

# business review



FEDERAL RESERVE  
BANK OF  
PHILADELPHIA

## DEPARTMENT STORES: CATCHING UP WITH THE CONSUMER?

*Despite discount houses, parking problems and returned items, department stores remain great and growing institutions. But they have problems. People are moving away from them and buying more durable goods. Are suburban stores the solution?*

## CURRENT TRENDS

*Third District business approximates last year's high levels. Labor markets are more stable. Retail sales have set a fast pace. Only homebuilding and automobiles show signs of hesitation.*

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## DEPARTMENT STORES: CATCHING UP WITH THE CONSUMER?

Department store people are troubled.

"We all should have such troubles," some say when they hear this. And they have a point. After all, department store sales volume in 1956 is running well ahead of a year ago. In 1955, sales exceeded 1954. The story is the same for most of the post World War II period. What's more, a good part of these sales was made from gleaming new stores. The department store facade is bright indeed.

But the department store people who are troubled also have a point. For behind the post-war spit and sparkle a nagging trend persists. Despite higher sales volume, new stores in the suburbs, and dogged competition, department stores find their market position slowly eroding away. They compare the moves they have made since the war with an oarsman bucking a strong

tide. It has taken a lot of rowing to stay pretty much in the same place.

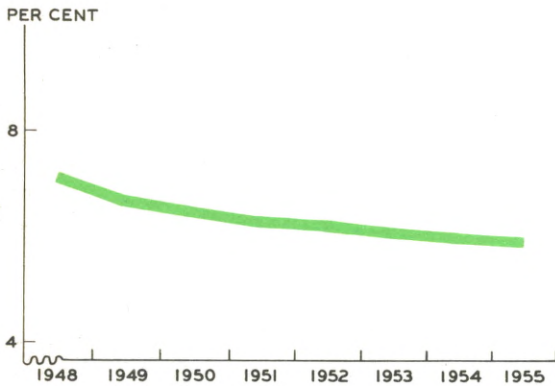
In the Philadelphia area, department store activity mirrors what has been happening throughout the country. People and stores have fanned out from the center city. Department store sales have enjoyed good sized increases. But sales of other retail outlets have grown faster. Analyzing developments in the Philadelphia area throws some light on department store problems everywhere.

### THE POSTWAR PERIOD HAS BROUGHT CHANGES

The first thing to understand is that department stores are growing at a good pace. Their problem is that they aren't growing rapidly enough to maintain their former share of the market. But

they are growing, and growing institutions don't wither away and die. The problem involved in this article does not have life or death implications. It is more a matter of how good or how large a life department stores will live.

**DEPARTMENT STORES' SHARE OF RETAIL SALES IS DECLINING**



The chart illustrates the problem at the national level. In 1948 department stores accounted for 7.2 per cent of total retail sales. Their share has slipped some each year since, so that in 1955 it was 6 per cent.

One big reason for this is the automobile. Department stores don't sell cars, nor do they compete with gasoline stations. Automobile dealers and service station operators have been getting an increasing share of the consumer's dollar.

Another reason is food. Consumer spending on food, like spending for automobiles, is taking a large share of total retail sales. Department stores sell food, but they don't compete directly with supermarkets or even the corner store. In the main, they seek to serve the gourmet with specialties. Food sales are only a fractional part of total department store sales.

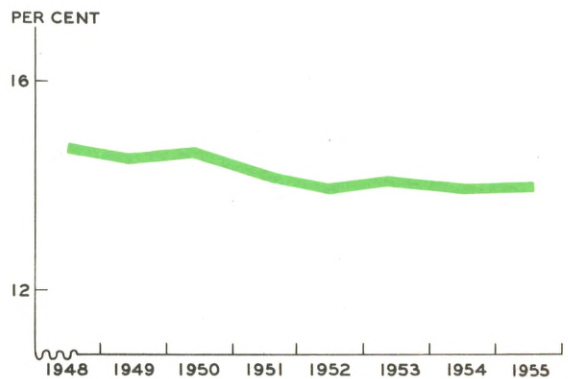
Building material dealers are other kinds of enterprisers with whom department stores do not

compete directly. This line has enjoyed a sharply rising sales trend in the postwar period.

Department stores' share of retail sales looks a little different after removing consumer spending on food, automobiles, service stations, and building materials—in other words, department stores against their direct competition. As can be seen in the chart below, department stores have still lost ground since 1948, but over the past two or three years their share of the adjusted total has levelled.

The declining trend from 1948 through 1953 can probably be explained by two principal factors. First, department stores traditionally have been merchandisers of nondurable goods. Apparel sales alone account for more than 50 per cent of department store sales volume. Unfortunately, for department stores, apparel is claiming a smaller share of consumer spending. Purchases of clothing and shoes accounted for about 11 per cent of all consumer spending in 1948 against just 8 per cent last year.

**DEPARTMENT STORES RECENTLY HAVE HELD THEIR OWN WITH THEIR COMPETITORS**



The hearty postwar rise in consumer buying power has permitted relatively larger outlays for nonessentials and luxuries—more likely to be

durable goods and more likely to be purchased at other than a department store. In addition, consumers now have a wider choice of durable goods. Television sets, room air-conditioners, heat pumps, freezers, dehumidifiers, dryers, and backyard swimming pools are all largely products of the postwar period.

The second principal factor has to do with the movement of population to the suburbs. Department stores are—or at least were—usually found on main streets in large cities. Traffic and parking problems plus the more rapid growth of suburban areas have hampered downtown store sales. Department stores have moved swiftly to counteract these disadvantages. An analysis of postwar developments in the Philadelphia area gives a good view of how successful the counter-attack has proved.

### PHILADELPHIA MIRRORS THE NATION

Philadelphians have watched their department stores with awe and sometimes amazement since the war. The table below lists branches opened by center-city stores in the Philadelphia Metropolitan Area since 1948. In addition other new department stores have been opened in the suburbs. But a listing such as this can't possibly convey the feeling of buoyancy and rejuvenation that the appearance of these new, shining stores imparted to the Philadelphia scene.

#### SUBURBAN BRANCH STORES OPENED SINCE 1948

Store	Location	Date Opened
Lits	69th Street	Oct. 1949
Snellenburgs	Willow Grove	Oct. 1953
Lits	Northeast	Feb. 1954
Wanamakers	Wynnewood	Nov. 1954
Snellenburgs	Oregon Avenue	Aug. 1955
Gimbels	Cheltenham	Aug. 1955
Lits	Camden	Oct. 1955

It will come as a surprise to many, therefore, to learn that Philadelphia department stores' share of total retail sales is dragging the same as for the nation as a whole. Retail trade figures are not available for metropolitan areas on an annual basis. But the retail trade censuses of 1948 and 1954 give an indication of the trend. In 1948, department store sales were over 10 per cent of total retail sales. By 1954 the proportion of retail sales accounted for by department stores had fallen to 8 per cent.

It is difficult to say whether or not department stores reversed this downward trend in 1955. One thing we do know is that 5 suburban department stores were opened in 1955—more than in any other year. These new stores provided a good bit of impetus as department store sales rose 6 per cent over the previous peak set in 1954. This was the largest year-to-year gain made in the postwar period.

### Follow that Customer

In the Philadelphia area, as in most other large metropolitan areas, population has exploded since the war. Population in the suburbs surrounding Philadelphia has grown about 5 times as fast as population within the city. Department stores have not sat idly watching.

One by one and then in clusters new suburban stores have been opened. Suburban sales volume has skyrocketed, partly as a result of new stores being added to the totals and partly because existing suburban stores have upped their level of activity. Some, in fact a majority, of the new stores are branches of center city stores.

Of course, to some extent, suburban gains have merely made up for center city losses. Center city sales volume has never come back up to the mark set in 1948. In 1955, center city department store sales volume was down about 10 per cent from the

1948 level.

But the city stores themselves have not been hit as hard as they might have been by this slide in sales. To no small extent, sales lost by a center city store have gone to its suburban branch. But in spite of this more-than-offsetting rise in branch sales, center city department stores and their branches do not account for quite so large a percentage of Philadelphia Metropolitan Area sales volume as they did in 1948.

This year so far seems to indicate more of the same for Philadelphia stores. For the year through September, sales at suburban stores are up 23 per cent from a year ago. Center city sales volume is down about 5 per cent. On balance, the metropolitan area did 4 per cent better than for the same period in 1955.

But now—and apparently for the rest of this year—for the first time since 1952, no new stores will be adding to suburban department store sales totals. Store officials should be able to see if the pull to the suburbs is still strong. If center city sales continue to lag, and if suburban sales keep on rising, look for more big stores in the suburbs. (That is, in addition to the three already planned.)

### Other areas in the District Gain

On balance, department store sales in the rest of the District have risen more rapidly than in the Philadelphia Metropolitan Area. As is the case around Philadelphia, new stores in part are responsible for the gains made.

Since 1948, department store sales in York, Trenton and Scranton have outpaced the rest of the nation. In Lancaster, sales volume has grown at about the same rate as the national average, but faster than for the District as a whole. The sales increase in Reading is a bit less than the average for the District, but somewhat above the Philadelphia area. Wilkes-Barre sales hover close to the level set in 1948.

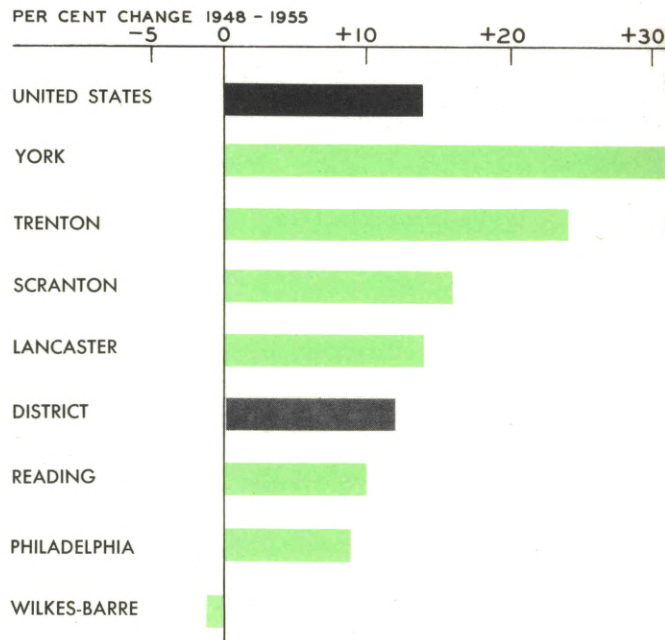
### Home Sweet Home

What this all seems to mean is that people are shopping closer to home.

In the Philadelphia Metropolitan Area, population is moving to the suburbs and so are department store sales. By 1955 suburban stores accounted for about one-third of the sales volume. In 1948 their share was less than one-fifth. Of course, to some extent, center city stores have promoted this tendency to shop close to home. In the main, however, their moves have been defensive. They moved because they sensed the consumer's inclination to shop where he lives.

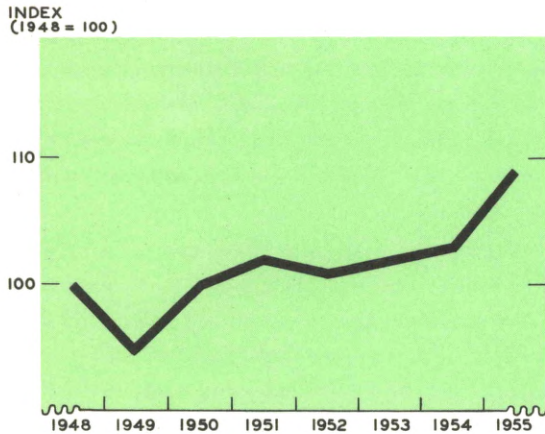
Shoppers in other areas in the District are showing the same "shop near home" inclinations as suburban Philadelphians. Proportionately, fewer people seem to be traveling to Philadelphia area stores from the outlying regions. Over the period since 1948 sales at other District stores have gone up 12 per cent against a 9 per cent increase in the Philadelphia area.

### STORES OUTSIDE PHILADELPHIA HAVE GAINED FASTER



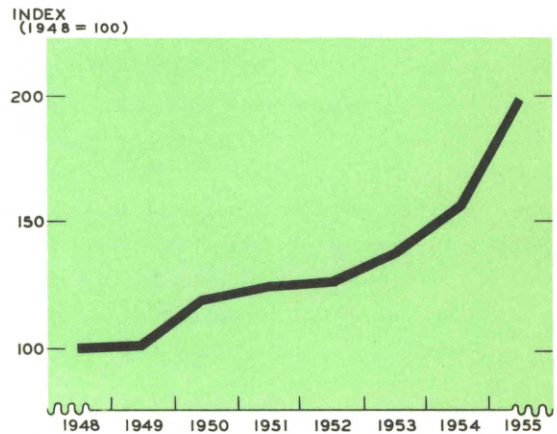
# THE PHILADELPHIA STORY

## PHILADELPHIA METROPOLITAN AREA



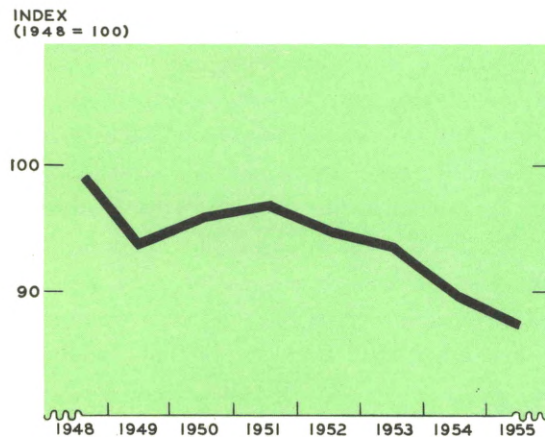
Department store sales for the whole area were about 9 per cent higher at the end of 1955 than in 1948. The 5 per cent gain last year was the largest year-to-year jump in sales.

## SUBURBAN PHILADELPHIA



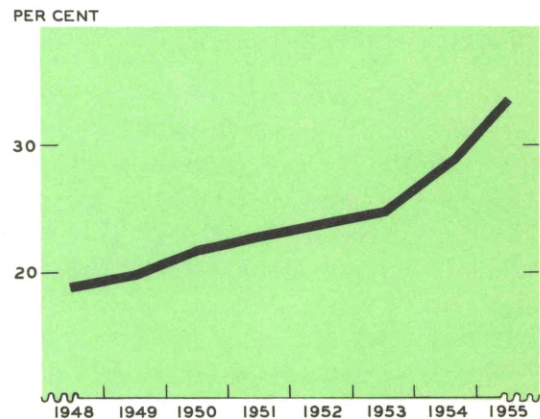
Suburban sales volume virtually doubled over the period. The 10 new stores on the scene played no small part in this increase.

## CENTER CITY STORES



On the other hand sales of stores in center city Philadelphia have been declining since 1951. They stand 12 percentage points below 1948.

## SUBURBAN SHARE OF AREA SALES



The proportion of total sales by suburban stores has risen each year. A combination of suburban gains and center city losses is responsible.

There are all kinds of theories offered to explain the "shop near home" phenomenon.

To some, the baby boom and the automobile have done it. Housewives who have to cart children aren't going to use trains, trolleys or buses to go shopping; so they drive. They can't park their cars conveniently in center city; so they shop suburban.

Others point to "casualness" as the reason for more suburban shopping. Trips to center city stores seem to require that the shopper dress more formally. This is likely to preclude impulse shopping. You plan ahead for a day of shopping "downtown." You're driving past; you drop in and shop in the suburbs.

Still others say it's a whole combination of things like brand-name merchandise sold at a familiar-name store with a spacious parking lot, next to a supermarket, across from a gas station, two miles from where the shopper lives.

### CONCLUSION

Many department store officials feel that soon they will move up on their competition. They are not counting on any tricky promotions or other gimmicks in their resurgence. Smart merchandising and the opening of glamorous branches in fast growing suburbs are the factors in the expected comeback that officials most frequently talk about. (The Philadelphia story shows how suburban stores can drive area totals upward.) They cite the recent levelling of their share of the adjusted retail sales total as evidence that the comeback is on the way.

Their optimistic talk does not go unchallenged. Some other observers think that department

stores have merely slowed their descent. These observers say department stores are going to have to be satisfied with a somewhat smaller share of retail sales. None would say department stores will wither away, but they do feel that the big stores' market position will shrink some more. The trouble, according to this view, is that department stores have not permanently halted the downward trend in their share of sales of durable goods—homefurnishings.

No one knows which view correctly projects the future. But it is true that department stores have not as yet gained significant ground on their competition in selling durables. And on the basis of evidence in the Philadelphia area, it does not seem as if suburban department stores are going to provide a final answer to the durable goods problem. Suburban branches sell a proportionately smaller volume of homefurnishings than their parents in the center city.

On the other hand, department stores account for a larger percentage of apparel sales than ever. Proportionate gains in apparel sales may hold up the department stores' market position until inroads are made in the sale of durable goods.

It's pretty sure that department store people won't rest easy until they gain on their competitors. They are used to competition—they love it. Frequently, they are competing so vigorously among themselves that they don't have time nor inclination to measure themselves against others. But now that some other retailers have made inroads on their market position, department store people are alerted. They give ground grudgingly. It's going to be hard to budge them backward.



# CURRENT TRENDS

Activity in most sectors of the economy in the Philadelphia Federal Reserve District approximates or exceeds the high levels reached during 1955. Recovery from the effects of the steel strike at a faster pace than most observers thought likely has given rise to a high degree of optimism in many quarters. Capital spending plans of businessmen—one of the brightest spots in the local picture this year—now seem more likely to proceed with a minimum of delay occasioned by shortages of basic materials. In our larger city areas, labor market conditions have stabilized or improved in recent months; factory employment has increased since mid-summer; and retail sales have maintained a fast pace set early in the year. Thus, among major indicators of business activity, only housing and automobiles have continued to show signs of weakness or hesitation in comparison with year-ago trends.

**Labor markets** in Third District cities have either maintained or raised their employment status since the early months of this year. Atlantic City in New Jersey and Scranton and Johnstown in Pennsylvania are areas where conditions have improved. The situation in Johnstown is particularly noteworthy. That area's employment status has been upgraded twice since last fall and unemployment has been reduced by about one-fourth, largely because of increased activity in steel mills and bituminous coal mines.

Although pools of unemployment equal to 6 per cent or more of the local labor forces persist in five of our thirteen major industrial areas, Wilkes-Barre-Hazleton and Scranton are the ones where the problem remains most critical. Significantly, these cities are in the anthracite region, where jobs for men have been scarce since mining

operations were cut back several years ago. Over most of 1955 there were two other areas of critical labor surplus—Altoona, a railroad town, and Johnstown, where steel and bituminous coal are leading industries.

**Factory activity** in most parts of this District declined sharply when the steel mills closed down in July. The Harrisburg and Lehigh Valley areas with their large share of heavy industry were among those hardest hit. However, by mid-August activity in both areas had more than regained pre-strike levels. Seasonal influences were a factor in the increases in employment and working time in many industrial areas since mid-summer. These were especially apparent in nondurables like food processing, textiles, and apparel. Wilkes-Barre, Scranton, and Reading were among the major city areas where increased activity appeared in nondurables. Philadelphia and York also felt these seasonal influences and, in addition, experienced some solid gains in other lines attributable to increased order volume for the products of both heavy and light industry.

In the Third District as a whole, factory employment and working time were maintained above 1955 levels until mid-year. By late summer, most of the July losses had given way to rising trends that seem likely to continue through most of the fall. Employment prospects appear to be brightening on a fairly broad front as employers appraise their labor needs over the period to early November. Thereafter, it is expected that seasonal factors may result in a leveling off, with only narrow employment changes probable through the turn of the year.

**Basic steel capacity** in this District has been expanding steadily since the early weeks of 1956

and this trend shows signs of continuing well into next year. The current pattern of growth, however, differs from that of earlier periods in that emphasis is on modernization of existing facilities rather than on building entirely new plants. Third District steel mills operated at or above rated capacity continuously from the beginning of this year until the final week of June. In 1955, capacity operations were not reached until the middle of October. Within three weeks of the steel settlement, mills producing crude steel and ingots for castings were operating at 106 per cent of capacity and a better than 100 per cent rate has been maintained ever since.

**Bituminous coal production** in Pennsylvania ran well ahead of 1955 from January through June. But when the steel mills closed down, operations were drastically curtailed and production in some of the so-called "captive mines" owned by steel companies was suspended altogether. As in the case of basic steel, the extent of recovery from July's low point has been impressive. Although most industrial consumers had accumulated adequate reserves before the steel strike, demand is again expanding from most sources, including the steel companies themselves.

**Anthracite output** has fluctuated widely all year, but much of the time at higher levels than prevailed over practically all of 1955. Somewhat larger exports of anthracite have helped production this year. The increasing use of the fuel in the manufacture of coke has given the industry another much needed "shot in the arm." Meanwhile, new uses for anthracite are being sought constantly and there is a persistent effort to improve stoking and burning equipment to increase the popularity of the fuel for heating purposes.

**Building and construction**, as measured by contracts awarded in this District, have continued close to 1955 levels, but the pattern of activity has

changed considerably. This year, emphasis has shifted to nonresidential building—particularly factories and educational structures. Awards for residences have lagged considerably since spring. Progressive tightening in the supply of mortgage money for homebuilding has resulted in fewer starts, with builders becoming increasingly cautious as the year progresses. Financing with FHA and VA mortgages has been especially difficult. Latest reports indicate that this situation shows no sign of easing, consequently homebuilders in this area have continued to cut back their plans for fall operations.

**Department store sales** have been one of the areas of greatest strength in the Third District economy since the turn of the year. Thus far, July was the only month in which dollar volume failed to exceed 1955 by a fairly large margin. August business was especially good and set a new record for that month. Cash sales have accounted for a larger percentage of total volume than in 1955. Increases over a year ago in total sales have persisted in all major city areas except Wilkes-Barre. Wilmington, Scranton, and York are the areas showing the largest percentage gains compared with the first eight months of last year. Collections at District department stores have been at a somewhat slower rate than in 1955, with the greatest departure appearing in instalment accounts.

**Automobile registrations** in Third District counties of Pennsylvania were higher than a year ago only in the first two months of 1956. Since spring, the trend has been downward. Second quarter registrations were off 20 per cent from 1955 and over the first eight months the decline amounted to 11 per cent. Used car markets have held up rather well in most Third District cities, but the demand for new cars has been disappointing and the competition for business exceptionally severe.

**Freight car loadings** through June held well above 1955 on top of a sharply rising trend during the same period last year. The impact of the steel strike on total freight volume was severe in this area, with loadings for July showing a drop of about one-third from the preceding month. As in the case of most other industries directly affected by this work stoppage, car loadings made a rapid recovery in August and early September. Estimates of fourth-quarter loadings for the Allegheny region, which includes this Federal Reserve District, indicate that total shipments may rise 5 per cent above a year earlier. On a commodity basis, the sharpest increase is looked for in loadings of ore and ore concentrates.

**Cash income** received by Third District farmers has risen sharply since early spring. July was a particularly good month, owing to much larger yields of higher quality crops than were produced a year ago. In the first seven months of 1956, the cash income of farmers ran 4 per cent above last year's level, with New Jersey showing

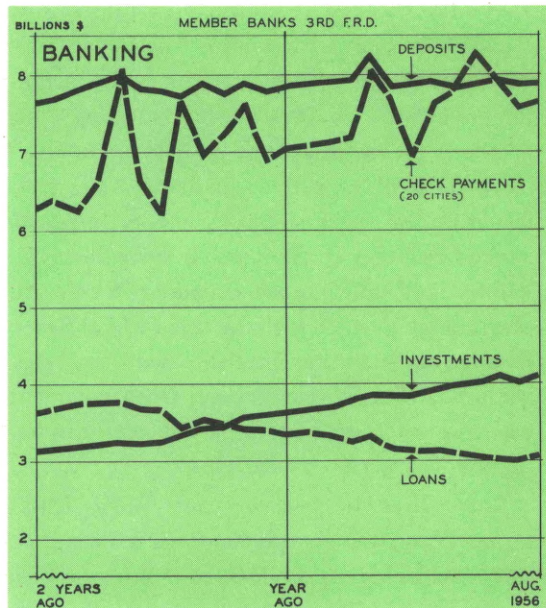
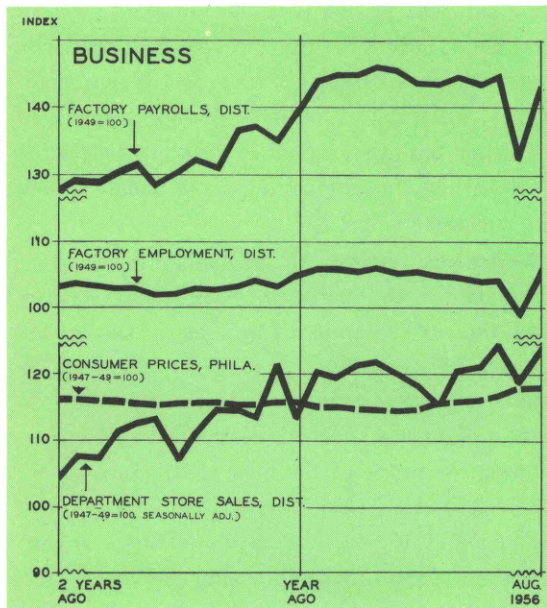
the largest gain. Receipts from crops alone were up 7 per cent in this period, compared with an increase of only 3 per cent for livestock products. Income from livestock products this year was adversely affected by prices. Delaware farmers in particular felt this because of very low prices for broilers, that state's most important single source of farm cash income.

**Consumer prices** in Philadelphia, as elsewhere in the country, have been rising steadily since the early months of this year. Locally, the advance has amounted to almost 3 per cent, as compared with virtually no increase in the first eight months last year. Higher food costs have accounted for much of the over-all advance in living costs, having risen nearly 5 per cent between January and August. The cost of housing, too, has increased, reflecting both rising prices of new construction and higher rentals in this area. Other items making up the Bureau of Labor Statistics index of living costs have contributed in only a minor degree to this year's general advance.



## THIRD FEDERAL RESERVE DISTRICT

# FOR THE RECORD...



## SUMMARY

	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	August 1956 from		8 mos. 1956 from year ago	August 1956 from		8 mos. 1956 from year ago
	mo. ago	year ago		mo. ago	year ago	
<b>OUTPUT</b>						
Manufacturing production...	+ 6	- 3	+ 1	+10	+ 1	+ 3
Construction contracts*	+ 2	- 1	+ 2	- 4	0	+ 7
Coal mining.....	+58	+ 2	+ 6	+40	+ 6	+10
<b>EMPLOYMENT AND INCOME</b>						
Factory employment (Total)...	+ 6	0	+ 1	+ 4	+ 1	+ 3
Factory wage income.....	+ 8	+ 3	+ 6	.....	.....	.....
<b>TRADE**</b>						
Department store sales.....	+ 4	+ 9	+ 6	0	+ 8	+ 6
Department store stocks.....	+ 3	+11	.....	+ 2	+ 9	.....
<b>BANKING</b> (All member banks)						
Deposits.....	+ 1	0	+ 1	+ 1	+ 1	+ 2
Loans.....	+ 1	+12	+16	0	+14	+16
Investments.....	+ 1	- 9	-12	+ 2	- 9	-10
U.S. Govt. securities.....	+ 1	-10	-12	+ 2	-10	-12
Other.....	0	- 6	-11	+ 1	- 5	- 4
Check payments.....	+ 1†	+ 8†	+ 9†	+ 1	+10	+10
<b>PRICES</b>						
Wholesale.....	.....	.....	.....	+ 1	+ 3	+ 3
Consumer.....	0†	+ 2†	0†	0†	+ 2	+ 1

\*Based on 3-month moving averages.

\*\*Adjusted for seasonal variation.

†20 Cities

‡Philadelphia

## LOCAL CHANGES

	Factory*				Department Store				Check Payments	
	Employment		Payrolls		Sales		Stocks		Payments	
	Per cent change August 1956 from		Per cent change August 1956 from		Per cent change August 1956 from		Per cent change August 1956 from		Per cent change August 1956 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown...	+23	+3	+30	+14	.....	.....	.....	.....	0	+10
Harrisburg...	+18	+5	+27	+13	.....	.....	.....	.....	- 2	+ 6
Lancaster...	+ 1	- 1	+ 3	+ 2	+15	+17	+ 5	+ 8	+ 4	+ 9
Philadelphia...	+ 3	0	+ 4	+ 5	+12	+ 4	+13	+15	0	+ 7
Reading.....	+ 3	- 4	+ 3	+ 1	+14	+14	+ 5	+ 4	+11	+ 7
Scranton.....	+ 1	+5	+ 1	+10	+28	+37	+ 8	+11	0	+19
Trenton.....	+ 4	- 5	+ 2	- 3	+ 6	+14	+ 5	+ 1	+14	+32
Wilkes-Barre...	+ 2	- 6	+ 3	0	+14	+ 6	+ 4	+ 1	+ 5	+ 7
Wilmington...	+ 6	- 5	+ 3	+ 1	+22	+13	+ 7	+ 8	- 9	+ 4
York.....	+ 2	+ 3	+ 2	+ 6	+15	+ 1	+ 9	+ 8	+ 4	+13

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