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THE BRANCH AND MERGER MOVEMENT IN THE THIRD FEDERAL RESERVE DISTRICT

This article, fourth in a series, deals with the most important, but most difficult, question of all: What are the motives behind bank branches and mergers?

"EXTRA" RECEIPTS END NEXT JUNE

The President's budget document has been released. This article is about one problem budget makers faced.

CURRENT TRENDS

The Christmas buying season was "tops" for Third District retailers.

THE BRANCH AND MERGER MOVEMENT

in the Third Federal Reserve District

This is the fourth article on bank branches and mergers to be published in the Business Review. *The first, presenting the general background, appeared in August. The second, in September, described the nature of the movement. The third, in November, discussed legal provisions and terms of mergers. This article analyzes reasons behind the branch and merger movement.*

PART IV: MOTIVES BEHIND BRANCHES AND MERGERS

The first question everyone asks about the branch and merger movement is, "Why?" This is undoubtedly the most important question to ask, but unfortunately the hardest to answer. Anyone who has followed current developments at all closely could list half a dozen reasons. The difficulty comes when you try to weigh their importance and organize them into a consistent pattern. No two cases are exactly alike; even in a given situation a number of interrelated motives are usually at work. Statistics may uncover some of them, and we shall draw on facts presented in our previous articles whenever they may be useful. But usually motives can't be reduced to statistics; sometimes they are based on hunch, prejudice, or emotion; and non-economic considerations may be as important as economic.

We have tried, therefore, to go beyond the facts to get opinions and judgments. In the following pages we are largely relaying what we have been told by bankers participating in the branch and merger movement. The reader is warned at the outset, however, that he will not find his question answered in one-two-three order; nor can he fit the analysis to any specific situation. We shall be dealing in broad terms and general principles.

It is an obvious generalization, for example, to say that branches and mergers are simply a method which bankers have chosen to solve some of their problems. But it is a helpful approach, for as you look at the branch and merger movement a hazy line emerges, separating these problems into two main groups: deep-seated problems arising from *basic* forces at work in the economy, and the more superficial problems of the moment.

Basic forces at work

If anyone doubts the often-repeated statement that we live in a dynamic economy, he should ask a banker. The banker need not be more than middle-aged to be able to look back on several fundamental changes in the environment in which he does business. He knows from experience that he must adjust to these changing conditions. If he adjusts successfully, he is rewarded; if not, he is penalized. In our profit system, rewards and penalties are expressed in dollars and cents. In the long run, banks must meet the needs of the community if they are to survive and prosper.

Over the past few decades the economic environment in which banks operate has changed in at least three closely related ways. One is quantitative—a tremendous growth in size. A second is qualitative—important shifts in the nature of the economy. And a third is locational—the growth and decline of various areas. Let's look at these basic forces more closely.

Quantitative changes. In the past 25 years alone the dollar volume of goods and services turned out by our economy has tripled; even after allowing for price increases, output has doubled. This, of course, has meant more business for banks, and banks have expanded to take care of it. But at the same time the number of business concerns in operation has increased by only about one-third. With the volume of business growing faster than the number of businesses, the long-run trend has been toward larger and larger business units. Bankers regard this as a trend requiring larger banks.

In some ways the argument is not so strong as it once was. As you read back through books written in the 1920's, for example, you find it used as a major argument for branch banking. Since the early twenties, however, the number of banks has been cut in half. The average bank today is five times as big, in terms of capital and surplus, as it was then—meaning that it can lend much more to an individual borrower. Also, business now finances more of its needs from internal sources and can turn to institutions other than banks if it needs outside financing.

If the desire for bigger banks is not so strong as in the merger boom of the 1920's, it is still an important consideration in many instances. Looking forward to growth in the economy of the entire Delaware Valley area, some bankers have taken steps to enlarge the lending capacity of their institutions. This goes far to explain the consolidation of several city banks of fairly substantial size into much larger units.

It also lies behind some mergers of small banks into larger banks and the creation of new branches of large banks. For, as we shall see later, some sections of the district have been growing rapidly, generating a need for enlarged banking facilities. Mergers of small outlying banks with large city banks and the establishment of new branches of large banks are ways of meeting this need.

Prestige undoubtedly plays a part in the desire for bigger banks, but here we get into the territory of the psychologist. Perhaps more important than size for its own sake is growth for its own sake. As one banker put it, there is a ferment going on in a growing institution which gives the bank life and brings out the best it has to offer.

Yet, the picture is not so clear-cut as all this might imply. It is true that, as our economy has grown, certain forces have exerted pressure toward concentration of economic resources. Banking is responding to that pressure. But as the economy has grown, certain other forces have also been at work, reflecting themselves in changes in the *nature* of the economy.

Qualitative changes. Next to the increase in over-all levels, perhaps the most significant change over the past few decades has been in the distribution of income. We now have relatively fewer of the very wealthy or the very poor, and many more in the middle-income brackets. As a result, the mass market has developed into the strongest single force in the economy. The consumer, with his insatiable demands for material things, particularly durable goods, truly "rules the roost."

At the same time, attitudes have changed. The average consumer feels more sophisticated in financial matters. He has checking or savings accounts, life insurance, savings bonds; also a house, car, TV set, and freezer which he is paying for every month. He takes debt in his stride. He feels more secure. If anything should seriously threaten his well being he believes the Government would step in to protect him. He feels his strength. If he can't get what he wants at one place, he goes wherever he can get it.

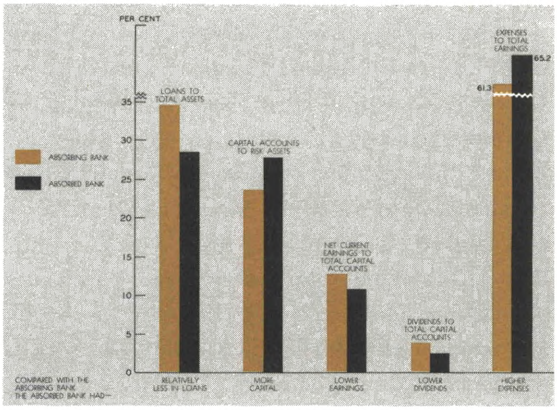
In the process of satisfying the consumer's desires, business has become more and more complex. It now requires more experts with specialized knowledge to solve technical problems; top management must be able to take the broader view.

These are a few of the qualitative changes in the environment in which banks operate—a redistribution of income, the rise of the consumer, changed attitudes toward debt, and increasing complexity of the economy. How have banks adjusted to them?

This is not something one can be dogmatic about, but it seems fairly clear that the inability of some banks to adapt to changing conditions has led eventually to their absorption. On the other side of the picture, attempts to adjust have motivated some banks to expand via mergers and branches.

We can apply a number of tests to get some idea of how banks have adjusted. None is perfect, but together they give a rather clear picture. The *first test is the nature of bank assets.* As they look back, some bankers can recall a reluctance to move away from the traditional field and tested principles of commercial banking. Whether right

FIVE RATIOS UNDERLYING BANK MERGERS



These ratios, which summarize charts presented in an earlier article, help to explain why some banks are expanding through mergers and others are ready and willing to be absorbed.

or wrong, that attitude is often cited as a partial explanation of the growth of various other lending institutions—private and public. As these institutions have grown, banks have not received business which, in retrospect, they might like to have had. As one banker summed it up, "we missed the boat."

Some banks have reacted (belatedly perhaps and often after a change in top management) by moving vigorously into new fields. Men responsible for these decisions are apt to refer to this as the "democratization" of banking. For years some banks had been "wholesalers" of credit, dealing mostly with a few large concerns. Impressed with the growth of "retail" banks, they decided to go after the consumer too, and that requires branches. Other banks which may have concentrated on a specific type of business, such as trusts, have decided they must offer a more complete banking service. They have found that the quickest and cheapest way to get it is through mergers.

Some banks, on the other hand, have responded to changing conditions by putting their funds into Government securities. In an earlier article, we presented figures showing that in almost two-thirds of the mergers the absorbed bank had a lower proportion of loans to total assets than did the absorbing bank. Judging by balance sheets, many banks of this kind are in superb shape; earnings reports suggest that they might not be so well off.

This brings us to *a second test—earnings.* This is not the place to go into a detailed analysis of bank earnings. All we need say is that some bankers feel that earnings are not all they might be. On the one hand, this has been a stimulus for some banks to enter into the branch and merger movement. These banks frequently are over-capitalized in the sense that deposits could be considerably larger on the basis of existing capital. They have acquired other banks and established new branches in growing areas as a way of expanding deposits and, hence, earnings.

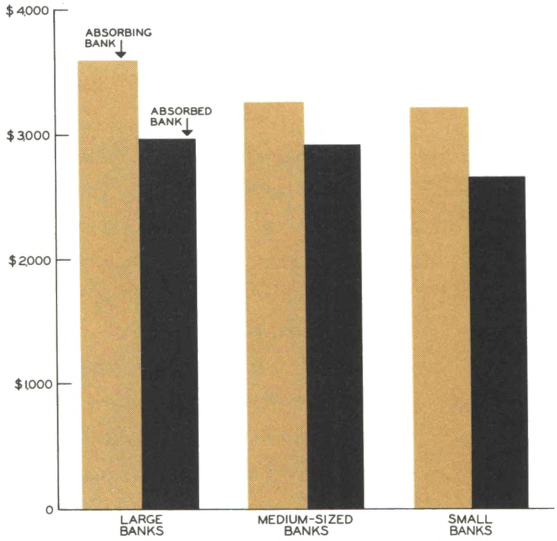
On the other hand, earnings problems explain why certain banks are absorbed. In almost two-thirds of the mergers the absorbed bank had a higher capital ratio (capital to risk assets) than the absorbing bank. Loans often were low and the absorbing bank had opportunities for more intensive and more profitable use of capital funds. Our figures show that in almost seven out of ten mergers the absorbed bank had relatively lower earnings (as a ratio to capital accounts) than the absorbing bank. In nine out of ten mergers it paid lower dividends (as a percentage of capital accounts).

All the while, of course, banks, like other businesses, have been plagued with rising expenses. The figures showed that this was a particularly tough problem for some banks. In over six out of ten mergers, the absorbed bank had relatively higher expenses (as a percentage of total earnings) than the absorbing bank.

Apparently, earnings of some banks are not all that investors feel they should be, either. Analysts of bank stocks have pointed out frequently in recent years that some banks are "worth more dead than alive"—book value is considerably above market value. This was the case with many institutions which have been absorbing other banks, but was true of almost all the absorbed banks.

Behind all these things is *management,* and this is our final test of how banks have responded to changing conditions. Quality of management, of course, is impossible to measure. About the only yardstick readily available to measure bank personnel is the level of salaries. This, of course, has many shortcomings, but the results are still illuminating. In 85 per cent of mergers the absorbed bank paid lower salaries than the absorbing bank.

BANK SALARIES



Regardless of size, absorbing banks almost invariably have paid higher average salaries than absorbed banks. (Size groups based on size of absorbing bank.)

As the accompanying chart shows, this was the case in large, medium, and small banks alike.

A recent survey among bank supervisors, moreover, disclosed that "the biggest problem and most glaring weakness of bank management today is the matter of successor management." The survey indicated that the problem stemmed in part from the inability of banks to attract able, alert young men unless remuneration is attractive and responsibilities are challenging. In many mergers which we have studied, the management and directorate of the absorbed bank were getting along in years. No one was coming along to take over the reins, often because junior officers had been given little training and responsibility. A conservative estimate might be that management problems have played a part in bringing about at least one-half of the mergers included in our study.

In contrast to the situation in absorbed banks, managements of larger banks active in the branch and merger movement feel they are in much better position than the smaller banks to attract, train, compensate, and retain the kind of banking specialists that our economy now demands.

Where does all this leave us? We have sketched briefly some of the basic qualitative changes in the economy in which banks operate. We have applied three tests to see how banks have responded, and we find that different banks have reacted in different ways. Some banks have turned to mergers and branches as one way of moving into new fields, solving earnings problems, and building up an alert, growing organization. Some others have made less intensive and profitable use of their funds and have permitted management to deteriorate. These banks have tended to be absorbed.

What is significant is that the same circumstances which have induced some banks to resort to mergers and branches in attempting to solve their problems have at the same time put other banks in a position where they are appropriate and willing candidates for absorption. Essentially the same forces have been moving both blades of the scissors.

Locational changes. If you ask a banker why his bank is engaging in branch and merger activities, chances are he will say he wants to get in on the rapid growth of outlying areas.

Bankers are acutely conscious of one of the most common aspects of our dynamic economy—the growth and decline of different geographical areas. They have been watching the trend from city to suburb for some time. In the twenties the automobile gave the movement a hard push. The effect then, however, was largely to make it easier for people to get into town to bank. Banks in outlying areas were not needed so much and many of them closed. Today the automobile is having the opposite effect. Towns and cities are congested, it is hard to find a place to park, bank lobbies are crowded, and many banks can't find space to add drive-in facilities—much as they would like to. At the same time, people have been moving to the suburbs in search of better living conditions which their larger incomes now enable them to enjoy. In some cases business is moving out, too. Many banks feel they must follow this trend or stagnate.

The chart on page 8 shows how prevalent this movement has been in the Third District. In almost all major areas, population and number of houses grew faster between 1940 and 1950 in outlying areas of cities than in the cities themselves. When it comes to manufacturing employment, however, the trend is much less apparent. The movement of business has been slower than the movement of people. Yet, business *has* moved, frequently by setting up branches outside the city, and many observers expect this trend to continue.

After we got these facts together, we became curious as to just how much importance bankers give to suburban growth as compared with other reasons for mergers and branches. In an attempt to find out, we have made a more intensive study of mergers and branches in and around Philadelphia. First we took population figures for 1940 and 1950 by sections of Philadelphia and by municipalities and townships outside the city. After computing percentage changes, we lumped all sections into three groups of about equal size—those which grew fastest, those with average growth, and those with slower growth or declines. Then we spotted the approximate location of new branches and banking offices (banks and branches) acquired through merger. The map on page 9 shows the result.

One fact emerges clearly. Banks have moved into growing areas more through new branches than through mergers. Sixty-one per cent of all new branches were located in sections of average or fast growth; 23 per cent of all offices acquired through mergers were in those sections. This, of course, is to be expected because banks have much freer choice as to the location of new branches. Absorbed banks were all established some time ago in different parts of the city or in towns outside the city—older sections that have not grown so rapidly.

Yet, the number of mergers and branches in areas of slower-than-average growth makes one wonder whether other considerations might be more important than population growth. In the first place, of course, movement of Philadelphia banks to the suburbs has been inhibited to some extent by the law. Branches and mergers outside the city might have been more prevalent had the law been more liberal.

In the second place, some bankers question whether population is the best thing to watch. They put emphasis on the movement of industry and, as the chart shows, industry has not shifted to the suburbs so readily as people. Savings banks, which deal much more with the individual, and have had to expand through new branches, have tended to locate in areas of population growth more than commercial banks.

Third, branches and mergers within Philadelphia have been motivated by some of the other considerations already discussed. Some banks have concentrated on "intensive" rather than "extensive" expansion—developing the areas in which they already do business. They have absorbed banks with a low proportion of loans and high capital ratios with a view to making more intensive and profitable use of resources. Some banks have moved into different parts of the city, even though they might not be growing rapidly, in order to give their customers better service and have a city-wide branch system. Still other banks have picked up offices in areas of slower-than-average growth in the process of acquiring a consumer loan, trust, or other business which they needed to make them well-rounded banks.

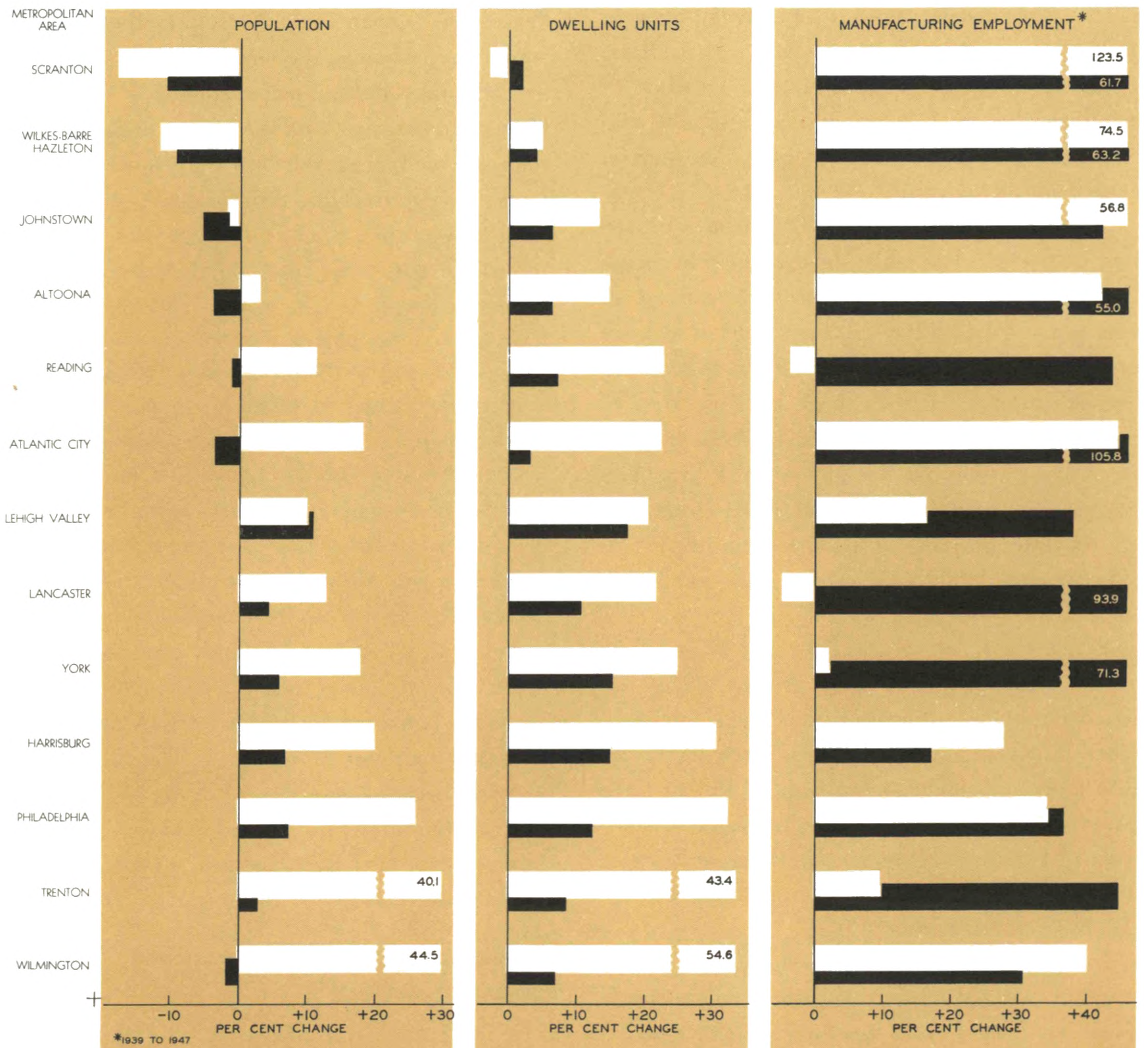
In other areas of the Third District, you can find growth also playing a part. Some areas, have been declining for a long time and some banks in areas like this show slight prospects of growth. Bankers feel that these institutions can serve their communities just as adequately and can be run more efficiently as branches. The same thing goes for many banks established in towns which cannot profitably support more than a branch. In some areas—parts of Delaware, for example—the economy is expanding rapidly, and bankers (and often businessmen too) feel they need a larger bank in the community.

Immediate reasons for branches and mergers

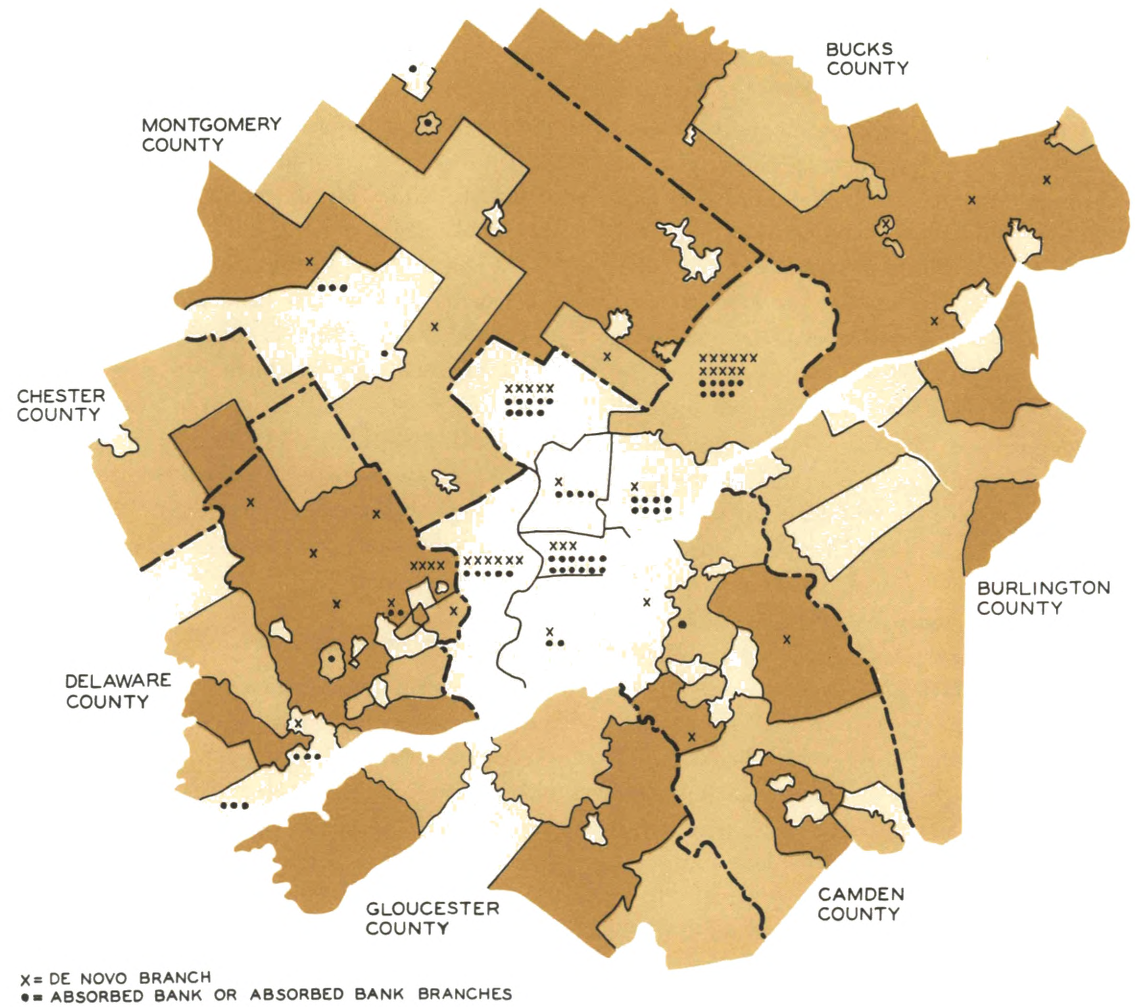
The next logical question is, "If these basic

LOCATIONAL TRENDS INFLUENCING BRANCHES AND MERGERS

One of the important reasons bankers often give for branch and merger activity is that they want to get in on the rapid growth of outlying areas. This chart shows that in most metropolitan areas of the Third District the cities themselves ■ did not grow so fast between 1940 and 1950 as their surrounding areas □. This was much less true for manufacturing employment than for population, however; apparently the movement of business has been slower than the movement of people.



This map is an attempt to make a more detailed check on the extent to which population growth influences branches and mergers. The area is Philadelphia and its immediate surroundings. Municipalities and townships have been classified into three equal groups depending on how fast they grew between 1940 and 1950: ■ most rapid, ■ average, and □ slower than average or decline. In general, banks have moved into growing areas more through new branches than mergers. The number of mergers and branches in areas of slower-than-average growth suggests that other considerations often may be important than population trends.



forces have been at work for so long, why has the branch and merger movement gotten into full swing only in the past few years?"

In the first place, we are apt to forget that the branch movement has been in effect for many years. As we pointed out at the beginning of this study, the banking structure has been moving steadily toward a greater proportion of branches for the past half century. Recent developments have been merely an acceleration of that trend.

On top of this secular trend, however, has been superimposed a cyclical boom in mergers—at least history indicates that mergers have moved up and down with the business cycle. And this applies to mergers in business generally, not just banks. If you scan the financial pages, you can hardly miss reading about mergers being consummated, proposed, or rumored in textiles, steel, automobiles, chemicals — virtually every division of industry. The reasons for these mergers are about as many and diverse as the number of mergers, and we cannot go into them here. But most of them reflect the kind of economic conditions we now have. Activity is at a high level, the outlook is generally favorable, and businessmen are willing to make commitments for the future. Yet, competition is becoming more and more severe, plans must be made carefully, and costs must be rigidly controlled. This peculiar combination of confidence and caution has produced an environment favorable to mergers.

It has been favorable from the viewpoint of both parties to mergers. Absorbing banks, for all the reasons we have been discussing, think they must expand and are willing to pay premiums, if necessary, as a short-run cost for long-run gains. Other banks, as we have found, are ready to be absorbed. Partly because the general level of values today is high, stockholders of these banks are being made attractive offers. As we indicated in the preceding article, in the typical merger, stockholders of the absorbed bank got a 5 per cent premium in terms of book value, a 21 per cent premium in terms of earnings, and a 51 per cent premium in terms of dividends. On top of that, they received stock with higher value and greater marketability. Management in some cases has been won over by generous pensions, retirement pay, and higher salaries.

Psychological elements play a big part, and they become cumulative. Both offensive and defensive motives are involved in mergers and branches, and it is often impossible to tell them apart. One bank expands through branches; another bank follows in order to hold its own. A city bank merges with banks in the suburbs; suburban banks set up branches to keep the city banks from moving out. And so it goes.

The psychology of the branch and merger movement not only has stimulated some banks to expand but also has encouraged others to sell out. Bankers can cite numerous cases where stockholders or management were simply out to find the highest bidder for their bank. To some extent, premiums being paid are a measure of psychological forces at work. And this is one thing keeping some banks out of the branch and merger movement.

View from the side lines

In considering the basic motives behind branches and mergers we may have given the impression that banks must fall into one of two groups—either those expanding through branches and mergers or those being absorbed. This of course is not true. As we pointed out in an earlier article, for each bank participating in the branch and merger movement there are seven others that have not. The majority of banks have been watching developments from the sidelines and many have pretty firm reasons why they are staying there.

For one thing, they think some of the premiums being paid are much too large. A certain premium may be justifiable as a price paid for a going concern, as opposed to the cost of setting up a new branch. But some banks are reluctant to buy at what may be the peak of a cycle. The only way to pay off premiums is out of earnings, and it may take years of steady growth to correct a mistake. Furthermore, the premium may be only the beginning of heavy outlays. "Hidden premiums" may have to be paid in the form of larger overhead, larger salaries, improvement of plant and equipment, bigger pensions, etc. In short, mergers and branches are expensive and should be considered very carefully before being entered into.

Some bankers question whether they want to go into "retail" banking, whether there isn't room for different kinds of banks, and whether banking may not be just as profitable without an extensive branch system. They admit they may not get the account of the suburban dweller, but think they are still likely to get the accounts of industries which may develop in the outskirts. The problem of Philadelphia banks is aggravated further by the difficulty of anticipating which areas are going to grow, and the possibility of losing correspondent accounts if they move across county lines.

At the same time, many a small banker has turned down numerous offers of merger by larger banks. He would prefer to continue independent and feels he gives adequate service to his community—and more personal service than as a branch of a large bank.

Conclusions

We have taken up enough space on the motives behind branches and mergers, but we could use much more and still not be able to give the complete story. Ultimately, the important reasons reduce down to basic forces underlying the movement. In deciding what to do, banks will have to determine how these forces are going to act in the future. And when it comes right down to it, the final decision in most cases can be no better than a calculated risk. Only time can tell whether branches and mergers will pay off. We shall consider some of the results and implications of the branch and merger movement in our next and concluding article.

"EXTRA" RECEIPTS END NEXT JUNE

How would you like it if for just five years you could collect 110 per cent of the actual amount of your pay check? You'd like it. But chances are by the end of the five years you would have come to count on the extra income. It would be a sad day for you when the "extra" was taken out of your pay check.

Well, that is about the position the United States Treasury will be in next June. The extra will be taken from the Treasury's corporation tax receipts.

Where did the extra come from?

How did the extra 10 per cent get into tax receipts in the first place? It isn't nearly so mysterious as you might think. Probably you read about it some time ago. You know about the Mills Plan, don't you? Well, that's it. That is where the extra 10 per cent has been coming from.

The Mills Plan, you remember, was the name given to a change made in the Federal tax law in 1950. Under tax law before 1951, a corporation filed its tax return in the middle of the third month following the end of its taxable year. At that time it could pay the entire tax or pay one-fourth of the tax and the rest in three more quarterly installments. In other words, corporations could take a full year to pay all of their previous year's taxes. The Mills Plan said it wasn't necessary to give corporations a full year to pay their tax bill. The entire tax could be paid within six months. Of course the change couldn't be made overnight. A gradual transition period was provided.

The way the transition period was worked out is shown in the following table. It applies only to calendar-year corporations, but they make up nearly three-fourths of the total. No matter what kind of an accounting year a corporation follows the Mills Plan calls for making full payment of taxes within six months after the close of its taxable year.

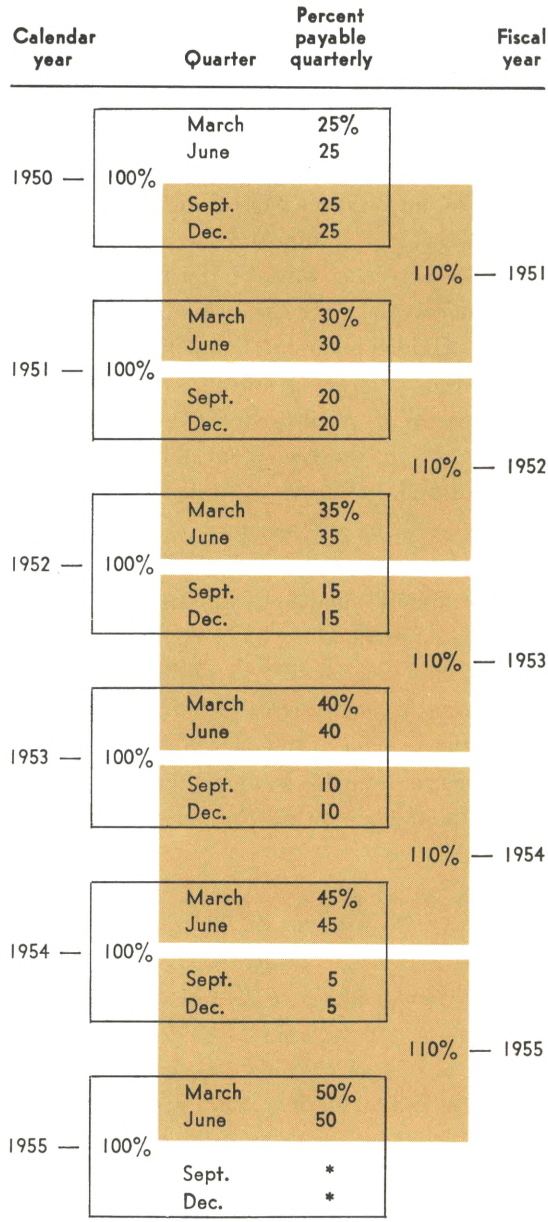
TAX PAYMENTS OF CALENDAR-YEAR CORPORATIONS UNDER PROVISIONS OF THE MILLS PLAN

Quarters	Percentage payable by quarters					
	1950	1951	1952	1953	1954	1955
March 15	25	30	35	40	45	50
June 15	25	30	35	40	45	50
September 15	25	20	15	10	5	
December 15	25	20	15	10	5	

All right, so now you remember that the Mills Plan speeded up corporation tax payments. It didn't increase the yearly tax take. So you still might wonder how the Treasury has been getting its extra 10 per cent.

The extra comes because most corporations do their accounting by the calendar year, and

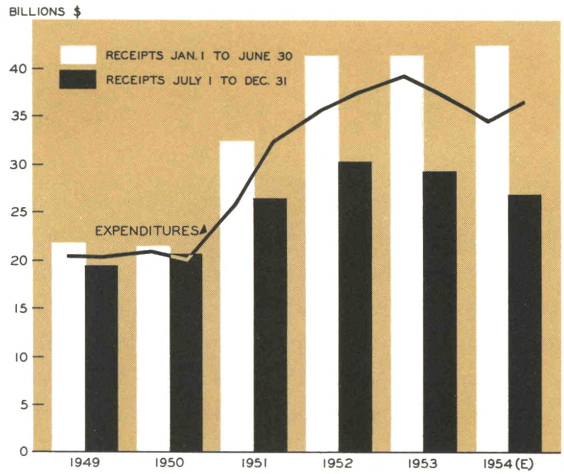
IMPACT OF THE MILLS PLAN ON TREASURY RECEIPTS



* Under new law 5 per cent payment will be made in this quarter.

the Government's books are kept on a fiscal-year basis. The fiscal year, of course, ends June 30. Before the Mills Plan, tax payments due for a corporation on its earnings in 1949 could be paid in four quarterly installments, in March, June, September, and December 1950. Or looking at it from the standpoint of the Government, half of the tax bill for calendar-year 1949 was paid in fiscal-year 1950 and half in fiscal 1951. The Mills Plan, when in full effect, made it so that all corporate taxes assessed for a calendar year would be paid in the immediately following fiscal year; that is, within six months. This, of course, would have the effect of increasing receipts in a fiscal year by 50 per cent. The fact that the change was to take place over a five-year period cut the 50 per cent increase into five 10 per cent slices. After five years the windfalls to the Treasury stop. The table across the page illustrates the way this has been taking place.

FEDERAL GOVERNMENT CASH RECEIPTS AND EXPENDITURES
(1949-1954)



Now another speed-up to iron out receipts and spending

The Mills Plan has brought tax money to the Treasury sooner and has swollen fiscal-year receipts. This, from the Government's point of view, is good. But the Mills Plan has also aggravated a problem for the Treasury. Under the Mills Plan, the Treasury has been collecting an increasing share of taxes in the first half of the calendar year, whereas Government spending tends to be more even over the year. So the Treasury takes in more than it spends in the first half of the year and spends more than it takes in during the second part of the year. This tends to exaggerate the impact of Treasury tax and spending policy. It makes the Treasury's fiscal policy more difficult to manage.

The chart illustrates the problem for you. As you can see, even before the Mills Plan, in 1949 and 1950, cash receipts tended to be larger in the first half of the calendar year. But since the Mills Plan this tendency has been magnified. Cash payments, on the other hand, show little tendency to bunch in either half of the year.

Well, what is the Treasury doing to overcome this aftermath of the Mills Plan? You guessed it. It is gradually shifting half of the year's corporate tax payments six months further ahead. The Revenue Code of 1954 put corporations liable for $100,000 or more a year closer to a pay-when-you-earn system. Corporations, like individuals, are to estimate their taxes and make advance payments accordingly. The advance payments are to be made in September and December before the end of the taxable year. The new speed-up will take place gradually over a five-year period—just like the Mills Plan.

Unlike the Mills Plan, however, the new plan will add nothing to the Treasury's revenue during a fiscal year. The speed-up will merely shift taxes collected in the second half of a fiscal year into the first half. But it will smooth the flow of tax receipts to the Treasury. By 1959 the relationship between tax receipts in the first and second half of the year will be about what it was in 1950 before the Mills Plan. Corporations will be back on the basis of four quarterly installments. But corporations will be paying their taxes six months sooner.

CURRENT TRENDS

In many sectors of the economy 1954 will rate the second or third best year on record; in a few others, comparisons will not be quite that favorable. But when we examine still another area—that of consumer spending—last year's performance appears to have been the best ever. A Christmas buying season that was second to none had a lot to do with making it that way. When merchants tallied their sales from Thanksgiving to the Holiday itself, most of them became convinced that consumers not only had plenty of money, but were willing to spend it. It is not surprising that a majority of retailers look at 1955 with a considerable degree of optimism.

It was a good season for Third District retailers

Retail merchants in the Philadelphia Federal Reserve District were among a nationwide group experiencing a 1954 Christmas season that set a new record in dollar volume of sales. Moreover, demand extended well beyond the traditional gift-type merchandise to include things like wearing apparel and many of the so-called "big ticket" items handled by department stores and others. Appliance dealers had their day too in television, high-fidelity sound equipment, and even some white-goods lines. For automobile distributors, the new-model cars were making their debut at just about the right time.

In order to get more of the story behind the figures, we interviewed some retailers in various city areas of this district. Among other things, we learned that Christmas shoppers were more "choosey" than in other years. They seemed to place more emphasis on quality of workmanship in all price ranges. Gift selections were made with greater care. And, above all else, we were told that shoppers spent a great deal more time and effort in hunting for bargains. This spelled competition of the keenest sort for merchants in nearly all lines. The department stores felt it and so did the appliance and automobile dealers.

Department stores made a strong comeback

Business at Third District department stores picked up sharply in November, when sales on a seasonally adjusted basis reached their highest level in fifteen months. Three major metropolitan areas—Philadelphia, Reading, and Wilkes-Barre—contributed to this gain. In every other month of 1954 except September, sales in the district had fallen behind the comparable period of 1953. In several of those months the sales lag had been very pronounced.

By the first full week of December, year-to-year comparisons of dollar volume were showing some significant pluses in a majority of the metropolitan areas reporting on a weekly basis. To be sure, the most spectacular increases over 1953 came in the period that ended Christmas Day. This was largely because five trading days in 1954 were measured against only four days a year earlier. But the record of sales in the four weeks ended December 25 pointed up the extent of improvement in Holiday season business. For the district as a whole, dollar volume showed a convincing 6 per cent increase over the 1953 period. In the case of individual metropolitan areas, there were gains ranging from 1 per cent in Lancaster to 9 per cent in Wilmington. Trenton was the only area reporting a decline and that amounted to only 1 per cent.

The response of shoppers to merchandise offered during the Christmas season also had an impact on sales comparisons for the year to December 25. At Thanksgiving, dollar volume in the district was running a full 2 per cent below 1953, but by Christmas the gap had narrowed to 1 per cent. Holiday business also was responsible for improving the year-to-date sales picture in every one of the seven metropolitan areas included in the Third District total.

Appliance dealers had a good share of the Holiday trade

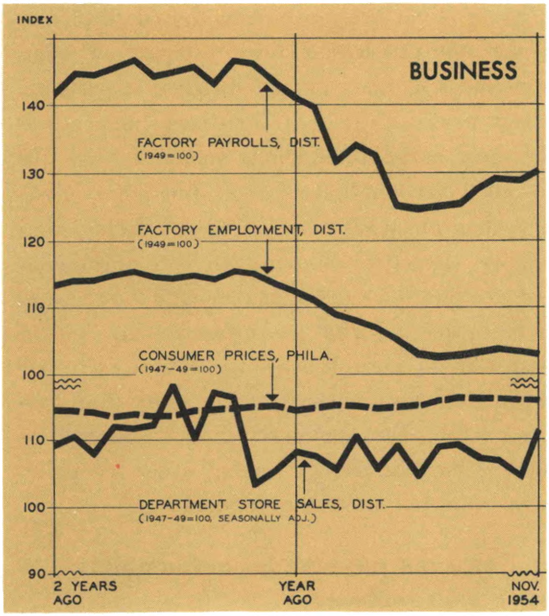
Traditionally, the smaller electrical appliances appeal more to Christmas shoppers than the major items carrying price tags that run to three figures. This past season these small "plug-ins" like portable radios, clocks, and toasters sold in their usual large volume. What really surprised the dealers was the buying interest in television, high-fidelity sound equipment, and even some white goods lines such as refrigerators, ranges, and washers. Most of the dealers we talked with said their over-all dollar volume exceeded expectations. Compared with the 1953 Holiday season, an across-the-board improvement seemed pretty general, although many emphasized that it was the sales volume in major items that made most of the difference.

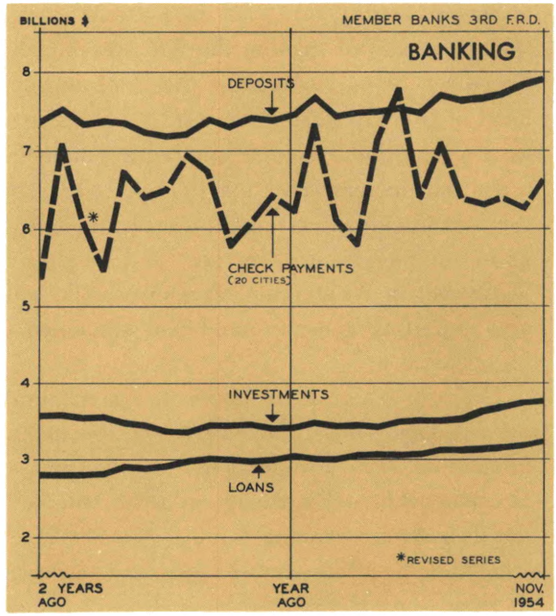
Every time we have interviewed appliance dealers the problem of price competition seems uppermost in their minds. In their experience, this past season's crop of Christmas shoppers was the most bargain-minded in many a year. The so-called discount houses, depending more on volume than on profit margins, were offering some mighty attractive discounts to cash customers. Dealers who stuck to list prices—and they seemed to be in the majority—were discovering that the best way to meet this competition was to sell the customer on service at the same time they were selling the appliance. Some dealers have started the practice of issuing a service policy with every major item purchased.

. . . and the new-model automobiles were well received

Dealers handling most makes of cars appear highly enthusiastic over the reception of the 1955 models. In the period from Thanksgiving to Christmas some dealers experienced the largest sales in their history; others bettered their year-ago volume by a substantial margin; and all those we interviewed said demand exceeded expectations. But, like the appliance people, new-car dealers found the competition exceedingly tough. The motoring public was keenly aware of the "deals" obtainable in various periods of the past, when for one reason or another high-unit volume had been the watchword of the distributors. Thus, pressure frequently was applied for a cash discount or a liberal trade-in. In most cases we found that where a dealer was trying so hard to beat a competitor sales were "thin"; in other words, profit margins shrank. A surprising aspect of the automobile business since the introduction of new models is the way the used-car market has held up.

FOR THE RECORD...





SUMMARY

	Third Federal Reserve District — Per cent change — November 1954 from mo. ago	Third Federal Reserve District — November 1954 from year ago	Third Federal Reserve District — 11 mos. 1954 from year ago	United States — Per cent change — November 1954 from mo. ago	United States — November 1954 from year ago	United States — 11 mos. 1954 from year ago
OUTPUT						
Manufacturing production	+ 1	−10	−13	0	0	− 8
Construction contracts*	+ 5	+19	+21	−1	+13	+11
Coal mining	+10	−11	−22	−1	0	−15
EMPLOYMENT AND INCOME						
Factory employment (Total)	0	− 8	− 9	0	− 5	− 7
Factory wage income	+ 1	− 8	−11	...	...	...
TRADE**						
Department store sales	+ 7	+ 2	− 3	+1	+ 1	− 2
Department store stocks	+ 2	− 2	...	0	− 2	...
BANKING (All member banks)						
Deposits	+ 1	+ 6	+ 4	+1	+ 7	+ 4
Loans	+ 2	+ 6	+ 6	+3	+ 3	+ 2
Investments	0	+ 9	+ 3	0	+12	+ 7
U.S. Govt. securities	0	+ 7	+ 2	0	+12	+ 7
Other	− 1	+16	+ 8	0	+12	+ 8
Check payments	+ 5†	+ 6†	+ 4†	+3	+11	+ 7
PRICES						
Wholesale	...	...	...	0	0	0
Consumer	0‡	+ 1‡	+ 1‡	0	0	0

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

LOCAL CHANGES

	Factory* Employment — Per cent change November 1954 from mo. ago	Factory* Employment — year ago	Factory* Payrolls — Per cent change November 1954 from mo. ago	Factory* Payrolls — year ago	Department Store Sales — Per cent change November 1954 from mo. ago	Department Store Sales — year ago	Department Store Stocks — Per cent change November 1954 from mo. ago	Department Store Stocks — year ago	Check Payments — Per cent change November 1954 from mo. ago	Check Payments — year ago
Allentown	0	− 9	+1	−12	...	...	...	...	+ 3	+10
Harrisburg	−3	−14	−1	−20	...	...	...	...	+ 3	+ 5
Lancaster	0	− 3	+1	+ 3	+34	+ 2	+1	+1	+ 7	+ 7
Philadelphia	0	− 9	+1	− 7	+35	+ 4	+1	−1	+ 6	+ 8
Reading	+1	− 6	+6	− 5	+32	+ 4	+1	−1	+ 3	0
Scranton	0	− 5	0	− 6	+ 4	− 4	+8	+8	+ 4	0
Trenton	0	− 6	−1	− 3	+19	− 1	+4	+1	+15	− 7
Wilkes-Barre	+2	− 4	+5	− 4	+36	+ 1	+5	−5	+11	0
Wilmington	+1	− 6	+4	0	+30	+13	+7	+5	− 3	0
York	0	− 8	−1	− 9	+15	− 5	+3	−3	+ 5	− 2

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