

business review

FEDERAL RESERVE
BANK OF
PHILADELPHIA

TEXTILES ARE SLIPPING IN PENNSYLVANIA

Employment in Pennsylvania textile mills is on the decline. Competition is tough, especially competition from the South. Profits in textiles generally are running below average.

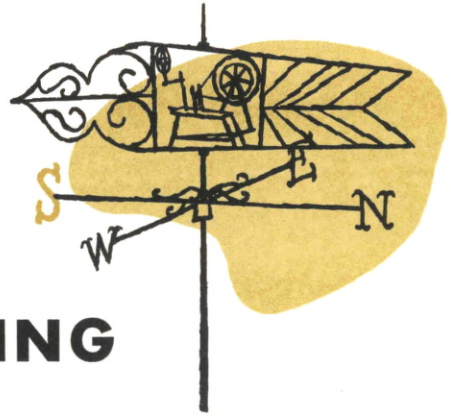
THE CONSUMER—PERVERSE OR PREDICTABLE?

How much will the consumer spend this year? Charts in this article suggest that he may not be so changeable as some think.

BANK EARNINGS HIGHER IN 1953

Increased earnings reflect chiefly expansion in loans. Growth in loans was slower in the last half of the year.

CURRENT TRENDS



TEXTILES ARE SLIPPING IN PENNSYLVANIA

We know that 37 textile firms, employing 3,330 workers, left Pennsylvania between mid-1949 and mid-1953. Some went out of business and others sought a more favorable competitive climate elsewhere. We also know that during the same period, 65 textile firms, employing 2,356 workers, started in Pennsylvania. Some were brand-new firms, some were branch plants of existing concerns, and some moved in from other states. Firmwise, there was a net gain of 28 mills, but unfortunately there was a net loss of about 1,000 textile jobs.

Just a few days ago the press announced the permanent shutdown of a cotton piece-goods dyeing and finishing plant in Pennsylvania. The reason given was "completion of government contracts." Six hundred workers are involved.

Pennsylvania is a great state. It is underlaid with fossil fuels and overlaid with manufacturing industries. The Commonwealth yields to only one state (New York) as an industrial empire, and to only one state (West Virginia) as a coal bin. Still half covered with forests, Pennsylvania is nevertheless primarily an industrial state. Yet, textiles are slipping.

Pennsylvania has a highly diversified industrial

pattern. Look at the multitude of slices in the first pie diagram on the next page. Textiles rate sixth in an array just a bit heavy with so-called heavy industries.

Textile employment in Pennsylvania declined from 141,000 workers in 1939 to 93,000 workers in 1953—a decline of 34 per cent. That is in contrast with a 3 per cent decline in textile employment of the United States for the same period. The slippage in Pennsylvania is really serious, and it has been going on for a long time.

Knit Goods rate first in Pennsylvania

Knit goods occupy a prominent place in the textile scene of Pennsylvania, as the second pie diagram shows. Roughly half of the knit goods consists of hosiery. Broad-woven goods means cottons, woolens, worsteds, rayons, nylons, and various mixed fabrics. Carpets and rugs occupy a unique position as we shall see in a moment.

Since 1939, employment declined in five major divisions of Pennsylvania textiles. Declines ranged from 24 per cent in dyeing and finishing to 60 per cent among producers of yarns and

thread. Carpets and rugs, on the contrary, showed an increase of 21 per cent. The changes, except for hats, the smallest group, and miscellaneous textiles are shown in the bar chart.

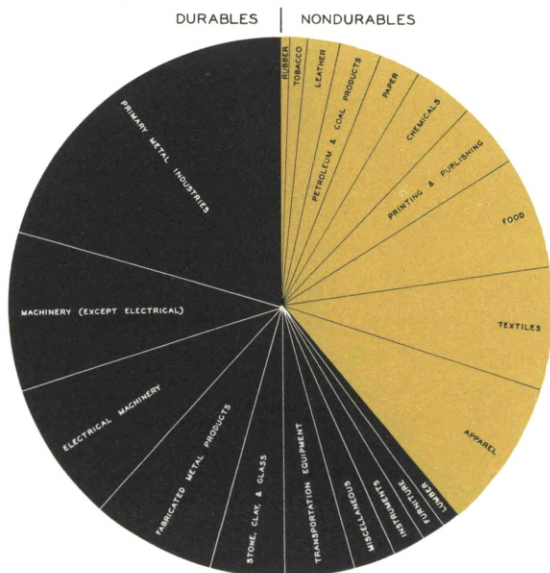
The greatest amount of coming and going took place in the hosiery division. Although there was a net increase of 11 hosiery manufacturers between mid-1949 and mid-1953, there was a net loss of almost 600 hosiery jobs. One large hosiery firm was liquidated. Once upon a time, Pennsylvania made practically all of the country's hosiery. That was long, long ago when women wore long skirts and men wore high shoes. But Pennsylvania still makes most of the country's full-fashioned hosiery-making machinery.

The textile mill balance sheet of Pennsylvania also reveals a loss of three throwsters (firms that prepare yarn for weaving or knitting). Woolen and worsted mills show a small net loss of employment.

TEXTILE EMPLOYMENT IN PENNSYLVANIA, DECEMBER 1953



INDUSTRIAL EMPLOYMENT IN PENNSYLVANIA, DECEMBER 1953



WHY ARE TEXTILES SLIPPING IN PENNSYLVANIA

Pennsylvania's textile score board indeed looks bad. Reasons given for the 37 textile firms that left the state between 1949 and 1953 are: "liquidation," 15; "went out of business," 14; "destroyed by fire and subsequently liquidated," 3. One transferred its business to its Rhode Island plant, another "lost lease," another "out of state," another "lack of business," and another "abandoned operations." These reasons do not really tell much. We do not know how many of these firms liquidated in Pennsylvania became corporate reincarnations south of the Mason and Dixon Line.

The Trek to Dixie

In Dixie land I'll make my brand; to knit and dye in Dixie. Hooray! Hooray! Away down South in Dixie! A former President of the United States once referred to the South as "The Nation's Num-

ber One Problem Area.” That statement was made when the country was in the throes of its greatest business depression. Curiously, prior to that great business depression and subsequently thereto many Yankee manufacturers regarded the South as the nation’s number one solution area for their own problems.

The South is an area of alleged low costs. Low labor costs, low power costs, low construction costs, low taxes. Everything sweet and low. Moreover, the South has a favorable climate, proximity to raw materials (cotton), and the area offers traditional Southern hospitality like municipal development corporations to float tax-free issues to finance the cost of acquiring facilities. There is a measure of truth to all these things. The South is a wonderful country. It does have lower wage rates, but not necessarily lower labor costs. It does have lower power costs, but not necessarily at all places. It is closer to the cotton fields, but most women’s hosiery is made out of nylon.

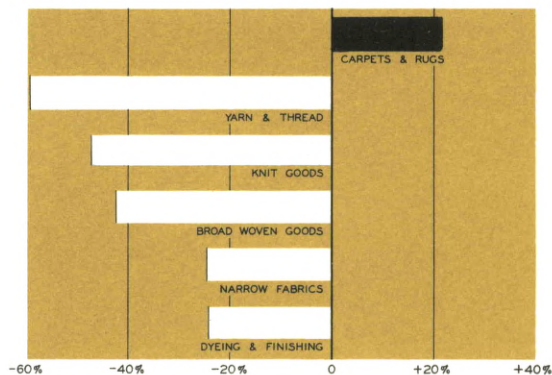
Reams of statistics have been cooked up to prove (and to disprove) that production costs are lower in the South than in the North. When reading these cooked-up statistics, watch the cook. The trouble with these statistical stews is that sooner or later they lead to such slithery things as labor productivity, standards of living, power factors, managerial competence, and less-than-carload freight rates which depend upon the direction the cars are going. Regional cost data are most useful in comparing a specific place in the South with a specific place in the North. Presumably, some Yankee manufacturers are doing this because the trek to Dixie continues.

A CHECK-UP ON TEXTILES

Pennsylvania is not the only place where textiles are in trouble. Here the troubles are slightly worse than in some other places. Actually, textiles every-

CHANGES IN TEXTILE EMPLOYMENT IN PENNSYLVANIA

(1939 to December 1953)



where—North, South, East, and West—are in trouble. Mills are running below capacity, employment is down, warehouses are stocked, prices are weak, and profits are below average. That, in general, is the textile situation.

It seems only yesterday that queues of women crowded the nylon counters. Now nylons go begging for buyers. Similar disparities between supply and demand are found in many, if not most, textile markets.

During World War II and for some years thereafter, textile manufacturers were prosperous. Like other manufacturers, they operated night and day turning out products by the billions, making money by the millions. Excess profits went to Uncle Sam. But the period of prosperity was short for textiles, shorter than for most other industries. When the brand-new 1954 calendars were being hung up the soothsayers of business were speculating as to how much longer the business boom might last. At the same time, most textile manufacturers were wondering how much longer they would be going down hill; they had already been skidding for several years.

Textiles Are Competitive

Textiles are a competitive melee. There is competition not only between the North and the South but also competition between natural and synthetic fibers; between old and modern mills; between single- and multiple-shift operators; between integrated and non-integrated concerns; between domestic and imported fabrics. In addition to the competition within the industry there is also competition between textiles and other industries. The products of paper, paint, plastics, and other industries invade the traditional markets of textiles. Sometimes textile manufacturers yield to the temptation to invade the markets of others; for example, the apparel business is a natural.

Competition in textiles is anything but simple. It is complex and compound. It is understandable why textile people take a keen interest in the Randall Commission Report.

Perhaps one reason why textiles are so competitive is because there are so many competitors. Over 9,000 firms are in the business, according to latest official estimates. That is more than eight times the number of concerns operating in Petroleum and Coal Products, cited just for contrast.

Textile profits expressed as a per cent of sales have been running below the average earnings of manufacturing industries generally in recent years. Producers of hosiery and knit goods did better than average in 1950 only. Silk and rayon did better than average in all three years, but this group of firms is not really a full-blooded member of the textile family. Rayon companies dominate this category, and the production of rayon filament and fibers is a chemical process. With the exceptions noted, it is apparent that textiles have encountered troubles in their quest for profits.

EARNINGS AS PERCENTAGE OF SALES

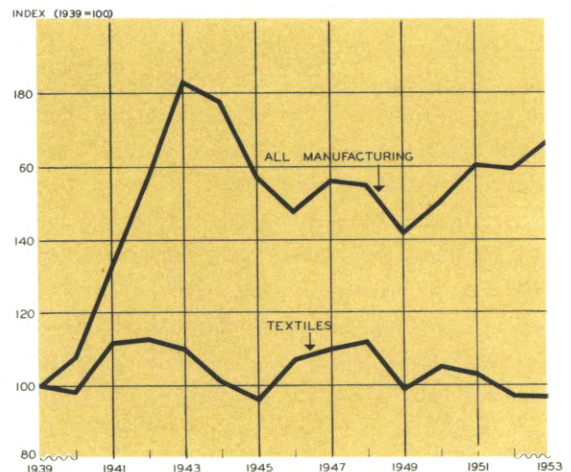
Class of Industry	1950	1951	1952
All manufacturing industries.....	7.7	6.2	5.4
Cotton	6.2	5.6	2.9
Silk and rayon.....	12.8	9.0	6.7
Woolen goods.....	3.9	3.0	—2.4
Hosiery and knit goods.....	8.2	5.1	3.0
Carpets and other floor coverings..	6.1	1.9	3.4
Other textiles.....	6.8	4.9	2.5

Source: National City Bank of New York, **Monthly Letters**.

Earnings of textile workers are also below average. In 1953, textile workers averaged \$53 a week in contrast with \$71, the average weekly earnings of production workers in all manufacturing industries of the United States. Similar differences prevailed during the three years preceding. Lower earnings in textiles were due, in small part, to shorter hours. In 1953, textile concerns operated 39.1 hours a week in contrast with 40.5 hours, the average for all manufacturing. Similar differences prevailed during the three years preceding.

Textiles also differ from industry generally with respect to employment trends. Since 1939, factory employment in the textile industries declined 3 per cent whereas employment in all manufacturing

FACTORY EMPLOYMENT IN UNITED STATES



increased 67 per cent. The wartime upheaval was comparatively small in textiles and, as the chart also shows, for the entire period employment in textiles settled down while employment in all manufacturing “settled up.”

Textiles Are Big

Textiles are big, not individually but collectively. In 1952, the country’s textile mills produced over \$5 billion of “value added.” That is the technically correct but somewhat awkward way of saying that all their efforts enhanced the value of raw materials processed by that stupendous sum. It was just under 5 per cent of the value added (\$108 billion) by all manufacturing industries of the country. That may not look too impressive. Nevertheless, textiles ranked ninth among the 20 major industry groups. In total wages paid, textiles ranked sixth, and in number of production workers employed they ranked fifth.

There are no corporate giants in textiles as there are in steel or automobiles where the biggest company turns out a fourth or a third of the industry’s product. As a group, however, textiles bulk large because there is such a multitude of them.

Textiles Are Complex

The complexity of textiles is bewildering. One way of getting acquainted is to browse through the Census of Manufactures. First comes a list of the country’s 20 major industry groups, one of which is called Textile Mill Products. Down deeper in the volume, is a chapter where textile mill products are arrayed into major divisions, subdivisions, and subdivisions of the subdivisions. Let us be content here with the major divisions. They consist of: scouring and combing plants; yarn and thread mills; broad woven fabric mills; narrow fabrics and other small ware mills; knitting mills; dyeing and finishing plants; carpets,

rugs, and other floor coverings; hats; and finally a miscellany of things that defy classification such as lace goods, linen goods, cordage, and twine.

Textiles differ with respect to raw materials processed, technology, scale of operation, degree of integration, type of organization, markets served, and so forth. Some depend upon imported raw materials; others, domestic. Some process natural fibers; others, synthetics, still others use both. Some specialize in apparel fabrics; others, industrial fabrics; and still others, household fabrics. Some go in for the highly styled fabrics; others prefer to make bulk yardage and let someone else do the styling. Some hedge their holdings of raw materials by selling short in the futures market; others regard that as gambling. About all that textiles have in common is that they make things out of fibers and wish sometimes they were in another business.

Textiles Are Old

When Alexander Hamilton wrote his “Report on Manufactures” in 1791, great things were happening in textiles. They were right in the middle of the Industrial Revolution. Men like Watt, Hargreaves, and Cartwright transformed spinning and weaving from a household handicraft to the factory system. Since the Industrial Revolution there have been no revolutionary changes in the basic arts of spinning or weaving until quite recently. Consequently, mills today are equipped with a lot of old machinery and some modern facilities. Under certain conditions, it is hard for a manufacturer with modern, high-cost machinery to compete with others whose fully depreciated looms were installed when Woodrow Wilson was in office. It is said that when the late Henry Ford was looking for an early model textile machine for his museum he found it in operation.

Textiles Are Modern

Though textiles are as old as Methuselah, they are as modern as jet-propelled planes. In apparel textiles, style is the thing. If style is a characteristic mode of expression, fashion is the latest style. To the textile manufacturer nothing brings fame and fortune faster than to design a fabric that “takes.” Nothing brings frustration and failure faster than to design fabrics that do not “take.” Textiles are sensitive to changing seasons, rising or falling hem lines, coronations, inaugurations, or jewelry innovations.

Motion pictures and TV spread new fashions like wildfire. No longer can a poor number without takers in New York be palmed off on back-country retailers because their customers are just as well informed as the fashion-wise New Yorkers and Hollywooders. Color television will add another chapter to the spread of fashion intelligence.

A CONCLUDING NOTE ON PENNSYLVANIA

Perhaps the decline of textiles in Pennsylvania is inevitable. Perhaps it is part of the ever-changing industrial scene. It might even be for the ultimate good of the state. Insurance companies are always refining their investment portfolios to keep in step with changing times. Could it be that competitive forces are weeding out textiles in the state’s industrial portfolio to make way for others with better yields? Whether for good or ill in the long run, there are innumerable short-run hardships created by the exodus of textiles. Certainly the textile workers who lost their jobs see no good in it. Certainly the bankers in the communities affected see no good in it. Certainly the railroads with rusting sidings leading to idle plants see no good in it. Certainly local governments whose tax revenues have been adversely affected see no good in it.

THE CONSUMER—PERVERSE OR PREDICTABLE?

The spending spurts and lags in 1950 and 1951 focused attention on the unpredictability of the post-war consumer. Furthermore, since 1947 evidence has been accumulating that consumers have been spending more than would be expected on the basis of the pre-war spending-income pattern. An upward shift in spending as related to disposable income has occurred since the war. But despite the considerable attention given the erratic changes in consumer spending, the data indicate a new spending-income pattern may be forming

with aberrations from it thus far no greater than pre-war. Surprisingly, the relation between changes in income and changes in expenditures is nearly the same as before the war.

Time was when the level of consumer spending was not considered so difficult to predict; indeed, until fairly recently the subject of consumption was to some virtually closed. Consumer spending, it was believed, depended mainly upon the amount of disposable consumer income, and consumer income was dependent on what happened in the

business and Government sectors of the economy. In other words, spending was a function of income. Consumer behavior, therefore, was not an independent force; individuals' spending responded to changes in income.

Recently all of this has changed. Consumer spending is no longer relegated to a passive role; instead it is emphasized that consumer spending is a most uncertain factor. Few any longer question the ability of the consumer to change his rate of spending irrespective of shifts in income.

The consumer has asserted himself

The reasons for the new respect accorded the consumer are based broadly on the obvious effect that consumer actions have had on business activity at and subsequent to the outbreak of fighting in Korea and on the changed pattern of spending that has prevailed in post-war years.

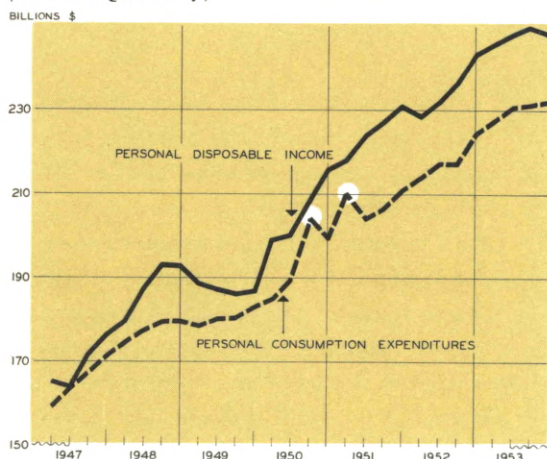
The buying waves touched off by the invasion of South Korea in June 1950 and by the entry of the Chinese in the northern armies early in 1951 provided a dramatic illustration of the ability of consumer spending to change direction and to greatly influence economic activity. These two

s spurts of spending show up clearly as "saw teeth" in the chart below showing quarterly estimates of consumer income after taxes and expenditures. That this spending was one of the important forces which led businessmen to stock up on inventories and contributed to a rise of 17 per cent in wholesale prices and 8 per cent in consumer prices can hardly be doubted.

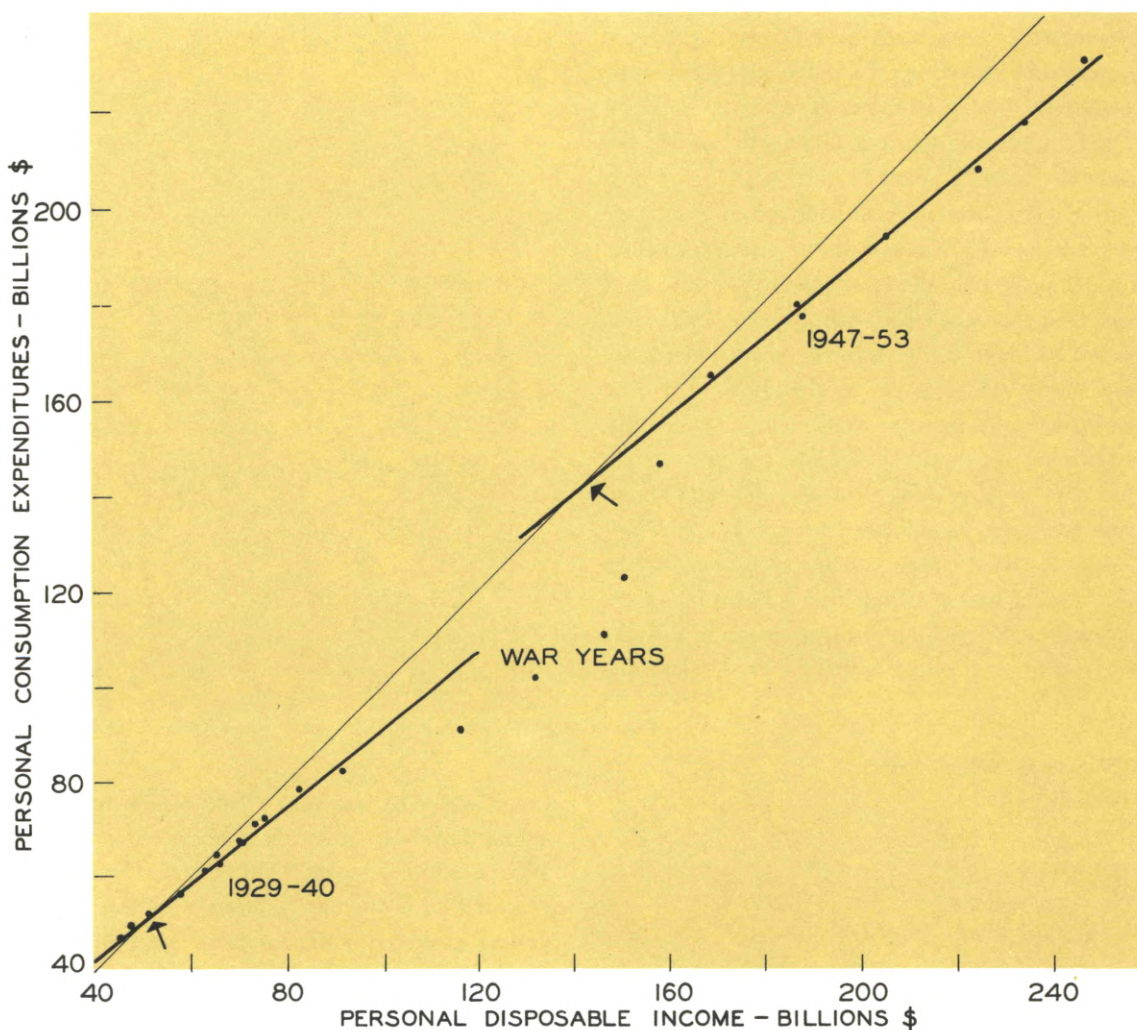
The consumer stirred up quite a fuss, and more was coming. As if to show his capricious nature, he followed each spending spree with a saving spree. In the months following the buying wave in 1951, consumer spending declined noticeably despite a steady rise in personal income. As a consequence, inflationary pressures eased and stable conditions prevailed over the balance of the year. These changes in consumer spending had such a pervasive influence on business activity in 1951 that the instability of consumer spending became the subject of many year-end reports.

Less dramatic but equally significant evidence of the emergence of the consumer as an independent economic factor is illustrated in the graph on page nine. In this chart the amount of consumer spending is plotted against the amount of personal disposable income for each year from 1929 to date. The solid black line drawn through the pre-war years 1929-1940 plotted in the lower left area is called a line of regression. This line expresses a pattern of spending at different levels of income. If all of the dots on the chart from 1929 to 1953 fell on this straight line, it would indicate a perfect and unchanged relationship between spending and income over the entire period. The grouping of the pre-war points very near to the line indicates how closely the spending habits of consumers in 1929-1940 conformed to this pattern. The war years 1941-1946, during which shortages, price controls, and rationing were paramount, could hardly have been expected to fall on this

INCOME AND SPENDING
(1947-53 Quarterly)



RELATION BETWEEN CONSUMER SPENDING AND DISPOSABLE INCOME



line. The fact that the years since 1947 do not fit on an extension of the pre-war line indicates a shift in the relation has occurred.

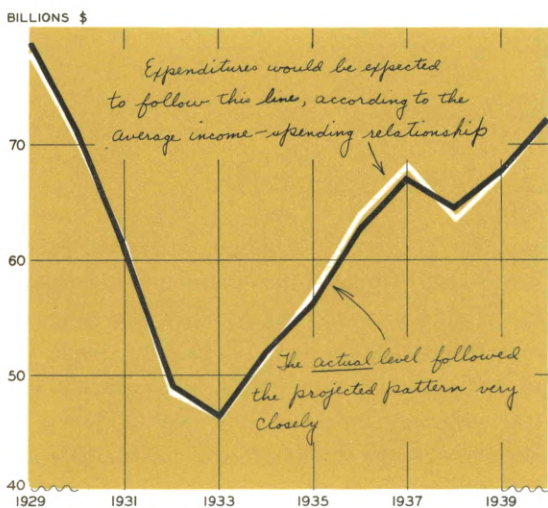
The thin line drawn diagonally across the chart expresses a 100 per cent consumption function; that is, it shows how the pattern would look if consumers continuously spent all of their incomes. It intersects the pre-war regression line at an in-

come level of about \$52 billion. This indicates that at income levels below the intersection in the years before the war, consumer spending exceeded current disposable income. (Consumers made net withdrawals from liquid assets and went into debt when incomes fell below this point.) When incomes were above \$52 billion, consumers spent less than they received.

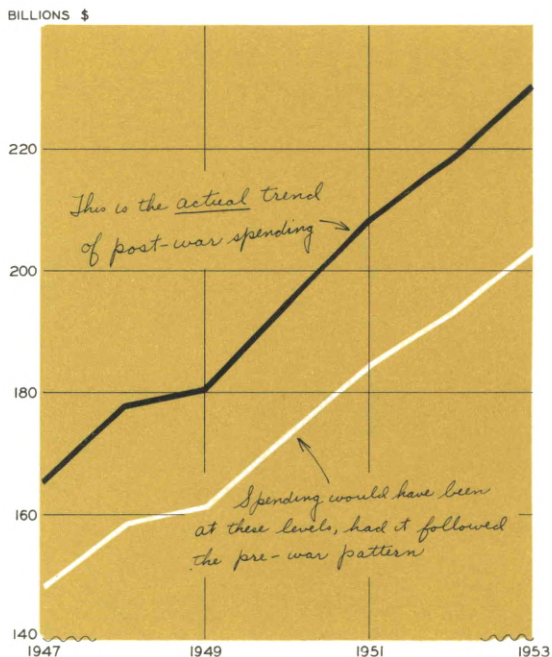
The slope of the pre-war line shows that when income rose, spending increased, but not commensurately. The same is true of declines in income and spending. To put it more precisely, the line shows that, on the average, a 10 per cent change in income was associated with an 8½ per cent change in spending.

The information derived from the chart on page nine is presented in a little different manner below. The white line shows what spending would have been if the average relationship for the 1929-1940 period had held for each of the years. The black line shows actual levels of spending. The first chart illustrates that the relationship between disposable income and spending in the pre-war period was quite stable. The second chart shows what spending would have been in the post-war period if the average income-spending pattern shown in the first chart had carried over into these later years. For example, an extension of the pre-war relationship suggests that in 1953, when dis-

CONSUMER SPENDING
(1929-1940)



CONSUMER SPENDING
(1947-1953)



posable income was about \$248 billion, spending would have been about \$203 billion. Actually, in 1953, consumers spent \$230 billion. The implication of this is that the pre-war spending-income pattern is altered. Consumers are spending larger amounts than would have been expected according to the 1929-1940 pattern.

Many reasons are given for the changes that have occurred in consumer spending. The reason relevant to the alternate buying and saving sprees, following the outbreak in Korea, has to do with discretionary spending power of individuals. According to this theory, the much higher level of income, as compared with pre-war, has left people with a larger margin between income and essential expenditures. With the larger proportion of op-

tional expenditures, willingness to spend has become a more important factor and the volume of spending is influenced more by psychological forces, it is argued.

But old habits persist

The essential truth of the theory that the consumer has the power to change his spending irrespective of short-run changes in incomes and the obvious shift away from the pre-war spending-income pattern have tended to complicate studies of the post-war consumption function; or perhaps it is because there are not enough years to provide conclusive evidence that little attention is given the post-war consumption function. Nevertheless, there are some indications that consumers are tending to establish a new spending-income pattern.

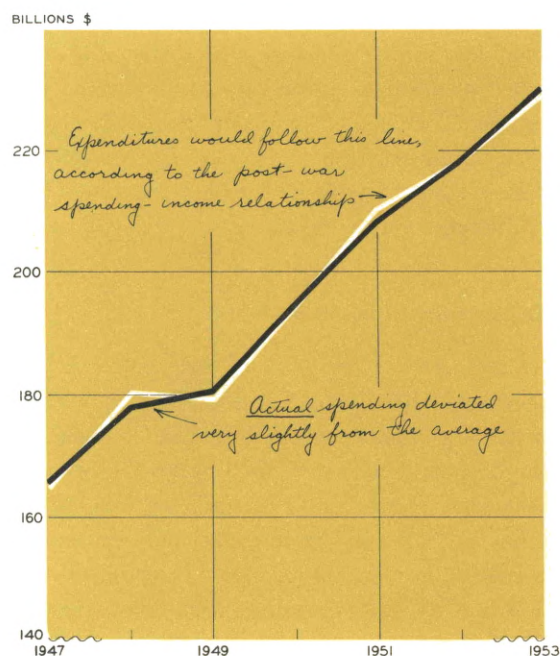
The chart on page nine indicates a shift away from the pre-war spending schedule. The fact, however, that a regression line—the solid black line in the upper right of the chart—can be successfully fitted to post-war years suggests a new relationship is forming. Two significant observations may now be made from this chart. One is that the level of consumer expenditures in relation to income has shifted upward in the period since the war. Consumers spend a larger proportion of the same income than before the war. This means that the level at which consumer spending would be expected to exceed income is much higher now. The post-war regression line intersects the thin diagonal line expressing a 100 per cent consumption function at an income level of \$143 billion as compared with \$52 billion before the war.

The other observation is (given this upward shift) the slope of the post-war regression line indicates that the same relationship exists between *changes* in income and *changes* in spending as in

the 1929-1940 period. A 10 per cent change in income is still associated, on the average, with an 8½ per cent change in spending. Thus, despite the difference in spending in the two periods, a given change in disposable income resulted in the same proportionate change in expenditures.

The chart below is based upon the post-war relationship between income and spending. It shows that the relationship between disposable income and spending in the post-war period was also quite stable when annual data are used. Deviations from the white line are as small as pre-war. This means that the quarterly spending spurts in 1950 and 1951 tend to wash out when the figures are plotted on a yearly basis. In retrospect it appears that for calendar years, as a whole, the amount that individuals spent in 1950

CONSUMER SPENDING
(1947-1953)



and 1951 was about in line with the post-war spending income pattern that had developed.

Conclusions

While it is true that post-war consumer spending has fluctuated considerably on a quarterly basis the relationship between spending and income, annually, has been no more erratic than pre-war. This suggests that the whimsical nature of post-war consumer spending may be exaggerated. It suggests, too, that the most important cause of

the upward shift in the consumption function may have to do with factors other than increased discretionary spending power. A long period of rising prices; a shift in the distribution of income, with a smaller proportion going to the upper-income groups; an increasing proportion of older people in the population; a widening of the Social Security coverage; a more progressive income-tax structure; and an upward secular drift in the standard of living, are all institutional or long-run changes which have probably tended to increase spending out of given levels of income.

BANKING 1953 — THIRD DISTRICT

Highlights of Third District banking during 1953 included further expansion in loans, but at a much slower pace in the later months of the year as the economic environment changed; higher total earnings and net earnings after current expenses than in 1952; heavier tax payments; and an increase in net profits.

Expansion in bank assets

At the close of the year member banks in this District had more than \$6½ billion of earning assets, with approximately \$3 billion in loans and the balance mostly in United States Government securities, according to preliminary tabulations. After adjustment for mergers and changes in membership, the figures show an increase of about \$160 million, substantially less than in 1952.

THIRD DISTRICT MEMBER BANKS—1953

(Preliminary tabulations)

EARNING ASSETS (Dollar amounts in millions)	Dec. 31, 1953	Change in year*	
		Amount	Per cent
Loans and discounts:			
Business	\$1,275	+\$ 38	+ 3
To purchase or carry securities	89	+ 8	+10
Real estate	835	+ 65	+ 8
Other loans to individuals—			
Installment	567	+ 126	+28
Single-payment	263	+ 20	+ 8
All other	68	— 2	— 2
Total loans—gross	\$3,097	+\$ 255	+ 9
Less reserves	55	+ 7	+14
Total loans—net	\$3,042	+\$ 248	+ 9
U.S. Government securities	2,697	— 87	— 3
Other securities	804
Total earning assets	\$6,543	+\$ 162	+ 3

* 1952 figures adjusted for mergers and changes in membership.

The trend of loans continued strongly upward in the first half of the year. While most pronounced in the consumer credit field, this increase included also substantial amounts of business paper and a more moderate addition to real estate loans. The over-all increase in loans was definitely smaller in the last six months. Extensions of mort-

gage credit increased materially, but growth in consumer paper was slower and business loans (which include those to agriculture) decreased slightly, despite purchases of certificates of interest in loans made by the Commodity Credit Corporation.

Holdings of United States Government securities were reduced considerably in the first half, and this decline was by no means offset by renewed investment in these issues later in the year. Net changes in holdings of other securities were minor.

Bank earnings higher

Bank earnings, which reflect average holdings of earning assets and rates of return, were higher than in 1952. Averages for the year show smaller holdings of Governments, a virtually unchanged portfolio of other securities, and marked growth in loans. Much of the increase in loans was in comparatively high-earning consumer paper and higher rates were reported on some commercial loans. Income on loans increased considerably, accounting for nearly seven-eighths of the \$24 million increase in total earnings of Third District member banks, which totaled approximately \$256 million. The rise in total earnings continued the broad upward trend characteristic of the post-war period.

Current expenses also continued to rise, with increases of 9 or 10 per cent in salaries and wages, interest on deposits, and other items of outgo. But the growth in expenses absorbed not much more than one-half of the increase in total earnings. Our preliminary figures, adjusted for substantial comparability with the previous year, indicate that net current earnings before income taxes, charge-offs, and recoveries were up \$11 million to \$102 million.

THIRD DISTRICT MEMBER BANKS—1953

(Preliminary tabulations)

EARNINGS, EXPENSES AND PROFITS (Dollar amounts in millions)	1953	Change in year*	
		Amount	Per cent
Earnings—on U.S. Gov't securities....	\$ 54.7	+\$ 2.0	+ 4
on other securities.....	17.9	+ .3	+ 2
on loans	143.9	+ 20.5	+17
all other	40.1	+ 1.3	+ 3
Total	\$256.6	+\$24.1	+10
Expenses—salaries and wages.....	\$ 76.4	+\$ 6.1	+ 9
interest on deposits.....	21.2	+ 1.9	+10
all other	56.8	+ 4.8	+ 9
Total	\$154.4	+\$12.8	+ 9
Net current earnings.....	\$102.2	+\$11.3	+12
Recoveries, profits and transfers from reserves	\$ 7.9	+\$ 2.8	+56
Losses, charge-offs and transfers to reserves	24.1	+ 1.3	+ 6
Taxes on net income.....	32.8	+ 4.8	+17
Net profits	\$ 53.2	+\$ 8.0	+18
Cash dividends declared.....	27.2	+ 1.6	+ 6

* 1952 figures adjusted for mergers and changes in membership.

Income tax payments, which include excess profits taxes, were heavier than in 1952, and the total of losses and transfers to valuation reserves continued to run substantially ahead of recoveries, profits on securities, and transfers from reserves. Nevertheless, the banks were able to report an increase of \$8 million to \$53 million in net profits available for dividends. Incomplete data suggest that transfers to valuation reserves on loans were somewhat smaller than in 1952, that losses or charge-offs on securities were a little heavier, and that net losses on loans again were light. Dividend payments continued to rise, but absorbed only about one-half of net profits.

UNIFORM COMMERCIAL CODE

"A Tabular Outline of Secured Transactions" under Article 9 of the Code has been distributed to banks in the Third District. It represents a check list of the new legal relationships and new procedure under the Code. Copies from a limited supply are available on request.

CURRENT TRENDS

The Art of Forecasting and the Budget

Business forecasts currently give a great appearance of unanimity, perhaps more so than at any other time in the post-war period. Some experts, it is true, have been developing and experimenting with new techniques for evaluating business trends, but more and more forecasters have been making predictions which fall into a common pattern.

This large number of fairly uniform predictions results from a combination of circumstances, including: (1) a readily understandable system of national accounts available as a tool; (2) more people making forecasts; (3) a feeling among forecasters (perhaps subconscious) that there is security in being one of the majority; and (4) the use of averages.

This last item is especially pertinent to the 1954 predictions, for a look behind the averages suggests that current unanimity may not be quite so unanimous after all. The majority of forecasters say that business in 1954, on the average, will be somewhat less than in 1953. Total gross national product, they predict, may be off by something like 5 per cent. This average, however, conceals differences in the pattern of the decline. Some economists believe the downturn will be brief and will be followed by a revival later in the year. Others feel that the decline will be short, but that business will level off on a high plateau. Still others are inclined to think that the downtrend will persist throughout the year. Obviously, these three forecasts are not equally pessimistic, although the averages may not so indicate.

As far as duration is concerned, it may be worthwhile to glance back at figures for the 1949 and 1937-1938 recessions. Periods from peak to

trough vary depending on which indicator one looks at, but in general it took perhaps a year for the full decline to run its course. This does not mean, of course, that the current downtrend will necessarily last that long; and even if it did, some indicators show that the decline really began last summer or spring. A look backward does remind us, however, that adjustments are apt to take time.

Government is forecasting, too

In making their decisions, businessmen must make some assumptions as to what lies ahead. The men responsible for making up the Federal budget, issued last month for fiscal year 1955, had a still harder task; they had to consider not only the impact of business trends on the budget but also the impact of the budget on business trends.

The new budget is based on a philosophy that the economy will be benefited by Government "efficiency and economy," by a "balanced budget and tax reductions," and by the encouragement of "initiative and investment." Thus expenditures in fiscal year 1955 are estimated to be \$65.6 billion, or a reduction of about \$5 billion from estimated spending in fiscal 1954. Most of this reduction will come out of national security expenditures, reflecting (among other things) "shifts in emphasis" in the defense program. Considerably less is to be spent for army and navy defense, and somewhat more for atomic energy, air power, continental defense and the mutual military program. Receipts are estimated to be \$62.7 billion, or about \$5 billion less than they are expected to be in fiscal 1954. This cut

reflects primarily the reduction in personal income and excess profits taxes which became effective at the beginning of the year and lower revenues from further tax revisions proposed by the President. The net result is an estimated budget deficit of nearly \$3 billion. On a cash basis, however, the Government expects to take in a little more than it pays out.

These estimates are based on the assumption of "fairly stable conditions, internally and externally," and the policies reflected in the budget are intended to maintain those stable conditions. If time should prove the assumptions obsolete, the budget figures will be revised. After all, to make out a budget for fiscal year 1955 involves a forecast a year and a half ahead (and really longer because the budget is a long time in the making).

The post-war record indicates that revenue estimates have been off, on the average, roughly 15 per cent from the actual amounts. Spending estimates have been off roughly 10 per cent. The percentage of error varies quite widely from year to year, depending on a number of factors. For example, inflation generally produces larger revenues than expected; wars mean larger spending than expected.

The estimates can be revised, of course, as time rolls on. In the middle of the year and again early next year there will be opportunities to bring the estimates more in line with changing conditions. A lot can happen between now and then. One possibility is reduced revenues if the scheduled reductions in excise taxes and corporate income taxes are permitted to go into effect this spring.

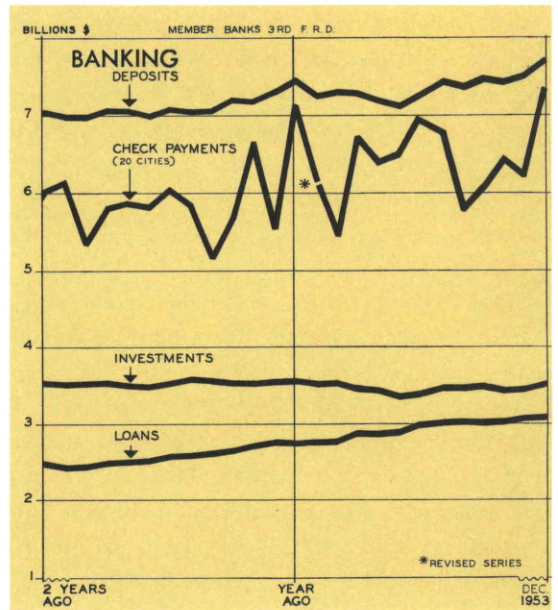
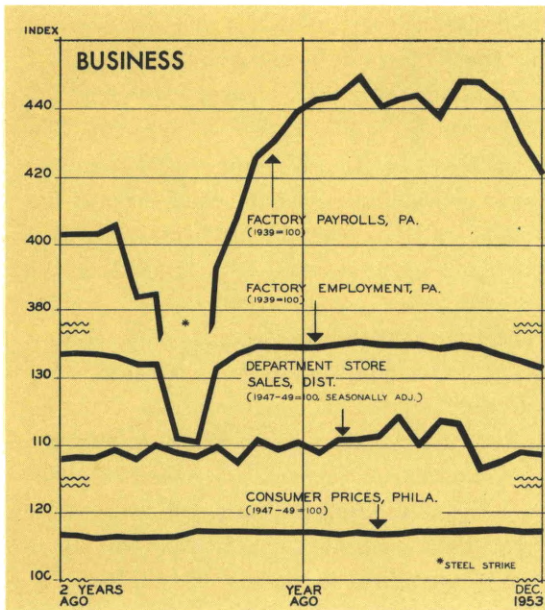
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upon request to the Department of Research,

Federal Reserve Bank of Philadelphia,

Philadelphia 1, Pa.

FOR THE RECORD...



SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	December 1953 from		12 mos. 1953 from year ago	December 1953 from		12 mos. 1953 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production...	- 2*	- 8*	+ 4*	- 4	- 5	+ 9
Construction contracts†	- 7	+ 3	+13	-17	0	+ 5
Coal mining	-12*	-21*	- 5*	- 7	-16	- 5
EMPLOYMENT AND INCOME						
Factory employment	- 1*	- 5*	+ 5*	- 2	- 5	+ 5
Factory wage income	- 2*	- 5*	+12*			
TRADE**						
Department store sales	- 1	- 3	+ 1	- 1	- 3	+ 2
Department store stocks	- 2	+ 3		- 3	+ 3	
BANKING (All member banks)						
Deposits	+ 2	+ 2	+ 3	+ 3	+ 1	+ 3
Loans	0	+ 9	+12	+ 2	+ 6	+10
Investments	+ 2	- 2	- 3	0	+ 1	- 1
U.S. Govt. securities	+ 2	- 3	- 3	0	0	- 2
Other	+ 1	0	0	+ 1	+ 3	+ 3
Check payments	+18§	+ 4§	+10§	+19	+ 2	+ 7
PRICES						
Wholesale				0	0	- 1
Consumer	0†	0†	+ 1†	0	+ 1	+ 1

LOCAL CHANGES	Factory*				Department Store				Check Payments	
	Employment		Payrolls		Sales		Stocks		Check Payments	
	Per cent change December 1953 from		Per cent change December 1953 from		Per cent change December 1953 from		Per cent change December 1953 from		Per cent change December 1953 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown...	-2	-6	-6	-6					+10	+1
Harrisburg...	-3	-7	-4	-9					+24	+9
Lancaster...	+1	+2	+1	-1	+49	+2	-26	+6	+9	+5
Philadelphia..	-1	-2	-1	-2	+21	-4	-24	+2	+18	+3
Reading.....	-1	-5	-1	-9	+42	-2	-26	+1	+5	+5
Scranton.....	-1	0	-3	+4					+11	-4
Trenton.....	0	-8	+3	-12	+47	-9	-16	-5	+6	+8
Wilkes-Barre.	-2	-7	-1	-7	+44	-4	-22	-3	+1	-1
Wilmington...	-1	-3	+1	-3	+60	+4	-21	0	+51	+8
York.....	-1	+1	0	+5	+61	+4	-26	+10	+12	+6

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

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