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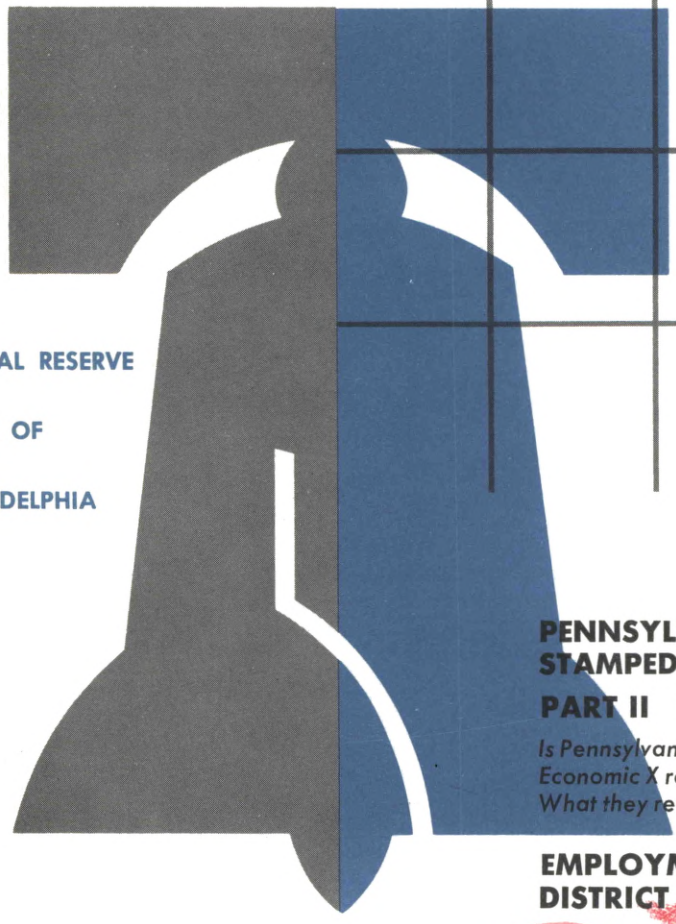

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PENNSYLVANIA IN THE INTERSTATE STAMPEDE FOR NEW INDUSTRY:

PART II Economic X rays

Is Pennsylvania holding her own in the stampede for industry? Economic X rays in this article throw some light on this question. What they reveal is not all good, but it is far from all bad.

EMPLOYMENT TRENDS IN THIRD DISTRICT LABOR MARKETS

Labor market conditions changed little last year, although unemployment decreased somewhat in several areas. Factory employment stabilized in most major industrial areas.

CURRENT TRENDS

Forecasts are optimistic, but consumers are still "zestless."

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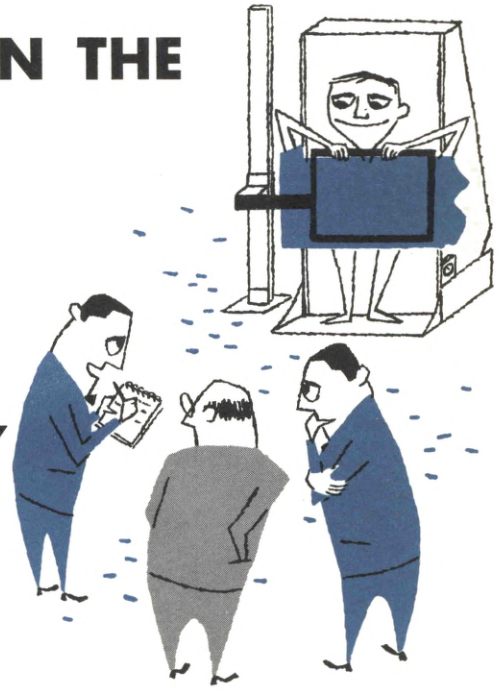
PENNSYLVANIA IN THE INTERSTATE STAMPEDE FOR NEW INDUSTRY



Part II: Economic X Rays

Pennsylvania is an active participant in the interstate stampede for new plants, as observed in the December 1956 *Business Review*. As an industrial state, Pennsylvania is naturally eager to get as many as possible of the new plants mushrooming all over the country.

And, of course, it is a fact that new plants are locating here. The Fairless steel mill, the largest industrial establishment that has come into our area for some time, has naturally overshadowed a multitude of smaller plants that have also come into the state in recent years.

Pennsylvania has not, of course, secured all the plants that she sought. Several large industrial concerns have recently considered Pennsylvania for new plants of considerable size and, for reasons best known to the managements of these companies, they have chosen sites elsewhere. While it is inevitable that Pennsylvania should get some of the new plants and lose others, it might be well to consider and reflect upon some of the basic economic characteristics of the state in the hope that a little self-examination may reveal not only elements of strength but also weaknesses. The former can be capitalized and the latter shored up. With that in mind, let us turn to what might be called "Economic X rays" of the Commonwealth.

ECONOMIC X RAYS OF PENNSYLVANIA

The Commonwealth of Pennsylvania has uncommon wealth. With respect to size, there is little to brag about. Thirty-one states have more land area than Pennsylvania's slightly over 45,000 square

miles. Only two states, New York and California, have more people and that is subject to change. Pennsylvania was nicknamed the "Keystone State," not for its shape, which is roughly rectangular, but for its middle position among the 13 original colonies. Despite the subsequent growth of the United States in territorial extent and the westward shift of population, Pennsylvania still has a good location. The state is especially fortunate to have a shorefront on the country's greatest lake system, access by rivers to the very heart of the country and to the Gulf of Mexico, and a tidewater trailway leading right out to the world's busiest ocean. No other state can match that for water transportation facilities.

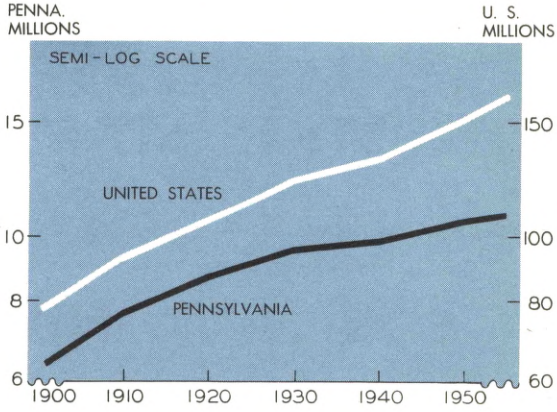
Pennsylvania has all kinds of land surface—flat, rolling, hilly, and mountainous. Densely decked with forests when the American Indians owned it, the state is still half overlaid with forests, and large portions are underlaid with fossil fuels. Endowed with so much wood to make charcoal and so much coal to make coke, Pennsylvania seemed destined for industrialization founded on iron and steel.

In the hope that Pennsylvania may at least hold her own in the interstate stampede for new industry, let us explore some of the salient features of the economy of the Commonwealth.

People

The first chart shows two very simple but basic facts. First, the populations of both Pennsylvania and the United States have been growing during the 20th century. Second, the rate of growth in Pennsylvania has been slower, as indicated by the slopes of the two lines plotted on a so-called semi-logarithmic grid that throws rate of growth right at you. The fact that Pennsylvania is being peopled at a slower rate than the United States is not necessarily bad. It might even be good for Pennsylvania. It is too early, much too early, to jump to such a big conclusion on the basis of so little evidence. Like Mr. Pickwick, who had his secretary record all commonplace observations, we'll just write down the fact that the state is growing more slowly than the country of which it is a part.

1. POPULATION IN PENNSYLVANIA IS GROWING AT A SLOWER RATE THAN FOR THE REST OF THE NATION



Source: U. S. Bureau of the Census

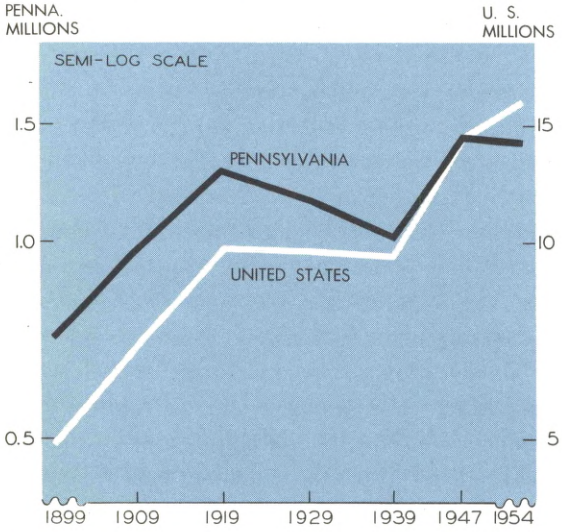
People who work in factories

Who makes the greater contribution to society—a Stradivari who makes a rare violin or a Paganini who plays it with such wizardry, we shall leave to the philosophers to wrangle over. The fact remains that a lot of people make their living by making things. That the United States is a great manufacturing nation and Pennsylvania a great manufacturing state is no great discovery, but it might be surprising to see that manufacturing, as a source of employment, no longer has so great an uplift in Pennsylvania as in the United States. This is readily apparent in the second chart, which shows that throughout the greater part of the current century the number of Pennsylvanians who make their living by working in manufacturing

establishments has been growing at a slower rate than the number similarly employed throughout the entire land.

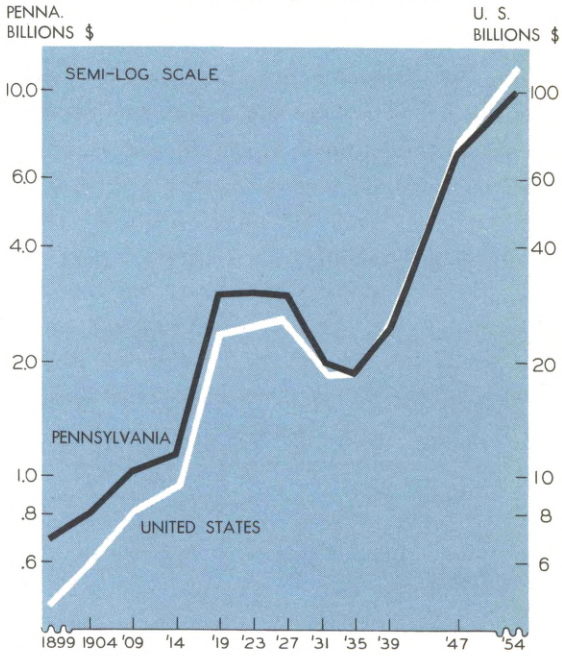
Again, let us not be too hasty in concluding that this picture necessarily shows Pennsylvania in a bad light. It is conceivable, though not yet demonstrated, that places in the United States other than Pennsylvania afford increasingly favorable circumstances for the pursuit of manufacturing. All that the chart might be trying to show is that Pennsylvania has passed its prime as an industrial state and that the United States has *not* passed its prime as an industrial nation. Or the picture might be revealing, in a negative sort of way, that Pennsylvania, in contrast with the United States, affords opportunities for employment that are more lucrative than manufacturing. Keeping in mind these and other tentative interpretations, let us turn to another and somewhat similar economic X ray.

2. EMPLOYMENT IN MANUFACTURING IS INCREASING FASTER OUTSIDE PENNSYLVANIA



Source: U. S. Bureau of the Census

3. PENNSYLVANIA IS RELATIVELY LESS IMPORTANT AS A MANUFACTURING STATE
Value Added by Manufacture



Source: U. S. Bureau of the Census

"Value added by manufacture"

Before beholding the third chart, it should be said that "value added by manufacture" is a rather forbidding term for a very useful yardstick. Value added is a relatively modern modifier hooked on to an ancient and obsolete word "manufacture." With few exceptions, things are no longer made by hand but are "machinufactured" or "chemufactured" or made by a combination of machine and chemical processes.

Be that as it may, manufacturing is, in essence, the transformation of materials to enhance their usefulness. Some raw materials, like iron ore in the process of becoming, say, an automobile, go through numerous stages of manufacturing in different establishments and, en route, enter the stream of commerce a number of times. The term

"value added by manufacture" has been invented to measure the successive and cumulative build-up in dollar value. At any stage in the cycle of refinement, value added, therefore, is the difference between the value of a manufacturer's shipments and the cost of *his* raw materials that went into the production of the products shipped. It is generally considered a more accurate yardstick than, say, "value of products" which would inevitably entail double counting because the "finished" product of a manufacturer in an intermediate stage becomes the "raw material" for the manufacturer next in line.

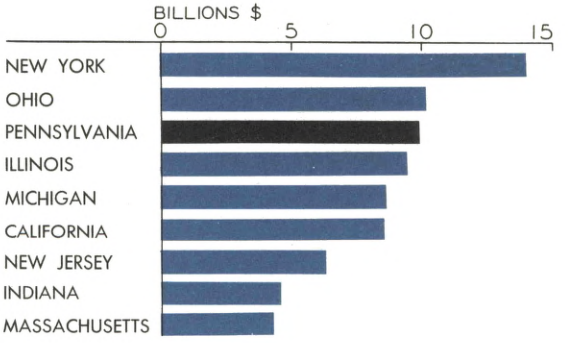
Chart 3 shows plainly that the great business depression of the 1930's left its imprint on the generally upward trend with respect to value added by manufacture, both in Pennsylvania and the United States. Of more immediate interest, however, are the respective trends—the last half-century sweep. Again, it will be observed that Pennsylvania seems to have some difficulty holding on to the pace set by the country. Chart 3 was added to support the validity of Chart 2 which is based on employed workers in manufacturing.

The "Big Nine"

Using value added as probably the best measure of manufacturing activity, the fourth chart shows the relative importance of the country's nine leading manufacturing states in 1954, the latest year for which information is available. Pennsylvania, according to Chart 4, ranks third, just a nose behind Ohio and two noses ahead of Illinois.

As recently as 1951, Pennsylvania ranked second to New York—a position held by Pennsylvania for a great many decades. Of course this does not mean that manufacturing in Pennsylvania is slowly drying up, but that manufacturing in New York and Ohio has grown faster in recent

4. SECOND IN 1951, PENNSYLVANIA IS NOW THIRD IN VALUE ADDED BY MANUFACTURE



Source: U. S. Bureau of the Census

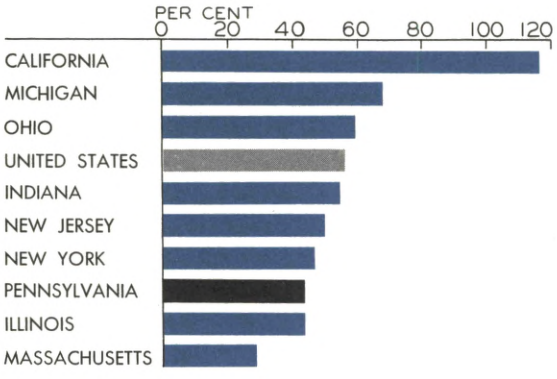
years and, incidentally, several other states are now pushing the Keystone State right hard. Although it is tempting to say that it is the younger sister states that have outgrown Pennsylvania, the family analogy is not quite accurate because Pennsylvania is not the only member of the 13 original colonies represented in the big nine, as the chart shows.

The "Big Nine" in a big race

Manufacturing is dynamic. Change is the order of the day. There is no end of effort to develop and bring out new products and to improve existing products and to find new ways of manufacturing and to utilize new raw materials. New plants or new industries grow up and prosper; by and by they supersede their older competitors. Competition is inter-plant, inter-industry as well as interstate and—in the absence of artificial barriers interposed—inter-national.

The location of manufacturing industries is subject to ceaseless change. In the never-ending competition, some states are bound to grow faster than others. How the big-nine manufacturing states are faring in the interstate competition in recent years is shown in Chart 5. As a benchmark,

5. GROWTH IN VALUE ADDED BY MANUFACTURE — 1947-54 HAS BEEN SLOWER IN PENNSYLVANIA



Source: U. S. Bureau of the Census

comparable data for the United States are also included.

Pennsylvania, which currently ranks third in over-all importance of manufacturing, nevertheless ranks seventh in the big race of the big nine, as Chart 5 shows. For the years shown, three of the big nine—California, Michigan, and Ohio—have been running faster than the country's average, and the remaining six members of the big nine have been running somewhat slower than the country's pace. Indiana, however, is only very slightly behind.

On first inspection, it might appear that the bigger the manufacturing state the tougher it finds the competitive race were it not for the comparatively favorable showing of Ohio. Ohio ranks as the second largest manufacturing state and it ranks third in the race.

It should also be observed that Pennsylvania is currently being outrun by two other immediate neighbors—New Jersey and New York. The question now confronting us is why is Pennsylvania currently running so far behind the leaders? Some light on this question might be thrown by Chart 6 which shows how the economy of Pennsylvania differs from that of the United States.

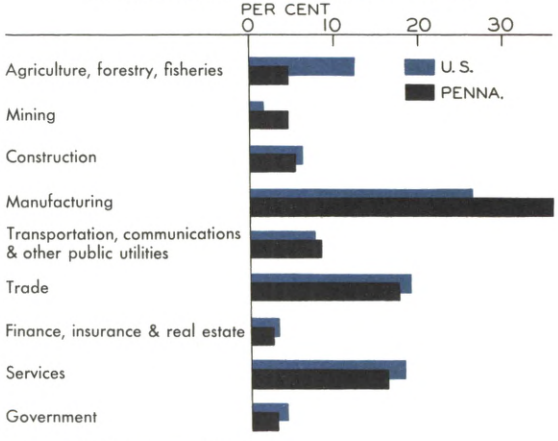
Pennsylvania is different

Although Pennsylvania has just about everything that the United States has in the way of major economic pursuits, it would be claiming just a little too much to say that the Keystone State is a Tom Thumb Uncle Sam. Note, for example, that in comparing the state with the country, Pennsylvania rates very low in agriculture, very high in mining, and also very high in manufacturing.

Why Pennsylvania rates so low as an agricultural state is apparent if you have ever roamed across the state—not on the Turnpike where you have to have your eyes glued on the license plate of the car ahead, but on roads like Route 6 or 422, or better still on a railroad where you have a uniformed chauffeur driving a Diesel which affords full freedom to lap up the landscape. Farming is impossible or impracticable on the hilliest third of the state, most of which is wooded. In other sections, glaciers of bygone ages left soil that is too thin or too poor or too rocky or too swampy for farming, with or without parity. Lan-

6. PENNSYLVANIA IS A MANUFACTURING STATE

Distribution of Employment—1950



Source: U. S. Bureau of the Census

caster and the adjoining counties in the southeastern part of the state fortunately contain some of the most fertile farming country of the world, but considering the state as a whole, farming is not its forte.

Philadelphians who seldom wander farther west than 69th Street are prone to forget that Pennsylvania is a great mining state, and that once upon a time it was even a greater mining state than it is now. Coal, both hard and soft, is our principal mineral and that is the reason mining employs a much higher proportion of the gainfully occupied Pennsylvanians than the country's proportion of people employed in the extraction of minerals.

The abundance of coal in the Commonwealth also explains in large part why manufacturing is relatively more important as a source of employment in this state than it is in the United States. Throughout the latter half of the 19th century when almost every manufacturing establishment had a coal bin and a boiler room to power its machinery with steam engines, it was only natural for manufacturing to flourish at or near the coal mines. Hence the importance of Pennsylvania as a manufacturing commonwealth. It was bituminous coal that made Pittsburgh a great steel city, and bituminous coal also played an important role in making Philadelphia a great manufacturing center. For many years, long trainloads of bituminous coal from western Pennsylvania crept up the western slope of the Alleghenies and coasted down the long eastern slope with mighty contributions toward making Philadelphia the "Workshop of the World."

In due time, the technicians learned how to transform the latent energy locked in lumps of coal into leaping energy in the form of kilowatts that flow with lightning speed over copper wires. Thereupon came the electric utility industry, and it was no longer necessary for manufacturers of shoes and ships and everything else to have their own power plants. Nor was it any longer necessary for manufacturers to be within easy commuting to the coal mines. The new technology of energy distribution may be one reason why some of the economic X rays show Pennsylvania as a manufacturing center in a slightly less favorable light in recent years.

While on the subject of economic diversification (because that is what Chart 6, "Distribution of Employment, 1950," really is), we might for fun and for profit make a simple calculation designed to show how economic diversification in Pennsylvania compares with that of the other states in the big-nine family and with that of the United States.* The results of such a calculation are shown in Table A.

For the sake of simplicity and to avoid argument, we are assuming that the economic diversification of the United States is ideal (which may or may not be true), and are comparing the economies of the big nine with that ideal. Although Pennsylvanians engage in practically all forms of making a living, the table shows that economic diversification is greater in states like Indiana, Illinois, and two of our immediate neighbors—Ohio and New York. This is probably something about which very little can be done—certainly not within a short period of time.

*To compute the index, we first calculated the percentage distribution of employment for the nine major economic activities (agriculture, manufacturing, mining, trade, etc.) for the United States and for each of the big nine states. Then, for each state, we subtracted the percentage importance of each industry from the corresponding percentage for the United States. On the principle that its distribution is "ideal," we assigned the United States a rating of 100. Then we added the deviations of each state from the United States, without regard for pluses or minuses, and subtracted the resulting total from 100. States with distributions most like that of the United States had indexes closer to 100; states less like the United States had lower indexes.

Table A

INDEX OF ECONOMIC DIVERSIFICATION, 1950

United States	100.0%
Indiana	82.0
Illinois	81.6
Ohio	78.2
New York	76.0
California	75.4
Pennsylvania	**73.0**
Massachusetts	72.8
New Jersey	71.8
Michigan	69.8

Pennsylvania's industrial pattern

Pursuing the question of diversification a little further, we now turn to an examination of Pennsylvania's industrial pattern—that is, the variety of manufacturing. This is summarized in Table B, "Value Added By Manufacture, 1954," showing how the industrial pattern of Pennsylvania looks in contrast with that of the United States.

Table B

VALUE ADDED BY MANUFACTURE, 1954

Major industrial groups	Percent. of total U.S.	Penna.
Textiles	4.0	5.1
Apparel	4.3	5.4
Petroleum and coal products	2.2	3.0
Stone, clay, and glass	3.3	5.0
Primary metals	8.1	17.9
Fabricated metals	6.7	7.8
Machinery	10.6	10.9
Electrical machinery	6.4	8.9
Food and tobacco	12.5	9.1
Lumber and furniture	4.4	1.8
Paper and printing	9.2	7.7
Chemicals	7.9	5.1
Rubber and leather	3.1	2.5
Transportation equipment	11.9	5.1
Miscellaneous	5.4	4.7
	100.0	100.0

The eight major industry groups beginning with textiles and ending with electrical machinery are the industries which are relatively more important in the economy of Pennsylvania than they are in the economy of the United States. It should be noted that five of them are in the category commonly called "durables" and only three of them are in the "nondurable" division. Thus it is apparent that Pennsylvania is a bit heavy with heavy industry. This is probably accounted for chiefly by the abundance of iron and steel in Pennsylvania, which in turn is related to the abundance of soft coal. Whether or not Pennsylvania should make an effort to "lighten" its industrial pattern is a question for consideration, but not for decision at this point.

Table C*

INDEX OF MANUFACTURING DIVERSIFICATION 1954

United States	100.00%
New Jersey	63.4
Pennsylvania	**63.2**
Illinois	61.0
Indiana	57.4
Ohio	56.0
California	55.2
New York	52.6
Massachusetts	46.6
Michigan	32.4

How does Pennsylvania rank among the big nine with respect to industrial diversification? Table C, "Index of Manufacturing Diversification," based on value added, shows that with respect to the United States, which is considered par or 100, Pennsylvania rates relatively high—just a fraction below New Jersey, the most highly industrially diversified state in the big nine. Note also by way of contrast that Michigan is not only last in the list but also has a comparatively low index of industrial diversification. This obviously reflects the heavy concentration of automobile manufacturing.

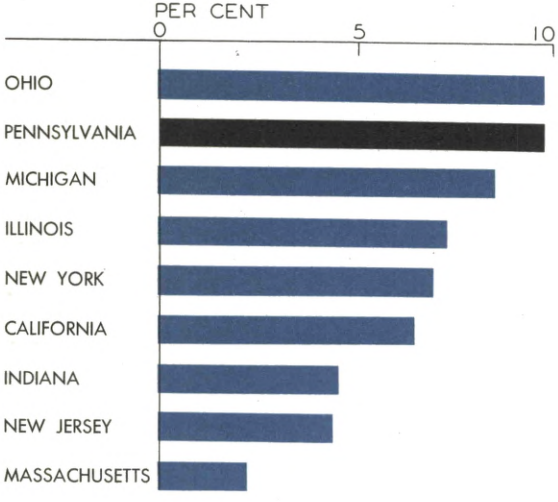
*Using the 20 major industrial groups as reported by the Census of Manufactures, the computation for Table C was the same type as that used for Table A, explained in the previous footnote.

Tools, tooling, and re-tooling

When a manufacturing concern calls in an industrial engineer to give the plant a thorough going over, one of the things the engineer will inevitably do is to ascertain whether the plant has the proper and the most up-to-date machinery and equipment to carry on the manufacturing operation. Applying the same technique to industrial Pennsylvania, it would be helpful to know something about the tools of the industries in the Commonwealth. The answer to that question is indeed difficult to come by, but the U. S. Census of Manufactures provides information which gives a hint or two. The Census estimates each year how much money manufacturers in the various states spend for new plant and equipment, so we might well inquire how Pennsylvania rates with the other great industrial states in the matter of tooling and re-tooling.

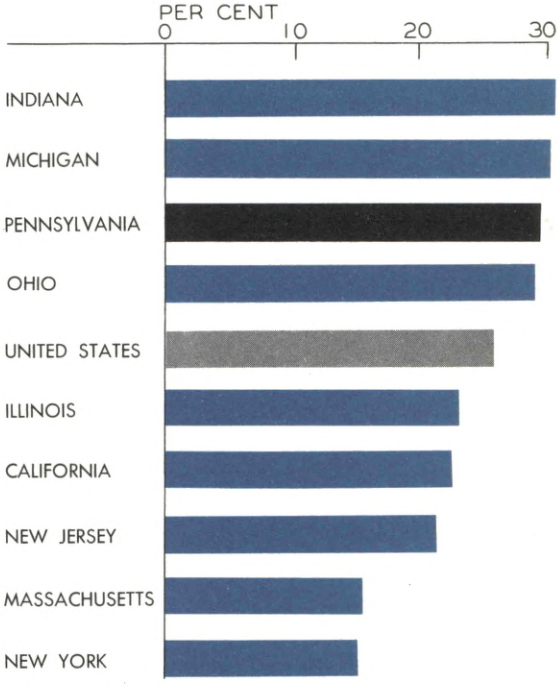
Between 1951 and 1954, Pennsylvania rated second—a strong second—just a hair's breadth

7. MANUFACTURERS IN PENNSYLVANIA MADE HEAVY OUTLAYS FOR PLANT AND EQUIPMENT FROM 1951 TO 1954



Source: U. S. Bureau of the Census

8. RELATING CAPITAL OUTLAYS TO A BASE (VALUE ADDED), PENNSYLVANIA'S SPENDING STILL LOOKS STRONG



Source: U. S. Bureau of the Census

behind Ohio in total new capital expenditures by manufacturing concerns. Each of the two states spent about $3 billion. Taking all capital expenditures made by all manufacturing industries of the country for the years 1951 through 1954 and ascertaining what proportion of the total was spent in each of the big-nine states, we have another significant economic X ray. See Chart 7. Pennsylvania is just barely superseded by Ohio for the No. 1 position. This information is, of course, scanty and it would be more meaningful if it were related to some base. That may be done by relating the expenditures to the value added, which is done in the eighth economic X ray which shows a ratio of expenditures during the years 1951 to

1954, inclusive, to the value added by manufacture for the year 1954.

Applying this measure, Chart 8 shows that Indiana jumps into first position and Michigan into second place, with Pennsylvania third. Note also that all three states as well as Ohio rate above the United States average.

Unfortunately, there are still some unknowns. The chart might be interpreted to mean that Pennsylvania is well up among the leading states in up-to-date tools. It could mean, however, that these states approached 1951 with obsolete tools and equipment relative to other states and upon discovery of the situation, embarked upon a comprehensive catching-up phase of modernization. Or Charts 7 and 8 might reflect, more than anything else, the prominence of big capital-using industries in some of these states. Iron and steel is a big capital consumer and this industry is well represented in the industrial patterns of Indiana, Michigan, Pennsylvania, and Ohio.

SOME TENTATIVE CONCLUSIONS

At this point, it would be helpful if the readers could be called in as consultants in formulating conclusions. Since that is impracticable, let us reconsider the territory traversed and see what we have.

We can be sure of only one thing—there is only one Pennsylvania. Antedating the United States itself, Pennsylvania as an industrial state has come a long way. Compared with some other leading industrial states, Pennsylvania has a population whose growth lags, has an economic structure that bulges at the mining and manufacturing midriff, and has a highly diversified industrial economy. Pennsylvania is a bit heavy in the heavy industries, is no longer growing industrially so rapidly as some other states, but apparently ranks right up with the leaders in the amount of money being spent to modernize its industrial plant.

The record, so far as this analysis goes, is not altogether good but is far, far from altogether bad. The slow-up in rate of growth should not cause too much consternation to Pennsylvanians. It is inevitable in the nature of things that rate of growth declines with advancing age in accordance with what is sometimes called the law of industrial growth. New industries like radio or TV in their early stages of development grow ever so much faster than age-old industries like copper or leather, and perhaps the same holds true for new industrial regions compared with long-established industrial areas.

The foregoing economic X rays still leave unanswered numerous questions about Pennsylvania. The analysis is not to be considered as a complete survey—it is intended primarily as a reminder of some of the fundamental realities that confront those seriously concerned with Pennsylvania's participation in the interstate stampede for new industries.

EMPLOYMENT TRENDS IN THIRD DISTRICT LABOR MARKETS

Labor markets in most industrial areas of the Philadelphia Federal Reserve District did not change much the past year. As elsewhere in the country, labor shortages persisted in some categories at the skilled-worker level and a few clerical needs remained unsatisfied. Labor surpluses have diminished somewhat in several of our larger cities; they increased in only one. Nevertheless, pockets of substantial unemployment still exist in five of thirteen major labor-market areas. And seven of our smaller areas have been experiencing unemployment problems for a very long time.

All major areas are out of the most critical category

Johnstown, Scranton, and the Wilkes-Barre-Hazleton areas were the three major labor markets where large labor surpluses were reduced somewhat during 1956. In Johnstown, the steel industry is credited most with lowering the jobless total, although some of the unemployed were absorbed by increased activity in apparel, utilities, and trade lines. Around midyear, Scranton moved out of the most critical classification where reported unemployment equaled or exceeded 12 per cent of the labor force. This resulted from gains in anthracite mining and in manufacturing lines, including fabricated metals and electrical machinery. The Wilkes-Barre - Hazleton area was the last in this District and in continental United States to raise its employment status above the most critical category. Improvement came late in the year and reflected, in large part, some recovery in local segments of the apparel and textile industries.

But unemployment remains a problem in many places

Although unemployment has become less acute in each of the three city areas just mentioned, substantial labor surpluses within a range of from 6 per cent to almost 12 per cent of the local labor forces persisted through 1956. Altoona, a railroad town, and Atlantic City, a resort area, are the only other major Third District labor markets where job applicants substantially exceed job opportunities. With so much depending on a single industry, it has been difficult for these areas to absorb many of their unemployed. Among the smaller industrial areas, substantial labor surpluses have persisted in places like Berwick, Clearfield, Lewistown, Lock Haven, Pottsville, Sunbury, and Bridgeton. None of these smaller labor markets was able to reduce unemployment sufficiently to qualify for reclassification during 1956.

Last year's changes in the labor-market status of our major industrial areas reflected fluctuations in both the actual and prospective demand for workers in many fields. Activity in mining, transportation, utilities, construction, trade, and manufacturing figured importantly in the various areas. But, as might be expected, factory operations in most places exerted the greatest influence on individual labor-market situations.

Factory employment seems to have leveled off

In the Philadelphia Federal Reserve District, total factory employment appears to have stabilized a little above the low levels reached in the 1954 re-

adjustment. But employment still is about 7 per cent below the high average for the pre-recession year 1953. As indicated by the first in the series of accompanying charts, recovery from that slump has been slow and was almost imperceptible until the fall of 1955. Last year, about the only interruption to stability came with the nationwide steel strike in July. Important segments of this District were acutely affected, as may be seen in subsequent charts. But in virtually all areas the impact of the work stoppage had no lasting effects and recovery was unexpectedly prompt.

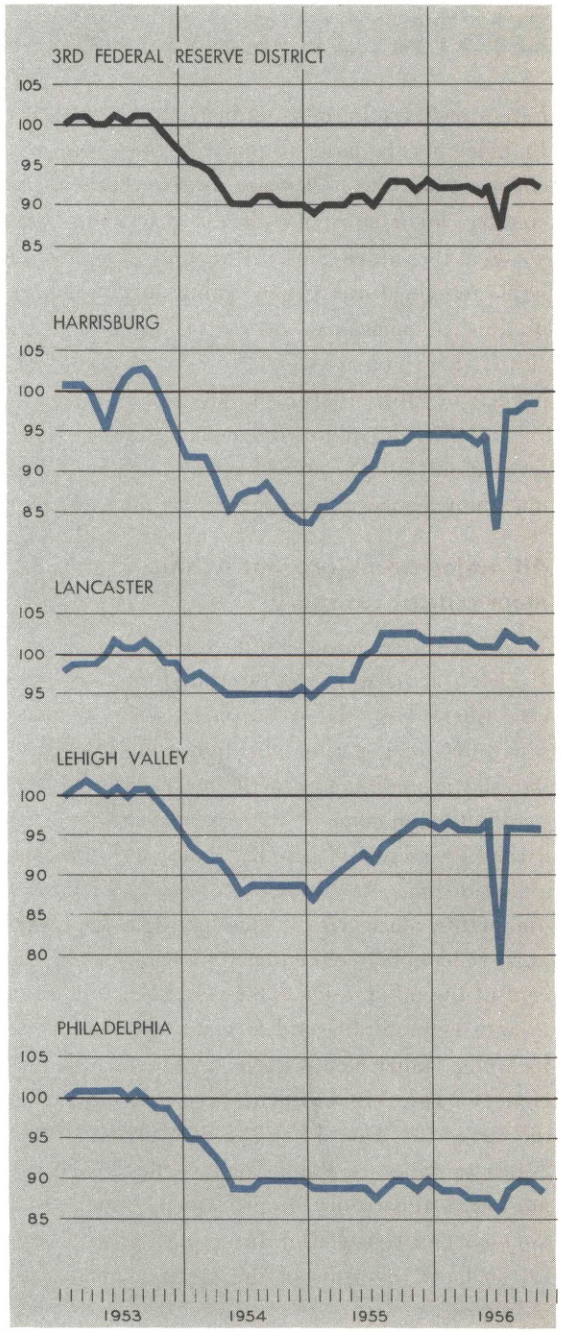
Activity appears best maintained in heavy goods lines

Employment in durable goods industries as a group climbed rapidly after midsummer and in the closing months of 1956 was maintained at a somewhat higher level than had prevailed for some time before the steel mills closed down. In primary metals—the line most directly affected—employment through the fall months was maintained at the highest levels in over three years. Machinery lines, too, employed more people than in either 1955 or most of 1954. And the instrument manufacturers were another source of strength in this most recent period. The transportation equipment industry made about the poorest showing of all the durables, continuing a downtrend that began early in 1953.

A downward trend has developed in nondurables

In nondurable goods lines, like the important textile and apparel divisions, and in leather and tobacco, employment in recent months has been below the levels prevailing earlier in the year and over much of 1955. To some extent this weakness has been offset by a larger number of workers in chemicals and a fairly stable rate of activity in

TOTAL FACTORY EMPLOYMENT
(Index 1953 = 100)



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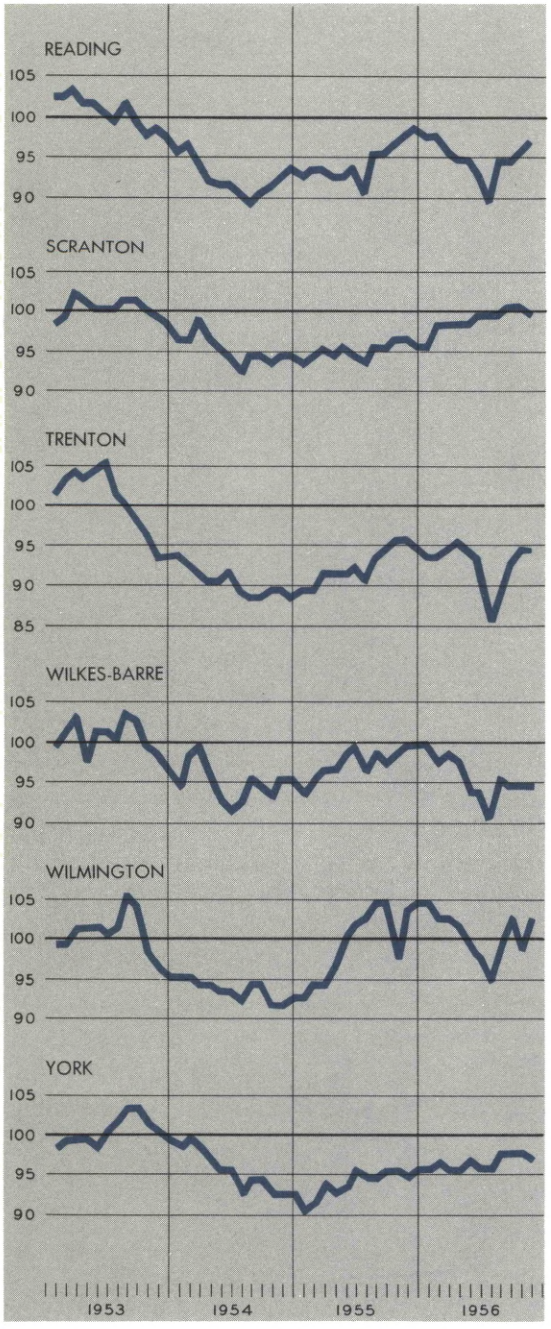


such lines as petroleum refining, paper, printing, and food processing. But for the nondurable group as a whole the trend of employment was downward after September to lower levels than prevailed in the fall of 1955.

Employment patterns vary in a few areas

A look at the area charts accompanying this article reveals quite a bit of similarity in 1956 employment trends for most cities, but widely divergent patterns in the case of a few. Except for the July dip that showed up to a pronounced degree wherever steelmaking or steel fabricating are important industries, we find evidence of employment stability in all but about three industrial areas. Reading, Wilkes-Barre, and Wilmington seem to be the principal exceptions. In Reading and Wilkes-Barre the textile and apparel industries account for a substantial percentage of those employed in factories. Both these lines experienced a period of weakness during the first half of 1956, followed by partial recovery during the fall. In Wilmington, a steep decline to midsummer reflected largely employment losses in the transportation equipment industry. Thereafter, a reversal of trend came with increased activity in chemicals and petroleum and some recovery in transportation equipment.

Generally speaking, the areas where diversified industry employs a substantial proportion of the factory workers showed the narrowest fluctuations over the greater part of 1956. Philadelphia, Lancaster, and York are three such areas. In some cases where steelmaking and fabricating rank high as employers of factory labor, last year's employment trends seem to have been toward somewhat higher levels in the fall months. Harrisburg is a case in point. In Scranton, a steady upward trend of factory employment in 1956 was somewhat surprising, considering the heavy pre-

ponderance of apparel and textiles in the area. Diversified manufacturing, however, has been on the increase there, and among the new firms appearing are an appreciable number turning out a fairly wide range of both durable and nondurable goods.

CURRENT TRENDS

Forecasters had a good year in 1956. Neither the Yankees nor Dodgers confounded the baseball experts when they walked off with the American and National League pennants. And it's never surprising when the Yankees win the world series. Adlai Stevenson started as an odds-on favorite to win nomination by the Democrats, but he was a very long shot to beat Eisenhower. Subsequent events sustained the prognosticators. Russia was favored to win the Olympic games despite a sweep of track and field events by United States athletes. And that's the way it happened.

Not the least of the forecasts that seems to check pretty well against reality is business activity. At the end of 1955 a large majority of business analysts said that economic totals would move on to higher ground in 1956. In that they were right. Nearly all, however, underestimated the rise in total activity.

Of 22 forecasters who pinpointed a dollar total a year ago, 14 said that Gross National Product would be about $400 billion in 1956. Actually G.N.P. was around $410 billion to $412 billion for the 12 months. Since G.N.P. totaled $390 billion in 1955, it means that the rise in total spending was twice as great as anticipated by a consensus of experts.

Only two of the 22 projections made a year ago called for a G.N.P. of $410 billion. These we might consider as being very close to the actual mark. Also, there were just two projections that pretty well missed the actual course of business activity. They said G.N.P. would average about the same or lower than in 1955.

Right now, business forecasters are hard at it again. At this writing not all the entries are in, but it is possible to examine 15 forecasts for 1957.

Of the 15 forecasts, seven say that G.N.P. will total about $430 billion. The next highest concentration of expert opinion centers at $420 billion, where four agree. Two prominent economists look for G.N.P. to be $425 billion, one says $435 billion, and one goes all the way to $440 billion.

The consensus this year seems to be $430 billion, or a $20 billion increase over 1956. Last year the consensus was a $10 billion increase. In fact, last year only two of the 22 forecasts projected a $20 billion increase in G.N.P.

Consumers—Still "Zestless"?

A few months ago the Survey Research Center of the University of Michigan described consumers as "zestless." As far as spending for durable goods is concerned, this label seems to have been an apt one for the past 12 months. Now, of course, everyone wonders if consumer spending for hard goods is going to perk up in 1957.

Most of the forecasts discussed in the preceding section of this article say consumer spending for durables will snap back sharply in 1957. On the other hand, many of the signs in recent weeks suggest that perhaps consumers are still not in that "good old 1955 buying mood."

Christmas sales at department stores are always difficult to interpret. The day of the week on which Christmas falls, the weather, new suburban stores, and war news always seem to conspire to upset year-ago comparisons. As nearly as can be figured, Christmas sales fell short of projections made in October and November but were better than anticipated after the second week in December. They weren't particularly heartening; they didn't cause despair.

Up-to-date figures on new-car sales are harder to come by than department store statistics. Actually, it is just about impossible to say exactly how the new models have been received. Perhaps it would be well to limit ourselves to just a few random thoughts about forces that may shape the course of car sales in 1957.

First, there is a good deal of talk about style changes in 1957. Much of it gives an accurate impression. But it is well to keep in mind that major style changes are not nearly so widespread as in 1955. In fact, car makes which combined account for well over 50 per cent of sales have made minor changes this year.

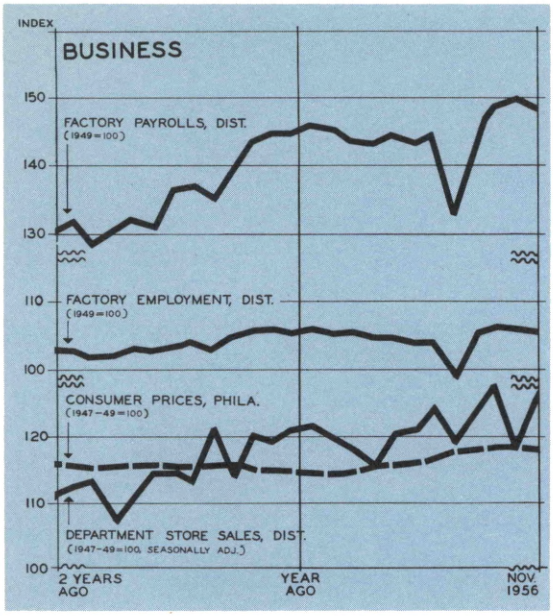
Second, cars cost more this year. "This is nothing new," you might say. List prices on cars have gone up nearly every year since the war. In some years, however, the price increase was not passed on to the ultimate consumer. Dealers accepted a smaller margin of profit and thereby absorbed the rise. 1957 starts out as if this "dealer absorption" is not going to happen. Car inventories are low and some dealers are already operating on a minimum profit margin.

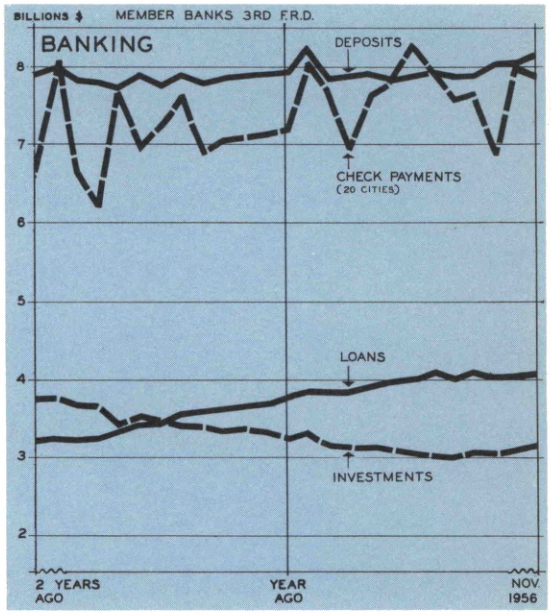
Another factor that has, to some extent, disguised previous price increases has been a "stretch out" in terms. Monthly payments frequently decrease despite a price increase when maturities move from 24 to 30 to 36 months. There is little reason to believe that terms in 1957 will do much "stretching" from 36 months.

Finally, it will be interesting to see how the new dealer-manufacturer agreements affect sales. On the surface it seems as if these agreements will make it more difficult for the factory to put pressure on its dealers. This could mean there won't be the same kind of frantic sales efforts that characterized some other years. But old habits may be hard to break.

THIRD FEDERAL RESERVE DISTRICT

FOR THE RECORD...





SUMMARY

	Third Federal Reserve District — Per cent change			United States — Per cent change		
	November 1956 from		11 mos. 1956 from year ago	November 1956 from		11 mos. 1956 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production	0	− 4	0	−1	+ 1	+ 3
Construction contracts*	−9	−28	− 3	−3	− 6	+ 4
Coal mining	−2	+ 8	+ 7	−3	+ 3	+ 9
EMPLOYMENT AND INCOME						
Factory employment (Total)	−1	0	+ 1	−1	+ 1	+ 2
Factory wage income	0	+ 2	+ 6	.....	.....	.....
TRADE**						
Department store sales	+7	+ 4	+ 5	+7	+ 7	+ 5
Department store stocks	+1	+ 7	.....	+1	+ 8	.....
BANKING (All member banks)						
Deposits	+1	+ 3	+ 1	+1	+ 2	+ 2
Loans	+1	+ 9	+14	+1	+11	+15
Investments	+1	− 3	−10	+1	− 6	−10
U.S. Govt. securities	+1	− 4	−11	+1	− 7	−11
Other	+1	− 1	− 9	0	− 4	− 4
Check payments	−2†	+10†	+ 9†	−4	+ 7	+ 8
PRICES						
Wholesale	.....	.....	.....	0	+ 4	+ 3
Consumer	0‡	+ 3‡	+ 1‡	0	+ 2	+ 1

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

LOCAL CHANGES

	Factory* — Employment — Per cent change November 1956 from		Factory* — Payrolls — Per cent change November 1956 from		Department Store — Sales — Per cent change November 1956 from		Department Store — Stocks — Per cent change November 1956 from		Check Payments — Per cent change November 1956 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown	0	0	+ 4	+11	.....	.....	.....	.....	− 6	+10
Harrisburg	0	+4	− 1	+ 8	.....	.....	.....	.....	− 3	+15
Lancaster	−1	−2	0	+ 2	+47	+ 2	− 3	+ 3	− 5	+ 8
Philadelphia	−1	0	− 2	+ 6	+31	− 1	+ 2	+ 7	− 1	+ 8
Reading	+1	−2	+ 1	+ 1	+59	+26	+ 7	+22	− 5	0
Scranton	−1	+3	+ 2	+11	+22	+ 7	− 2	+ 6	− 2	+19
Trenton	0	0	− 1	+ 1	+21	+ 7	+ 1	+ 6	+30	+51
Wilkes-Barre	0	−6	+ 4	+ 4	+35	+ 2	+ 1	0	− 2	+ 8
Wilmington	+4	−4	+10	− 2	+33	+ 6	+ 6	+ 5	−22	+ 7
York	0	+2	0	+ 6	+43	+10	+ 5	+ 6	0	+ 2

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