

business review



FEDERAL RESERVE
BANK OF
PHILADELPHIA

PHILADELPHIA IN THE FIFTIES

Much has been said about business conditions in this area. Here are some "snapshots" of business activity for your album. It's a good bet that some of what is revealed will surprise you.

APPLIANCES IN A COMPETITIVE MARKET

Unit volume in 1956 increased more than dollar volume, reflecting price competition and some shifts in consumers' preferences.

THIRD DISTRICT BANKING—1956

Active business was reflected in expanding loans and in higher bank earnings. Bank costs also increased.

CURRENT TRENDS

ANNUAL REPORT

Shortly after this copy of the **Business Review** reaches you our Annual Report for 1956 will become available. Entitled "Money and Growth," the Report leads off with a brief analysis of the relationship between changes in the money supply and the pace of economic growth.

It then turns to the most outstanding economic development of 1956—tight money—and discusses two fundamental questions: What is it? and Why did we have it?

For those concerned with the more technical aspects of monetary policy, the third section of the report goes a little beneath the surface of one of the significant developments of the year—the heavy volume of borrowing from Federal Reserve Banks. We have used the case-example approach to find out something about the why, who and how of bank borrowing.

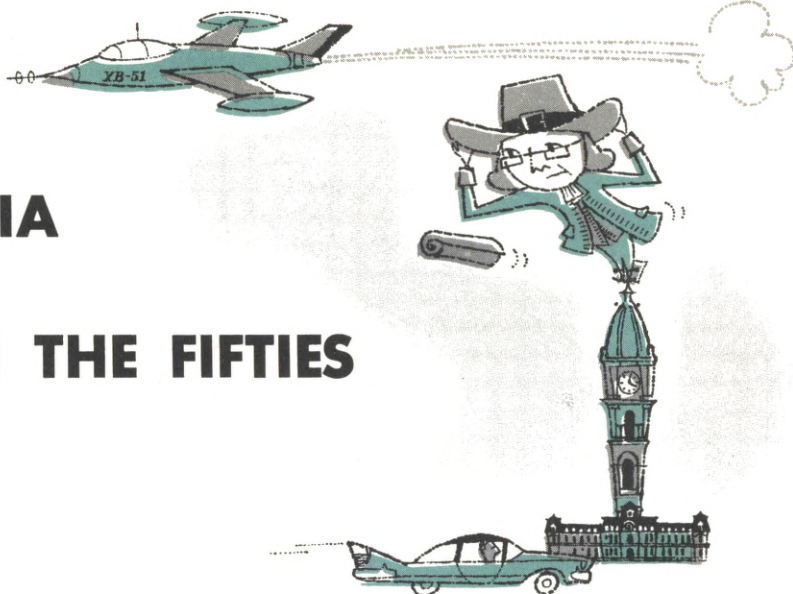
In the fourth section we talk about an activity of this Bank that we consider important, particularly in a year like 1956—that is, creating a better understanding of the objectives and problems of the Federal Reserve System.

Finally, the remainder of the report presents pertinent facts about operations of the Bank during the year.

Copies are available on request to the Department of Research, Federal Reserve Bank of Philadelphia, 925 Chestnut Street, Philadelphia 1, Pa.

PHILADELPHIA

IN THE FIFTIES



Philadelphians have long since become accustomed to reading easy generalities about themselves and their area. They've read that they eat scrapple every morning, "pull in their pavements" every evening and have only descendants of signers of the Declaration of Independence living on their Main Line. Of course, they've never taken seriously all the ribbing—mostly from New Yorkers—about their perpetually somnolent state.

In the 1950's, Philadelphians have been reading different kinds of things about themselves and their area. New labels and words are used. "Delaware Valley, USA" describes the Greater Philadelphia industrial area. And words like "renaissance," "spirited," and "buoyant" replace "somnolence," "complacent," and "stagnant."

Indeed Philadelphians (or Delaware Valley-ans) would like to accept nearly all the generalities they read about themselves and their area these days. But after years of reading generalities that didn't seem entirely appropriate, it is difficult suddenly to accept the new. Some Philadelphians can't help being just a bit skeptical.

This article hopes not to deal in easy generalities—or at least only to generalize from factual information. No one should belittle the impact that the brave new words and resurgent spirit have had on the Philadelphia scene since the war. They have helped immeasurably. But it is time for an economic stock taking, a summing up to see just how much progress has been made—to see just where Philadelphia stands in the fifties.

At the outset it is well to remind ourselves that no over-all measure of business activity—such as Gross National Product—exists for the Philadelphia Metropolitan Area. It is possible only to look at various "snapshots" of the business scene.

Population growth is rapid

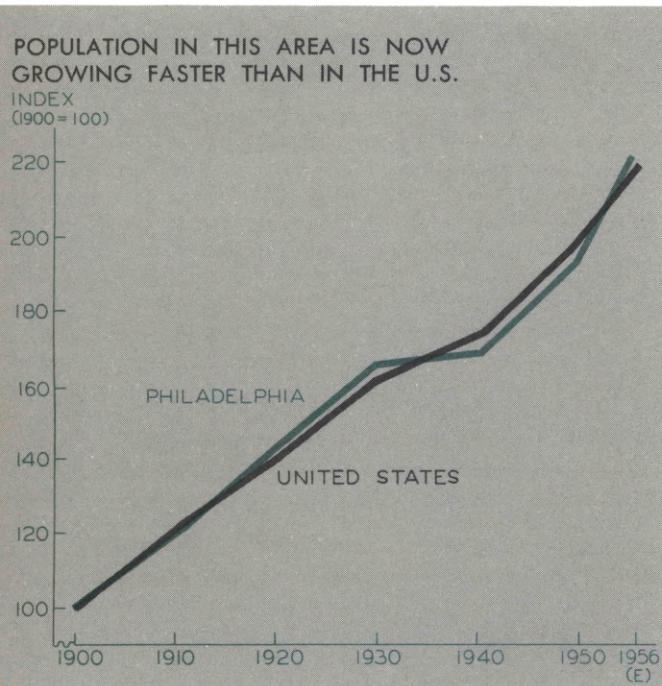
Probably one of the most comprehensive and meaningful measures of the general health of an area is population growth. In a free society like ours people go where they want and they usually want to go where there are business and job opportunities and where it is pleasant to live. So this first "snapshot" is an important one in the album.

Population within this nation seems to be following the sun. People are moving from the older industrial centers and farms to some areas of the South and Far West. Moderate temperatures, ocean breezes, and space to stretch your legs originally were the attractions. More recently, movement of industry to these same areas has made job opportunities another lure to prospective "settlers."

seen in the chart, population locally grew only 2 per cent from 1930 to 1940 as compared with the national gain of 7 per cent. From 1940 to 1950, however, population in the Philadelphia area climbed at nearly the same pace as the rest of the nation. And in the years since 1950, growth of population in this area has exceeded that of the country as a whole.

The rate of growth of population in the Philadelphia area is faster than in the New York, Chicago, Boston, Pittsburgh, and St. Louis metropolitan areas. Among the large metropolitan centers only Los Angeles, San Francisco, Washington, and Detroit are growing more rapidly. Los Angeles and San Francisco are "sun centers," Washington grows with Federal Government activities, and gains in the Detroit area pretty much follow the fortunes of the automobile industry.

Of course, within the Philadelphia area rates of growth vary widely. The seven suburban counties have grown by an average of 28 per cent since 1950, the city of Philadelphia by just 5 per cent. The fact that the industrial and commercial heart of this area—the city of Philadelphia—is growing more slowly than its suburbs is viewed as a bad sign by some. This sort of thing, however, is happening all over the United States. The truth is that among the ten largest cities, Philadelphia's rate of growth since 1950 is exceeded only by Los Angeles and Washington.



Source: U.S. Census and Chamber of Commerce of Greater Philadelphia

In the face of this strong pull from the "sunny regions," population in the Philadelphia area is now growing more rapidly than for the rest of the nation. This is no small achievement and is concrete evidence of the attractiveness of this area as a place to live and work.

The faster growth in the Philadelphia area is all the more heartening since it reverses the trend that established itself in the 1930's. As can be

The Philadelphia area includes 5 Pennsylvania and 3 New Jersey Counties. The Pennsylvania counties are: Philadelphia, Montgomery, Bucks, Chester and Delaware. The counties from New Jersey are: Camden, Gloucester and Burlington. The label "Philadelphia" is used in the charts to embrace this 8 county region except where specifically noted otherwise.

Employment trend not entirely heartening

Population movements can reverse themselves fast and they usually do when jobs are scarce. So that this “snapshot” of our local economy showing employment trends is a critical one. It could tell us if we may logically expect the Philadelphia area to continue to grow faster than the rest of the nation.

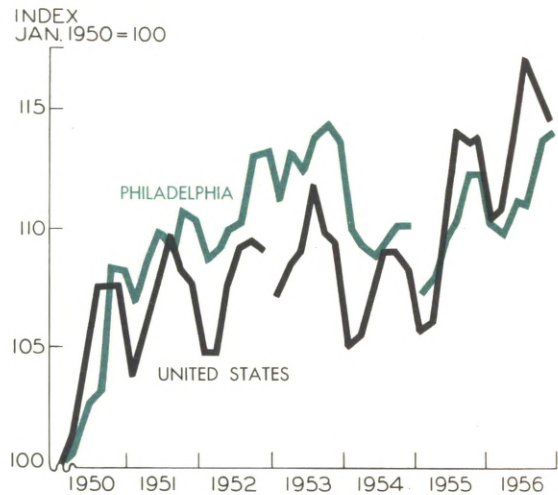
The chart below gives employment trends since January 1950. Remember that it is over the same period that local population gains have been faster than the average for the country as a whole.

Over most of the period charted, employment in the Philadelphia area showed more increase than the rest of the nation. From September 1950 through March 1955, local employment was more buoyant than the country as a whole. Unfortunately, since May 1955 local employment trends have not been encouraging. In fact, employment totals in the Philadelphia area averaged lower in 1955 and 1956 than in 1953. Nationally, employment set a new record in 1956.

It is difficult to interpret accurately the influences that have caused employment totals to behave as they have. It could be, however, that the Korean intervention and the resulting hike in defense spending was an important factor over much of the period charted. The Korean fighting began late in June 1950. Employment in the Philadelphia area increased noticeably in the summer of 1950 and generally continued to push upward throughout the period of heavy defense spending.

Employment in the Philadelphia area usually seems to benefit more than commensurately from wars. For one thing Philadelphia is a manufacturing center, and manufacturers are likely to feel more of an impact from war needs than other employers. Within manufacturing, shipbuilding is relatively more important locally than nationally.

EMPLOYMENT HERE ROSE FASTER AFTER THE KOREAN OUTBREAK



Shipbuilding employment has always increased spectacularly during wars.

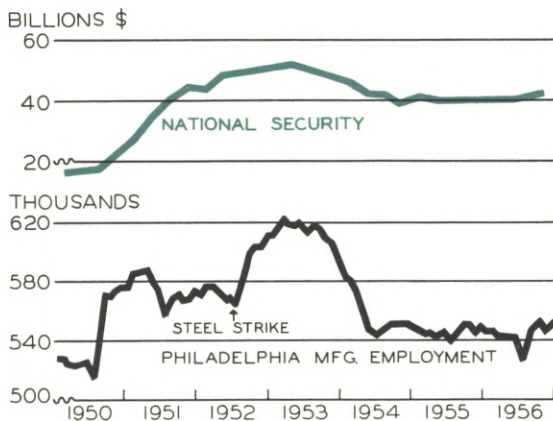
With all of this, during the Korean War period, total manufacturing employment in this area did not reflect the full impact of defense needs. Local manufacturers of textile, leather, and tobacco products were undergoing basic readjustments at the same time that many producers of durable goods were feeling the effects of increased federal spending.

The chart following gives manufacturing employment in the Philadelphia area since 1950. Defense spending is superimposed on this “snapshot.” The chart reveals some correlation between changes in defense spending and local employment in manufacturing.

Manufacturing employment in the Philadelphia area rose pretty much with defense spending in 1951, 1952, and 1953. As defense spending declined in 1954 and levelled over much of 1955 and 1956, so did employment in local manufacturing.

Total employment in the local economy failed to respond as rapidly as the rest of the nation in

MANUFACTURING EMPLOYMENT IN THIS AREA FOLLOWED FEDERAL SPENDING ON "ARMS"



1955 and 1956 largely because employment in manufacturing followed the same course as defense spending over that period.

Unemployment is higher in this area

Many of those who are skeptical about the resurgence that has taken place in the Philadelphia area point to the figures in the chart following. Unemployment in the 1950's consistently has represented a larger part of the labor force locally than nationally. A comprehensive explanation for this discouraging statistic is hard to come by. But there are a few factors that, pieced together, might provide a partial answer.

First off, the Philadelphia area began the fifties with a larger part of its labor force unemployed. For example, in January 1950, 10 per cent of the local work force was unemployed as compared with about 7 per cent nationally. Even though employment in the Philadelphia area picked up faster than the nation after the outbreak of fighting in Korea, it was chipping away at a proportionally larger total of unemployment.

Another complication is that over much of the period since 1950, the labor force in this area

swelled faster than for the rest of the nation. To some extent this blunted the impact of the more rapid increases in employment on the unemployment totals.

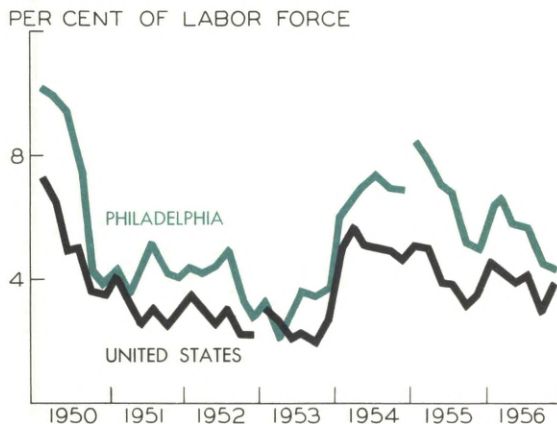
Finally, a larger part of the total population of the Philadelphia area is in the labor force. At latest count about 43 per cent of the population in the Philadelphia area was in the labor force against about 40 per cent nationally. One reason for this is that the local area has a larger proportion of its women in the work force.

Value added by manufacture lags

Earlier in this article the fact that the Philadelphia area is a manufacturing center was mentioned. Basically, what this means is that a larger portion of the resources of this area is devoted to manufacturing than to any other phase of business activity. For example, about 34 per cent of all local workers are in manufacturing. At the national level, just about 26 per cent work in manufacturing. Since this is the case, a second look at this phase of business activity is appropriate.

Value added by manufacture is a comprehen-

UNEMPLOYMENT CONSISTENTLY HAS BEEN HIGHER IN THE PHILADELPHIA AREA.



sive measure of industrial growth. In some ways it is the best measure of manufacturing activity. When there is substitution of machines for men, employment is an unreliable guide. But value added is not distorted by this switch. Of course, since value added is measured in current dollars it inflates growth when prices rise and vice versa. Since price rises locally and nationally have been roughly the same, this distortion is unimportant in comparing relative rates of growth.

VALUE ADDED BY MANUFACTURE
PER CENT CHANGE 1947-1954

INDUSTRIES	PHILADELPHIA METROPOLITAN AREA	UNITED STATES
Rubber	+ 72.5	+ 46.5
Primary metals	+ 86.5	+ 64.1
Food	+ 63.5	+ 49.1
Furniture	+ 59.0	+ 45.0
Petroleum	+ 32.6	+ 27.6
Machinery	+ 57.9	+ 57.2
Printing	+ 45.7	+ 45.8
Electrical machinery	+ 91.1	+ 91.7
Instruments	+ 83.2	+ 84.6
Fabricated metals	+ 55.8	+ 57.8
Apparel	+ 7.0	+ 13.4
Chemicals	+ 63.8	+ 71.2
Stone, clay, and glass	+ 56.6	+ 65.3
Textiles	- 25.2	- 12.2
Lumber	+ 11.3	+ 26.1
Paper	+ 35.9	+ 55.9
Leather	- 25.0	+ 6.8
Transportation equipment	+ 101.3	+ 135.1
Tobacco	+ 3.4	+ 54.1
Miscellaneous	+ 48.7	+ 103.8

Unfortunately, value added by manufacture is not something that is measured each year. The most recent years for which we have figures are 1954 and 1947. Over that span, value added by manufacture in the Philadelphia area increased by 46 per cent. Nationally, value added rose by 56 per cent.

The table shows value added by type of manufacture. The first five industries listed are those in which manufacturing in the Philadelphia area has grown considerably more rapidly than for the rest

of the nation. Manufacturing of machinery, fabricated metals, instruments, and printing has gained at about the same rate locally and nationally. Ten industries in this area have lagged behind national trends.

It is not possible in this article to discuss all the causes behind the slower growth of local manufacturing. Perhaps, however, it might be well to mention that some industries of more than proportionate importance locally have not grown rapidly here or in the rest of the nation. Also, the Philadelphia area is the industrial and commercial center of a region with a slower long-term rate of growth than the nation.

Capital spending rises sharply

So far in the fifties, manufacturing activity in this area may not be up to expectations, but there are some signs that better days are coming. One such bright signal is flashed by trends in capital spending. Manufacturers in the Philadelphia area spent 37 per cent more in 1954 than they did in 1947. For the nation as a whole, spending increased by just 29 per cent. What's more, in 1954 manufacturers in this area spent more per employee than the nation. In 1947, just the opposite was true.

Of course this "snapshot" is a particularly fuzzy one. Capital spending is the sort of thing that can be pretty far out of line in any given year. Taking just 1954 and 1947 is rather thin evidence on which to base any conclusions about what is happening in the fifties. On the other hand, information gained from this Bank's surveys of capital spending plans leads to the conclusion that expenditures per employee in this area are running consistently high.

Retail sales keep pace

One good all-purpose "snapshot" of business activity in an area is retail sales. People don't buy

much unless they have jobs and a reasonable degree of optimism about the future.

If this is the case, growth in the Philadelphia area pretty well mirrors what is happening all over the nation. The table below shows that retail trade both locally and nationally increased by about 32 per cent from 1948 to 1954. This remarkable similarity in rates of growth persists to some extent down into the major categories of retail trade.

For example, food stores in this area and the nation experienced similar gains, as did eating and drinking places, apparel stores, and drug stores.

But there are differences too. Automobile dealers and gasoline service stations have done better in the Philadelphia area than their counterparts throughout the nation—so have dealers in lumber, building materials, hardware and farm equipment taken in total.

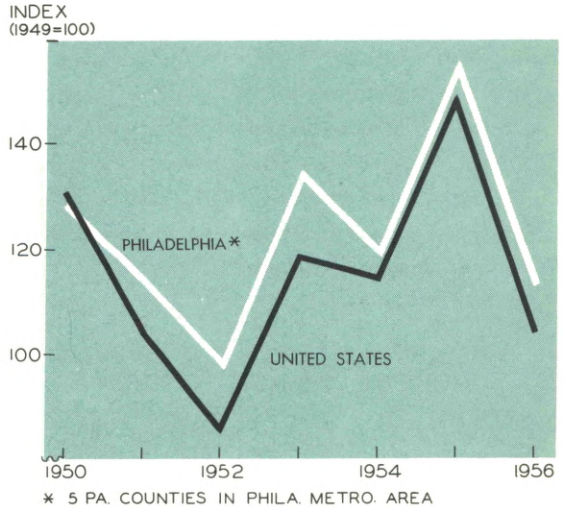
On the other hand, furniture, home furnishing, appliances, and other retail stores—which include liquor stores, fuel and ice dealers, garden supply stores, and jewelry stores—didn't do so well in this area as compared with the rest of the nation. General merchandise dealers—mainly department stores—have not done quite so well in the local area either.

There is no sure way of telling whether gains

PER CENT CHANGE IN RETAIL SALES
1948-1954

	UNITED STATES	PHILADELPHIA
Total	+ 32	+ 32
Food	+ 36	+ 34
Eating and drinking places	+ 23	+ 24
General merchandise	+ 13	+ 11
Apparel and accessories..	+ 14	+ 14
Furniture, home furnishings, & appliances	+ 31	+ 24
Automotive	+ 49	+ 64
Gasoline service stations..	+ 66	+ 84
Lumber, bldg. mats., hard- ware, farm equip.	+ 18	+ 31
Drug	+ 31	+ 34
Other	+ 24	+ 12

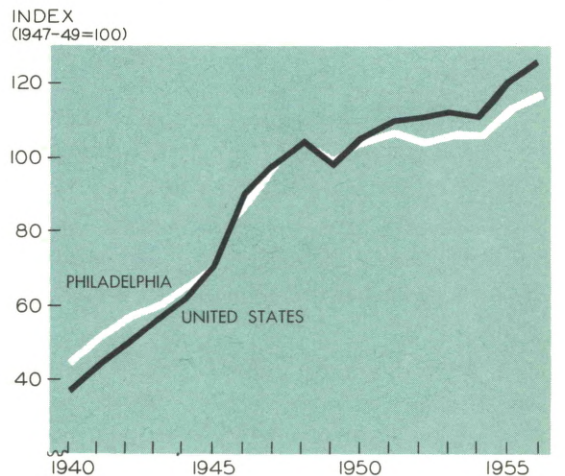
CAR SALES ARE BETTER IN THIS AREA
THAN THE REST OF THE NATION



Source: Pennsylvania Motor List Company

in retail sales locally and nationally are still running neck and neck. What evidence there is, however, indicates this could be the case. The charts show that car sales in the Philadelphia area con-

LOCAL DEPARTMENT STORES ARE NOT
KEEPING PACE WITH THE NATION



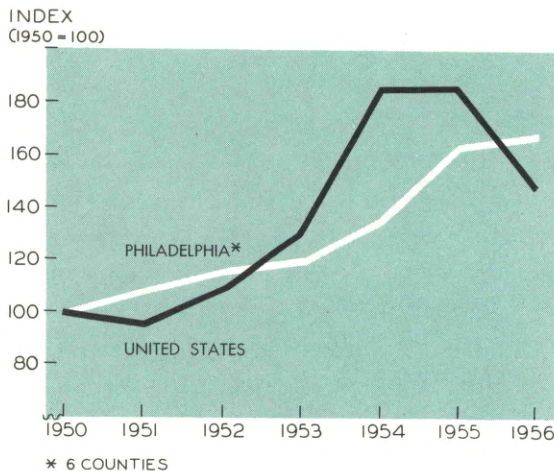
tinue to outpace the nation, but that department stores sales in this area are still lagging behind.

Construction activity has been brisk

One small “snapshot” of construction activity already has been discussed. We found that spending on capital equipment by manufacturers in the Philadelphia area has more than kept pace with national trends. It is possible to look at another picture of construction activity.

The chart below shows relative changes in total

TOTAL CONSTRUCTION CONTRACTS AWARDED HAVE HELD HIGH LOCALLY AND NATIONALLY



Source: Dodge Corporation

construction contract awards for the Philadelphia area and 37 Eastern states since 1950. From this chart it appears that the local area has held its own over most of the period.

Also the evidence on hand seems to indicate that residential building in this area has at least kept up with national trends. In fact, by piecing together various and sundry bits of information it is possible to develop a negative, at least, that indicates that this area has added proportionally

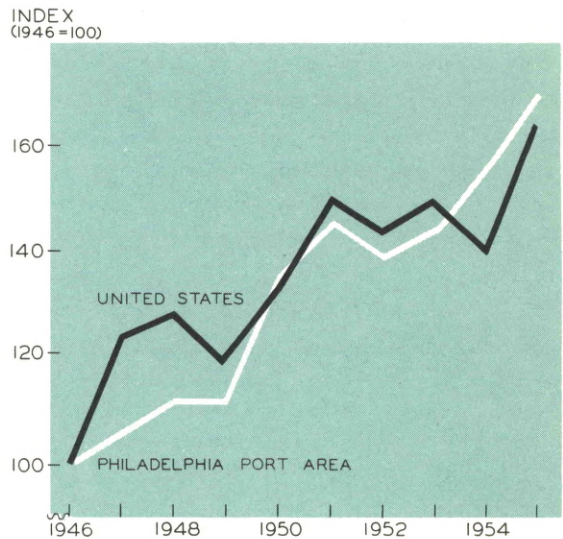
more dwelling units than the nation. It is a little dangerous, however, to print a picture from a negative that, at the local level, relies so heavily on permits for new residential building. (Permits are not always reliable forerunners of housing starts.)

The port re-emerges

Struthers Burt once wrote: “One can live in Philadelphia all his life and not know that it is a seaport.” Mr. Burt wrote this in the 1940’s. It is perhaps one measure of the difference between the 1940’s and 1950’s in Philadelphia that this statement probably would not be made today.

The once long-neglected Delaware River Port is re-emerging as a source of pride to residents of the Philadelphia area. A big story in local newspapers and periodicals revolves about the “forty-foot channel.” Other stories in the local press keep Philadelphians constantly aware that their port is growing fast and is now the number-one port in import tonnage.

BUSINESS OF THE LOCAL PORT IS ADVANCING



The chart shows how business in the Delaware River Port Area and business of the nation's ports have grown since 1946. In addition, the local port seems destined to continue to grow. A deeper channel enabling more iron ore to travel farther up the Delaware is one big reason. Another has to do with the ever-expanding capacity for refining petroleum located along the river.

Conclusions

There are other "snapshots" that could be pasted in this album. But most of them are blurred by age or otherwise lack clarity. None would change very much the total picture that emerges from the preceding pages.

What is the total picture? That might depend to some extent on the reader's preconceptions. To some it is disappointing. To others much better than expected.

Progress has not been so rapid nor come so easily as many prophesied right after U. S. Steel announced it was going to construct a massive new works in this area. But for progress to come at all in the face of an exodus of textile firms—long Philadelphia's leading industry—is to others quite remarkable.

To a person without any preconceptions—and no one who lives or works in or around the Philadelphia area is that—Philadelphia in the fifties may look pretty good. The area is being peopled faster than the rest of the country and faster than most other large metropolitan areas. Port business is progressing at a good pace; and retail sales and construction activity are at least keeping up with national trends.

A few very important "snapshots" in this album

are disquieting. Our unemployment as a percentage of the labor force consistently has been higher in this area than for the nation as a whole. But even unemployment is not so prevalent as when Philadelphia entered the 1950's. Manufacturing activity, particularly as reflected by value added data, is not progressing so rapidly in the Philadelphia area as in the nation. It is hoped that the high level of capital expenditures by local manufacturers is a forerunner of better things to come.

It is disquieting too, in a sense, to see that some of the things most frequently said about the area have been implicitly refuted by the preceding "snapshots."

For example, it has repeatedly been written that "the Philadelphia area's economy is so diversified that it is safe to say it will go as the nation goes." But it hasn't. The nation's employment peak was set in 1956, the area's in 1953. Employment in the Philadelphia area rose more rapidly than employment in the rest of the country after Korea. It declined more slowly here than in the nation in 1954. And employment here declined further in early 1955 while employment nationally was rising. In 1956 employment here came back much more slowly than for the nation as a whole.

Needless to say, employment behavior over this period casts doubt on another frequently used axiom, "Diversification in this area makes booms and busts gentler than for the nation as a whole."

Of course, the album isn't nearly complete. The 1950's are only 70 per cent finished. But what will happen in 1957, 1958, and 1959 will be conditioned at least by what happened over the years measured.

APPLIANCES IN A COMPETITIVE MARKET

Appliances, like automobiles and houses, fought hard for their share of consumers' dollars in 1956. Appliance dealers, department stores, and the now firmly established discount houses all were pushing harder than ever for volume sales, so that competition was about as keen as any ever experienced in the merchandising field. Among major appliance lines—the traditional white goods, television, radio, high-fidelity sound, and air conditioning equipment—several that had been leaders and the “bread and butter” for the trade became replacement market items when their position was taken by new favorites.

Unit volume increased

From the standpoint of number of units sold, most lines of appliances had a pretty good year. And on this basis alone, gains over 1955 were quite impressive in some instances. Measured in dollars, however, last year's increases were not so spectacular; in fact, total dollar sales seem to have fallen short of the merchants' expectations. One leading merchandiser who handles all lines of appliances calls the value of sales out of line with the year's high-level economy.

Buyer preferences shifted

Price concessions, including cash discounts and high trade-in allowances again played a significant role in sales of all major appliances. Moreover, shifts in buyer preferences that frequently ran to less expensive items also figured importantly in the 1956 sales picture. Washers and dryers, for example, moved into top places formerly held by refrigerators and home freezers.

In the area of entertainment, while the relatively new high-fidelity sound units were making noteworthy gains, demand for portable television receivers was showing considerably more strength than large-screen sales. And in record players, demand rose much more sharply for small portables than for combination radio-phonographs.

Last year's experience in appliance merchandising at the national level and in the Philadelphia Federal Reserve District appears to have been similar. We learned about the local situation chiefly from representative dealers in some of our larger city areas.

Third District dealers are selling more service

Competition is just as tough here as elsewhere in the country. The chief complaints are the cash discounts and high trade-in allowances taken as a matter of course by so many customers. Mr. Average Dealer tells us he must play a game of give and take or risk losing the sale to a competitor. Sometimes this means shaving the profit margin too close, so that business may be passed up. But more often a dealer manages a sale on the strength of the service he has to offer. This is particularly true if he is one of the many who have installed adequate service departments within the past year. Such facilities have become especially important in smaller areas where factory servicing of an appliance is less readily available.

Refrigeration was a slow mover

In this District, sales of both refrigerators and home freezers seem to have made a particularly

poor showing last year. Undoubtedly, fewer housing starts had some bearing on this situation. Figures from the Electrical Association of Philadelphia covering wholesale deliveries in the five-county area indicate that unit sales in 1956 were down considerably from a year earlier. Freezers, selling in good volume earlier, made the poorest showing. Retail appliance dealers here and in other city areas also seem to have experienced a smaller demand for refrigeration. Although room air conditioners were a disappointing item with many dealers last summer, subsequent promotional sales boosted volume sharply.

Laundry equipment in good demand

Many dealers appear to have been agreeably surprised by sharp increases last year in sales of clothes washers and dryers. Dish washers also were in active demand. Although most washers are less costly than either large refrigerators or freezers, high unit sales went a long way toward building total dollar appliance volume. In another white goods sector—ranges—consumer interest varied widely from one area to another. In general, neither unit nor dollar volume gave an impressive comparison with 1955 sales.

In television there was a switch

Some dealers seemed satisfied with the over-all demand for television. But there were only a few who could regard their sales of large-screen receivers with any degree of complacency. Portable television was the most active item in entertainment equipment in 1956. Unit sales in this line chalked up large increases everywhere but these lower-price sets did little for dollar volume, and profit-wise were not a great asset to dealers. There were dealers who regarded portables as a blessing because they held up unit sales of their television

line. But there also were dealers who felt that portables had eaten into their large-set replacement market, so they were more of a curse than a blessing.

Sales of hi-fi equipment encouraging

High-fidelity sound, the newest item in appliance lines, gained considerable ground last year. More and more dealers are coming to regard it in much the same light as air conditioning when it made its post-war debut. Very few are handling hi-fi in anything except package units, but in this form the price makes it a very attractive item to the dealer. Sales of only a few units can mean a lot dollar-wise, and profit-wise. Color television, another costly item, showed a small increase last year and then in only a few areas where reception was best.

1957 outlook is promising

Third District appliance dealers are expecting a good year in 1957. Most of them think last year's leaders again will be on top. All are hoping for an improvement in the market for white goods lines like refrigerators, freezers, and ranges, but here much seems to depend on trends in home building. Inventories, except in television, do not appear to have been excessive at the turn of the year. In that line, sharp production cutbacks have been made and more are probable. As both manufacturers and some distributors have heavy stocks of black-and-white receivers, price cuts on this "distress" merchandise are in prospect. In most other lines, appliance dealers in this area see a good chance of holding the price line. Over-all sales volume in January is said to have been pretty much in line with seasonal expectations, and a few dealers report that last month's business held up unusually well.

THIRD DISTRICT BANKING—1956

High-level activity in business during 1956 was reflected in the reports of member banks in the Third Federal Reserve District. Loans reached new peaks and gross earnings of the banks were at record levels. Increases over 1955 in total bank credit and in the net profits of banks, however, were not as outstanding.

Loans totaling \$4.1 billion at the end of 1956 were up more than a quarter-billion dollars from the previous year. This increase, while substantial, was only about half that reported in the previous year. The slowing up was most marked at reserve city banks, with head offices in Philadelphia, which accounted for only about one-fourth of the increase, although at the opening of the year they had nearly one-half of the loans at all member banks in the District. Reserve city banks led in the expansion of business loans but they added much less to real-estate loans than did the country banks and reduced their loans in some of the other classifications.

To help meet the demand for credit, both reserve city and country banks sold securities or allowed them to run off at maturity, with the result that the increase in total earning assets was less than \$100 million—little more than 1 per cent. The growth in deposits was larger, approximating \$250 million. Nearly half of this was in time balances of individuals and business concerns and relatively little in demand deposits similarly owned.

Earnings reports for the year show total earnings up \$36 million in 1956 to nearly \$332 million, according to preliminary tabulations. Relatively few banks failed to share in this increase, which was due mainly to the growth in loans.

But current expenses also were markedly higher. Year by year, salary and wage costs have been rising, as well as the miscellaneous costs of operation, and in 1956 interest payments on deposits moved up considerably, a reflection of growth in time deposits and, in many cases, the payment of higher rates of interest. After meeting current expenses, \$125 million remained as "net current earnings"—an increase of less than \$12 million over 1955.

MEMBER BANKS Third Federal Reserve District (Dollar amounts in millions)			
	Dec. 31, 1956*	Change in year**	
		Amount	Per cent
Loans	\$4,113	+\$271	+ 7%
U.S. Gov't securities	2,368	— 151	— 6
Other securities	787	— 24	— 3
Total earning assets	\$7,268	+\$ 96	+ 1%
Deposits, total	8,557	+ 252	+ 3
Capital accounts	853	+ 31	+ 4
Earnings, expenses, and profits	Year 1956*		
Earnings:			
On U.S. Gov't securities	\$ 54.9	—\$ 0.6	— 1%
On other securities	19.0	— 0.7	— 4
On loans	206.5	+ 32.1	+18
All other	51.3	+ 5.5	+12
Total earnings	\$331.7	+\$36.3	+12%
Current expenses:			
Salaries and wages	\$ 95.4	+ \$ 7.7	+ 9%
Interest on deposits	33.2	+ 7.5	+29
All other	77.6	+ 9.5	+14
Total current expenses	\$206.2	+\$24.7	+14%
Net current earnings	\$125.5	+\$11.6	+10%
Recoveries, profits, and transfers from reserves	\$ 6.8	—\$ 0.9	—12%
Losses, charge-offs, and transfers to reserves	39.6	+ 5.0	+14
Taxes on net income	35.9	+ 2.1	+ 6
Net profits	\$ 56.8	+\$ 3.6	+ 7%
Cash dividends declared	34.2	+ 1.6	+ 5

*Preliminary tabulations.

**Adjusted for mergers, etc.

Further adjustments were still to be reckoned with—recoveries and charge-offs on assets, transfers to and from valuation reserves, and income taxes. The figures for 1956 show somewhat heavier tax payments in the aggregate and larger amounts than in 1955 under the heading “losses,

charge-offs, and transfers to valuation reserves.” After these changes are taken into account, the record shows about \$57 million of net profits available for dividends, an increase of some \$3½ million over 1955. Approximately three-fifths of the profits were paid out in cash dividends.

CURRENT TRENDS

Some of the excessive enthusiasm about the business outlook seems to be giving way to a more restrained and realistic optimism. Analysts are now going beneath totals for this year to the pattern of activity throughout 1957. More of them are questioning whether business might slow down or even decline toward the end of the year.

They are keeping their fingers crossed about automobile sales and are watching closely for any signs of a change in business plans for capital expenditures. Those who based their earlier predictions on the assumption of continued tight money may be starting to realize that such an assumption is putting the cart before the horse. Whether money is tight or not certainly will affect business activity; but, more basically, whether it is tight or not will depend on business activity. In any case, businessmen are likely to be more sensitive to changes in monetary policy than they have been in the past. We arrived at this conclusion in preparing our Annual Report for 1956.

Reflections on Money in 1956

Looking back on 1956, we were impressed by the importance of monetary matters during the year. Probably more people talked, thought, and learned more about money than in years. Here

are a few of the many controversial subjects discussed:

Tight Money

Selective vs. General Credit Controls

Independence of the Federal Reserve System

Money and Production

Money, Wages, and Inflation

Money on the Move

Their common denominator was money. And while discussion about them turned up nothing particularly new about money, it did bring the nature of money into sharper focus. It was particularly helpful in pointing up two attributes of money—its power and its limitations. These characteristics emerge as one looks back over each of these topics of discussion.

Those who experienced tight money at first hand were impressed by the power of money. They found that money, like most things, takes on greater importance when it costs more and is harder to get. Those who had difficulty getting it learned once again that we use money in our economy to allocate resources. And because some found it harder than others to get money, they found it harder to compete for resources. So it was really a recognition of the power of money in distributing resources that was behind most complaints about tight money.

Similarly with the controversy over selective versus general credit controls. Those who felt that the impacts of general controls were unequal, unfair, and produced a maldistribution of resources, argued for selective controls. Those who felt that resources should be distributed through the market mechanism favored general controls. But the arguments of both groups rested ultimately on the power of money.

With greater recognition of the power of money came increased consciousness of the power of the agency that regulates money—the Federal Reserve System. And this raised anew questions about the relationship of the Federal Reserve to Government. Should steps be taken to “coordinate” monetary policy with economic policies of the Executive Branch? Or should the Federal Reserve continue an “independent” agency responsible only to Congress?

Paradoxically, 1956 revealed just as clearly the limitations of money, but this was a side fewer people recognized, because most looked at money from their own particular point of view. The businessman knew that if he had more money he could command more resources and increase production. Then why not make it possible for everyone to have more money and thus increase total production? Or, put it another way. People want to live better, travel, educate their children, and enjoy more goods. Why let tight money stand in the way of building the houses, roads, schools, and factories we need to meet their wants?

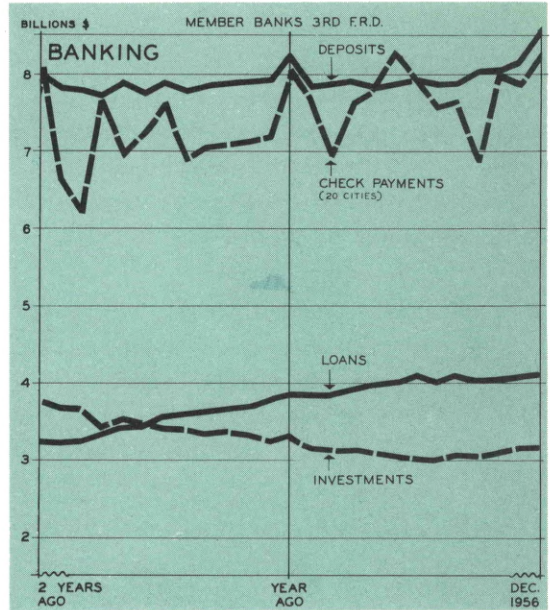
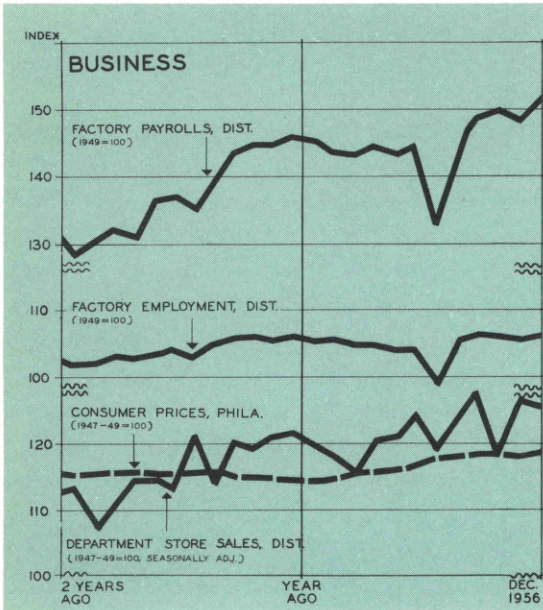
What these questions overlooked is that no matter how powerful money may be in distributing the output pie, sometimes it is powerless to increase the total size of the pie. This is hard to see, not only because we tend to analyze the total economy in terms of our individual problems,

but also because it challenges something we often take for granted amid constant optimistic references to long-run growth—we tend to feel there is no limit to how far our economy can go in turning out goods and services. But with the economy operating close to capacity, more money put at the disposal of one businessman could enable him to increase his output only by giving him the power to bid scarce resources away from another. More money and credit, no matter how “productive” for the borrower, could not squeeze more goods and services out of the economy. It would simply have brought forth higher prices. This was the main limitation of money apparent in the full-employment economy of 1956.

Moreover, since the money supply rose very little and prices advanced nevertheless, more and more observers raised questions about the role of money in inflation. Some described the price increases of 1956 as a “cost-push” inflation caused by wage boosts, rather than a “demand-pull” inflation caused by excessive money. The distinction probably is not as sharp as it often is made out to be, yet does suggest another limitation of money. Events in 1956 reminded us once more that an enlarged money supply is not the only thing that can cause prices to rise.

They reminded us, too, that narrow concentration on the money supply itself can be misleading. More rapid use of existing dollars—increased velocity—can achieve the same results as the addition of new dollars. Because velocity rose during 1956 some concluded that restraint of the money supply was ineffective. Others pointed out that it is reasonable to expect the economy to use its money supply more efficiently when money becomes more expensive and harder to get, and that the effects of faster turnover can be offset by greater restraint on the money supply itself.

FOR THE RECORD...



SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	December 1956 from		12 mos. 1956 from year ago	December 1956 from		12 mos. 1956 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production...	+1	-4	-1	-2	+2	+3
Construction contracts*	-9	-32	-6			
Coal mining	-12	-11	+5	-8	-9	+7
EMPLOYMENT AND INCOME						
Factory employment (Total)...	+0	0	+1	0	+1	+2
Factory wage income	+2	+4	+5			
TRADE**						
Department store sales	+0	+3	+4	-2	+5	+4
Department store stocks	+1	+5		+1	+6	
BANKING (All member banks)						
Deposits	+2	+3	+1	+2	+2	+2
Loans	+1	+7	+13	+2	+11	+15
Investments	+0	-5	-10	0	-6	-9
U.S. Govt. securities	+1	-6	-10	+1	-7	-11
Other	-1	-3	-8	-1	-4	-4
Check payments	+5†	+3†	+8†	+9	+1	+8
PRICES						
Wholesale				0	+4	+3
Consumer	0†	+3†	+1†	0	+3	+1

LOCAL CHANGES	Factory*		Department Store		Check Payments					
	Employment	Payrolls	Sales	Stocks	Check Payments					
	Per cent change December 1956 from		Per cent change December 1956 from		Per cent change December 1956 from					
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago				
Allentown...	0	-1	+1	+10			-1	+4		
Harrisburg...	0	+4	0	+12				+3	+10	
Lancaster...	0	-2	-1	+1	+34	-2	-23	+4	+7	+11
Philadelphia..	+1	+1	+3	+7	+26	+2	-21	+6	+4	+2
Reading.....	-1	-3	-1	+1	+30	+10	-26	+13	+4	-2
Scranton.....	0	+3	0	+11	+50	+1	-23	+7	+1	+6
Trenton.....	+1	+1	+4	+7	+49	+7	-24	-2	-13	+13
Wilkes-Barre.	+1	-4	0	+3	+54	+1	-21	+1	+8	+9
Wilmington...	+1	-4	+6	+7	+34	+4	-24	+4	+48	+9
York.....	0	+1	+2	+4	+38	+1	-27	0	0	-5

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

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