on vacation

a survey of the travel and vacation industry of the Philadelphia federal reserve district

the talk of “automobile row”
ON VACATION
A Survey of the Travel and Vacation Industry
of the Philadelphia Federal Reserve District

Part I: The Findings

SUMMARY

1. It is a big industry.
   A. Vacationers spend about $600 million a year in our district.
   B. The travel and vacation industry is one of the district's top ten industries.
   C. For size, the industry is about on a par with agriculture or textiles; is outranked by only two of the district's 19 manufacturing industries, and by only three of the major types of retailing.
   D. It is the principal economic activity in Atlantic and Cape May counties of New Jersey, and Monroe and Pike counties in Pennsylvania. The industry is a contender with agriculture for first place in Ocean County, New Jersey, and Bedford County in Pennsylvania.

2. Vacation resorts are widely scattered throughout the district.
   A. The principal resort counties are Atlantic, Cape May, and Ocean counties in New Jersey, and Monroe County in Pennsylvania. Runners-up are Bedford and Pike counties in Pennsylvania, and Sussex County, Delaware.
   B. Vacationers spent approximately $250 million in these seven counties in 1956, and about 88,000 people were employed in serving the vacationers.
   C. The seven counties have room accommodations for 350,000 visitors.
   D. Atlantic County, New Jersey, receives more than double the vacation expenditures in any of the other six resort counties.

3. Businesses of all types share in vacation expenditures.
   A. 63 cents of the vacation dollar are spent at lodging and eating and drinking places.
   B. 19 cents go to retailers and for personal services.
   C. 7 cents for transportation.
   D. Hotels serving meals do the biggest business—their annual take averages about $100,000 each and about 60 per cent of this is for rooms.
   E. Individual guest homes and apartment houses are numerous and operate on a scale much smaller than other resort establishments.

4. Seasonality is a problem.
   A. The great majority of resort establishments operate less than six months each year. Many are open less than three months.
   B. Unemployment claims in the off-season are almost double those in season.

5. Vacationers demand modern facilities and services.
   A. An expanding variety of services and attractions is becoming increasingly important.
   B. The older establishments without modern facilities are doing rather poorly.

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The information for this study was collected for the year 1956 from 1,200 proprietors and managers of vacation business establishments. A probability sample was employed and the data were collected by both mail questionnaire and personal interview. The response rate was 96 per cent. The collection, analysis, and interpretation of the information and most of the work of writing the final report were done by Francis E. Brown of the Statistics Department of the Wharton School of Finance and Commerce, University of Pennsylvania.

THE NATURE OF VACATION SPENDING
A vacation may be almost anything. It may be a tan and a breeze, a rod and a reel, high collar or high heels, a tent and a skillet, castles and art galleries, sail and spray, boots and saddle, brush and easel, national parks and strip maps, popcorn on a ferris wheel, or perhaps just a feast of “whodunits” in an easy chair.

Conventional yardsticks for measuring the size of an industry defy application to the travel and vacation industry because of the infinite variety of goods and services produced. That is why heretofore there has always been a lot of guessing about the importance of the industry in this district. Inasmuch as people always speak of spending their vacation, we chose to find out, with respect to vacationers in the district, how much they spend, what they spend it for, where they spend most of the money, and who gets it.

How much?
It is amazing how much people spend on vacation —$600 million. That towers over most of the other industries of the district. It is larger than the district’s mineral industries dominated by hard and soft coal. Another evidence of the stature of the travel and vacation industry is the fact that it is exceeded in size by only two of our major manufacturing industries, namely, chemicals and primary metals. Moreover, the vacation industry is exceeded by only three major lines of retailing—food, automobiles, and general merchandise. Six hundred million dollars is enough to support for a year the entire population of the state of Delaware. The same amount of money spent on a line of automobiles would create a horrible traffic jam from Philadelphia to Chicago.

The district’s travel and vacation industry and its agricultural industry are of about equal size. Both industries produce about the same dollar volume of goods and services, and both industries employ about the same number of people. Consequently, both are of approximately equal importance in the many-sided economy of the district.

TRAVEL AND VACATION AMONG THE LEADING INDUSTRIES 1956

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*1954 estimate.
How the vacation dollar is spent

One thing all vacationers do—absolutely all vacationers—is eat and drink. Shelter is almost equally essential. So it is not surprising to find 63 cents of the vacationers' dollar clinking into the cash registers of proprietors of lodging, eating and drinking places. Almost half of this is for lodging—just lodging. Eleven cents go for amusements, like movies, summer theatres, pony golf, shooting galleries, and other forms of diversion. Seven cents cover transportation, both public and private. That is how 81 cents of the vacationers' dollar are accounted for.

The remaining 19 cents are for this and that and everything else, appropriately labeled miscellaneous. This catch-all category of spending takes place in grocery stores, barber shops, appliance stores, and other retail shops. All of the shops supplying these miscellaneous goods and services are not generally regarded as full-fledged members of the travel and vacation industry, but their combined share of the vacation dollar is exceeded only by lodging places and eating places.

Almost half of the money spent for lodging, meals and beverages is taken in by hotels and motels serving meals. Much of this is spent at the big resort hotels and their counterpart, the modern luxurious motels. These establishments cater to the vacationer who wants super service, the best of facilities, and accommodations deluxe. The swank places, of course, have a lot of capital tied up, employ a sizable staff, and usually operate the year round. Some of these hotels gross over a half million dollars a year. Whether operating on the American or European plan or whether offering guests the choice of either, it is estimated that rooms yield about 60 per cent of the revenue.

Most of the big resort hotels offer recreational services to their guests without additional charge. Obviously, costs are incurred for these services and such costs must be included in the rates charged. About 5 per cent of the gross covers these costs, according to estimates of officials and managers.

Only seven cents for transportation (of which about one-fourth is public transportation) may seem very small. The reason for the small cost of transportation is that in this study the spotlight is thrown on expenditures made in the resorts only, in contrast with many such studies that include all costs incurred while away from home.

Vacation dollars, howsoever spent, have more than a one-shot effect on the local resort economy. The recipients of the dollars are just as ready
spenders as the vacationers, and so there are second and third rounds of spending initially unleashed by the vacationers.

**Where vacation dollars are spent**

Where land and sea meet, especially when they meet on a gentle, sandy gradient, there the travel and vacation industry is prone to flourish. The industry also abounds inland where Nature, over eons of time, used her glacial bulldozers to rough up the land mass, to scoop out great valleys leaving lofty mountains and rangy ridges, smoothly carved by dripping clouds, flowing waters, and sweeping winds, and decorated with a profusion of vegetation. Thus Nature wrought an invitation to the travel and vacation industry in the 37,000 square miles of the Federal Reserve District of Philadelphia.

The travel and vacation industry is widely dispersed throughout the 60 counties of the Third Federal Reserve District. The importance of the industry in a county may be determined by comparing the direct expenditures by vacationers with other economic activities in a county, such as farming, manufacturing, mining, trade, and transportation. Seven of the district’s counties stand out as the principal centers of the travel and vacation industry. In most of the counties where the travel and vacation industry is the predominant economic activity, agriculture is the challenger or runner-up.

The seven leading vacation counties are Atlantic, Cape May, and Ocean counties in New Jersey, Bedford, Monroe, and Pike counties in Pennsylvania, and Sussex County in Delaware. In Atlantic, Cape May, Pike, and Monroe counties, the vacation industry thoroughly dwarfs agriculture; vacation expenditures in these counties are more than five times greater than receipts from the sale of agricultural products. In Ocean County, New Jersey, agriculture is a strong challenger to the vacation industry which, nevertheless seems to hold first place. In Bedford County, Pennsylvania, the race between the vacation industry and agriculture is also close, with agriculture probably slightly in the lead. In Sussex County, Delaware, direct expenditures by vacationers are superseded by agriculture and also by some phases of manufacturing; nevertheless, Sussex deserves to be included as one of the district’s leading vacation counties because of the sizable dollar volume of expenditures in the district’s southern-most seaside county.

The seven resort counties, with one-eighth of the land area and one-twentieth of the population of the district, do almost half of the district’s resort business. In 1956 these seven counties collected over $250 million of the $600 million spent by vacationers in the Philadelphia Federal Reserve District. The industry in these seven counties furnish employment to 88,000 workers.

**Along the beaches**

*Atlantic County* is far out in front as the largest resort center. In 1956, vacationers spent $115 million in this resort. All but a fairly small portion of this was attributed to Greater Atlantic City. By any yardstick, Atlantic City ranks first—be it number of employees, or number of lodging places, miles of boardwalk, or diversity of attractions. Vacationers brought funds into the county at the rate of $750 per permanent resident, or over $2,000 per family. This arterial flow of vacation dollars is the life blood of the area.

Atlantic City is in a class by itself. It combines the convenience and culture of metropolitan life with carefree, timeless leisure. The city is white collar and open shirt; sunshine and an ocean breeze by day; neon lights and an ocean breeze by night. Built on an island, the city has a beach
and a back bay, a boardwalk and boat piers. It has skyscrapers and cabanas, airports and bicycles, seafood deluxe and hot dogs with mustard, ticker tape and time tables, fashion parades and water skiing.

Atlantic City is the metropolitan host in the grand manner. It has huge hotels and a convention hall large enough to house the entire resident population. Resort facilities are available in every season of the year, and promotions are geared to every holiday of the calendar. Overnight accommodations with push-button service are in abundance and do-it-yourself housekeeping units are also available. Room accommodations of all kinds are sufficient to take care of 100,000 guests. Motels, once frowned upon, have made their appearance in recent years. Their number has multiplied rapidly, and the accommodations offered are on a par with those available in the boardwalk skyscraper hotels.

Cape May County, on the southern tip of New Jersey, ranks second to Atlantic County in total vacation receipts, with over 50 million dollars. The entire seashore of this county is a broken chain of little islands separated from the mainland, and on the map, the islands resemble crumbs of all sizes and shapes brushed off the table land. Almost the entire insular formation is a resort land. Travel and vacation dollars are of great importance to the economy of Cape May County where vacation expenditures in 1956 were the equivalent of over $1,250 per permanent resident—more than 50 per cent higher than in any other county, and very close to the per capita income of Cape May County. Both Cape May and Atlantic counties received over $200,000 per square mile from vacationers in 1956. Neither expenditures per permanent resident nor expenditures per square mile should be interpreted as measures of efficiency, but both are indications of the impact and concentration of vacationers on the area and its permanent residents. Cape May, on the southern-most tip of the peninsula; Wildwood, a short distance to the north; and Ocean City, whose residents can see the skyscrapers of Atlantic City across Great Egg Inlet, are the principal resorts of Cape May County.

“A. Lincoln and family” is inscribed in the President’s own hand on an old register of one of the hotels in Cape May. Later Presidents also visited Cape May, and perhaps it is these distinguished visitors of days gone by that have given character to the kind of resort that Cape May is today. Compared with some of the other resorts, Cape May still has some of the subdued and refined qualities that characterized the resorts in the

VACATION RECEIPTS IN PRINCIPAL RESORTS

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*Monroe and Pike counties
early days before the turn of the century. The hotels have the dignity and charm and grace that go with age. Whaling boats no longer sail out of Cape May, but the abundance of smaller fishing craft reflects the attractions that Cape May offers to deep sea fishermen. At Cape May, to this day, rest and recreation are interspersed with social activity, but it is never conspicuous, it is always “proper” and “quiet.”

Wildwood, just a short spin up the ocean drive, goes in for more of the excitement and gaiety of amusement rides and night life; and for daytime hours it offers the most expansive beach of the district. According to a local appraisal, Wildwood affords “the best, the cleanest, the widest, and the safest beach in the world.” The extent of the area included in that appraisal may be somewhat too generous, nevertheless there is some solid substance to the statement, as anyone knows who is familiar with the Wildwood and other New Jersey beaches. After dark, the night clubs take over and it is alleged that Wildwood has more clubs and taverns per capita than any other spot on the coast. In Wildwood, as in most other seashore resorts, rooming accommodations are at a premium in the height of the season.

Ocean City is predominantly “a family resort.” The guests, including children, arrive in the family car and bring the family habits of living with them. Games of chance and alcoholic beverages are prohibited in Ocean City, and the usual workday business ventures are not a part of Sunday activity. Sunday evening church services move into the boardwalk theatres and the boardwalk shops and places of amusement, open all week, take their rest on the Sabbath.

A large portion of Cape May County’s visitors choose to rent cottages or apartments. Only in Wildwood are rooming accommodations fairly important. This division is consistent with the general pattern observed all along the shore—the larger the resort, the higher the proportion of accommodations in rooms in contrast to housekeeping units. Visitors who remain only a short time prefer a room to a housekeeping unit. Vacationers planning a long stay often seek a small, quiet resort, the short trip or visit is more likely to have as its destination a large resort with a variety of amusements and activities. Therefore the large resort needs rooms and the small resort needs housekeeping units.

Ocean County received approximately 32 million dollars from vacationers in 1956. This is on a par with Monroe County, Pennsylvania, and larger than any other resort county of the district except Atlantic and Cape May. Ocean County has quite a few rental units, but it also has a large portion of privately owned cottages. The presence of a large group of semi-residents adds stability to the travel and vacation industry of the area. The presence of such a group also changes the nature of the resort area to a large extent.

Long Beach Island from Barnegat Light to Beach Haven has a variety of resort communities with major emphasis on quiet cottage vacation-

A TECHNICAL NOTE
This study has included travel and vacation expenditures at resorts in the Philadelphia Federal Reserve District. Outlays for customary living expenses by permanent residents of resort areas have been excluded.

The seven counties classified as resort counties had to meet two tests: an absolute and a relative standard. The county had to have a sufficient dollar volume of vacation business to register a notable impact on the local economy. Travel and vacation expenditures had to constitute a fairly substantial portion of the county’s entire economy.
There is a minimum of commercial activity and very little party atmosphere. In these resorts, suburban living is transplanted for the summer. Summer residents who wish to commute to Philadelphia do so by private automobile because there is no railway service to Long Beach Island as there is to Atlantic City, Ocean City, Wildwood, and Cape May.

Still more resorts have developed farther up the New Jersey coast from Seaside to Point Pleasant. None is large, but great is the variation from the carnival atmosphere of Seaside Heights to the large summer homes of Bay Head and Mantoloking. Inland is Lakewood, one of the few winter resorts of New Jersey.

Rehoboth, Delaware, is a less sedate version of Cape May. Those of the social register are a part of the summer population, but many others enter into the activities of the area. Proximity to Baltimore and Washington makes Rehoboth easily accessible to those population centers and people from various embassies in Washington are frequently seen in Rehoboth. The resorts from Lewes to Fenwick are small and the emphasis is frequently on fishing. A large portion of the vacationers along the Delaware coast own their own cottages. Compared to other shore counties, the volume of vacation business is small (between 5 million and 10 million dollars in 1956), but the area in which it operates is also small.

Common to all the beaches of the district are fishing, boating, bathing, and basking in the sun. At each of the beaches any one of these activities may be stressed more than the other but an integral part of the offerings centers about the ocean and the beach. Supplementary activities, of course, devised by vacationer or host are legion and may be anything contrived by human ingenuity, including things which, if done at home, would be laborious.

In the mountains

The Poconos are the largest and the most popular of the mountain resorts of the district. Woods, trails, streams, and lakes are the main attractions in the Poconos, an Indian place name meaning “a stream between mountains.” Here summer affords relief from heat and noise of the city, and winter attractions include hunting, skiing, and quiet relaxation. Monroe and Pike counties combined produced a volume of almost 40 million dollars of vacation spending in 1956. This is the equivalent of over $800 for each permanent resident of the two counties. Monroe County alone is of about the same magnitude as Ocean County, but the relative impact of the vacation industry is greater in Monroe since the population is smaller.

Camps for children and adults plus large self-contained resort hotels typify the Poconos. The very nature of the terrain and the stress on the scenic beauties make a certain amount of self-containment mandatory within any mountain resort. The maintenance of hiking trails, the preservation of woodland, and the provision for outdoor sports all necessitate a relatively large portion of unoccupied ground. The result is an extremely heterogeneous business composition. The resort hotels and the camps generate a substantial portion of vacation expenditures of the area. Many smaller establishments are also in existence, but they offer fewer services and frequently function as family enterprises. Communities of substantial size have not developed in the Poconos. Stroudsburg and East Stroudsburg are the only towns of over 2,500 population.

Variation in accommodations is perhaps more pronounced within the Poconos than elsewhere. Some camps pride themselves on the opportunity for “roughing it”; and the other extreme is the plush modern hotel with luxurious accommodations. Small family-size cabins are also available.
for those who prefer to plan their own activities, and there are numerous guest houses and motels.

A comparatively recent development within the Pocono area is the sign “Honeymooners Only,” and the sign means just what it says. One proprietor explained his position this way: “These kids are young, just starting life together. Their hearts are filled with love. We can give them a setting that will produce fond memories for the rest of their lives. Our whole program, our whole physical setup is geared for them. We can help them to a good start and it’s good business for us. No, we’ll stick to ‘Honeymooners Only.’” Others share this philosophy and practice it with profit. As a result, the Poconos have become a rival for Niagara Falls, and local partisans claim this is the new honeymoon capital of the country.

Bedford County is well endowed with attractions for nature lovers. Scenery, camping, and mountains are the main items of appeal. Bedford Springs and White Sulfur Springs were formerly visited for their medicinal value. The springs still exist but the medicinal appeal is no longer of commercial importance.

The transient trade adds considerably to the travel and vacation industry of Bedford County. East-west traffic from both the Pennsylvania Turnpike and the Lincoln Highway passes through the county. Breezewood, at the intersection of these two highways, at Route 126 to the south, occupies the position of “Gateway to the South.” The motel is the most popular type of accommodation in Bedford County and the trend is increasing in that direction. Total vacation receipts in Bedford County in 1956 were about 8 million dollars. Compared to some of the other areas this is not great, but it is a source of revenue amounting to more than $200 per resident—a welcome addition to the income of the area.

Also within the Third District are a number of other resorts of somewhat smaller magnitude than those already mentioned. Boiling Springs and Gettysburg, south of Harrisburg; Eagles Mere, west of Scranton; Wellsboro—the Grand Canyon of Pennsylvania; and perhaps a dozen more are all part of this vast industry.

The mountain resorts are all alike in one sense, and in another sense they are all different. All have characteristics in common, yet each resort has its own peculiarity. Accommodations, rates, services, entertainment, and scenery vary from one resort to another. The vacationer can find within the Philadelphia Federal Reserve District
the vacation spot that will perfectly fit his needs. It is equally true that he can find within any single resort of the district, accommodations and facilities that will insure a pleasant holiday within the price he can afford.

**Who gets the vacation dollars?**

As might be expected, there is considerable diversity among the enterprises catering to the vacationer depending upon the nature of the services rendered. The biggest collectors of travel and vacation dollars are the hotels that serve meals. In 1956 their average collections were just under $100,000 each—almost double the take of places of amusement. Amusement enterprises which embrace boat slips, games, rides, piers, theatres, and similar recreational attractions, ranked second with average collections of $50,000 per establishment. Camps, which are usually located in the mountains, ranked third with an average take of $32,500 per establishment.

Lodging places not serving meals had an average intake just under $15,000, as Chart 4 shows. This occasions no surprise in view of the large number of private homes in scenic locations that have put up “Tourists Welcome” signs. The $15,000 average is probably somewhat misleading. Tourist Homes belong in this class and they are quite abundant, but many of them do not take in as much as $5,000 a year. Nevertheless, lodging places that offer good overnight accommodations are by no means an insignificant part of the travel and vacation industry. Lodging places not serving meals account for about one-eighth of the vacation dollars spent, as previously observed.

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Travel and vacation is an industry unlike any other. It conforms to no one type, pattern, or mold. The industry produces both goods and services but not according to any prescribed formula. The establishments catering to vacationers often cater also to people not on vacation. The origin of the industry is hard to pinpoint but its growth has been prodigious. The industry is easy to identify, hard to define, statistically slippery. The industry is confined to no one place, no one class of clients, no one type of services. It is easy to enter, easy to leave. It is proud of its accomplishments but not always sure it wants to be an industry.

The travel and vacation industry also has its problems. These will be explored in the May issue of the *Business Review*.
We interviewed 50 Third District dealers. Sagging sales and the reasons behind them are . . .

THE TALK OF "AUTOMOBILE ROW"

Walk down any street; eavesdrop on any chance conversation. The odds are you’ll hear either “How’s business?” or “Think it’s going to rain?” These two topics — business and the weather — have long been favorite conversation starters.

Where they used to be mentioned in casual chatter, now they are subjects of real concern. In few places is the concern greater than on that indefinite street called “Automobile Row.” Car sales have slumped and the recession plus the rugged winter are important reasons why.

Dealers are worried and they are talking about it. We went out and listened to about 50 of them during the last two weeks in March. We heard from dealers who sell all major makes and models of cars. It’s a rather bleak story they tell. This has been one of their worst post-war winters. Three out of four dealers told us that present sales are lower than last year’s. And March 1957 was mediocre in our district.

Based on past experience, sales should begin to “perk” about the first of March then build steadily during the month. Not so this year. Only 15 per cent of the dealers interviewed noticed any definite signs of the spring trend by the time the snow began to fall on the twentieth. Even worse, about one-fourth said the situation had actually deteriorated—that March sales were below February’s.

The “used” market seems to be somewhat stronger than the new. More than half of the dealers we called on rated the demand for used-cars as “strong” or “steady.”

On further investigation, however, it appears there are really two used-car markets—one for late models, one for older cars—and they are behaving quite differently. The dividing line seems to be around the 1955 vintage. There is a brisk demand for fully equipped late models. A number of people who normally buy new cars are now
trading down to used and letting the first owner pay the initial depreciation. Furthermore, the supply of these late model cars is short because fewer owners are trading early these days.

If you go back beyond the 1955 models you find a different situation. Sales are poor and inventories are rising. This drop in demand has indirectly hurt new-car sales. Dealers cannot sell older cars for as much, thus they can't give such attractive allowances to the new-car buyer with an older model to trade.

**Different shades of gloom**

Experiences of individual dealers, of course, varied considerably. Few, if any, were having a banner year but some dealers were doing better than others. When our conversations were tallied and analyzed, some patterns took shape.

In general, Philadelphia dealers were faring better than those in other areas of the district. March sales were relatively higher here and dealers somewhat less pessimistic. This was a switch from a similar survey made a year ago, when the out-of-town areas showed up more favorably.

Another reversal of last year’s form occurred in the competition between the low- and medium-price classes. In 1957 the “low-price” three were selling much better than their more expensive cousins. Our present survey, however, gives a definite edge to the “mediums.” We don’t mean that more medium-price cars are actually being sold; it’s just that their dealers report more favorable experiences — present sales compared to last month or last year, increased showroom traffic, etc.

Makes and models also have changed position from last year, judging from dealer attitudes. Chrysler products, really “hot” in 1957, have cooled considerably. Chevrolet and Oldsmobile have been extensively restyled and are enjoying relatively improved customer acceptance. In almost every line, the high-priced, fully equipped models are moving comparatively well. Dealers who sell Cadillacs and other expensive prestige cars still are savoring a brisk demand.

It is curious that higher-price cars should be selling relatively better than cheaper ones in a recession year. Perhaps the well-to-do buyer—the man who wants an expensive car and can pay cash for it—isn’t fazed as yet by the change in business conditions. In addition, the trend to used cars has undoubtedly weakened the demand for “low-price” new cars.

Nevertheless, for most dealers, even the bright spots are “tattle-tale-grey” this year; there is gloom in the showroom as dealers wonder where the customer went.

**The wait-and-see game**

We already have named the two main troubles—recession and the weather. Both have kept customers out of the showrooms.

Recessions affect automobile sales in two related ways. Recessions bring a reduction in consumer income through layoffs and shorter work weeks. Those affected cut back their spending to bare essentials like food and shelter. They put off new-car plans to the indefinite future.

But dealers believe that unemployment and reduced incomes are not now the major factor. More important are the fear and uncertainty that recessions bring to the people who are still working. One dealer put it this way, “Say one guy loses his job. Pretty soon everybody on his street hears about it and figures, ‘It happened to Joe . . . I may be next . . . better start saving my money.’ You see, one layoff can keep a whole neighborhood from buying cars.”

Thus, in the automobile world, the most important effect of the recession has been psychological.
Many people have the money for a new car—they just don’t want to spend it now. A recent magazine survey showed that the typical new-car family earns $7,800 a year. The breadwinner is probably a highly skilled worker with considerable seniority or an executive of some sort. He is likely to be earning as much now as he ever did, for unemployment has hit these groups very lightly.

Prospective new-car customers are playing a “wait-and-see game.” They want definite proof the recession is over before they buy. Besides, they probably have a perfectly serviceable 1955 or 1956 model sitting in the driveway to make waiting easy.

Some consumers are waiting for more than a turn in the recession. They are holding back to see what is going to be done about the excise tax. Many dealers mentioned this deterrent. They believed that the uncertainty about its status, not the tax itself, was slowing sales.

An old-fashioned winter
The only nice thing you can say about this winter is that it’s over. We have had the kind of weather that grandfather used to tell about, “when he was a boy,” and nobody really believed. In Philadelphia we had 42 inches of snow from December through March, the most since 1905. Some parts of the district got that much in one storm. Overall temperature readings were below normal, and in February we had a cold wave that was an “all-timer.”

Snow and cold really compounded the recession worries. Showrooms were snowed in and customers were snowed out. We heard that at least one dealer could not even see his used-car lot for several days. Shopping for automobiles was out of the question for most people when there was a cozy fireside to sit by. Customers stayed home in droves.

Higher cost of ownership
Manufacturers raised prices on their 1958 models by an average of 3 per cent. This boost has proved to be another sales inhibitor, in the opinion of 42 per cent of the dealers contacted. Many termed it “unfortunate” that prices had to go up when demand was weakening.

The pinch of higher prices would have been still greater but for the fact that many dealers have absorbed all or part of the increase themselves. “Have to do it to make sales” a dealer explained, “buyers are so price conscious today.” In effect, the purchaser often pays about what he did last year and the dealer makes less profit.

Conditions “on the cuff”
Credit terms that lenders offer through dealers are almost the same as 6 months ago. Lenders are naturally more fussy about the credit rating of borrowers but, according to our interviews, maximum maturities, down payment requirements and interest rates are unchanged.
The vast majority of dealers and lenders alike hope that terms remain the same or even tighten. They feel that terms are about as easy as they can safely be and that further relaxation would be dangerous. Maturities of 36 months are now common. Cars are old before they are owned. Any longer loans, any lower down payments, would virtually eliminate the already small owner’s equity during the first year of the loan. This would reduce the incentive to repay and could substantially raise the default rate.

Nevertheless there are pressures for further relaxation. Banks and finance companies are geared for mass-production lending and need a high volume of business to cover their overhead. Dealers need more sales, period. In the past, easier terms have been used effectively to stimulate sales. So there is concern that terms may be loosened again to encourage the extra business both lenders and dealers need.

Competition among individual lenders is another factor that could lead to easier credit terms. Most lenders now have plenty of funds for consumer credit. Competition is getting keener and easier terms may be used as a weapon. We received scattered reports from “upstate” that a few small finance companies were relaxing their standards in an effort to win a greater share of the market. So far this brand of competition has been confined to isolated instances.

Lenders have begun to compete more actively in Philadelphia, too, but in a different way. Several banks have reduced the interest rates they charge on direct automobile loans (loans not arranged through dealers). This troubles some dealers for the rates lenders offer on dealer-originated loans have not changed. More buyers are likely to arrange their own financing directly with banks. Dealers worry for this means they lose their “reserve” or share of the interest paid on loans they originate.

The fabulous "Doodlebugs"

Small foreign cars are the success story of the year. They are the most popular thing to come out of Europe since Gina Lollobrigida. We wanted to know what dealers thought of them. Were they fad or fixture?

The consensus is that small cars are here to stay, but that they don’t offer serious competition to large American cars. Our dealers believed that small foreign cars are sold mostly as second cars to people who otherwise would not buy a second car, or to fixed-income groups who otherwise couldn’t afford a new car at all.

These cars appear to have brought new people into the automobile market rather than lured customers away from American makes. Only two dealers thought that foreign cars had significantly hurt their sales.

“Would you like to sell smaller cars in addition to your present line?”, we asked dealers who don’t. We got a resounding yes from seven out of ten. Most of those giving negative replies did not question the permanency of demand for these cars. They were worried about the service angle. “A whole new line of parts plus special training for my mechanics would make it too complicated.”

When summer comes

It has been a rough winter but what will the rest of the year be like? Will the public think of automobiles when the sun begins to shine? And, more important, will they buy? Some dealers seem to think so. About 25 per cent of those we talked to expected to have a better year than in 1957. Most dealer’s qualified their outlook. “How we do in 1958 depends on the breaks,” they said.
—breaks in the weather and breaks in the recession.

The weather will have to improve quickly to do much good, for the spring selling season is already stunted. We consulted the Farmer's Almanac, which had called the turn on several winter storms. Its forecast: A cold, wet spring.

The real key to 1958, however, is in the economic outlook. A healthy pickup in business will melt more sales resistance than balmy weather ever could. With the fear of recession out of the way, buyers should get back in a spending mood. But without a marked change for the better in the economy, it looks as though 1958 will be a disappointing year for Third District automobile dealers. Sales volume probably will be several cuts below 1957.

A PROMISING POSTSCRIPT

Just before this article went to press (in early April) we rechecked with a number of dealers. Many of them were seeing signs of spring. Several balmy days had brought a welcome increase in the number of interested, tire-kicking visitors to their show rooms. "At least we have a fighting chance if the people will come in and look at the car," one dealer told us.

In Philadelphia registration figures offered further encouragement. Sales in the final week of March were up sharply over the preceding weeks of the month. This was still well below expectations but, at least, it was a step in the right direction.
Additional copies of this issue are available
upon request to the Department of Research,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pa.
### FOR THE RECORD...

#### SUMMARY

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<td>Coal mining</td>
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*OUTPUT Adjusted for seasonal variation. Philadelphia

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### LOCAL CHANGES

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

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*LOCAL CHANGES*