

JANUARY 1953

business review

FEDERAL
RESERVE BANK OF
PHILADELPHIA

1953: WHAT NOW?

The argument for sustained high levels of business activity, based on spending by governments, businessmen, and consumers, sounds convincing but there is no guarantee.

A LOOK AT PRICES

Wholesale and consumer indexes, though higher, have reestablished relationships similar to mid-1950.

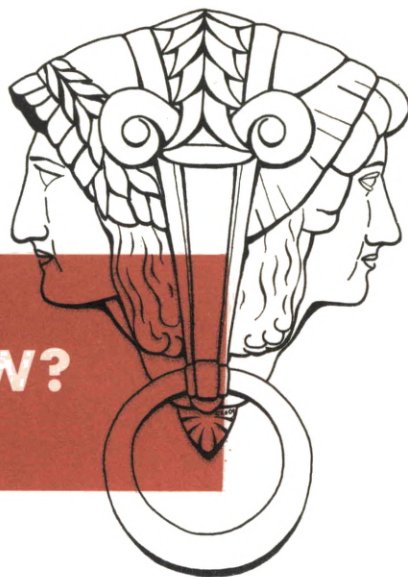
FEDERAL RESERVE BANK DIRECTORS

Changes in this Bank's Board of Directors suggest some principles underlying their selection.

CURRENT TRENDS

December, in some ways, was typical of 1952; business was good, credit rose, money was tight.

1953: WHAT NOW?



Forecasts are products of the times. Who will predict a depression when jobs paying big money are plentiful for all seeking work? When factories operate all day long and into the night? When the good earth yields big harvests, and cash registers are ringing in the stores? When contractors have houses to build? When big expressways are under construction to accommodate endless streams of traffic, and utilities can scarcely keep up with the demand for their services? When steel production and industrial employment are rising? When the sum total of everything produced is greater than ever before and people want still more?

A 350 BILLION-DOLLAR ECONOMY

The year 1953 got off to a good start. Steel mills were operating close to their rated capacity, and yet neither civilian nor defense demands were satisfied. The construction industry was hard pushed building more dwellings, factories, schools, stores, and highways. Never was "peacetime" employment so high and unemployment so low. Business was paying high wages and big dividends. Personal income after taxes was at a record level. The bookkeepers of the national economy are now

striking a trial balance. It looks like a record annual rate of \$350 billion or more of gross output, including all goods and services produced.

The question is, can business continue at this rate or attain even higher levels this year? Many think it will; others think we may ride over the top before the end of the year. But few if any foresee anything like a depression.

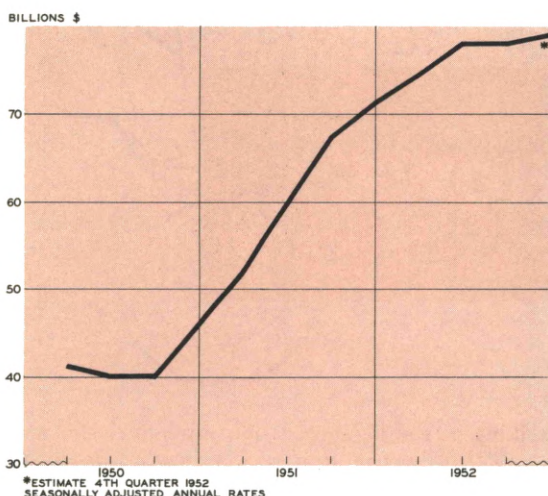
One of the best ways to appraise the business outlook is to consider the major sources of spending. These are expenditures by Government, businessmen and consumers. The three together account for all but a very small proportion of total spending.

GOVERNMENT SPENDING

Government spending for goods and services, though not the largest of the three, is regarded nevertheless as the keynote. Rising expenditures for defense have been largely responsible for the growth of business activity during the past two years, and still larger defense outlays are in prospect.

Federal, state, and municipal expenditures were at an estimated annual rate of \$79 billion during the last quarter of last year. At that rate, Govern-

GOVERNMENT PURCHASES OF GOODS AND SERVICES



ment outlays accounted for more than one-fifth of all spending—public and private. Federal expenditures were at the rate of \$56 billion, in contrast with \$23 billion of outlays by state and municipal governments. The vast bulk of Federal Government expenditures (\$51 billion) was for goods and services directly related to national security.

Defense is Costly

Although the National Defense Program may get an overhauling by the incoming Administration, the outlay for arms is expected to rise still more. In his January 1953 report, the Director of Defense Mobilization stated that \$48 billion of military goods had already been delivered. An additional \$81 billion is on order and much of it is in various stages of production. Unless these plans are altered significantly, the peak rate of military spending should occur sometime this year. These plans are the basis for the expectation that Federal Government expenditures may rise \$5 billion or more above current outlays.

An important aspect of defense expenditures is their stimulating effect upon business. Such expenditures, though ever so urgent and indispensable in the interest of national security, are inflationary. Production of military equipment increases civilian spending power without increasing civilian goods for purchase; furthermore, unless the cost of military goods is paid out of taxes or non-bank borrowing, still more inflationary pressures are generated.

Local Improvements are Behind Schedule

State and municipal expenditures are also expected to go higher. These expenditures have been increasing without interruption ever since the end of World War II, and there is little likelihood that the line can be held at current levels. Much of the money spent by states and municipalities goes for highways, schools, hospitals, water and sanitation systems, and other public facilities required by rapidly growing communities. State and local governments generally are behind schedule in their maintenance and improvement programs. National defense priorities have naturally handicapped state and local government agencies with respect to both materials and labor. Meanwhile, the demand for public improvements has been intensified by both increases in population and shifts of population—notably out of the big cities into the suburbs.

BUSINESS SPENDING

The money that businessmen are spending, on the one hand, for inventories and, on the other hand, for plant expansion and modernization of equipment is also a powerful force contributing to the current high levels of business activity. Any policy changes with respect to either of these two types of expenditures are bound to exert considerable influence on the future course of business.

Inventories are Temperamental

The current inventory situation seems sound and no major changes, either increases or decreases, appear to be in prospect. Manufacturers' inventories, near the close of last year, were leveling off and distributors' inventories had risen moderately. At present both are regarded to be in reasonable relationship to sales volume.

Although inventories in the aggregate may be well geared to sales in the aggregate, this may not necessarily be true in all major lines of business. In times of accelerating business activity, it is difficult to ascertain how much of the increased production is going into inventory. In the closing months of 1952, when industrial production was rising briskly there was some concern that too much of the output might be going into inventory. Virtually full capacity operations in steel are, to some extent, a catching-up process to fill orders delayed by last year's strike. In another three or six months the industry may be caught up. In other lines such as automobiles, major appliances, aluminum, paperboard, petroleum products, and cotton and rayon textiles, inventories are not considered excessive now, but the situation could change quickly.

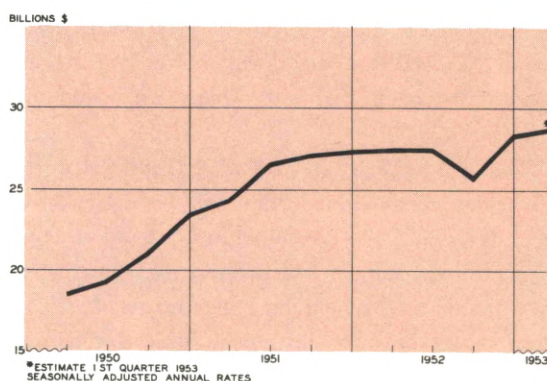
Inventories are notoriously sensitive and temperamental. The recession, or whatever it was we had in 1949, was caused primarily by an abrupt shift from accumulation to reduction of inventories. At present, purchasing agents are on their guard. Some of them give the current boom six months, others only three months—all of them are buying cautiously.

Capital Expenditures are Big

A powerful force contributing to current high levels of business activity is the large amount of capital expenditures for plant expansion and modernization of productive equipment throughout American industry. Expenditures in 1952

amounted to \$26.9 billion, according to the joint estimate of the Securities and Exchange Commission and the Department of Commerce. Except for one year (1949), capital expenditures have been establishing successively higher records each year since World War II. Hitherto, and particularly during the last few years, skeptics have been saying that surely this rate cannot be maintained any longer. It now appears, however, that this rate will be maintained near the current peak for at least another year.

EXPENDITURES FOR PLANT AND EQUIPMENT



Still more astonishing is the expectation that capital outlays are to decline only moderately in the two succeeding years. On the basis of large concerns reporting to the Department of Commerce, it is estimated that capital outlays in 1954 and 1955 will be 85 and 80 per cent, respectively, of the 1952 volume. The big investors of the future, according to this survey, are the chemical, rubber, petroleum, electrical machinery, and electric power industries. Large trade companies also expect to maintain or increase their 1952 rates through 1955, and some of the reasons cited are the large population growth, the necessity for relocation of places of business, and the growth

of competition. Industries already over the hump are primary iron and steel, nonferrous metals, and the railroads. Among the railroads, the big job of conversion from steam to Diesel power is approaching completion, and the producers of basic metals are nearing the end of their huge defense-stimulated expansion programs.

The 1953 outlook for capital expenditures in the Delaware River basin is not quite so optimistic. Manufacturers in the eight-county area known as metropolitan Philadelphia told us that their capital outlays this year would be down approximately 20 per cent below last year's expenditures. Whether this is a peculiarity of the area, which includes the new Fairless Steel mill, or whether the more conservative estimates arise from the fact that our local survey was taken somewhat earlier than the others, we cannot be sure.

The evidence that capital expenditures by American business in 1953 will be maintained near present levels is compelling but not conclusive. Unlike outlays for inventories, which can rise or fall quickly, capital expenditures, by their very nature, have greater inertia. Plans for capital expenditures can be altered or amended, however, particularly in view of the fact that a growing proportion of the total is earmarked for equipment rather than construction. Tentative plans to install new equipment can be postponed if the business climate changes.

Paying the Bills

The job of financing business requirements does not appear to offer any serious difficulties. Although the liquidity and general working capital position of business are not quite so favorable as they have been in earlier post-war years, there is little need for apprehension about the ability of business to meet its short-term financing. In the absence of any major changes in the relation-

ship of inventories to sales, no large-scale, short-run financing is in prospect.

Long-term capital requirements are expected to be met, as in recent years, by drawing heavily upon internal resources. Last year, business financed the greater part of its large plant and equipment investment out of retained profits and reserves for depreciation and depletion. Money borrowed and obtained in the equity capital market was secured under favorable conditions. Sustained heavy capital needs should create no undue strain on business as long as profits continue near present levels.

Still Building a Lot of Houses

Residential construction held up much better last year than was expected. With more than a million dwelling units started, it was the second best year. The peak occurred in 1950, with almost 1.4 million housing starts. Opinions on the outlook for 1953 differ; estimated expenditures range from 10 to 15 per cent lower to 4 per cent higher than last year's dollar volume.

It is easier to make a case for a declining rate of residential construction than for a rising rate or even maintenance of the present rate. Enough new housing has already been created to relieve most of the overcrowding of two or more families per dwelling, and the rate of household formation is on the decline. Vacancies, virtually zero when the housing shortage was at its worst, are approaching 5 per cent of the housing supply—an evidence of the reappearance of a buyers' market. Another straw in the wind is the longer time required to find customers for new houses. It is some time since we heard of people making down payments from blue prints. The annual net increase in non-farm households has already decreased from a post-war average of 1.4 million to 0.9 million. On this basis, projections of the Bureau of the Census indicate a probable annual

construction to 1955 of approximately three-quarters of a million new dwelling units. That is on the assumption of medium population growth and relatively favorable economic and social conditions.

Mortgage Money

The volume of residential construction this year will be influenced also by the availability and terms of funds. Suspension of Regulation X last September doubtless stimulated construction, particularly in the higher-priced brackets, but mortgage money was somewhat less venturesome. Attitudes of the suppliers of mortgage money affect housing starts and so do costs of building materials. While there is some question about the maintenance of construction activity at present levels, nevertheless no sharp decline is anticipated.

CONSUMER SPENDING

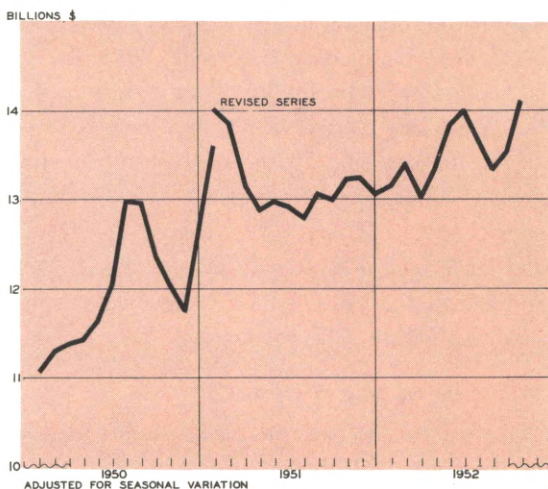
Consumer spending is the most important factor and the biggest unknown quantity in the business outlook. People like their \$220 billion standard of living, but will they continue spending at that annual rate which prevailed at the close of last year?

More People are Coming

Those who claim that consumer spending will hold or go still higher base much of their argument on the growth of population. On December 31 at midnight when the bells were ringing in the new year, the population of the United States was officially estimated at 158.4 million. During 1953, a net increase of 2.7 million is expected. That is equivalent to the population of a Philadelphia and a Pittsburgh. With that many more people around to be fed, clothed, and housed, it is argued, consumer spending will continue to rise. Of course, there is no certainty about this because the spending decisions lie with those who are already here and they heavily outnumber the

new arrivals. Whether spending will be larger or smaller depends upon many things. Let us appraise some of the major factors other than housing, which has already been considered.

TOTAL RETAIL TRADE



Where the Money Goes

Last year the consumer put 55 cents of his spending dollar into nondurable goods, 12 cents into durables, and 33 cents into services. The proportions do not change very much from one year to another, but the proportions need not change very much in order to have a significant influence. Consumer spending throws a lot of weight.

Food, of course, comes first. Last year it accounted for 30 cents of the consumers' dollar. Seldom, if ever, has it been higher but it has been as low as 24 cents within the past decade or so. Last year people ate well and it cost them over \$3 billion more than the year before. The really significant question is not whether people will eat more this year than they did last year but rather what will they spend for their eating?

Since the end of World War II the general trend of spending for food has been upward. One reason is that the more money people make the better

they eat—beef is better than beans. How well people choose to eat this year is also a matter of prices. Last year, food prices at retail showed no particular trend except to stay high. This year there is some hope for lower beef prices because of a large cattle population; but lower meat prices may be nullified by higher costs of other foods. Much depends upon next summer's harvests.

Apparel accounts for less than 10 per cent of the consumers' dollar, and prices have been declining moderately. Prices of housefurnishings are also lower than they were a year ago. On the other hand, rents have been going up steadily and so have the costs of fuel, electricity, and refrigeration, as well as miscellaneous goods and services purchased by consumers.

Whether to Buy a New Car

Among durables, the automobile stands high on the consumers' schedule of priorities, and the 1953 motor market is hard to appraise. The motor manufacturer is encouraged when he looks at the high and rising curve of consumers' disposable income, the number of old cars still on the roads, the suburbanization, and westward shift of population. He is probably discouraged by the virtually evaporated backlog of demand and the overcrowded roadways. Some consumers are discouraged by the price tags on new cars in spite of easier financing since the suspension of Regulation W. The market for motor cars may be determined very largely by the appeal of the new models just emerging from the assembly lines.

Nice Things for the House

The outlook for major household appliances depends largely upon the particular type of mechanism. Items like deep-freezers, clothes dryers, and television receiving sets are likely to be in good demand because they have scarcely emerged from their novelty appeal, at least to a great many

potential customers. Somewhat more conventional items like refrigerators, sewing machines, and vacuum cleaners are more likely to be dependent, for the most part, on replacement demand. The same is true of furniture. Of course, new households open up new markets for all of these things. The big share of the consumers' dollar spent for services is *prima facie* evidence of the importance of expenditures for recreation, transportation, personal services, and all the services incident to running a household.

In the order of things, retailers usually get the lion's share of consumers' dollars. Last year, retailers did right well and this year, merchants expect to do a little better—perhaps 2 or 3 per cent. Whether people will spend more depends also upon how much money they have left after taxes, how much they save, and how much they buy on credit.

The "Take-home"

Disposable personal income is at a current annual rate in excess of \$240 billion. Wages and salaries, the largest tributary to the income stream, are at their highest, and the chances are that this source of income will continue to grow. This is based on the prospects of further increases in wage rates and high levels of employment. With the aid of good weather and parity support, farm income should remain fairly stable. Corporate profits may reflect the effects of increasing competition, but if corporate taxes are reduced, dividends may be sustained reasonably well.

To Save or to Spend

Granting no decline in disposable income, there is still the question of the consumers' choice to save or to spend. At various times during the past six years, people have saved as much as 8 per cent and as little as 2 per cent of their in-

come after taxes. No one can predict what they will save this year, but a difference of 6 per cent on a disposable income of, say, \$240 billion is \$14 billion, which is enough to exert considerable influence on the course of business.

Consumer spending is also supplemented by borrowing. Following the suspension of Regulation W last May, people bought more on credit. Total consumer credit outstanding was more than \$23 billion at the turn of the year. Though this is a huge amount, the ratio of consumer credit outstanding to disposable income is still smaller than in 1940. Unfortunately, ratios never reveal how much is too much.

Competition is Increasing

The chances are favorable that business activity will continue at high levels of operation. Yet, it is so tempting to jump from the premise that all *looks* well to the conclusion that all *is* well. A change in expenditures in one area may touch off sympathetic change in another. A stepped-up defense program, for example, could quickly change business spending for inventories. Similarly, a significant decline in consumer spending might bring about changes in plans for capital outlays for plant and equipment.

One question in the minds of many businessmen is the possibility that we may be expanding productive capacity too fast. Since the end of World War II, American business has invested \$150 billion in new tools and more floor space. Some of this is highly specialized arms-producing equipment, some of it was delayed maintenance and modernization, and most of it was built and bought with dollars of shrinking purchasing power. Nevertheless, it is a huge addition to productive capacity. The investment boom in manufacturing is estimated to have added 50 per cent to the 1946 capacity, according to a recent release of the Joint Committee on the Economic Report.

The process of investment, of course, contributed to the post-war boom but meanwhile much additional capacity has been created. Sometime we may attain enough capacity, and it is not likely to occur simultaneously in all industries. As indicated above, some industries may already have passed the peak and perhaps business as a whole has passed the investment peak. When productive capacity begins to catch up with demand, some evidence of the restoration of a balance between supply and demand should be apparent in prices. As analyzed briefly in an accompanying article in this Review, prices have receded from the higher levels to which they were driven by the stampede of buying after the invasion of South Korea. Moreover, in recent months, prices have settled down to a steady pace showing little disposition to rise or fall. Perhaps they are trying to tell us something.

A New Administration

On the threshold of a new political administration, national policies may be changed with significant consequences to the course of business. One of the most important is the National Defense Program, which is not quite up to schedule. This is an area in which the incoming President should be well-qualified to make an appraisal. Any major overhauling that might be in store for the defense program would surely affect business, but it is easy to expect too much too soon.

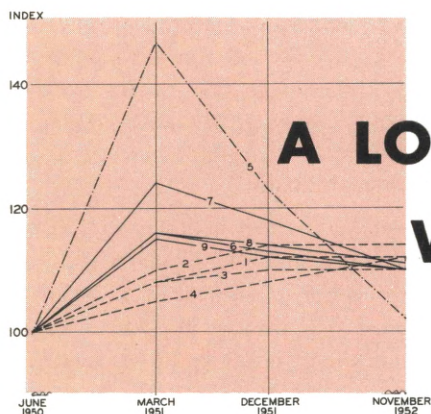
The new Congress is also confronted with a number of important decisions. Domestic issues to be considered are matters like taxes and agricultural price supports, fiscal and monetary policies, and expiring controls over materials, rents, wages, and prices. Among the major issues pertaining to our relations with the rest of the world are foreign aid, trade barriers, immigration, and the overriding problem of maintaining peace.

In Conclusion

Plans and commitments from last year carrying over into the new year give promise of sustained high levels of business activity. Government spending, business spending, and consumer spending, including residential construction, when added together make a plausible case for continued prosperity.

However, there is a widespread feeling that prosperity will last only so long as the defense program is in the expansion phase. Those who

are concerned over a possible let-down either this year or later when military spending tapers off may be understating the importance of consumer demand. In "Markets After the Defense Expansion," by the Department of Commerce and "The Sustaining Economic Forces Ahead," a release by the Congressional Joint Committee on the Economic Report, the prospective dimensions of a peacetime economy are carefully appraised. While the job of transition may not be so great as that of the post-World War II period, it is well, nevertheless, to be making tentative plans.



A LOOK AT PRICES: WHOLESALE AND RETAIL

The formidable chart of jackstraws heading this article tells a story of prices since the outbreak of war in Korea, and it may raise the question of how, elsewhere in the Review, we can characterize the year 1952 as one of relative stability. In fact, some people have expressed concern over the decline in prices of basic commodities, while others have anxiously watched the price of things we buy in stores go up.

The chart indicates that these divergent movements have brought many prices back into roughly the same relationship that prevailed before Korea. It indicates that after almost two

and a half years of severe stresses and strains—psychological and physical—the economy has readjusted itself to price relationships reasonably similar to those existing before Korea. This is not to say that price relationships before Korea were perfect. They never are in a competitive economy; but in a sense there has been

KEY TO CHART:
Consumer prices -----
1. All commodities
2. Foods
3. Other commodities
4. Rents and services

Basic Commodities -----
5. All commodities
Wholesale prices -----
6. All commodities
7. Farm products
8. Processed foods
9. Other commodities

established, at least temporarily in the area of prices, some degree of peacetime re-alignment.

Let's see what happened. When the outbreak occurred in Korea in June 1950, memories of businessmen and consumers were not so short as to have forgotten experiences of World War II. Buyers scrambled for commodities they knew had been hard to get and high in price. Demand zoomed overnight; supplies did not, so prices rose.

Prices for basic commodities—including imported industrial items like burlap, rubber, tin, wool, and so on—pushed upward first. These spot market prices are as sensitive as jumpy nerves, and their ups and downs are generally pronounced. Prices of materials bought and sold in world markets climbed sharply. For example, natural rubber more than doubled in price, and wool tops almost doubled within six months after the war started.

In the winter of 1950, when Chinese Reds entered the war, "scare buying" reappeared in the market place, and prices spiraled again. Direct action was taken to halt the never-ending advance. Late in January 1951, both prices and wages were "frozen." Partly because some food and food products were exempt from controls, wholesale and retail prices continued to advance but with less momentum. Prices in wholesale markets reached their peak in March 1951 and thereafter declined; but consumer prices persisted upward.

During the first nine months of the Korean war, wholesale prices characteristically rose sooner and faster than consumer prices. Wholesalers had to pay 16 per cent more, consumers 8 per cent more for what they wanted. Since March 1951, however, wholesale prices have fallen 5 per cent, but consumer prices have continued to rise by about 4 per cent. Why?

The two indexes are not entirely comparable. Many items are not found in both. For example, materials used in the production of goods—which carry very heavy weight in the wholesale price index—are not usually sold in retail stores, so they are not in the consumer index. On the other hand, rents and services are included only in the consumer price index. They are slow-moving but they have risen constantly. Wholesale prices are but one cost factor in consumer prices. Other factors are trade wages, freight charges, rents, and services bought by consumers. These account for a considerable portion of the total consumer price index.

The main reason for the divergent movement of the two indexes is that prices of some materials, which rose so fast so soon after the first shock of war, have undergone the sharpest decline, dragging down the general wholesale price level, for example:

Burlap—up 82 per cent from June 1950 to January 1951, now costs 21 per cent less than in June 1950.

Natural rubber—up 126 per cent from June 1950 to January 1951, now costs 12 per cent less than in June 1950.

NEW PAMPHLET ON BANK RESERVES AVAILABLE

A short (16 pages) pamphlet entitled "Exercises in the Debits and Credits of Bank Reserves" has been prepared recently by the Research Department of the Federal Reserve Bank of Philadelphia. Copies are available, free of charge, upon request. Designed to meet the needs of students and others interested in the factors affecting bank reserves, the pamphlet traces open market, currency, gold, and Treasury transactions by means of simplified "T" accounts.

Wastepaper—up 226 per cent, now costs 17 per cent less than in June 1950.

Taking the thousand or more items all together, however, the wholesale price index rose 15 per cent from June 1950 to January 1951, and as of November 1952 was at a point 10.5 per cent higher than when the Korean war broke out.

Despite divergent movements within the price structure, wholesale and consumer prices were close to their pre-Korean relationship as 1952 ended. The drift downward in wholesale prices has been gradual and orderly, and the rise in consumer prices is leveling off, with the result that the readjustment has not kept us from enjoying a year of general prosperity.

FEDERAL RESERVE BANK DIRECTORS

Several changes in the directorate of the Federal Reserve Bank of Philadelphia became effective at the beginning of the year. The fourth chairman of the board in the Bank's 38-year history took office, and two new directors—the forty-sixth and forty-seventh since the Bank opened—began three-year terms.

William J. Meinel has been appointed Chairman of the Board and Federal Reserve Agent for 1953. He served one term as a Class B director from 1947 through 1949 and was reelected by Group I banks to a second term beginning January 1, 1950. On August 3, 1951 he resigned as Class B director to accept appointment as a Class C director. As Chairman and Federal Reserve Agent, Mr. Meinel succeeded Warren F. Whittier, Agricultural Consultant, Chester Springs, Pennsylvania, who retired after serving as a Class C director since December 4, 1939 and as Chairman and Federal Reserve Agent since March 18, 1949.

Bernard C. Wolfe began his first term as a director. He succeeded J. Nyce Patterson, President of the First National Bank of Watsonstown, Pennsylvania.

Henderson Supplee, Jr., began his first term, filling the vacancy in Class C created by the resignation of Mr. Whittier.

Charles E. Oakes, elected in 1951 to fill the unfinished Class B term of Mr. Meinel, was reelected for a three-year term beginning January 1, 1953.

C. Canby Balderston has been reappointed Deputy Chairman for 1953.

As you read of changes in the Board of Directors of the Federal Reserve Bank of Philadelphia, the designations by classes and groups may raise questions. How are Reserve Bank directors selected? Who may or may not serve? What do they represent? What are some of the underlying principles reflected in the process of elections

and appointments of Federal Reserve Bank directors?

The Federal Reserve System is designed to promote credit conditions that will promote economic progress and stability. If you examine the Federal Reserve Act, you will notice that it creates several groups to influence policy. The

degree to which each actually influences policy, however, is a matter not only of law but also of administration and personality—not an unusual situation among institutions managed by human beings.

Among the groups mentioned in the Act are the boards of directors of the Federal Reserve Banks and branches—more than 250 men chosen for their competence to render a service to the Reserve Banks and through them to the public. Their responsibility extends beyond the banking field to the broad interests of commerce, industry, agriculture, and the entire economy. They provide “grass roots” experience and advice to their respective Reserve Banks and to the System; and, in turn, they foster better understanding of Federal Reserve policies and functions throughout their districts.

Composition of a Federal Reserve Bank Board of Directors

The Federal Reserve Act provides that each Reserve Bank shall be conducted under the supervision and control of a board of directors consisting of nine members, holding office for three years, and divided into three classes, A, B, and C.

The three Class A and the three Class B directors are nominated and elected by member banks as stockholders of the Reserve Bank which serves them. The three Class C directors are appointed by the Board of Governors of the Federal Reserve System, which also designates one of the Class C directors as chairman and Federal Reserve agent and another as deputy chairman of the board of directors.

Who May Serve as Federal Reserve Bank Directors

The three Class A directors, chosen by and representative of the member banks, must come from

the banking groups which nominate and elect them. They may be bankers and usually are.

The three Class B directors, at the time of their election by member banks, must be actively

BOARD OF DIRECTORS FEDERAL RESERVE BANK OF PHILADELPHIA As of January 1, 1953

		Term Expires December 31
Group Class A		
1	ARCHIE D. SWIFT Chairman of the Board, Central-Penn National Bank, Philadelphia, Pa.	1953
2	WADSWORTH CRESSE Cashier and Director, The First National Bank and Trust Company, Woodbury, N. J.	1954
3	BERNARD C. WOLFE President, The First National Bank, Towanda, Pa.	1955
Class B		
1	CHARLES E. OAKES President and Director, Pennsylvania Power and Light Company, Allentown, Pa.	1955
2	WARREN C. NEWTON President, O. A. Newton and Son Company, Bridgeville, Del.	1953
3	ANDREW KAUL, III President and Director, Speer Carbon Company, St. Marys, Pa.	1954
Class C		
	WILLIAM J. MEINEL, Chairman President and Chairman of the Board, Heintz Manufacturing Company, Philadelphia, Pa.	1954
	C. CANBY BALDERSTON, Deputy Chairman Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pa.	1953
	HENDERSON SUPPLEE, JR. President, Atlantic Refining Company, Philadelphia, Pa.	1955

engaged in their Federal Reserve district in commerce, agriculture, or some other industrial pursuit. No officer, director, or employee of any bank may be a Class B director.

The three Class C directors must be residents for at least two years of the district from which they are appointed. No officer, director, employee, or stockholder of any bank may be a Class C director.

No member of Congress may be an officer or director of a Federal Reserve Bank.

The Board of Governors has ruled that the following persons cannot, within the spirit of the Federal Reserve Act, serve as directors: political or public office holders; and, as a Class B director, a person whose sole occupation is officer of an insurance company or president of a Federal savings and loan association.

How Class A and Class B Directors Are Elected

For the purpose of nominating and electing Class A and Class B directors, the member banks are divided into three electoral groups according to the size of their capitalization.

Each bank, regardless of size, has one vote and participates in the election of two directors, one Class A and one Class B, every three years.

Interest varies among the three electoral groups in exercising their stockholders' rights to nominate and vote for Class A and Class B directors. Large banks are more active than small banks. For example, the voting record from 1915 to 1951 indicates that four out of five large banks cast ballots and only one out of two banks in the smallest size group voted.

In the nomination of prospective directors, the same general pattern is evident but with less participation by all banks. There are indications, however, that each group is showing greater interest in the nomination of directors.

The participation of Third District member banks from 1915 to 1951 in the election and nomination of Federal Reserve Bank directors has been as follows:

	Percent of banks voting for directors	Percent of banks nominating directors
Group 1 (large banks)	83.6	57.0
Group 2 (medium-sized banks)	67.8	36.7
Group 3 (small banks)	51.8	22.1

Efforts have been made from time to time to stimulate interest in the democratic process of nominating and electing Reserve Bank directors. The latest move to make the procedure simpler and more effective in this District was announced in April 1952. In brief, it set up a less cumbersome nominating advisory committee of nine men representing the entire District to supplant a former 26-man group. Its function is to survey potential directors and to suggest eligible nominees, but member banks retain the exclusive right to make individual nominations.

At their annual meetings in 1952, the Delaware, New Jersey, and Pennsylvania bankers associations adopted resolutions which recommended that a principle of rotation should be followed to the extent of limiting Class A directors to one full term of three years and Class B directors to two terms.

This means that even more individuals—businessmen, bankers, and other public-spirited citizens—will have an opportunity to serve as directors and to exchange experience and counsel with Reserve Bank officers and System authorities.

What the Procedures Are Designed to Do

The procedures for selecting members for service on the board of directors of a Federal Reserve Bank are designed to assure a diversity of background and experience in the policy and administrative decisions of the Reserve Banks.

The public nature of central banking is pre-

served in that the majority of each board is comprised of persons having no affiliation with banks.

No group of banks, moreover, can dominate the Federal Reserve Banks' boards of directors. While each member bank has one vote for one Class A director and one vote for one Class B director, the group classification prevents small, medium, or large banks from electing all six of the A and B directors.

Though the Federal Reserve Act does not call for representation of organized groups, the boards of directors include in their composition men experienced in the problems and techniques of banking both as lenders in the case of Class A directors and as borrowers in the case of Class B directors. All classes of directors may be considered as trustees of the public interest.

It is important that System policy be widely understood. Directors from diverse areas and fields of endeavor are in a position to interpret that policy to interested people in their districts.

Something of the philosophy of the Federal Reserve becomes apparent in the rather complex

requirements the Federal Reserve Act sets for the selection of Reserve Bank directors. Benjamin Strong, a former Governor of the Federal Reserve Bank of New York, in a statement written to himself and placed in his desk, suggested the philosophy this way:

To the Governor of this Bank:

Never forget that it was created to serve the employer and the working man, the producer and the consumer, the importer and the exporter, the debtor and the creditor—all in the interest of the country as a whole.

CORRECTION

The reference on page 7 of the November BUSINESS REVIEW to the number of families holding corporate stock should have read 4.7 million instead of 2.3 million. The latter figure refers to the number of families holding privately owned stocks. We wish that errors of analysis and judgment on our part were as easy to discover.

CURRENT TRENDS

December was a fitting climax to 1952. In some ways it was typical of the year as a whole, for it was another month of high-level activity without further inflation.

Most of the basic figures are not yet available, but there is enough evidence to reinforce this conclusion. For example, the number of people employed in Philadelphia and the surrounding area stayed near the highest level since the war. There seems to have been some drop from November to December, but probably less than

seasonal. Unemployment was negligible. Payrolls reached an all-time high. Earlier doubts about Christmas buying proved to be groundless, for Christmas sales at department stores in this District set a new record in spite of a slow start. The total dollar volume of sales for November and December combined is expected to show a gain over the same period of 1951. Prices changed little.

December was typical of the year in still another respect: credit expanded rapidly. Figures

on instalment credit are not in yet, but the trend has been sharply upward ever since last May. December almost always shows an increase, if only seasonal, and it is quite likely the expansion this December was more than seasonal. Real estate loans—if we can generalize from the experience of banks in large centers of the United States—crept still higher in December. And, most important, business borrowing from banks increased further nationally.

On the whole, money was tight; and this, too, was characteristic of 1952—in fact, December is a good illustration of how various forces, including Federal Reserve policy, have been working in the money market.

The December Money Market As a Case Example

Everything seems to happen in the December money market. Consumers need currency for the holidays, and borrow on installment plans and charge accounts. Business needs cash and credit to handle seasonal activity, to pay taxes, and to meet dividend payments. The Government needs money for regular expenses and interest payments on the debt. These are some of the forces at work; they do not all happen on the same days or all have the same effect, but the net result is a squeeze on bank reserves.

The amount of currency in circulation increases every year with the approach of Christmas and then drops off after Christmas. This year was no exception. Currency in circulation rose to a record high of \$30.8 billion on December 23. As banks met this demand for currency, they drew down their reserves. At the same time, they were meeting growing demands for credit. This increased their deposits and tended to raise their required reserves.

Operations of the Treasury tended to tighten reserves over the month as a whole but at some

times within the month tightened and at other times eased reserves. As the Treasury drew its funds out of commercial banks and deposited them in the Reserve Banks during the early part of December, it contributed to a tightening of the market. As it paid out funds to make interest payments on the public debt due December 15, it tended to ease reserves. In the last two weeks of the month, Treasury operations alternately tightened and eased reserves.

Another force affecting reserves was Federal Reserve float. This is simply the amount which is credited to reserve accounts for checks not yet collected from other banks. Over the long-run, float is not very important, but from day to day can have a significant influence on bank reserves. It is affected by a number of things, including delays in the mail and other physical problems of check collection. Largely for these reasons, float added to bank reserves before Christmas and reduced reserves after Christmas.

The net effect of these various forces was to put a squeeze on bank reserves. And because so many forces converged on reserves in such a concentrated period, attention was focused—perhaps more so than at any other time of the year—on what the Federal Reserve, as the supplier of reserves, might do. The cost of money would depend on how much of the demand for funds the Federal Reserve would supply.

The forces we have just described—currency demand, float and (to a lesser extent) Treasury operations—behave roughly the same way every December. But the way in which the Federal Reserve supplied reserves in December 1952 was quite different than it has been for some time. Two years ago, in December 1950, the Federal Reserve was still supporting the market for Government securities. At that time the System bought approximately \$1 billion of Governments, partly in connection with a refunding operation

going on at the time. In contrast, member bank borrowings from the Reserve Banks averaged only about \$150 million. Excess reserves averaged about \$1 billion and rates on Federal funds during a good part of December were below $\frac{1}{2}$ of 1 per cent. In short, the money market was easy.

December 1951 was a different story. The System was no longer supporting Government security prices at fixed levels and during the first three weeks of December bought no Governments at all (although it did buy some later in the month). Banks relied more on borrowing as a way of getting reserves. Federal funds rates ran at $1\frac{1}{2}$ to $1\frac{1}{16}$ per cent, or only slightly below the discount rate. Yields on Government securities rose.

The money market in December 1952 stood out in sharp contrast to the easy market of 1950, and it was even tighter than in December 1951. But the nervous atmosphere prevailing in the December 1951 market was absent. Since most of the increased needs for reserves were only temporary, reserves were supplied largely on a temporary basis too. Most of the funds were provided through discounts and advances to member banks. During the month, member bank borrowings fluctuated around \$1 $\frac{1}{2}$ billion and at one time went above \$2 billion, the highest level in about thirty years.

The Federal Reserve also supplied reserves by buying short term Government securities, a large part of which represented securities bought under repurchase agreements with dealers. Funds

supplied through discounts and advances and through these repurchase arrangements can be withdrawn after the seasonal need has passed.

The fact that money remained tight throughout the month is evidenced by what happened to money rates. The rate on Federal funds was consistently around the discount rate. The rate on three-month Treasury bills rose to about $2\frac{1}{4}$ per cent, the highest level in twenty years and, with some exceptions, yields on other Governments rose.

STATISTICS CONDENSED

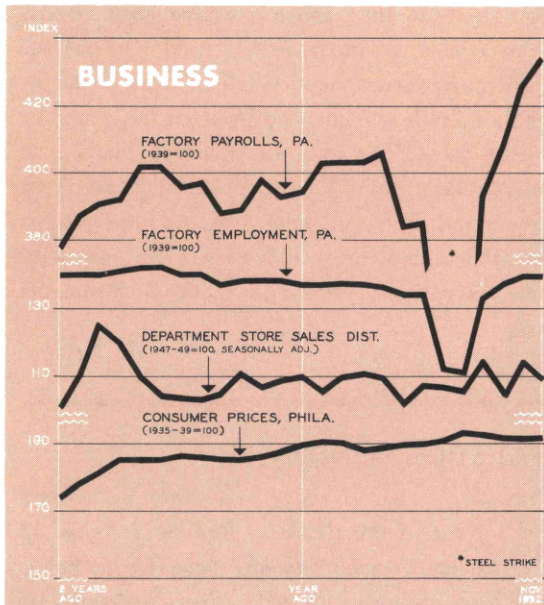
With this issue, changes are made in content and format of the Business Review designed to improve the presentation and broaden the scope of subject matter to meet the diversified interests of our readers.

In addition to textual changes, the statistical presentation is condensed to a summary of business and banking in the Third Federal Reserve District and local areas compared with the United States. Major business and banking trends for the past two years are also charted.

Statistical material formerly carried is available sooner and in greater detail in special releases. We shall be pleased to fill requests for this information or for additional copies of the Business Review.

Address: Department of Research, Federal Reserve Bank of Philadelphia, Philadelphia (1), Pa.

FOR THE RECORD...



DISTRICT SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	November 1952 from		11 mos. 1952 from year ago	November 1952 from		11 mos. 1952 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production...	0*	+ 2*	-5*	0	+ 7	- 1
Construction contracts†...	- 2	+37	+6	-17	+18	+ 5
Coal mining...	- 5	-12	-7	+34	-11	-11
EMPLOYMENT AND INCOME						
Factory employment...	0*	+ 2*	-5*	0	+ 4	- 2
Factory wage income...	+ 2*	+10*	-2*			
TRADE**						
Department store sales...	- 5	- 1	-1	- 3	- 1	0
Department store stocks...	- 1	- 2		0	+ 3	
BANKING (All member banks)						
Deposits...	+ 2	+ 5	+4	+ 2	+ 7	+ 6
Loans...	+ 2	+13	+9	+ 2	+11	+ 8
Investments...	+ 0	- 1	+1	+ 2	+ 5	+ 5
U.S. Govt. Securities...	+ 5	- 2	-1	+ 2	+ 4	+ 4
Other...	+ 0	+ 3	+7	0	+ 9	+10
Check payments...	-17§	- 1§	+3§	-16	- 1	+ 6
PRICES						
Wholesale...				0	- 3	- 3
Consumers...	0†	+ 1†	+3†	0	+ 1	+ 3

*Pennsylvania †Philadelphia §20 Cities

**Adjusted for seasonal variation.

†Changes computed from 3-month moving averages.

LOCAL CHANGES	Factory*		Department Store		Check Payments	
	Employment	Payrolls	Sales	Stocks		
	Per cent change Nov. 1952 from	Per cent change Nov. 1952 from	Per cent change Nov. 1952 from	Per cent change Nov. 1952 from	Per cent change Nov. 1952 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown...	0	+1	+5	+10		-14 - 4
Harrisburg...	-1	+7	+1	+16		-12 - 1
Lancaster...	+1	+4	-2	+11	+31	-4 +1 +4 -16 - 4
Philadelphia...	0	+7	+2	+16	+22	-3 +1 -4 -19 - 1
Reading...	+1	+2	-1	+ 8	+27	+9 +3 -3 -16 - 5
Scranton...	+4	+6	+4	+13		-15 - 9
Trenton...	0	+6	+4	+19	+17	0 +4 -6 - 7 - 3
Wilkes-Barre...	+1	+6	+3	+19	+20	-2 -1 +6 - 9 - 7
Wilmington...	+1	+8	+2	+15		-17 +13
York...	+1	+4	-2	+ 9	+16	+6 +4 +5 - 9 +18

*Not restricted to corporate limits of cities but covers areas of one or more counties.

*Additional copies of this issue are available
upon request to the Department of Research,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pa.*