Regional Wrap-up ’74: Doldrums Descend On District Economy

By Howard Keen, Jr.

Residents of the Third Federal Reserve District, along with their counterparts in the U.S., had little economic news to cheer about in 1974. Prices were climbing at a near-record pace, and real output of goods and services was stalling. Despite this one-two punch, the region did have a few relative bright spots: The total number of jobs available increased and construction contracts awarded also rose. But inflation, high interest rates, and rising unemployment rates dampened overall business activity. By year-end, the District economy, like that of the nation, was in the doldrums.

PRICES HIGHER, REAL INCOMES LOWER

“Even higher” described prices in 1974. Consumers, still reeling from a pace of price increase in 1973 that was about three times faster than in 1972, saw prices climbing even more rapidly in 1974. Nationwide, prices were up a little over 12 percent while Third District consumers struggled with a rate of close to 13 percent.2

Both nationally and regionally, high interest rates along with shortfalls of oil and agricultural produce contributed to the bulge in the prices of housing, food, and transportation. The result: Bigger chunks out of consumers’ pocketbooks, and a tough time in making ends meet in ’74.

1The Third Federal Reserve District covers the eastern two-thirds of Pennsylvania, the nine southern counties of New Jersey, and all of Delaware.

2Except where noted otherwise, growth rates for 1974 and other years represent December-to-December changes.

3The fact that prices rose faster in the region than nationwide doesn’t mean that the level of prices in the District is above the average U.S. level. The consumer price index can be used to show changes in the level of prices but, not the levels themselves. Estimates of household budget can provide insights comparisons of price levels. See Joan Bracker, “Urban Family Budgets Updated for Autumn 1973,” Monthly Labor Review, August 1974, pp. 57-62.
THE DISTRICT WAS AGAIN PARTICULARLY HARD-HIT BY INFLATION IN '74...

* The CPI for the Philadelphia SMSA is taken as representative of the Third District.


While price tags were ballooning, workers' purses didn't keep pace. Across the country, workers in manufacturing saw their average weekly earnings grow at a 6.7 percent clip. But the rapid rise in prices more than wiped out this gain in earnings so that real purchasing power fell almost 3 percent during 1974.

Laborers in the Third District fared even worse. While prices rose at a faster pace in the region than the U.S. average, manufacturing earnings climbed at a slower pace. Average weekly earnings in manufacturing were up less than 6 percent during the year. When weekly paychecks are adjusted for the effects of higher prices, District workers were left with over 7 percent less real income than in '73.

FALLING OUTPUT

While prices climbed, real output of goods and services fell. Real GNP declined in the U.S. throughout 1974 with the biggest drops occurring in the first and fourth quarters of the year. For the year as a whole, real output declined 2.2 percent.

In the District, industrial activity also fell sharply in '74. A major yardstick of industrial activity in the region is the index of electric power consumption in manufacturing. In the first two quarters of the year, the index was down slightly from year-end '73. It appeared to be picking up somewhat in the third quarter, but took a sharp dip in November. Over the first 11 months of 1974 this measure of local industrial activity was down 3.2 percent.

AND DESPITE FATTER PAYCHECKS, REAL INCOME OF DISTRICT MANUFACTURING WORKERS FELL MORE THAN THE NATIONAL AVERAGE.

* Third District figures based on first 11 months.


Construction: Public Works Up, Housing Down. Thanks to a strong year in public works
construction, the value of construction contracts in the Third District was almost 5 percent above last year. Although this was well below '73's increase of 19 percent (and less than the rise in prices in '74), it was a strong showing at a time when the value of total construction contracts was down more than 6 percent nationally.

In both the U.S. and the region, the residential sector was the softest in the construction industry. Very high interest rates on business and government borrowing drained funds from the thrift institutions that normally provide the bulk of the country's mortgage financing. As a result, mortgage money was scarce and the interest rates were high. There was some slight easing of this situation late in the year, but for most of '74 it proved to be a heavy shackle on the construction of residential housing. Overall, the dollar volume of residential construction in the U.S. fell more than 20 percent in '74. Regionally, this component was off more than 25 percent from '73 levels.

SLIMMER PICKINGS IN THE JOB MARKET

Despite the sluggish economy in '74, overall employment in the region was fairly strong.
While nationwide the total number of jobs fell slightly, the number employed in the District was up sharply in the beginning of the year over year-end ’73. As the year unfolded, the total number of jobs in the region declined and the unemployment rate rose. Nevertheless, by year-end the index of total employment was still almost 2 percent above December ’73. Across the nation, however, the total number of jobs actually fell 0.6 percent during 1974—the first year since 1970 that total employment declined.

The slight decline in total employment nationwide took place primarily in the last quarter of the year. Earlier in the year the number of jobholders increased, however. The unemployment rate, therefore, moved up only slightly—from 5.2 to 5.4 percent—through late summer. The small increase that did occur stemmed mostly from the inability of newcomers to the labor market to find jobs, rather than from layoffs.

All of this changed abruptly near year-end. Sluggish sales, rising inventories, the coal strike,
and the slump in the auto industry all combined to cast a gloomy shadow on the job market. Not only were new entrants into the labor force unable to find jobs, but many workers who had held jobs during the year were laid off. The result was a big jump in the unemployment rate to 7.1 percent in December nationwide—the highest in 13 years.

Along with the national trend, the District’s unemployment rate moved upward only slowly for most of 1974. By the last quarter of the year, however, layoffs and lack of work for new job seekers took its toll. By November the regional rate had jumped to 7.3 percent.

The manufacturing sector was especially hard hit. In both the U.S. and the District, workers in these industries found themselves in unemployment lines instead of on assembly lines. But, as a whole, the plight of the region’s manufacturing workers was not as gloomy as that of their nationwide counterparts. In the U.S., manufacturing employment fell 5.8 percent, while in the region it was off 1.7 percent from 1973.

RETAINING: SALES ARE SLOWISH

With real income down from 1973 and the unemployment rate on an upward trend, consumers were bound to keep a tighter grip on their pocketbooks. This sharper eye on spending was reflected in slower growth of retail sales at department stores.

Nationwide, department store sales were up 8 percent over 1973 levels—slower than in ’73 when they registered a 13 percent gain over ’72. In the District, however, 1974 was a lean year for the big store merchants. With the exception of Philadelphia, where increases ran slightly ahead of those in ’73, sales rates were off in all other areas. In fact, some cities experienced a drop from last year’s levels. After considering the effect of inflation in boosting the dollar volume of sales, it’s clear that in most areas of the District unit sales were actually below 1973 levels.
LENDING LAGS

Despite a brighter overall job picture in the District than nationally, Third District business activity, like the U.S., was stalled in '74. And this slower growth in regional economic activity is mirrored in the lending by Third District banks.

For most of the year, credit market conditions restrained bank credit expansion and boosted interest rates all across the U.S. For example, the highly publicized 'prime' rate charged by banks hit a high of 12 percent in August and September—twice its level in January 1973. Some easing in credit conditions near year-end did little to change the picture for '74.

Nationally, loans at member banks grew during '74 at a 9.7 percent pace. While this was a creditable showing, it was anemic when viewed against the 19 percent clip of the two previous years. Member bank loans in the region grew 5.6 percent during '74—less than the national rate and well below '72 and '73. This reduced rate of loan expansion was not entirely indicative of the demand for bank credit. To a large extent, it reflected the attempt on the part of many banks in the District to retrench from tight liquidity positions. Closer scrutiny of loan requests and less aggressive loan expansion helped account for the slower pace in '74.


Both in the nation and the region bank investments changed very little compared to 1973. Heavy loan demand and double-digit inflation provided incentives for banks to shift their funds from fixed-income securities to more profitable loans where the rate of return kept more in line with the rising price level. Member banks in the District reduced their investments by 1.3 percent—the second year in a row that investments fell.*

MORE ALIVE IN '75?

In brief, the past year was one of progressive

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*Investments consist primarily of securities of the U.S. Treasury, other U.S. Government agencies and corporations, and obligations of states and subdivisions.
 movement into the economic doldrums. Job
growth in the District was brighter than the na-
tional picture, but fast-rising prices and slow-
rising wages took a harsh toll on real income.
Moreover, the fear showing in job growth wasn't
enough to prevent the unemployment rate in the
region from leading the national rate upward.
All of this combined to slow the ring of de-
partment store cash registers. Lower real in-
comes and fear of job loss have made consum-
ers cautious. And consumers' reluctance to
spend makes businessmen hesitant to get pro-
duction lines rolling and provide jobs. Will this
scenario keep the regional economy in the dol-
drums or will business activity be more alive in
'75? With general uncertainty and reluctance to
spend in the air, a quick pickup in economic
activity doesn't seem to be in the cards. This
outlook for economic activity to emerge only
slowly from the doldrums is consistent with the
expectations of area businessmen who see high
unemployment and inflation plaguing a sluggish
regional economy through the first half of '75
(see Box), but with some pickup thereafter.

THIRD DISTRICT BUSINESSMEN SIZE UP '75

The Federal Reserve Bank of Philadelphia conducts a monthly business outlook survey. This
survey is designed to gain insight into prospective economic conditions in the Third Federal
Reserve District, an area that includes the eastern two-thirds of Pennsylvania, the southern half
of New Jersey, and Delaware. Executives of manufacturing firms with 500 or more employees
are polled regarding their readings of local business activity.

Since its inception at the request of the regional business community almost seven years ago,
the Business Outlook Survey has become a useful source of economic intelligence both for
business and public policymakers. Copies of the monthly summary of the Outlook Survey may
be obtained by writing to Public Services, Federal Reserve Bank of Philadelphia, P. O. Box 66,
Philadelphia, PA 19105.

OUTLOOK FOR 1975

Area executives expect some brightening in the region's economic skies in 1975. Close to
half of the businessmen surveyed foresee a higher level of business activity six months down
the road. In addition, about half of those polled anticipate higher sales and new orders for their
firms in the coming months. Some clouds remain on the region's horizon, however. Roughly
half of the large manufacturers expect to be paying, as well as receiving, higher prices by mid-
year, and more than half plan no increases in their workforce. Consequently, with an expand-
ing labor force, the regional economy can expect to be vexed by a high level of unemployment.
In a nutshell, Third District businessmen anticipate a pickup in regional economic activity,
but no quick turnaround in unemployment and inflation.
The Fed in Print

Business Review Topics, Fourth Quarter 1974, Selected by Doris Zimmermann

Articles appearing in the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks during the fourth quarter of 1974 are included in this compilation. A cumulation of these entries covering the years 1970 to date is available upon request. If you wish to be put on the mailing list for the cumulation, write to the Publications Department, Federal Reserve Bank of Philadelphia.

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