

DECEMBER 1954

business review

FEDERAL RESERVE
BANK OF
PHILADELPHIA

1955? CONSULT THE CONSUMER

The consumer is back in the driver's seat. His spending in '54 partially made up for cutbacks in business and government outlays. In 1955 he may drive the economy to higher levels.

PERSONAL INCOME AND SPENDING

What happened to consumer income and spending in '54 is shown by two pages of charts.

CURRENT TRENDS

Manufacturers' new orders are increasing, backlogs stabilizing. Inventory adjustments are becoming more selective.

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1955? CONSULT THE CONSUMER

1955 will be several months old before the bookkeepers can give a final tally on 1954. But it isn't really necessary to wait until the final returns from all economic precincts are in; we know about what the record will show. It will show that 1954 was not the best of times; but it was second best—and who made it so? The consumer. The steak-eating, tax-paying, car-buying consumer. The man who works and votes and walks the family dog. The man who rules in our democracy and is overruled by no one but his wife.

Consumers spent more money in 1954 than ever before, and that's what made business so good as it was. Businessmen, who buy a lot of things and services from each other, were just a little cautious this year. They were very cost-conscious, held on to the reins tighter, had to be convinced before they spent any money. They bought hand-to-mouth and sold off-the-shelf as much as they could.

Uncle Sam, always a big operator, is the biggest single customer that business has. He,

too, was economy-minded. His biggest bills are for national defense, and on that he really clamped down hard. Business felt it.

It is not to be assumed that the consumer dished out his money like a spendthrift. On the contrary, he also did some economizing, particularly in the purchase of hard goods. He scrutinized products and their price tags carefully, and to many an eager salesman approaching him hopefully for an order he said, "I'm just looking." But he didn't overlook any bargains, and sure enough there was so much that he needed and wanted that he bought more than ever.

The question uppermost in many minds is, what about 1955? We have consulted many businessmen — bankers, farmers, manufacturers, and merchants — and the predominant opinion is that 1955 will be better than 1954. If so, where will the business come from? Businessmen themselves are still treading cautiously and so is Uncle Sam. Consequently, if business is to rise above current levels it must come from more spending by state and local government and more spending by consumers. Most of the "more" is up to the consumer.

Where We Are and How We Got There

The casual reader, wandering through the wilderness of business statistics, is likely to get upsy-downsy dizziness. Perhaps this can be avoided with the aid of a somewhat over-simplified chart designed to portray all business activity. The bars show the country's total output of goods and services, including Government services. The bar on the left presents business at its all-time peak in the second quarter of 1953; the middle bar is the latest picture, and the one on the right indicates what may happen next year. Don't worry about seasonality; the sketch has been properly doctored to take care of that.

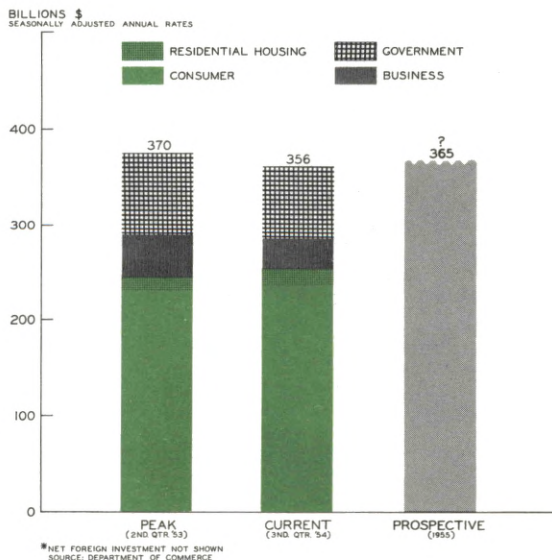
If it seems strange that total business activity should be represented by blocks of expenditures, remember that in a money economy like ours practically everything is produced for sale. Therefore total production equals total spending. Moreover, it is easier to analyze the situation in terms of expenditures.

How much business activity declined since the peak of last year is indicated by the difference in the height of the bars. Spending, or the production of goods and services—whichever way you want to look at it—declined from a seasonally adjusted annual rate of \$370 billion to \$356 billion. That is a drop of \$14 billion, or a 4 per cent recession. It was a mere ripple in comparison with the 46 per cent recession in the 1929-1933 period.

Differences in the sizes of the blocks show changes in rates of spending by major groups—the consumers, businessmen and governmental bodies. Since the peak of last year, consumers made no cutback in their total money outlays; nor did residential construction decline. On the contrary, expenditures in both areas increased. The 4 per cent recession originated primarily in business spending and government spending.

The place where businessmen cut down the hardest on expenditures was on inventories. In the spring of 1953, businessmen were laying up inventories to the tune of \$5 billion a year or a little better. In the latest quarter they were drawing down inventories to the tune of about \$5 billion a year. Thus the shift from accumulation to liquidation of inventories was a \$10 billion drag on business activity. A minor element was the fact that businessmen also made slight cutbacks in their outlays for plant expansion and modernization of equipment. Most of the change, however, was caused by the complete turnabout in inventory policy. In fact, the situation is similar

TOTAL SPENDING*



to what happened in 1948-1949, which is commonly referred to as an "inventory recession."

Government spending also has receded since the 1953 peak—not state and local government expenditures, for they continued to grow, but Federal Government outlays have been trimmed substantially. The reason: national defense. Federal Government purchases of goods and services on national security account have been reduced by \$12 billion since the spring of 1953. Expenditures for purposes other than national security have been reduced somewhat in excess of \$2 billion. Expenditures by state and local governments, however, are currently running at an annual rate of over \$3 billion above the spring of 1953 outlays. The net result is a decline of \$11 billion for all government expenditures.

So here we are, with a national economy employing 62 million workers producing at the rate of \$356 billion of things and services. Wage rates are high, profits good, prices steady. Brand-new

1955 cars made an early debut, color television for the mass market is promised by Christmas, and the stock market is "ticker happy." Business inventories are still on the decline, and the pile of butter, cotton, peanuts, and other Federally supported farm products is still on the increase.

WHERE DO WE GO FROM HERE?

Two of the pleasures of living in a democracy are that anyone can write a business forecast, and no one has to read it. Two of the things that discourage us from making a forecast are that so much depends on the consumer and there are so many of them.

At the Department of Commerce in Washington there is a population clock that ticks off a birth every eight seconds, tolls out a death every 21 seconds, registers the arrival of an immigrant every two minutes, and the departure of an emigrant every 24 minutes. The net gain is one individual every 12 seconds. So by this time next year there will be 2,628,000 more people around—the equivalent of another Philadelphia and five Wilmingtons on the Delaware. That is the basic force that keeps business expanding.

Consumer spending

The chart shows plainly that consumer spending is the lion's share of all spending. At present it is 66 per cent of the total. In times of war, as in 1944, it goes as low as 52 per cent. In times of peace, or peace as we know it, the consumer proportion of total spending hovers between 65 and 70 per cent.

Since no one knows how the consumer will behave, all we can do is to look at his recent behavior and seize upon every available shred of evidence as to his intentions. First, let's pry into the consumer's spending habits. Currently, the consumer dollar is being spent like this: 52 cents for nondurables, 36 cents for services, and 12

cents for durable goods.

Fortunately for business, the biggest category is nondurables. It consists of food, clothing, smokes, gas for the family car, medicine from the drug store, and things innumerable for which Pop must reach into his pocket whenever the delivery man knocks at the door. Household inventories of such things are usually small, replacement is frequent, and demand is continuous. For nondurables, consumers are currently spending at the rate of \$121 billion a year. It doesn't fluctuate much and it has an almost inevitable tendency to creep ever higher.

Services are such things as rent, doctor bills, entertainment, education, laundering, TV repairs, light and water, permanent waves, and baby sitting. The record shows that consumers are constantly spending more for services—it takes a lot of dough to straighten junior's teeth, to send him through college. Spending for services currently is at the rate of \$85 billion a year, and spending for services has a tendency to grow larger at a rate slightly faster than creeping. It grows on the double-creep.

The 12-cent item for durables looks like a lone little statistic, good only as a filler to make the total come out to a hundred. But not so. It is the frosting on the cake. It is the motor car with 200 horsepower; the TV with a 24-inch screen; the self-winding wrist watch; the self-defrosting refrigerator. This is the area where consumers are least predictable in their spending.

Currently, consumers are spending at the rate of \$29 billion a year for durables. In the spring of 1953 it was a shade over \$30 billion a year, and by the fourth quarter of 1953 it had dropped to a \$28 billion rate. The decline was one of the reasons why manufacturers had to reduce hours of work and lay off some factory workers.

Changes in total spending for durable goods are

reflected mainly by fluctuations in purchases of new automobiles. Domestic registrations of new passenger cars may reach 5.3 million this year compared with 5.7 million last year and a record 6.3 million in 1950. Automobile purchases, which were lagging a bit in late 1953 and early 1954, picked up in the spring. To help themselves and to lure the consumer, manufacturers made substantial changes in the design of their 1955 models, which were brought out somewhat earlier than usual. Manufacturers are geared for a big year but it is too early to say whether consumers are excited enough about the new offerings to buy all the cars that the industry is prepared to offer. Dealers are in better shape—their stock of old cars is only about half of what it was when new cars were introduced last year.

The outlook for sales of automobiles and major household appliances is better than it was a year ago or even a half year ago, according to the latest report of the Survey Research Center at the University of Michigan. About eight out of nine of the families interviewed in October expected that they would be as well or better off financially next year than in 1954, and a larger number than in previous surveys felt that “this was a good time to make purchases because of lower prices.”

Living below the index

The all-commodity index of consumer prices that portrays the cost of living shows practically no change for over a year. In recent months, it has yielded a few decimal points in favor of the consumer—but only with great stubbornness. Decreases in the cost of food and transportation are largely nullified by increases in other items like rent and medical care.

Consumers are shopping around. For air conditioners, household equipment, automobile tires, and other such durables, many of them go to one

of those places where they get a discount for cash-and-carry. Discount houses, according to a press report, are said to be doing 18 per cent of all retail trade. That may be a generous estimate, but discount houses are flourishing. Recently, a leading manufacturer of electrical products gave his distributors the privilege of setting their own retail prices for the company's products.

The wherewithall for spending

Consumer spending is at least primarily dependent on disposable income. Therefore it is significant that in the post-war period disposable income has been well maintained through two recessions—in 1949 and in 1954. The charts on pages 8 and 9 show the way that disposable income was maintained over the past year.

The influence of disposable income on spending produces its full effect only after a period of time. This lag means that next year's spending is partly determined by today's earnings. Thus the recent stronger trends in employment, wages, and hours seem to foreshadow some strengthening of consumer demand.

In addition to income, consumer liquid-asset holdings influence consumer spending. A large store of savings generates confidence and causes people to buy with less hesitancy. It is of course difficult to measure the adequacy of liquid savings. Such questions as who holds what type of asset must go unanswered. But a straight comparison between liquid-asset holdings and disposable income suggests that consumers are a little better fortified. At the beginning of 1954 the stock of liquid savings of consumers approximated 82 per cent of disposable income. Consumers will step into 1955 with liquid assets valued at 86 per cent of disposable income.

On the other hand, debt obligations influence spending also. Total contractual payments on

mortgage and instalment debt, life insurance policies, property taxes, and rent tend to pinch spending on current consumption. The total of these payments will probably be somewhat more burdensome at the beginning of 1955 than was the case in 1954. This factor will at least partly offset the higher level of liquid assets.

On the basis of the foregoing analysis and evidence, there is a pretty good probability that consumers will continue to increase their spending. In the third quarter of this year, total consumer spending was at an annual rate of \$235 billion—\$4 billion above the third quarter of 1953. Increased spending at this rate may be expecting too much, but some further expansion is expected.

RESIDENTIAL HOUSING

Money spent for new housing is really a special form of consumer spending. It is investment spending and is shown by the second layer of blocks in the chart. Though it looks like a little slice, spending in this category amounted to an annual rate of \$12 billion in the spring of 1953.

Perhaps the biggest surprise of 1954 was the extremely strong showing made in the construction of residential housing. It now appears certain that new housing starts in 1954 will exceed every year except 1950. This means the United States economy has turned in its sixth consecutive year of a million or better housing starts. But it has not been always thus.

In 1933 we had just 93,000 new housing starts; in fact, over the entire decade from 1931 to 1940 just 2¾ million houses were built. At the outset of 1954, analysts were busy pointing out the decline in the rate of household formation. This drop presaged a decrease in housing starts, they said. They were wrong, and probably the biggest factor they overlooked was the influence that a plentiful supply of mortgage money would have.

Mortgage money was tight in much of 1953, and the demand for housing seemed to be shrinking as we entered 1954. But the easing of money rates generally and the reduced pressure for business and instalment loans all went to produce a flood of mortgage money.

What about the year to come? The number of marriages and consequently the rate of household formation is still declining. In addition, the stimulus given by the abundance of mortgage money is more than a year old. Then, too, we have built about 7 million houses over the past six years. These factors would seem to indicate that 1955 might not be a good year for residential construction. But housing starts in 1955 are generally expected to exceed 1954 and approach, if not equal, the record set in 1950.

The main reasons cited by those who make this prediction are the new housing act, high income levels, and the growth and movement of population. The Housing Act of 1954, effective August 2, liberalized down-payment requirements—cutting them by percentages ranging from 20 to 52 per cent. This permits people to buy homes who were not able to raise the down payment before. It also lets a homeowner move to a bigger house—he gets more house for the same down payment.

Construction of new housing at the current rate throughout 1955, to take a conservative point of view, should be very good. But people in the industry say they will do even better. They might be right.

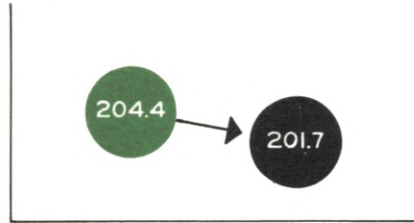
INVENTORIES AND INVESTMENTS

Now we come to the businessman. He is one of his own best customers. Business expenditures for inventories and new investments in plant are represented by the third tier of blocks in the chart. Such expenditures have declined from an

Continued on page 10

PERSONAL INCOME AND SPENDING REMAINED HIGH IN 1954

BILLIONS \$



1. Declines in employment and weekly hours worked caused a reduction in *total wage and salary payments*

BILLIONS \$



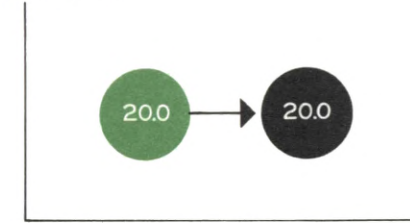
4. And *transfer payments*, reflecting stepped-up unemployment compensation outlays, were up from a year ago

BILLIONS \$



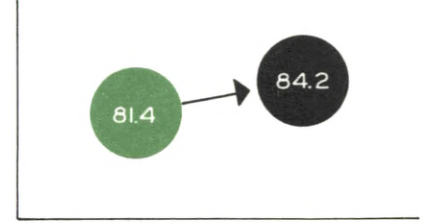
6. The *tax bite* this year was smaller, primarily because of a cut in the income tax rate

BILLIONS \$



8. People *saved* about the same amount this year . . . but spent on different things

BILLIONS \$

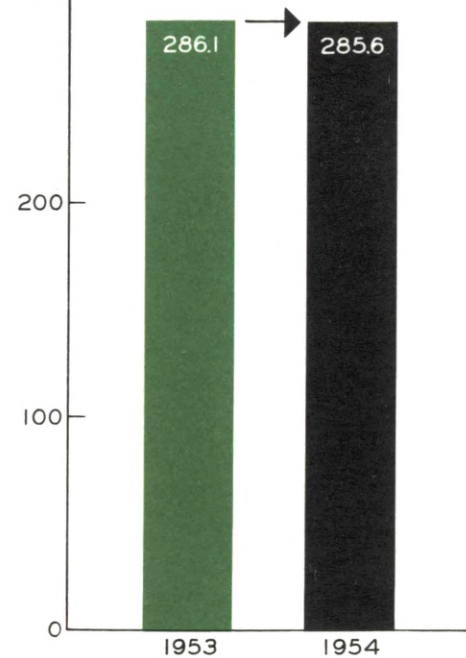


11. And spending for *services*—rent, medical care, recreation, travel, and the like—was nearly \$3 billion higher



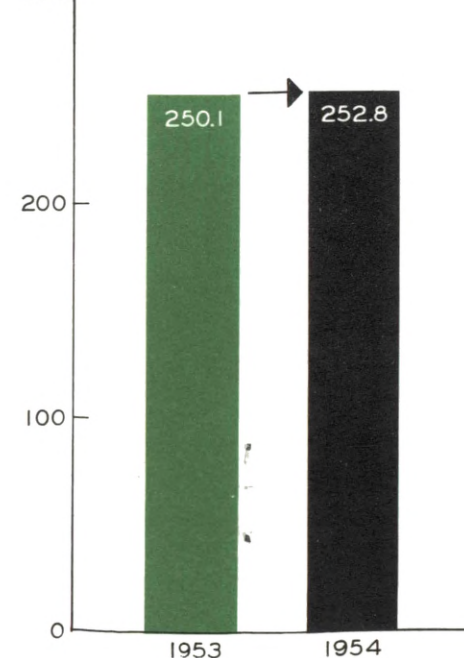
2. Income going to *farmers and other business owners* was also down somewhat

300

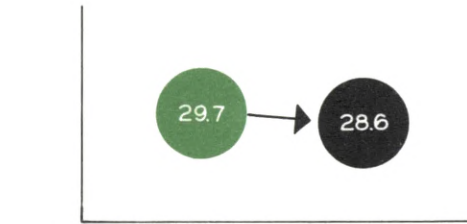


5. So that total *personal income* was nearly as high as it was in 1953

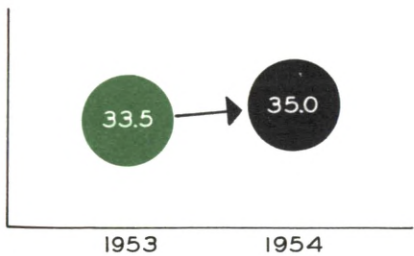
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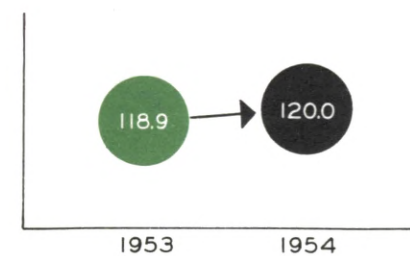
7. This means that personal *disposable income*—income after taxes—was actually higher than last year



9. Spending for *durable goods* was down this year, reflecting mainly smaller outlays for automobiles

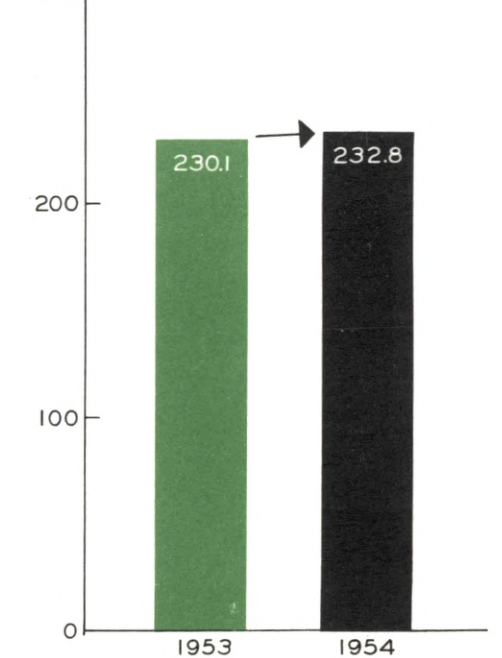


3. But *dividend, interest, and rental income* was higher than in 1953



10. Spending for *nondurables*—largely food and clothing—was up enough to offset the dip in spending for durables

300



12. So that total *consumer spending* was at a higher level than in 1953 when total business activity hit an all-time peak

annual rate of \$44 billion in the second quarter of 1953 to \$31 billion in the third quarter of this year. Inventory liquidation, as already mentioned, has been one of the chief causes of the decline in business activity.

Inventories

Inventory changes exert a powerful influence on business, and inventories are always changing. They are the total stock-in-trade of business. Some are in the warehouse as bags of wool awaiting scouring; some are on the spinning frames becoming yarn; some are on the loom in process of becoming cloth; some are on the cutting tables of the needle trades; and some are in the show window as finished suits for the consumer to gaze upon and perchance to buy. Minerals dug out of the earth, fruit and fiber harvested on the farm, things hauled by the railroads and truckers are somebody's inventory and remain so in one form or another until the final customer says, "I'll take it." Then the goods cease to be business inventories and become consumer inventory, but there are no records of consumer inventory.

The money tied up in inventories is tremendous. Inventories are influenced by every purchase, by every sale, by every business decision. The business indicator labeled "inventory changes" is one of the twitchiest instruments on the business dashboard. Such changes are also the hardest to predict.

Inventory liquidation naturally has a depressing effect on business and the process has been going on longer than most people expected it would. Since the process of liquidation slowed between the first and second quarters of this year, it was thought that the end was almost in sight. But sure enough the third-quarter report showed an accelerated rate of inventory liquidation, only to confound the experts. Now what? Here again we must go groping for light.

In our September survey of capital expenditures, we asked manufacturers in the Philadelphia metropolitan area this question: "Except for seasonal changes, do you plan to increase, maintain, or decrease inventories in the near future?" About 79 per cent said they were planning to maintain inventories at the levels then prevailing. Nearly 5 per cent planned increases and about 16 per cent, decreases. Since the number planning decreases outnumbered those planning increases three to one, it doesn't look any too good. Subsequently, however, there has been a noticeable change for the better in the business climate.

The Federal Reserve Board's index of industrial production is picking up. Increased orders for major industries during October and November helped to confirm the opinion that inventory depletion is braking to a halt and that some producers are beginning to re-stock. Moreover, according to a recent survey of the National Association of Purchasing Agents, inventories of "purchased materials" have about reached bottom. Another favorable sign is the growing backlog of new orders in the steel industry, together with increased activity in steel production.

While there is no indication of a big rebound from liquidation to accumulation, a mere slowdown or cessation of inventory liquidation would have a favorable effect on business. Cessation of inventory liquidation at the third quarter rate of about \$5 billion would indeed have a salutary effect, and it is entirely in the realm of possibility before long.

Business investment spending

Capital outlays for plant expansion and modernization of equipment have been running very heavy ever since the end of World War II. This rising trend was interrupted only twice—in 1949 and this year. Investment in plant and equipment hit

a peak of slightly over \$28 billion in 1953, and this year it will be approximately \$26.5 billion. It is rather generally expected that such outlays will continue to diminish next year.

Our survey among manufacturers in the Philadelphia metropolitan area, reported in our November *Business Review*, definitely shows a declining trend. Utilities and railroads in this area, however, plan to spend just about as much as they did this year. According to estimates of the Department of Commerce and the Securities and Exchange Commission, business expenditures on plant and equipment during the current quarter are 9 per cent below the year-ago level and about 3 per cent below the estimated 1954 average. The McGraw-Hill survey conducted in October indicates that manufacturing concerns will reduce expenditures in 1955 by 7 per cent below investments made this year, and all industries are planning to reduce capital outlays 5 per cent in 1955.

Faith in all the drooping forecasts of capital expenditures is already tinged with suspicion as a result of the recent upturn in new orders, inquiries, production, and sales. Seers with extra-long vision now think they foresee a possible upturn of capital expenditures by 1956 and possibly as early as late in 1955. This opinion is supported by the editors of *Fortune* in their report on prospective capital expenditures.

On the basis of known facts and appraised prospects, total spending by businessmen ought to give business a lift next year. Smaller outlays for plant and equipment are likely to be more than counterbalanced by larger outlays for inventories.

GOVERNMENT EXPENDITURES

All government spending in the third quarter of this year was running at the annual rate of \$76 billion. As such it was the second largest block,

accounting for 21 per cent of total expenditures for goods and services. It is apparent, therefore, that government purchases of goods and services exert a large influence on the course of business.

Between the second quarter of 1953 and the third quarter of this year, government expenditures declined \$11 billion but it is unlikely that the trend will continue at this rate. Because expenditures by the Federal Government differ in amount, purpose, and trend from those made by state governments and their subdivisions, the two should be considered separately.

Federal Government expenditures in the third quarter of 1954 amounted to an annual rate of \$48 billion, and \$42 billion of that was for national security. Since the cessation of fighting in Korea, expenditures for national security have been on the decline. National security outlays have been cut back by \$12 billion since the second quarter of 1953, but it is unlikely that further large reductions can be made. We are still living on the fringe of peace, and the maintenance and obsolescence costs of the machinery of national security are enormous. While outlays for national security are still on the decline, it is believed that they cannot drop much further. In this connection, Secretary of Defense Wilson has revealed that no further substantial reduction in defense spending from current levels is planned for fiscal 1956.

State and local government expenditures, running just a little short of \$28 billion a year in the third quarter of 1954, were in excess of \$3 billion higher than the rate of expenditures in the second quarter of 1953. The long-run trend is upward.

A substantial part of state and local government outlays comes under the category of education and transportation, and little or no decrease in the rising trend of expenditures is in sight in either of these categories. Despite all the con-

struction of school facilities in the post-war period, overcrowding is still with us. We now have a great many more children of school age, between six and seventeen, and a good many more will be crowding into this age group because of the high post-war birth rate. Overcrowding on the highways is almost as bad as in the schools and hospitals. The number of motor cars on the highways has increased from 28 million in 1946 to 48 million today. The number is expected to reach 60 million by 1960. Then where will you park?

Prospective government spending in 1955, therefore, looks like this: some decline in Federal outlays and further increases by state and local government, with increases of the latter greater than decreases of the former.

COURAGE WITH CAUTION

Analysis and examination of each of the major areas of spending lead to the conclusion that business should expand moderately beyond current levels. The \$365 billion with a question mark is placed on the chart not to convey the idea that spending will hit that mark but to convey to the reader what we mean by moderate. It is based on the expectation of increased consumer spending, continued residential construction at present levels, some expansion in business spending, and a slight over-all increase in government spending. An expansion from the third-quarter level of spending to \$365 billion would be a little short of 3 per cent.

CURRENT TRENDS

Business in the fourth quarter seems to have justified the mild optimism that has been spreading since early fall. Employment in most lines has been steadier and in some cases has even increased moderately. Construction is still booming, home-building being unusually active for this time of year. Consumers seem to be spending more readily, particularly since the new-model cars came out. Merchants are getting set for a big—probably a record—Christmas season.

This is the general atmosphere in which business analysts are making their predictions for 1955. Like the preceding article, the typical forecast is relatively optimistic. But most forecasts are necessarily made in broad and sweeping terms. In an attempt to get somewhat more specific, we have made a brief spot check among selected

manufacturers in the Third Federal Reserve District to uncover some tangible evidence of the heralded upturn. Specifically, we asked manufacturers what was happening to their new orders, their backlog of orders, and their inventories.

Manufacturers are more hopeful

In general, these manufacturers appear more hopeful than they have been for a long time. This better feeling stems primarily from recent increases in new orders and indications that backlogs are stabilizing instead of declining. Prospects are further brightened by the fact that in most instances inventories have been worked down to levels more nearly in line with sales.

New orders have increased on a broad front during the fourth quarter; they were declining

in the same period last year. Civilian demand accounts for the improvement in nearly all lines. Significant gains in defense business are limited to a relatively few producers turning out materials used widely in the aircraft industry.

Manufacturers of construction materials credit the continued high level of building activity with the substantial rise in orders during the third and fourth quarters of this year. Manufacturers of automobile bodies call attention to the sharp rise in business since the model change-overs in the automotive industry. Manufacturers of pharmaceuticals have experienced unusually heavy pre-season ordering. Current demand for plastics, industrial chemicals, and synthetic yarns, including rayon staple and tire yarns, is improving. Business is picking up in some lines of power transmission and industrial handling equipment. Commitments for various electrical products have risen and comparisons with a year ago are increasingly favorable.

Backlogs in most lines have been holding up fairly well for the past two months. They have increased in only a few instances and are above year-ago levels in construction materials, shipbuilding, and some types of steel. Nevertheless, most manufacturers appear to feel that they have reached a turning point; that their unfilled orders are stabilizing near last fall's level; and that the practice of hand-to-mouth ordering is becoming less prevalent. Some producers are counting on a larger volume of Government orders to bolster backlogs in coming months. Most of them believe that with returning confidence, civilian customers will gradually extend the period for advance commitments.

Inventory liquidation on an over-all basis appears to be giving way to selective adjustments designed to achieve better balance among stages of fabrication. Most manufacturers indicate that

total stocks are below year-ago levels both in absolute amount and relative to sales. In recent months, inventory policies have varied widely from industry to industry; previously almost all manufacturers were attempting to reduce total holdings as rapidly as possible.

WITH THE MERCHANTS

October 1954 sales at department stores in the Third District were just a shade under last year's dollar volume. Stocks on hand plus outstanding orders at the end of October were just a shade over year-ago levels. New orders placed with suppliers, however, were sharply higher than in October 1953. Apparently, merchants are preparing to go over the top this Christmas season.

Only a few manufacturers, including those making certain types of machine parts and electrical products, plan further across-the-board inventory reductions. Even these are to be of moderate proportions. Stocks in one stage or another have continued to decline slowly since the early fall in some lines of machinery, synthetic textile yarns, plastics, and chemicals. But in petroleum refining, construction materials, and full-fashioned hosiery, earlier control measures have largely accomplished the desired results and current stock levels may be maintained.

Not many manufacturers plan over-all inventory increases. About the only exceptions are producers of pharmaceuticals, who have been in the process of re-stocking to higher working levels consistent with the seasonal nature of their business. Manufacturers of automobile bodies, however, are receiving more releases to buy steel since the automotive industry moved into high gear with 1955 model output. And selective inventory increases also are in progress or pending by firms making various types of metal products having long-lead times.

Business loans still below a year ago

Time may bring evidence of an upward turn in the inventories of manufacturers, but any restocking to date has been scarcely sufficient to have a pronounced effect on total business borrowing from commercial banks. The financing of inventories and receivables is a traditional field for the extension of bank credit, although businessmen borrow for many other reasons. It was more than chance that business loans—commercial, industrial, and agricultural—of banks in leading cities of the country declined 9 per cent over the year ended September and that total business inventories, reported by the United States Department of Commerce, decreased over 5 per cent. Interrelationship is further suggested by the fact that in both instances—inventories and loans—the declines were especially pronounced in the case of metals, machinery, and transportation equipment producers. In late months, business loans have been moving upward but much of the increase nationally has been due to recent purchases of certificates of interest in Commodity Credit Corporation loans.

Trends in the commercial, industrial, and agri-

cultural loans of banks in leading cities of the Third District have been quite similar to those in the national figures. The decline from the fall of 1953 to August 1954 was not so sharp as nationally but there were similar interruptions over the March and June income tax periods. The net increase after early August also was due in part to the purchase of CCC paper, with loans to manufacturers in the food and tobacco group, commodity dealers, and trade also contributing.

On the first of December, weekly reporting banks in this district had \$895 million of business loans, a decrease of approximately 4 per cent from a year earlier. Increases in other loans, including real-estate and security paper, were sufficient so that total loans to others than banks increased \$60 million over the 12-month period. Seeking additional outlets for their funds, the reporting banks increased their investments by \$234 million, dividing this increase rather evenly between Federal Government issues and other securities—mostly obligations of states and political subdivisions. With these additions, the total of their outstanding credit shows expansion of about 10 per cent over the past year.

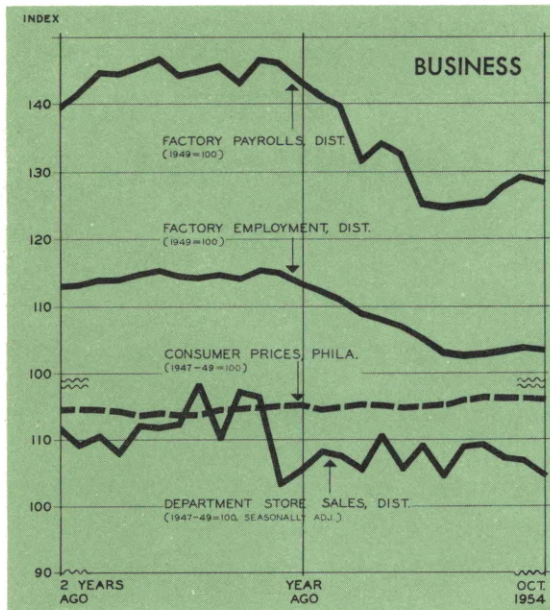
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APRIL	Magic Carpets Capital Spending Plans Survive Inventory Liquidation
MAY	Southeast Asia — Some General Economic Problems of the Area A Note on Consumer Spending on Services
JUNE	The Delaware River Water Controversy Business Activity Since Spring 1953 Third District Homebuilders Are Optimistic — But Cautious
JULY	Manufacturing in the Federal Reserve District of Philadelphia The Automobile Industry
AUGUST	The Branch and Merger Movement in the Third Federal Reserve District Fixed Costs of Living New Industrial Statistics
SEPTEMBER	The Branch and Merger Movement in the Third Federal Reserve District Banking Developments — Third District
OCTOBER	Competition in Nylons A New Department Store Sales Release 1954 — A Problem Year for Third District Farmers
NOVEMBER	Industry Charts the Future The Branch and Merger Movement in the Third Federal Reserve District
DECEMBER	1955? Consult the Consumer

FOR THE RECORD...



SUMMARY

	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	October 1954 from		10 mos. 1954 from	October 1954 from		10 mos. 1954 from
	mo. ago	year ago	from year ago	mo. ago	year ago	from year ago
OUTPUT						
Manufacturing production...	-1	-12	-14	+3	-5	-9
Construction contracts*	-5	+27	+21	-1	+5	+11
Coal mining	0	-23	-23	+10	-8	-17
EMPLOYMENT AND INCOME						
Factory employment (Total)...	0	-9	-9	0	-7	-8
Factory wage income	-1	-11	-12			
TRADE**						
Department store sales	-2	-2	-4	+6	+2	-3
Department store stocks	-1	-5		-1	-3	
BANKING (All member banks)						
Deposits	+1	+6	+4	+2	+6	+4
Loans	+1	+6	+6	+1	0	+2
Investments	+2	+9	+2	+4	+14	+7
U.S. Govt. securities	+2	+7	+1	+4	+14	+7
Other	+1	+17	+7	+1	+12	+7
Check payments	-2†	-3†	+4†	+2	+2	+7
PRICES						
Wholesale				0	0	0
Consumer	0‡	+1‡	+1‡	0	-1	0

*Based on 3-month moving averages.

**Adjusted for seasonal variation.

†20 Cities
‡Philadelphia

LOCAL CHANGES

	Factory*				Department Store				Check Payments	
	Employment		Payrolls		Sales		Stocks		Per cent change	
	Per cent change		Per cent change		Per cent change		Per cent change		Per cent change	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown...	0	-11	+1	-15					0	0
Harrisburg...	-1	-14	0	-20					-2	-5
Lancaster...	0	-5	-2	-2	+9	-2	+10	-1	-2	-4
Philadelphia...	0	-9	0	-9	0	0	+11	-3	+2	0
Reading...	+1	-7	0	-12	+4	0	+11	-5	+6	+1
Scranton...	-1	-6	-1	-8	+10	+1	-2	-1	-3	-8
Trenton...	+1	-9	+1	-5	+3	-1	+2	-6	-13	-5
Wilkes-Barre...	-2	-9	-3	-12	-6	-10	+12	-11	+3	-10
Wilmington...	-4	-8	-3	-5	+2	-4	+5	-5	-30	-15
York...	-2	-8	0	-11	+14	-8	+7	-8	-5	-13

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