

THE DISTRICT ECONOMY

IN PERSPECTIVE: 1974

The past year marked a period of intensifying economic problems for both the national and the Fifth District economies. Widespread unemployment and layoffs, depressed consumer demand for durable goods, and distress in construction markets were only a few of the many developments that influenced the pattern of economic behavior during 1974. Because the District economy is widely diversified and broadly based, it is usually more resilient than the national economy to the effects of either a general economic slowdown or isolated pockets of depressed economic activity. This resilience helped to buffet the District somewhat against the turbulence in the national economy during 1974. A closer look at the individual sectors of the Fifth District economy will provide a more complete perspective on developments over the past year.

THE EMPLOYMENT PICTURE

On a seasonally adjusted annual basis, nonagricultural employment statistics declined marginally in the nation and the District during 1974. In December, total employment in the District was down 0.3 percent from a year ago. The manufacturing sector felt the brunt of the employment declines, posting 5 to 7 percent decreases in each state. The District of Columbia showed a 6 percent increase in manufacturing employment, but manufacturing is relatively unimportant in D. C. Results of the monthly survey¹ of District business conditions suggest that decreases in manufacturing employment strengthened toward year-end. Numerous respondents continued to report investment cutbacks, elevated levels of finished goods inventories, and declines in the volume of new orders and order backlogs. All of these developments were directly attributable to the general decline in economic activity.

Perhaps an equally important measure of activity in the manufacturing sector is man-hours. The District man-hour index suffered a sharp decline of 12.5 percent in December over a year earlier, with an 8.6 percent decrease in durables and a 13.6 percent

reduction in nondurables. These figures reflect the substantial contraction in the man-hour index that characterized the second half of 1974, a contraction of even sharper magnitude than during the 1971 slowdown in economic activity. Year-to-year, the man-hour index in December was off 15 percent in South Carolina, 14 percent in North Carolina, 10 percent in Virginia, 9 percent in Maryland, and 6 percent in West Virginia. The District of Columbia registered a 1 percent increase. Reductions in non-durables man-hours were most prevalent in Virginia and the Carolinas, while in West Virginia and Maryland declines were centered in durables industries. An increasing number of survey respondents have reported declines in hours worked per week since mid-1974. Of the firms surveyed in January, over half reported shorter workweeks, with the textile and furniture industries experiencing the sharpest slowdowns.

Nonmanufacturing industries fared better than manufacturing over the past year, with average employment for the District up 1.7 percent. Only West Virginia experienced a minimal decline in the non-manufacturing sector. A closer look at the major categories of nonmanufacturing employment illustrates the relative strength of each. Apart from manufacturing, government is the leading source of jobs in the District. In December, Federal, state, and local governments supplied 1,628.6 thousand jobs or 22 percent of the District's total nonagricultural employment. The 4.5 percent expansion of government employment during 1974 exceeded both the 1972 and 1973 gains. Individual advances in government employment by states were: 8 percent for South Carolina, 6 percent for North Carolina, 5 and 4 percent, respectively, for Maryland and the District of Columbia, 3 percent for Virginia, and 1 percent for West Virginia, which showed a decline last year.

As the third largest source of nonagricultural employment, the wholesale and retail trade sector accounted for 20 percent of the District's employment in December, off 0.3 percent from a year earlier. State statistics ranged from a decline of 3.7 percent in North Carolina to an advance of 2.4 percent in South Carolina.

¹ The Fifth District Opinion Survey of Business Conditions is conducted monthly by the Research Department of the Federal Reserve Bank of Richmond. Respondents represent manufacturing and retail industries throughout the District.

The services sector, with 16 percent of the employment in nonagricultural industries, posted a 3.6 percent employment jump in December over a year earlier. Each state showed substantial increases in service-related employment except West Virginia, which experienced a minimal decline.

There were significant pockets of unemployment throughout the District economy over the past year. Rates of unemployment in the District states varied over a wide spectrum during 1974.² State unemployment statistics for December were: North Carolina, 9.3 percent; South Carolina, 8.3 percent; West Virginia, 7.3 percent; Virginia and the District of Columbia, 5.2 percent; and Maryland, 5.1 percent. Survey responses in January revealed growing unemployment and numerous plant closings across the District, with the greatest slowdowns in the textile and furniture industries. Although no state rates exceeded North Carolina's 9.3 percent, several cities and counties experienced unemployment in excess of 10 percent.

CONSTRUCTION HIGHLIGHTS

Total new construction put-in-place in the U. S. declined by 1.2 percent from December 1973 to December 1974, with the small rise in the first half more than offset by the decline in the second half. Strong deposit outflows from thrift institutions contributed to reduced mortgage lending and skyrocketing mortgage rates during most of the year, although improvement in both flows and rates was evident in the fourth quarter. The problem was compounded by consumer resistance to escalating property and construction costs, resulting in a 39.3 percent plunge in U. S. housing starts during 1974. The level of housing starts in December was the second lowest for any month in the post-World War II period. As the factors of distress in the U. S. housing market permeated the District over the year, the District's index of construction contract awards began to plummet. In December the index stood 10.4 percent below a year earlier, with South Carolina suffering the brunt of the overall decline. Most District states showed gains in nonresidential construction; only South Carolina posted a decline. All states, with the exception of the District of Columbia, however, registered declines in the residential sector over the year, with the steepest decline in Maryland. Actual figures for the change in the index of construction contract awards by state for the year were —18.9 percent in

² Because of discrepancies in reporting and compilation procedures, state unemployment rates are not completely comparable.

South Carolina, —10.3 percent in Virginia, —9.2 percent in North Carolina, —7.3 percent in West Virginia, and —1.1 percent in Maryland. The District of Columbia registered a 12.2 percent increase.

AGRICULTURE

A retrospective look at 1974 shows a year in which the Fifth District farmer fared better than was characteristic nationally. While trying to balance their own checkbooks in the face of mounting inflation, District farmers were confronted with sharply rising fuel, fertilizer, and feed prices and unfavorable growing conditions in some areas of the District. But District farmers generally were not subjected to the extremely poor growing and harvesting conditions that plagued farmers in many other parts of the nation. On the whole, 1974 seems to have been a fairly good year for the District farmer, markedly better in many respects than the national average, but not a repeat of the District's banner performance of 1973.

Despite the many problems that persisted throughout 1974, District crop production in general averaged better than that in the nation. Sharply higher crop prices combined with the slightly lower production levels to result in a 25 percent increase in District crop receipts in 1974 over a year earlier. State increases in crop receipts ranged from a high of 38 percent in South Carolina to a low of 19 percent in North Carolina. The overall jump in crop receipts reflects a sharp advance in tobacco incomes, as tobacco prices soared and production levels increased slightly. The gross sales value of the 1974 flue-cured tobacco crop was the largest on record, topping the 1973 level by 27 percent.

In contrast to the crop sector, which fared well this past year considering the general economic climate, the livestock sector experienced a marked slowdown during 1974. The prevailing factors that influenced the District's livestock market throughout the year were the soaring price of feed and very low livestock prices, which combined to cause a severe cost-price squeeze. District livestock slaughter (weight figures) rose sharply over the year, with hog slaughter leading the increase. However, the markedly lower livestock prices more than offset these increases, resulting in a 6 percent decline in District livestock receipts. Each state experienced a decline in cash receipts from the livestock sector, ranging from 3 percent in Maryland to 8 percent in South Carolina and West Virginia.

The declines in the livestock sector were more than offset by gains in crop receipts, resulting in higher cash receipts from total farm marketings in the District last year. The total cash receipts figure was up 10 percent above a year earlier, with South Carolina leading the gain. One additional factor that should lend encouragement to District farmers is the fact that during 1974 the value per acre of farm real estate continued to climb throughout the District, though some slowing in the rate of increase was evident during the latter part of the year.

BANKING DEVELOPMENTS

1974 statistics for member banks in the Fifth District clearly reflect the strong demand that characterized the year. The bank debits index rose 25 percent during the year, exceeding last year's large gain. Increases were reported in each state, ranging from a low of 17 percent in West Virginia to a high of 39 percent in Maryland. Unusually strong business loan demand resulted in a dramatic increase in loans and discounts by District member banks. At \$23.6 billion in December, loans and discounts were up 11 percent over a year earlier, a figure that would have gone much higher if business loan demand had not abated somewhat in the fourth quarter. In the investment category, District banking activity was mixed,

with holdings of U. S. Government obligations declining 15 percent to \$1.7 billion and other security holdings climbing 9 percent to \$6.2 billion. Total assets of member banks in the District were \$38.2 billion in December, up 12 percent over 1973. By states, total assets on the last Wednesday in December posted the following year-end increases: West Virginia, 24.3 percent; Maryland, 18.2 percent; South Carolina, 14.6 percent; District of Columbia, 11.0 percent; North Carolina, 10.8 percent; and Virginia, 10.0 percent.

District member banks also experienced sizable deposit expansion during 1974. Total member bank deposits in December were \$31.2 billion, 12 percent above a year earlier. Total deposit gains by state were 19.4 percent in West Virginia, 12.4 percent in South Carolina, 12.3 percent in Virginia, 12.1 percent in the District of Columbia, 11.4 percent in North Carolina, and 10.1 percent in Maryland. Demand deposit volume spurted 11.6 percent over the year while time deposit volume grew slightly slower at 9.7 percent. Demand deposit gains by state ranged from a low of 7 percent in South Carolina to a high of 22 percent in West Virginia; time deposit gains varied from the District of Columbia's low of 6 percent to South Carolina's high of 21 percent.

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