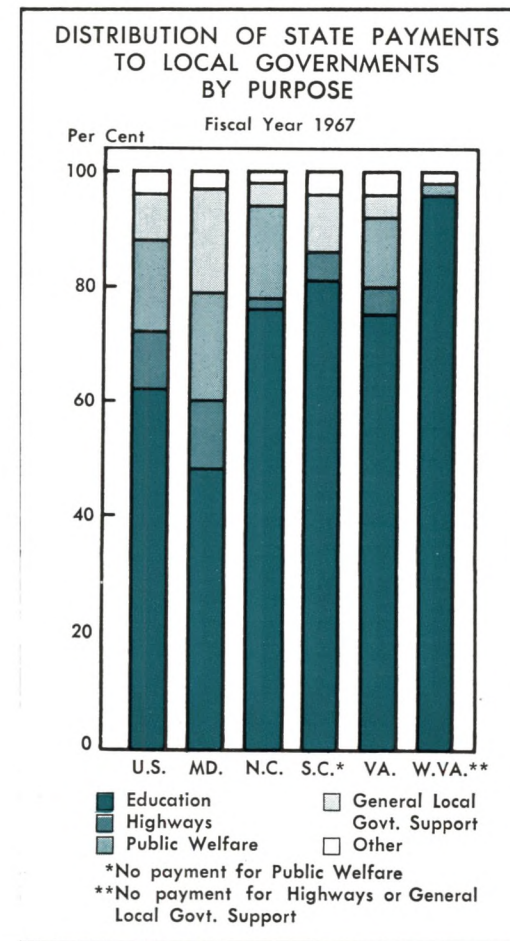
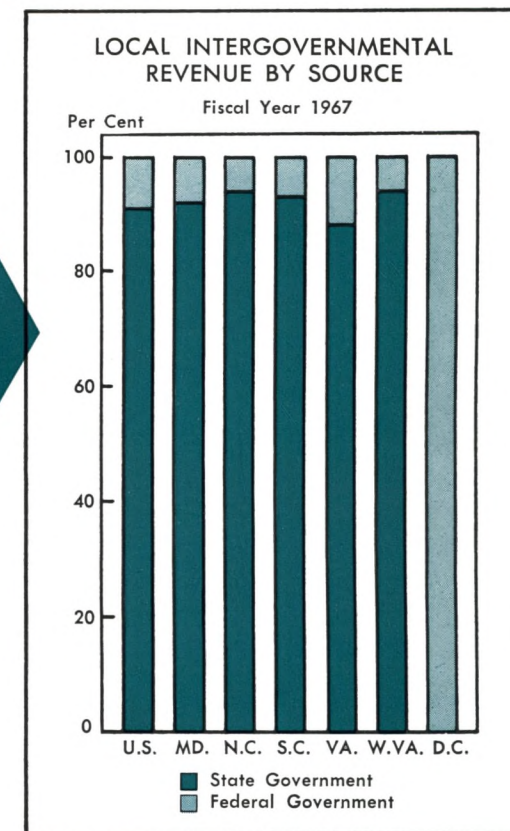


Local government revenues in the Fifth District nearly doubled from 1961 to 1967, excluding insurance trust and liquor store revenue for which data are not available by state. In this span, intergovernmental revenue almost doubled and by 1967 it was as large as tax revenue which itself had grown 70% from 1961.



Tax receipts of local governments in the U. S. in 1967 totaled \$29.3 billion while in the District they amounted to \$1.8 billion. Maryland led District states with \$555 million, Virginia was second with \$450 million, and North Carolina third with \$284 million. Property taxes accounted for \$25.4 billion of the U. S. total while in the District they amounted to \$1.4 billion. The District of Columbia was the only District area that received less than 35% of its tax income from property taxes.

State governments are the major source of local intergovernmental revenue. In 1967, local governments received \$19 billion from their respective state governments and just under \$1.9 billion from the Federal Government. In the District, localities received over \$1.5 billion from their respective state governments and about \$278 million from the Federal Government. Thus, Fifth District states combined contributed almost as much to their respective localities as the Federal Government gave to all local governments across the country. In the District, the Federal Government disbursed the largest sum to the District of Columbia (\$146 million), with Virginia second (\$44 million), and Maryland third (\$35 million).



The largest amount of state payments to local governments is for education. In the District in 1967 \$1.1 billion of total local receipts from the states were for that purpose. Local public welfare in the District claimed the second largest amount, \$201 million. In 1967, North Carolina paid more to its local governments than any District state—\$538 million. In contrast, West Virginia paid its local governments \$119 million.

Dorothy E. Ferrell

Sources: Charts 1-4, U. S. Department of Commerce. Chart 5, Bond Buyer.

DISTRICT DAIRY FARMING

Like most other sectors of the District's agricultural establishment, dairy farming has undergone significant changes since 1950. These changes furnish the basis for this look at dairying in the five-state area.

Production and Marketing Trends Milk production in the District has declined steadily since 1957, when it was at an all-time high. By 1968, production amounted to 5,690 million pounds, 14% below the 1957 figure. The number of milk cows has been decreasing since 1953, however, and at a much faster rate than the decline in production. Milk cow numbers by 1968 totaled 733,000, down 47% from the 1953 count. But the large reduction in numbers has been partially offset by an upward trend in output per cow. Production per cow, having risen more than 70% since 1950, was a record 7,763 pounds in 1968.

Milk utilization patterns have also changed substantially over the past two decades. Milk used on farms where it was produced accounted for 37% of total production in 1950, while marketings comprised the remaining 63%. During the years since 1950, farm use of milk has dropped nearly 80%, but total marketings of milk and cream have increased 33%. By 1968, the proportion of total milk production used on farms had fallen to 8% and the percentage marketed had risen to 92%.

Of the milk used on farms in 1950, 49% was consumed in farm households as milk and cream, 44% was churned for butter, and 7% was fed to calves. These proportions gradually shifted, and by 1968 some 68% was consumed as milk and cream, only 15% was used in making butter, and 17% was fed to calves.

Milk and cream marketed by District farmers in 1968 totaled 5,212 million pounds of milk equivalent. These marketings consist of whole milk and farm-separated cream sold to plants and dealers and milk sold directly to consumers. The 33% increase in these combined marketings noted earlier was due entirely to a 63% expansion in the volume of whole milk sold to plants. Milk separated for sale as cream dropped around 90% and milk sold directly

to consumers fell more than 80%. As a result of these changes, sales of whole milk to plants rose from 80% to 98% of total marketings, marketings of farm-separated cream declined from 9% to less than 1%, and sales to consumers decreased from 11% to about 2%.

Despite the decline in milk production, the expansion in the quantity sold and the somewhat better prices of the past several years have combined to produce an upward trend in cash receipts from dairying. Dairy receipts in 1968, in fact, were a record \$328.5 million and accounted for 12.7% of total cash receipts from farm marketings as against 10.5% in 1950.

Total Dairying and Commercial Dairy Farms Although there are many farms which produce dairy products, all of these are not classified as commercial dairy farms as defined in the Census of Agriculture. Commercial farms in general are those farms having an annual value of sales of \$2,500 or more. Farms with sales valued at \$50 to \$2,499 are also classified as commercial if the farm operator is under 65 years of age and does not work off the farm 100 or more days during the year. There are six different classes of these farms, each of which is determined by its total value of sales. (See accompanying chart.) Commercial dairy farms are further characterized as those from which sales of dairy products account for 50% or more of the total value of farm products sold. Farms are also classified as dairy farms if they meet the following three requirements: (1) sales of dairy products account for more than 30% of total sales, (2) milk cows represent 50% or more of all cows, and (3) sales of dairy products plus sales of cattle and calves amount to 50% or more of all sales.

There were 31,452 District farms which reported sales of dairy products in 1964, a drop of 64% from 1954. On a per-farm basis, these farms sold roughly 155,000 pounds of milk and cream valued at \$8,034. Herd size, quantity sold, and value of sales per farm had expanded sharply since 1954 when average quantity sold was approximately 45,500 pounds and the value of sales averaged \$2,040.

The number of farms classified as commercial

dairy farms in 1964 totaled 15,935 compared with 26,644 ten years earlier. Although the number of dairy farms, like other types of farms, declined between 1954 and 1964, they also became larger. During this ten-year period, average herd size increased from 21 milk cows to 34, and marketings per farm jumped from nearly 121,500 pounds to around 279,600 pounds. Reflecting these increases, the value of dairy product sales per farm expanded from \$5,741 to \$14,476.

Commercial dairy farms have accounted for an increasing proportion of total milk marketings and of the total number of milk cows in recent years. These farms, as noted earlier, receive most of their income from the dairy enterprise. In 1964, they comprised 51% of all farms selling milk and cream. They also accounted for 69% of all milk cows and for 91% of total milk and cream marketings. By comparison, commercial dairy farms ten years earlier represented only 31% of the farms selling milk and cream and accounted for 43% of the number of cows and for 83% of all marketings. With an increasing degree of specialization occurring in District farming, fewer farms other than dairy farms are keeping milk cows as a supplementary source of income. Although the number of commercial dairy farms declined 40% between 1954 and 1964, other farms selling milk and cream dropped 74%.

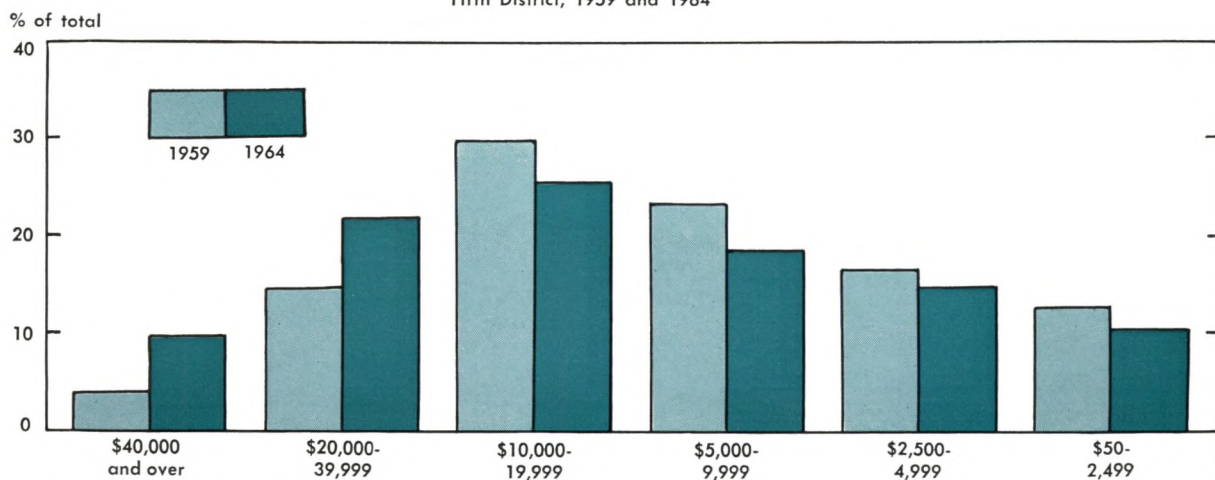
Income of Commercial Dairy Farms There is a wide variation in the average income of commercial dairy farms as well as in the proportions which are derived from the different sources. The smaller the

size of the dairy enterprise, for example, the smaller the gross farm income but the larger the proportion of gross income from all sources derived from off-farm work. Here, however, let us look at the income of the average commercial dairy farm in 1964. In that year, gross income from the sale of all farm products averaged \$18,122 per farm. Of this total, \$14,476, or 80%, came from the sale of dairy products. Another \$1,459, or 8%, was derived from sales of cattle and calves, primarily from cull dairy cattle and dairy calves. Off-farm income of the average dairy operator and his family added \$2,190 to returns from the sale of farm products. This income from off-farm sources brought average gross income from all sources to \$20,312 per farm and amounted to 11% of this total. Some 29% of the operators reported off-farm income, and 31% reported family members working off the farm.

High- and Low-Income Farms The several classes of commercial dairy farms are marked by a number of significant differences in organization, scale, and other characteristics. These differences are especially pronounced in a comparison of high- and low-income farms. In 1964, the number of cows per farm, for example, ranged from a low of 5 on farms with sales of less than \$2,500 to a high of 97 on those farms with \$40,000 or more of sales. Operators of the smaller dairy farms were generally older than those operating larger units. In fact, some 60% of the operators of dairy farms having less than \$2,500 of sales were 55 years of age or older, compared with 30% of those in the \$40,000

COMMERCIAL DAIRY FARMS BY VALUE OF SALES

Fifth District, 1959 and 1964



Source: U. S. Bureau of the Census.

plus class. Generally speaking, as the size of operation or value of sales increased, the proportion of operators in the 55 years and older category declined.

Around 88% of all commercial dairy farms were owner operated in 1964, with full owners predominating. However, because of the higher capital requirements, a greater proportion of the larger commercial dairy farms were operated by part owners (who rent part of their land), managers, and tenants. Of those operators in the \$40,000 plus class, in fact, only 25% were full owners, whereas 85% of those with sales under \$2,500 were full owners.

Generally, the smaller the size of the dairy operation, the greater the proportion of operators who worked off the farm and the larger the share of their total gross income derived from off-farm sources. For instance, of the dairy farms with sales of less than \$2,500, one-third of the operators worked off the farm. Their average gross income from all sources was \$3,034, of which \$1,808, or 60%, was from nonfarm sources. Among those dairy farms with sales of \$40,000 or more, only one-fifth of the operators worked off the farm. Their gross income from all sources averaged \$68,313 per farm, and of this amount only \$3,331, or 5%, came from off-farm sources.

As a rule, as the scale of dairy farming operations increased, the relative dependence on dairying as a source of income increased. On farms with sales under \$2,500, 65% of the average gross farm income came from sales of dairy products. This compared with 79% on those farms with sales of \$40,000 or more. Many operators of farms in the smaller sales groups maintained general farming or general livestock enterprises as supplementary sources of income.

Investment in capital items and expenditures for hired labor and feed were also directly related to the scale of operations. The \$40,000 plus farms, for example, had an average investment in land and buildings of \$205,076, compared with an investment of only \$10,830 by farms with sales under \$2,500. The investment per dollar of sales was less on the larger farms than on the smaller ones, however. Some 96% of the high-income farms had bulk milk tanks, whereas only 2% of the low-income operators had invested in this capital item. The larger farms also used more hired labor and purchased feed than the smaller operations. Expenditures for these two inputs, for instance, accounted for two-thirds of the spending for major purchased inputs on the \$40,000 plus farms, compared with around one-half for those

with sales under \$2,500. The smaller dairy farms averaged about one regular hired worker per farm as against around four on the larger farms. They depended more heavily, and in some cases entirely, on operator and family labor. They also depended on home-grown feed to a greater extent than the larger farms.

Expanding Sector of Dairy Farming The expanding portion of the District's commercial dairy farming consists of those farms with sales of \$20,000 or more. The number of commercial dairy farms with sales of \$20,000 to \$39,999 increased 19% between 1959 and 1964, while those with sales of \$40,000 and over jumped 94%. Farms with \$20,000 to \$39,999 in sales in 1964 averaged 51 cows per farm and had an average gross farm income of \$27,789; those in the \$40,000 and over group had an average of 97 cows and \$64,982 in average gross farm income. Farms in these two groups accounted for 68% of the milk and cream marketed by all commercial dairy farms in 1964, while comprising only 32% of the number of such farms. By comparison, farms in these same classifications in 1959 marketed 46% of the milk and cream sold and represented only 19% of the number of farms.

The number of dairy farms with less than \$20,000 in sales declined by one-third from 1959 to 1964. Farms with \$10,000 to \$19,999 in sales, averaging 32 cows per farm and \$14,680 in gross farm income in 1964, decreased 32% between 1959 and 1964. This group of farms in 1964 made up 25% of all commercial dairy farms but accounted for only 21% of the milk and cream sold, whereas in 1959 they represented 30% of the number of farms and marketed 34% of the total volume of marketings.

Farms with sales of \$5,000 to \$9,999, averaging 19 cows per farm and with gross farm income of \$7,287 in 1964, decreased 37% during the five years from 1959 to 1964. Although accounting for 14% of milk and cream marketings in 1959, farms of this size marketed only 7% of the total in 1964.

Dairy farms with sales under \$5,000 in 1964 had 9 cows per farm and an average gross farm income of only \$2,632. Although 25% of all commercial dairy farms were in this size class in 1964, they accounted for only 3% of milk and cream marketings. The number of these farms fell 31% from 1959 to 1964. Many of the operators of these farms are older and depend on income from off-farm sources for a considerable proportion of their gross income.

Sada L. Clarke

The Fifth District



BUSINESS HIGHLIGHTS

In the past several months economic activity on the national level has shown sporadic signs of slowing although the overall picture still includes persistent inflation, and continued growth in personal income, employment and most other broad indicators. In the Fifth District, a mixture of some slowing and continued growth has also been evident. Selected areas of the District economy, employment, construction, and furniture, illustrate this mixed picture.

Employment Fifth District nonagricultural employment declined slightly in the first half of the second quarter, but then grew to show a net gain of 13,000 for the quarter. The increase in the latter part of the quarter was evident in both the manufacturing and nonmanufacturing sectors. On a year-to-year basis, in May the nonmanufacturing sector showed the largest increases in employment with the finance, insurance and real estate category taking the lead with a 4.7% increase and the transportation, communication and public utilities group, as well as government and trade groups tied for second, each with 3.2% increases. The District increases on a yearly basis in May, however, failed to surpass the national increases in any area of non-agricultural employment.

NONAGRICULTURAL EMPLOYMENT

	Seasonally Adjusted (May, 1969)		
	5th District (thousands)	% change from year ago 5th District United States	
Total	6,334.2	+2.5	+3.7
Manufacturing	1,823.1	+1.2	+2.0
Durable goods	668.2	+1.1	+2.5
Nondurable goods	1,154.9	+1.3	+1.4
Nonmanufacturing	4,511.1	+3.0	+4.3
Mining	68.0	+0.9	+1.3
Contract Construction	358.5	+0.9	+4.0
Transportation, Communication and Public Utilities	370.3	+3.2	+4.5
Trade	1,189.9	+3.2	+4.2
Finance, Insurance and Real Estate	270.1	+4.7	+5.3
Service and Miscellaneous	895.3	+2.9	+5.4
Government	1,359.0	+3.2	+3.4

Source: State Departments of Labor.

Construction District construction activity has been erratic. On a month-to-month basis, seasonally adjusted total construction contracts increased 33.3% in April, declined 16.8% in May, but increased again in June, by 8.9%. As is evident in the accompanying chart, seasonally adjusted residential and nonresidential contracts experienced a similar pattern; nonresidential construction made the largest month-to-month gain in April and the largest month-to-month loss in May. In June, nonresidential contracts were about 15% below the same period last year and residential contracts were about 15% above the year-earlier period. The unadjusted cumulative index of construction contracts for total, residential, and nonresidential construction continued to run well ahead of the same period a year ago, as it has done since the latter part of 1968. In comparison, national construction contracts increased in April and May but declined in June. However, throughout 1969, the index of total construction contracts for the District has continued to run ahead of that of the nation except in May when the national index was 210 and the District index was 203.

The seasonally adjusted District building permit index, an indicator of future construction contract activity, declined 26.7% in June to its lowest point since November, after a substantial increase in May (30.9%). The June index was slightly below that of last year.

Weakness in construction activity is evident in construction employment. Seasonally adjusted employment in the District for February was 390,200 but declined steadily to 358,500 in May. Exceptions to these declines occurred in the District of Columbia in April and South Carolina in March and April. More recent data show a small, 1,200, increase for the District in June.

Furniture The District furniture industry is apparently experiencing no slowdown. The second quarter of 1969 shows unfilled orders almost 27% ahead of a year ago and manufacturers' payrolls nearly 19% ahead of a year ago. On the ebullient side, all items in the accompanying chart show considerable increases over a year ago; in contrast to this general picture, cancellations seemed to be up

substantially over the second quarter a year ago.

Most District furniture manufacturers are extremely optimistic about continued prosperity in the furniture industry for the fall season. Many feel consumers are buying furniture in anticipation of a continued money squeeze. July sales and incoming orders are reported well ahead of a year ago. In contrast to this picture, there has been some slight indication of a curtailment in consumer buying as some manufacturers are reporting less rapid increases in their backlogs than have normally occurred during these months in past years.

Production costs in the furniture industry con-

tinue to rise. Lumber costs have risen recently and some particular species have become rather scarce. Fabric costs have also increased in some cases, and upholstery manufacturers continue to be plagued in many instances with long delays in fabric deliveries. Results of recent surveys conducted by this Bank indicate labor costs have been increasing too. Few price increases have taken place since the beginning of the year, however, and manufacturers are uncertain whether any further price hikes will take place before the October market in North Carolina. Some manufacturers are estimating that price increases will range from 3% to 5%.

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