including the concentration of savings institutions and also the easy access to organized investment markets. But such specifically urban characteristics were by no means the only factors in the 1961-62 contrasts between the rates paid by large and small banks.

There is good reason to believe that the banks which posted the largest increases in rates on savings deposits were those with sound loan and investment opportunities that would go unsatisfied unless deposits grew more rapidly. The large banks' deposit growth had failed to keep pace with that of other banks during the postwar period, and their loan-deposit ratios, which were among the highest in the nation, indicated that the large banks were finding it more difficult to meet the entire growth of loan demand. Thus in 1961, dissatisfaction with Regulation Q among commercial bankers in New York State was found to be directly associated with bank size and with the level of loan-deposit ratios.11

On the other hand, there is no evidence that reluctance to bear the cost of higher interest rates (as measured by the ratio of interest-bearing total deposits) played any significant part in determining which banks raised rates and which did not. Banks with a high proportion of their deposits in time and savings accounts raised rates with the same relative frequency, and by as much, as did banks with a low proportion.

Why were banks willing to accept large relative increases in their costs? Certainly, some banks—especially those subject to competition from New York City and Buffalo banks—considered the higher rates necessary to protect existing deposits from competitors. Nevertheless, the fact that rates were increased so quickly after ceilings were raised (in contrast to a much slower response to a previous change in the interest rate ceiling in January 1957) probably indicates that the desire to take advantage of lending opportunities was an important motive. Indeed, many District bankers are convinced that, with demand deposits growing relatively slowly, only active promotion of time and savings deposits can sustain the kind of growth of commercial bank resources that is needed to maintain or improve their profits prospects over the long run. It is worth noting that, despite sharply higher interest costs, net income of the average Second District commercial bank in 1962 actually was slightly higher than in 1961.

**SUMMARY**

The growth of interest-bearing deposits in the Second District since the lifting of Regulation Q ceilings has been strongest at large banks in large cities, in both time and savings deposits. The response to the Regulation Q change was a broadly based, general rise in interest rate offerings, with the large deposit-seeking city banks making the greatest upward changes on savings accounts. A substantial effect of the higher rates was the renewed growth of negotiable time certificates of deposit, which at the end of 1961 had lost their competitive advantage over Treasury bills. Another result was an acceleration in the upward trend of commercial bank savings deposits, stemming mainly from the significant cut in the rate advantages of competing savings institutions. At the higher rate levels, time and savings accounts also became an attractive investment for a considerable flow of funds diverted or withdrawn from securities markets during 1962.

---

11 New York State Bankers Association, *op. cit.*

---

**The Business Situation**

The tone of business news has improved since the middle of the first quarter, although actual measures of activity have for the most part remained sluggish. To some extent, of course, this better tone merely reflects the fact that a number of indicators that had declined in January, for temporary reasons, ended up on the plus side in February. There are, however, other mildly encouraging signs of a possibly more substantial nature. Thus the major element of recent strength—consumer buying—has continued upward in January and February and, according to early signs, in March as well. Given the recent settlements, the growth of the newspaper strikes in New York and Cleveland, moreover, retailers in these cities will now be able to give full publicity to their Easter and spring offerings. Furthermore, recent Government surveys of business spending plans suggest that prospects for continued advance in economic activity now rest on somewhat firmer ground than was the case a few months ago. The unemployment rate, finally, fell back to 5.6 per cent of the labor force in March. Nevertheless, a significantly faster uptrend in activity will be needed to provide enough new jobs to keep up with the growing labor force.
MEASURES OF RECENT ACTIVITY

Industrial production remained virtually unchanged in February, as the Federal Reserve's index continued to fluctuate about the 119 per cent level for the ninth consecutive month (see Chart 1). Output for most major industry groups showed only seasonal changes, a notable exception being a sizable rise in iron and steel production. Demand for steel has recently been rising rather steadily, in part reflecting the desire of some steel users to stockpile inventories as a hedge against a possible strike, with the result that steel producers have in recent weeks relit several previously idle furnaces. By the end of March, ingot production had risen to well over 70 per cent of capacity. At the same time, automobile producers maintained the high assembly rate of the past several months, partly in anticipation of brisk spring sales.

Although recent movements in construction activity have been slightly on the downward side, it appears that underlying demands have been well maintained. In the residential sector, for example, new housing permits issued in February remained at the high December-January level. There are reports that many of the recent authorizations are for large multifamily dwellings, construction on which typically does not get under way until late spring. In addition, of course, work on some projects has been somewhat delayed by the unusually bad weather in many sections of the country. Although construction outlays by the government sector registered a significant decline in February and changed little in March, contract awards figures suggest that the drop was temporary and that such outlays should rise somewhat further in the months ahead.

Consumer spending has continued to be a primary source of strength. Retail sales advanced by 1 per cent in February and, since November, have been maintained above a seasonally adjusted annual rate of $240 billion despite cold weather and newspaper and transit strikes. Moreover, weekly data for March, although difficult to assess because of the earlier date of Easter this year, on balance seem to suggest that consumer spending for goods remains buoyant. To be sure, unit sales of new automobiles slipped a bit in March, but advances in other retail sales were apparently more than enough to offset this slippage. Thus, retail sales in March will probably prove to have advanced over February, to attain a new high.

The most discouraging development in February had been a rise in the unemployment rate to 6.1 per cent of the labor force. In March, however, the unemployment rate declined to 5.6 per cent. It seems quite likely that the February rise in this rate had at least in part reflected the unusually severe weather that curtailed outdoor activity in that month. Employment statistics, on the other hand, had actually shown an improvement in February. Thus, seasonally adjusted total payroll employment—a series which tends to be less affected by weather—had risen by 182,000 persons. While nearly half of this gain in employment merely reflected the ending of the dock strike (which in itself would not have caused a reduction in unemployment since strikers are not counted as unemployed in the statistics), there were also sharp increases in the number of jobs in the trade and service sectors. Even in the manufacturing sector, which had been a source of weakness in the past several months, both employment and average weekly hours moved up slightly in February (see Chart 1). In March, nonagricultural employment continued to expand markedly according to the Census Bureau's household survey, and there was also some pickup in the number of jobs on farms, with the result that unemployment fell by 400,000 persons. Nevertheless, the total amount of unemployment in March still remained above four million, which was higher than the level of a year ago despite the gains in economic activity since that time.

Unemployment figures are not necessarily accurate measures of hardship suffered because of the lack of jobs.
Some of the unemployed belong to families that may have other reasonably adequate sources of income. (Even such unemployment, of course, represents a loss of potential output.) Normally, however, sizable changes in the unemployment rate reflect sizable changes in joblessness among family breadwinners. For example, the unemployment rate for married men, according to a new seasonally adjusted series compiled by the Bureau of Labor Statistics, increased significantly in both January and February, and then fell back to the 1962 average in March—a movement that almost exactly paralleled the pattern traced out by the over-all unemployment rate.

**BUSINESS SPENDING PLANS**

Recent surveys of businessmen’s spending plans suggest some increases in such spending over the balance of the year. For example, according to a February survey by the Department of Commerce, manufacturers plan to add about $850 million to their inventories during the second quarter of this year as against an estimated increase of only $200 million in the first quarter. The major part of this increased spending is in the durables sector and, of course, largely reflects the plans of steel users to hedge against the possibility of a steel strike at the end of July. Positive expression of these plans also shows up in the figures on new orders for durable goods, which advanced for the second consecutive month in February (see Chart I), with orders for steel posting the largest single rise. Such stockpiling is, of course, only temporary and liquidation of these inventories might be something of a drag later in the year. By that time, however, other demands—perhaps partly related to a tax cut—may be developing.

Indeed, the latest reports on businessmen’s plans for capital spending are encouraging, particularly for the latter part of the year. When surveyed last fall by the Commerce Department and the Securities and Exchange Commission, such plans had suggested that expenditures for plant and equipment would decline in the opening quarter of 1963. According to the survey taken in February, however, it appears that this decline had already occurred in the final three months of 1962 and that no further weakening is expected. The more recent plans call for a sidewise movement in capital outlays in the first quarter of this year and a moderate pickup in the second quarter (see Chart II), which would bring the average of the first half of 1963 to a level slightly above that attained in the last half of 1962. The implied rate of gain in the second half of 1963 is about 4 per cent above the average for the first half. For the year as a whole, outlays are expected to total $39.1 billion, or 4.8 per cent above the 1962 level. This increase exceeds the 2.7 per cent rise indicated in last fall’s McGraw-Hill survey.

While these plans could, of course, be sharply modified if the economic outlook became clouded for other reasons, they suggest that a downturn is unlikely to be initiated in this area. In this connection, it may be significant that, in four of the five years in which the Commerce-SEC survey has pointed to a larger increase than the fall McGraw-Hill survey, the actual year-to-year gain in capital expenditures was greater than indicated by either survey. Moreover, the solidity of these plans would seem to be confirmed by the National Industrial Conference Board’s survey of capital appropriations which shows that net appropriations by large manufacturing firms rose by 16 per cent in the fourth quarter of 1962, following a similar sharp rise in the third quarter. These gains, thus, more than offset the decline in appropriations that occurred during the second quarter of last year when business sentiment and the stock market reached a low ebb. On the other hand, it is important to recognize that the gain in capital spending indicated by the Commerce-SEC survey, even if realized, is only about one half of the rise registered in 1962.