

business review

FEDERAL RESERVE
BANK OF
PHILADELPHIA

THE COW: A WARD OF THE STATE

This, the last in the series on the dairy cow, is about milk prices. Few people, including many dairy farmers, know that in numerous markets both the Federal and state governments have a hand in pricing milk. Despite the heavy pricing harness, we still produce too much milk.

CURRENT TRENDS

Business activity is on the rise and so is personal debt. Easier terms have accompanied the rise in instalment debt.

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

THE COW:



A WARD OF THE STATE

Why is it that the consumer pays 22½ cents a quart for milk and the farmer gets only 11 cents? How often have we heard that question in meetings where businessmen gather! The implication is that farmers get too little or that consumers are charged too much, or both.

Between the dairy farmer (discussed in the April *Business Review*) and the consumer (discussed in the May *Business Review*) is, of course, the distributor. The distributor is the firm that buys milk from the farmer or the handler. The distributor buys in bulk, does the processing, and delivers milk not only to stores, restaurants, hotels, etc., but also to the doorstep and often right into the refrigerator of the consumer.

What many people do not know is that in some areas like Philadelphia there are others, in addition to the distributor, who stand between the farmer and the consumer. They are the United States Government and the government of Pennsylvania. They too have a hand in determining milk prices; in fact, for Philadelphia milk consumers, they appear to have the upper hand.

Critics of governmental control of milk prices sometimes refer to it as a government monopoly, but that is loose talk. It is true, however, that

milk is priced by one of the strangest and most complicated methods in the whole realm of commodity pricing.

You know how the prices of carrots or cucumbers are determined. You also know how the price of a cow or a share of National Dairy Products Corporation is determined. But if you know how the price of a quart of milk is determined, you are indeed well informed—very well informed.

According to a survey conducted by the Pennsylvania State University, only one-fifth of the consumers in Pennsylvania knew that a state agency set milk prices; in fact, only one-half of the dairy farmers knew about it. Therefore, if you would like to know how milk is priced, you may wish to read on.

Milk sold in Philadelphia is subject to classified pricing, seasonal pricing, formula pricing, blended pricing, state pricing, and Federal pricing. Believe it or not, every glass of milk you drink went over all these pricing hurdles, and it still tastes good—if you like milk. This is not to say that milk escapes the law of supply and demand. That too operates in milk. All the other pricing devices are designed to help the law of supply and demand.

How all this happened is quite a tale, and that is one of the chief purposes of this article. Auguste Comte, the French philosopher, said that no conception can be understood except through its history. A little of the history of milk pricing may help to dispel much of the mystery.

CLASSIFIED PRICING

“What commodity other than milk,” asked one of the people we interviewed, “requires the producer to wait to see how the consumers use it before he knows what he will get for his product?” Suppose you went to your automobile dealer to buy a new car. After deciding on the color and combination of accessories and all that, you finally ask the price. Suppose the dealer would reply: “Well, that depends on how you are going to use the car. Is it for business or pleasure?” You will answer, no doubt, “Both.” “Very well,” says the dealer, “in that case you keep a record of the pleasure miles, like driving to the golf course, vacation trips, or Sunday ‘cruising,’ and also keep a record of the business miles like driving to work or pursuing customers. You see, the car costs \$3,500 if used for pleasure and \$2,500 if used for business. When the car is worn out, give us a certified copy of the various kinds of miles the car travelled and we’ll bill you accordingly.”

That is the way classified pricing works in milk except, of course, milk does not go so far as a motor car. For the milk that goes to market as fresh fluid milk (called market milk) the farmer gets one price—the highest—called the Class I price. For milk from which the cream is separated for fluid use, the farmer gets a lower price, called the Class II price. For milk that goes into uses like butter, cheese, and other manufacturing products, he gets a still lower price. That is classified pricing. And how did it come about?

Back in the early twenties, when Coolidge was President, cows produced more milk than people wanted—a situation similar to the corn surplus when Joseph was prime minister of Egypt. In the 1920’s, dairy farmers sought relief from the distress of surplus milk and low prices by forming cooperatives. The cooperatives in leading milk markets, including Pittsburgh and later Philadelphia, hit upon the idea of pricing fluid milk at a high level while accepting lower prices for the milk that was produced in excess of fluid milk sales. That is how it all began, and once widely adopted, classified pricing has been retained. It is now a deeply rooted milk-pricing custom. Here in Philadelphia, for example, producers are currently getting \$5.24 a hundredweight for Class I milk; \$3.24 a hundredweight for Class II milk; and \$3.04 for milk going into butter, Cheddar cheese, and other manufactured products. In some other leading milk markets there are four or five different classes and prices of milk.

What an individual farmer gets for milk depends, therefore, among other things, upon how the milk was consumed; that is, whether people drank it or ate it or drank some and ate the rest as butter, cheese, etc.

There are various ways to distribute the net returns from the sales of milk among the farmers who supply milk to a market like Philadelphia. The apportioning process is known as pooling or equalization. Distribution is usually made by one of three methods: individual dealer pooling, cooperative pooling, and market-wide equalization.

Individual dealer pooling—the system used in Philadelphia—involves payment of a blended price by each dealer to the producers who deliver milk to him. Without going into the arithmetic, let it be said that the blended price is uniform to all, after adjustment for butterfat differentials,

and the greater the proportion of milk delivered that goes into Class I use, the higher the returns to the producers.

Cooperative pooling is a system whereby a producers' cooperative collects from all dealers to whom they sell, the amounts due for milk delivered by their members and pays a uniform price to them. Under this arrangement, the bookkeeping and arithmetic are a bit complex.

Under market-wide equalization, as so well described by Leland Spencer and S. Kent Christensen in Cornell's Agricultural Experiment Station Bulletin 908, "All dealers (and pooling cooperatives) in the regulated market, report to the market administrator at the end of each month the quantities of milk used in each class and show the amount due for it, including adjustments for transportation, butterfat content, and the like. The market administrator consolidates these reports and computes a uniform price for the market." Under this arrangement, the bookkeeping and arithmetic are more than a bit complex.

Reference has just been made to a market administrator. He is the representative of the United States Secretary of Agriculture. Before discussing Federal milk-price control, however, let us consider state milk-price control in Pennsylvania.

MILK CONTROL IN PENNSYLVANIA

Remember the great business depression of the early thirties? Well, dairying is a business and the depression hit the dairy farmers also. And how it hit them! Milk prices throughout the Northeastern States declined almost as sharply as the tumble of prices in the stock market. It was painful to the dairy farmers. Dairy herds deteriorated, dairy barns became shabby, and bank credit for dairymen was exhausted. Capital already invested in dairying could not easily be

diverted into other productive channels such as poultry, truck crops or potatoes; moreover, surpluses hung heavy over the markets for practically all farm products.

Milk producers' cooperatives, formerly successful, had great difficulty weathering the storm and some came to grief. Under great stress, milk-price wars broke out in various markets, surplus milk was frequently poured down the drain, and it became utterly impossible to hold the line, price-wise.

Following the example of New York, Pennsylvania in 1934 passed a state milk-control law. The law provided for the establishment of minimum prices for milk to be paid to producers and also minimum resale prices; that is, prices to be paid by consumers. Administration of the law, passed originally as an emergency measure, was placed in a State Milk Control Commission composed of three members appointed by the Governor with the advice and consent of the Senate. Unlike the laws of some other states where price fixing was permissive, in Pennsylvania the law required both resale prices and producer prices to be fixed under all conditions. State milk-price control, established as an emergency measure 21 years ago, is still with us.

In the meantime, people have multiplied and so have cows. What's more, the 1955 cow generation is much more productive than the 1934 generation. So cows still produce more milk than people want.

The milk miracle-men

The Pennsylvania Milk Control Commission, as already indicated, has statutory instruction to fix both the producer price and the resale price of milk. The Commission also received some "sailing orders" as to how those prices are to be determined.

In establishing the producer and resale prices, the Commission is to take into consideration the following:

1. Cost of production.
2. Reasonable returns to producers.
3. Just and reasonable prices.
4. Assurance of an adequate supply of pure and wholesome milk.
5. Protection of the dairy industry.
6. Protection of the public interest.

Consider cost of production for a moment. No two producers have identical costs. Shall the Commission use an average and, if so, what kind of average? On this point the Commission gets some statutory help. The law tells the Commission to use a cross section representative of the average or normally efficient producers. That still leaves considerable latitude.

Difficult as it may be for public servants to ascertain what is a representative cross section of the average or normally efficient producers, the Commission has all the other criteria, above enumerated, to wrestle with. Without considering each separately, it all boils down to this basic dairy dilemma: producers want high prices, consumers want low prices, and the Commission is supposed to make everybody happy. Impossible. Hence all the Commission can do is forever strive to achieve the impossible under conditions that are forever changing. One thing almost never changes, however. There is usually a surplus of milk. It changes in degree only. Sometimes the surplus is worse than other times.

Obviously, the Commissioners, whoever they may be, are no miracle men, but they are expected to perform miracles with milk.

“The Cow” in court

Milk prices are periodically established by the Commission operating in a typically democratic

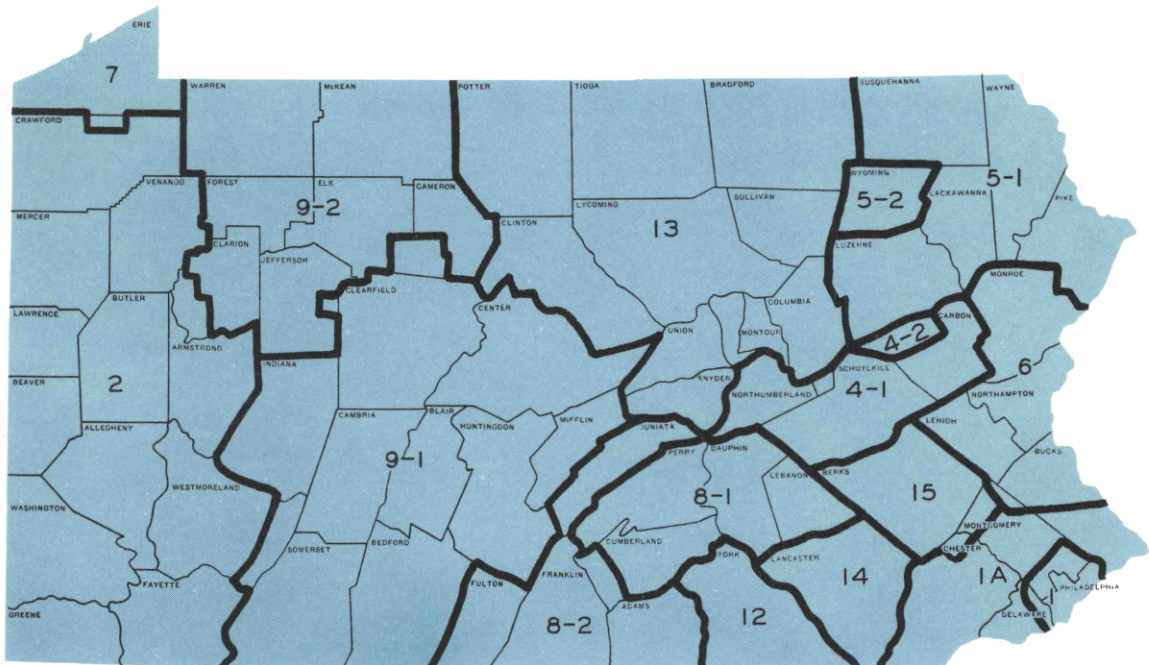
or American way. It goes something like this. Open hearings are held to which all interested parties, including consumers, are invited. The hearings are held in several phases. The first is directed toward the establishment of an equitable price for producers. In the second phase, distributors, handlers, retailers, or counsel for these interested parties appear with sheaves of statistics and expert witnesses—accountants, economists, and statisticians. By the time-tested process of examination and cross-examination, the facts are brought out to assist in the formulation of a ruling by the Commissioners, sitting behind the bench, conducting the hearing.

Upon hearing all the evidence, the Commission establishes a tentative order. After a lapse of time, the Commission holds a preview where copies of the tentatively amended orders are distributed to all interested parties, any of whom may interpose objections. And finally the amended order becomes law.

Getting around Pennsylvania, you may discover that there is no state-wide producers' price for milk, nor a state-wide consumers' price. At any moment of time, prices may differ from one region to another.

Pennsylvania is divided into 13 milk-marketing areas, as shown in the accompanying map. The major markets are, of course, Philadelphia and Pittsburgh. The markets differ from each other not only in size but also in other ways, such as the proportion of milk that is delivered to the consumers, the proportion sold in stores, etc. In some areas, consumers have milk delivered to them by “bobtailers,” that is, jobbers, usually small, who do no processing but operate their own trucks to deliver bottled milk. Obviously, costs of production are not uniform among the producers supplying each market and that is one important reason why there are differences in

MILK MARKETING AREAS IN PENNSYLVANIA



- | | |
|--------------------------|------------------------------|
| 1 Philadelphia | 7 Erie |
| 1A Suburban-Philadelphia | 8 Harrisburg |
| 2 Pittsburgh | 9 Johnstown-Altoona |
| 4 Schuylkill | 12 York |
| 5 Scranton | 13 Williamsport-Sayre-Athens |
| 6 Lehigh | 14 Lancaster |
| | 15 Reading-Berks |

Source: Pennsylvania Milk Control Commission

prices, established in the manner above indicated. Several of the marketing areas are divided into zones such as 8-1 and 8-2, but price differences between zones are usually small.

Any state milk-control law has one big weakness. While a state can control the price of milk produced within the state, it has no authority to control the price of milk originating outside the state. Milk that flows across state lines is interstate commerce and is therefore under the juris-

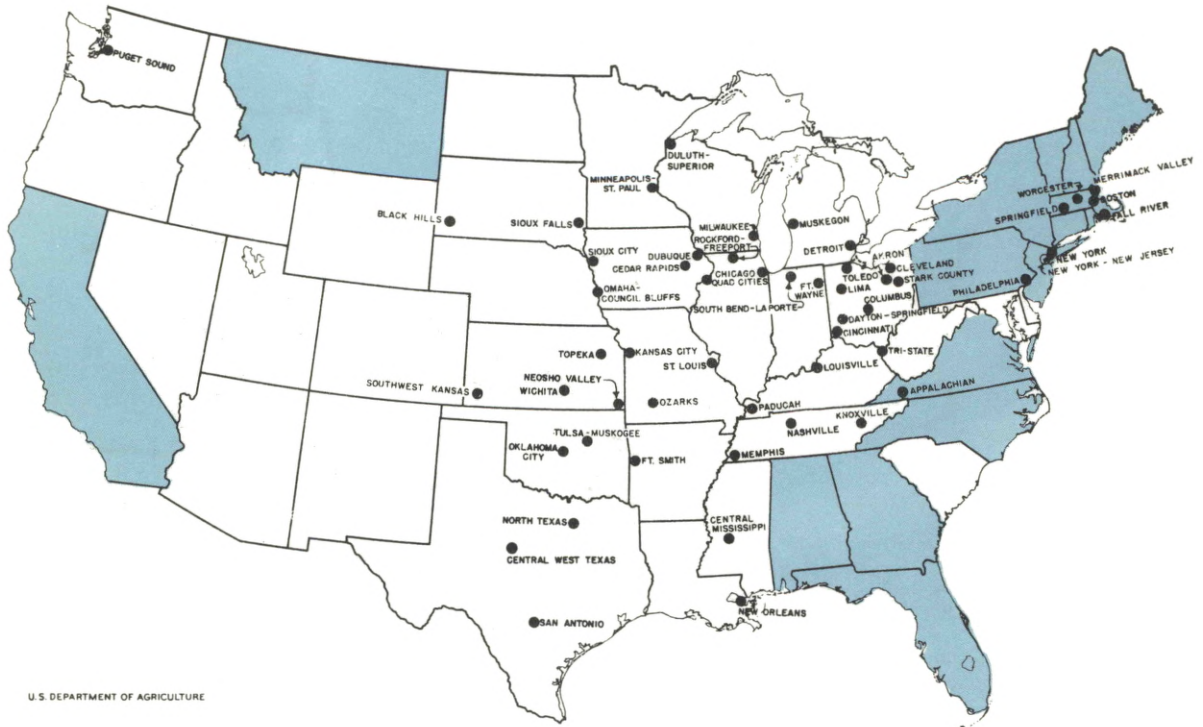
diction of the Federal Government. Partly for that reason, Federal regulation of milk prices was established.

UNCLE SAM TO THE RESCUE

In Philadelphia, Federal regulation of milk pricing began in 1942 when a majority of the producers shipping into this market voluntarily requested Philadelphia be placed under a Federal milk-marketing order. Surplus milk and low pro-

MILK MARKETING AGREEMENT AND ORDER PROGRAMS

In Effect as of January 1, 1955



U. S. DEPARTMENT OF AGRICULTURE

SHADED STATES HAD STATE MILK CONTROL AS OF JUNE 1955

ducer prices were among the reasons why Uncle Sam was invited to take a hand in the Philadelphia milk market. For four years prior to 1942, producer prices in the Philadelphia market hovered around \$3 a hundredweight, or about 6 cents a quart. At that level few, if any, dairy farmers were happy.

Philadelphia is one of approximately 50 milk markets under Federal control as of January 1, 1955. Most of them are east of the Mississippi and only one is west of the Rockies, as the map shows.

Formula pricing

The Secretary of Agriculture issues orders or amendments to orders from time to time on the basis of information obtained at public hearings. Producers, milk handlers, and dealers are always present at these hearings. Each group seeks to protect its own interests.

In Philadelphia, the Class I milk price for producers is determined with the aid of a formula developed in Philadelphia. The current formula, if reduced to symbols as formulas usually are, would indeed look formidable and might scare

the average citizen out of his less-than-a-pint-a-day average consumption.

A brief narrative description of the formula may be more helpful than the mathematics. The price of milk is periodically readjusted with reference to a base period (1936-1940) by applying an arithmetic average of five factors:

1. The Bureau of Labor Statistics index of wholesale prices—all commodities of the United States.
2. Prices paid by Pennsylvania farmers for 20 per cent mixed dairy feed.
3. Prices received by Pennsylvania farmers for farm products, except dairy products—seasonally adjusted.
4. Prices paid for milk by Midwest condenseries.
5. Class I sales, except shipments to plants not in New Jersey or Delaware.

By applying this formula, the producer price for Class I milk for June 1955 comes to \$5.24 per hundredweight. Per quart, that amounts to a fraction over 11 cents.

Thus it is apparent that farmers who ship milk into the Philadelphia market get a price which is tied to or influenced by changes in all wholesale prices, changes in prices of some of the food cows eat, changes in prices farmers get for non-dairy products, changes in prices paid for milk by Midwest condenseries, and changes in the volume of milk shipments into the area.

Except for citizens who are nimble with numbers, formula pricing seems a trifle complex. Formula pricing, however, has much to be said in its favor. First, statistics always have an aura of stern and eternally irrefutable precision. Second, a formula affords more prompt adjustment of prices to reflect changes in economic conditions than can be accomplished through the usual hearing-and-amendment procedure which often

involves prolonged delays. Third, time and expense are saved by reducing the frequency of hearings to consider price adjustments. Fourth, there is greater assurance that both the demand side of the market and all significant factors on the supply side of the market will be reflected in the prices established. Fifth, it avoids higgledy-piggledy pricing procedure.

In Philadelphia, as in other Federally administered markets, the Secretary of Agriculture has jurisdiction over the establishment of producer prices only. But thereby he also exercises indirect control over resale prices because the price paid by the ultimate consumer is naturally influenced by the price the producer gets.

The price the farmer receives is always adjusted for the butterfat content of the milk his herd produces. Prices are determined on the basis of a minimum or standard butterfat content; for example, 4 per cent in the Philadelphia market. Milk with less than 4 per cent butterfat is priced at a discount, and milk with more than 4 per cent butterfat commands a premium.

Price adjustment for butterfat only—a custom of long standing—may be obsolescent. Most people in this generation shy away from fat consumption but under customary pricing policies farmers are urged to produce milk of high butterfat, only to add to the difficulties of the Secretary of Agriculture who has to buy up the surplus. Couldn't the scientists who are wise in crossbreeding develop a strain of cow that would produce milk with less butterfat and more nonfat solids? The market for nonfat milk solids is constantly improving.

Suppose, as it may well be asked, the Federal administrator establishes one price and the State Milk Control Commission establishes a different price. Then what? The higher of the two prices prevails. In actual practice, however, this seldom

occurs, or the difference in price is very small. Most of the state milk-control agencies in the Northeast have in the past fixed their Class I prices in close relationship to Class I or uniform prices determined by the Federal orders for major milk markets in the region.

Spencer and Christensen, in their comprehensive analysis of "Milk Control Programs of the Northeastern States," previously cited, say:

In general, the milk control programs have been looked upon as a means of improving the economic position of dairy farmers. The milk control agencies have given much more emphasis to production costs and related factors than to the demand side of the market or to the balancing of production and consumption. An important reason is that the producers' organizations have taken a very active interest in the milk control programs and have exerted persistent and effective pressure for the maintenance of high prices. On the other hand, with some exceptions, consumers have been either apathetic or poorly represented in the price-making procedure.

Consumers like to gripe

A peculiar bird is the consumer. He is apparently happiest when he has something to gripe about. He gripes at the umpire at whom he can throw pop bottles and he gripes about the weather, about which he can do little. He gripes about the price of milk, about which he can do something but seldom does. He could attend milk-price hearings but in Philadelphia he prefers to stay away and gripe. Occasionally, the consumer is represented by a labor organization or a professional "do gooder" but usually the consumer has no representative at the hearings.

Furthermore, why is it that the consumer likes

to pick on milk? Prices of all other commodities have gone up considerably since 1940, but milk is always the favorite target. Take bread, for example. Bread, another wholesome food, is delivered like milk and, like milk, its price is also well above the pre-war level. But do people complain about the price of bread?

Is the spread between what the producer gets and what the consumer pays for milk too big? Volumes of testimony, tables, and charts could be introduced to show that it is or that it is not. The issue could be and has been debated for days. It is doubtful whether a judge with the wisdom of Solomon could hand down a decision satisfactory to all parties concerned.

To begin with, milk is a unique commodity. Unlike wine that improves with age, measured in years, milk degenerates with age, measured in minutes. It must get to market in a frightful hurry. Did you ever try to pass a milk tank truck on the way to market?

Moreover, milk must reach the market in wholesome condition. No other commodity has to conform to such rigid health standards as are imposed on milk. What an array of inspectors, examiners, testers, and sniffers! People would not buy milk that did not smell sweet. Not only is milk inspected and re-inspected but so are the cows, the cans, the tanks, the barns, and everything connected with the product. All this goes into the cost and therefore the price of milk.

Then comes the processing and bottling and finally delivery, and of course the collection of bottles and bills. The consumer easily forgets all the service that comes with a bottle of milk.

On the other hand, the housewife, operating on a close budget, cannot understand why, if it costs so much to deliver milk, she gets milk for only a cent or a cent-and-a-half less per quart when she buys it at the store and carries it home. Large

users of milk in the home also feel they are entitled to a quantity discount. The duplication of delivery routes by competing concerns is another often-cited form of unnecessary expense.

Of course, the price spread could be reduced. But would consumers be satisfied if there were no choice of dealers, less frequent or no delivery, reduced standards, poorer quality, and all that would go with reduction of the spread?

With malice toward none and parity for all

Milk is not a basic commodity like cotton, corn, wheat, peanuts, rice, and tobacco. Prices of the "big six" Uncle Sam must support. It is a statu-

tory *must*. However, milk is a designated non-basic commodity like tung nuts and honey for which price support is also mandatory.

It is easy enough to see how a sack of rice or bag of peanuts got tossed up on the parity bandwagon, but how did the cow get up there, especially in view of the difficulty of storing milk and the still greater difficulty of teaching cows birth control? While market milk is too perishable to be stored, the Federal Government can and does store butter, cheese, and dry milk solids. In the twelve months ended March 31, 1954, the Government bought unprecedented amounts of dairy products under the price-support program. It bought an estimated 375 million pounds of butter, 369 million pounds of cheese, and 660 million pounds of nonfat dry milk solids. Some people advocated the export of surplus butter stocks to India where butter is melted down to be consumed in the form of a product called ghee. Furthermore, some African tribes use rancid butter as a hairdressing in their native beauty parlors.

All the basic crops will be under production control this year for the first time. Moreover, all of them except corn will be under both acreage allotment and marketing quota.

Cows are under neither allotment nor quota. They may produce all the milk and reproduce all the calves they can. Perhaps that is one reason why the Secretary of Agriculture, April a year ago, reduced parity on dairy products from 90 to 75 per cent. The rising flow of milk, as shown by a chart in the first article of this series, attained an all-time peak of about 124 billion pounds in 1954. Something had to be done, so the Secretary, acting on the courage of his convictions, did it. He knew full well that his action would win him no popularity prize.

Maybe it is only wishful chart reading, but the latest dairy statistics are already beginning to

A BIBLIOGRAPHIC NOTE

It is a custom hallowed by tradition to shore up the end of a treatise with a list of references used by the author. If we were to append a list of all the sources consulted on the cow, the tail would stick so far out behind the cow as to lift her forefeet off the ground. Books, encyclopedias, Government reports, pamphlets and magazines all stacked up on a pile measured a yard high.

In addition, we consulted dairy farmers, dairy equipment manufacturers, veterinarians, the dean of a school of veterinary medicine, an inseminator, a gastro-enterologist, dietitians, presidents, vice presidents, and economists of dairy companies, officials of producer cooperatives, bankers, milk delivery men, land-grant colleges, trade association officials, milk price fixers, U. S. Department of Agriculture officials, professors, housewives, county farm agents, and a cow auctioneer. We also attended a hearing of the Pennsylvania Milk Control Commission.

We heard a lot of stories that can't be told, heard a lot of conflicting evidence that was carefully weighed, and saw some beautiful cows. Students desiring a more conventional bibliography will be accommodated upon request.

look better. Sales of dairy products to the Government amounted to the equivalent of nearly 6 billion pounds of fluid whole milk in the year ended March 31, 1955 compared with 11 billion pounds a year earlier. Reduction in retail prices for dairy products in 1954 helped to increase consumption. People ate more butter and cheese; they drank more milk, but ate a little less ice cream in 1954 than in 1953.

The Government is helping the consumption of milk in various ways. Last year's Agricultural

Act authorized the expenditure of \$50 million a year over a period of two years to increase milk consumption by school children. The armed services are getting more milk, and the needy are receiving more dairy products.

So the dairy surplus seems to be diminishing. The situation looks more hopeful. There are those in the industry who believe that, given another year, the cow will no longer be a ward of the state. Let's wait and see.

CURRENT TRENDS

Business activity is bouncing back faster from the 1953-1954 recession than was anticipated. Incomes are high and rising. Retail sales—especially automobiles and department store sales—exceed expectations. Optimism is spreading rapidly. Debt is rising too but everybody seems well pleased with the basic solvency of the economy.

To some, it is a strange paradox that during periods of business expansion such as this our personal indebtedness climbs more rapidly. The fact is that in any year a good part of retail sales is not cash sales, and in years of rising business activity an increasing part of sales is usually "on the cuff." In other words, debts do tend to rise faster as business gets better.

You have only to read newspaper advertisements to get the feeling that the recent rise in consumer debt has been accompanied—some would say stimulated—by easier credit terms. Of

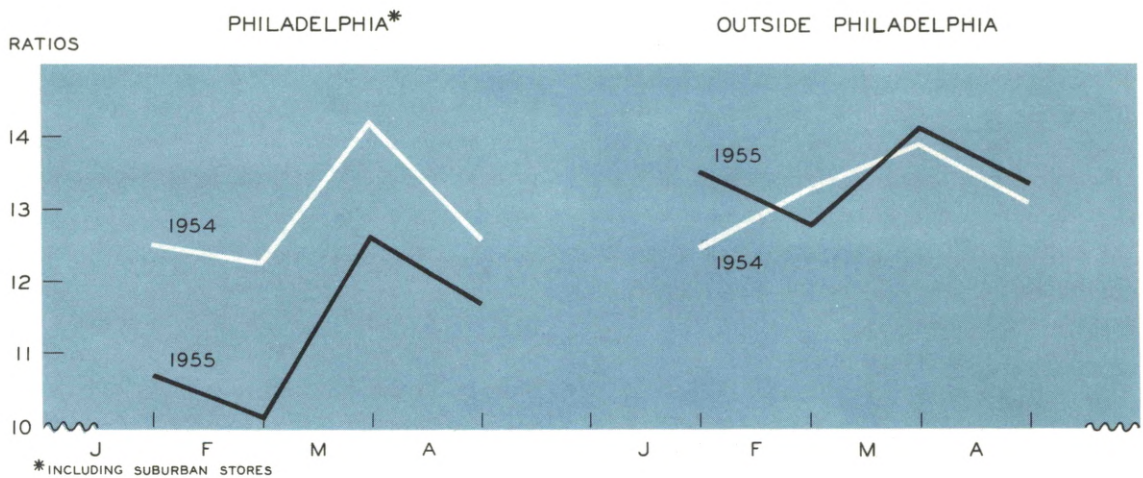
course, in consumer credit easier terms mean lower down payments and longer maturities—not necessarily lower interest charges.

Pressure on terms strongest in Philadelphia

There are, however, some differences in terms being offered in various sections of this Federal Reserve District. A spot check indicates that as a general rule lenders in and around Philadelphia are under the most pressure to make their terms more lenient. One lender in Philadelphia told us: "Instalment volume is rising at a fast clip. This increases pressure for speed in writing loans. There is steady pressure for easier terms. Everybody seems to be taking a share of the 36-month automobile paper that is around."

Those who are holding the line on terms feel that they are losing business in the process. For

COLLECTION RATIOS—DEPARTMENT STORE INSTALMENT ACCOUNTS



example, a Philadelphia banker had this to say: "We are being hard pressed to give easier terms but we are resisting with very few exceptions. Our volume of consumer credit could be much higher if we would upgrade some credit risks."

Outside the Philadelphia area there is pressure too. In most sections, easier terms are the order of the day. But the changes do not seem quite so large. For example, a Williamsport lender said: "There is not much tinkering with down payments in this area; but 30-month automobile paper has become common over the past few months." From a Reading banker we heard that: "Automobile dealers want speed above all else and that leaves little chance for proper credit investigation."

Collections seem to be holding up

Easier terms bring to mind the subject of collections. The charts above show the collection ratios for department stores in the Philadelphia area and outside over the first four months of 1955 as compared with 1954. As can be seen, the collec-

tion ratios for Philadelphia stores are noticeably below a year ago. Outside of Philadelphia, the collection ratio is running about the same as in 1954.

It is difficult to ascertain all the causes of the lag in collections in Philadelphia. A rapidly increasing volume of instalment sales coupled with somewhat smaller monthly repayments resulting from a lengthening of terms are probably factors lowering the level of collections in relation to sales. In addition, there is some evidence of rising delinquencies. This does not seem to have become a real problem as yet.

Collection ratios are holding up well in other parts of the district. The fact that repayment periods have not been lengthened so much outside of the Philadelphia area is probably a reason for the difference.

Some lenders dealing in automobile paper notice a slowly growing volume of delinquencies. This is particularly true in the Philadelphia area; however, none of the lenders indicated that delinquencies had reached a critical level. "Relative to

the increased volume of lending, delinquencies and repossessions have not increased," we were told by one lender.

Collection reports on automobile instalment paper outside Philadelphia vary sharply. In some areas, reports are excellent—much better than a year ago. In others, collections are slow, with plenty of kick-backs. Reports tend to vary directly with employment. In areas where employment is off from a year ago, collections are slowing up. Where employment is up, collections are running smoothly.

Collections on appliance paper are very good in all parts of the district. A Philadelphia banker's reply is typical for the city. He said, "Collections are very good on appliances. We had a shake-down a year or so ago and straightened out some accounts. The delinquency picture is the best ever on appliances." A Bethlehem appliance dealer said: "Delinquencies and repossessions are about as low as they could be."

There appear to be two principal reasons for the favorable reports on collections of appliance paper. One was given in the quote from the Philadelphia banker. Many banks "shook down" their

appliance paper a year or so ago. The second reason is that the appliance-store business is pretty slow right now, so there is not much pressure on lenders for speed. Lenders can appraise the prospective borrowers more carefully. Appliance dealers mention discount houses and the increasing volume of appliances going directly to builders on new operations as two causes for the slowing of store sales.

An over-all impression

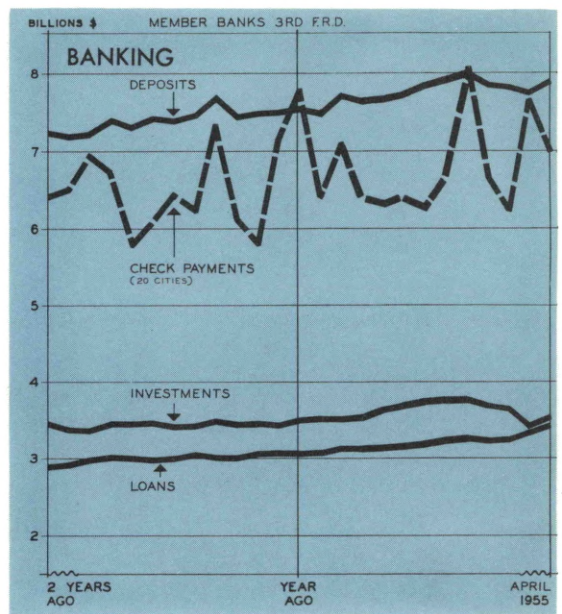
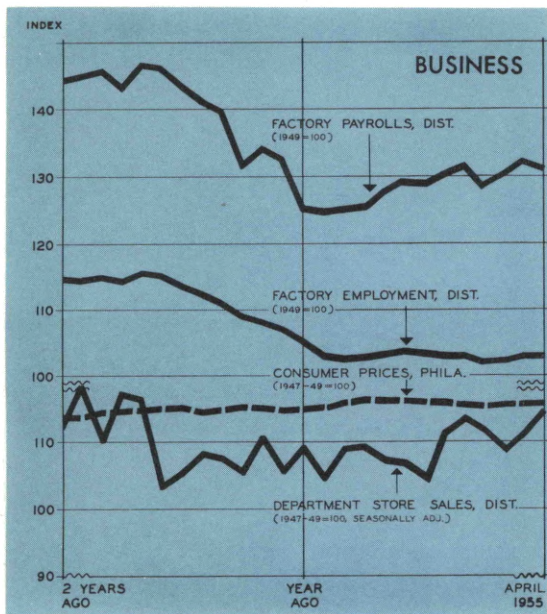
A year ago at this time, instalment lenders were not being pushed to "write paper." As a result, they investigated credit risks more adequately and were generally more selective. This tended to make instalment credit harder to come by twelve months ago than it is today.

The pressure of competition has made instalment terms more liberal in all sections of the district. As might be expected, down payments tend to be a little smaller and maturities somewhat longer in the Philadelphia area than in other sections. The easing of terms has occurred even though general monetary policy is becoming somewhat less expansionary.



THIRD FEDERAL RESERVE DISTRICT

FOR THE RECORD...



SUMMARY	Third Federal Reserve District		United States							
	Per cent change		Per cent change							
	April 1955 from		4 mos. 1955 from		April 1955 from		4 mos. 1955 from			
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago		
OUTPUT										
Manufacturing production...	-2	+2	-2	-1	+11	+8				
Construction contracts*	+7	+21	+20	+13	+32	+34				
Coal mining...	+9	+23	+6	+1	+24	+15				
EMPLOYMENT AND INCOME										
Factory employment (Total)...	0	-2	-4	0	+2	-1				
Factory wage income...	-1	+5	0							
TRADE**										
Department store sales...	+3	+4	+4	+5	+7	+7				
Department store stocks...	+3	+2		0	+3					
BANKING (All member banks)										
Deposits...	+2	+4	+4	+2	+6	+5				
Loans...	+2	+11	+8	+1	+10	+7				
Investments...	0	+1	+4	+2	+7	+8				
U.S. Govt. securities...	+1	-1	+1	+3	+6	+7				
Other...	-1	+9	+14	0	+12	+13				
Check payments...	-9†	-10†	+2†	-12	+2	+5				
PRICES										
Wholesale...	0†	+1†	0†	0	0	0				
Consumer...	0†	+1†	0†	0	0	-1				

LOCAL CHANGES	Factory*		Department Store				Check Payments			
	Employment		Payrolls		Sales		Stocks		Per cent change April 1955 from	
	Per cent change April 1955 from		Per cent change April 1955 from		Per cent change April 1955 from		Per cent change April 1955 from		Per cent change April 1955 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown...	+1	0	+3	+10					-3	+9
Harrisburg...	0	-3	+1	+9					-8	-2
Lancaster...	0	+1	0	+9	-7	-1	+6	0	-8	+4
Philadelphia...	0	-3	-1	+2	+3	-3	+3	+1	-9	-17
Reading...	0	+1	-1	+9	+12	+5	+7	+3	-8	+16
Scranton...	0	-1	-5	-1	+1	-8	+6	+5	-6	+6
Trenton...	0	+2	-3	+8	+19	-5	+14	+6	+8	+30
Wilkes-Barre...	-1	0	-5	+6	+13	+10	0	+18	-7	+5
Wilmington...	+2	+2	+2	+10	+8	+2	+9	+3	-18	+11
York...	-1	-5	-1	+1	+19	-1	+4	+2	-8	-8

*Based on 3-month moving averages.

**Adjusted for seasonal variation.

†20 Cities

‡Philadelphia

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