THE BUSINESS REVIEW

FEDERAL RESERVE BANK
OF PHILADELPHIA

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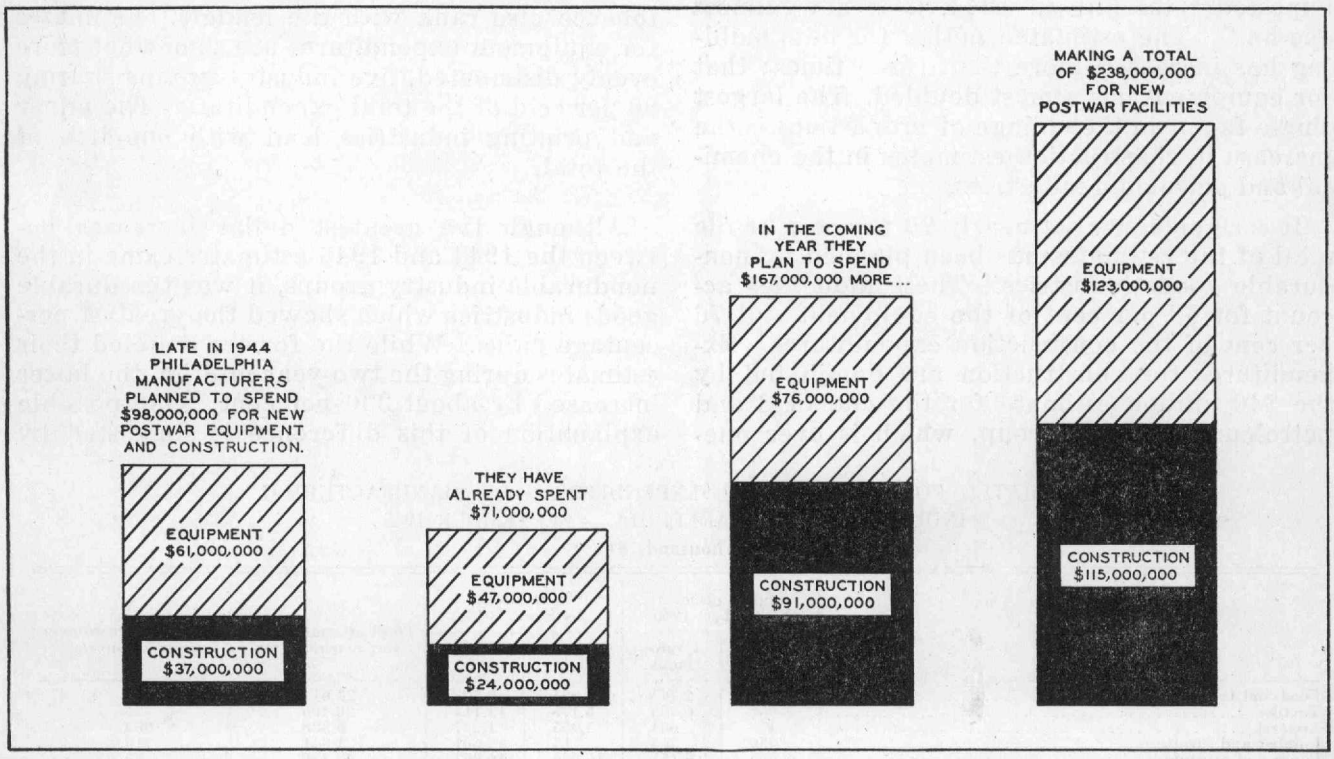
Philadelphia Industry Raises Its Sights

ESTIMATES OF POST-WAR CAPITAL EXPENDITURES FOR MANUFACTURING

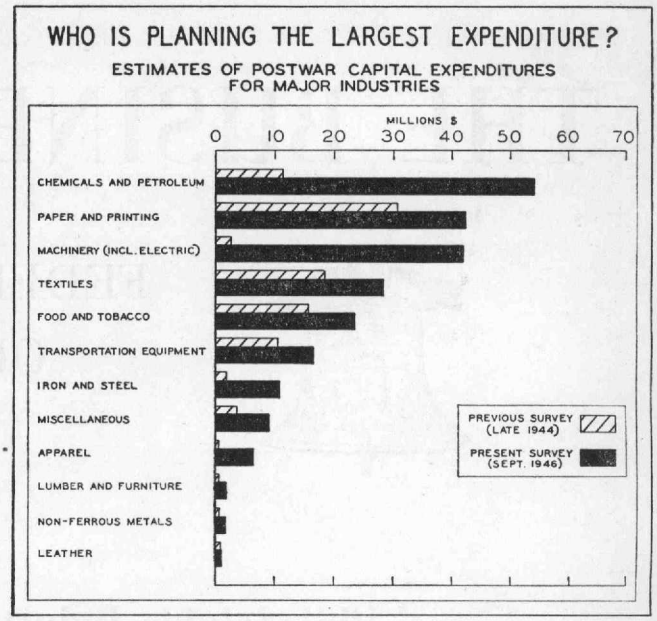


Philadelphia industry has raised the sights for its post-war expansion program and is shooting at goals far beyond those which were contemplated two years ago. If materials are available, Philadelphia concerns might spend close to $170 million for new construction and equipment during the coming year. This trend is indicated by the direct information given to this bank by some 300 manufacturing establishments in Philadelphia.

A similar survey was prepared for the Philadelphia Committee for Economic Development at the end of 1944. The results at that time indicated a total outlay of $98 million in the post-war period. The current survey shows that many firms have already exceeded their original estimates and that many more, which in 1944 had planned no capital outlays, have made large expenditures. To date, Philadelphia firms have spent $71 million for buildings and machinery. Yet an additional outlay of $167 million is planned. If we consider that the "post-war" period covered in the original survey, extends to the end of 1947—two years after the war—then, including what has already been spent, the current estimate of post-war capital expenditures is a total of nearly $238 million—143 per cent greater than the plan of two years ago.

Three-quarters of the amount originally estimated for both construction and equipment was spent prior to September 1946. But the figures show that there has been a shift in the relative importance of the two categories. While construction was a little over one-third of the expected total late in 1944, it is now almost one-half. The estimated outlay for new building has increased more than three times; that for equipment has almost doubled. The largest single factor in the change of proportions is the increase in construction estimates in the chemical and petroleum industries.

It is significant that nearly 70 per cent of the total of the estimates has been planned by nondurable goods industries. These industries account for 68 per cent of the equipment and 76 per cent of the construction expenditures. Expenditures for construction are dominated by the $40 million estimate for the chemical and petroleum industry group, which is over one-



third of the total. The machinery and paper and printing groups are next in importance, each accounting for about 17 per cent. Food and tobacco also rank with the leaders. Estimates for equipment expenditures are somewhat more evenly distributed, five industry groups sharing 80 per cent of the total expenditure. The paper and printing industries lead with one-fifth of the total.

Although the greatest dollar increases between the 1944 and 1946 estimates came in the nondurable industry groups, it was the durable goods industries which showed the greatest percentage gains. While the former doubled their estimates during the two-year interim, the latter increased by about 330 per cent. One possible explanation of this difference is suggested by

ESTIMATED POST-WAR CAPITAL EXPENDITURES BY MANUFACTURING INDUSTRIES IN PHILADELPHIA — SEPTEMBER 1946

(Thousands $)

Industry	Spent prior to September 1946		To be spent by Sept. 1947		Total estimated post-war expenditures	Percent increase over previous survey
	Construction	Equipment	Construction	Equipment		
Food and tobacco	1,367	2,745	9,994	9,505	23,611	49
Textiles	3,862	6,255	5,175	13,114	28,406	55
Apparel	472	684	3,955	1,277	6,388	983
Lumber and furniture	259	366	715	601	1,941	218
Paper and printing	2,494	6,151	16,660	16,853	42,158	37
Chemical and petroleum	5,278	2,001	34,592	12,332	54,203	376
Leather	134	403	158	221	916	2
Iron and steel	1,082	3,011	2,855	3,837	10,785	459
Nonferrous metals	355	423	317	761	1,856	220
Machinery (including electrical)	5,926	12,114	13,864	10,063	41,967	1,469
Transportation equipment	1,640	9,132	774	5,113	16,659	58
Miscellaneous	1,473	3,615	1,271	2,674	9,033	136
Total	24,342	46,900	90,330	76,351	237,923	143

the fact that during the war the durable goods industries, the main producers of munitions, in contrast to those producing "soft" goods, underwent some expansion and were able to obtain priorities on maintenance materials. It was the nondurable group, therefore, that had the most "catching up" to do and consequently laid out more ambitious programs for expansion. But the magnitude of the post-war reconstruction, the record volume of demand, and the persistence of shortages have forced an upward revision of what were apparently conservative estimates by the heavy goods industries. This group at first underestimated not only the size of the post-war business expansion in general—as all industries did—but also the part which it had to play.

The gains for individual industry groups, shown in the chart and the table, bear out the point that wartime expansion was a factor in limiting some estimates, with one exception—the apparel industries. This group, which estimated expenditures of only $590,000 at the end of 1944, has expanded its capital equipment program to almost eleven times the original goal. The chemical and petroleum industries, which had the largest dollar increase, although usually classified among nondurables, were nevertheless important war industries. But by far the most spectacular change in post-war requirements was made by the machinery firms. Their increase was almost fifteen times the 1944 estimate. Over 40 per cent of the total has already been spent. Iron and steel companies, which have already spent more than twice the amount they originally planned, increased their estimate by 460 per cent. No industry group has reduced its estimates, and the leather industry was the only one that showed no significant increase in its plans. Only three groups, the largest of which is the miscellaneous category, will apparently spend less for capital improvements in the coming year than was spent in the last two years.

Where is the money coming from?

Philadelphia firms expect to borrow over $23 million from banks for construction and equipment during the coming year. The amount of funds that banks will be called upon to supply differs very little from the amount that was indicated as the total for the post-war period in the previous survey. Local concerns expect to use their own funds for 56 per cent of their requirements. About one-third of their needs will be obtained from "other" sources, with open market financing probably playing an important role. "Other" sources were to provide only 4 per cent of requirements two years ago.

SOURCES OF FUNDS FOR CAPITAL EXPENDITURES TO BE MADE FROM SEPTEMBER 1946 TO SEPTEMBER 1947
(Thousands $)

	Total	Own	Banks	Other
Food and tobacco	19,499	15,847	253	3,399
Textiles	18,289	9,868	8,378	43
Apparel	5,232	5,232	0	0
Lumber and furniture	1,316	686	438	192
Paper and printing	33,513	27,612	5,855	46
Chemicals and petroleum	46,924	4,804	1,603	40,517
Leather	379	351	28	0
Iron and steel	6,692	2,731	3,713	248
Nonferrous metals	1,078	1,024	54	0
Machinery (including elec.)	23,927	16,620	1,836	5,471
Transportation equipment	5,887	5,887	0	0
Miscellaneous	3,945	2,678	1,267	0
Total	166,681	93,340	23,425	49,916

What do the figures mean?

It is apparent to every businessman who has recently undertaken to procure new equipment or to construct a new plant that the increase of 143 per cent in the estimate of capital expenditures between the two surveys does not represent an equivalent physical expansion. The building that cost $20,000 to construct in 1944 might well cost $30,000, or more, today. The machinery budget of two years ago is also too small to meet today's prices. It is extremely difficult to construct an accurate index of the cost of specialized plant and machinery. There are undoubtedly large variances among industries and many "unmeasurable" factors in the market. Nevertheless, a large rise in costs has occurred within the last two years, and the dollar volume of the increase in capital expenditure estimates in each industry must be discounted in part.

But the price increase is not so serious in interpreting the estimates as it might appear at first. Three-quarters of the original estimates was spent over the last two years—much of it undoubtedly for building and equipment at prices considerably lower than those which now prevail. A substantial part of the previous plans is already accomplished and most of the new estimates, therefore, must be for additional facilities. Moreover, about 30 per cent of the firms which now plan expenditures were not planning them in 1944. The estimates of these companies must likewise

represent additional physical facilities and not merely previously planned construction which has been inflated by cost increases. Finally, the size of the increase alone is sufficient to overcome doubts as to the intentions of industrial concerns to enlarge their expansion programs. Even after allowance is made for a large price increase, it is clear that the sights have been sharply raised.

The extent to which new facilities will mean increased industrial capacity for Philadelphia cannot be foreseen. Undoubtedly the expenditure of nearly a quarter of a billion dollars on construction and equipment will add to the flow of goods pouring from the city's workshops, but in some cases replacement of obsolete equipment and renovation of existing plant may improve productive efficiency without necessarily increasing capacity. The estimates set forth in this study are estimates of gross capital formation. No allowance has been made for depreciation or replacement of existing facilities. Although contemplated post-war expenditures amount to almost one-third of the 1944 capital investment, the net gain for the three-year period ending in 1947 is likely to be comparatively small.

The crucial issue involved here, and the one which has the greatest significance for Philadelphia's economy, is the effect which the proposed capital expenditures will have on employment. The survey included questions on this subject. On the basis of the answers received, it is estimated that in September there were about 329,000 workers employed in manufacturing industries in Philadelphia. By December an estimated employment of 339,000 is anticipated. And by September 1947, the expectations of the respondents indicate that a total of 359,000 workers will be employed. This compares with 253,000 in 1939 and 362,000 on V-J Day. The 30,000 increase from September 1946 to September 1947 is widely distributed—every industry has a share in it. The 1947 estimate is higher than employment in August 1945 for every industry except apparel and transportation equipment, which includes shipbuilding. It exceeds 1939 employment in every case except textiles and apparel; in fact, the prospect for the machinery and metal products groups in 1947 is for employment equaling that of the wartime peak in June 1943.

Not all the increase in employment during the coming year can be attributed to an expansion of capacity provided by new equipment. A substantial portion represents the expectation of increased utilization of existing plant as raw materials and parts become available. But it may be assumed that much of this type of "reemployment" will have been completed by December. The increase of 20,000 after that time, and the fact that the 1947 estimate exceeds even the wartime peak, if the influence of shipbuilding is eliminated, indicates that a significant enlargement of Philadelphia's industrial capacity is being planned.

Of greatest importance is the fact that the present estimates are in no way a prediction of what actually will occur. They represent the plans of industrial firms in September and are, of course, subject to change. They may expand, as the 1944 estimates did, or they may contract. Business expectations may shift rapidly. Recent reports show, for instance, that there is growing sentiment to defer construction in view of high costs and shortages. Continued stock market declines, if they occur, may put a damper on business optimism. A serious price readjustment, if it comes during the coming year, might force revisions of plans in certain fields and could cause indefinite postponement of substantial expenditures. The estimates must be viewed in the light of conditions that existed in September. There is no absolute assurance that they will stick.

But in spite of the uncertainties of the future, it now appears that Philadelphia industry is eager to go ahead with its plans to the extent of $167 million. Let it be assumed that this intention will remain unchanged. There are several obstacles to its realization. First, rising costs of building and equipment may make it necessary to get along with smaller facilities or to revise budgets upward. In the latter case, banks might be called upon for more funds or firms may be forced out of the building market. Second, shortages of building materials and of critical machinery components may make it physically impossible to carry out plans, even if all Government restrictions were removed. Third, the requirements of the Veterans' Emergency Housing Program still make it impossible to allow substantial amounts of non-residential construction. The urgency of this program has not diminished and its end is not yet in sight. At this time it cannot be foreseen when restric-

tions on non-residential construction will be eased.

The existence of widespread shortages and rising prices emphasizes the fundamental decision that will be made by the combined actions of businessmen—the decision to use all available resources for the production of consumer's goods *now*, or to divert materials and labor to building and new equipment, which will make more consumers' goods available *later*. The requirements of economical operation make deferment of some capital expenditures inadvisable. But for others there is an element of the now-or-later choice. The scramble for finished goods by consumers, whose purchasing power is higher than ever before, may make it worth while to reconsider the timing of some projects.

What are the national prospects?

A study of limited comparability is available for relating the results of the Philadelphia survey to national estimates. For the past year and a half the Securities and Exchange Commission and the Department of Commerce have conducted a quarterly survey of plant and equipment expenditures by all types of business in the United States. The reports show that capital expenditures have been increasing since the beginning of 1945, and manufacturers have estimated that their outlays during the third quarter of 1946 might be almost twice the amount spent during the same period last year. The anticipations of businessmen as shown in this survey involved estimates only six months in advance, and actual expenditures have been fairly close to the previously announced plans. In the cases where manufacturers made revisions in estimates, however, only three months after the original, there was some increase in expectations. The results of the Philadelphia study seem to be consistent with the trend of both anticipated and actual expenditures estimated for the country as a whole.

It is extremely difficult to compare the relative size of the Philadelphia and national estimates, since the two cover different periods of time. If it is assumed, however, that the latest national quarterly estimate—$1.7 billion—will be the rate for the coming year, then, on the basis of Philadelphia's share of the nation's value of manufacturing output and number of wage earners in 1939, the national estimate would indicate capital expenditures of about $170 million for Philadelphia during the coming year, compared with the $167 million estimate made on the basis of the city-wide survey. Of course, on this basis alone it is not possible to say that Philadelphia manufacturers intend to spend comparatively less, or more, than manufacturers elsewhere. But it is reasonable to conclude that there is a fairly close correspondence between the two estimates. And it is entirely probable that the enlargement of post-war capital expenditure by Philadelphia industry between 1944 and the present was the result of a gradual changing of plans, as the Securities and Exchange Commission study suggests, rather than a sudden decision based on recent events.

Conclusion

It seems that anticipated expenditures for capital goods are at a high level—much higher than was planned two years ago. At the moment, rising costs and scattered shortages of materials threaten to obstruct the building program. But if current plans are not impeded or stifled by run-away prices and their aftermath, Philadelphia industry by the end of next year will have spent a very substantial amount to improve its efficiency of operation and expand its output. Capital expenditures occupy a strategic role in our economy. They afford an outlet for funds seeking investment and provide opportunities for sustained employment. Subject to the limitations pointed out, current plans for renovation and expansion reflect solid confidence in the industrial future of Philadelphia.

Business Financing by Banks

Banks are rapidly returning to the financing of business. In the four and one-half years of our participation in the war, they were occupied mainly with supplying credit for war by buying Government securities and by making loans for the purchase of such securities. Business loans declined. But in slightly more than a year after the close of hostilities, commercial and industrial loans of member banks in the Third Federal Reserve District have risen by more than two-thirds and now stand at the highest level in over a decade.

Manufacturers in Philadelphia evidently are revising their earlier plans for capital expenditures sharply upward. Expansion of business loans made by banks also has been greater than most observers anticipated. In view of this change certain bank policy questions arise and warrant a review of lending experiences in the war and post-war periods. How important have business loans become? How does the post-war trend compare with wartime lending experiences? How extensively have banks of various size and in various areas participated in business financing? What are the future prospects for business loans?

Importance of Commercial and Industrial Loans

Because of the unprecedented growth in bank holdings of Government securities, business loans now constitute a much smaller proportion of outstanding bank credit than before the war. Yet they are still the most important single type of loan in bank portfolios. In June 1946, commercial and industrial loans of member banks in this district comprised only 7 per cent of total earning assets, but they amounted to 38 per cent of total loans.

One factor which helps determine the importance of business financing in bank lending operations is the extent and type of business activity carried on in the community. On such a basis commercial and industrial loans might be expected to occupy an exceptionally important position in the loan portfolios of member banks, for the economy of this area is highly industrialized. Actually, they are less important than is the case in several less highly developed sections of the country, partly because of the nearness of New York and its dominance in the field of large-scale commercial and industrial lending. In June 1946 the share of the total of such loans in the United States as a whole accounted for by banks in this district was 4.2 per cent. Again it appears that the district's share of business lending is smaller than might be expected in view of its share of the nation's industrial and commercial activity.

Within the district, business loans are most important in large banks. In June 1946 almost two-thirds of all commercial and industrial loans were concentrated in the ten largest institutions, although these banks held only 40 per cent of all deposits. The data in Table 1 indicate that as size of bank increases, business loans become a progressively larger proportion of loan portfolios. This is to be expected inasmuch as big businesses usually are located in or around large centers and necessarily deal with large banking institutions. Legal limitations as to the amount of credit that a bank may extend to any one borrower are also a deterrent, although banks in some communities are pooling their resources to overcome this legal obstacle in part.

Table 1
IMPORTANCE OF COMMERCIAL AND INDUSTRIAL LOANS BY AREA AND SIZE OF BANK

(Member banks—June 29, 1946) Third Federal Reserve District	Ratio of commercial & industrial loans to total loans	Percentage of commercial & industrial loans in 3rd Dist.
Area		
Philadelphia	51%	68%
Outside Philadelphia	25	32
Third F. R. District	38%	100%
Size of Bank		
Banks with total deposits of—		
$100 million or more	49%	63%
$10 to $100 million	33	23
$2 to $10 million	22	13
Under $2 million	14	1
Third F. R. District	38%	100%

Geographically, commercial and industrial loans are distributed among the banks of the district roughly in proportion to the economic importance of the various areas in which they are located. The greatest concentration, of course, is in Philadelphia and the immediately surrounding localities. In some cases the share of business loans may be out of line with the share of business activity. Nearness to large lending centers affects some areas, as may loan

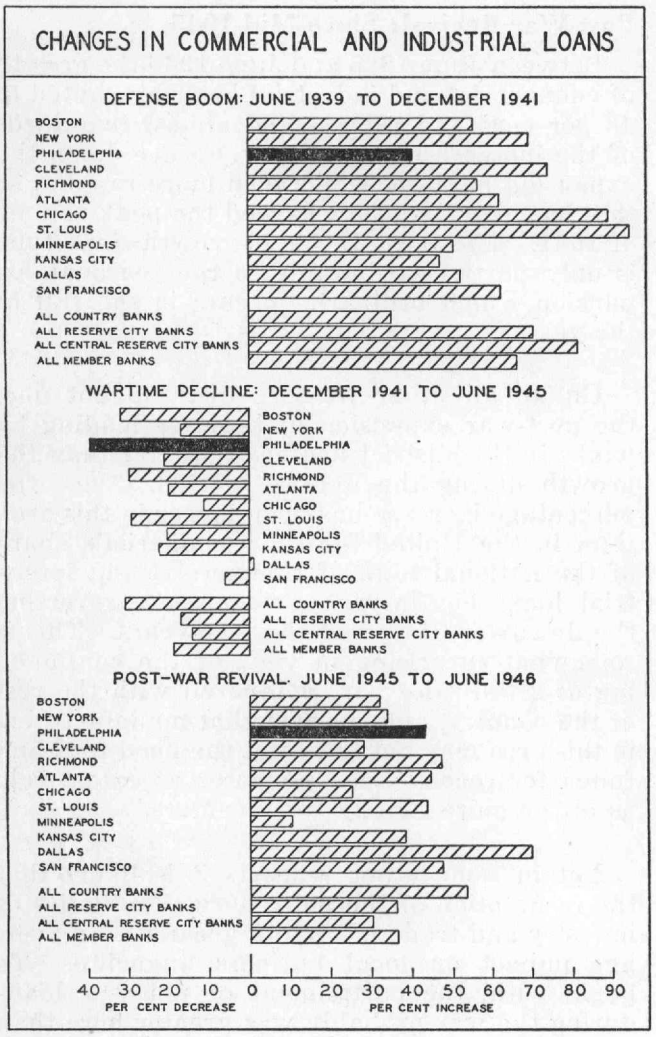
policies of individual banks. Data based on dollar amounts such as those shown in Table 1, however, tend to minimize the importance of the numerous small loans made to small businesses in outlying areas of the district.

Business Lending—War and Post-War

The post-war revival of business financing by banks is, in a sense, part of the reconversion of banking to peacetime conditions. Recent developments can be understood only in relation to wartime trends. The trends of business loans over the past seven years fall into three clearly defined periods: the defense boom, the wartime decline, and the post-war revival.

The Defense Boom: 1939 to 1941

The defense program stimulated the expansion of credit for non-war as well as war purposes. For the United States as a whole, commercial and industrial loans increased 67 per cent, loans for war purposes accounting for about one-third of the total expansion. But in the Third Federal Reserve District the percentage increase in business loans was 41 per cent—less than in any other Federal Reserve District.



There were a number of reasons for the lag in this area. In the first place, the war program occasioned less readjustment in the form of new construction and new plant. Industries in this region continued to produce much the same sort of goods as in peacetime, and probably had less need for bank funds. Just as war production brought about less readjustment in this area, non-war activity probably experienced less boom. The district had no great inflow of population, and expansion in incomes and trade lagged behind the strictly war-boom areas.

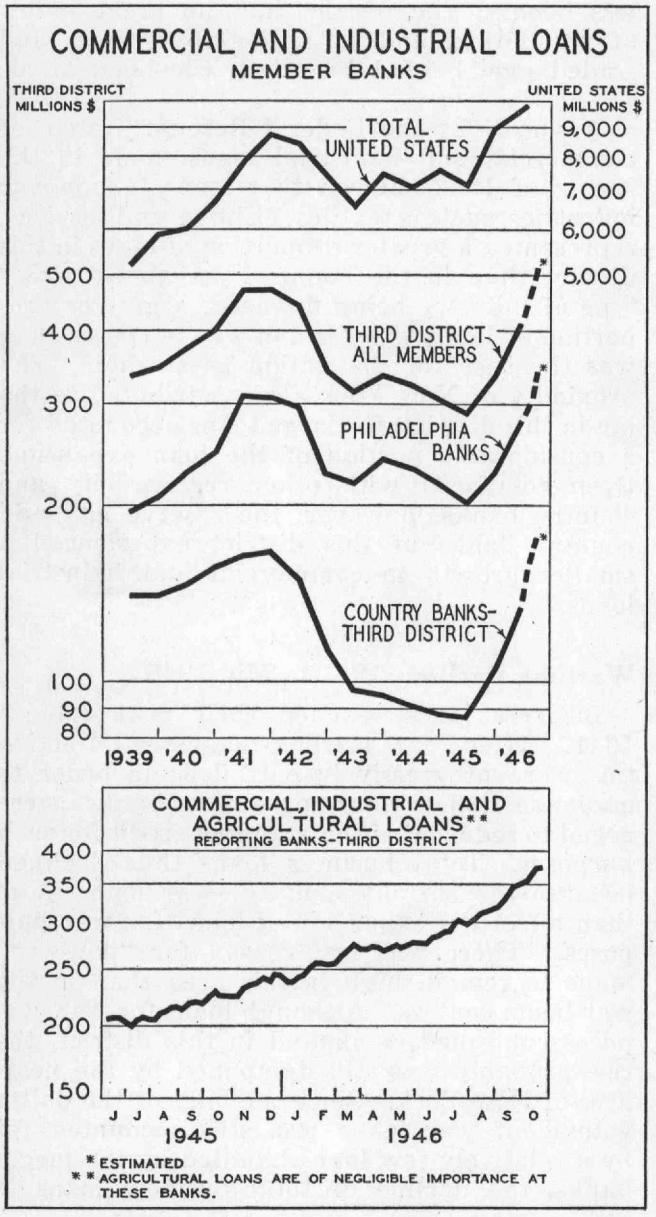
A survey by the Federal Reserve System of commercial and industrial loans made in the spring of 1942 showed that loans to non-war industries, such as textiles, utilities, and services, represented a greater proportion of loans in this district than in the country. In almost every type of industry being financed, a greater proportion of loans was for non-war purposes than was the case for the nation as a whole. The proximity of New York also contributed to the lag in this district, for large loans accounted for a considerable portion of the loan expansion. Even compared with other reserve city and country banks, however, the reserve city and country banks of this district experienced a smaller growth in commercial and industrial loans.

Wartime Decline: 1941 to Mid-1945

Business loans reached their peak late in 1941. After Pearl Harbor, non-essential activities were progressively curtailed; in order to minimize inflationary pressures banks were urged to reduce their outstanding credit for such purposes. Total business loans thus declined because the shrinkage in non-war loans more than offset the expansion of loans for war purposes. There was less reason for "non-war" loans to remain high in this area than in the war-boom centers. Although loans for war purposes continued to expand in this district, the rise probably was still dampened by the nearness of New York. Since the bulk of the dollar volume of war loans was still accounted for by a relatively few loans handled by the larger banks, the decline of total business loans in

Philadelphia was cushioned somewhat. The decline at small country banks was much more drastic.

By June 1945 commercial and industrial loans of member banks in this district were 39 per cent below the 1941 peak. The disparity between the wartime lending experiences of banks here and banks in other areas affords another illustration of the wartime decline in the relative importance of this district in the national economic picture. Because they lagged behind all other districts in the 1939-41 period and dropped more severely thereafter, business loans represented only 4.0 per cent of the national total in June 1945 as compared with 6.4 per cent before the war. The pre-war share of business loans was about in line with the district's share of manufacturing output (8 per cent), retail trade (6 per cent), and population (6 per cent). It is unlikely that the district's proportion of business activity declined as sharply during the war as did its share of business loans.



Although commercial and industrial loans in the United States as a whole rose in the last half of 1943 and again in 1944, some part of these loans may have been to replenish working capital used to buy Government securities during war loan drives. At any rate, no comparable expansion occurred in this district. The revival of business lending did not begin in earnest until mid-1945.

Post-War Revival: Since Mid-1945

Between June 1945 and June 1946 the growth of commercial and industrial loans amounted to 43 per cent and represented almost two-thirds of the increase of total loans. Since June, the expansion has proceeded even more rapidly, so that business loans now exceed the peak volume of 1941. The acceleration in growth since June is only partly attributable to the seasonal expansion which ordinarily occurs in the fall of the year.

Unlike all other Reserve districts but one, the post-war expansion of business lending by banks in this district has been greater than the growth during the defense period. Since the percentage increase has been larger in this area than in the United States, the district's share of the national total of commercial and industrial loans has increased somewhat, reversing the downward trend of the war years. This is somewhat surprising in view of the continued lag of retail sales here compared with the rest of the country, and the fact that manufacturers in this area may not have felt the need for bank funds for reconversion purposes as extensively as in the more strictly "war centers."

Yet in some other respects it is likely that the resumption of the more normal activities of industry and trade has had a greater than average impact on local business financing. To begin with, the curtailment of non-war loans during the war probably was greater here than

in other areas so that the revival of activities previously regarded as non-essential may have had more influence on lending in this district. Loans to small merchants and manufacturers and loans to service enterprises probably are a more important part of lending operations of banks here than elsewhere. Moreover, industrial production in this district, consisting to a large extent of non-durables, has been less seriously disturbed by the disruptions which affected national industrial output. Since fewer new facilities were acquired by local industrial concerns during the war, there may also be a greater need for replacing worn out and obsolete equipment in this area.

Probably for much the same reasons the expansion of commercial and industrial loans in the largest banks, for the most part located in Philadelphia, has been considerably less rapid than in the smaller outlying institutions. Loans to trade enterprises probably constituted a larger part of the loans of country banks than of Philadelphia banks and, unlike the trend in Philadelphia, retail sales outside of the city have not lagged behind the United States.

The accompanying map illustrates the expansion in business lending by counties. Although the data by small regions may be unduly influenced in some cases by a few large loans, they serve as a general indication of the geographical expansion of business lending within this district. With the exception of Philadelphia, the greatest expansion apparently has taken place in the larger centers, particularly in the vicinity of Philadelphia.

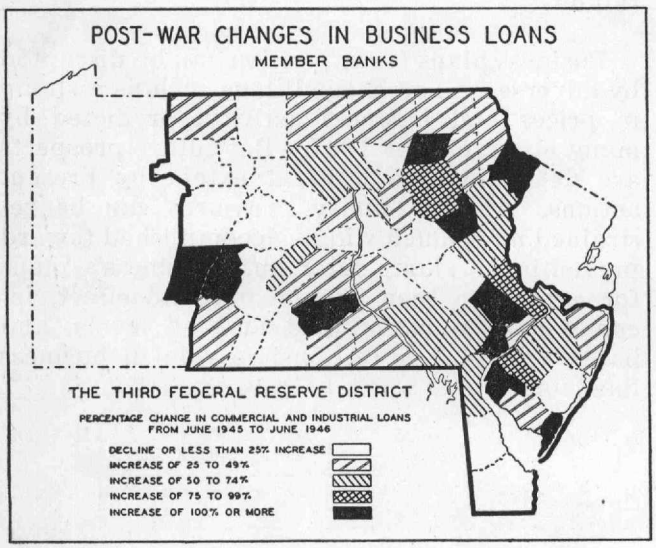


Table 2

POST-WAR EXPANSION OF COMMERCIAL AND INDUSTRIAL LOANS BY AREA AND SIZE OF BANK

(Member banks) Third Federal Reserve District	% Chg. June '45 to June '46
Area	
Philadelphia	+39%
Outside Philadelphia	+53
Third F. R. District	+43%
Size of Bank	
Banks with total deposits of—	
$100 million or more	+37%
$10 to $100 million	+55
$2 to $10 million	+54
Under $2 million	+58
Third F. R. District	+43%

Lending Prospects

Whether business loans in the near future will regain their pre-war position of importance in bank earning assets is naturally a question of keen interest to all bankers. No simple direct answer can be given or indicated at least until some of the maladjustments in the economy are corrected and the entire picture becomes clearer than it is at present. Certain factors, though not conclusive, may be taken as significant. Substantial reductions of the public debt or its transferral from banks to nonbanking investors will be at best a slow process. Even if banks sold Government securities to the Reserve Banks in order to get the reserves to make business loans, such loans in this district would have to increase to more than double their June 1946 volume in order to regain their pre-war proportion of total earning assets. Although an expansion of this magnitude may be possible over a period of time as business activity expands and as banks develop new lending outlets and procedures adapted to business needs, it does not appear likely over the short-run period. No satisfactory appraisal of the long-range outlook, of course, can be made at this time when the total reconversion is still in process of completion.

What, then, are the short-run prospects for business lending? Fundamentally, they will be governed by (1) business confidence and plans for expansion; (2) the importance of demand for bank credit in relation to other methods of business financing; and (3) current and prospective economic conditions generally.

The study of capital expenditures which Philadelphia manufacturers expect to make be-

tween now and next September gives an indication of one type of expansion that will affect bank loans to business. Although not wholly conclusive, this study suggests that Philadelphia industries will need a larger volume of bank funds for capital expansion in the coming year than they have used thus far since the war ended. So far as can be ascertained, the largest increases in borrowing for construction and equipment needs may be by textile, paper and printing, and iron and steel concerns; on the other hand, it appears that less borrowing for these purposes may be done by producers of chemical and petroleum products, and the machinery and transportation equipment industries.

Loans for fixed capital purposes, of course, constitute only a part of bank lending to business. The needs for working capital may be equally great. Inventories have been expanding rapidly. Accounts receivable other than those due from the Government have increased substantially since the end of the war, and will expand further as consumer credit and ordinary sales credit increase.

Although business may plan to expand both fixed and working capital, how much bank loans to business will increase depends upon a second factor—the extent to which businesses use other means of financing. During the war, business concerns built up large holdings of liquid assets in the form of cash in banks and Government securities. Early in 1945 it was thought that the large volume of business-held liquid assets would obviate the need for much bank borrowing. However, it was pointed out that aggregate figures on liquid assets held by business were an inadequate measure of the extent to which individual concerns could expand by using their own funds and that bank loans might increase more than was thought likely at the time. The rapid growth of commercial and industrial loans since mid-1945 suggests that this reasoning may have been correct. There have been some indications, however, that many businesses, now accustomed to a strong cash position, desire to hold on to their liquid assets as reserves for emergency purposes and have chosen to borrow instead of utilizing these funds.

During the coming year Philadelphia manufacturers are expecting to obtain a much larger proportion of the necessary funds from sources outside of their own resources and banks—presumably by security flotations—than they originally planned in their post-war program of capital expansion. Both bank loans and internal financing will be relatively less important sources of funds than originally planned, but of the two the greater decline in relative importance has been in bank loans.

It seems that a larger dollar amount of bank loans will be needed between now and next September than has been used since the war, not because bank loans will be a more important source of funds but because the planned expenditures are much larger. In the last analysis, bank loans to business will be determined largely by the degree of general business expansion. This in turn will be dominated by the third factor influencing loan trends—current and prospective economic conditions. In the event of further inflation, bank loans, particularly those containing speculative elements, would aggravate the situation. Loans made for the purpose of acquiring inventories at rising prices would tend to speed up the rising spiral of prices and bank credit. Bank loans to finance instalment sales and other consumer credit would be equally inflationary and self-inflammatory. If the boom should continue unchecked, eventually a recession in business or the prospects of a slump would tend to lessen the need for bank loans. Plans for capital expansion would be postponed, orders cancelled, inventories liquidated, and consumer credit would fall off.

Business plans for expansion can be disrupted by adverse economic conditions such as a slump in prices and business activity, predicted by many observers for 1947. But future prospects are determined to a great extent by present actions. If inflationary pressures can be restrained now, much will be accomplished toward preventing a slump later on. Business's plans for expansion then can be put into effect, incomes can be maintained at high levels, and banks can play a responsible role in business financing.

BUSINESS STATISTICS

Production
Philadelphia Federal Reserve District

Indexes: 1923-5 = 100	Adjusted for seasonal variation: Sept. 1946	Aug. 1946	Sept. 1945	Per cent change: Sept. 1946 from Mo. ago	Sept. 1946 from Year ago	1946 from 9 mos. 1945	Not adjusted: Sept. 1946	Aug. 1946	Sept. 1945
INDUSTRIAL PRODUCTION	106p	107	102	− 1	+ 3	− 20	108p	107	103r
MANUFACTURING	106p	107	103	− 1	+ 3	− 21	108p	108	104r
Durable goods	119p	114	127	+ 5	− 6	− 43	.....	.....	.....
Consumers' goods	93p	99	83	− 7	+ 11	+ 9	.....	.....	.....
Metal products	130	124r	101	+ 5	+ 28	− 33	131	130r	101
Textile products	68p	75	60r	− 9	+ 15	+ 10	69p	71	60r
Transportation equipment	172p	168	303	+ 3	− 43	− 59	163p	163	287
Food products	99p	118	106r	−16	− 6	+ 3	112p	119	117r
Tobacco and products	102	117	97	−13	+ 6	+ 25	118	125	112
Building materials	47p	44	32	+ 9	+ 48	+ 22	52p	50	35
Chemicals and products	162p	146	150r	+11	+ 8	− 13	160p	146	148r
Leather and products	71p	76	66	− 7	+ 7	0	78p	78	72
Paper and printing	120	120	109	0	+ 10	+ 18	119	117	108
Individual lines									
Pig iron	101	104r	96r	− 3	+ 5	− 12	95	92	90r
Steel	110	104r	98r	+ 5	+ 12	− 28	104	107r	94r
Iron castings	82	82	67	0	+ 21	+ 9	82	79	68
Steel castings	124	99	153	+25	− 19	− 52	113	95	139
Electrical apparatus	181	175r	109	+ 3	+ 67	− 40	199	194r	119
Motor vehicles	26	23	45	+10	− 43	− 45	22	20	39
Automobile parts and bodies	136	140r	104	− 3	+ 31	− 14	129	131	99
Locomotives and cars	67	63r	68	+ 7	− 1	− 40	64	63r	65
Shipbuilding	.....	.....	.....	+ 4	− 57	− 66	.....	.....	.....
Silk manufactures	84	91	76	− 8	+ 10	+ 4	84	88	76
Woolen and worsteds	60p	64	55r	− 6	+ 10	+ 15	65p	65	59r
Cotton products	55	56	44	− 2	+ 26	+ 17	52	51	41
Carpets and rugs	70p	75	48r	− 7	+ 46	+ 29	72p	70	49r
Hosiery	74	89	66	−17	+ 12	+ 16	74	77	66
Underwear	139	153	128	− 9	+ 9	+ 6	139	143	128
Cement	71p	64	37	+12	+ 94	+ 92	83p	80	43
Brick	59	58	45	+ 2	+ 32	+ 7	60	60r	46
Lumber and products	27	24r	22	+14	+ 20	− 13	28	26	23
Bread and bakery products	.....	.....	.....	+ 8*	− 8*	− 7*	116	107	125
Slaughtering, meat packing	32	102	88	−69	− 64	+ 6	34	90	92
Sugar refining	47	75	45	−38	+ 4	− 14	40	64	39
Canning and preserving	143p	183	127r	−22	+ 13	+ 13	193p	192	169r
Cigars	102	117	95	−13	+ 7	+ 26	118	125	111
Paper and wood pulp	89	90	87	− 2	+ 2	+ 6	89	90	87
Printing and publishing	126	127r	114	0	+ 11	+ 20	125	123r	112
Shoes	92p	103	82	−11	+ 11	+ 6	105p	110	94
Leather, goat and kid	51p	50	50	+ 1	+ 1	− 11	53p	48	52
Explosives	90	80	98	+12	− 8	− 62	90	80	98
Paints and varnishes	105	97	95	+ 8	+ 11	+ 2	99	99	90
Petroleum products	217p	192	198r	+13	+ 9	0	220p	193	200r
Coke, by-product	175p	166	160r	+ 5	+ 9	− 20	168p	163	154r
COAL MINING	82	79	74	+ 4	+ 11	+ 8	82	78r	74
Anthracite	79	75	72	+ 5	+ 10	+ 10	79	75	72
Bituminous	107	111r	91r	− 4	+ 18	− 9	109	105r	93r
CRUDE OIL	310	313	319	− 1	− 3	− 7	310	313	319
ELECTRIC POWER	432	444	395	− 3	+ 9	− 2	423	422	387
Sales, total	434	441	395	− 2	+ 10	− 3	429	419	391
Sales to industries	321	301	297	+ 7	+ 8	− 11	340	310	315
BUILDING CONTRACTS									
TOTAL AWARDS†	149	156	78	− 4	+ 90	+140	145	152	76
Residential†	125	132	11	− 6	**	**	147	148	13
Nonresidential†	142	163	113	−13	+ 26	+ 80	134	150	106
Public works and utilities†	176	185	208	− 5	− 16	− 26	160	161	190

* Unadjusted for seasonal variation.
† 3-month moving daily average centered at 3rd month.
** Increase of 1000% or more from the low level.
p—Preliminary.
r—Revised.

Local Business Conditions*

Percentage change—Sept. 1946 from month and year ago	Factory employment: Aug. 1946	Sept. 1945	Factory payrolls: Aug. 1946	Sept. 1945	Building permits value: Aug. 1946	Sept. 1945	Retail sales: Aug. 1946	Sept. 1945	Debits: Aug. 1946	Sept. 1945
Allentown	0	+ 2	+ 1	+15	+ 22	+219	+ 8	+25	− 9	+42
Altoona	+ 2	+ 9	− 1	+30	+ 36	− 32	+ 2	+27	− 7	+45
Harrisburg	0	+ 3	+ 1	+27	+135	**	+19	+35	+ 4	+35
Johnstown	− 1	+16	− 1	+19	+ 27	+ 66	+ 4	+33	− 2	+37
Lancaster	− 1	+10	+ 2	+30	+ 6	− 49	+ 9	+41	0	+31
Philadelphia	+ 2	+ 7	+ 3	+13	− 27	− 2	+42	+37	− 3	+18
Reading	0	+12	− 2	+29	− 52	+142	+11	+39	− 4	+42
Scranton	0	+ 4	+ 1	+23	− 47	+ 31	+14	+38	− 2	+ 1
Trenton	.....	.....	.....	.....	− 3	+ 2	+16	+35	−10	+44
Wilkes-Barre	+ 1	+10	− 1	+28	− 97	+ 1	+14	+38	+ 3	+37
Williamsport	0	+15	0	+35	− 24	+106	.....	.....	− 9	+26
Wilmington	0	− 3	0	+ 4	− 52	+138	+ 8	+39	+37	+35
York	+ 3	+17	+ 1	+31	− 31	+ 15	− 5	+22	+ 5	+30

* Area not restricted to the corporate limits of cities given here.
** Increase of 1000% or more from the low level.

Employment and Income
in Pennsylvania

Industry, Trade and Service

Indexes: 1932 = 100	Employment: Sept. 1946 index	Per cent change from Aug. 1946	Per cent change from Sept. 1945	Payrolls: Sept. 1946 index	Per cent change from Aug. 1946	Per cent change from Sept. 1945
GENERAL INDEX	133	+ 2	+13	331	+ 1	+28
Manufacturing	165	+ 1	+11	438	+ 1	+24
Bituminous coal mining	99	− 2	+42	504	− 9	+63
Building and construction	69	+ 1	+27	172	+ 6	+44
Quar. and nonmet. mining	101	0	+27	395	+ 3	+56
Crude petroleum prod.	148	− 1	+11	276	+ 3	+ 2
Public utilities	117	0	+20	189	0	+25
Retail trade	134	+ 8	+10	220	+ 7	+30
Wholesale trade	119	− 1	+14	196	+ 2	+26
Hotels	129	+ 1	+20	251	+ 1	+28
Laundries	104	0	+ 6	226	+ 3	+24
Dyeing and cleaning	103	− 3	+ 7	237	+ 6	+25

Manufacturing

Indexes: 1923-5 = 100	Employment*: Sept. 1946 index	Per cent change from Aug. 1946	Per cent change from Sept. 1945	Payrolls*: Sept. 1946 index	Per cent change from Aug. 1946	Per cent change from Sept. 1945
TOTAL	106	+ 1	+11	179	+ 1	+ 24
Iron, steel and products	110	+ 1	+18	221	0	+ 31
Nonferrous metal prods.	195	+ 1	+ 9	432	0	+ 30
Transportation equipment	92	+ 1	−14	163	0	− 7
Textiles and clothing	84	+ 2	+13	154	+ 3	+ 33
Textiles	79	+ 2	+15	146	+ 4	+ 36
Clothing	104	− 1	+ 9	192	0	+ 25
Food products	120	+ 2	− 2	205	+ 2	+ 7
Stone, clay and glass	107	+ 1	+33	184	+ 1	+ 54
Lumber products	57	+ 3	+31	104	+ 4	+ 59
Chemicals and products	119	+ 1	+ 7	220	+ 1	+ 14
Leather and products	83	− 1	+15	145	+ 1	+ 20
Paper and printing	122	0	+16	223	+ 4	+ 29
Printing	118	0	+17	210	+ 5	+ 31
Others:						
Cigars and tobacco	55	+ 1	+13	94	+ 5	+ 23
Rubber tires, goods	144	+38	+72	340	+40	+103
Musical instruments	110	− 2	+16	200	+ 1	+ 39

* Figures from 2749 plants.

Hours and Wages

Factory workers Averages Sept. 1946 and per cent change from year ago	Weekly working time*: Average hours	Ch'ge	Hourly earnings*: Average	Ch'ge	Weekly earnings†: Average	Ch'ge
TOTAL	39.1	− 3	$1.169	+14	$45.57	+11
Iron, steel and prods.	38.7	− 2	1.248	+15	48.22	+13
Nonfer. metal prods.	39.1	− 4	1.144	+19	44.74	+15
Transportation equip.	40.0	− 3	1.305	+ 5	52.21	+ 2
Textiles and clothing	38.2	0	.967	+17	36.91	+17
Textiles	38.9	− 1	.997	+19	38.84	+18
Clothing	36.2	+ 2	.882	+12	32.59	+15
Food products	40.2	− 6	.955	+16	39.26	+11
Stone, clay and glass	38.2	− 1	1.114	+18	42.62	+16
Lumber products	41.4	+ 1	.932	+22	38.43	+23
Chemicals and prods.	40.7	− 6	1.231	+14	50.06	+ 8
Leather and products	37.9	−10	.905	+14	34.51	+ 4
Paper and printing	42.6	− 6	1.159	+19	49.34	+11
Printing	42.7	− 3	1.326	+16	56.36	+13
Others:						
Cigars and tobacco	37 4	−13	.839	+24	31.36	+ 8
Rubber tires, goods	41.3	− 4	1.265	+17	52.23	+12
Musical instruments	43.8	+ 2	1.079	+17	47.25	+20

* Figures from 2605 plants. † Figures from 2749 plants.

Distribution and Prices

Wholesale trade Unadjusted for seasonal variation	Per cent change Sept. 1946 from Month ago	Year ago	1946 from 9 mos. 1945
Sales			
Total of all lines	+ 4	+ 39	+30
Boots and shoes	−14	+ 73	.....
Dry goods	+22	+ 54	+40
Electrical supplies	+25	+286	.....
Groceries	+ 8	+ 58	+31
Hardware	+19	+ 45	+40
Jewelry	+37	+ 60	+72
Paper	− 6	+ 31	+16
Inventories			
Total of all lines	+ 3	+ 52	.....
Dry goods	− 2	+ 84	.....
Electrical supplies	+ 6	+ 76	.....
Groceries	+ 5	+ 45	.....
Hardware	+13	+ 32	.....
Jewelry	− 3	+307	.....
Paper	+12	+ 4	.....

Source: U. S. Department of Commerce.

Prices	Sept. 1946	Per cent change from Month ago	Year ago	Aug. 1939
Basic commodities (Aug. 1939 =100)	241	0	+30	+141
Wholesale (1926 =100)	124	− 4	+18	+ 65
Farm	154	− 4	+24	+153
Food	132	−11	+26	+ 96
Other	112	+ 1	+12	+ 40
Living costs (1935-1939 =100)				
United States	...	....	....	.....
Philadelphia	146	+ 2	+14	+ 49
Food	173	+ 2	+25	+ 86
Clothing	162	+ 3	+ 9	+ 64
Rent	...	....	....	.....
Fuels	121	+ 1	+ 7	+ 26
Housefurnishings	167	+ 4	+14	+ 66
Other	127	0	+ 5	+ 26

Source: U. S. Bureau of Labor Statistics.

Indexes: 1935-1939 =100	Adjusted for seasonal variation: Sept. 1946	Aug. 1946	Sept. 1945	Per cent change Sept. 1946 from Month ago	Year ago	1946 from 9 mos. 1945	Not adjusted: Sept. 1946	Aug. 1946	Sept 1945
RETAIL TRADE									
Sales									
Department stores—District	238p	250	175	− 5	+36	+ 29	243p	195	178
Philadelphia	220	208	160	+ 6	+37	+ 27	227	156	165
Women's apparel	239	292	184r	−18	+30	+ 33	280	232	214
Men's apparel	265p	256	187	+ 4	+42	+ 36	245p	188	173
Shoe	214p	240	159	−11	+35	+ 37	253p	197	187
Furniture	.....	.....	.....	+ 2*	+54*	.....	.....	.....	.....
Inventories									
Department stores—District	204p	205	152	0	+35	.....	225p	213	167
Philadelphia	196	196	145	0	+35	.....	219	206	163
Women's apparel	245	279	182r	−12	+35	.....	287	271	214r
Shoe	80p	72	57	+11	+41	.....	82p	71	58
Furniture	.....	.....	.....	+ 8*	+43*	.....	.....	.....	.....
FREIGHT-CAR LOADINGS									
Total	135	148	124	− 9	+ 9	− 10	151	149	139
Merchandise and miscellaneous	128	132	114	− 3	+12	− 9	139	136	124
Merchandise—l.c.l.	93	95	84	− 2	+10	+ 8	96	95	88
Coal	156	181	139	−14	−12	− 4	172	164	153
Ore	154	187	167	−18	− 8	− 31	248	279	268
Coke	180	204	149	−12	+21	− 30	191	190	158
Forest products	88	89	94	− 1	− 6	− 4	110	108	117
Grain and products	107	125	149	−14	−28	− 14	106	121	148
Livestock	42	130	101	−68	−59	− 1	50	125	121
MISCELLANEOUS									
Life insurance sales	207	224	130r	− 8	+59	+ 66	182	188	115
Business liquidations									
Number	.....	.....	.....	0*	.....*	+131*	6	6	0
Amount of liabilities	.....	.....	.....	+34*	.....*	+653*	4	3	0
Check payments	235	213	192	+10	+22	+ 9	211	189	173

* Computed from unadjusted data. p—Preliminary. r—Revised.

BANKING STATISTICS

Reporting member banks (Millions $)	Oct. 23, 1946	Changes in— Four weeks	One year
Assets			
Commercial loans	$ 375	+$26	+$150
Loans to brokers, etc.	31	− 10	− 13
Other loans to carry secur.	29	− 9	− 3
Loans on real estate	46	− 1	+ 14
Loans to banks	2	+ 1	+ 1
Other loans	162	.....	+ 37
Total loans	$ 645	+$ 7	+$186
Government securities	$1481	−$71	−$463
Obligations fully guar'teed	.....	.....	.....
Other securities	207	+ 5	+ 18
Total investments	$1688	−$66	−$445
Total loans & investments	$2333	−$59	−$259
Reserve with F.R. Bank	425	− 7	− 20
Cash in vault	34	+ 2	+ 3
Balances with other banks	86	− 8	+ 4
Other assets—net	46	+ 3	− 1
Liabilities			
Demand deposits, adjusted	$1792	−$13	−$141
Time deposits	271	− 2	+ 52
U. S. Government deposits	211	− 44	− 188
Interbank deposits	354	− 9	− 15
Borrowings	6	− 3	+ 1
Other liabilities	27	+ 1	+ 6
Capital account	263	+ 1	+ 12

MEMBER BANK RESERVES AND RELATED FACTORS

Third Federal Reserve District (Millions of dollars)	Changes in weeks ended— Oct. 2	Oct. 9	Oct. 16	Oct. 23	Changes in four weeks
Sources of funds:					
Reserve Bank credit extended in district	+ 3	− 5	− 1	−11	−14
Commercial transfers (chiefly interdistrict)	+42	+28	+ 2	+ 5	+77
Treasury operations	−49	−26	+ 7	− 3	−71
Total	− 4	− 3	+ 8	− 9	− 8
Uses of funds:					
Currency demand	....	+ 5	− 1	− 2	+ 2
Member bank reserve deposits	− 6	− 6	+ 9	− 7	−10
"Other deposits" at Reserve Bank	+ 2	− 2	....	....	....
Other Federal Reserve accounts	....	....	....	....	....
Total	− 4	− 3	+ 8	− 9	− 8

Member bank reserves (Daily averages; dollar figures in millions)	Held	Required	Excess	Ratio of excess to required
Phila. banks				
1945: Oct. 1-15	$431	$421	$10	2%
1946: Sept. 1-15	417	410	7	2
Sept. 16-30	415	405	10	2
Oct. 1-15	410	403	7	2
Country banks				
1945: Oct. 1-15	$357	$290	$67	23%
1946: Sept. 1-15	394	333	61	18
Sept. 16-30	391	335	56	17
Oct. 1-15	392	335	57	17

Federal Reserve Bank of Phila. (Dollar figures in millions)	Oct. 23, 1946	Changes in— Four weeks	One year
Disc. and advances	$ 19	+$ 1	+$ 10
Industrial loans	1	.....	− 1
U. S. securities	1619	− 44	+ 39
Total	$1639	−$43	+$ 48
Fed. Res. notes	1657	+ 6	+ 66
Member bk. deposits	796	− 10	+ 9
U. S. general account	28	− 30	+ 12
Foreign deposits	42	− 10	− 38
Other deposits	2	.....	.....
Gold certificate res.	897	+ 5	+ 7
Reserve ratio	35.5%	+ 0.8%	− 0.4%