THE BUSINESS REVIEW

FEDERAL RESERVE BANK
OF PHILADELPHIA

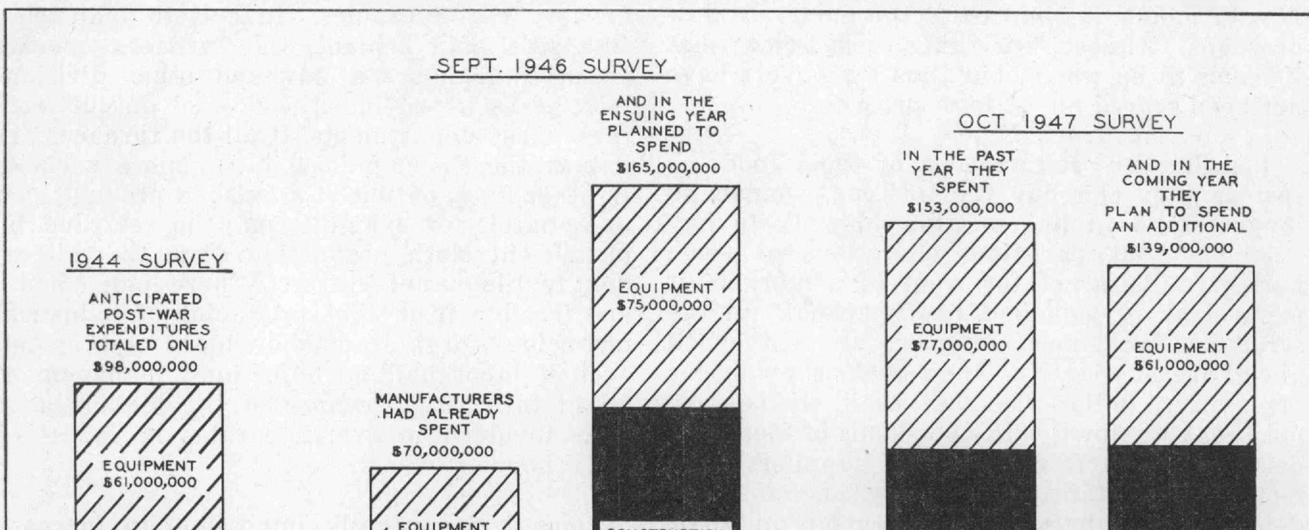
DECEMBER, 1947

REBUILDING AMERICAN INDUSTRY

I. The Industrial Outlook for Philadelphia

Manufacturing concerns in Philadelphia are pushing ahead vigorously on a program to expand industrial capacity. Plans for the next year call for expenditures of $139 million, according to a survey just completed by this Bank. Almost half of the proposed expenditures are for new machinery and the remainder for construction of additional plant facilities.

During the past year, manufacturing concerns installed $77 million in new machinery and constructed $76 million of additional plant facili-



ties, making a total of $153 million of additions and improvements. This was more than double the amount of post-war capital expenditures that had been made up to September of last year, as reported in the November 1946 **Business Review.**

Post-war expenditures for plant and equipment are running far above the original estimates made back in the fall of 1944 when production for war was running down and manufacturers were planning their peacetime production schedules. At that time they reported post-war capital expenditures just short of $100 million. That appeared to be bold in view of the sizable estimates of incipient unemployment so prevalent in those days. Since that time, Philadelphia firms actually have spent $223 million, more than twice the original estimate, and now they are planning an additional $139 million for 1948; and instead of unemployment, business is buried under an avalanche of unfilled orders for goods and services.

The Need for Greater Capacity

Our economy is operating near the peak of its capacity, and after two years and three months of peacetime catching up, demand is still setting the pace. Consumers are spending at an annual rate of $166 billion—a torrential flow of money in contrast to the moderate flow of goods. Almost everything costs twice what it seems to be worth, but thus far buyers have not been scared off by high prices.

Retailers are selling most of their goods as fast as they can buy them. True, women no longer stand in line on the sidewalk to buy stockings, but part-time operations at some hosiery mills is not for want of a market—it is for lack of sufficient raw material. In the scramble for goods, retailers are not much ahead of last year. Yes, their books show larger inventories, dollar-wise, but their shelves are not breaking down with over-loads of merchandise. New orders placed with suppliers have increased substantially in recent months, but demand cannot be satisfied with goods on order.

The tallest stacks of unfilled orders are for those goods that take the longest time to produce, that is, durables like automobiles, housing, household furnishings and appliances, farm equipment, industrial machinery, freight cars, and the basic raw material needed for all of these—steel. The steel industry is the king-pin of our entire industrial machine, but that industry's 3-million ton expansion program cannot ease the situation materially before 1949. In the absence of sufficient durables, consumers are spending larger than customary proportions of their generous incomes for nondurables.

The huge gap between demand and output is reflected in recent price changes. Wheat which sold at $2.20 a bushel a year ago is now above $3.00; scrap steel, an important raw material for making steel, rose from $24 a ton a year ago to $42 at present. Prices of cotton, wool and other basic raw materials are also substantially above levels of a year ago.

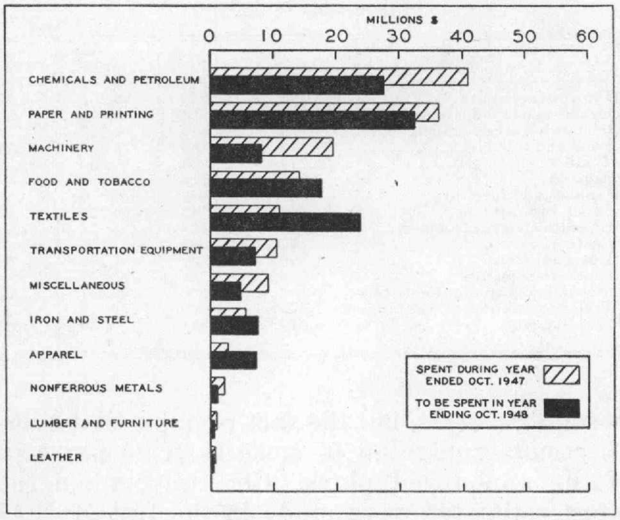
Men and Machines

Rapidly rising prices show how desperate we are for greater output. But how can this be accomplished?

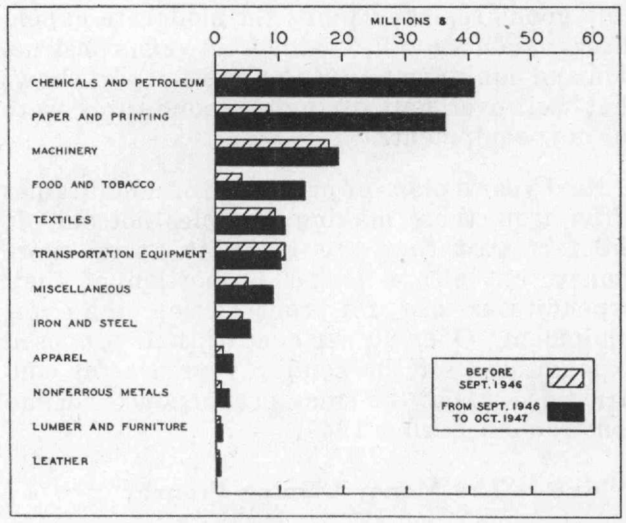
At the moment there is little hope for increased production by hiring more workers because the 59 million now at work has practically exhausted the labor supply. Another suggestion heard occasionally is that hours of work be increased. That has some merit on theoretical grounds, but it also has a number of very real obstacles. In certain industries, like steel and cement, the furnaces operate twenty-four hours a day and other divisions have to be keyed into the flow of output from these basic departments. If all the furnaces are in blast there is no point to hiring more workers. In other lines, output of a finished product such as apparel, for example, may be retarded by insufficient cloth production from the antecedent textile manufacturers. Where longer hours are feasible from the standpoint of industrial technology, organized labor might object; and even if labor had no objections, management might take issue because of the higher labor costs involved in overtime rates in excess of forty hours a week.

Since it is virtually impossible to increase the current output of goods by throwing more labor effort into production, manufacturers are bending every effort toward increasing the productivity of those on the job. More machines and modern machines for the present labor force will accomplish as much or more than a

PROPOSED CAPITAL EXPENDITURES



PAST CAPITAL EXPENDITURES



larger body of workers using outmoded and run-down equipment. Greater efficiency lays the foundation for lower costs and paves the way for lower prices. That is why Philadelphia spent $77 million on new equipment during 1947 and is now planning to spend an additional $61 million next year.

Additional construction goes hand in hand with new equipment. In many instances new machinery requires a new plant lay-out to obtain the most effective utilization of resources. Formerly the manufacturer adapted his machinery and equipment to his plant. Now the process is reversed—he gets the best equipment and machinery, sets up an ideal lay-out for the most efficient and continuous flow of production and then builds a plant around the plan. That is why Philadelphia manufacturers who spent $76 million on new construction this year are going ahead with plans for spending $78 million for new construction in the next year.

Which Industries Are Spending the Money?

Over three-quarters of the contemplated expenditures for the coming year are planned by industries making nondurable goods such as apparel, textiles, chemicals and petroleum products, food, tobacco, paper and printing, shoes and leather products. These are also the industries that have already made the heaviest capital expenditures since the end of the war. One very obvious explanation is the fact that we have more plants of this kind in Philadelphia than plants making durables. Another reason is that plants in the nondurable category had less opportunity to expand and to modernize during the war when scarce materials were allocated to the metal and machinery people engaged in producing essential arms and munitions.

Less than one-quarter of the expenditures planned for the coming year are to be made by the producers of durable goods, such as industrial equipment, electrical machinery, and transportation equipment. Most of the expenditures by firms in this category are for equipment and

ESTIMATED POST-WAR CAPITAL EXPENDITURES MANUFACTURING INDUSTRIES IN PHILADELPHIA
(In thousands of dollars)

	Spent prior to September 1946		Spent in year ended October 1947		To be spent within the next year	
	Construction	Equipment	Construction	Equipment	Construction	Equipment
All manufacturing	23,913	46,570	75,962	76,843	77,296	61,300
Durable goods industries	9,394	25,227	11,634	27,864	9,291	17,317
Nondurable goods industries	14,519	21,343	64,328	48,979	68,005	43,983
Food and tobacco	1,367	2,745	4,921	9,211	8,509	9,247
Textiles	3,433	5,925	2,415	8,441	12,989	10,782
Apparel	472	684	1,885	944	6,002	1,303
Lumber and furniture	259	366	122	733	302	347
Paper and printing	2,494	6,151	21,875	14,276	16,348	16,100
Chemicals & petroleum	5,278	2,001	31,288	9,496	23,667	3,902
Leather	134	403	206	420	191	212
Iron and steel	1,082	3,011	1,286	4,264	3,146	4,452
Nonferrous metals	355	423	1,022	1,079	163	813
Machinery (incl. elec.)	5,926	12,114	7,675	11,690	2,542	5,635
Transportation equip.	1,640	9,132	1,325	9,166	2,006	5,089
Miscellaneous	1,473	3,615	1,942	7,123	1,431	3,418

only a small amount for additional plant. In our survey made a year ago, producers of durable goods reported plans for moderate expenditures about equally divided between construction and equipment. But the latest report shows that well over half of their expenditures were for new equipment.

Next year's plans of producers of nondurables differ from those making durables not only in the fact that they are going to spend more money, but also a larger proportion of their expenditures are for construction than for equipment. Over 60 per cent of their proposed expenditures for the coming year are for construction—about the same proportion went into construction during 1947.

Where Is The Money Coming From?

Most of the money for capital expansion is to come from resources of firms making the expenditures. According to the survey, 81 per cent will be paid out of their own funds, 13 per cent is to be obtained from banks, and the remainder from other sources. The proportion to be supplied by banks is relatively small, but they might participate indirectly to a greater extent than is indicated by the figures. In financing their own capital expansion, some firms may run short of working capital, for the replenishment of which they might later turn to the banks. Nevertheless, industrial concerns seem to be in a strong financial position since they plan to supply the lion's share of funds for their own expansion programs.

Interpretations of the Estimates

Is the estimated capital expenditure of $139 million for 1948 a forecast? It is something better than a forecast; it is an appraisal of total capital outlay by manufacturing firms in Philadelphia based upon a large sample of reporting firms representing all the major industries. Moreover, many of them have already made commitments, and projects are in various stages short of completion. Perhaps the best evidence of the reliability of the estimates is to compare last fall's estimates with actual results. In the September 1946 survey, proposed expenditures amounted to $165 million. Actual expenditures were $153 million. Shortages of materials and rising costs during the interim may have caused cancelation or postponement of some projects, but the fact remains that overall results amounted to more than 90 per cent of the announced plans. Certainly, when the latest estimates were made in the fall of 1947 the business outlook was no less favorable than it was a year earlier.

SOURCES OF FUNDS FOR CAPITAL EXPENDITURES TO BE MADE WITHIN THE NEXT YEAR

(In thousands of dollars)

	Total	Own	Banks	Other
All manufacturing	138,596	112,249	18,268	8,079
Durable goods industries	26,608	20,574	5,696	338
Nondurable goods industries	111,988	91,675	12,572	7,741
Food and tobacco	17,756	16,335	1,077	344
Textiles	23,771	22,868	880	23
Apparel	7,305	7,226	0	79
Lumber and furniture	649	649	0	0
Paper and printing	32,448	21,743	10,579	126
Chemicals and petroleum	27,569	20,374	26	7,169
Leather	403	403	0	0
Iron and steel	7,598	2,827	4,771	0
Nonferrous metals	976	734	242	0
Machinery (including electrical)	8,177	7,608	457	112
Transportation equipment	7,095	7,095	0	0
Miscellaneous	4,849	4,387	236	226

Increased industrial capacity in Philadelphia will require more workers. In September a year ago, manufacturing concerns employed 331,000 workers. Last October, industrial employment was up to 348,000. By April 1948, according to our survey, it is expected to be up to 354,000, and by October 1948 up to 360,000. In other words, by next October, Philadelphia's manufacturing industries are planning to employ 12,000 more workers than were on the pay rolls last month. The difficulty is, where will they get them? The normally increasing labor force out of a 2 million population ought to provide enough new workers during the ensuing year, but manufacturers are not the only employers. They must compete with distribution and other

ESTIMATED EMPLOYMENT PHILADELPHIA MANUFACTURING FIRMS

(In thousands of persons)

	Last year (Sept.'46)	Current (Oct.'47)	6 months from now (Apr.'48)	1 year from now (Oct.'48)
All manufacturing	331	348	354	360
Durable goods industries	136	140	140	140
Nondurable goods industries	195	208	214	220
Food and tobacco	34	38	39	40
Textiles	40	42	43	44
Apparel	35	36	39	42
Lumber and furniture	6	6	7	6
Paper and printing	44	47	47	48
Chemicals and petroleum	18	18	18	19
Leather	8	9	9	9
Iron and steel	37	35	35	35
Nonferrous metals	6	7	8	8
Machinery (incl. electrical)	47	57	58	58
Transportation equipment	36	32	29	29
Miscellaneous	20	21	22	22

service industries that customarily employ 65 per cent of all workers and the labor requirements in the service industries will presumably rise also. A shortage of labor could be alleviated by drawing upon the labor surplus in certain sections of the nearby anthracite region, providing we can supply the housing.

A Preview of United States Capital Expenditures in Manufacturing

Manufacturing industries of the United States have been stepping up expenditures on new plant and equipment at a rapid rate since the end of the war. According to reports of the Securities and Exchange Commission, plant and equipment expenditures rose from $3.2 billion in 1945 to almost $6 billion in 1946, and 1947 outlays are expected to reach almost $7 billion.

If the country goes as goes Philadelphia, total expenditures in 1948 might be expected to be somewhere in the neighborhood of $6.5 billion—that is, about 93 per cent of this year's expenditures. Of course this is drawing "a bow at a venture," but Philadelphia is a large industrial city and its manufacturing is highly diversified.

Manufacturers may encounter difficulties in carrying out their plans next year because they will have to compete for labor and materials with others who are also engaged in modernization and expansion programs. The mineral industries, railroad and other common carriers, electric and gas utilities, trade, service, finance, and communication industries spent approximately $8 billion this year. No estimates are available on what they plan to spend next year, but we know that their projects are by no means near completion. Then there is the private housing program. Public expenditures are also increasing. Under pressure to improve and enlarge their facilities, local and state governments are likewise spending large sums of money. Latest official estimates indicate that new construction of all kinds in 1948 will probably aggregate $15 billion—20 per cent more than this year.

With renewed construction activity in practically all lines, we can expect another crop of shortages and in all probability higher costs. In fact, they are upon us already. Plaster-board, heaters, plumbing supplies, and hardwood flooring are hard to get now, and nails, the commonest of all building materials, are extremely scarce. Prices of lumber and some other materials are rising, and labor costs may also go higher.

It is impossible to say what effect rising construction costs will have upon the present expansion program of manufacturing concerns, both locally and nationally. However, we do know that construction costs rose during the past year and that it had little adverse effect upon the plans as laid out a year ago. The chances are that present plans will be carried through to completion; many of them are beyond the stage of arrest. However, if costs should rise considerably above present high levels, it is entirely possible that this would act as a brake upon the development of new plans for expansion.

II. Financing Capital Expansion

Funds required by a business firm for financing the expansion of its production or distribution facilities may be obtained from several sources. The money may come from earnings, past or current, which are retained in the business. If internal sources are inadequate, the enterprise may acquire funds from outside sources. To the individual firm, financing is primarily a problem of choosing that source which is cheapest and most appropriate from the business point of view. The businessman does not look beyond the immediate sources of the funds. To him, money is money. From the viewpoint of the entire economy, however, the effects of alternative methods of obtaining capital funds have important implications. The ultimate sources of money for investment have a direct bearing upon the price inflation facing us now.

In a free economy the monetary-financial system, including prices, is the means by which production resources are allocated. Those who have money have control over resources. It is important, then, to know whether the money in the industrialist's hands represents a transfer of claims to goods and services or an addition to the total number of claims.

The history of industrial expansion in the United States shows that the bulk of new capital equipment has been put in place during boom periods, when consumers were also increasing their expenditures for goods and services. As long as we had unutilized productive resources—idle men and machines—as was frequently the case, it was possible to increase the output of producers' goods without curtailing consumption. Our post-war economy, however, is different from its easy-going 1935-39 predecessor in this respect. For some time we have had virtually no unutilized capacity. "Full employment" is a reality. Increases in the rate of output come slowly, and although more modern machinery and additional plant now building will expand production some time in the future, there is slight immediate response in output to present demands for more goods. The process of transforming basic resources into operating industrial enterprises is time-consuming.

The record of Philadelphia manufacturers, indeed, the record of all industry throughout the nation within the last two years, shows that capital outlays have been greatly expanded. Private domestic investment during the fourth quarter of 1945 (including housing, which is a form of consumers' capital) was taking place at a rate of $12 billion a year. The current rate is about $30 billion a year. Expenditures for producers' durable equipment alone for the two periods, were $9 billion and $18 billion a year, respectively. Obviously, once production is going full blast—as it has been for some time—the accelerating production of capital goods requires that the output of consumption goods be relatively curtailed. For a high rate of capital formation to continue, consumers must give up some goods-right-now in return for the promise of more goods-later-on.

The choice between output of consumers' and producers' goods is not made in terms of the goods themselves, however, but in money terms. By their money expenditures, both businesses and individuals make their preferences felt in the markets. The choice of consumers is reflected in their decisions on how much to spend for immediate consumption, how much for durable goods or homes, and how much to save out of current income. Since the end of the war, for instance, individuals have been spending a larger proportion of their expanding incomes. Consumers spent only 76 per cent of their incomes during the fourth quarter of 1945. They now spend about 83 per cent. The rate of personal saving declined from $20 billion a year to about half that amount. Now, eager for automobiles, clothing, and other goods and services of all kinds after years of wartime stinting, consumers are spending more, saving less.

Business firms likewise have to decide how much to save and how much to spend — how much to allow for depreciation, how much of earnings to retain, and how much money to invest in new capital equipment. Having sacrificed new improvements to war production for several years, and anticipating high profits, producers have doubled their rate of expenditure on plant, equipment and inventories since the end of 1945.

Thus with decisions to save being made by countless numbers of individuals and business firms and with decisions to invest in plant and equipment being made by millions of entrepreneurs, the volume of saving may not be equal to the total amount entrepreneurs plan to invest. If current savings outrun investment, money is removed from the income stream and a lower level of income and employment may result. If investment outruns current savings, however, the businessman who intends to buy plant and equipment or additional inventory must obtain funds from other sources. When he makes his purchases with funds which otherwise would have been inactive, or from an expansion of bank credit, the flow of money income in the economy is enlarged. If industry is already working at capacity and the output of goods and services cannot be readily increased, competition among buyers will force prices up. In the process, the expanding firm will get new equipment and additional labor, though it may cost more than had been planned, but higher prices will make consumers do without some of the goods-right-now that they had intended to buy.

Where the Funds Are Coming From

Business customarily finances a large part of its capital needs from its own resources. Philadelphia manufacturing concerns, for example, plan to pay for four-fifths of their expenditures during the coming year by utilizing depreciation allowances, current profits not paid out to stockholders, and past earnings placed in liquid assets.

In the past, depreciation allowances have been by far the largest and most stable of these internal sources of funds. But since the war, they have increased very little compared with the volume of capital outlay. Indeed, it is a serious question whether some businesses are making adequate provision for replacing worn-out machinery and other capital assets at today's high prices. On the other hand, business concerns are making greater profits than ever before. And while they are paying out dividends in record amounts they are retaining a larger proportion of current earnings to finance, among other things, expansion of plant and equipment. Businesses also are financing part of their capital expansion by drawing on savings in the form of Government securities and idle bank deposits. These were acquired during the war when industry was unable to make many of its customary capital expenditures.

Financing capital expansion out of internal funds has certain advantages to the business firm, such as the avoidance of borrowing costs now when expenses are rising and holding down fixed charges which will become more burdensome when earnings decline. From the point of view of the economy, however, internal financing may or may not have inflationary effects. If the business reinvests current earnings, it diverts to the purchase of producers' goods funds which otherwise would have added to consumer incomes. Total demand for goods and services remains the same. But on the other hand, if the business sells Government securities which find their way into the banking system, the money supply is increased. To the extent that they are bought by nonbank investors out of accumulated deposits, or when businesses draw upon their own accumulated deposits, money which previously had been idle becomes active. In these instances, demand for resources is not just diverted from one use to another, but total demand is increased, forcing prices still higher.

Despite their rapid growth, internal sources of funds available for financing capital expansion have been inadequate and many businesses have turned to banks. Business borrowing has risen to an all-time peak. During the next year Philadelphia manufacturers expect to borrow from banks to pay for one-eighth of their capital expenditures. Actually, they may rely more heavily upon bank funds than this figure would indicate. By borrowing for working capital purposes they may free other funds for fixed capital purposes.

Bank loans for capital expansion may play a vital role in increasing the nation's capacity to produce. But when the economic system is operating at capacity, such loans add to the already excessive money supply without adding to the quantity of goods available. Regardless of what use is made of the funds initially, their inflationary effect is the same, because such credit expansion intensifies competition among buyers.

A relatively small part of capital expansion is customarily financed from sources other than businesses themselves or banks. As an example, only 6 per cent of the funds needed by Philadelphia industries over the next year will be so raised. Yet businesses have resorted increasingly to such financing since the war. Issues of securities for new money have recently been made in the largest amounts since 1930. If individuals and other nonbank investors buy these securities out of current savings the effect is not inflationary for the funds merely pass from investors to business. But if corporate bonds are bought by banks, either immediately or later, the money supply is increased by the same process as through bank loans. And if they are bought by non-bank investors out of past savings, the resulting activation of unused deposits may add to inflationary pressures.

Ends and Means

Although it is not possible to measure accurately the part being played by the various methods of financing capital outlay described above, it is obvious that inflationary methods are widely prevalent. Producers have obtained additional funds with which to buy materials and labor for new plant without a commensurate expansion in the available supply. Claims to existing resources have been multiplied, prices have risen, and the consumer's dollar buys less. In this respect inflation performs a definite economic function—that of diverting resources to capital purposes.

The financial system and the method of expanding production capacity which it makes possible have undoubtedly helped to make the United States the most productive nation in the world. It is essential today, however, not only to know how the process operates, but to appreciate its possible consequences and limitations, especially in view of extraordinary foreign demands on our resources.

In the first place, obviously, when we make funds available for the producer to expand capacity without somehow—by taxation or voluntary saving—reducing the funds available for spending by the consumer, we contribute to the general process of inflation and all the inequities and distortions that are characteristic of it.

Secondly, when we do this there is danger of overestimating future consumer demand and, therefore, present capital needs. Waste and unutilized capacity may follow when a reaction to overexpansion contributes to a recession.

Third, to continue this method of capital financing adds to inflationary pressures and increases the danger of an intolerably rapid increase in prices and credit expansion as a result. As long as there is a belief that a rise in prices is temporary, consumers and business will hold on to past savings and try to save part of their increased current incomes. Once the feeling becomes general, however, that prices will continue to rise and will not come down, restraint is thrown to the winds in a rush of buying to beat further price rises. Such a turn of events would frustrate the capital formation process

To summarize: the allocation of funds determines the allocation of resources. The end we have in view—that of enlarging and modernizing our productive plant—must be achieved if we are to increase the flow of goods. The means by which this should be accomplished at the present time is the use of voluntary savings out of current income. If instead we choose to expand by piling up money claims to existing resources, we must realize the possible consequences. Unquestionably, the fiscal and monetary authorities have a great responsibility in influencing the choice of the means to be employed. However, individuals and businesses should assume their share of the responsibility by saving as much as possible out of current income, and banks should exercise increasing caution and restraint in granting credit.

BUSINESS STATISTICS

Production

Philadelphia Federal Reserve District

Indexes: 1923-5 =100	Adjusted for seasonal variation: Oct. 1947	Sept. 1947	Oct. 1946	Per cent change: Oct. 1947 from Mo. ago	Oct. 1947 from Year ago	1947 from 10 mos. 1946	Not adjusted: Oct. 1947	Sept. 1947	Oct. 1946
INDUSTRIAL PRODUCTION	109p	109	105r	0	+ 4	+ 5	114p	113	109
MANUFACTURING	110p	110	105r	0	+ 5	+ 7	115p	114	110r
Durable goods	116p	117	114r	0	+ 2	+ 6	.....	.....	.....
Consumers' Goods	101p	100	95	+ 1	+ 6	+ 4	.....	.....	.....
Metal products	136	135	128	0	+ 6	+28	141	141r	133
Textile products	70p	69	70r	+ 1	− 1	− 1	73p	70	73r
Transportation equipment	142p	148	148	− 4	− 4	−28	135p	139	141
Food products	129p	122	110r	+ 5	+ 18	+ 8	144p	138	121
Tobacco and products	114	107	109	+ 7	+ 5	+ 1	140	123	133
Building materials	49p	47	48	+ 4	+ 1	+ 9	52p	51	51
Chemicals and products	157p	178	149r	−12	+ 5	+13	160p	177	151r
Leather and products	93p	92	83r	0	+ 11	+13	98p	100	88r
Paper and printing	122	125	117	− 2	+ 4	+ 2	124	124	118
Individual lines									
Pig iron	101	109	94	− 8	+ 7	+19	100	103	93
Steel	113	115r	102	− 2	+ 11	+22	113	110	102
Iron castings	82	86	81	− 5	+ 1	+12	87	87	86
Steel castings	115	118	120	− 2	− 4	+ 7	109	107	114
Electrical apparatus	195	187	191	+ 4	+ 2	+38	213	206	208
Motor vehicles	49	54	24	− 9	+104	+69	45	47	22
Automobile parts and bodies	137	146	131	− 6	+ 5	+22	130	139	124
Locomotives and cars	60	59	69	+ 1	− 13	+ 8	57	57	65
Shipbuilding	.....	.....	.....	− 2	− 19	−55	.....	.....	.....
Silk manufactures	85	83r	87	+ 1	− 3	− 2	86	83r	89
Woolens and worsteds	72p	68	67r	+ 5	+ 7	+ 1	79p	75	73r
Cotton products	38	40	53	− 4	− 28	−15	40	38	55
Carpets and rugs	90p	91	71r	− 1	+ 27	+26	98p	96	77r
Hosiery	69	73r	70	− 4	0	− 5	76	73r	77
Underwear	134	136	132	− 2	+ 2	− 6	146	136	143
Cement	71p	69	73	+ 3	− 3	+10	80p	81	82
Brick	60	58	59	+ 2	0	+ 8	60	59	60
Lumber and products	29	27	27	+ 8	+ 6	+ 5	30	28	28
Bread and bakery products	.....	.....	.....	+ 3*	+ 10*	− 3*	114	111	104
Slaughtering, meat packing	104	103	95	0	+ 9	+ 5	108	107	99
Sugar refining	124	106	46	+17	+172	+29	105	91	38
Canning and preserving	209p	187	165r	+12	+ 27	+17	274p	248	211r
Cigars	115	106	109	+ 8	+ 5	+ 1	141	123	134
Paper and wood pulp	95	96	88	− 1	+ 8	+ 5	97	96	90
Printing and publishing	128	131	123	− 2	+ 4	+ 2	129	130	124
Shoes	97p	90	101	+ 7	− 4	−13	104p	103	109
Leather, goat and kid	89p	94	67r	− 6	+ 33	+59	92p	98	69r
Explosives	87p	110r	85	−21	+ 2	+23	87p	110r	86
Paints and varnishes	100	113r	91	−12	+ 9	+14	107	107	98
Petroleum products	215p	242	202r	−11	+ 6	+10	217p	245	203r
Coke, by-product	164p	173	168	− 5	− 2	+24	160p	166	164
COAL MINING	81p	80	81	+ 2	+ 1	− 4	82p	80	82r
Anthracite	79	77	78	+ 3	+ 1	− 6	79	77	78
Bituminous	100p	101	103r	− 2	− 3	+15	107p	103	110r
CRUDE OIL	298	286	316r	+ 4	− 5	− 6	298	286	316r
ELECTRIC POWER	470	483	429r	− 3	+ 10	+ 9	484	474	442r
Sales, total	466	475	433	− 2	+ 8	+ 9	466	470	433
Sales to industries	340	329	317	+ 3	+ 7	+ 9	330	349	307
BUILDING CONTRACTS									
TOTAL AWARDS†	128	140	115	− 8	+ 12	− 6	132	136	118
Residential†	93	91	104	+ 2	− 11	−23	107	108	120
Nonresidential†	162	139	103	+17	+ 57	− 5	156	130	99
Public works and utilities	138	250	147	−45	− 6	+66	145	227	154

* Unadjusted for seasonal variation.
† 3-month moving daily average centered at 3rd month.
p—Preliminary.
r—Revised

Local Business Conditions*

Percentage change—October 1947 from month and year ago	Factory employment: Sept. 1947	Oct. 1946	Factory payrolls: Sept. 1947	Oct. 1946	Building permits value: Sept. 1947	Oct. 1946	Retail sales: Sept. 1947	Oct. 1946	Debits: Sept. 1947	Oct. 1946
Allentown	− 1	+ 9	+ 3	+28	− 15	+108	+ 7	+15	+14	+12
Altoona	0	− 8	+11	+ 8	− 38	+356	+ 1	0	+16	+ 3
Harrisburg	0	0	+ 2	+12	− 25	+463	− 5	+12	+ 6	+19
Johnstown	0	+ 8	+ 4	+26	− 20	− 7	− 3	+16	+ 9	+22
Lancaster	+ 2	0	+ 4	+20	+148	+837	+ 1	+ 6	+19	+ 4
Philadelphia	+ 1	0	+ 2	+11	+ 83	+102	+ 7	+ 8	+21	+16
Reading	+ 2	− 5	+ 6	+16	− 19	+217	+ 3	+ 8	+13	+19
Scranton	+ 1	+13	+ 6	+27	− 29	− 33	+ 3	+ 4	+ 8	+14
Trenton	.....	.....	.....	.....	+ 14	+599	+ 9	+14	+14	0
Wilkes-Barre	0	− 5	0	+ 5	+ 91	+571	− 3	+ 3	+13	+16
Williamsport	+ 2	−12	+ 3	+ 2	− 43	+ 9	.....	.....	+11	+18
Wilmington	+ 1	0	+ 1	+11	− 49	+ 32	+15	+16	+ 2	+ 5
York	+ 2	− 4	+ 7	+ 5	− 72	− 10	+ 2	− 2	+12	+11

* Area not restricted to the corporate limits of cities given here

Production Workers in Pennsylvania Factories

Summary Estimate--October 1947

	Employment	Weekly Payrolls	Weekly Man-Hours Worked
All manufacturing	1,115,400	$54,357,000	44,703,000
Durable goods industries	629,200	33,733.000	25,314,000
Nondurable goods industries	486,300	20,624,000	19,389,000

Changes in Major Industry Groups

Indexes (1939 average =100)	Employment: Oct. 1947 Index	Per cent change from Sept. 1947	Oct. 1946	Payrolls: Oct. 1947 Index	Per cent change from Sept. 1947	Oct. 1946
All manufacturing	130	+1	+ 4	283	+ 3	+19
Durable goods industries	156	0	+ 3	321	+ 4	+20
Nondurable goods industries	107	+1	+ 5	236	+ 3	+18
Food	134	0	+18	256	+ 1	+37
Tobacco	104	+3	+ 9	228	+ 5	+14
Textiles	84	+3	− 1	203	+ 5	+12
Apparel	95	+1	+ 7	236	+ 8	+20
Lumber	93	+2	+ 4	203	+11	+20
Furniture and lumber prods.	101	+6	+ 4	233	+ 9	+15
Paper	121	+1	+ 2	251	+ 2	+18
Printing and publishing	141	+1	+ 8	275	− 1	+20
Chemicals	122	+1	+ 2	238	− 1	+15
Petroleum and coal prods.	146	−1	+ 2	264	− 2	+16
Rubber	159	−1	−12	336	− 2	−10
Leather	97	+1	+ 2	204	+ 4	+14
Stone, clay and glass	136	+1	− 1	285	+ 6	+13
Iron and steel	139	0	+ 5	284	+ 4	+27
Nonferrous metals	153	0	− 5	290	+ 3	+ 2
Machinery (excl. electrical)	204	0	+ 8	421	+ 4	+19
Electrical machinery	233	+2	0	482	+ 4	+20
Transportation equip. (excl. auto)	212	−2	−17	393	+ 3	−10
Automobiles and equipment	185	−3	+21	374	− 6	+39
Other manufacturing	136	0	− 2	261	+ 2	+17

Average Earnings and Working Time

October 1947 Per cent change from year ago	Weekly Earnings: Average	Ch'ge	Hourly Earnings: Average	Ch'ge	Weekly Hours: Average	Ch'ge
All manufacturing	$48.73	+15	$1.216	+13	40.1	+ 2
Durable goods indus.	53.61	+16	1.333	+13	40.2	+ 3
Nondurable goods industries	42.41	+12	1.064	+12	39.9	+ 1
Food	42.53	+16	1.014	+13	42.0	+ 3
Tobacco	28.93	+ 5	.743	+ 5	38.9	0
Textiles	43.04	+13	1.084	+13	39.7	0
Apparel	34.99	+12	.893	+10	39.2	+ 2
Lumber	40.89	+16	.964	+11	42.4	+ 4
Furniture and lumber products	42.64	+11	.975	+10	43.8	+ 1
Paper	44.88	+15	1.026	+12	43.7	+ 3
Printing & Publishing	54.99	+11	1.409	+16	39.0	− 4
Chemicals	46.31	+12	1.138	+12	40.7	0
Petrol. & coal prods.	54.92	+14	1.454	+17	37.8	− 3
Rubber	52.42	+ 1	1.334	+ 7	39.3	− 6
Leather	36.07	+12	.965	+12	37.4	+ 1
Stone, clay and glass	47.89	+15	1.163	+13	41.2	+ 1
Iron and steel	55.14	+20	1.393	+15	39.6	+ 5
Nonferrous metals	49.39	+ 8	1.283	+12	38.5	− 4
Machinery (excl. elec.)	52.27	+10	1.277	+ 9	40.9	0
Electrical machinery	57.82	+20	1.436	+14	40.3	+ 5
Transportation equip. (excl. auto)	56.61	+ 8	1.412	+ 7	40.1	+ 1
Automobiles & equip.	55.44	+15	1.322	+12	41.9	+ 2
Other manufacturing	40.33	+ 9	1.061	+11	38.0	− 2

Distribution and Prices

Wholesale trade Unadjusted for seasonal variation	Per cent change: Oct. 1947 from Month ago	Oct. 1947 from Year ago	1947 from 10 mos. 1946
Sales			
Total of all lines	+ 6	+19	+ 8
Boots and shoes	− 4	− 6	......
Drugs	− 2	+10	......
Dry goods	+ 6	−10	+ 5
Electrical supplies	+ 6	+ 9	......
Groceries	+12	+28	+ 2
Hardware	+ 7	+ 5	+ 6
Jewelry	+12	−20	−15
Paper	− 6	+10	+27
Inventories			
Total of all lines	− 1	+27	......
Dry goods	− 7	+31	......
Electrical supplies	− 1	+45	......
Groceries	+ 4	+25	......
Hardware	− 2	+50	......
Jewelry	+ 2	−20	......
Paper	+ 6	+51	......

Source: U. S. Department of Commerce.

Prices	Oct. 1947	Per cent change from: Month ago	Year ago	Aug. 1939
Basic commodities (Aug. 1939 = 100)	338	+ 5	+34	+238
Wholesale (1926 = 100)	159	+ 1	+18	+111
Farm	190	+ 2	+15	+211
Food	178	− 1	+13	+165
Other	140	+ 1	+21	+ 75
Living costs (1935-1939 = 100)	Sept.			
United States	164	+ 2	+12	+ 66
Philadelphia	163	+ 2	+12	+ 67
Food	200	+ 4	+16	+115
Clothing	183	+ 1	+13	+ 85
Fuels	129	+ 1	+ 7	+ 34
Housefurnishings	186	+ 2	+12	+ 86
Other	139	+ 1	+ 9	+ 38

Source: U. S. Bureau of Labor Statistics.

Indexes: 1935-1939 = 100	Adjusted for seasonal variation: Oct. 1947	Sept. 1947	Oct. 1946	Per cent change: Oct. 1947 from Month ago	Oct. 1947 from Year ago	1947 from 10 mos. 1946	Not adjusted: Oct. 1947	Sept. 1947	Oct. 1946
RETAIL TRADE									
Sales									
Department stores—District	253	267	232r	− 5	+ 9	+ 10	280	267	257
Philadelphia	234	243	215	− 3	+ 9	+ 10	267	245	245
Women's apparel	238	251	246	− 5	− 3	− 4	264	266	
Men's apparel	236	285	243	−17	− 3	+ 7	252	265	
Shoe	203	209	206	− 3	− 1	0	216	246r	
Furniture	......	......	......	+10*	+ 8*	......	......	......	......
Inventories									
Department stores—District	233p	210	217	+11	+ 8	......	266p	231	247
Philadelphia	217p	197	205	+10	+ 6	......	250p	221	235
Women's apparel	226	195r	252	+16	− 10	......	264	222r	295
Shoe	151	143	83	+ 5	+ 82	......	154	147	84
Furniture	......	......	......	+12*	+ 11*	......	......	......	......
FREIGHT-CAR LOADINGS									
Total	140	132	136	+ 6	+ 2	+ 11	151	148	[illegible]
Merchandise and miscellaneous	133	126	130	+ 5	+ 2	+ 10	141	138	[illegible]
Merchandise—l.c.l.	88	91	97	− 3	− 9	− 3	93	94	[illegible]
Coal	147	145	144	+ 1	+ 2	+ 10	162	160	159
Ore	170	163	152	+ 4	+ 12	+ 36	245	262	218
Coke	172	161	165	+ 7	+ 4	+ 28	196	171	188
Forest products	95	89	90	+ 6	+ 5	− 3	111	112	105
Grain and products	144	119	140	+21	+ 3	+ 8	144	118	140
Livestock	79	84	132	− 6	− 41	− 22	92	101	155
MISCELLANEOUS									
Life insurance sales	198	179	183	+11	+ 8	− 7	206	158	191
Business liquidations									
Number	......	......	......	+54*	+151*	+242*	30	19	12
Amount of liabilities	......	......	......	**	+198*	+130*	168	7	56
Check payments	239	240	217	− 1	+ 10	+ 5	234	216	213

* Computed from unadjusted data. p—Preliminary. r—Revised.
** Increase of 1000% or more from the low level of a year ago.

BANKING STATISTICS

Reporting member banks (Millions $)	Nov. 26, 1947	Changes in— Five weeks	One year
Assets			
Commercial loans	500	+39	+ 76
Loans to brokers, etc.	27	−12	− 5
Other loans to carry secur.	21	+ 1	− 4
Loans on real estate	77	− 1	+ 11
Loans to banks	1	......	− 2
Other loans	229	+ 5	+ 47
Total	855	+32	+123
Government securities	1437	−50	−196
Other securities	269	+ 6	+ 22
Total investments	1706	−44	−174
Total loans & investments	2561	−12	− 51
Reserve with F. R. Bank	487	− 4	+ 21
Cash in vault	43	......	+ 3
Balances with other banks	97	−10	− 7
Other assets—net	54	+ 1	......
Liabilities			
Demand deposits, adjusted	2097	+ 2	+ 58
Time deposits	408	−14	+ 19
U. S. Government deposits	35	− 8	−141
Interbank deposits	351	−17	+ 11
Borrowings	24	+13	+ 21
Other liabilities	25	......	− 3
Capital account	302	− 1	+ 1

MEMBER BANK RESERVES AND RELATED FACTORS

Third Federal Reserve District (Millions of dollars)	Changes in weeks ended: Oct. 29	Nov. 5	Nov. 12	Nov. 19	Nov. 26	Changes in five weeks
Sources of funds:						
Reserve Bank credit extended in district	− 7	−17	−22	+38	+ 8	......
Commercial transfers (chiefly interdistrict)	+45	+15	+74	− 4	+20	+150
Treasury operations	−44	+ 4	−37	−44	−10	−131
Total	− 6	+ 2	+15	−10	+18	+ 19
Uses of funds:						
Currency demand	− 1	+ 7	+10	−10	+22	+ 28
Member bank reserve deposits	− 5	− 5	+ 5	....	− 4	− 9
"Other deposits" at Reserve Bank	....	....	....	....	....	....
Other Federal Reserve accounts	....	....	....	....	....	....
Total	− 6	+ 2	+15	−10	+18	+ 19

Member bank reserves (Daily averages; dollar figures in millions)	Held	Required	Excess	Ratio of excess to required
Phila. banks				
1946: Nov. 1-15	$412	$406	$ 6	2%
1947: Oct. 1-15	437	428	9	2
Oct. 16-31	442	432	10	2
Nov. 1-15	433	428	5	1
Country banks				
1946: Nov. 1-15	$391	$338	$53	16%
1947: Oct. 1-15	400	349	51	15
Oct. 16-31	393	349	44	13
Nov. 1-15	398	348	50	14

Federal Reserve Bank of Phila. (Dollar figures in millions)	Nov. 26, 1947	Changes in— Five weeks	One year
Discounts and advances	$ 28.5	$+ 7.5	$+ 8.4
Industrial loans	1.5	− 0.4	+ 0.4
U. S. securities	1554.7	+ 34.6	− 98.2
Total	$1584.7	$+ 41.7	$− 89.4
Fed. Res. notes	$1671.7	$+ 23.3	$− 9.5
Member bank deposits	824.5	− 9.2	+ 37.8
U. S. general account	142.2	+108.4	+ 96.7
Foreign deposits	29.9	− 1.5	− 21.9
Other deposits	2.0	+ 0.1	− 0.8
Gold certificate reserves	1091.7	+ 89.5	+192.6
Reserve ratio	40.8%	+1.5%	+5.8%

Distribution and Prices

Wholesale trade Unadjusted for seasonal variation	Per cent change October 1948 from Month ago	Year ago	1948 from 10 mos. 1947
Sales			
Total of all lines	− 2	− 3	+ 2
Dry goods	− 7	− 8	− 7
Electrical supplies	+14	+14	+ 4
Groceries	− 4	−13	+ 4
Hardware	+ 5	− 8	− 2
Jewelry	+20	+18	+ 8
Paper	− 6	+10	+ 1
Inventories			
Total of all lines	0	+ 7	.....
Dry goods	− 2	+18	.....
Electrical supplies	− 5	− 8	.....
Groceries	+ 5	−12	.....
Hardware	− 4	+15	.....
Jewelry	+ 2	+14	.....
Paper	+ 3	+22	.....

Source U.S.Department of Commerce.

Prices	Oct. 1948	Per cent change from Month ago	Year ago	Aug. 1939
Basic commodities (Aug. 1939 = 100)	305	− 2	−10	+205
Wholesale (1926 = 100)	165	− 2	+ 4	+120
Farm	182	− 4	− 4	+199
Food	177	− 5	0	+164
Other	153	0	+ 9	+ 91
Living costs (1935-1939 = 100)				
United States	174	− 1	+ 6	+ 76
Philadelphia	174	0	+ 7	+ 78
Food	208	− 2	+ 6	+124
Clothing	196	0	+ 6	+ 97
Fuels	143	0	+10	+ 48
Housefurnishings	205	0	+10	+104
Other	152	+ 1	+ 9	+ 51

Source: U. S. Bureau of Labor Statistics.

Indexes: 1935-1939 = 100	Adjusted for seasonal variation: Oct. 1948	Sept. 1948	Oct. 1947	Per cent change October 1948 from Month ago	Year ago	1948 from 10 mos. 1947	Not adjusted: Oct. 1948	Sept. 1948	Oct. 1947
RETAIL TRADE									
Sales									
Department stores—District	307	295	264r	+ 4	+16	+10	322	295	280
Philadelphia	267	269	239	− 1	+12	+ 8	296	269	267
Women's apparel —District	277	277r	238	0	+16	+ 4	307	293	264
Philadelphia	268	274	237	− 2	+13	+ 4	308	294r	273
Furniture	.....	.....	.....	− 7*	−10*	.....	.....	.....	.....
Inventories									
Department stores—District	244p	238	231	+ 3	+ 6	.....	279p	262	263
Philadelphia	217	209	216	+ 4	+ 1	.....	250	234	249
Women's apparel —District	224	216	226	+ 4	− 1	.....	262	246	264
Philadelphia	248	240	255	+ 4	− 3	.....	290	278	299
Furniture	.....	.....	.....	+ 6*	0*	.....	.....	.....	.....
FREIGHT-CAR LOADINGS									
Total	132	130	140	+ 2	− 6	− 5	143	145	151
Merchandise and miscellaneous	124	122	133	+ 1	− 7	− 6	132	133	141
Merchandise—l.c.l.	75	75	88	+ 1	−15	−16	80	78	93
Coal	136	141	147	− 4	− 8	− 6	149	155	162
Ore	176	171	170	+ 3	+ 4	+ 2	254	275	245
Coke	172	183	172	− 6	0	+ 1	196	193	196
Forest products	75	82	95	− 9	−21	−10	88	102	111
Grain and products	160	118	144	+ 36	+11	−12	160	117	144
Livestock	65	64	79	+ 3	−17	−23	76	76	92
MISCELLANEOUS									
Life insurance sales	189	205	204r	− 7	− 7	0	191	170	206
Business liquidations									
Number	.....	.....	.....	+ 50*	+20*	+40*	36	24	30
Amount of liabilities	.....	.....	.....	+403*	+ 3*	+34*	172	34	168
Check payments	261	272	253r	− 4	+ 3	+13	250	253	243

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

BANKING STATISTICS

Reporting member banks (Millions $)	Nov. 24, 1948	Changes in— Four weeks	One year
Assets			
Commercial loans	535	− 4	+33
Loans to brokers, etc.	17	− 1	−10
Other loans to carry secur.	10	− 2	−11
Loans on real estate	91	+ 1	+14
Loans to banks	5	......	+ 4
Other loans	275	+ 4	+45
Total gross	933	− 2	+75
Total net	926	− 2	+71
Government securities	1373	+ 8	−64
Other securities	273	− 4	+ 4
Total investments	1646	+ 4	−60
Total loans & investments	2572	+ 2	+11
Reserve with F. R. Bank	555	+ 1	+68
Cash in vault	45	− 1	+ 2
Balances with other banks	100	− 8	+ 3
Other assets—net	51	+ 1	− 3
Liabilities			
Demand deposits, adjusted	2105	+12	+ 8
Time deposits	448	− 3	+40
U. S. Government deposits	78	−12	+43
Interbank deposits	338	−14	−13
Borrowings	22	+11	− 2
Other liabilities	26	− 1	+ 1
Capital account	306	+ 2	+ 4

MEMBER BANK RESERVES AND RELATED FACTORS

Third Federal Reserve District (Millions of dollars)	Changes in weeks ended— Nov. 3	Nov. 10	Nov. 17	Nov. 24	Changes in four weeks
Sources of funds:					
Reserve Bank credit extended in district	−25	+22	+11	+ 6	+ 14
Commercial transfers (chiefly interdistrict)	+49	+26	−19	+47	+103
Treasury operations	−35	− 8	−14	−36	− 93
Total	−11	+40	−22	+17	+ 24
Uses of funds:					
Currency demand	+ 8	+ 9	− 8	+20	+ 29
Member bank reserve deposits	−19	+31	−14	− 4	− 6
"Other deposits" at Reserve Bank	......	......	......	+ 1	+ 1
Other Federal Reserve accounts	......	......	......	......	......
Total	−11	+40	−22	+17	+ 24

Federal Reserve Bank of Phila. (Dollar figures in millions)	Nov. 24, 1948	Changes in— Four weeks	One year
Discounts and advances	$ 37.3	$+12.2	$+ 8.8
Industrial loans	1.0	+ .1	− .5
U. S. securities	1642.4	−17.8	+ 87.7
Total	$1680.7	$− 5.5	$+ 96.0
Fed. Res. notes	$1661.3	$+24.5	$− 10.4
Member bank deposits	946.7	− 6.3	+122.2
U. S. general account	139.0	− 5.6	− 3.1
Foreign deposits	36.5	+ 7.2	+ 6.6
Other deposits	2.7	+ 1.6	+ .7
Gold certificate reserves	1106.9	+25.4	+ 15.2
Reserve ratio	39.7%	+0.6%	−1.1%

Member bank reserves (Daily averages; dollar figures in millions)	Held	Required	Excess	Ratio of excess to required
Phila. banks				
1947 Nov 1–15	$433	$428	$ 5	1%
1948 Oct. 1–15	448	438	10	2
Oct. 16–31	453	444	9	2
Nov. 1–15	455	450	5	1
Country banks				
1947 Nov. 1–15	$398	$348	$50	14%
1948 Oct. 1–15	491	446	45	10
Oct. 16–31	487	443	44	10
Nov. 1–15	491	443	48	11

BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA

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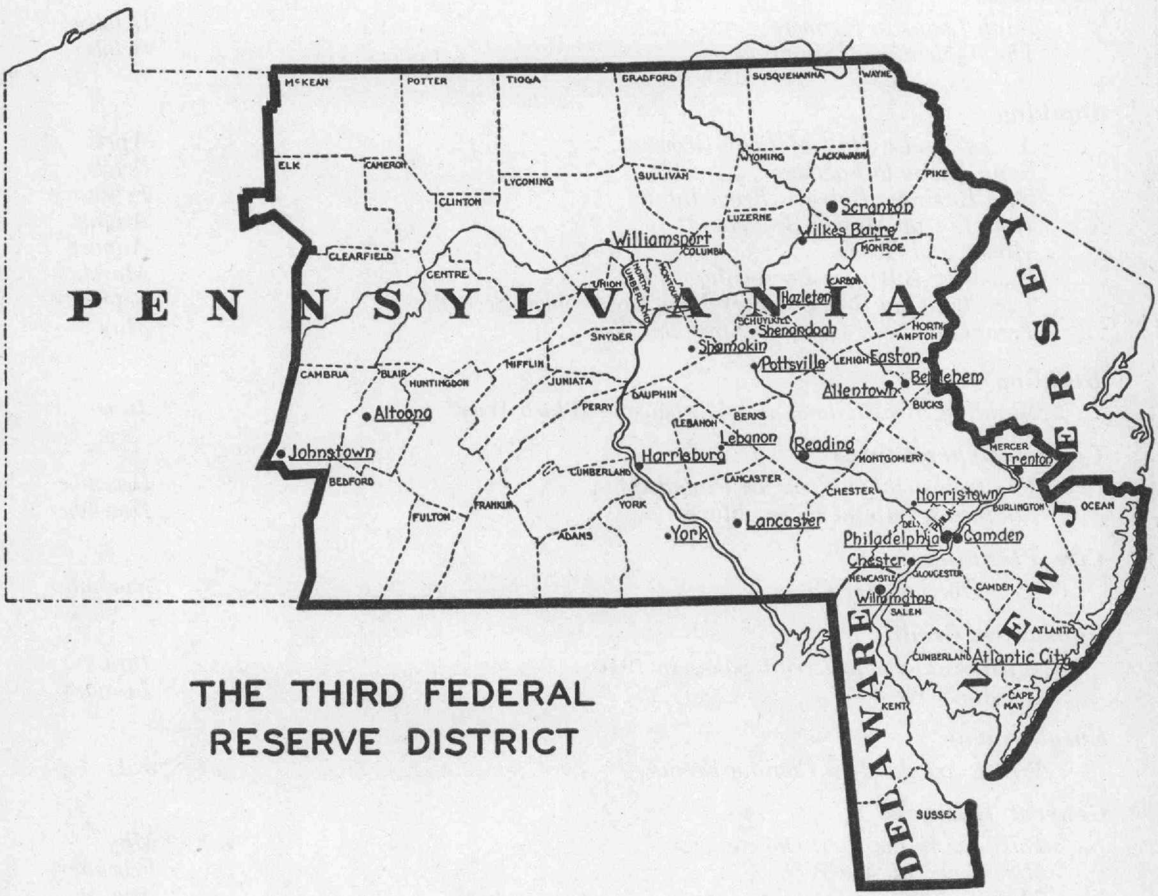

THE THIRD FEDERAL
RESERVE DISTRICT