



FEDERAL RESERVE BANK
OF PHILADELPHIA

*Business conditions in
the Philadelphia Federal
Reserve District*

January 2, 1918

THE industries of this district which are engaged in the production of materials and supplies needed by the Government for war purposes have been running to, as near capacity as possible. Other industries, however, have felt to a considerable extent the factors of labor shortage and transportation difficulties which have been cutting down their output; in addition, they have been unable to meet the wages which the munition factories offer, and the demand for their products has decreased, so their position is far from satisfactory.

Railroad situation Referring to the railroad problem and the solution of the country's transportation difficulties, we are in receipt of a most interesting letter from one of the Vice-Presidents of the principal railroad system in this country, who says in substance, that the present necessities of the railroads are as follows:

- 1—Immediate increases in rates to meet increasing operating expenses and to strengthen railroad credit are imperatively necessary, because for years the railroads have been deprived of remunerative rates sufficient to give them a proper credit basis and to enlarge their plants to meet the growing traffic of the country. There is no railroad problem, outside of the need of rates to meet the tremendous increase in the cost of materials, labor and other expenses. As a new development, there is the further problem of securing capital to meet maturing obligations

and to provide additional equipment and facilities, because the Government has absorbed the money market.

- 2—The present congestion of traffic has arisen from the causes specified above in item 1 and because of the world wide war, with the consequent tremendous expansion of our industrial, agricultural and mining activities. This situation, however, should soon correct itself to a large extent because most of the troops have been moved; cantonments are nearly completed; many of the shipyards are built; a regular service for camp supplies has been inaugurated; and the northwest has been relieved of its coal shortage.
- 3—Most of the railroads need more locomotives immediately and enough new cars to replace those worn out. There are approximately 3,800 locomotives and 33,000 cars on order for American railroads, but they have not been delivered. Government priority orders are essential for prompt delivery of such equipment.
- 4—Approximately 2,000 locomotives and 150,000 cars in addition to those now on order will be necessary to meet the requirements of next year. This is more than the railroads usually require each year and represents a cost of approximately \$500,000,000.
- 5—Railroad men should be drafted and assigned to railroad service until actually needed for military service; this applies especially to firemen and skilled shop men, who become expert only after considerable experience. The rates heretofore allowed the railroads have not allowed a proper margin to keep the best workmen in the service, so they have taken positions in other industries at higher wages.

Any congestion which now exists cannot be remedied completely under any form of control or money expenditure. It results from an unprecedented war in which we are trying to equip and feed ourselves and several other nations as well.

No complaint can be made as to the lack of efficiency of the railroads. For several months they have handled 50% more business than in 1915 without material enlargement of plants. They do not need a billion dollars or any other sum like it to meet their financial necessities. Railroad maturities during 1918 will be in the neighborhood of \$250,000,000; this and other necessities must be met.

The repeal of the Anti-Trust Act and the Anti-Pooling Laws are not essential at present to produce maximum efficiency, but they should never have been applied to railroads, because railroad rates and activities are uniform and are regulated by Federal and State

commissions. It may, however, be desirable to have these subjects considered, so that, directly or indirectly, there may be no obstacle, legal or otherwise, to the railroads unifying their operations and facilities and combining for that purpose to help win the war and serve the American people.

No matter what kind of Government control or policies may be instituted the eastern railroads will require increased rates.

Coal The supply of coal is in no way equal to the demand and many industries, including even some of those which produce war materials, have been forced to shut down, at least temporarily, due to their inability to secure fuel.

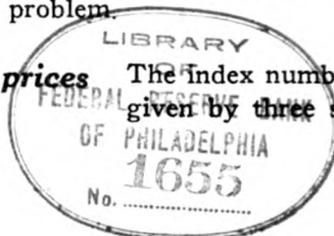
That the production of coal has not lessened but is greater than ever before is shown by the fact that the Reading, Pennsylvania, and Baltimore and Ohio Railroads transported a total of approximately 85,000,000 tons of bituminous coal during the first eleven months of 1917 as compared to 80,000,000 tons during the same period in 1916. As a natural consequence, the supplies which are reaching each locality are likewise larger, but the demand has so largely increased, that the net result is, to all intents and purposes, a coal shortage.

The output of the central Pennsylvania fields of late has averaged from 80 to 85 per cent of their possible capacity. The chief cause of this loss, as shown by Government reports, was the inability to secure a sufficient number of cars. Solid trainloads of coal have been shipped and are being shipped, but they become tied up at some congested point and only serve to emphasize the lack of adequate transportation facilities. The extent of this shortage of cars available for coal carrying can be judged from the fact that many mines are getting less than 15 per cent of their car allotment. It has been hard to secure sufficient labor, and, in addition, the mines are having great difficulty in holding the men now in their employment due to the alluring wages offered elsewhere.

An increase in the production of coal can only be secured by giving coal priority in shipment over other articles of commerce and furnishing an adequate supply of cars to the mines. Government officials are doing all in their power to make these things possible, and it is hoped that the situation will be improved in the near future. Primarily the situation depends upon the right solution of the transportation problem.

Commodity prices

The index number of commodity prices as given by three statistical agencies in this



country are somewhat at variance, as may be seen by the following comparison:

	<u>Dec. 1</u> <u>1916</u>	<u>Nov. 1</u> <u>1917</u>	<u>Dec. 1</u> <u>1917</u>
Dun's	168.090	220.750	220.172
Bradstreet's	\$13.6628	\$17.0701	\$17.8113
Annalist	209.797	278.006	280.655

It would seem, however, that we have about reached the high level in commodity prices. There may be some increase in the future, but as the Government gets a stronger hold on the situation by means of price regulation, it may be expected that prices will probably remain more nearly stationary in the future than has been the case during the last two years.

Crops The crops raised in this district during the year 1917 were very large. According to the Pennsylvania State Department of Agriculture, the five cereal crops show an excess of 8,560,417 bushels over the 1916 crops. All of the cereals show increases, but oats present the largest gain. This showing is remarkable in view of the scarcity of labor, which has been such an important factor throughout the year. At the present time, the farmers are prosperous and ask for little accommodation at the banks. The labor situation is their chief concern, and owing to this it appears that the acreage planted in winter wheat is not quite up to what was hoped.

The Lancaster county tobacco crop is nearly all sold. The small amount which remains in the hands of the growers is held in the hope of getting 30 cents a pound. The season has been marked throughout by prices beyond all precedent.

Food storage In our last report, we indicated that the cold storage holdings of various dairy products and eggs were in excess of the holdings in the same month of 1916. As compared to December 1, 1916, there was an increase of 92 per cent in the holdings of American cheese on December 1, 1917; eggs—28 per cent increase; and creamery butter—9 per cent increase.

Christmas savings funds Our inquiries last year as to the amount of "Christmas Savings Fund" payments by banking institutions in this district resulted in such interesting returns that we continued our inquiries this year. Replies were received from only 74 per cent of the banking institutions. Four hundred and thirty-four institutions reported payments to depositors amounting to over \$10,200,000, and depositors to the

number of 359,186, or an average of \$28.30 each. Comparative figures for 1917 and 1916 follow:

	Number of Banks		Per cent replying	Banks Reporting		Number of Depositors	Amount of Deposits
	In district	Replying		No funds	Funds		
1917							
National banks . .	628	511	81%	236	275	155,940	\$4,642,774.59
State institutions..	427	266	61	107	159	203,246	5,557,619.16
Totals	1055	777	73%	343	434	359,186	\$10,200,393.35
1916							
National banks . .	632	576	91	303	273		\$3,948,319.00
State institutions..	361	296	82	112	184		5,447,525.00
Totals	993	872	88	415	457		\$9,395,844.00

Retail trade Outside of Philadelphia reports indicate that Christmas trade has not been up to normal, it being asserted that the people are economizing more and more. In Philadelphia, however, it is stated that trade has been good. There seems to be the strongest demand for materials and articles of a medium quality. An official of one of the largest department stores states that the rich have not been buying as costly articles as formerly, and that those who had previously favored cheaper articles have been purchasing goods of better quality. The dry goods trade is said to be abnormally good with a shortage in all kinds of colored cotton goods and consequently higher prices.

General industrial conditions Following the suggestion of some of the leading wool organizations, the War Trade Board promulgated regulations which placed restrictions on importations of wool. Under these regulations the Government is to take an option on all imported wool at a price 5 per cent below the basic price at Boston on July 30, 1917. One of the effects to be expected from these rulings is the curbing of speculation in wool, which is without a doubt to be desired. At present the wool market rules quiet and prices remain firm. Stocks are very light and offer a rather poor selection to the buyer.

The cotton yarn market during November was marked by a distinct wave of buying which has somewhat receded of late. Prices, however, have been more than maintained, though it is expected that they will recede somewhat after the first of the year.

The cotton goods market is adjusting itself to war conditions. Trade in fancy cotton goods has fallen off considerably, but there is a strong demand for the simpler products.

The Government has ordered so much of the output of the knit-goods manufactories for delivery during the first half of 1918 that very little of the product has appeared on the market, and then only at large increases in price.

The manufacturers of silk goods report that the market is still quiet, since buyers will not order ahead until they are more certain of the trend of demand and prices. It is expected that after the first of the year the demand will be stronger.

Reports from the leather market give emphasis to the fundamentally strong position of good leather, due to the tremendous world demand and a lessened world supply of leather and leather materials. Buyers of footwear for civilian use, however, have not been so urgent in their demands of late, which is to be expected until after the holiday season.

At this date the shipyards along the Delaware River have on hand Government contracts for 272 vessels of an estimated tonnage of 2,240,000. Eleven shipyards in this vicinity are now employing 44,000 men, and ultimately hope to increase their force to 84,000. The nature of the stupendous amount of work which the yards are facing can be judged from the fact that one of the plants now being erected must construct 120 ships in 20 months, or an average of 6 a month.

Iron and steel It is reported that operating conditions among the eastern Pennsylvania steel mills and blast furnaces are the worst that have been experienced since the beginning of the European war. The plants of some of the largest steel companies, which heretofore have been fairly free from serious difficulties, are now troubled by shortage of coal and coke, and in some cases production has been cut down to 50 per cent and less. Among the smaller mills the situation is reported to be still more serious. The steel makers have so far been unable to see any permanent relief in sight which will give them a better supply of coal and coke. Unless the situation is much improved, the shortage in steel products will seriously hinder our war program. Orders can be had in great quantity, but the companies cannot guarantee delivery at particular dates. The market is rather quiet, and nothing of importance has developed within the last month.

The port Exports from the port of Philadelphia in November amounted to \$32,000,000, a decrease of 49 per cent as compared to October and 22 per cent as compared to November of 1916. Imports amounted to \$4,000,000, a decrease of 6 per cent

from the figures for October and 31 per cent below November, 1916. Petroleum and lumber made up the bulk of the imports.

The reasons advanced for this decrease in our foreign trade are the great scarcity of ships and the embargoes which have been placed on trade with neutral countries.

Building operations Building operations have fallen off sharply throughout the district. A list of twelve important cities in this district in Bradstreet's shows building permits issued amounting to \$2,322,662, as compared to \$5,864,127 in November of 1916. In Philadelphia, building permits during November amounted to \$1,712,520, which is a decrease of 15 per cent from October. For the first eleven months of 1917, there was an average decrease of \$1,000,000 per month in the amount of building permits issued in Philadelphia, as compared to the first eleven months of 1916. The building situation has been rendered more difficult by the commandeering of sand and gravel supplies by the Government.

Money The money market has been rather quiet with a slight increase in rates. The Federal Reserve Bank has made some increases in discount rates during the last month, amounting in no case to more than $\frac{1}{2}$ per cent. The market rate for call money is 6 per cent, and the rates for commercial paper $5\frac{1}{2}$ to 6 per cent.

Bank clearings in the district fell off slightly during November.

The national banks in Philadelphia reported net profits of 27.2 per cent for the year ending November 20, 1917, which were close to the best figures ever attained.

FINANCIAL INDICATORS

	Dec. 17, 1917	Percentage increase or decrease compared with	
		Previous month	Last year
Philadelphia banks:			
Loans	\$588,129,000	- 4	+ 8
Deposits	640,987,000	- 5	+ 2
Federal Reserve Bank:			
Discounts and collateral loans	34,819,052	+116	+463
Cash reserve	49%	- 26	- 9
90-day discount rate...	4½%	4%	4%
Commercial paper.....	5¾%	5½%	4½%
	November, 1917	Percentage increase or decrease compared with	
		Previous month	Last year
Bank clearings:			
In Philadelphia	\$1,532,681,531	- 2	+ 20
Elsewhere in district...	99,531,560	- 9	+ 17
Total	\$1,632,213,091	- 3	+ 20
Port of Philadelphia:			
Exports	32,309,000	- 49	- 22
Imports	4,106,000	- 8	- 31
Building permits in Phila- delphia	1,712,520	- 15	- 62
Post-Office receipts in Phil- adelphia	1,077,115	+ 11	+ 30
Commercial failures in dis- trict (per Bradstreet's).	(Actual) 60	(Actual) 65	(Actual) 86

FEDERAL RESERVE BANK OF PHILADELPHIA
RICHARD L. AUSTIN, *Chairman*

Compiled Dec. 28, 1917

The purpose of this report is to provide member banks and the business community in general with a brief monthly review of prevailing business conditions in this particular Federal reserve district.