DECEMBER 1956

business review

FEDERAL RESERVE
BANK OF
PHILADELPHIA

PENNSYLVANIA IN THE INTERSTATE STAMPEDE FOR NEW INDUSTRY

Part I: The Stampede

There was a time when most of the country's manufacturing was concentrated in about a dozen favored industrial states including Pennsylvania. In the post-war industrial building boom all states are out for new plants. It's a regular stampede.

1957: FACTS, FIGURES, AND WISHFUL THOUGHTS

Facts and figures buttress confidence in the business outlook. 1957 should be a good year, perhaps a $431 billion year.

CURRENT TRENDS

Christmas buying started late in the department stores, but Third District merchants look for another good season.

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PENNSYLVANIA IN THE INTERSTATE STAMPEDE FOR NEW INDUSTRY

Part I: The Stampede

Did you know that American manufacturers are putting up more new plants than ever before in our entire history? That is a fact. It can be proved with the help of numbers, and bye and bye we shall do so.

Did you know that every state in the Union is trying to outbid all other states to get the new plants? Even the governors are getting into the act. Suppose a "blue chip" company is thinking of putting up a new plant. The news leaks out shortly after the board meeting adjourns. The next day while the president is reading his mail, his secretary hands him a visitor's card and says, "The Governor of Oklavania wishes to see you." Oklavania is precisely the place for a new plant; how could the engineers have overlooked it! It has a salubrious climate, a sizable part of the country's population within a moderate radius, abundance of good, sparkling water, three trunkline railroads, lots of room for expansion, labor that is reasonable, taxes a mere trifle, a land of opportunity. As progress goes, so goes Oklavania.

Why the boom in factory construction and plant modernization? Why are all of the states and numerous cities going all out to get the new plants? How are the states and some of their cities going about the job of getting the new industrial establishments? The answers to these and some related questions will be sought in a series of articles of which "Part I: The Stampede" might well be the beginning. Where and when this exploration will end we do not exactly know ourselves, but we think we know how and why the stampede began.

STAGNATION—THE ANTECEDENT TO THE STAMPEDE

Remember the dying days of the pre-atomic age! At the time, we were in the midst of World War II. Everybody who could fight was in the armed forces, and almost everybody else was busy making the weapons and wherewithal to win the fight and to live. Compared with a pre-war base year of peace, like 1939, the country's economic activity had more than doubled; Government purchases of goods and services (swords and plowshares) had increased sevenfold; and unemployment, a pre-war curse, had virtually evaporated.

Almost half of the country's toil was attributable to the war effort, that is, was accounted for by orders from Uncle Sam. This is in terms of gross national product—a term so dear and meaningful to economists and so dull and dumbfounding to others.

Inasmuch as it took a great war to banish the scourge of unemployment, it was widely feared that when the war prop would be kicked out from under the economy, unemployment would reappear with all its loathsome evil. Post-war unemployment ranging from 6 million to 12 million was widely predicted by some of the most respected predictors—official and unofficial.

Postwar Planning was the talk of the times. The phrase meant, "What can we do now in the middle of a war by way of planning to prevent an economic collapse after the war?" Everybody talked about postwar planning. It was heard not only in conventions of economists but everywhere—in boardrooms, drawing rooms, pullman cars, legislative halls, service clubs, women's clubs. You may remember the story about Johnny who flunked in spelling but got an "A" in Postwar Planning. The hard times of the thirties were still hard on the minds of the people who bore scars of the Great Depression. The collapse was regarded as the inevitable consequence of World War I, so, wouldn't an even greater war bring about an even greater postwar depression?

As everyone now knows full well, no such thing happened. Thus far at least, history did not repeat itself. On the contrary, we have "never had it so good"—to borrow a favorite phrase of whichever party happens to be in power. Ever since the end of the war, we have had one long period of prosperity, with only a few minor interruptions—one in 1949 and another in 1953-1954.

Rolling readjustment

The gloomy wartime prophets didn't think about, or underestimated, the war-born backlog of demand for automobiles, houses, household appliances, and the war-born accumulation of purchasing power in the form of checking accounts, Government bonds, and other savings. They also failed to foresee, or underestimated, the growth and shift in population and the baby boom, the newly acquired taste for beefsteak and hors d'oeuvres on the part of many people previously accustomed to fatback and hominy, the terrific wartime depreciation and obsolescence of productive capacity, the foreign-aid program. Neither the pessimists nor anyone else could have foreseen the 38th Parallel, the Gaza Strip, the localized "hot wars" and the worldwide and seemingly interminable "cold war."

But for the two moments of weakness, the postwar period has been one of persistent growth and expansion. Whenever one or two lines of business activity were lagging, there was enough strength in all other lines to keep the economy on the up and up. This process whereby the good almost inevitably outweighs the bad has come to be known as "rolling readjustment" — a simple phrase to describe a supple economy.

Behold all the new factories!

One of the big wheels in the rolling readjustment has been—and continues to be—plant expansion and modernization of equipment. Just take a trip almost anywhere and you will be amazed to see the number of bright, new, long and low factory buildings that are taking the place of the musty, old, multi-story monstrosities of a generation ago.

Now, factory buildings come in all sizes and they are used for a variety of purposes; so there would be little point in counting them. A better way to portray the fantastic and phenomenal growth would be to turn to the figures of dollars spent for plant expansion and modernization.

According to the surveys periodically conducted by the Department of Commerce and the Securities and Exchange Commission all business is currently spending $38 billion a year for plant expansion and modernization. Manufacturing industries alone are spending $15 billion a year which is in contrast with $7 billion spent in 1946. For the entire period from 1946 to the present, total outlays by manufacturing industries come to $111 billion. That compares with $75 billion as the replacement value of the country's manufacturing facilities in 1944, according to an estimate by the War Production Board. Even after allowing for dollar shrinkage, $111 billion of new plant and machinery is still a fantastic record. Ten or 11 years ago no one in his right mind would have dared to make a forecast of what has really come to pass.

THE INTERSTATE STAMPEDE

With so much industrial expansion going on, it is easy to see why one state after another joined the stampede. A new industrial establishment is a new source of income that enriches the people of the state in many ways, it utilizes local resources, it enhances real estate values, and, of course, is in itself a new source of taxes. In short, a new industrial enterprise, if it prospers, looks like a jewel. An abundance of jewels, however, brings with it a bundle of problems which the states may be overlooking.

The railroads—so far as we can discover—were the first to appreciate the value of new industry and they were the first to do something about it. A new industrial enterprise anywhere along the line of a railroad means additional carloadings — bringing in building materials to build the factory itself and the homes of the workers, and an interminable list of necessities such as furniture, food, etc., and also to carry out the manufactured products of the enterprise. As early as 1889, the B. & O. had full-time "industrial agents." Now all large railroads have industrial departments.

Chambers of Commerce were also among the early birds. Originally, their major interest was centered largely around retail trade, but they were quick to see that new industries help not only retail trade but also everything else.

The electric utility is another natural to embrace new industry with open arms. In a recent issue of the *American Banker*, Robert T. Lee, Area Development Manager of the Connecticut Light & Power Company, reminds us that as early as 1899 a California electric utility company was organized for the express purpose of providing power to pump water for the irrigation and development of new agricultural areas. In those days, most industrial concerns made their own power, but all that has since changed. Most industries now buy their power from an electric utility. Fully two decades ago the Philadelphia Electric Company's sales department actively began seeking new industry, and more recently established a separate industrial development department—a set-up which is now typical of all progressive electric-power companies.

Industrial development corporations

An industrial development corporation is an amorphous organization that may or may not sell stock, that may or may not acquire property but it transacts business or incites others to do so and it has a definite purpose. It is created to diagnose community needs and to supply or obtain financial aid for prospective new or expanding local industry. When oil, and later gas, became the popular fuels for space heating, the anthracite region of eastern Pennsylvania became a problem area. The once flourishing industrial communities in these regions endured hard times, out of which grew the industrial development corporation.

One of the earliest to be organized was the Scranton Industrial Development Company, founded in 1914. Wilkes-Barre's Wyoming Industrial Development Fund was established in 1939 for the purpose of bringing in new industry to employ hard-coal miners out of work in that area. Altoona Enterprises, Inc., was formed in 1946 because the shift from coal-burning steam locomotives to oil-burning Diesels left Altoona, a predominantly railroad carshop town, in bad shape. For further analysis and re-analysis of activities of industrial development corporations in the Third Federal Reserve District, see our *Business Review* for December 1949 and December 1952. In brief, industrial development corporations usually build plants for companies that lack the capital or do not wish to tie up their limited capital in land and buildings. Many additional industrial development corporations were formed during the 1930's when the universally "foul weather" brought additional grief to blighted communities.

Obvious drawbacks of local industrial development corporations are their local nature and their limited fund-raising abilities. A state agency has state-wide authority, state-wide administrative machinery, and state-wide financial resources. Such an agency easily fits into the state government and can be built right into the governor's cabinet, as it is in Pennsylvania and some other states. These agencies go under various names, such as a Development Commission or a Planning Council or the Department of Commerce. By latest count, 46 of the 48 states have such agencies.

Some of these agencies are children of adversity and others are the offspring of prosperity—the industrial building boom. Emergence of the state agency not only enlarged the geographical extent of area development, but also introduced the opportunity to round out industrial development with basic long-range planning.

THE MODUS OPERANDI

For reasons that are quite apparent, each state agency, no matter what it is called, has a two-fold purpose of inducing new industries to come in and of preventing industries from moving out of the state. The modus operandi takes many forms. Some of the earlier inducements took the form of land grants, freedom from taxes or preferential rates for a number of years, or rent-free buildings, etc. Cities and smaller communities, not the states, first used such devices.

State agencies, as they now operate, are headed by the best talent the states can afford or that the legislatures think they can afford. The top administrator is likely to be a member of the governor's cabinet. He is a man with experience, vision, and drive. He thinks like an engineer, acts like a real-estate salesman, talks like a politician, and looks more relaxed than he is. He must be conversant with area planning, research and statistics, weather and taxes, timetables and water tables, freight rates and wage rates, and all the other things that influence a company's choice of a location.

It pays to advertise

One of the things that almost every state and many cities are doing is advertising their desirable locational features in leading business newspapers and magazines. You could not have failed to see some of these ads because they are quite plentiful. The ads no longer follow a standard pattern as they once did, in which the name of any state or city could have been inserted without much twisting of the truth. The present tendency is for each area to call attention to its own particular outstanding advantages. Arizona stresses its healthful climate, conducive to keeping absenteeism at a minimum; a group of electric-power companies in Arkansas, Louisiana, and Mississippi calls attention to "the forest products you need are in the middle South." Missouri's Division of Resources and Development says, "Splendid water-plenty sites for industry in river-rich Missouri"; Georgia's Department of Commerce says, "More power to help you save production and distribution costs by locating in Georgia," and another Southern state points out that it has, "a business-like state government."

Some states, heretofore predominantly agricultural, are seeking a better-balanced economy by inviting any and all kinds of industry. An example is Mississippi, long known for its B.A.W.I.—or balanced-agriculture-with-industry—plan. Sometimes a state, but more likely a city, topheavy in one line of industry, does selective advertising to attract particular industries to attain industrial diversification. Occasionally, the advertising stresses the state's leading port—like the port of Boston in Massachusetts, or the port of Indiana anticipating the opening of the St. Lawrence Seaway. In the state of Washington attention is being directed toward port improvement for the purpose of attracting industry.

Other states have devised unique forms of advertising over and above the conventional types. Tennessee and Florida, for instance, have issued attractive and well-illustrated brochures that tell the story in colorful glory. Nevada also issues a booklet of basic data which is sent out to prospective clients, together with a personal letter from the executive mansion.

Kentucky conducts site-seeing tours to show desirable sites available in the Blue Grass State. New Jersey issues an analysis of taxes in the major Eastern Seaboard states. When it comes to taxes, however, Puerto Rico, which is also in the competition, has all the states licked. Her ads point out that corporations locating in Puerto Rico are exempt from federal corporate income taxes. A corporation in the United States with a net profit after taxes of $29,500 would have a net profit of $50,000 in Puerto Rico. A company with a net profit of $485,500 after taxes would have a net profit in Puerto Rico of a cool million dollars.

"Redding up" for company

When the Pennsylvania Dutch housewife invites guests, she engages in extensive preparations by way of dusting the house, sweeping it clean, and removing all the conventional household flotsam and jetsam. Then she cooks and bakes, sets out the company china, and cuts flowers from her garden for the vases. The entire process is called "redding up."

In similar fashion the various states are busily preparing for company and the "redding up" process consists of the same two major types of preparation. The one type of preparation, which might be called negative, is the removal of obstacles. The other, which might be called positive, is setting forth the best wares or even buying new ones.

First, let's consider the negative types of "redding up." Some states, like Washington and Massachusetts, are launching port-improvement programs to facilitate the inflow and outflow of the raw materials and finished products in local, interstate, and international commerce. North Carolina is busily engaged in reexamining its tax structure to see whether it can be made more palatable to industry. Louisiana has approved tax exemptions on industrial property valued in excess of a certain amount, which is said to have borne fruit in the way of bringing in some new industrial firms. Kansas proposes to exempt purchases of machinery and equipment from state sales and use taxes.

Kansas is also proposing to take action in the way of various forms of positive "redding up." The Sunflower State is considering, among other things, an amendment to the state constitution enabling it to engage in water conservation and flood-control projects. New Hampshire is going in for Industrial Parks. The legislature has authorized a million dollars of state credit to start an Industrial Park Authority with power to develop industrial sites and buildings for sale to private concerns. Use of state funds is contemplated only for initial development, with the money to be returned to the state as projects are completed. An Industrial Park is a plot of land suitable for industrial sites that is not only set aside by the state for that purpose but also developed, that is, laid out in plots of various size—the whole Park having streets, gas, water, and sewage mains, together with such other appurtenances as are necessary to convert a cow pasture into a desirable plot on which to build. The well planned Industrial Park is concerned not only with good physical arrangements but also insures compatibility of tenants.

Some states are now setting up Development Credit Corporations, such as various cities throughout the country established long ago. New York's Development Credit Corporation is said to be the largest. The Wisconsin Development Credit Corporation, which is privately financed and operated, provides industrial expansion risk capital not available through normal bank channels. The Pennsylvania Industrial Development Authority is empowered to make second-mortgage loans to community, nonprofit corporations in labor-surplus areas. The state of Maine is considering a plan somewhat analogous to this in which the construction of industrial buildings is to be stimulated by a plan of mortgage insurance similar to FHA.

The various plans mentioned above are not a complete enumeration, but a representative sample of some of the things the states are trying to do by way of preparing for company.

Looking into the mirror

Research is the more conventional and elegant word to convey what we mean by looking into the mirror insofar as a state is concerned. Some states, as a preliminary step toward inducing new industry, engage in research; in fact, almost all states engage in research if the term is used in its broadest and most charitable sense. There are, however, various kinds or degrees of intensity of research depending upon who does it and what is paid for it. A state, like an industrial concern, may buy a little $10,000 block of research—sometimes referred to as a "quickie"—or it may buy a big block that costs a million dollars or more. The choice depends upon how deep you want to dig and how much time and money you have for the "diggins."

Almost all states issue economic data about the state. Much of this information comes right out of the Census volumes, and the work of collecting the figures you want and putting them together in booklet form might be termed "research" in its simplest form.

A somewhat higher form of research is the utilization of not only readily available Census data but all other sources of information. A seasoned researcher is familiar with the multitudes of sources, has a sufficiently discriminating mind to appraise their reliability, and is also familiar with the well-recognized tools and techniques of research procedure.

To the best of our knowledge, few, if any, states are engaging in research consistent with their sovereign dignity or, if they are, the results have not yet come to public attention. Some states, however, have taken at least the first step, namely, taking stock of their resources and perhaps their liabilities. A number of states have hired competent research personnel, but all too often the research budget is inadequate and too much of the time of the research people is taken up by other activities, like answering telephone calls, writing letters, entertaining callers, or almost anything other than research. A number of states, including Pennsylvania, farm out certain research projects to colleges or universities either within or outside the state. For example, one research project farmed out by Pennsylvania is a special study of wood utilization because Pennsylvania has, among other things, considerable timber resources. Wyoming's State Natural Resources Board is planning to call in, on a consulting basis, one of the country's leading professional research organizations to set up a program designed to bring in new industry.

Probably one reason why so few states engage in genuine research is because research is slow and requires a lot of thinking. Politicians, like businessmen, want action, results—and they want them in a hurry. No amount of research will produce miracles. Nevertheless, states might do well to look into the looking glass because self-analysis is a prerequisite for industrial development.

HOW A CITY LIFTED ITSELF OUT OF THE DOLDRUMS

In the matter of bringing new industry into the area, a number of cities have done a better job than most, if not all, of the states. One of the best city plans is that of Toledo.

When Toledo was in turmoil

Time was when Toledo was in trouble! It was an automobile parts town and its business "upsy-downsyness" was rocked still harder by labor-management difficulties—called labor trouble by management or management trouble by labor. In short, Toledo was a town full of trouble.

So, one day about 10 years ago in a downtown Toledo hotel room, three men had a vision. One man was a merchant, one was a manufacturer, and the third was a producer and purveyor of kilowatts. The dream they dreamed was the Toledo Industrial Development Commission—T.I.D.C.

Next, they called a meeting of the city's leading labor leaders in a bigger room of the same hotel, but a room not big enough to include the press. At that meeting there was some plain talk—something to the effect that we in Toledo are all in the same boat; we can either sail or sink, but whichever it is we've got to go together. The result of all the talk was the T.I.D.C., of which labor bought a share, the *Toledo Blade* bought a share, and industry bought the biggest block. Man-days lost by strikes declined from 233,000 in 1946 to 32,000 last year. Still not quite perfect sailing but much smoother.

The T.I.D.C. headquarters aren't much to look at—just a small office on the fourth floor of a downtown building that houses an executive secretary and an office secretary. A half partition that separates the two occupants gives an air of semi-privacy to the visitor calling on the executive secretary, and there's not much else in the office except a few chairs for guests.

A little and unimposing office, to be sure, but it is the headquarters of a big idea. The big idea that the little office houses is that Toledo can be made, *and was made*, an attractive town for industry. The Toledo Plan has two basic planks, namely, industrial peace and industrial progress.

If a new building goes up in Toledo with glass girders and there is a jurisdictional strike about to break out involving the steel workers and the woodworkers, who theretofore had had the girder business to themselves, the executive secretary hotfoots it to the scene of battle formation and says, "Remember the Toledo Plan. There will be no strike."—or something to that effect, and usually there isn't.

Most of the time, however, the executive secretary is hurrying somewhere in quest of a prospective new industry for Toledo. Toledo has an Industrial Park — an 89-acre plot of choice industrial land strategically located alongside an interchange of the Detroit-Toledo Expressway. More than two dozen new industries have come into Toledo as a result of the efforts of the T.I.D.C. When not busy following a "lead," the executive secretary goes to Detroit, Chicago, or elsewhere and makes "cold calls" at the head offices of the largest companies, doing missionary work for Toledo. He himself will admit that this is not the most productive way of finding "hot" prospects, but by this method he occasionally scoops one up. When the executive secretary of an organization like T.I.D.C. has the complete backing of the city government and the leading newspaper and the leading industrialists and the bankers and the labor leaders, success is guaranteed.

There are other cities that have done or are doing remarkably well in attracting new industry. But this must be deferred because we want to turn our attention to Pennsylvania. That will be the subject of the next instalment.

1957: FACTS, FIGURES, AND WISHFUL THOUGHTS

Confidence is wonderful!

It's frequently the difference between a champion and an "also ran." It gives a sense of assurance, and actions reflect it. Those who have it are able to do and say things that others wouldn't attempt.

When confidence pervades large groups of people, like businessmen and consumers, it usually means good things ahead. Buying plans are stronger for it. New ideas find favorable reception. Larger totals loom on the horizon.

But, like all good things, too much confidence is bad—real bad. It causes champions to lose to third-raters. It replaces calm self-assurance with swaggering braggadocio. When it plagues large groups like businessmen and consumers, it means trouble ahead.

The question is, "When is confidence overconfidence?" One answer might be, when it is not solidly based; in other words, when facts and figures are forgotten and when wishful thinking underlies confidence, look out!

This year almost everyone seems confident about the business outlook—so confident as to cause just a little apprehension. Is it overconfidence? Let's see; let's take a look at the facts and figures, dreams and wishful thoughts behind the confidence in the business outlook.

A convenient way to do this is to take the economy apart, sector by sector, and analyze the prospects.

GOVERNMENT SPENDING

All Government spending for goods and services in 1956 will probably total about $80 billion; as such it absorbs about 19 per cent of our national output. This spending is up about $3 billion from 1955, but is still short of the level reached in 1953. Government spending breaks into two main parts—Federal, and state and local. After declining sharply in 1954, Federal spending levelled in 1955 and 1956. State and local government spending has been increasing by about $2 billion or so each year since 1946.

Federal spending in 1957

Major decisions within the Administration concerning Federal spending for the next fiscal year have yet to be made. But looking forward to calendar year 1957 it is difficult to see how spending could be reduced. The only question seems to be, "How much higher will it go?"

All indications point toward higher spending for both military and civilian purposes. As far as the military is concerned, price increases alone suggest higher totals. In addition, new international tensions might enlarge the defense program somewhat and swell allowances for foreign aid. Over-all, spending on national security could rise by about $2 billion next year.

1957 will be the first year to feel the full impact of the National Highway legislation. Although this spending will be treated as a special trust fund outside the administrative budget, aid to highways may hike Federal spending by $500 million or so in 1957.

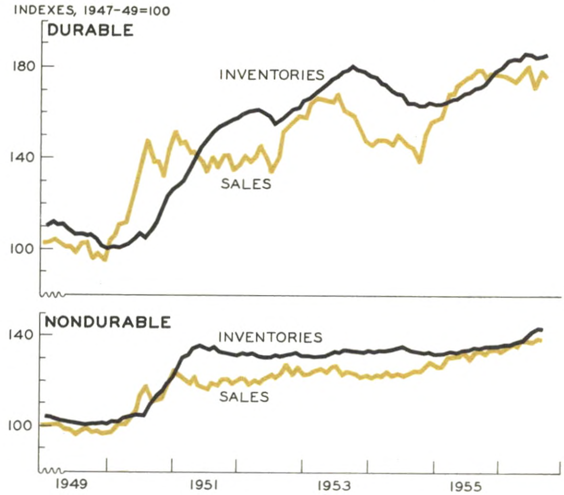
To sum it up, it looks like Federal spending for goods and services could rise by $3 billion in 1957 to $50 billion.

State and local government spending in 1957

State and local government spending may also be stepped up somewhat as a result of the Federal highway program. The details of this program call for participation by state and local governments. Spending on schools should also be strong in 1957. And, of course, higher wage and construction costs will put pressure on the costs of all these programs. An increase of at least $2 billion in state and local spending seems probable.

The possible increases in Federal. and state and local spending add up to about $5 billion. This would take total Government spending from about $80 billion in 1956 to $85 billion in 1957.

BUSINESS SALES AND INVENTORIES



Source: Commerce

BUSINESS INVESTMENT

Business spending in 1956 will probably total about $50 billion. It accounts for about 12 per cent of total spending. When total economic activity expands or contracts, this kind of spending frequently shows the sharpest rates of change.

It is sometimes difficult to understand why business spending, as represented in Gross National Product accounting, is smaller than either Government or consumer spending. It is because G.N.P. measures final product only, and that part of G.N.P. assigned to business spending includes only those goods which businessmen themselves will hold or make final use of. Businessmen invest in and make final use of capital equipment in order to be able to produce, and this is measured as business spending. In addition, business must hold inventory and to the extent this inventory increases or decreases, it is counted as business investment or disinvestment.

Inventory spending in 1957

At any given time businessmen hold a tremendous volume of inventory—at present around $86 billion worth—just as they own a gigantic block of plant and equipment. The important point as far as the outlook is concerned is whether this stock will be augmented or depleted. When businessmen invest in more inventory the effect is to add to total spending and quicken business activity.

Since the end of 1954, businessmen have been adding to their inventory totals. In spite of this consistent accumulation of inventory, businessmen's stock-sales ratios are lower than in most recent years. Of course, any slowing in sales could make the stock-sales ratios look sick fast. But barring this, it would appear that inventory spending will not fall off rapidly in 1957. In fact, it is possible that the uneasy world situation and rising prices could set off a speculative spree of buying in the early months of the year.

On the other hand, there is little reason to believe the inventory build-up next year will be as large as in 1956. The stock-sales ratios, though lower than in most recent years, are not so encouraging as they were last year at this time.

Weighing the signs of strength and the potential weaknesses of the outlook for inventory spending requires a fine touch. Perhaps as good an estimate as any would be that we'll have little if any net accumulation of inventory in 1957. This means that in 1957, spending on inventory will be weaker and have a minus $2 billion effect on total spending.

Plant and equipment expenditures next year

A good part of the inflationary tendencies that cropped up in 1956 came from the strong surge of business spending on capital equipment. By the end of this year capital spending will probably be about 20 per cent higher than in 1955.

Despite this very substantial rise in 1956, there seems to be good reason to expect some further gain in capital spending in 1957. New orders for capital equipment and non-residential construction contract awards, both of which precede actual spending, have been running above year-ago comparisons. In addition, shortages of steel and some other materials plus a scarcity of engineers and skilled construction labor may delay, until 1957, some spending programmed for 1956. Finally, preliminary surveys of businessmen's intentions indicate continuing strength in this spending.

This is not to say the rise in capital spending in 1957 will be as large as this year. It probably won't. Tight money should inhibit some spending. The tendency for profit margins to narrow in some fields may slow spending somewhat. A concomitant of this is the fact that for some firms, costs are rising faster than prices of finished goods.

These influences may slow capital spending in the latter part of 1957, but the year as a whole will probably total about $3 billion higher than 1956. If this is the case and if inventory investment declines by $2 billion, total business spending may be about $51 billion next year.

CONSUMER INVESTMENT IN HOUSING

Most people view money spent for new housing as different from other kinds of consumer spending. It's more like an investment. In the past this kind of spending has fluctuated violently like business investment spending. Since 1946, however, housing expenditures have not shown the sharp changes of earlier years.

In 1956, housing starts will probably total about 1.1 million. This represents a 17 per cent decline from a year ago. But spending on housing should be around $15.5 billion for the past year; a decline of just 7 per cent from 1955. Larger homes and higher costs have prevented spending from reflecting the full impact of the decrease in starts.

Housing in 1957

Most builders seem to feel that the actual rate of house buying is being determined by mortgage credit availability. Whether or not this is true, tight money probably did slow home building in 1956. It is likely to continue to do so in the early months of 1957. It appears that for the near future, home builders will have to adjust themselves to this situation. Credit probably will be available only on stricter terms and higher rates than in earlier postwar years.

Even assuming an easier money market. it is difficult for many outside the industry to see a jump in housing starts. The number of new households being formed continues below the number of new houses being built, older homes in many areas are getting noticeably harder to sell and, in general, the urgency to buy is lessened by the increased availability of housing.

Still, home builders have some good plus factors working for them. Larger families, lots of moving around of industry and people, and higher living standards come immediately to mind.

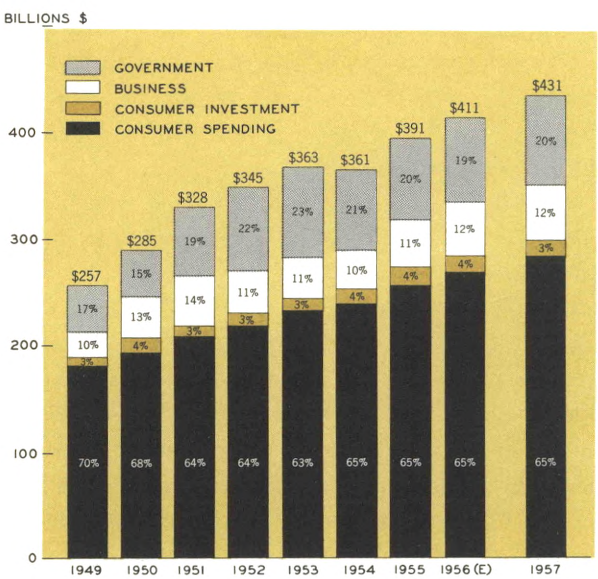
The plus and minus factors pretty much offset each other. Next year may see some further slight decline in housing starts, but expenditures will probably hover around the 1956 level.

CONSUMER SPENDING

Consumer spending is nearly twice as large as government, business and consumer investment spending combined. So this spending throws a lot of weight in total spending. A small percentage increase in consumer spending can counterbalance larger percentage declines in the other categories, and vice versa.

Each year since 1939 consumer spending has increased. The increase in 1956 will probably be more than $10 billion. In 1955 consumer spending jumped $18 billion.

GROSS NATIONAL PRODUCT



Source: Commerce

The outlook for consumer spending

On the surface at least, the outlook for consumer spending seems stronger than a year ago at this time. Consumers seem to be in somewhat healthier condition as far as instalment debt is concerned, savings are larger, incomes are still rising, and automobile changeovers are more extensive.

Certainly there seems every reason to suspect that the seemingly never-ending upward march of spending on nondurables and services will continue into 1957. Higher price tags and rising population make this a good bet.

Consumer spending on durable goods, in the doldrums for much of 1956, should snap out of it next year. A good Christmas season of buying will probably shake out inventory problems plaguing some appliance people. Automobile people already have put their inventory house in order.

All in all, it would not be surprising if total consumer spending reached $280 billion next year. This would be about $16 billion higher than in 1956 and would mean consumer spending again would represent about 65 per cent of total spending.

IT ADDS UP TO A GOOD YEAR IN 1957

What this all seems to mean is that 1957 may be a fine business year.

Add up the sectors as projected here and they total about $431 billion. This is an increase of $21 billion. In 1956, total spending was about $20 billion higher than in 1955. Some of the increase in total spending in 1956 reflected higher prices. Probably the same will be true in 1957.

But not everything about 1957 will be similar to 1956. Within the totals some different areas may exhibit strength or weakness. Automobile and appliance makers will possibly have more pluses on their records. Capital equipment makers may face a slower growing market. Farmers may hop out of the middle of the cost-price squeeze that has been pressing them.

An economy such as ours, where we try to maintain as much freedom as possible, makes these kinds of shifts inevitable. New industries and products come into the market. Business shifts resources from areas of lesser to areas of greater demand. Some industries are growing while others are shrinking. Investment decisions are adjusted to changing conditions.

CONCLUSION

At the beginning of this article we talked about confidence and over-confidence. We said we'd take a look at the "facts and figures, dreams, and wishful thoughts behind the confidence in the business outlook." It is now obvious that there are a lot of facts and figures behind the confidence.

Lead series like non-residential construction contract awards and new orders for capital equipment bolster confidence in future business spending. Stock-sales ratios tell us that inventories are not out of line. Budget documents and appropriations show the probable course of government spending. A past correlation between automobile sales and manufacturers' spending on major mechanical and styling innovations leads some to feel this may be a record or near record year for car dealers. And many other indicators point upward too.

So there are facts and figures behind the confidence in the outlook. While not so apparent, there are also dreams and wishful thoughts. Business spending on plant and equipment continues to rise. Some industries are increasing expenditures despite a decline in sales in 1956. The automobile industry is one. Suppose along about the middle of 1957 it becomes apparent that automobile sales won't be much, if any, better than 1956. What will that do to confidence? Will it make what the automobile people have now look like overconfidence?

Next year should be a good year, maybe a $431 billion year as we have projected. But at this time next year if some of the dreams and wishful thoughts haven't been fulfilled, business activity may be in the process of changing direction.

CURRENT TRENDS

Business news remains predominantly favorable at both the national and local levels. In the Philadelphia Federal Reserve District, signs of increasing strength have appeared in some sectors of the economy since early fall. A remarkable degree of stability persists in most others. As the year end approaches, bringing the important Christmas buying season, expressions of continuing optimism heard in many quarters seem justified.

Employment changes in our major industrial areas have continued narrow, particularly in the manufacturing sector. Working time and earnings, however, have risen at both factories and anthracite mines in Pennsylvania. More pronounced seasonal gains in activity are apparent in various trade and service lines. And many of our farmers are winding up an agricultural season that promises better returns than seemed likely earlier. Building and construction, measured in contract awards, remains about the only area of weakness in the local picture.

Attention focuses on retail sales

The current period — from Thanksgiving to Christmas — is the time when business observers, usually watching developments in many sectors of the economy, take a closer look at the area of retail merchandising. This is an appropriate switch, because the volume and pattern of Christmas shopping in department stores and other retail outlets frequently provide a clue to broader economic trends in the future. The importance of the Christmas season to retailers themselves can hardly be overemphasized, because it leaves an indelible stamp on a whole year of merchandising operations.

Over the greater part of 1956 retail trade has remained an area of significant strength in the economy of the Philadelphia Federal Reserve District. In terms of consumer spending in the department stores, there were only two periods when dollar volume failed to exceed last year's levels by rather convincing margins. One of these came in July, when repercussions of the steel strike doubtless were a factor. The other "off" period developed in late October, at a time when comparisons were with relatively high-level sales in 1955.

With this kind of background for department store sales, it would seem logical to expect another Christmas buying season similar to the record-breaking one experienced last year. We have asked store executives in major city areas of this District for their early impressions of the current season's business—and this is what they tell us:

Christmas buying started late

Shopping for gift merchandise seems to have started later than usual this year. Some department store people describe business volume as "unimpressive" in the first full week following Thanksgiving. Others appear even less enthusiastic, calling attention to early promotional events that brought little response unless they were storewide affairs. Thus, even shopper attendance seems to have fallen short of expectations at some stores.

Surprisingly, not too much significance is attached to this year's mediocre early-season performance. Some store executives, looking at the calendar and the figures for comparable years, see at least a partial explanation. When Thanksgiving comes early, as it did this year, and Christmas falls in mid-week, the shoppers just won't be hurried. They take a "breather" at the start of the season and count on that extra week end before the holiday to decide on last-minute gift selections. Others relate this season's slow start to the distractions of a very tense international situation.

. . . but there is no evidence of price consciousness

Whatever other reasons may be behind the delay in this season's volume purchases of Christmas merchandise, price consciousness does not seem to be one of them. On the contrary, early gift selections are said to include a fair share of the more costly items. In toys, current preferences are said to run to relatively high-priced mechanical goods that frequently are passed up until later in the season. Expensive jewelry, furs, and the so-called "big ticket" items like appliances and television are moving in about their usual early-season volume. Some reports indicate that furniture sales are improving slowly. Among a few merchants, there is the impression that apparel has been swelling post-Thanksgiving totals somewhat more than in other years. Perhaps this was to be expected, because clothing volume generally was disappointing earlier this fall.

. . . and most merchants are optimistic

Much can happen with two full weeks and that extra shopping day remaining in the 1956 Christmas season. And most store executives seem to agree that a lot faster rate of spending will be needed to make this another record season in Third District department stores. At this point most of our merchants remain optimistic. But, accustomed as they are to seeing old records broken year after year, only a very few expect a substantially larger sales volume this season than last. The consensus thus far indicates that merchants are looking for a small plus or minus—not more than one per cent either way—compared with the 1955 season's all-time high.

THIRD FEDERAL RESERVE DISTRICT

business review

FEDERAL RESERVE BANK OF PHILADELPHIA

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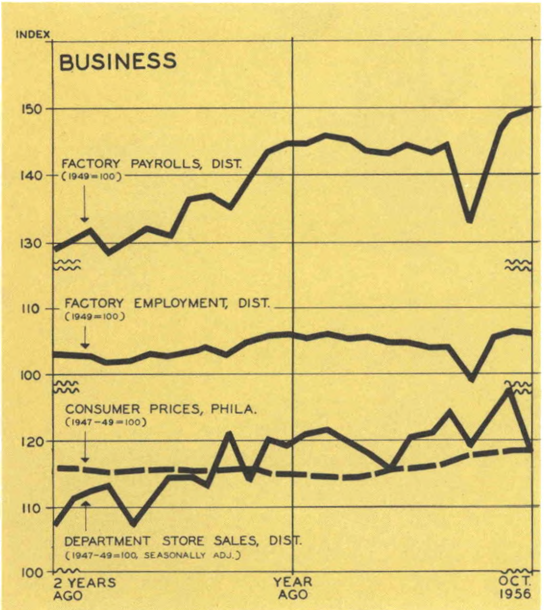
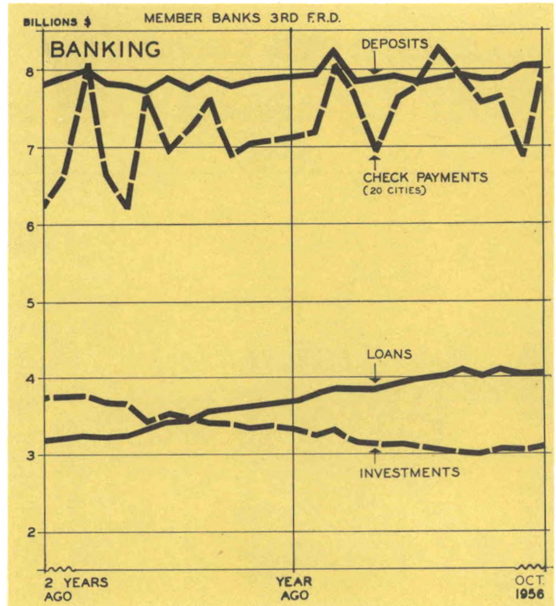
FOR THE RECORD...





SUMMARY	Third Federal Reserve District, Per cent change, October 1956 from mo. ago	Third Federal Reserve District, October 1956 from year ago	Third Federal Reserve District, 10 mos. 1956 from year ago	United States, Per cent change, October 1956 from mo. ago	United States, October 1956 from year ago	United States, 10 mos. 1956 from year ago
OUTPUT						
Manufacturing production	0	− 3	0	+ 3	+ 1	+ 3
Construction contracts*	−17	−17	− 1	− 7	− 6	+ 5
Coal mining	+ 3	+13	+ 6	+ 2	+ 6	+ 9
EMPLOYMENT AND INCOME						
Factory employment (Total)	0	0	+ 1	+ 1	+ 1	+ 2
Factory wage income	+ 1	+ 3	+ 6	.....	.....	.....
TRADE**						
Department store sales	− 7	− 1	+ 5	− 5	0	+ 5
Department store stocks	− 5	0	.....	+ 2	+ 9	.....
BANKING (All member banks)						
Deposits	0	+ 2	+ 1	+ 1	+ 2	+ 2
Loans	0	+ 9	+15	0	+13	+16
Investments	+ 1	− 6	−11	0	− 9	−10
U.S. Govt. securities	+ 1	− 7	−11	0	−10	−12
Other	0	− 3	−10	− 1	− 5	− 4
Check payments	+16†	+13†	+ 8†	+16	+10	+ 9
PRICES						
Wholesale	.....	.....	.....	0	+ 3	+ 3
Consumer	0‡	+ 3‡	+ 1‡	+ 1	+ 2	+ 1

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

LOCAL CHANGES	Factory* Employment, Per cent change October 1956 from mo. ago	Factory* Employment, year ago	Factory* Payrolls, Per cent change October 1956 from mo. ago	Factory* Payrolls, year ago	Department Store Sales, Per cent change October 1956 from mo. ago	Department Store Sales, year ago	Department Store Stocks, Per cent change October 1956 from mo. ago	Department Store Stocks, year ago	Check Payments, Per cent change October 1956 from mo. ago	Check Payments, year ago
Allentown	0	0	+1	+11	.....	.....	.....	.....	+21	+16
Harrisburg	0	+4	+1	+13	.....	.....	.....	.....	+22	+17
Lancaster	0	−1	+1	+ 5	− 7	− 1	+11	+ 5	+12	+12
Philadelphia	0	0	+1	+ 6	− 3	0	+ 8	+ 6	+16	+12
Reading	0	−3	+3	+ 1	−14	+ 2	+22	+12	+21	+10
Scranton	0	+4	−1	+10	− 1	− 5	+ 6	+ 7	+20	+18
Trenton	+2	−1	+2	+ 1	− 7	− 2	+ 3	+ 2	+ 1	+8
Wilkes-Barre	+1	−4	+4	+ 5	−13	− 5	+14	+ 2	+19	+17
Wilmington	−4	0	−2	+ 1	+ 3	+ 7	0	+ 4	+19	+29
York	0	+2	+4	+ 7	− 5	−11	+ 5	0	+20	+ 6

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