

business review



FEDERAL RESERVE
BANK OF
PHILADELPHIA

MANUFACTURING IN THE FEDERAL RESERVE DISTRICT OF PHILADELPHIA

Manufacturing industries in this District employ more people than any other major activity. Employment is equally divided between firms making durables and nondurables.

THE AUTOMOBILE INDUSTRY

Production has been outrunning sales for some time now. But list prices are firm, causing dealers to bargain keenly. In this area, merchants report some misfortunes. Yet improvement in the inventory situation is encouraging.

CURRENT TRENDS

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MANUFACTURING IN THE FEDERAL RESERVE DISTRICT OF PHILADELPHIA



This is a story about 1,328,000 people. Some of them work in shipyards along the Delaware, others are employed in cement plants in the Lehigh Valley or the steel mills of Johnstown or the textile mills of Reading or the apparel factories of Scranton or the canneries of South Jersey or the cigar factories of York or the furniture factories of Williamsport. All of these people are gainfully employed in some manufacturing industry and all of them work in the Philadelphia Federal Reserve District.

One of the best ways to size up the industrial structure of an area is to observe how many people its factories employ and the kind of industries that employ them. We have established a series on factory employment in the Philadelphia Federal Reserve District. The series gives up-to-date information on how many citizens work in our manufacturing establishments, the kind of things they make, how many hours a week they work and the amount of money they earn on their jobs. Of course, all these things are constantly changing and that is precisely the reason why it is desirable to keep informed about what is going on.

NATURE AND EXTENT OF THE PHILADELPHIA FEDERAL RESERVE DISTRICT

Before looking at the industries let us look at the landscape with the aid of a map to indicate the nature and extent of the district also known as the Third Federal Reserve District.

The district embraces the eastern two-thirds of Pennsylvania, the lower half of New Jersey and the State of Delaware. It contains an even five dozen counties—48 of which are in Pennsylvania, 9 in New Jersey, and 3 in Delaware. It is only 37,000 square miles in total area and as such it is the smallest of the country's twelve Federal Reserve districts. While the district accounts for only 1.2 per cent of the country's land area, the eight and one-half million people who live within its borders nevertheless constitute 5.6 per cent of the country's population.

Diversification—that is the one best word to describe the district. The district has highlands and lowlands, good soil and poor soil, urban areas and rural areas. Some sections are predominantly industrial, others agricultural or min-

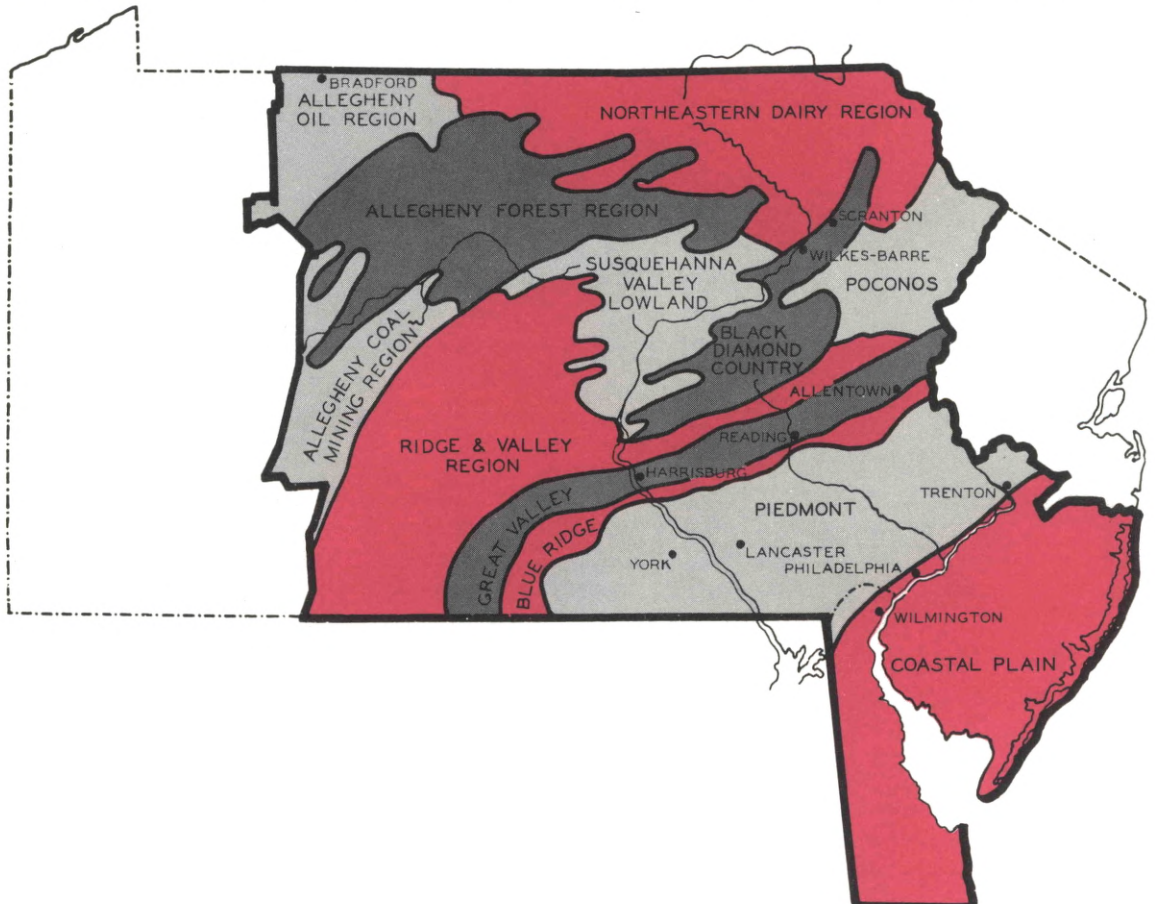
eral. The diversification resembles somewhat an old-fashioned crazy quilt in geological formation, topography, types of soil, climate, and land utilization. Since diversity of physical features makes for diversity of economic activity it may be helpful to observe the major geographic divisions of the district.

Atlantic Coastal Plain

The Coastal Plain is a broad flat belt of marl, sand, and silt, bounded on the east by good bathing, fishing, and yachting, and on the west by one

of the most heavily industrialized corridors of the country. Philadelphians on their way to the seashore resorts get the misimpression that southern New Jersey is all scrub pine land. The region, however, has enough good soil devoted to truck-gardening to have earned for New Jersey the title of "The Garden State." Southern Delaware is one of the country's leading broiler-producing areas and poultry products are also a big item of income in the Jersey section of the Coastal Plain. Other specialties of the region are cranberries and fisheries, both shellfish and the finny varie-

GEOGRAPHIC REGIONS OF THE THIRD FEDERAL RESERVE DISTRICT



ties. From the standpoint of employment and income, manufacturing is the most important economic activity by reason of the very heavy concentration of industrial plants on both sides of the Delaware River from Trenton to Wilmington.

Piedmont

The Piedmont is sharply differentiated from the Coastal Plain by the Fall Line. By no means a mere figment of the geographer's imagination, the Fall Line is a line that separates the old hard-rock land structure of the Piedmont from the sands, clays and gravels of the Coastal Plain. It is most clearly marked on the rivers by the presence of falls and rapids. Philadelphia is astride the Fall Line where natural waterfalls of the Schuylkill supplied water power for the city's early textile, paper, and grist mills.

The Piedmont, or foothills of the Appalachians, as the name suggests, is gently rolling countryside characterized by crystalline rock and limestone lowlands. The presence of limestone in the soil, a long growing season, and adequate rainfall make this a generally rich agricultural region. The area takes in the fertile fields of Chester, Lancaster, and York counties, which rank among the best in Pennsylvania. Lancaster, with its white-faced beef cattle, dairy herds, and tobacco, ranks among the leaders of the country's 3,000 counties. For all of its agricultural wealth, manufacturing, nevertheless, supersedes farming as a source of income in Lancaster.

Blue Ridge

The first major westward barrier to transportation is the Blue Ridge, a more or less continuous upland of varying width and altitude. The highest altitude of almost 2,000 feet above sea level is attained in the South Mountain section of the

Blue Ridge that pushes across the Maryland-Pennsylvania border just west of the Gettysburg battlegrounds. The northeastern section of the Blue Ridge is a finger-like extension of the New England Upland locally called the Reading Prong because it pushes its way southwestward deep into Berks County, almost to Reading. While it would be an exaggeration to call the Blue Ridge a mountain range it is, however, a prominent and unique upland corridor separating the Piedmont to the southeast from the Great Valley to the northwest. Apple and cherry orchards flourish on the slopes of South Mountain, which offer ideal frost protection for fruit growing.

Great Valley

The Great Valley is a depression—topographic, not economic. It is almost uniformly good farming country that might well be called "Prosperity Valley." The Great Valley really stretches for almost a thousand miles, all the way from the St. Lawrence Valley in Canada to central Alabama. The Pennsylvania section of the Great Valley goes by local names such as the Lehigh Valley, the Lebanon Valley and the Cumberland Valley. It is a natural lowland, not really a valley in the ordinary sense of the term, for it is not served by a single stream but by several—the Delaware, Lehigh, Schuylkill, Susquehanna, and Potomac rivers. Prominent and prospering cities throughout the valley are Allentown, Easton, Bethlehem, Lebanon, Reading, Harrisburg, Chambersburg, and Carlisle. In addition to all these cities the valley also has a lot of cows, chickens, colleges, and cement.

Ridge and Valley Region

As the name implies, the Ridge and Valley Region is rough country consisting of parallel ridges of hard sandstone separated by valleys of softer lime-

stone and shale. It looks like the kind of a country Paul Bunyan might have made by riding roughshod over the territory with his big bulldozer. Although the region has a few fertile valleys such as Nittany Valley, Kishacoquillas, and Morrison's Cove, generally the contour is too rough, the limestone too scarce, and the frost-free days too few for much in the way of agriculture. The chief mineral deposit of the region is ganister rock used in the manufacture of refractories. The area has one big rayon plant, one large zinc smelting establishment, a state university, the state's largest aggregation of railway car shops, in Altoona, and the only narrow-gauge railway east of the Mississippi. This little railroad brings bituminous coal from the Broadtop mine down to the main line of the Pennsylvania Railroad where the coal is transferred to standard equipment for a Class I haul to market. Too bad they discontinued passenger service on the East Broad Top; the round trip from Mt. Union to Robertsdale was a memorable experience.

Susquehanna Valley Lowland

In sharp contrast to the Ridge and Valley Region is the Susquehanna Valley Lowland. It extends along the main body of the Susquehanna River and for some distance up the North and West branches. This is a natural route for railroads and highways. Coming into this region from any direction, the motorist is impressed with its essentially lowland character. There are beautiful farms and the yields are best in sections close to the river where alluvial soils predominate. The region also has a surprising amount of manufacturing in such centers as Williamsport, Lock Haven, Berwick, Bloomsburg, and Danville. Among the leading manufactured products are such diverse items as aircraft, aircraft engines, carpets, railway rolling stock, and potato chips.

Black Diamond Country

The Black Diamond Country, from Carbondale in the northeast to Shamokin and Minersville in the southwest, is not what it used to be. Scranton, Wilkes-Barre, Hazleton, and Pottsville were thriving cities when long trains hauled a total of over 90 million tons of hard coal out of the region in its best years. With markets reduced by more than half, these cities are in a period of transition. Textiles and apparel manufacturing have long been complementary industries to anthracite mining in the hard-coal country. As oil and gas capture more of the anthracite markets, other industries like cigar, shoe, and metal manufacturing have been taking hold. Nevertheless, the transition is slow and the adjustment process is difficult.

Pocono Resort Region

East of the Black Diamond Country is another highland section with no minerals, few farms, and still fewer manufacturing enterprises. Hunting and fishing are good, however, because the Ice Age carved out numerous lakes and endowed the region with clear, cold water and beautiful waterfalls. Moreover, the section has just enough elevation to provide cool summer climate and enough snowfall in winter to assure both summer and winter sports, so that the region has become a great vacation land.

Northeast Dairy Region

The northeastern corner of the district is a predominantly rural area. It is a land of rolling, glaciated hills, green pastures, and red barns—and almost every barn has a silo. The region does not grow much grain but it has an unusually high percentage of crop land in hay. Dairying is the best form of land utilization because of natu-

ral conditions of the soil, climate, and topography. Moreover, the area is favored by its proximity to New York which affords a big market for milk and related dairy products. Manufacturing is notably absent in this territory but milk-cooling stations and milk-processing plants are almost as natural to the local landscape as the cows and the silos.

Allegheny Oil Region

The city of Bradford in the northwest corner of the district is the headquarters of Pennsylvania petroleum. Here, where oil has been produced for over three-quarters of a century, petroleum is still the principal source of income and pumps are found almost everywhere. In this region it is almost impossible to lay out a baseball diamond without having an oil pump either in the infield or the outfield. By means of controlled water flooding, begun in 1926, the region's flow of petroleum was rejuvenated and in some sections the annual yield is as high as 10,000 barrels an acre. Pennsylvania petroleum produces a high-grade lubricating oil, which is the reason why this crude oil commands a higher price than other crude oils.

Allegheny Forest Region

South and east of the oil country is the Allegheny Forest Region that stretches long fingers into the northeast dairy territory. The Allegheny forest region is a large area sparsely populated but well covered with a mixed stand of hard woods. Years ago this was a great lumbering and sawmill region. The pines and hemlocks which formed a large part of the virgin timber are now in the minority. As you might suppose, most of the Pennsylvania State forests are located in this section. The region is primarily a hunter's paradise. What little manufacturing is found in the area is related to wood products such as papermaking

and tanning, except for a large radio plant in Emporium.

Allegheny Coal Mining Region

Just west of the Ridge and Valley Region and south of the Allegheny oil country is the principal soft-coal belt of the district. The bituminous coal mined in this area is low volatile coal. A substantial part of the output from the mines of the region moves eastward to seaport cities where the coal is in demand by reason of its smokeless character. Bituminous, like anthracite, is encountering increasing competition from competitive fuels. Coal is the basis for steel manufacturing which dominates the industrial scene at Johnstown, the largest city of the region.

This completes an armchair Cook's tour through the Federal Reserve District of Philadelphia. It is apparent that the district is a region of parts—no less than twelve major geographic areas. The types of economic activity prevailing in each region are determined by basic geographic factors such as land formation, elevation, quality of soil, mountain barriers, presence or absence of minerals, watercourses and natural harbors, location, and accessibility to markets.

MANUFACTURING IN THE THIRD DISTRICT ECONOMY

Manufacturing plays an unusually prominent role in the economy of the Third District. Observe in the accompanying table the substantially greater importance of manufacturing as a source of employment in the local economy than in the national economy. In this district, according to the latest census, 35 per cent of all gainfully employed workers had jobs in manufacturing in contrast with 26 per cent for the United States.

Agriculture, as a source of employment, plays only a relatively minor role in this district. Farm-

ing accounts for only 4.8 per cent of the employed workers, which is in sharp contrast with 12.5 per cent nationally.

By virtue of our hard and soft coal, petroleum, and limestone resources, mining, as a source of employment, occupies a relatively more prominent place in this district than nationally. In this district, mining accounts for 3.5 per cent of the employed workers, whereas in the United States, mining employs only 1.7 per cent of all such workers.

PERCENTAGE DISTRIBUTION OF EMPLOYED WORKERS

Major Industry Group	Third District	United States
Manufacturing	35.0	25.9
Agriculture	4.8	12.5
Mining	3.5	1.7
Construction	6.0	6.1
Distribution	17.5	18.8
Transportation	5.6	5.2
Utilities	2.4	2.5
Finance, Insurance, Real Estate.....	3.1	3.4
Service	16.5	18.0
Government	4.1	4.4
Miscellaneous	1.5	1.5
Total	100.0	100.0

Source: 1950 Census

The industrial employment pattern of the district departs most radically from that of the United States in manufacturing, agriculture, and mining. With respect to construction and the various service industries, the district employment pattern is substantially the same as that of the country.

Manufacturing is peculiarly favored in the Third District by reason of certain natural advantages. Philadelphia, the industrial and commercial center of the district, owes much of its growth and prominence as a manufacturing city to its strategic inland location on an arm of the sea. Raw materials from other parts of the country and from all over the world form a steady stream of traffic on the Delaware to the factories

of Philadelphia, Camden, and other cities crowding the industrial Delaware. Canals in former days and a network of railroads and superhighways in our day afford the transportation facilities for bringing in raw materials to supplement those indigenous to the region. For developing an iron and steel industry, basic to our industrial civilization, the district has been fortunate in having within its borders the three essential requirements, namely, iron ore, coal, and limestone. Today the district itself constitutes a large market. and local industries are favorably situated to cater to the vast and growing needs of the whole densely populated northeastern section of the United States.

The heavily industrialized nature of the district is reflected even in its pattern of agriculture. With only 47 per cent of its land area in farms contrasted with 61 per cent for the United States, the district makes more intensive utilization of its arable land. This is revealed in the accompanying table.

SOURCES OF FARM INCOME

Items	Percentage Distribution Third District	United States
Field Crops	12.5	36.2
Vegetables	6.1	2.8
Fruits and nuts.....	3.3	3.6
Horticultural specialties	5.3	1.8
Dairy products	28.1	14.0
Poultry and products.....	31.2	8.3
Other livestock and livestock products	13.1	32.7
Forest products	0.4	0.6
Total	100.0	100.0

Source: Census of Agriculture 1950

For the country as a whole, field crops and "other livestock and livestock products" (chiefly beef and pork) account for 69 per cent of the cash farm income but in the Third District these items accounted for only 25 per cent of the farmers' money income. The two principal sources of farm

income in the district are dairy products and poultry products. Together they account for 59 per cent of Third District farm income. For years dairy products ranked first but subsequent to 1939 the chicken jumped over the cow. Vegetables and horticultural specialties are also relatively more important in the local scene. In a heavily industrialized area such as ours, farmers can make more profitable use of their land and labor by specializing in the production of perishable products with big yields to the acre to supply the large markets nearby.

A well-balanced industrial structure

Manufacturing in the Third District is nicely balanced on the basis of employment. The 1,328,000 factory workers in 1953 were distributed 50-50, between industries making durable and nondurable goods. The faster growing industries are usually among the durables which, however, are

subject to greater irregularity in employment from one phase of the business cycle to another. Nondurables, by their very nature, offer steadier employment by reason of the greater constancy of demand. Since this district has a 50-50 blend of durables and nondurables, the industrial structure is better balanced than that of the United States, for in 1953 manufacturing employment throughout the country was divided 59 per cent in durables and 41 per cent in nondurables.

The table entitled 1953 Percentage Distribution of Manufacturing Employment reveals at a glance wherein the industrial structure of the Third District conforms with or differs from that of the United States. The greatest difference is in the apparel industries. In the Third District 13.5 per cent of all factory workers are employed in the apparel industry in contrast with only 7.1 per cent in the United States. Factory employment in this district is also somewhat heavier, proportionately, in eight other industries—namely tobacco, textiles, chemicals, petroleum and coal products, leather, the stone, clay, and glass group, primary metals, and electrical machinery.

Manufacturing industries of the Third District in which employment is somewhat light relative to the distribution of the United States are food processing, lumber and furniture, and transportation equipment. Differences in the other industries are too small to be of any significance.

Manufacturing areas of the district

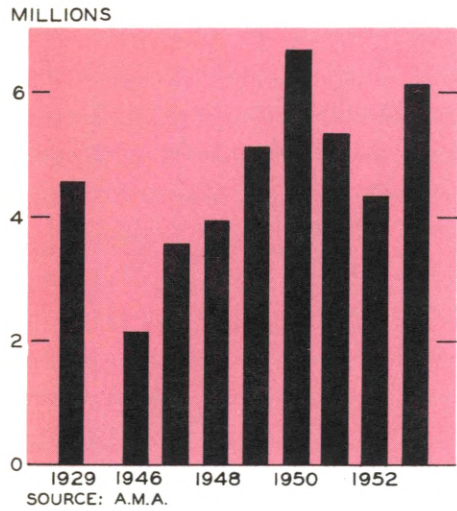
Third District manufacturing is distributed in ten major areas. From the standpoint of employment, the areas range in size from 31,000 in Scranton to well over a half-million in the Philadelphia area. Together, the ten manufacturing centers employ 81 per cent of all factory workers in the district.

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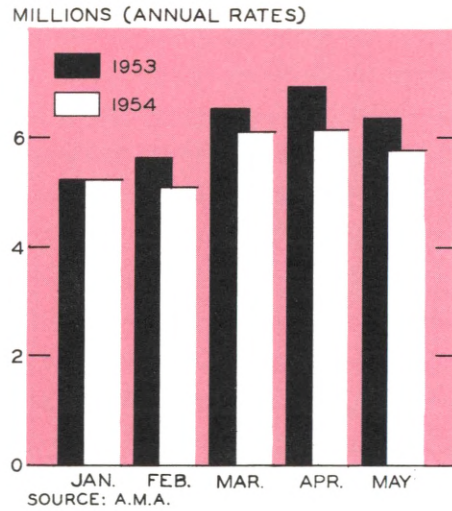
1953 PERCENTAGE DISTRIBUTION OF MANUFACTURING EMPLOYMENT

Major Industry Groups	Third District	United States
All manufacturing	100%	100%
Food	6.8	9.0
Tobacco	1.4	0.6
Textiles	9.8	6.9
Apparel	13.5	7.1
Paper	2.9	3.1
Printing and publishing	3.9	4.6
Chemicals	6.1	4.7
Petroleum and coal products	1.9	1.5
Rubber	1.2	1.6
Leather	2.8	2.2
Total nondurables	50.3	41.3
Lumber and furniture	2.7	6.7
Stone, clay and glass	4.0	3.2
Primary metals	9.8	7.7
Fabricated metal products	6.2	6.6
Machinery (except electrical)	8.0	9.9
Electrical machinery	7.9	7.1
Transportation equipment	6.9	11.3
Instruments	1.6	1.9
Miscellaneous	2.6	4.3
Total durables	49.7	58.7

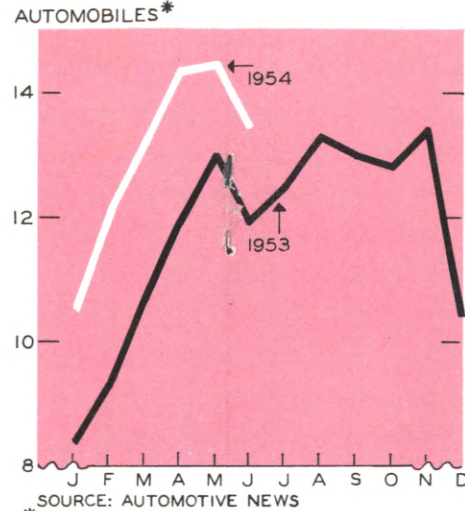
AUTOMOBILES: what is happening in the industry



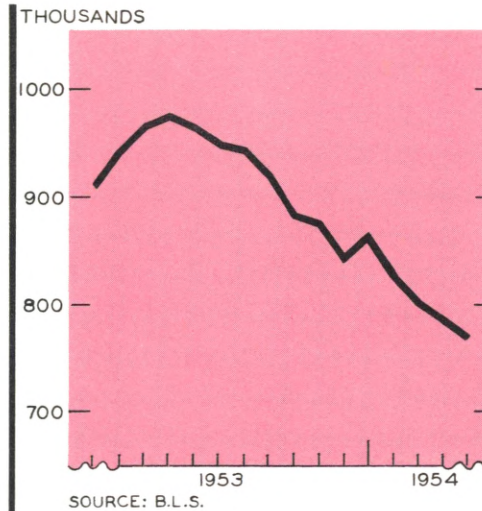
1. During most of the post-war period, **production** of automobiles has been above or near the pre-war record.



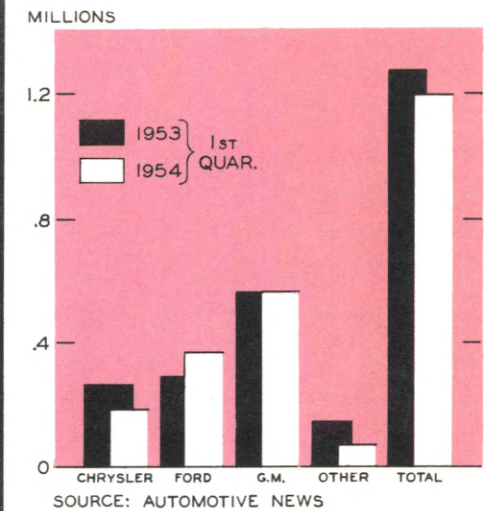
3. Domestic **factory sales** so far this year seem to indicate that production estimates may have been pessimistic.



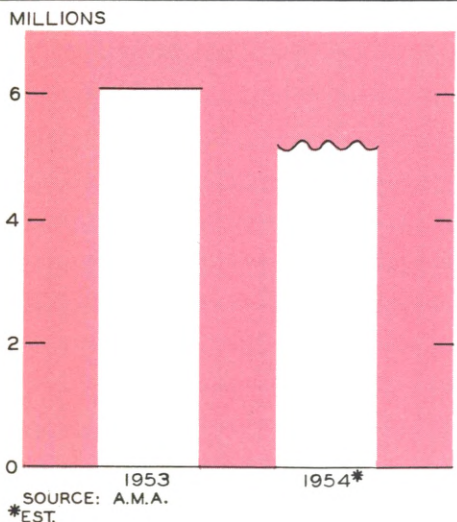
5. Consequently, the **average number of cars held by dealers** has climbed to post-war peaks.



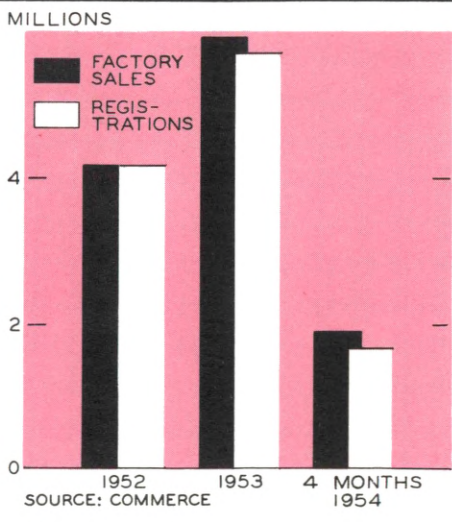
7. And the sales lag has caused **employment** in the industry to be reduced.



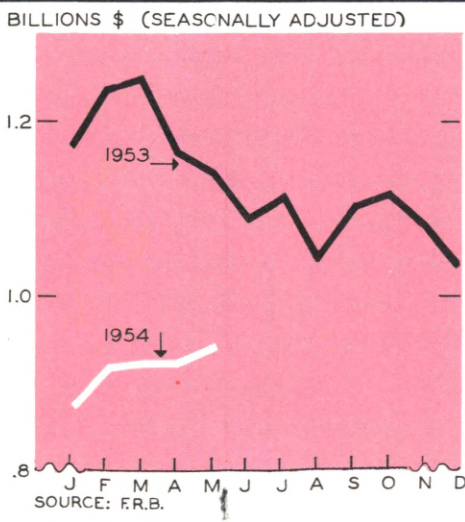
9. The decline in **new car sales** has not affected all producers.



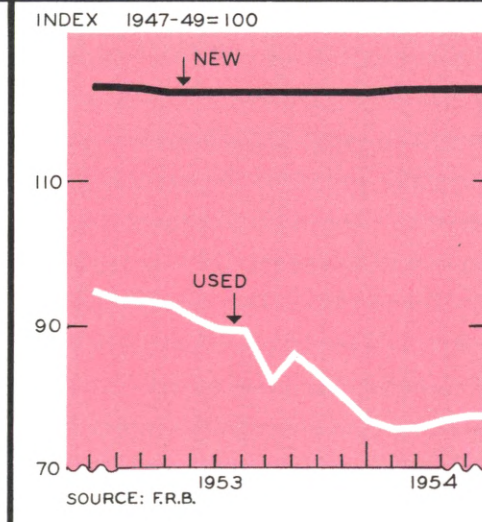
2. For 1954, a drop of 15 per cent from last year's **output** was the most popular forecast.



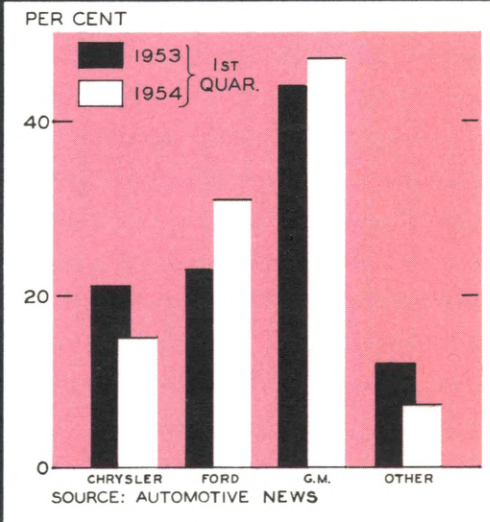
4. However, domestic **factory sales** have been running ahead of retail sales (registrations).



6. Slow sales have also resulted in a drop in **automobile instalment credit extended**.



8. **List prices of new cars** have remained steady, but **used car prices** have dropped.



10. As a result, the **proportion of the market** held by various companies shifted.

MAJOR MANUFACTURING AREAS

Area	1953 Employment	Percent in	
		Durables	Nondurables
Philadelphia	611,600	50.6	49.4
Lehigh Valley	104,200	59.7	40.3
Delaware	62,100	30.4	69.6
Reading	52,850	47.3	52.7
York	47,450	55.8	44.2
Lancaster	44,400	46.2	53.8
Trenton	43,900	75.9	24.1
Wilkes-Barre	39,650	18.7	81.3
Harrisburg	36,250	49.5	50.5
Scranton	31,300	30.4	69.6

The *Philadelphia* area embraces eight counties. In addition to Philadelphia County it includes Bucks, Chester, Delaware, and Montgomery counties in Pennsylvania; and Burlington, Camden, and Gloucester counties on the New Jersey side of the Delaware River. This is generally known as the Philadelphia Metropolitan Area and it is one of the country's most highly industrialized regions. The 612,000 workers in this great industrial beehive account for 46 per cent of all factory employment in the Philadelphia Federal Reserve District. Manufacturing in the Philadelphia Metropolitan Area is well balanced and well diversified. Every major industry is represented here and, as the table shows, the region has practically an even distribution between industries making durables and nondurables. Transportation equipment, apparel, electrical machinery, and textiles are the largest industries of the Philadelphia region but none of these employs in excess of 10 per cent of the total.

The *Lehigh Valley* ranks second in size among the industrial regions of the district. It is frequently thought of as the Allentown-Bethlehem area but actually it includes all of Lehigh and Northampton counties in addition to Warren County on the other side of the river in New Jersey. Easton and Phillipsburg on opposite shores of the Delaware are a part of the Lehigh Valley labor market area. Manufacturing in this

region is somewhat heavy on the durable side for geographic reasons. A long, rich streak of limestone runs through this section of the Great Valley which accounts for the production of about one-sixth of the country's entire output of cement. The presence of limestone is one reason why Bethlehem is a steel town; limestone, used as a fluxing agent, is an indispensable raw material in iron and steel making processes.

The *Delaware* manufacturing area includes the whole State, which is not very big. Most of the manufacturing is concentrated in Wilmington and nearby communities like Claymont and Newark. The predominance of chemicals explains why over two-thirds of the manufacturing employment is in the nondurable category. Delaware also has a steel mill, which is the very first industrial establishment that you see as you enter Delaware from the north.

The *Reading* area takes in all of Berks County, where manufacturing is about equally divided between durables and nondurables—and where conversation is about evenly divided between English and Pennsylvania Dutch. Textiles account for over half of the workers in the nondurable category, and a large proportion of the textile workers are engaged in the production of hosiery, especially women's hosiery. Reading also produces most of the country's full-fashioned hosiery knitting machinery.

As manufacturing regions, *York* and *Lancaster* counties are complementary in the sense that York has a preponderance of manufacturing employment in durables, and Lancaster in nondurables. York is a great metal town and specializes in the manufacture of machinery and the parts that go into machinery to make it tick. Its factories turn out a great variety of products such as agricultural implements, chains, cables, wire products, air conditioners, elevators, metal furni-

ture, and all manner of hardware specialties. Lancaster has just as great variety of industrial establishments as York but by reason of a huge plant specializing in the production of floor coverings, along with apparel manufacturing of considerable importance, employment in Lancaster tips the scale on the nondurable side.

In the *Trenton* area, which includes all of Mercer County, industrial employment is heavily weighted on the side of industries making durable goods. Industries making fabricated metal products of various kinds employ more workers than any other group. Trenton is also an important center for the manufacture of clay products, consisting of both sanitary ware and tableware.

Wilkes-Barre has the most unbalanced industrial employment between durables and nondurables, with the latter accounting for 81 per cent of the total factory employment. In *Scranton* the situation is somewhat similar, although the disparity is not quite so great. In both of these cities the apparel industries account for the largest share of the industrial employment. The manufacture of clothing in the anthracite region long ago attained substantial proportions because coal mining is a man's industry and the clothing factories afforded opportunities for employing the female labor of the region.

In *Harrisburg*, industrial employment is just about evenly divided between durable and nondurable industries. Including both Dauphin and Cumberland counties on opposite sides of the Susquehanna River, the region turns out products as unrelated as steel rails and candy bars.

Recent employment changes

During the five years from 1949 to 1953 inclusive, manufacturing employment in the district increased 14 per cent. In the same period manufacturing employment in the United States in-

creased 22 per cent. It is not surprising nor disappointing to find a somewhat slower growth in this district. Rates of growth inevitably slow down the older a region becomes.

PERCENTAGE CHANGES IN MANUFACTURING EMPLOYMENT — 1949-1953

Industry	Third District	United States
Food	- 1.1	+ 2.6
Tobacco	-13.7	- 5.0
Textiles	-16.3	- 2.8
Apparel	+ 7.9	+ 6.6
Paper	+11.0	+16.4
Printing	+ 4.0	+ 8.6
Chemicals	+15.3	+21.5
Petroleum and coal	+ 4.1	+ 8.5
Rubber	+16.5	+21.0
Leather	- 4.4	0
Total nondurables	+ 0.7	+ 6.4
Lumber and furniture	+13.2	+ 8.5
Stone, clay, and glass	+ 7.7	+12.7
Primary metals	+29.1	+22.1
Fabricated metals	+22.3	+31.3
Machinery (except electrical)	+29.8	+30.4
Electrical machinery	+58.4	+59.9
Transportation equipment	+53.2	+61.6
Instruments	+29.4	+40.4
Miscellaneous	+38.4	+65.1
Total durables	+32.4	+35.5
All manufacturing	+14.3	+21.7

Recent changes in manufacturing employment of the district differed most from those of the United States in the industries making nondurables. Between 1949 and 1953, employment declined in both textiles and tobacco in both the district and in the country, but the declines were greater in this district, as the table shows. Chemicals and rubber, in the district, shared in the country-wide gains although employment increases here did not come up to the national averages. On the other hand, the growth in apparel employment of the district was slightly greater than the national average.

In the field of durables, recent employment changes of the district compare very favorably with the national changes. Employment showed

larger percentage gains in the district than in the country in lumber and furniture and in the manufacture of primary metals. The latter is more significant because primary metal manufacturers employed more than three times as many workers in 1953 as did the lumber and furniture producers.

The largest gains in industrial employment of this district occurred in the durable industries. As a group, their employment rose 32 per cent during the four years ending with 1953. Within the group, employment rose 58 per cent in the electrical-machinery industries and 53 per cent in the transportation-equipment industries. The smallest gain (8 per cent) took place in the stone, clay, and glass division. No durable goods industry registered a loss in employment during the period.

Among manufacturers of nondurables, employment just held its own. For the group as a whole there was only a fractional gain of less than 1 per cent. Employment declined in textiles, tobacco, leather, and foods. Textiles, and particularly hosiery (of which there is an abundance in this district) continue to look with favor upon the hospitality of the South. The decline in tobacco has nothing to do with the current tempest in the cigarette industry, for most of the tobacco manufacturers in this district make cigars. Chemicals and rubber, with gains of 15 and 17 per cent respectively, registered the largest increases in employment among the industries in the nondurable group.

During the past four years, from 1949 to 1953, manufacturing employment increased significantly faster than the district average in three metropolitan areas—namely, Harrisburg, York, and Delaware. The faster rates of expansion in these areas may be attributed to the prominence of primary metals in Harrisburg, machinery in York, and chemicals in Delaware.

**PERCENTAGE CHANGE
IN MANUFACTURING EMPLOYMENT
METROPOLITAN AREAS — 1949-1953**

Lehigh	+14.7
Harrisburg	+18.1
Lancaster	+ 7.1
Philadelphia	+14.4
Reading	— 6.6
Scranton	+15.1
Trenton	+ 7.3
Wilkes-Barre	+ 8.5
Delaware	+29.6
York	+21.2
Third District	+14.3

Employment changes in the Lehigh, Philadelphia, and Scranton areas were in line with the district pattern. In the Lancaster, Trenton, and Wilkes-Barre areas, employment increased but at rates considerably below that of the district. Reading was the only area where employment declined, largely because of its predominance of textiles.

Weekly hours of work

In 1949, industrial workers averaged 38.8 hours a week. In response to the rising tempo of business caused by the Korean conflict and the expanded national defense program, average working time rose to 40.0 hours in 1950, 40.3 hours in 1951, and 40.4 hours in 1952. In 1953 the work week receded to 40.2 hours.

Substantial differences prevail in the length of the work week among the various industries. Last year, when the district average for all manufacturing was 40.2 hours, rubber workers averaged 43.8 hours, which was almost 7 hours longer than that of apparel workers who averaged only 36.6 hours. Differences in the length of the work week from one industry to another reflect such things as differences in demand for their products, labor-management agreements, customs, and traditions.

Earnings of industrial workers

Hourly earnings of industrial workers in the Third District rose steadily during the past five

years. Earnings increased from an average of \$1.37 an hour in 1949 to \$1.74 in 1953, and all industries participated in the rising trend.

As might be expected, there was considerable disparity in the average hourly earnings in the various industries. In 1953, hourly earnings ranged from a low of \$1.19 in tobacco manufacturing to \$2.34 in petroleum and coal, which means refining and processing—not the extraction of the minerals. Hourly earnings in printing and publishing (\$2.19 in 1953) were also among the highest for all industry groups. Excepting petroleum and coal, printing and publishing, and rubber, hourly earnings were generally lower in the industries making nondurables than in the durable goods industries.

The disparity in average weekly earnings is greater than the differences in average hourly earnings. This is to be expected because average weekly earnings are a function of both time worked and the hourly rate. In 1953, when earnings averaged \$69.91 a week in all manufacturing industries of the district, workers in the tobacco plants averaged only \$45.74 in contrast with \$95.90, the average for workers in petroleum and coal. Workers in the industries making durables, generally, had higher average weekly earnings than workers in nondurables.

A concluding observation

The Philadelphia Federal Reserve District still has all of the natural advantages which contributed to its development as a great industrial area; however, in order to maintain its industrial position in competition with the newer industrial areas of the country in the South and West, this region, like other long-established industrial centers, is in constant need of modernizing its technology. In every industry the technology of manufacturing is always changing and as a consequence it is the newer industrial areas that are likely to be equipped with the latest machines and equipment, which intensifies the struggle for markets on the part of the manufacturers in older areas. This, no doubt, is an element in the relative decline of employment that some industries in the Third District have experienced during the past five years.

Manufacturers in the Philadelphia Metropolitan Area have made heavy outlays for plant expansion and modernization, as revealed by the annual surveys of this Bank. It remains to be seen whether modernization programs have been sufficient to hold our position in years to come when the competitive going gets rougher than it has been during the post-war years of rapid expansion and high levels of business activity.

A MIDYEAR REPORT FROM NEW-CAR DEALERS

The chart story on pages 10 and 11 of this Review illustrates some major trends in the automobile industry. Among the most striking developments revealed are: (1) The fact that production has been outrunning retail sales, and (2) list prices of new cars have held steady, while used-car prices have undergone a slump. Both of these factors put considerable pressure on new-car dealers. In an effort to determine how successful local dealers have been in coping with their problems, this Bank interviewed 52 new-car merchants in the various market areas of the Third Federal Reserve District.

About a year ago the backlog of new-car demand, accumulated during World War II and the period of restricted production following the Korean outbreak, was no more. "Immediate delivery," once a cherished goal of car dealers, suddenly became a reality—to a few dealers a disturbing reality.

The change in environment was brought into sharp focus this past winter. Price cutting, fantastic trade-ins, and free accessories were the order of the day near the end of the model season. Some dealers were forced out of business. In Philadelphia, for example, the new-car dealers association lists 132 agencies as compared with 165 agencies on December 31, 1952.

Over the early part of this year, new-car merchants had little relief from their troubles. Generally, three principal problems confronted them: (1) slower sales, (2) reduced profits, (3) burdensome inventories. As we turn into the second half of the year, a survey of new-car dealers in the Third Federal Reserve District shows the box score on these problems to be one down and two to go.

Inventories — not so burdensome

The one problem that new-car dealers say is pretty much licked has to do with inventories. Only four of the 52 dealers interviewed said that inventories were now a problem. This is not to say that dealers stock-to-sales ratios are just right. Most dealers are quick to point out that they still have a few too many cars on hand. The important point seems to be that a better understanding between manufacturers and dealers has been reached.

For example, in an effort to help dealers move their stock many manufacturers are offering bonuses and other incentive plans. In many cases these are flat bonus payments with no quota targets involved; so that the plans, which actually amount to price cuts from the manufacturer, enable dealers to bargain more persuasively with prospective buyers.

But perhaps more important than the special bonus and incentive plans set up, dealers report a better meeting of minds with producers. Until recently, many dealers felt they were expendable; that manufacturers unloaded cars on them without regard to their needs. Now, however, dealers feel that car manufacturers are fully aware of and sympathetic to their problems.

But sales still come hard

Frankly, one of the main reasons for this survey was to see whether we could catch a change in new-car sales as it was developing. It now seems that we misjudged; there was nothing there to catch.

Of course, new-car sales did improve some in late May and June, but more than two-thirds of those interviewed said that on a seasonal basis sales were disappointing. In addition, almost everyone agreed there was nothing about the new-car market in the spring buying season that suggested a change for the better in the second half of the year. Generally, the dealers who had a good spring were the same dealers who had enjoyed better-than-average demand in the previous months.

As a result, only about six of the 50-odd dealers surveyed felt that there would be a pick-up in new-car sales in the second half of the year. Most of them said that the first six months looked better than what's ahead. Automobile sales, historically, start falling off after the Fourth of July and keep dropping until the new models are introduced. This looks like a year in which this general rule will hold, according to the dealers.

Profits — honed to the bone

A first-quarter report of the National Automobile Dealers' Association revealed profits on operations at 0.8 per cent of sales. Last year, for the same period, profits stood at 4.4 per cent of sales. In addition to this, our survey revealed only three dealers of the 52 questioned who said that their profit margin per sale was as high as a year ago.

To point up the seriousness in the deterioration in earnings, half of the new-car merchants said that they would have to cut staffs and effect other economies unless profit margins were improved.

Conclusion

On balance, this report from car merchants in this area is not an optimistic one. Spring sales were not high enough to signal a turning point, and profit margins remain too thin; yet improvement in the inventory situation is encouraging.

CURRENT TRENDS

This is the season for mid-year forecasts. Of those that have appeared, the major theme seems to be "business will be better"—but not much better. A few, however, are skeptical. They think business may decline further before it improves.

The optimism of the "optimists" is apparently based on recent developments and underlying forces of considerable strength. Consumer demand for some durables is improving; new orders received by manufacturers have been increasing; industrial output recently turned upward; progress has been made in liquidating inventories; and the decline in defense spending is flattening

out. Continued strength in some sectors has helped to shore-up the depressed areas and sustain a generally high level of business activity. Total consumer spending has held up well and is supported by a stable level of income after taxes and a large and growing volume of savings. Construction has been running ahead of last year and business spending for plant and equipment is only a little below the all-time record of 1953. Construction and business spending too are supported by a large volume of purchasing power and an ample supply of credit available on favorable terms. The recent reduction in reserve re-

quirements, releasing about \$1.5 billion of bank reserves, makes available additional credit to meet both business and Treasury needs during the remainder of the year.

The pessimism of the “pessimists” reflects a measure of skepticism as to the significance of recent developments. The favorable tendencies may largely reflect efforts to hedge against adverse developments in Indo-China, concern over wage negotiations in the steel industry and other temporary factors. Then too, nonagricultural employment continued to drift downward, the drop in the adjusted index for May being the seventh consecutive month of decline, and there is no conclusive evidence that the inventory readjustment has been completed. The present situation, therefore, offers no definite evidence to the pessimists of new developments of sufficient strength to stir business out of the doldrums and initiate a sustained recovery.

It may be helpful in weighing these views and making our own appraisal of the outlook, to take a look at the nature of the slump which began in mid-1953. Two features are significant. It has centered in the basic durable goods industries,

mainly those which expanded most rapidly during the defense build-up from mid-1950 to mid-1953. The decline in demand for finished durable goods embraced consumers, producers, and the defense program; and the effect was magnified by a shift in inventory policy—from substantial accumulation to liquidation.

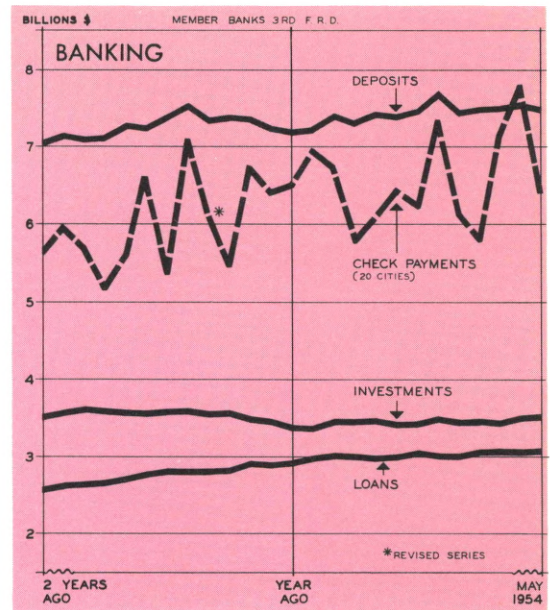
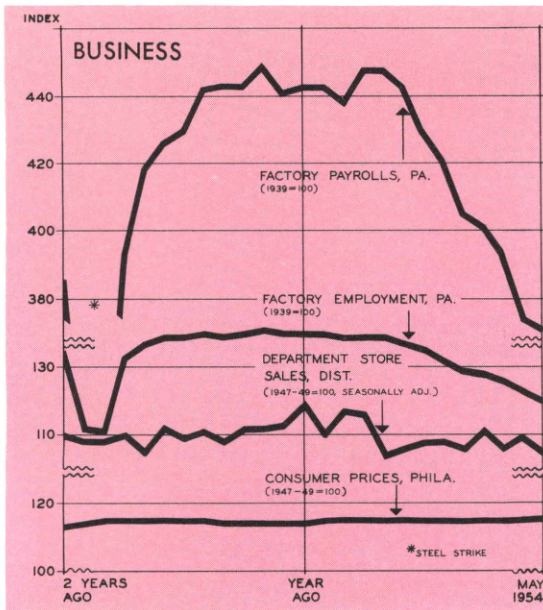
There are significant similarities and differences between the present slump and that of 1949. They are similar in that both centered in the manufacture of durable goods; both were accompanied by inventory liquidation; and in both total consumer spending held about stable. They differ, however, in that consumer and Federal Government purchases of durables, declined this time in contrast to an increase in 1949.

The recent flattening out of the decline in defense purchases, some improvement in consumer demand for durables and the gradual liquidation of inventories, indicate that the major down-pull forces are weakening. These developments together with continued strength in the sustaining forces indicate that on balance business activity should be stable or possibly better in the latter part of the year.



THIRD FEDERAL RESERVE DISTRICT

FOR THE RECORD...



SUMMARY	Third Federal Reserve District			United States			Factory*		Department Store		Check Payments	
	Per cent change			Per cent change			Employment	Payrolls	Sales	Stocks	Per cent change	
	May 1954 from		5 mos. 1954 from	May 1954 from		5 mos. 1954 from	Per cent change May 1954 from	Per cent change May 1954 from	Per cent change May 1954 from	Per cent change May 1954 from	Per cent change May 1954 from	
	mo. ago	year ago	year ago	mo. ago	year ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
OUTPUT												
Manufacturing production...	-1*	-18*	-15*	0	-9	-9						
Construction contracts‡	0	+19	+15	+2	+18	+11						
Coal mining	-1	-31	-20	+5	-25	-17						
EMPLOYMENT AND INCOME												
Factory employment	-3*	-14*	-11*	-1	-11	-8						
Factory wage income	-1*	-16*	-12*									
TRADE**												
Department store sales	-4	-12	-5	-4	-9	-5						
Department store stocks	+1	-5		+1	-5							
BANKING (All member banks)												
Deposits	-1	+4	+3	0	+5	+4						
Loans	+1	+5	+6	+1	+2	+3						
Investments	0	+4	0	+2	+9	+4						
U.S. Govt. securities	0	+4	-1	+2	+10	+4						
Other	+3	+5	+2	0	+6	+5						
Check payments	-17‡	-1‡	+7‡	-3	+5	+8						
PRICES												
Wholesale				0	+1	+1						
Consumer	0†	+1†	+1†	0	+1	+1						

LOCAL CHANGES	Factory*		Department Store		Check Payments					
	Employment	Payrolls	Sales	Stocks	Per cent change					
	Per cent change May 1954 from	Per cent change May 1954 from	Per cent change May 1954 from	Per cent change May 1954 from	Per cent change May 1954 from					
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago				
Allentown...	-1	-9	-2	-16			-11	-6		
Harrisburg...	-4	-11	-1	-21			-13	-9		
Lancaster...	-1	-4	+3	-4	+8	-11	-7	+3	-7	-3
Philadelphia...	-3	-11	0	-11	-7	-10	-1	-2	-23	-2
Reading...	-1	-10	+2	-16	-4	-15	-2	-6	-7	-8
Scranton...	-1	-4	+4	-6	+7	-5	-2	+12	-6	-8
Trenton...	-2	-17	-1	-23	-15	-21	-8	-17	+12	+1
Wilkes-Barre...	-4	-12	+3	-13	-1	-11	-2	-13	-7	-4
Wilmington...	-1	-8	0	-5	-9	-9	-3	-7	0	+12
York...	-2	-4	-2	-7	-7	-22	-5	-11	-7	-2

*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.