NOVEMBER 1957

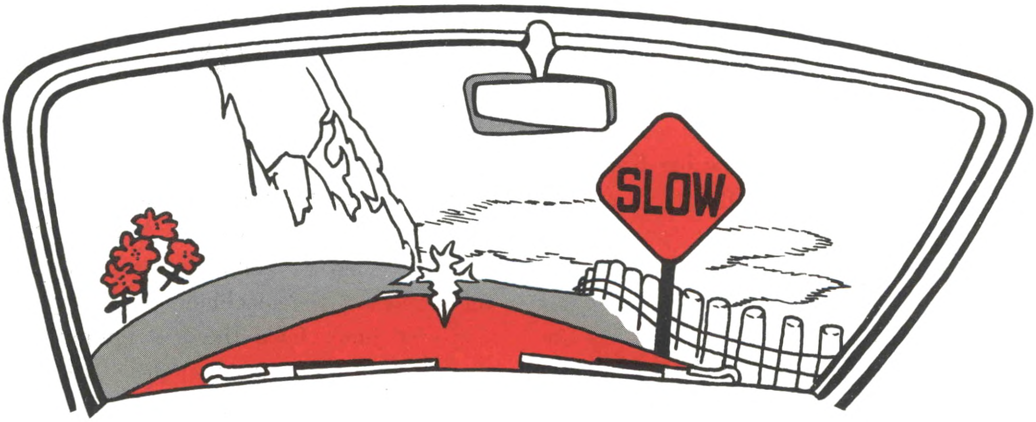
business review

FEDERAL RESERVE BANK OF PHILADELPHIA

CAPITAL SPENDERS: CAUTIOUS ABOUT THE FUTURE

We have expanded our regular capital expenditure survey and the results indicate that manufacturers' 1958 budgets are being trimmed throughout the Delaware and Lehigh Valleys. Area by area, this is how much 1958 plans trail 1957 spending:

Wilmington	*— 5 per cent*
Trenton	*— 10 per cent*
Philadelphia	*— 13 per cent*
Lehigh Valley	*— 39 per cent*



CAPITAL SPENDERS:
CAUTIOUS ABOUT THE FUTURE

Results of a Survey of Manufacturers in the Delaware and Lehigh Valleys

In the board room, lunching at the club, riding the parlor cars, wherever local manufacturers meet, they are singing a different tune this year. It's time for caution—a standing back to get perspective, and appraise where the economy is and where it is heading. At least this is the way it seems from reading the results of our capital spending survey for 1958.

Manufacturers in the Philadelphia area say they are going to spend $339 million for construction and equipment during 1958. Their plans contrast sharply with year-ago intentions. When we surveyed manufacturers last year at this time, they said they were going to increase spending by 13 per cent. They did even more than they promised. Spending in 1957 will be $391 million —up 16 per cent from the 1956 level. The 13 per cent decline in 1958 would bring capital spending in this area back near the 1956 level. Inventory and employment plans also imply more caution.

Caution is not confined to Philadelphia. Reports from three neighboring areas—new to this year's survey—indicate that budget trimming is widespread.

Biggest cuts of all are in the Lehigh Valley. Industry there plans to spend 39 per cent less than it did in 1957. Trenton and Wilmington show smaller declines, with projected cutbacks of 10 per cent and 5 per cent, respectively.

EDITOR'S NOTE: After this article was written, the results of the McGraw-Hill survey of capital spending plans on a national basis became available. Manufacturers reporting in the McGraw-Hill survey projected a 16 per cent decline in spending. This is close to the 13 per cent cutback envisaged in the Philadelphia area.

A REPORT FROM PHILADELPHIA AREA MANUFACTURERS

The decline in capital expenditures that is planned is not the result of a few big firms cutting back spending programs. Rather, it reflects a very general softening in spending expectations. The table below illustrates this point by industry group.

Of the 17 separate industry groups, eleven show a decline in prospect for 1958; four indicate larger spending totals, and two see practically no change. In dollars, the largest cut is envisaged by chemical firms which say they will spend $14 million less than the $71 million total for this year. But on the basis of percentagewise movements, the 57 per cent drop in prospect for transportation equipment makers is the largest.

On the brighter side, a sizable $7 million or $8 million hike is expected by the petroleum group to bring its total expenditure to about $82 million. Electrical machinery makers plan a 41 per cent jump from the $19 million spent in 1957. Other increases are to come from primary metal and lumber and furniture makers.

Evidence indicating a general softness in spending plans also may be derived from the number of firms planning changes. Over-all, twice as many firms say they will decrease spending as

1958 CAPITAL EXPENDITURE EXPECTATIONS OF MANUFACTURERS IN THE PHILADELPHIA METROPOLITAN AREA

(In millions of dollars)

Industries	Total actual expenditures 1957	Anticipated expenditures 1958	Per cent change
All manufacturing	$391.2	$338.8	− 13.4
Durables	158.5	141.7	− 10.6
Lumber and furniture	5.0	5.9	+ 18.0
Stone, clay and glass	10.5	10.4	− 1.0
Primary metals	51.7	55.6	+ 7.5
Fabricated metals	21.3	13.5	− 36.6
Machinery (excluding electrical)	22.5	13.7	− 39.1
Electrical machinery	18.9	26.7	+ 41.3
Transportation equipment	18.2	7.8	− 57.1
Instruments and miscellaneous	10.4	8.1	− 22.1
Nondurables	232.7	197.1	− 15.3
Food and tobacco	38.1	23.7	− 37.8
Textiles	10.3	5.4	− 47.6
Apparel	2.1	2.0	− 4.8
Paper	14.8	14.9	+ 0.7
Printing and publishing	11.7	5.9	− 49.6
Chemicals	71.2	56.6	− 20.5
Petroleum and coal products	74.8	82.4	+ 10.2
Rubber	9.1	5.6	− 38.5
Leather	0.6	0.6	0.0

CAPITAL EXPENDITURES: 1958 ANTICIPATED COMPARED WITH 1957 ACTUAL

Industries	Per cent of Firms		
	Higher	Same	Lower
All manufacturing	25	23	52
Durables	28	20	52
Lumber and furniture	33	20	47
Stone, clay and glass	30	5	65
Primary metals	27	23	50
Fabricated metals	21	30	49
Machinery (excluding electrical)	29	22	49
Electrical machinery	22	8	70
Transportation equipment	27	9	64
Instruments and miscellaneous	44	17	39
Nondurables	23	26	51
Food and tobacco	23	6	71
Textiles	17	35	48
Apparel	15	49	36
Paper	22	17	61
Printing and publishing	26	22	52
Chemicals	31	4	65
Petroleum and coal products	70	10	20
Rubber	33	9	58
Leather	21	37	42

say increase. Within the industry groupings, more firms say increase than decrease in only two cases—petroleum, and instruments and miscellaneous.

WHY THE DIP?

The question that this survey provokes is a big one—difficult to answer, but so interesting to speculate about. Why are manufacturers in this area cutting back spending?

Of course, no one ever gives a complete answer to a question like this. Obviously, each firm's reasons for spending a certain amount differ in some respect. However, when an overwhelming preponderance of firms announce changes that move in the same direction, some kind of an "all purpose" reason would seem to be responsible. And since a firm's capital spending plans ultimately reflect confidence in future business activity, the reason must be that manufacturers are pessimistic.

Basically management feels a little pessimistic either because it is experiencing immediate adversity, or because it feels that storm clouds are gathering. In the present instance a bit of both may be responsible.

During 1957, the industrial production index—a measure of manufacturing and mining activity—has never regained the high point that it reached in December 1956. There is no industrial production index for the Philadelphia Metropolitan Area, but employment figures imply more buoyancy in industrial activity in this region than in the country as a whole.

The table following shows that manufacturing employment in this area has consistently outpaced the rest of the nation in 1957. It also shows that in September—the month during which manufacturers answered this survey — employment figures revealed the poorest year-ago comparison both nationally and locally.

Another indication of September weakness is gained from analyzing manufacturers' replies to our survey on production trends. We asked firms

CHANGE IN MANUFACTURING EMPLOYMENT, 1956-1957

	United States	Phila. Metro. Area
January	+ 0.6%	+ 0.7%
February	+ 0.6	+ 1.1
March	+ 0.9	+ 1.5
April	+ 0.2	+ 1.2
May	+ 0.2	+ 1.2
June	+ 0.2	+ 1.8
July	+ 2.5	+ 4.5
August	— 0.4	+ 0.8
September	— 1.2	+ 0.1

to tell us if they increased or decreased production in the third quarter of 1957. Matching the results in the July, August, and September quarter this year with 1956 provides an unfavorable comparison. Fewer firms increased production this year, more decreased, and about the same number held even.

In other words, based on employment records and production estimates, at just the time manufacturers were answering this survey, they were faced with a discouraging trend.

Employment projections reflect caution

Perhaps more importantly, Philadelphia area manufacturers look ahead to declining employment totals. In addition to projecting their capital spending plans, manufacturers were asked for December 1957 and March 1958 employment estimates. The table on page 6 summarizes the results from their replies.

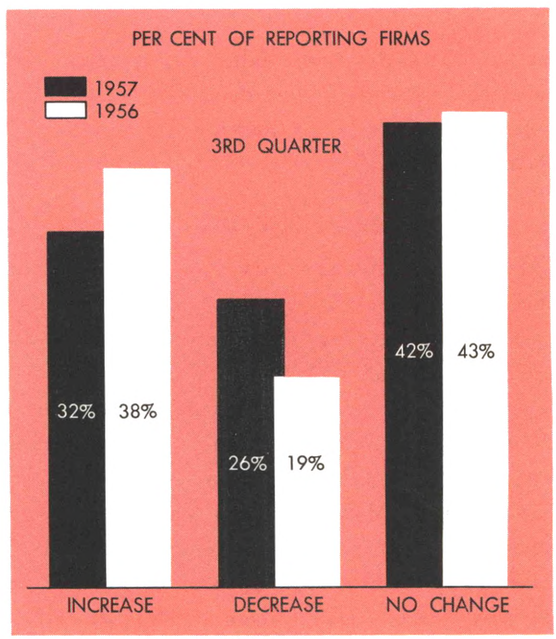
As can be seen, their estimates would add up to about 548,500 employed in manufacturing in December 1957 as compared with 554,300 a year ago. By March 1958 they expect employment to total 552,500 against 555,200 in March 1957.

Production forecasts are not so buoyant

This year again manufacturers were asked for forecasts of the trend of production for their firms. Their returns are in and counted. The result is not so optimistic as last year.

In each quarter relatively fewer firms look for increases than last year at this time, and more firms look for declines. Within the industry groups the picture is pretty much the same, al-

NOT SO MANY FIRMS INCREASED PRODUCTION THIS YEAR



EMPLOYMENT PROJECTIONS FALL BELOW ACTUAL YEAR-AGO LEVELS

Industries	Dec. 1957 estimated	Dec. 1956 actual	March 1958 estimated	March 1957 actual
All manufacturing	548.5	554.3	552.5	555.2
Durables	262.7	269.4	265.9	266.4
Lumber and furniture	9.4	9.1	9.8	9.2
Stone, clay and glass	13.8	13.7	13.9	13.7
Primary metals	38.5	40.6	39.0	40.3
Fabricated metals	40.8	41.0	41.4	41.6
Machinery (excluding electrical)	49.2	48.9	49.4	48.7
Electrical machinery	52.5	55.0	52.3	53.3
Transportation equipment	31.2	32.6	32.8	31.2
Instruments and miscellaneous	27.3	28.5	27.3	28.4
Nondurables	285.8	284.9	286.6	288.8
Food and tobacco	52.1	50.8	51.4	49.9
Textiles	40.1	41.6	41.8	41.9
Apparel	63.3	61.3	63.1	64.1
Paper	20.4	21.7	20.9	21.3
Printing and publishing	34.7	34.3	34.8	37.2
Chemicals	36.7	36.2	36.0	35.6
Petroleum and coal products	22.7	22.6	22.7	22.6
Rubber	9.1	16.4 (Rubber and Leather)	9.1	16.2 (Rubber and Leather)
Leather	6.7		6.8	

though there are important exceptions. Food and tobacco firms are a bit more optimistic this time, as are petroleum companies and lumber and furniture makers.

Since this is only the second year in which we have collected production plans we hesitate to analyze these results intensively. But it is apparent that these plans reflect less buoyancy than last Fall.

Inventories — more of a drag?

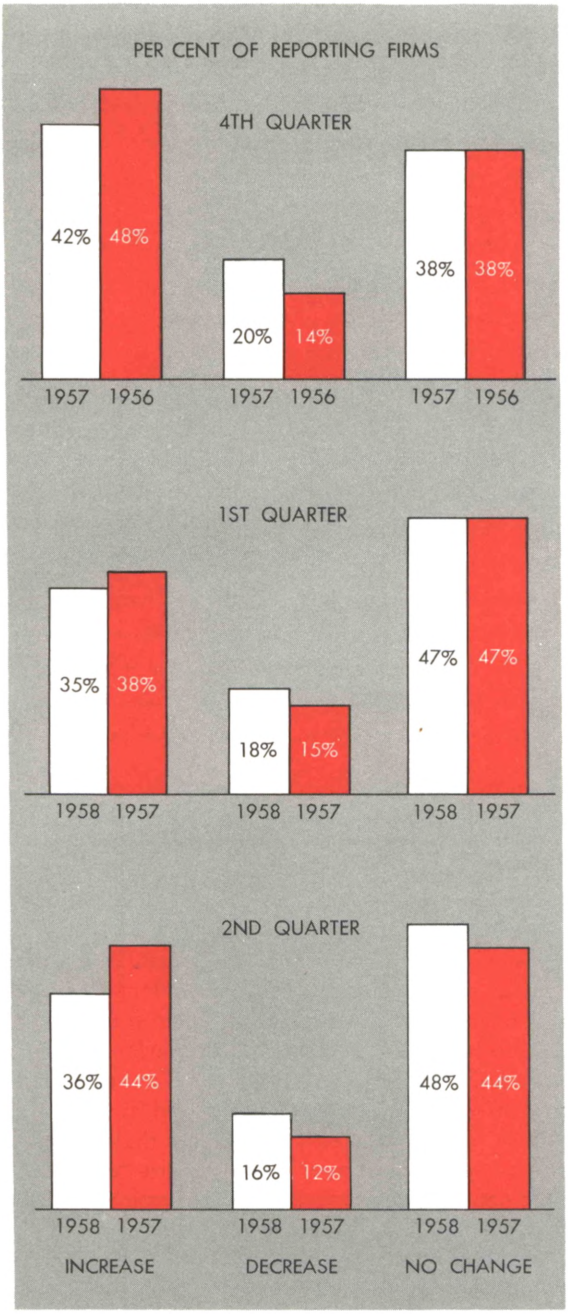
Manufacturers tend to increase inventories when they feel business activity will be brisk, decrease them when the outlook is cloudy. Therefore, if a firm says it is going to increase inventories over the next 12 months it is a sign of optimism.

The chart on page 8 illustrates manufacturers' inventory intentions this year as compared with a year ago. As can be seen, more firms say "decrease" this year, about the same proportion feel

CAPITAL OUTLAYS BY UTILITIES AND RAILROADS

Utilities and railroads serving the Philadelphia metropolitan area plan to increase their capital outlays $45 million in 1958. New plant and equipment expenditures in 1957 amount to $189 million, and the estimate for next year approximates $234 million—an increase of 24 per cent. Actual spending in 1957 was a little over 7 per cent, more than the year-ago estimate called for. On the basis of these figures it would seem that the industries supplying power, fuel, transportation, and communication services are expressing a great deal of confidence in the long-run future of the area they serve.

PRODUCTION PLANS NOT SO BUOYANT AS A YEAR AGO



no change is in prospect, and a smaller percentage feels stocks will be enlarged.

How accurate are the predictions?

Capital spending plans, employment projections, potential production trends, and inventory estimates all point toward slower activity next year.

But none of the predictions from this survey is "sure fire." Capital spending plans have pointed toward the actual direction of change in all but one of the nine years for which we can measure actual levels against projections. That one miss occurred in 1956 when projections suggested a decline in capital spending, but firms actually spent more than in 1955.

Employment forecasts have proven to be, at least, helpful guides to the direction of change in this important total. Inventory predictions, however, have shown us just how chimerical this business of projecting the future can be. Production plans as a guide to tomorrow's business are new to this survey. We would prefer to wait before evaluating these plans as a guide to future business activity.

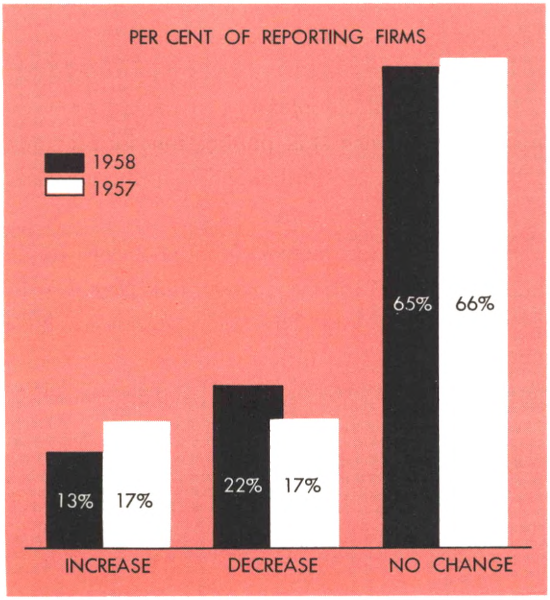
What this means is that we are pretty sure that the thinking and planning revealed in this survey are subject to change. But we are also pretty sure—due to the consistently pessimistic undertone of each part of our survey—that at the time this survey was made manufacturers were apprehensive about the state of business in 1958.

CONCLUSION

In reviewing the capital expenditure survey last fall we said " . . . manufacturers expect a good year in 1957, but as yet many of them aren't certain enough of their convictions to bet on it with higher capital outlays . . . the planned 13 per cent gain might be an underestimate."

It was; capital spending rose by 16 per cent.

INVENTORY EXPECTATIONS DIMMER THIS YEAR



We quote from a year ago not to show that we were right, but because this year we feel just opposite to the way we did then. If the 1958 business year falls below 1957 levels—as projected by manufacturers themselves—it's a good guess that some additional firms will lower capital outlays and the planned decline might be an underestimate.

This conclusion is taken straight from a hard reading of the survey itself. Perhaps, since this is a report on the survey, it should be left standing.

One thing, or rather two things, which have happened recently have great potential impact on capital spending in 1958, however. Sputnik I and Sputnik II were both launched after our survey forms were filled in by local manufacturers.

Before the sputniks, Federal Government spending for defense was cut back. Further contraction was hinted. If, next year, Federal spending for defense were to increase, it could possibly change the face of the outlook. Capital spending plans which were formulated with a lower level of defense spending in mind could not help but be re-examined. The re-examinations would probably lead to upward revisions.

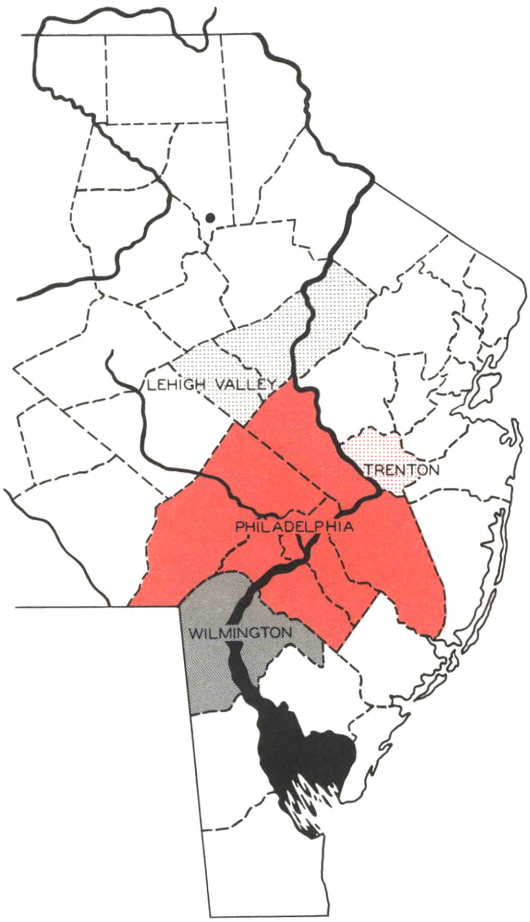
RETURNS FROM NEIGHBORING AREAS

Our capital expenditure survey has branched out. Included this year are reports from the Trenton, Wilmington, and Lehigh Valley metropolitan areas.

With Philadelphia, these new additions make up the vast Delaware and Lehigh Valleys industrial complex. The expanded survey provides, for the first time, almost complete spending predictions for this manufacturing heart-land of the East.

THE NEW TWO-VALLEY SURVEY AREA

Metropolitan areas now included in our capital expenditure survey.



The industrial complexions of the four survey areas differ. Since this publication in previous issues has discussed Philadelphia's economy, let's introduce the newcomers.

The Wilmington metropolitan area consists of Salem County in New Jersey and New Castle County in Delaware. The two counties are farther apart than the width of the river which runs between them. Salem is more agricultural while New Castle is heavily industrialized.

One industry, chemicals, dominates the area, accounting for more than 40 per cent of total value added by manufacture. Oil refining and steel are of growing importance.

Trenton is the smallest in the survey, whether measured by land, population, or value added. Yet its industry packs a lot of diversification in this package. Local firms are typically small but numerous and they turn out a whole spectrum of products "for the world to take." Chief among these is fabricated metals but best known, perhaps, are clay and pottery items.

Four cities — Allentown, Bethlehem, Easton, and Philipsburg—rub boundaries in the Lehigh Valley. Industry there is diversified and specializes in durables. Primary metals are important; so is machinery and transportation equipment. The area boasts at least one national first; it produces more cement than any other district in the country. In addition to these "heavy" products, the Lehigh Valley concentrates on textiles and wearing apparel.

As one might expect, the Philadelphia area, with more firms and more territory, is doing the

DEMAND FOR PLANT SITES HAS SLACKENED

In order to supplement information supplied by manufacturing companies, utilities, and railroads, we tried to find out whether activity in industrial real estate might shed more light on the future spending plans of industry in our area.

The market for industrial real estate in the Philadelphia Metropolitan Area seems to have weakened in recent months. Realtors and others concerned with the development of industrial parks and plant sites tell us that demand is less active than in 1956 and possibly even earlier years. Although many companies are still inquiring about both large and small tracts, the trend of actual sales suggests that industry is taking another look at its future expansion needs before making final decisions. The greatest interest in new plant sites has centered in Bucks, Montgomery, and Chester counties, where land development has made rapid progress. However, plans for developing an 800-acre tract near the Northeast Airport promise to revive interest in locations within the city limits of Philadelphia.

Industry has been inquiring mostly about fairly substantial tracts, reflecting its desire to spread out with single-story structures, ample storage and loading space, and adequate parking facilities for employees. But the rising cost of suburban locations many times has forced companies to scale down what they originally regarded as a minimum requirement for space. This upward trend in prices of developed land in our area shows no sign of being arrested in the near future.

It is difficult to pinpoint the most compelling reason for the recent slow-down in the demand for new plant sites. Companies mention tight-money conditions that make borrowing more expensive. They also point to the uncertainty and hesitation that has crept into the over-all business picture. In some cases, we have learned that zoning problems also can become sufficiently "knotty" to delay final decisions on a chosen location.

At this point, the implications of the recent decline in demand for plant sites by industry are not clear. It is very hard to say the extent to which this trend may be reflected in capital outlays made next year, or the year after that. Companies have not yet used many plant sites purchased in the past, and they could take up and put to use others currently under consideration. Perhaps the most that can be said of the present situation is that industry seems to be taking a more leisurely view of its future expansion needs in a period when the business climate contains elements of uncertainty.

most capital spending in 1957. It accounts for 72 per cent of the total in the survey area. Wilmington is next with 15 per cent, then the Lehigh Valley with 9 per cent, and Trenton trails with 4 per cent.

The spending ratio between manufacturers of durable and nondurable goods is far from constant in the four areas. There is, however, an interesting north-to-south shift. In the Lehigh Valley, durables dominate. Then, heading down the Delaware, the proportion of spending by nondurable industries rises until it reaches 89 per cent in Wilmington.

Spending plans for 1958 in the three new areas bear out Philadelphia's experience. They, too, indicate caution. Our tabulations show minuses across the board with predicted parings ranging from five to almost 40 per cent. The area-by-area tally is shown in the table below.

As in the Philadelphia area, the reported cutbacks in spending were pretty general. It is not just a case of a few large firms swaying the average. In fact, more than 40 per cent of the replies we received called for decreases from 1957 levels. Approximately one-quarter went on record with plans to do more spending, while the remainder reported "no change."

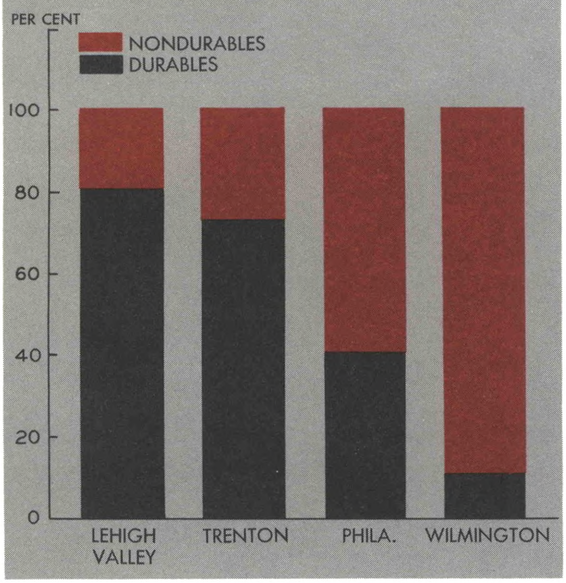
SPENDING CUTBACKS ARE WIDESPREAD

Estimated change in 1958 capital expenditures by standard metropolitan area

	1957	1958 Planned	Per cent change 1957 to 1958
	Millions		
Lehigh Valley	$ 50.5	$ 30.8	— 39.0%
Trenton	19.4	17.4	— 10.3
Wilmington	84.2	79.7	— 5.3
Philadelphia	391.2	338.8	— 13.4

THE 1957 SPENDING MIX

Distribution of capital spending in each metropolitan area between manufacturers of durable and nondurable goods.



ONLY ABOUT 25 PER CENT OF THE FIRMS REPORTING EXPECT TO SPEND MORE

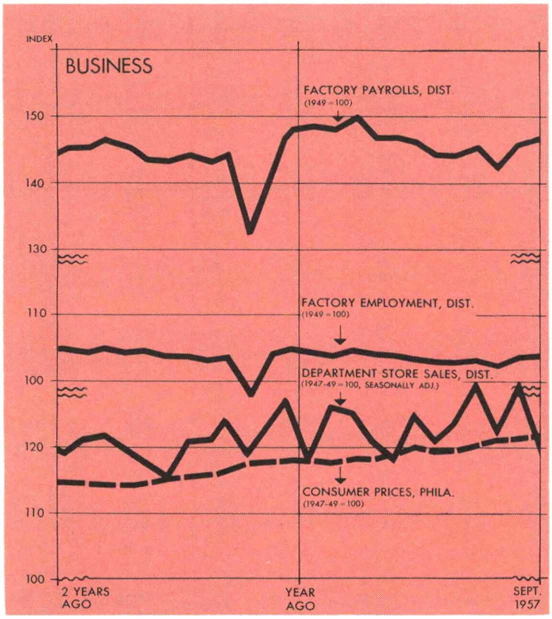
Percentage distribution of 1958 plans

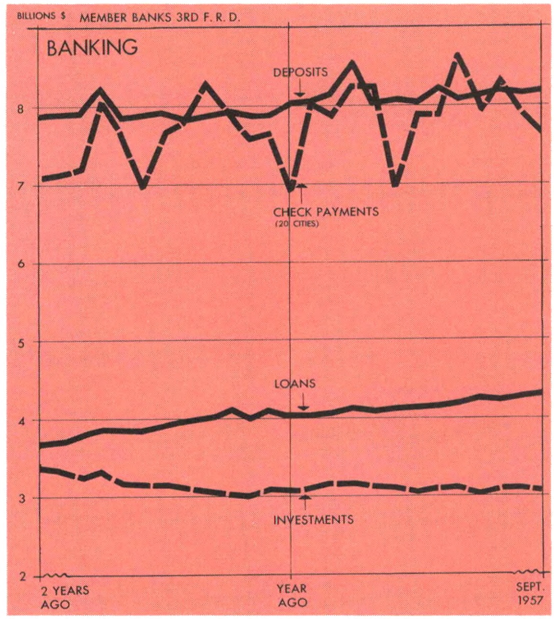
	Compared to 1957		
	Increases	No Change	Decreases
Lehigh Valley			
All manufacturing	21.6%	37.0%	41.4%
Durables	20.9	23.3	55.8
Nondurables	22.1	45.5	32.4
Trenton			
All manufacturing	32.4%	28.4%	39.2%
Durables	40.0	25.0	35.0
Nondurables	23.5	32.4	44.1
Wilmington			
All manufacturing	25.8%	22.8%	51.7%
Durables	28.3	19.5	52.2
Nondurables	23.0	25.7	51.3

In interpreting the 1958 spending picture in the three new areas bear in mind that these plans were reported well in advance and are subject to change. Or we might say that 1957 spending was at record levels—up nearly 90 per cent since 1954—and that 1958 still looks like a good year by past standards.

Yet the reported decreases are too big to shrug off or to ignore in hope that they won't come true. With our heads out of the sand, 1958 looks like, at best, a next-best-year for capital spending. Judging by the reports submitted, some tapering off in over-all industrial activity and employment in the three areas is also likely.

FOR THE RECORD...





SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	September 1957 from		9 mos. 1957 from year ago	September 1957 from		9 mos. 1957 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production	0	− 5	−2	+1	− 1	+2
Coal mining	+5	− 5	−1	−1	− 4	−1
EMPLOYMENT AND INCOME						
Factory employment (Total)	0	− 1	0	0	− 1	0
Factory wage income	+1	− 1	+3	.....	.....	.....
TRADE*						
Department store sales	−7	− 5	+2	−4	− 2	+2
Department store stocks	0	+ 5	.....	0	+ 3	.....
BANKING (All member banks)						
Deposits	0	+ 2	+3	0	+ 1	+2
Loans	+1	+ 6	+5	+1	+ 6	+7
Investments	−1	− 1	0	0	− 2	−3
U.S. Govt. securities	−1	0	0	−1	− 3	−3
Other	0	− 1	−1	+1	+ 2	0
Check payments	−3†	+10†	+4†	−1	+13	+8
PRICES						
Wholesale	.....	.....	.....	0	+ 2	+3
Consumer	0‡	+ 3‡	+3‡	0	+ 3	+4

*Adjusted for seasonal variation. †20 Cities ‡Philadelphia

LOCAL CHANGES	Factory*				Department Store				Check Payments	
	Employment		Payrolls		Sales		Stocks			
	Per cent change September 1957 from		Per cent change September 1957 from		Per cent change September 1957 from		Per cent change September 1957 from		Per cent change September 1957 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown	0	−1	+1	−1	.....	.....	.....	.....	+ 2	+16
Harrisburg	0	+2	0	+6	.....	.....	.....	.....	− 9	+15
Lancaster	0	−2	+2	+1	− 6	−14	+10	+ 5	0	+ 3
Philadelphia	0	0	0	+1	+31	− 4	+11	+ 9	− 5	+ 8
Reading	0	−3	+2	0	+22	+ 1	+ 8	+14	− 4	+ 7
Scranton	−3	−5	−4	−6	+ 3	− 7	+14	0	−10	+ 8
Trenton	+1	−2	+6	+3	+18	− 7	+ 7	− 2	− 6	+19
Wilkes-Barre	+1	0	0	+5	+ 8	− 7	+ 7	+ 4	+ 2	+20
Wilmington	−2	0	−5	+2	+ 3	+ 3	+ 5	0	+23	+13
York	−1	−6	−1	−2	−11	− 8	+10	− 9	+ 4	+20

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