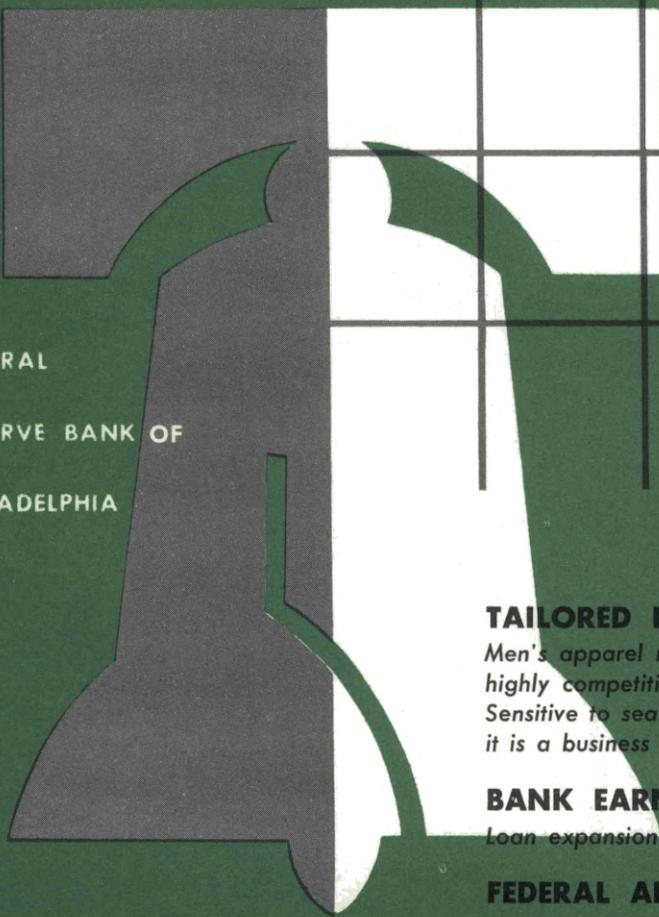


business review



FEDERAL
RESERVE BANK OF
PHILADELPHIA

TAILORED IN PHILADELPHIA

Men's apparel manufacturing in Philadelphia is a prosperous, highly competitive, rapidly growing, central-city industry. Sensitive to seasonality, changes in style and consumer income, it is a business of small, medium-sized, and large firms.

BANK EARNINGS, 1952: THIRD DISTRICT

Loan expansion contributes to higher current earnings.

FEDERAL ADVISORY COUNCIL

The Council's activities constitute one of the Federal Reserve System's channels of communication.

CURRENT TRENDS

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



TAILORED IN PHILADELPHIA

Apparel-making is an amazing industry. It is a maze of firms, products, styles, prices, operating practices, and distributing methods. One of the oldest industries, it is forever turning out something new. Without sacrificing individuality of its products, it has achieved mass production; yet it is hardly a model of mass production.

The industry is large in size, small in scale. It is highly specialized, greatly diversified, and it has “inside” shops and “outside” shops. The industry is almost wholly unionized, seldom strike-bound. It observes cycles and seasons. The pace is irregular—usually very busy, sometimes very dull. The business is easy to enter, and many do. Once in, it is easy to fail and many do. Tailoring is a hard-hitting, fast-moving, highly competitive industry. Owners, like workers, work in their shirt sleeves but the owners usually look more worried.

Big cities are the favorite habitat of the industry, preferably the central business district or nearby. You may walk by the front of a building totally unaware of the fact that you have passed three clothing factories. The chances are they occupy upper floors of the structure that looks like an office building or a business school.

It takes a diversified industry to keep 158 million Americans dressed in the style to which

they are accustomed. Apparel comes in an almost infinite variety. First is the obvious distinction between men’s and women’s clothing. Then there are outerwear and underwear, night-wear and evening clothes, work clothing and play clothing, sport wear and business clothing, rain wear, children’s clothing, infants’ wear, casuals, separates, coordinates, and n.e.c. clothing—that is, apparel not elsewhere classified. No wonder clothing is one of our largest industries.

In 1947, when the last Federal census of manufactures was taken, there were 31,000 clothing manufacturing establishments, employing over a million workers. No other major industrial group had more operating plants and only five other groups employed more workers.

The men’s wear industry differs from the women’s wear industry in a number of respects. In men’s wear, the plants are fewer and larger; they are less highly concentrated in New York City; the manufacturers make greater use of wool as their basic raw material; and the industry is somewhat less sensitive to style changes. Men’s wear is the smaller of the two industries; it has fewer firms, employs fewer workers, and turns out a smaller volume of products whether measured in physical units or dollar value. The leading urban centers of manufacture are traditionally referred to as markets.

THE PHILADELPHIA MARKET

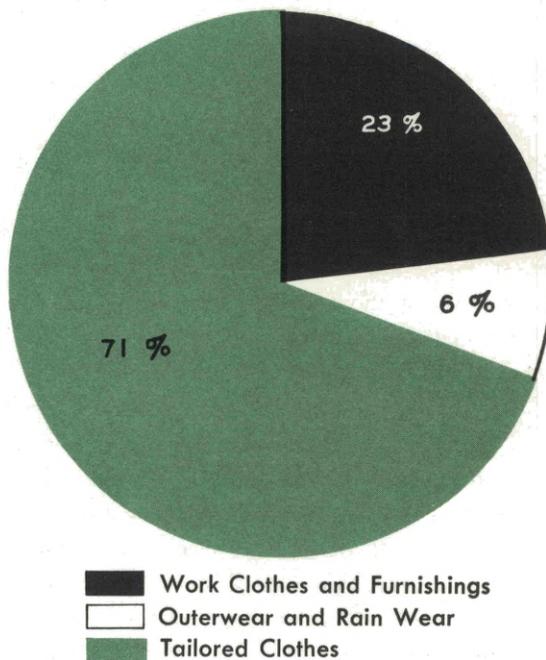
Apparel is the largest industry in the Philadelphia metropolitan area from the standpoint of industrial employment. In December 1952, clothing firms in the Philadelphia eight-county area employed 10 per cent of the industrial workers of the region. Right on the heels of apparel are the manufacturers of electrical machinery and of textiles, each employing slightly less than 10 per cent of the total. Apparel, particularly men's clothing, has been a prominent Philadelphia industry for many years.

All branches of the clothing industry are represented in Philadelphia but the most important branch is the men's wear division. Men's wear, moreover, embraces a number of divisions that are in many ways separate and distinct from each other. The largest division is the men's and boys' tailored clothing industry. The standard product of this industry is suits, but numerous manufacturers also produce topcoats, overcoats, sport coats, and slacks. In 1951 the local industry turned out a variety of products worth \$145 million, which was 10 per cent of the country's total output of men's tailored clothing.

The work clothing and furnishings industry ranks second in dollar volume in Philadelphia. The principal items of apparel in this division are shirts, work clothing, underwear, pajamas, robes, sport wear, and children's wear. The 1951 value of output in Philadelphia was \$47 million—only about one-third of the dollar volume of tailored clothing. Nationally, however, the two are of about equal importance, dollar-wise. The smallest division of the men's apparel industry is the heavy outerwear and rain wear division which makes products such as jackets, mack-inaws, raincoats, and a variety of leather and suede apparel. The relative importance of the three major divisions of men's apparel in Phila-

delphia is shown in the accompanying chart. By reason of the overriding prominence of men's tailored clothing in the local market, the following analysis is confined to that division of the industry.

PHILADELPHIA MEN'S WEAR MARKET (1951)



(Source of data: National Credit Office, Inc.)

A central city industry

There are no clothing establishments in City Hall but there are many within its shadows. The largest group of shops is within an arc swinging southeastward from Broad and Spring Garden to Second and Market Streets. Flanking Broad Street, south of City Hall, less than halfway down the peninsula formed by the Delaware and the Schuylkill rivers, is another cluster of shops. Directly west and close to the Schuylkill, in the Reed Street area, is a third group of plants, and

a smaller colony of clothing firms is directly west of City Hall in the 22nd and Market Streets area. Only a few isolated plants are found beyond this central city district. Beyond the city limits, however, in smaller communities of both Pennsylvania and New Jersey are a number of concerns. Some of these are independent plants and others are branch plants—frequently pants-making, country branches of the larger urban establishments. Some of these suburban factories took the place of and occasionally occupied the buildings vacated by cigar manufacturers that moved to town following the mechanization of that industry.

Clothing manufacturers like to be near the central city area because this affords quick access to their style-conscious market and to a readily available supply of labor. The process of manufacture, moreover, does not require heavy machinery; it uses little power, and materials are not bulky. Space requirements, consequently, are moderate compared with most other manufacturing operations.

Small shops and large shops

Tailoring is a business in which small shops compete on an equal footing with the big manufacturers. Concerns employing from 100 to 500 workers are the most common. The 118 firms operating in the local market in 1950 averaged slightly over a million dollars of sales each. At the extremes are a few plants employing over 2,000 workers and not a few with less than ten workers each.

Every tailor is a potential manufacturer. A bolt of cloth, shears, hand needle or a foot-powered sewing machine, a pressing iron, and he is in business in its simplest form. This is precisely how many, if not most, of the firms got their start. Those that prospered, hired

helpers, subdivided the tasks, and installed power-driven machinery for all of the operations that could be mechanized.

The making of a suit, whether done in a large or a small plant, requires over 200 different operations. Some operations are mechanized, and you see evidence of mass production in the largest plants. Great rolls of cloth unwind for the ride through the sponging vats and steam-drying cylinders to pre-shrink and finish the fabric. Electrically powered cutters expertly guided along the chalk lines on the top layer cut multiple layers of fabric in one operation. The component parts of coats or jackets are joined in a jiffy on batteries of sewing machines, all humming and droning at a clip of 4,500 stitches a minute. Special machines have been designed for making buttonholes and other operations.

Though the industry has adopted machinery wherever possible, it is surprising how many operations defy mechanization. Tailoring still requires a lot of hand work. In many industries the ultra-modern machine has brought on an almost complete transfer of skill and pace-setting from the worker to the machine. This is not true in the needle trades. While it takes but a few seconds to make a seam so far as actual stitching is concerned, it takes a great deal more time to pick up the parts, put them together properly, place them under the needle, bring down the attachment that holds the work in place, start the machine, and then repeat the whole process for the next seam. Handling and manipulating garments take more than two-thirds of the time. Hand work is also required in many operations such as basting (temporary stitching), fitting, felling (small precise hand stitching), and pressing. Technology offers only limited advantages to large-scale operations in this business.

Closely associated with the small-scale operation is the practice of subcontracting, which gives rise to the distinction between so-called inside and outside shops. Inside shops are establishments that perform all of the manufacturing operations on their own premises. This is the predominant type of organization in Philadelphia, but there are also some outside shops which do manufacturing on contract for an agreed price paid by firms buying the cloth and doing the designing and cutting. Subcontracting is more prevalent in New York than in Philadelphia, but some local manufacturers employ the services of out-of-town pants-making concerns. Cutters who employ contractors to do the sewing have lower capital requirements and less worries about retention of a skilled labor force. The inside shop, however, naturally has better control over the quality of its products.

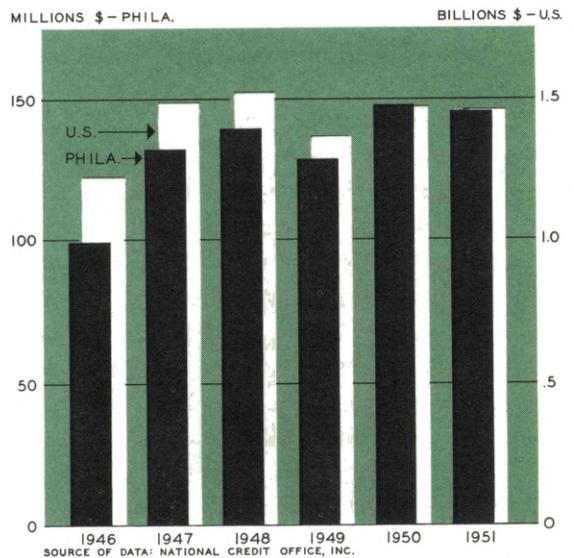
A prospering industry

In Philadelphia, the men's tailored clothing industry is prospering. Since 1946 it has grown faster here than nationally, as indicated in the chart. Just after World War II the local manufacturers produced 8 per cent of the country's total; in 1951 the local industry accounted for 10 per cent. As a result of this growth, Philadelphia pushed up into second position among the leading clothing centers.

Ranking ahead of Philadelphia is New York, the traditional center of the industry, with four times the dollar volume of Philadelphia. Chicago and Cincinnati do a substantial tailor-to-the-trade business; that is, firms that make garments to individual order and do not maintain stocks. Boston is a market for woolen fabrics and is outstanding in men's topcoats and overcoats. Baltimore is a contract market, with firms of unusually long standing for the clothing business. Rochester specializes in quality clothing; Kansas

City in popular and medium-priced apparel. Cleveland has a few firms but large volume. In St. Louis the dollar volume of men's wear is almost equalled by that of women's wear. In Los Angeles, men's wear is overshadowed by women's wear. These ten cities together produce about 85 per cent of the country's total output of men's tailored clothing.

TAILORED MEN'S WEAR



Although Philadelphia was the last major market to be unionized, cooperation between the Amalgamated Clothing Workers Union and the manufacturers is of the highest order. The basic document is the Philadelphia Market Agreement. It covers union recognitions, new employees, hours, overtime, wages, holiday pay, vacations, equal division of work, seniority, home work, insurance and retirement benefits, and arbitration. All problems, large or small, not settled by negotiation must go to the arbitrator for final decision. The objective is to maintain uninterrupted production for the benefit of both workers and employers. The absence of a major

strike for over two decades is an indication of the spirit of cooperation.

The men's tailored apparel industry of Philadelphia is outstanding primarily in its vigorous growth. Perhaps its strength lies in its diversity and non-conformity. Philadelphia has all kinds of firms doing all kinds of business. One firm specializes in business suits, another in tailored student wear, another in sport wear, and still others in topcoats and overcoats. Some houses make nationally advertised brands, and others cater to the "in stock service trade"; that is, men's apparel especially made for quick replenishment by department stores and other retailers. Tuxedos, always custom tailored, were considered impossible to produce ready-made until a Philadelphia firm began manufacturing them. This company now makes about half of the men's formal apparel sold in the United States.

Philadelphia has small, medium, and large plants. It has inside, outside, and hybrid shops—that is, firms that engage in both manufacturing and contracting. Price-wise, there is also a variety—popular, medium, and better, as they are designated in the industry. Philadelphia is generally known, however, as a center for quality apparel in the medium-price brackets. Most of the firms are manufacturing wholesalers, selling to department stores and independent retailers.

Survival is tough

Apparel is a business of rigorous competition. Compare the list of manufacturers now operating with that of, say, ten years ago or even five years ago and note the change. An enterprising tailor can set up in business with a modest \$10,000 capital, but you do not find many of these companies belonging to the half-century club. Of the going concerns in the entire in-

dustry throughout the country in 1950, less than one-fourth had entered before 1920, and the 1940-1949 decade was the period with the greatest influx of new firms.

Competition at the expense of immigrant workers is a thing of the past. The union took care of that. Through industry-wide bargaining, the total labor cost is established for each of the five or six grades of clothing, depending upon the amount of hand work necessary to produce them. Piece rates for the same operation may vary from one plant to another, but the total labor cost must be uniform. By this system, nobody can use wages as a price-cutting lever. Thus competition is based on skillful buying of fabrics and trimmings, efficient operation, styling, promotion of brand names, better salesmanship or anything other than wage cutting.

As might be expected, this business has greater seasonal irregularity than almost any other manufacturing industry. Men generally buy their clothing in the spring and fall. Manufacturers, consequently, are increasingly busy making fall clothing from February through June. July is a dull month. Resumption of activity for the manufacture of the spring line of apparel usually begins in August and continues to expand until December, when business again slackens. Thus for the manufacturer, spring and fall are very busy periods, and summer and winter are synonymous with dullness and slackness.

The heavy hand of seasonal irregularity bears down more on some manufacturers than others. Variations are generally the sharpest in "contract" shops where operations are sometimes virtually suspended. Shops least affected by seasonality are the manufacturers with their own sales outlets. Between these two extremes are the inside shops. In all types of plants the degree of seasonality varies with general business condi-

tions. During hard times, seasonality is at its worst, but during good times the seasons spread over each other. At present, for example, which is ordinarily the time of comparative inactivity, manufacturers are scrambling for more workers. Not only skilled workers but also learners are difficult to get.

The market for men's apparel is not so steady as you might think, in view of the indispensability of clothing. There is considerable change in demand for men's suits from one year to another. In 1950 the industry turned out about 24 million units, but last year scarcely 19 million were produced. Large consumer demand in 1950 was caused by the outbreak of fighting in Korea. People bought more than their requirements, and for that reason demand was considerably smaller during the two ensuing years. Readjustment to the lower volume of business wrought hardship and some producers went out of business.

A development of no little concern to the men's tailored clothing industry is the trend toward casual wear. Men are buying more informal attire such as slacks, sport shirts, sport coats, and zipper jackets. Unit output of men's slacks tripled between 1939 and 1950, and production of sport coats multiplied more than four times during this period. Post-war production of men's suits rose nothing like this; in only one year—1947—was unit output above the 1939 level.

The meteoric rise of sport wear is attributed to the extension of suburban living, the fact that men have more leisure time, and the competitive price of sport wear. An expanding population and rising purchasing power should benefit the men's suit industry, but it appears that the larger consumer income encourages more leisure activities, which in turn stimulates the market

for informal attire. The growing popularity of sport wear is an example of how changing styles in men's wear may affect a large section of the men's apparel industry.

In men's wear, fortunately, styles change more slowly, and are less pronounced than in women's wear. When patch pockets are introduced it may take several seasons before the vogue gets widespread acceptance. Men are that way. Lighter-weight summer wear for men is another example. Featured a few years ago, it is slowly gaining more converts. As for color, men cling to their blues, browns, and grays. Many men like to be well dressed but not many want to look like a peacock.

Nevertheless, within the range of styles that men will tolerate there is abundant opportunity for variation, and much of the success of a manufacturer depends upon skill in designing. There are the single- and double-breasted, the cut and roll of the lapel, two or three buttons, padded or natural shoulders, the single- or two-pants suit, pleated or unpleated trousers, suits with or without vests. Then there are such diverse choices as sharkskin worsteds, Shetlands, cashmeres, flannels, coverts, tweeds, or the more conventional worsteds, gabardines, tropical worsteds, and rayons. Now come the newer synthetics like Dacron, Orlon, and various blends of natural and synthetic fibers.

Alert manufacturers of men's apparel must be more than shrewd stylists. They observe what their competitors are doing with regard to styling and pricing, and the larger firms also watch prices on the Australian wool market, the yardage of men's wear fabrics produced by the textile mills, new fabrics coming on the market, retailers' inventories of suits, the number of men inducted into the armed services, bonus payments to veterans, and trends in consumer sav-

ings. Even such apparent irrelevancies as sales of children's wear are indicative of prospective developments in the men's wear market. In the typical American family, any increased budgeting for clothing usually goes to the children first, then comes mother, and last—dad. Men's wear manufacturers know this very well and they are

aware of the fact that their market has not kept pace with the other apparel markets.

The fact remains, however, that the men's tailored clothing industry of Philadelphia has been doing very well compared with other centers. Just how they do it we are not quite sure, but whatever the formula it seems to work.

BANK EARNINGS, 1952: THIRD DISTRICT

Despite rising expenses and higher taxes, 1952 was a rather good year for member banks in the Third Federal Reserve District. Earnings both before and after current expenses were never higher. And net profits in the aggregate were nearly as large as in 1951. The number of banks reporting increases in net profits somewhat exceeded those showing declines.

That's the story in brief. Now, for a few of the details. The increase of \$20 million in total earnings to a record \$228 million, indicated by preliminary tabulations, was the largest in any of the post-war years. The explanation is to be found mainly in lending operations. Loan portfolios were up more than a quarter-billion dollars, as much as in 1951, but less than in 1950. Dollar-wise, the increase was greatest in consumer instalment paper, with real estate financing and lending to businessmen also expanding materially but not leading the field as they did in other late years. In some instances, higher rates helped to swell the income on loans. Holdings of securities—Government and other—did not change materially, but increased income also was

THIRD DISTRICT MEMBER BANKS—1952 (Preliminary tabulations)

EARNINGS, EXPENSES AND PROFITS (Dollar amounts in millions)	1952	Change in year	
		Amount	Percent
Earnings—on U.S. Gov't securities.....	\$ 52.4	+\$ 2.3	+ 5%
on other securities.....	17.6	+ 1.3	+ 8
on loans.....	121.9	+ 15.5	+15
all other.....	36.6	+ 1.0	+ 3
Total.....	\$228.5	+\$20.1	+10%
Expenses—salaries and wages.....	\$ 68.3	+\$ 5.6	+ 9%
interest on deposits.....	19.3	+ 2.3	+14
all other.....	51.0	+ 2.8	+ 6
Total.....	\$138.6	+\$10.7	+ 8%
Net current earnings.....	\$ 89.9	+\$ 9.4	+12%
Recoveries, profits and transfers from reserves.....	\$ 4.9	-\$ 6.3	-56%
Losses, charge-offs and transfers to reserves.....	22.1	- .4	- 2
Taxes on net income.....	27.7	+ 4.3	+18
Net profits.....	\$ 45.0	-\$.8	- 2%
Cash dividends declared.....	25.3	+ 1.6	+ 7

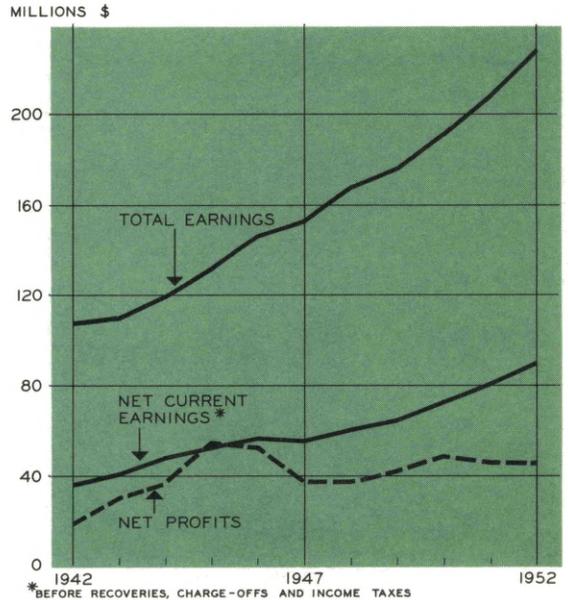
EARNING ASSETS (Dollar amounts in millions)	Dec. 31 1952	Change in year	
		Amount	Percent
Loans and discounts:			
Business.....	\$1,218	+\$ 76	+ 7%
To purchase or carry securities.....	78	+ 17	+28
Real estate.....	774	+ 82	+12
Other loans to individuals—			
Instalment.....	435	+ 92	+27
Single-payment.....	236	+ 19	+ 9
All other.....	69	+ 1	+ 1
Total loans—gross.....	\$2,810	+\$ 287	+11%
Less reserves.....	47	+ 8	+20
Total loans—net.....	\$2,763	+\$ 279	+11%
U.S. Government securities.....	2,768	+ 6
Other securities.....	802	+ 11	+ 1
Total earning assets.....	\$6,333	+\$ 296	+ 5%

reported from this source.

Current expenses have been rising without interruption since 1943, figures for this District show. The increase during 1952, however, offset little more than one-half of the rise in total earnings. Salaries and wages led the expense parade, accounting for over half of the total increase. Percentagewise, the increase was greater in interest payments on deposits, marking the first substantial growth in such payments since the early post-war years.

Aggregates for both reserve city and country banks, adjusted to take mergers into account, indicate that total earnings and net current earnings increased substantially at both groups of banks. But income taxes were higher and the total of recoveries, profits on security sales, and transfers from reserves was smaller than in 1951. Accordingly, net profits increased only slightly at the country banks and were down somewhat at reserve city institutions. Both groups of banks reported larger cash dividends. Loan expansion at the reserve city banks was largely in consumer

EARNINGS—THIRD DISTRICT MEMBER BANKS



instalment and business loans, while real estate financing was the leader at banks in the “country” classification.

FEDERAL ADVISORY COUNCIL

The Board of Directors of this Bank has reappointed Geoffrey S. Smith to the Federal Advisory Council for 1953. Mr. Smith, President of the Girard Trust Corn Exchange Bank in Philadelphia, represents this District for his second one-year term.

Since establishment of the Federal Reserve System, six Philadelphia bankers have served on the Council. Those preceding Mr. Smith served successive terms of fifteen, eleven, five, three,

and three years. Recent practice in this District has been to limit tenure to three years.

The Federal Advisory Council consists of twelve members, one selected annually by each Reserve Bank through its board of directors. It is required to meet four times each year in Washington, and oftener if called by the Board of Governors. It may hold additional meetings, select its own officers, and adopt its own methods of procedure.

By itself or through its officers, it has the power under the Federal Reserve Act to:

1. Confer directly with the Board of Governors on general business conditions;
2. Make oral or written representations concerning matters within the Board's jurisdiction;
3. Call for information and make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by Reserve Banks, open market operations by the Banks, and the general affairs of the System.

The Council is unique among the principal statutory groups comprising the Federal Reserve System. Unlike the Board of Governors, the Federal Open Market Committee, and the twelve Reserve Banks, this body is purely advisory and without authority over instruments of Federal Reserve credit policy; yet it may affect policy.

Its independent status, its powers, and its representation of banking sentiment in the twelve Reserve districts enable the Council to provide Reserve authorities with a source of information and counsel of significant potential influence. Its existence also establishes another mechanism within the System whereby information obtained directly from the Board concerning its operations may be conveyed to the districts.

From time to time, questions have arisen as to the role which originators of the Council intended it to play. Events leading up to creation of the Council are clear. Bankers vigorously opposed the lack of representation on the Federal Reserve Board. As a compromise, President Wilson suggested the Council and the bill

which later became the Federal Reserve Act was amended.

As to its functions, perhaps the most restrictive view of the role of the Council was stated in the Report of the Banking and Currency Committee of the House of Representatives on the original Federal Reserve Act:

... The functions of this board (Council) are wholly advisory and it would amount merely to a means of expressing banking opinion, informing the Reserve Board of conditions of credit in the several districts, and serving as a source of information upon which the Board may draw in case of necessity. The desirability of such a body as a source of information and counsel is obvious, and it is believed that it gives to the banking interests of the several districts ample power to make their views known, and, so far as they deserve acceptance, to secure acceptance. (H.R. Report 69, 63rd Congress, 1st Session.)

A somewhat broader interpretation, as indicated particularly by the italicized sentence below, was expressed in a report filed in November 1913 by Senator Owen on behalf of himself and six other senators. This has been looked upon by some former members of the Council as an excellent summary of the general understanding in Congress as to its function.

It is believed that the Federal Reserve Board itself, consisting entirely of officers of the government, might be made more efficient if it had the advice freely available of the Federal Advisory Council. *Moreover, the operations of the Federal Reserve Board would in this way be subject to greater publicity and enable the banks of the country to have a greater measure of confidence in all the operations of the Federal Reserve Board.* It was further believed that the banks of the country which are invited or required to contribute a very large sum to the Federal Reserve Banks would be more content by having an easy and convenient means provided by law of frequent conferences with the Federal Reserve Board and the opportunity to advise the Board with reference to the financial, commercial, and industrial needs of the country. (Vol. I, Senate Reports, 63rd Congress, 1st Session 1913, Report 133, Part 1 and Part 2. Italics added.)

Perhaps the broadest interpretation is in the following passage taken from a document entitled "Possible Questions Raised by the Banking Bill," which received considerable circulation among members of the House during the course of debate on the Federal Reserve Act:

Is not the Federal Advisory Council an unnecessary piece of machinery?

No, it will serve as a natural, useful, and legitimate means of communication between the Federal Reserve Board and the several Federal Reserve Banks. Without it, communication would have to be carried on with each Bank separately. *It will serve as a useful means of developing public opinion and, conversely, of influencing it.* (Willis: "The Federal Reserve System," p. 381. Italics added.)

These may appear to be fine interpretations of words and intent. Perhaps they are, but they do reflect the fact that the role of the Council has not been entirely clear. Time, conditions, and people often determine the role of any institu-

tion as much as law and original intent.

From time to time, recommendations and observations of the Council have been disclosed in the Annual Reports of the Board of Governors. Differences of opinion have quite naturally arisen on occasion between the Board and the Council and among Council members themselves. As a group of informed and influential representatives of banking, the Council has frequently made known its views to Congress and to the public as well as to the Board. The Council has lent its prestige to actions it felt were worthy of support.

From 1915 through 1952, 134 representatives from the twelve Reserve districts have served on the Council. In view of the able men who customarily make up its membership, some observers have felt that even greater possibilities of the Advisory Council may be realized than in the past.

CURRENT TRENDS

Thus far 1953 has promised many new developments. But it has also shown that some things can't be expected to change overnight; many old trends will continue.

Take, for example, the business situation. The usual rash of forecasts greeted the new year. This time they almost unanimously predicted a continuation for at least six months of the good business without inflation which we have been enjoying for about the past year and a half. January did its best to live up to the optimism of the forecasters. Production rose further, employment stayed high, and new construction con-

tinued at a substantial level. Last month, for the first month since the outbreak of war in Korea, people bought more savings bonds than they redeemed. Whether this will continue remains to be seen, but it is a reflection of the fact that people are saving a large part of their incomes and probably will keep on doing so. On the other hand, there is no indication that people are spending less. Department store sales in the Third Federal Reserve District during January were below a year ago, but that was because of the transit strike; stores outside of the city registered healthy gains.

Yet, in the midst of these continuing trends of good business at least one development bears watching. Beef prices slid off sharply as large supplies poured into the market. This was only one indication of problems likely to arise on the farm front during this year.

The mixture of old and new was most apparent, perhaps, in policy actions taken or contemplated. The Federal Reserve Banks raised their discount rates from $1\frac{3}{4}$ per cent to 2 per cent. This was in line with the policies which have been in effect for some time. It was in agreement, too, with the statement which the new President later made in his State-of-the-Union message that Federal Reserve action should continue to be directed toward stabilizing the economy and encouraging initiative.

A new development of considerable importance, however, was the announcement of the Treasury's plan to give holders of Government securities maturing in mid-February the choice between new one-year certificates or five-year, ten-month bonds. This was the first step in a policy, soon after confirmed by the President, of lengthening out the maturity of the public debt.

Changes have been promised in the field of Government spending and taxing, too. But here again, changes can't be made overnight. Only eleven days before the switch of administration, a budget which had been in preparation for a year was submitted to Congress. This budget for the fiscal year beginning in July and ending in June 1954, called for total spending of \$78.6 billion and receipts of \$68.7 billion, leaving a deficit of \$9.9 billion. At these levels, spending

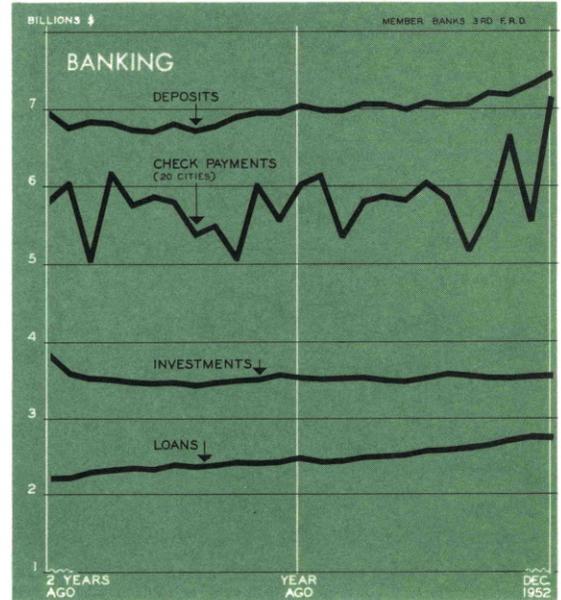
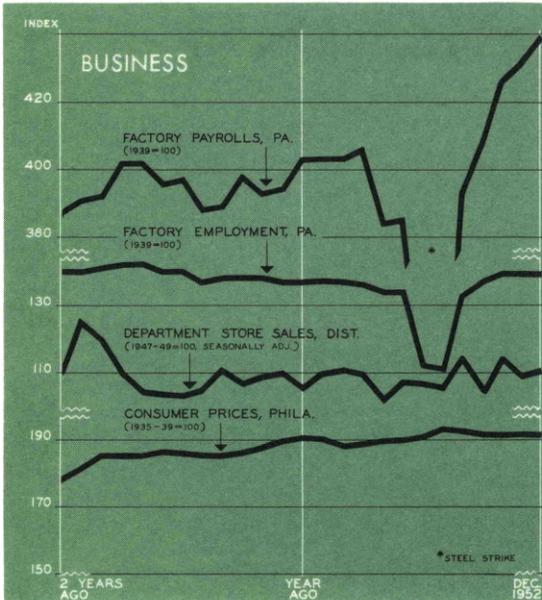
was expected to be \$4 billion more than in fiscal 1953 but receipts about the same. The principal item of increased spending was for defense.

The new Administration has promised to reduce spending and to cut taxes, but it has emphasized that both will take time. Much of the spending scheduled during the next fiscal year will be to pay the bills authorized in the past. As the President pointed out, the accumulated obligational authority for future payment totals over \$80 billion, and this doesn't include large contingent liabilities. Nevertheless, the budget director has moved to cut spending by virtually freezing the obligation of funds for expenditure at the January level, prohibiting the hiring of new employees, and curbing new construction by Government departments and agencies. He has called for recommendations for revision of the budget to be submitted by March 2.

On the tax front, the President has said that "reduction of taxes will be justified only as we show we can succeed in bringing the budget under control." Yet, the authority for the excess profits tax expires in June and a bill labeled H.R.1 proposes to reduce individual income taxes.

In broader terms, the most significant new development ahead of us is the increased reliance expected to be placed on the market place and on indirect controls (monetary, fiscal, and debt management policies) as regulators of economic activity. The sudden removal of price and wage controls is perhaps the most dramatic, but not necessarily the most important, step in that direction.

FOR THE RECORD...

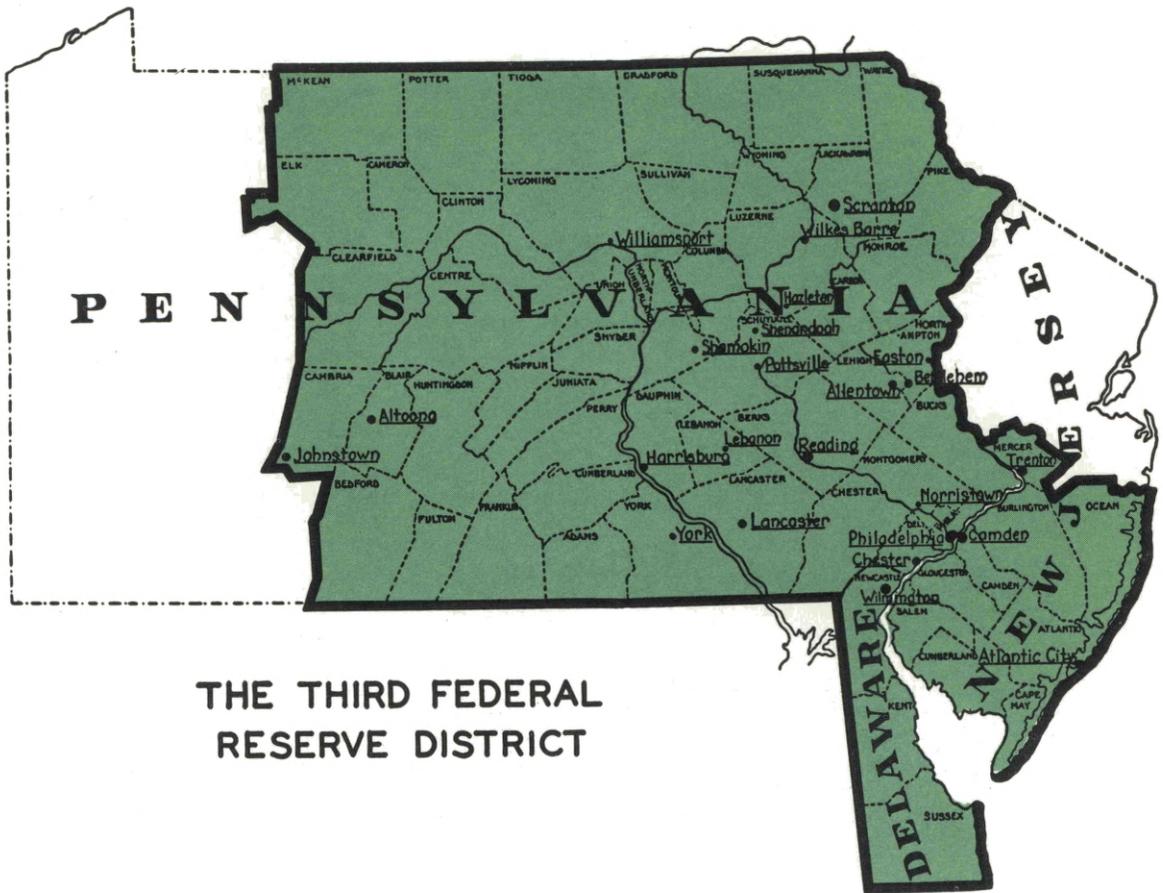


SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	December 1952 from		12 mos. 1952 from year ago	December 1952 from		12 mos. 1952 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production...	+ 1*	+ 2*	-4*	0	+ 8	0
Construction contracts...	+19	+42	+9	- 7	+22	+ 7
Coal mining.....	-16	-16	- 8	- 8	- 8	-11
EMPLOYMENT AND INCOME						
Factory employment.....	0*	+ 1*	-5*	+ 2	+ 4	- 1
Factory wage income.....	+ 2*	+ 9*	-1*			
TRADE**						
Department store sales.....	+ 2	+ 5	0	+ 2	+ 6	+ 1
Department store stocks.....	+ 1	- 5		- 1	0	
BANKING (All member banks)						
Deposits.....	+ 2	+ 6	+4	+ 3	+ 7	+ 6
Loans.....	0	+10	+9	+ 1	+10	+ 9
Investments.....	0	+ 1	+1	- 1	+ 3	+ 5
U.S. Govt. Securities.....	+ 1	0	-1	- 1	+ 2	+ 4
Other.....	- 1	+ 2	+6	- 1	+ 7	+ 9
Check payments.....	+29%	+19%	+4%	+31	+18	+ 7
PRICES						
Wholesale.....				- 1	- 3	- 3
Consumer.....	0†	+ 1†	+2†	0	+ 1	+ 3

*Pennsylvania †Philadelphia ‡20 Cities
 **Adjusted for seasonal variation. †Based on 3-month moving averages.

LOCAL CHANGES	Factory*				Department Store				Check Payments	
	Employment		Payrolls		Sales		Stocks		Check Payments	
	Per cent change Dec. 1952 from		Per cent change Dec. 1952 from		Per cent change Dec. 1952 from		Per cent change Dec. 1952 from		Per cent change Dec. 1952 from	
	mo. ago	year ago								
Allentown..	0	+1	-4	+ 6					+20	+13
Harrisburg..	+1	+9	-1	+16					+18	+16
Lancaster...	+1	+6	+7	+16	+42	+8	-26	+1	+17	+19
Philadelphia	+1	+6	+2	+14	+28	+5	-24	-8	+31	+19
Reading....	+1	+2	+5	+13	+44	+5	-24	-3	+35	+22
Scranton....	-1	+6	-1	+12					+21	+ 9
Trenton....	+2	+7	+4	+22	+52	+9	-19	-3	+23	+19
Wilkes-Barre	0	+6	-4	+11	+45	+1	-20	+3	+24	+11
Wilmington.	+1	+8	+4	+19					+47	+24
York.....	+1	+4	+6	+12	+56	+6	-30	0	+26	+45

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



**THE THIRD FEDERAL
RESERVE DISTRICT**