FEDERAL RESERVE BANK OF PHILADELPHIA

BUSINESS REVIEW

JULY 1959

Why Doesn't the Fed Do Something About Government Bond Prices?

Much Ado About Doing

Resort Business Is Booming

WHY DOESN'T THE FED DO SOMETHIN

A letter from a farmer and director of a small bank in New Jersey . . .

Federal Reserve Bank
Philadelphia, Pa.

Gentlemen:

As a Layman, I was discussing the Government Bond situation this morning. I was told that 1 year ago Certificates of Indebtedness were issued at 1 1/4% to come due on 5/15/59. Now these same Certificates are to be exchanged for ones due 5/15/60 at 4% and priced at 99.95.

It would seem to me that the Government Bond situation has become quite disorganized. In the past it was my understanding that the Open Market Committee of the Federal Reserve was set up to stabilize the Government Bond Market.

It would seem also that it is no wonder that it has become somewhat difficult for the Treasury to arrange its financing. The bonds have become a risk asset and not riskless as they have been in the past.

I am not an expert but I have been very much concerned for sometime. It becomes very difficult for banks to handle their Government Bond portfolio and more so for individuals.

What does the future hold in your opinion?

Very truly yours,

ABOUT GOVERNMENT BOND PRICES?

Our Reply . . .

Dear Mr._______________:

Your letter asks some vital questions which are of real concern to many investors like yourself, to public officials who are responsible for answering them, and to just plain citizens. We think they are so important that we are responding at some length. A better public understanding of the issues can give reassurance which in itself can help to solve the problems.

But before tackling your questions we hasten to make one point clear: this is an area of concern to the Treasury as well as to the Federal Reserve, and we cannot speak for the Treasury.

Your letter in essence raises four questions:

1) What's behind the decline in prices of Government securities?
2) Why doesn't the Open Market Committee support the Government bond market?
3) Have Government securities become "a risk asset and not riskless as they have been in the past"?
4) How can banks and other investors "handle their Government bond portfolio"?

Let us look at each in turn.

What's behind the decline in prices of Government securities?

Your illustration provides a striking example of the change in the Government securities market in one year. It is true that the certificates issued in May 1959 at a yield of 4.05 per cent refunded similar securities issued a year earlier (June 1958) at 1¼ per cent. It is also true that a similar issue was put out still a year earlier (May 1957) at 3½ per cent.

These were rates that the Treasury judged necessary to attract sufficient buyers under the prevailing conditions. Why did the rates change so sharply? For a number of reasons:

First is the change in business conditions. In the spring of 1957 we were nearing the peak of a three-year boom. In the spring of 1958 we were at the bottom of our sharpest postwar recession. And by now our economy has recovered just about all that was lost during the recession and has moved into new territory.

Second, these changing conditions brought about changes in the *over-all* demand for and supply of credit—and, as a natural consequence, changes in interest rates, the price of credit. In the 1957 boom demands for credit were strong, the Federal Reserve was restraining the supply, so interest rates rose. The Treasury, one of the demanders, paid higher rates along with almost everyone else. Last year, in the recession, demands were not so strong and the Federal Reserve was liberally supplying funds; so interest rates fell. Now, once again, demands are rising, the Fed has not made possible an equal expansion on the supply side, and rates are higher.

Third, along with these developments affecting *over-all* demand and supply conditions have been special factors which have influenced the supply of and demand for funds in the *Government securities market.* The Treasury's demands have depended largely on the budget situation. In fiscal 1957 the Government had a cash surplus of $2 billion. But in fiscal 1958 it ran a cash deficit of $1½ billion, and in fiscal 1959 ended up with a deficit of around $12½ billion. This means that the Treasury has had to go to the market, in the past year especially, for large amounts of funds. In 1958 it was able to raise a substantial proportion by selling longer-term issues. But more recently it has had to confine itself almost entirely to short terms. Consequently, the Treasury has been in the market almost continuously, either to get new money or to refund maturing issues.

At the same time, the *supply* of funds going into Government securities has undergone changes. Two years ago, in the 1957 boom, investors had ample investment opportunities. They looked at the rates available on other types of investments, such as mortgages, municipals, corporate stocks and bonds, business and consumer loans, etc., along with Governments. For the Treasury to compete successfully for these limited funds, it had to pay higher rates. Then came the 1957–58 recession. Investors had more funds available and turned more to Government securities, even buying a substantial amount of longer terms. Some of their purchases—we can never know how much—were motivated by speculative interests; many investors expected that as the recession proceeded, interest rates would fall (prices rise). Some bought to beat the expected price rise and their actions helped to bring about this very thing. But they made the market vulnerable to a turn-around in business conditions. As soon as the recession gave evidence of ending, speculators wanted to unload before rates rose (prices fell) again. Part of the rapid rise in rates last summer can be attributed to anticipatory and speculative activities.* Since then, as business has recovered, investors have again looked at Governments carefully in relation to other investments as desirable outlets for their funds. And, in addition, some have been influenced by still another consideration—again, no one knows how much—namely, the fear of inflation and the desire to hedge against it by buying common stocks instead of bonds. Whatever weight you want to give these various forces, the result has been higher interest rates.

Well this, in brief, is a rundown of the circumstances that produced rising rates two years ago, relatively low rates last year, and higher rates again recently. Now for the second question.

Why doesn't the Open Market Committee support the Government bond market?

Desirable as a *healthy* Government securities market may be, we all would lose much more than we might gain by having a *pegged* market. Many things about monetary policy are uncertain, but this isn't. We know with certainty what would happen because we have had specific experience that tells us. It may be helpful to review our experience in maintaining fixed prices and yields of Government securities.

During World War II, as part of the program of facilitating war financing, the Fed had an announced policy of keeping rates on Governments from rising above certain levels and prices from falling below certain levels. This policy was continued until 1951 when the Federal Reserve and the Treasury reached an accord which restored flexible interest rates.

*This whole period is under detailed study by the Federal Reserve and the Treasury. When the results are made public, you will be able to get a much more complete account of the developments.

The consequences of that policy were, in one way, the same consequences that flow from a policy of pegging the price of, say, wheat. Just as the Government has ended up holding all the wheat no one else wants at the fixed price, the Fed ended up with the Government securities no one else wanted at the support price. The tremendous volume of Governments which financial institutions bought to help finance World War II looked too big to them when other opportunities opened up after the war. So lenders began to make mortgage, consumer and business loans and to buy corporate and municipal securities. To get the funds, they sold Governments. To keep these sales from depressing the prices of Governments, the Federal Reserve bought the securities.

But this support policy had much greater repercussions, for when the Federal Reserve buys securities it pays for them with newly created money. Every time the Fed bought Governments to keep their price from falling, it injected new reserves into the banking system, permitting banks to expand credit and the money supply by several times the amount of new reserves. All this at a time when the supply of goods was still limited. As the Chairman of the Board of Governors put it, the Federal Reserve had become "an engine of inflation."

Moral: we cannot peg prices and yields of Government securities and at the same time combat inflation.

With this fact staring us in the face, we as citizens are forced to make choices:

1) Peg Government security prices and let prices of goods and services rise, or
2) Peg Government security prices and hold down prices of goods and services by direct controls, or
3) Let interest rates move freely and use monetary policy to combat inflation.

We in the Federal Reserve could not choose alternative number (1) because we believe the evils of inflation are much greater than any inconveniences of higher interest rates. We would not favor alternative number (2) in peacetime because direct controls are so contrary to the freedom we all like to exercise in our economic and political pursuits. In our view, the third choice is the only acceptable one. It is more important to have stable prices of goods and services than stable interest rates. This brings us to your third question.

Have Government securities, therefore, become "a risk asset and not riskless as they have been in the past"?

An obligation of the U. S. Government is probably the most riskless security you can buy; you are certain of being paid 100 cents on the dollar when it matures. In this sense, Governments are just as riskless as ever.

But this doesn't mean you can always get par for Governments if you want to sell before maturity. Anyone who buys a marketable issue should realize that he can sell it only for what the market is willing to pay.*

So a marketable issue is not riskless in one sense—you are not guaranteed par if you want to sell before maturity. It never has been riskless in this sense, except when the Fed was supporting Government securities prices. Weighing alternatives, it seems to us in the best interests of the nation not to encourage inflation by pegging Government security prices even though this may mean risks of market fluctuations. This leads to your last question. Under such circumstances . . .

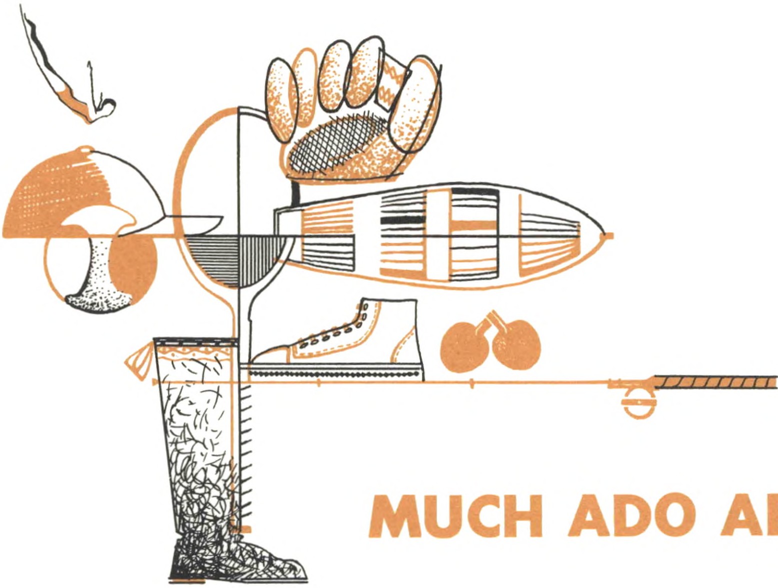
*The reason U. S. Savings Bonds are not marketable is to enable small investors to avoid the uncertainties of price fluctuations. If they need cash, they can redeem their Savings Bonds at a predetermined price regardless of the current level of securities prices.

How can banks and other investors "handle their Government bond portfolio"?

We can't presume to tell you how to manage your portfolio. You know more about your situation than anyone else. But we do want to point out a fact of life: in a free market economy, any marketable security or other asset is likely to fluctuate in value. Many forgot this during the decade of pegs on Government security prices. Now that prices and yields are free to move, the investor must ask himself basic questions: How much income must I have? How much risk am I willing to undertake to get it? How much liquidity do I need? Can I get adequate liquidity by spacing maturities? How much short terms should I hold? Am I willing to commit myself, at the present yield, to holding a security until it matures, if necessary? etc. He must weigh risks of capital loss against the return on his investment and adjust his portfolio accordingly.

The answers will seldom be the same for any two investors. And they don't come easily—certainly not as easily as if Government security prices were pegged. In that situation the investor's job would be greatly simplified, for all Governments regardless of maturity would be equally liquid. But the Government probably would not pay you very high rates.

We realize that we have not solved your problem of managing your portfolio. And we realize that flexible interest rates make it harder for you to do so. But the thousands of investors whose lives become somewhat more complicated because of flexible interest rates help make for better lives for millions of people (including themselves) by contributing to a stable and growing economy. We can't hold *everything* stable and have a dynamic economy.



MUCH ADO ABOUT DOING

A discussion of the big boom in participation sports

It was six a.m. Saturday. Milk bottles cast long shadows in the rising sun. Dew still jeweled the lawns and charcoal braziers. The community should be asleep at this hour—especially on a week end. Instead, there was bustling activity.

In one house a woman was stowing sandwiches and suntan oil in a hamper while outside her husband lashed a boat to a trailer. Across the street a man was selecting trout flies from a plastic box. "Let's see, a royal coachman, a brown hackle, a . . . ." In the corner split-level, dirty dishes and toast crumbs gave evidence that a golfer already had left for the links.

Unusual activity? Not at all. Our scene could be set in almost any neighborhood in America this summer, for the nation is enjoying a hearty boom in sports. We've long been a sports-conscious country but the present craze is unprecedented in many ways.

From watching and discussing, emphasis on sports has recently shifted to active participation. Attendance at sporting events has fallen off as spectators have become doers. Yesterday's onlooker is today's outboarder. Bleacher fans are now bowling fanatics. To many, their own golf scores have become more important than Ted Williams' batting average.

Participation sports are frequently family affairs. No longer are such activities relegated to an unshaven male world of cigar smoke and indelicate language. Today, wives and children go along with their men folk to enjoy boating, fishing, or camping.

Sportsmen themselves have changed. Once the term was applied only to the likes of mountain climbers, racing yachtsmen, and big-game hunters—real playboys, all. Now, this type is almost extinct except in the cigarette ads. Modern sportsmen come from all walks of life and all income classes. Butchers, bakers, and candlestick makers have forsaken tavern and television for the week-end world of participation sport.

Perhaps the most surprising thing of all about the army of sparetime sportsmen (and sportswomen) is its size. Just look at the roll call: boating, 37 million participants; fishing, 30 million; bowling, 22 million; hunting, 20 million —and the ranks are growing every day.

The new sportsmen match their enthusiasm with money. Their spending has created boomlets for many of the industries that cater to their needs. Although the figures are sketchy, it's likely that total outlays for participation sports now top $10 billion a year. By comparison, this sum is more than half of all expenditures for education.

The present boom really began to gain momentum around 1954 or 1955. It is, however, a culmination of developments that took place long before that.

OUT OF A STARK BACKGROUND

The devil finds work for idle hands. This old adage is a reminder of our puritanical past when leisure was almost nonexistent and amusement was considered sinful. Such sporting activity as existed in early America was confined largely to displays of efficiency in those skills essential to the rugged frontier life—shooting, riding, log rolling, cornhusking bees.

It was not until the late 19th century that sport for sport's sake became important in America. John L. Sullivan was perhaps the first sports figure to achieve national prominence and he didn't start fighting until about 1880. By 1900 America was taking a lively interest in sports, particularly baseball and intercollegiate contests. In the decade following World War I—often called the Golden Age of sports—enthusiasm reached fever pitch. The public worshipped such heroes as Babe Ruth, Red Grange, Bobby Jones, Jack Dempsey, Bill Tilden, and others. Yet, as late as 1929, participation in sports was predominantly for skilled athletes. The average man was still an observer, although an avid one.

In the 1930's increasing numbers of Americans came off the sidelines and began participating themselves. There were two main reasons. The depression gave them plenty of time to kill and the Government provided many new facilities. According to one authority, the WPA constructed 10,000 tennis courts, 3,000 athletic fields, 250 golf courses, numerous ski trails, handball courts, etc.

DEFINING SPORTS

What is a sport? The dictionary says it is an activity which diverts and makes mirth; a pastime or diversion. This definition is too broad for our purposes. It would include such things as hobbies, games, and social dancing which are not always considered sports.

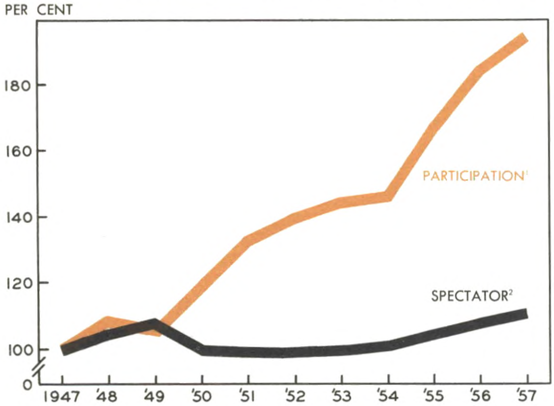
In our concept of sport we incorporate three elements. First, as the dictionary implies, it is something done for fun. Second, a sport involves some element of physical exertion; it need not be strenuous, but it should be more than just sitting.

Third, a sport should be competitive. This competition, as John R. Tunis, the sports scholar, puts it, may be either man against man as in softball, tennis, golf, etc., or it may be man against nature as in boating, camping, or hunting.

World War II gave sports participation another strong push. The Army and Navy launched one of the most extensive sports programs ever known—partly to relieve boredom but more to promote physical fitness. The latter is an old idea

THE SWITCH FROM WATCHING TO DOING

Spending Associated With the Two Types of Sports



Source: Department of Commerce.

1 Expenditures on durable and nondurable sporting equipment, wheel goods, toys, and commercial participation amusements. This is by no means the total spending on participation sports. See text, page 14, for estimates of the total.

2 Admissions to spectator sports.

dating back to ancient Greece when warriors developed their strength in athletic contests. And wasn't it the Duke of Wellington who said the Battle of Waterloo was won on the playing fields of Eton? Sports programs, furthermore, were not restricted to the military during World War II. Similar activities also were organized for war workers, and for much the same reasons. It is ironic that something as grimly serious as war taught millions to play, but that's about what happened.

Although the depression and the subsequent war sowed the seeds of mass participation in sports, it took much more to nurture the seeds and make them grow into something the size of the present boom. The total number of participants is now almost double what it was in 1946.

WHAT GETS 'EM UP AND OUT

The reasons for the popularity of do-it-yourself sports look like a panorama of our postwar economy. With so many factors in its favor, the present craze seems logical, if not inevitable.

The leisure "mass"

The distribution of leisure has been completely about-faced in a few decades. Now, due to 8-hour days, 5-day weeks, and 50-week years the working class is really the leisure class. On the other hand, top executives with their evening conferences and nation-spanning trips are putting in longer hours than ever. Since workingmen vastly outnumber executives, this reversal means many million more leisure hours for our population as a whole. There are many reasons for the spread of leisure. It's sufficient here to mention just two—the tremendous growth in industrial productivity and the increased bargaining strength of unions. What it means is more time for pleasure, more time for sports.

Money, money, money

Our new leisure class is exceptionally well-heeled. Real incomes have risen approximately 40 per cent since World War II. More important, almost everybody has been getting some of the extra "gravy." In 1958 dollars, 64 per cent of all households now earn more than $4,000 a year compared to about 50 per cent in 1946. Discretionary income, the money left over after necessities like food, clothing, and shelter have been bought, is now estimated at $103 billion—up 42 per cent since 1946.

Thus, millions more Americans have the two vital ingredients to become sportsmen—time and money. But why do so many people choose participation sports over competing leisure activities? Here, in our opinion, are the principal reasons.

Living up to leisure

Now that he's a member of a leisure class, the typical American is trying to live up to his new status. He likes to pursue diversions that have always been associated with the upper crust.

Sports are a prime example, for until recently only the wealthy few could squander time on such nonproductive pursuits. It's interesting to note that many of the most popular and fastest growing sports of today are those closely identified with the millionaires of yesteryear—boating, hunting, skiing, and golf.

This filtering down of fashion has made sports an important new status symbol. To some extent sports have replaced the more traditional methods of "putting on the dog." Once, his car expressed a man's social identity; now likely it's his boat. Go down to any marina; it's often the skipper of the fanciest forty-footer who drives up in the oldest car. In other neighborhoods playing golf at the country club marks one as a member of the elite.

Shortages end

During the first postwar decade, consumers splurged on durable goods such as automobiles and appliances. Doing without during the depression and the war made these items seem necessary, and prosperity made their purchase possible. Around 1956, however, spending patterns shifted. Durable goods began taking a smaller slice of the consumer's dollar—a trend which continues through 1958—as shortage-bred desires gave way to replacement demand.

With ownership of material goods at an all-time high, consumer spending has slanted in other directions—toward the less material, "life enriching" industries. Culture has become a "hot" commodity; so have travel and many services. Sports, too, are important beneficiaries of this dollar quest for the better life, 1959 style.

The previous heavy spending on durables, however, is giving sports a belated boost. The appliances already acquired are saving mother hours of household drudgery—hours she may devote to sports with her family. Even TV is said to be sparking sports participation in a negative way. After years of public addiction, a reaction may be setting in. Sportologists claim that TV is now driving many people outdoors. "We've sat long enough in front of this thing—now, let's get out and do something."

The great postwar increase in automobile ownership (100 per cent since 1946) contributes to sports participation in a more positive way. Automobiles give people mobility to pursue sports far afield. More than a million boating bugs, for example, own trailers and commute their crafts to the water on week ends.

Working to play

Developments in factories and offices have turned many people to sports. The ever-expanding use of machinery, to which workers owe much of their extra leisure, also has lightened the on-the-job load. People aren't so tired after a day's work and have energy left for active sports.

Giant corporations often tend to submerge the individual employee. His gains in income and leisure may be offset by losses in satisfaction and creativeness. Sports help compensate for these job frustrations. Riveter and ribbon clerk feel important again in the outdoors. There they can temporarily escape civilization and find a measure of fulfillment whether they're chasing par or partridge. Or maybe they take to the water where, as *Time* magazine puts it, "Life loses its complexity; it's just you and the sea and suddenly north is important to you."

Playing at work

Company-sponsored sports programs have grown rapidly since World War II. It is estimated that 25,000 firms now spend a total of $1 billion a year on employee recreation and much of this money goes for sports.

Company teams are nothing new but the recent emphasis has shifted from the "varsity" to intramural sports available to all employees. The most popular are bowling, golf (100 firms own their own courses), softball, and basketball. During the lunch break, table tennis and horseshoe pitching are leaders. Undoubtedly more than a few workers who learn the rudiments of a sport "on the house" pursue it further at their own expense.

Also important

The changing structure of our population has increased the number of sports participants. There are more grandsons and grandfathers now than ever before. Both groups make good sportsmen, for each has time and enthusiasm. Therapy, too, is a factor. One wonders how many have become sportsmen on doctors' orders and how many others have anticipated these orders. The publicity given President Eisenhower's golf undoubtedly has had an influence in this area.

Then there's the effect of improved sporting facilities and new materials such as Fiberglas for boats. Expanded sports programs in school and college have created many participants who continue after graduation. These are some of the factors behind the sporting boom; now, here's a closer look at the proportions of the boom itself.

BOXSCORE OF A BOOM

Statistics on participation sports are scarce and scattered, so we contacted a number of associations, trade publications, and government agencies. They were very cooperative and much of what follows is based on the facts and figures they gave us. Although we have tried to cover most of the major sports, some may be excluded. This is not necessarily because they are unimportant but more likely because adequate information was not available.

Boating has changed greatly in the last generation. Where once the stately J-sloop bowed her 135-foot hull to the wind, squadrons of outboards now skitter. Today, the typical craft in our pleasure fleet is 14 feet long and costs its owner about $600. The democratizing of the waterways is highlighted by a survey which indicated that 46 per cent of the people who purchased outboard motors in 1958 were in the category of skilled or semi-skilled workers. Sir Thomas Lipton, you'd hardly know your sport today!

It is estimated that 37 million persons, more than one-fifth of our total population, took to the water in 1958. These modern mariners spent $2.1 billion to buy and operate boats last year according to estimates by the National Association of Engine and Boat Manufacturers. This outlay was double 1954's total and triple 1951's.

Boating faces at least one serious problem—overcrowding. Lakes, bays, and rivers are crammed with stem-to-stern traffic on balmy week ends. At water's edge, docking space is "hen's tooth" scarce with only about 10,000 marinas for the nation's 7 million pleasure craft.

Fishing overlaps boating to some extent but it's also an important sport in its own right. In 1958 there were about 30 million fishermen and only half of them were boating enthusiasts also. Presumably the remainder fished on foot in stream or surf.

The U. S. Fish and Wildlife Service made an extensive study of the spending habits of fishermen in 1955. In that year anglers cast out over $860 million on licenses and equipment plus another billion dollars for transportation, lodging,

and other costs of the trip. The Sport Fishing Institute estimates that fishing expenditures increased to $2.6 billion in 1958.

Hunting is one of the few sports that dipped in popularity in 1958. About 150,000 fewer licenses were sold than in the previous year. Nevertheless, there still are an impressive 20 million hunters.

In 1955 a total of $937 million was spent on hunting, as reported by the U. S. Fish and Wildlife Service. This sum also includes trip expenses, a $250 million item. Assuming that the 1955 relationship between licenses sold and total amount spent holds for 1958, we can say that a billion dollars was spent on hunting last year.

Bowling is a comeback sport. It was quite popular during the early part of the 19th century but it fell into disrepute in the ensuing years. Alleys often were connected with saloons and frequented by all sorts of unsavory characters. Gambling was rife, fights were commonplace and bowling was outlawed in at least one state. The sport started back on the road to respectability around 1900 and has made steady progress ever since.

There are now more than 20 million bowlers compared with the 12 million in 1946. According to the American Bowling Congress, approximately 900 million games were bowled during 1958 at a cost of $375 million. Keglers spent another $35–40 million on balls, shoes, shirts, and other trimmings.

Golf was introduced to the United States in 1888. It remained obscure until 1913 when Francis Ouimet of Boston thrilled the nation by defeating the top British pros in the U. S. Open Tournament. Golf became an important national game in the 1920's, slackened in the thirties, but bounced back after World War II.

About 4 million people played golf regularly (more than 10 times) in 1958 and another 2 million dubbed through at least two regulation rounds. In addition, many more patronized some derivative of the game like miniature golf or driving ranges. Based on estimates of the National Golf Foundation, consumers spend over $750 million on all forms of golf.

Like boating, crowded conditions are plaguing golf. Six-hour waits on the first tee of municipal courses are not uncommon. The reason is simple: in 1930 there were 5,850 courses for about 2 million golfers, now there are the same number of courses but they must accommodate 6 million "divotees." A thousand new courses have been built since 1946 but this only offsets those that disappeared during the depression and the war. The postwar popularity of golf probably would have inspired even more courses were it not for a powerful competitor, the land-gobbling housing development.

Softball is a Cinderella sport. It was created and promoted by the National Recreation Association in the early 1930's to provide adult recreation on existing fields. The game caught on like wildfire. In only a few years it boasted several million players and had its own world series. Just as exciting as baseball, it is less strenuous, thus appealing to older men and to women and girls. There are now about 7½ million active softball players.

At-home sports are also creating a stir these days. Both a cause and effect of their popularity is suburban living with its emphasis on the yard and the inclusion of a game or recreation room in many modern homes.

On the nation's lawns 7 million adults play badminton and about the same number pitch horseshoes or quoits. Backyard pools, once the hallmark of Hollywood, are now a national fixture. There are 125,000 residential pools today compared with only 15,000 as late as 1954.

Stepping indoors, a number of sports hold sway. They range from expensive billiard layouts to back-of-the-door dartboards. In between come table tennis, shuffleboard, and more.

Many other sports deserve inclusion in this discussion. Space limitations, however, prevent more than a mention. In the winter some 3 million Americans ski and 6 million adults take to the ice. It is estimated by the Roller Skating Rink Operators Association that some 25 million skaters spend $350 million a year. About 26 million bicycle riders pedaled to the tune of $180 million in 1958. There are 7 million tennis players, upwards of 5 million archers, 5 million equestrians, and 4 million volleyball tappers. We could go on from birling to bocce, from spelunking to scuba diving, but this should give you the idea.

The tally

Add up the number of participants in the following table. You get a total of 286 million—110 million more than the entire population of the United States. Obviously, many sportsmen are multi-sport enthusiasts. It figures. Many sports are related, e.g., boating, fishing, water skiing, and skin diving—and the transition is natural. Then, too, there is a high degree of seasonality in sports and it often takes several types to see the sportsman through a year.

The spending column is made up largely of information received from our various correspondents, a significant number of whom are concerned with promoting sports in general or some sport in particular. In some cases their estimates may be overly enthusiastic or based on rather meager statistics.

Notice how the spending figures are marked with footnotes indicating they are not strictly comparable. In the case of fishing, hunting, golf, and skiing, related spending is added in, while in some other sports the cost of equipment only is covered. Furthermore, the list is incomplete—spending information for many important sports is not available—and some figures may be overlapping. The fishing total, for instance, may include some expenses also covered in boating.

THE SPORTING ROLL CALL AND BANK ROLL

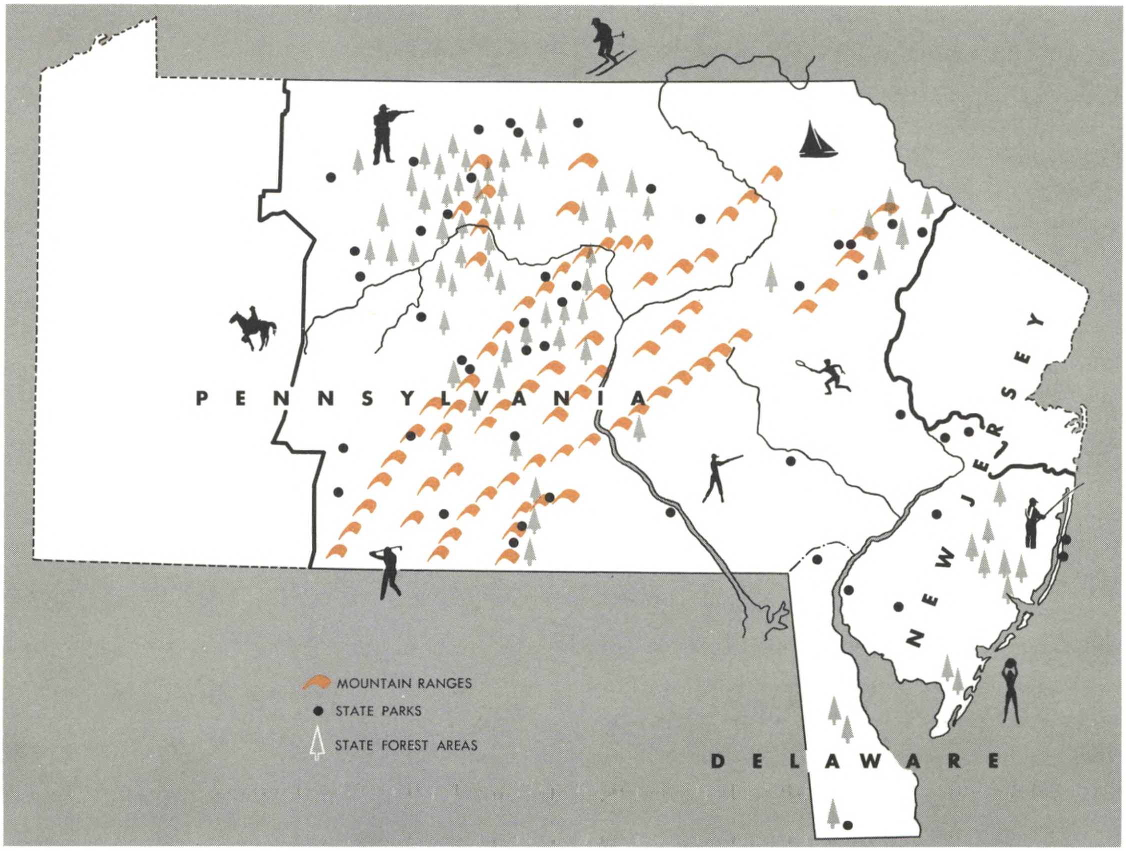
All figures are for the year 1958

	No. of Participants* (Millions)	Estimated Amount Spent (Millions $)
Boating	37	$2,085
Swimming	33	600[a]
Fishing	30	2,600[b]
Bicycling	26	180[c]
Roller Skating	25	350
Bowling	22	415
Hunting	20	1,000[b]
Baseball and softball	15	49[c]
Pool and billiards	10	150
Golf	6	750
Tennis	7	9[c]
Skiing	3	120
9 other sports	52	Not available

Sources: The Athletic Institute, The American Institute of Public Opinion, various sporting associations, and others.

* A participant is anyone who engages in a sport at least once or twice during the year.
[a] Total cost of pool construction
[b] Includes cost of trip
[c] Cost of equipment only, as estimated by Richard E. Snyder

THE SETTING FOR SPORTS IN THE THIRD FEDERAL RESERVE DISTRICT



Laced with limitations as they are, the figures more than hint at the impressive amounts of money devoted to participation sports. The sums we have shown add up to $8,308 million and this is just money spent by consumers. Fill in figures for the sports we have omitted, add the cost of building facilities like bowling alleys and golf courses, consider Governmental outlays, and it's a good bet that the nation spent over $10 billion on participation sports in 1958. And this allows for some enthusiastic estimating and double counting.

A SNAPSHOT OF THE LOCAL SCENE

This is a three-state picture of sporting activity. It includes the states that contain the Third Federal Reserve District—Delaware, New Jersey, and Pennsylvania. The image is blurred due to underdeveloped statistics, still when we hold it up to the nation we can make out some interesting contrasts.

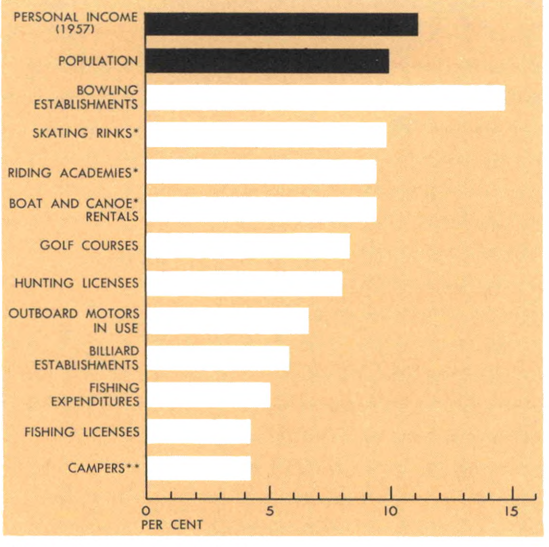
One might expect the three-state area to rank with the leaders in sports participation. Incomes are high here. On a per capita basis they were

11 per cent above the national average in 1957. A relatively large proportion of this income comes from manufacturing where productivity increases have been great so it's likely that our citizens have lots of extra leisure. Local topography—from Pennsylvania's mountain core to the sand-bound shores of New Jersey and Delaware—provides a good setting for sports. There's plenty of water, too; one out of every 26 square miles is covered with it. This is about the same wet-dry ratio as the United States's. For those who like their water deep, blue, and full of game fish, the Gulf Stream lies an easy boat ride offshore.

Nevertheless, in only one sport (bowling) do the three states show up spectacularly. The other evidence we have assembled does not indicate a high degree of sporting activity. The three states have 11 per cent of the nation's personal income and 10 per cent of its population but they generally run below 10 per cent in sporting statistics.

OUR SHARE OF SPORTS

Delaware, New Jersey, and Pennsylvania as a Percentage of the Nation. Figures Are for 1958 Except Where Indicated.



*From 1954 Census of Business.
**Overnight camper days in state parks, 1957.

For example, in 1958 they accounted for 8.3 per cent of all U. S. golf courses, 6.6 per cent of all outboard motors in use, and 5 per cent of the nation's estimated sport fishing expenditures.

One reason for this poor showing, relative to population and income, could be the incompleteness of our information. Perhaps the three-state sportsman goes in for other sports in a big way—sports for which we could not get data. Maybe baseball is bigger here, or archery, or tennis. Estimates of sporting goods sales made by Richard E. Snyder, a recognized authority in the field, tend to confirm this theory. His figures show that the three-state area accounts for 11.4 per cent of total sales of all types of sporting equipment—a percentage in keeping with our share of income.

Another consideration is our climate which imposes serious limitations on sporting activity. We live in an in-between area where conditions are not long perfect for any outdoor sport. Swimming, fishing, and boating are pretty much confined to the two summer months of July and August. Golf and other sports have a longer season, but not nearly so long as in more southerly sections of the country. Our winter hits sports participation particularly hard. It's bitter enough to knock out the warm weather activities but not so cold as to make skiing and skating really significant. The local popularity of bowling is no doubt due in part to its insulation from climatic conditions.

High population density, however, seems to be the most important influence. The three states are chock-full of people with an average of 317 per square mile compared with less than 60 for the country as a whole. Large cities are common and land is scarce and expensive both within and between the urban areas. There just isn't enough elbow room to encourage wide participation in a full range of sports.

We're not alone in this. Our three-state picture is part of a broad regional pattern. An inspection of available data shows that the states in the heavily populated New England and Middle Atlantic areas generally run on the low side in sporting activity compared to their population and income.

An indication of the effect of population density is given in the chart on page 15. Notice that the sports in which we rank highest are the "cultivated" ones—those that call for man-made facilities and relatively little space. On the other hand, we tend to show up poorly in the "natural" sports that require unspoiled expanses of open country or water. Billiards is an exception.

Our lack of sporting space is an inhibiting factor but it doesn't necessarily mean we are shy on enthusiastic sportsmen. It could be that the facilities we do have are used more intensively than their national counterparts.

We could speculate that a composite picture of the local "sportnik" would look something like this: a well-heeled, well-equipped fellow who goes in for a number of different sports. He finds plenty of company wherever he goes and leans toward sports which can be performed indoors or close to home.

FIGURING OUT THE FIGURES

We have tape measured the boom in participation sports from the number of people involved, around the money they spend, to the bean-stalk rate of growth. The importance of the boom, however, doesn't rest on size alone. Its implications go beyond mere measurements.

Business beneficiaries

Sporting goods' manufacturers obviously are profiting by the current popularity of sports. So are the proprietors of facilities such as bowling alleys and marinas, and the owners of a vast array of service establishments. Motels, restaurants, and gas stations in certain areas derive much of their income from sportsmen on the move.

Banks, too, have a stake in sports. Financing pleasure boats is proving a choice plum, according to many credit men with experience in the field. The market is big—about 56 per cent of all outboard boats sold are paid for on the installment plan—and the loans are relatively safe. Defaults have been very low, but even should they rise, lenders are well protected. Boats are durable and are not subject to constant restyling, so they don't depreciate so fast as automobiles and appliances. Swimming pools are another opportunity for banks. The average residential pool costs $4,200, and 40 per cent of them are sold on time.

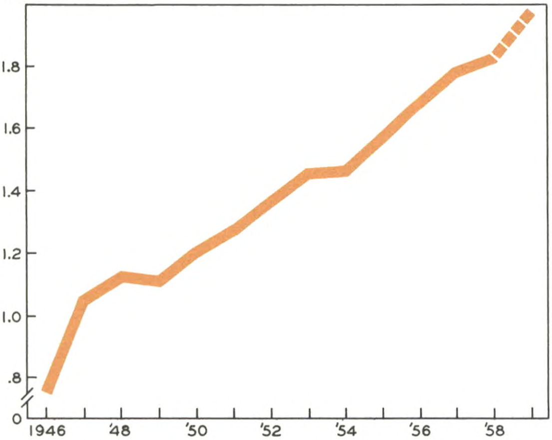
Along with these two big-ticket items, some banks are financing other types of sporting activities, without realizing it, perhaps. A growing number of banks are extending revolving loans to consumers. The borrower may withdraw funds up to a certain limit without saying why he wants the money. No doubt many such loans are used to finance sporting equipment and expeditions.

Governments and sports

All levels of government are involved in sports. Governments provide a wide range of facilities including national parks and forests, state parks, game preserves, municipal pools, and playgrounds. It is estimated that they spend about $1 billion a year on recreation, and a major part of it goes for sporting facilities.

EQUIPPING THE ENERGETIC

Estimated Purchases of Sporting Goods



Source: The Sporting Goods Market in 1959, A Statistical Research Study by Richard E. Snyder.

The ever-increasing number of sports participants are putting additional pressure on already pinched public treasuries. Sportsmen add their "gimmies" to the cacophony of cries for governmental aid—"We want better camping grounds, more trout stocking, and a nice road to the lake." There are enough sportsmen now to make their voices heard, loud and clear, and they're likely to be getting more of what they want. The requests will be costly but they could yield important collateral advantages. The conservation of forests and streams, undertaken at the insistence of hunters and fishermen, also benefits farmers and industry. In metropolitan areas sportsmen pursuing their own self-interest may be a factor in achieving more sensible zoning practices. By pushing for golf courses, parks, and athletic fields they will help bring much-needed splashes of green to the suburban abstraction.

Recession resistant

Sporting activity was little affected by last year's recession. Sales of sporting goods actually increased from 1957 to 1958 and most sports attracted additional participants. Of course, the recession was rather short and the momentum of the sporting boom may have been enough to carry it through. Sports spending, however, often has demonstrated a degree of built-in buoyancy and it's likely that this quality also helped sustain it in 1958.

Leisure spreads when the economy slows down; some people lose their jobs and others work shorter hours. Many turn to sports to keep busy and for diversion. Of course there is a trend to the cheaper types, but it is surprising how much money for sports people can scrape up in bad times. From 1929 to 1932, for example, spending on sporting equipment actually rose as a percentage of total spending for consumer goods. The figure fell thereafter but not sharply.

The more important sports become the more of a sustaining force they are likely to be in future recessions, especially since personal income is now buttressed by unemployment compensation and other factors. But *will* sports increase or even maintain their current popularity?

In years to come

Fortune magazine has suggested that the leisure market may some day become the truly dynamic component in our economy. The demand for necessities, even durables, could be sated but the nation's appetite for leisure activities is unlimited, they say. *Fortune* may be right for leisure as a whole but, remember, sports are only one segment of this market. They compete for the consumer's time and money with many other activities. Hobbies, games, do-it-yourself projects, travel, reading, music, and other pursuits could take the place of sports.

As a matter of fact, sport's own great popularity may ultimately cause this substitution. When the sporting crowd starts crowding sports, it lessens the enjoyment of all concerned. The law of supply and demand would eventually produce the needed facilities but it might not have time to work. Pre-dawn vigils on golf courses, waterways jam-packed with aquatic "hotrodders," fields filled with hunters can quickly drive the most enthusiastic sportsman back to his Monopoly set.

Yes, it's possible that the popularity of sports could wane. There are, however, even stronger reasons to expect it to continue undiminished.

We have enough different kinds of sports to allow for a good bit of shifting. Boating is popular now but if it becomes too crowded a number of enthusiasts can switch to some other sport. Here the automobile will help by enabling sportsmen to go greater distances and pursue a wider range of activities.

The two main forces behind the present boom, increased leisure and income, are likely to continue. There already is talk of a 4-day week, and people are retiring younger every year. Income projections go nowhere but upwards, no matter who is doing the predicting. There should be enough extra time and money to assure an increase in participation in sports as well as in most other leisure activities.

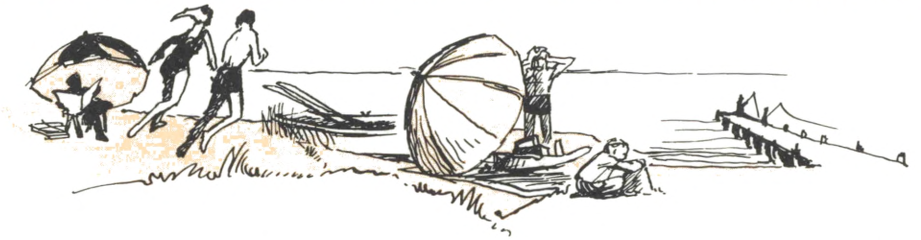
Finally, human instinct may play a part in the sporting boom. Dr. A. L. Chapman of the U. S. Public Health Service thinks so. Commenting on the effects of automation in a *U. S. News and World Report* interview, he says, "We spent hundreds of years getting out of the woods and now we're trying to get back there again—probably in an instinctive hunt for exercise."

Who can predict against instinct? We guess that sports are going to grow and grow.

OUR THANKS TO THE FOLLOWING GOOD SPORTS FOR THEIR COOPERATION:

American Badminton Association
American Bowling Congress
American Camping Association, Inc.
American Institute of Public Opinion
The American National Red Cross
American Water Ski Association
The Athletic Institute
Bicycle Institute of America, Inc.
Billiard and Bowling Institute of America
Conference for National Cooperation in Aquatics
Delaware State Chamber of Commerce, Inc.
Delaware State Development Department
Motor Boating, The Yachtsmen's Magazine
National Association of Engine & Boat Manufacturers
National Bowling Congress
National Golf Foundation
National Industrial Recreation Association
National Recreation Association
National Ski Association of America
National Swimming Pool Institute
New Jersey Department of Conservation and Economic Development
New Jersey State Chamber of Commerce
Pennsylvania State Chamber of Commerce
Pennsylvania State Department of Commerce
Popular Boating Magazine
Roller Skating Rink Operators Association of America
A. E. Schmidt Company, Inc.
Ski Magazine
Richard E. Snyder, Economist
Sport Fishing Institute
Sporting Arms & Ammunition Manufacturers' Institute
Swimming Pool Age
Tennis Educational Foundation, Inc.

RESORT BUSINESS IS BOOMING



Resort business a la 1959 is off to a flying start along New Jersey beaches, in coastal areas of Delaware, and through much of the mountain fastness that surrounds Pennsylvania's choice vacation spots. That about sums up how landlords and merchants—large and small—describe what they already have seen of this year's activity in the summer resort areas of the Philadelphia Federal Reserve District. Looking ahead, they also see a 10- or 12-week period in which, given an even break on the weather, there is an excellent chance of bettering some challenging records set in earlier years.

To be sure, peak volume measured in people and their dollars is just beginning as this is written. As always, it is crowded into a few short weeks falling between Independence Day and Labor Day. This year, the last summer holiday comes a week later than in 1958, so vacationers will have a bit longer to relax, or frolic—and spend, our resort people would hasten to add.

But it is not just that extra time before the schools reopen on which expectations of a banner year are based. Unlike 1958, the current season has started against a background of rapidly improving economic conditions bringing increased employment and the higher earnings that go with longer hours of work. And, to help matters along a little further, "Old Man Weather" has come up with an early-season pattern that might be hard to beat.

Transient business continues to grow

The relative importance of week-end guests in the economy of all our resort areas seems to increase with each passing year. The spending patterns of those who come early in the season is regarded as highly significant on two counts. These visitors not only make a substantial contribution to the whole season's business but they nearly always provide something of a preview of what may be expected in July and August. The weekenders who arrive in these two months are the ones largely responsible for the capacity crowds that tax resort facilities to the limit.

Starting Memorial Day, each succeeding week end has brought more short-staying guests to our beaches and mountain trails. More new roads this year have opened areas that formerly were too remote to draw large numbers of overnight visitors from the population centers. Narrow bridges, that only a year ago were discouraging traffic bottlenecks, have been replaced by three- and four-lane spans. Pretentious new motels built along strategic highways are serving as additional drawing cards for visitors with time for only a quick fling at what the resorts have to offer.

In many of the more popular summer resorts this year's week-end receipts between Memorial Day and the Fourth of July are said to have run well ahead of early-season 1958 levels. And those levels were not too bad anywhere in our area. Excellent weather seems to have played an important role this year. But businessmen and bankers at the seashore and in mountain resort towns give most of the credit to a brighter economic outlook.

Advance reservations run ahead of a year ago

Vacation plans seem to have been made unusually early this year. Even before Memorial Day, hotels and motels were answering a great many more inquiries than in pre-season 1958. More people were inspecting cottages and housekeeping apartments. Reports from children's camps in the Pocono Mountain area indicated that most of them reached their quotas long before school was over.

An unusual heat wave in early June seems to have come at an appropriate time. Inquiries for lodging accommodations of every description were quickly translated into reservations. Another torrid spell to wind up that month was no less opportune. It kept the reservation ball rolling, with the result that many landlords found their establishments booked nearly solid for July, and some were reporting a fair amount of business for early August.

Length of stay has not changed significantly

Reservation periods have not shown a tendency to lengthen this year, nor in several past seasons for that matter. If anything, vacationers are spending less time in one place than was the case in the early postwar years. This trend may be attributed in large part to the growing practice of splitting vacations. The custom of dividing up time seems to have originated with the more liberal vacation allowances granted by so many more employers in recent years.

Mobility and flexibility have become increasingly important factors in the vacation plans of both individuals and family units. Much of the pleasure of just planning a vacation now seems to be derived from the ability to choose more than one spot in which to spend that precious time. The spectacular rise in motel accommodations since the early 1950's has gone a long way toward making the choice an easy one.

FOURTH-OF-JULY WEEK END

Independence Day week end, from all accounts, seems to have exceeded expectations and to have set new records at many places in both the size of vacation crowds and the volume of spending. Many employers gave a holiday on Friday, which brought resort attendance to unexpectedly high levels by Thursday night. And a remarkable development noted at both the seashore and in the mountains was the large number of guests who stayed over Sunday night.

Resort weather was a star performer throughout the summer's first big week end. Comfortable air temperatures just about everywhere were perfect for traveling and water temperatures for both bathing and fishing seemed made to order. This combination brought vacationers out earlier and kept them in resort areas longer than was the case last year, when July Fourth weekend prospects were somewhat less promising and, more importantly, when the economic climate was not nearly so reassuring.

. . . but the resort seasons are stretching out

A gradual lengthening of the time in which featured week-end activities are offered at many of our shore and mountain resorts has been in progress for several years. It seems to be continuing in the current season. Some think it is a natural result of splitting vacation times into periods frequently separated by many weeks. But it also reflects the efforts of resort people to spread the season over a longer interval, thus taking a little of the seasonality out of their business.

In any case this year, as in several earlier ones, some shore resorts have offered pre-season week-end attractions bringing people down earlier, and are scheduling post-season events which they hope will keep them coming back later into the early fall. The trend toward a longer resort season is even more noticeable in our Pocono Mountain area. At many of the more popular spots, summer vacation time runs right up to the honeymoon period of late September and October. Going even beyond this, an increasing number of resorts with cabins to rent are remaining open to accommodate the hunters who come in November and early December.

Rates and rentals are firm

Hotel and motel rates have not changed significantly this season. The same thing seems to hold true for cottages and housekeeping apartments. Some of the smaller, less up-to-date guest houses are said to be experiencing growing competition from the newer motels. But this appears to be the only area where through-the-week rates are under any pressure. Off-season reductions are offered by most types of accommodations, although these schedules run to somewhat shorter periods than a few years ago.

The pace of new construction is a little slower

Most resort areas have experienced some slowdown in the volume of new construction for rental purposes. The pace this year seems more in line with trade expectations for normal growth. Motel building is continuing at a fairly high level but the period of fever-pitch activity in this field may be over for the time being. Many of the new cottages are for owner occupancy, and in some cases are designed as permanent residences.

Renovations appear likely to contribute more to the resort construction outlay than in several other recent years. Restaurant and amusement facilities are being expanded and improved, and in some areas the older hotels are undergoing a considerable amount of "face lifting." Although little actual building is involved this season, it is significant that a number of resorts in the Pocono Mountains have begun to develop new recreational areas to relieve the pressure on their present facilities.

Weather is still a factor that is hard to measure

Our resort people think they have a very good line on what vacationers are likely to spend this summer. And for the most part, they are happy with what they have seen so far. Heavy reservations through July seem to indicate that the first half of the 1959 season is made. Of course, a rainy week end or two could even change that picture to some extent. But August is the month that makes predictions a risky matter. That is when coastal storms become more likely. They used to be just plain old Northeasters—but the term hurricane or tropical storm that has come into wider use sounds much more sinister and it seems to send more visitors trekking homeward.

If these disturbances are conspicuous only by their absence, as fortunately was the case last summer, resort people from our shoreline to our mountains could easily have one of the finest resort seasons they have ever experienced.

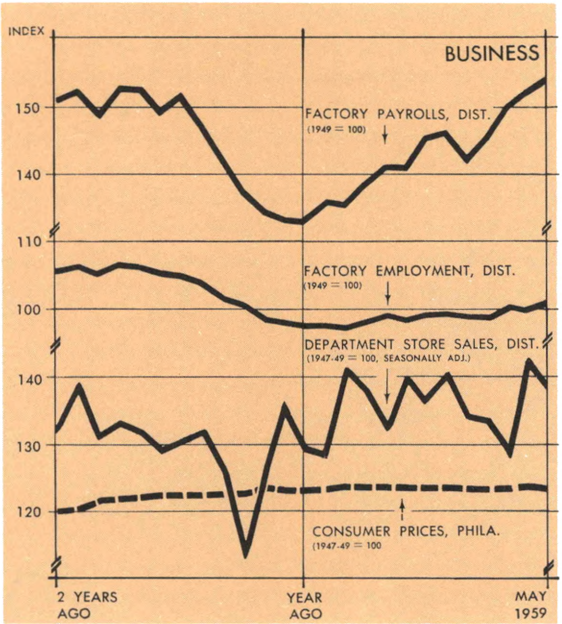
NEW PUBLICATIONS

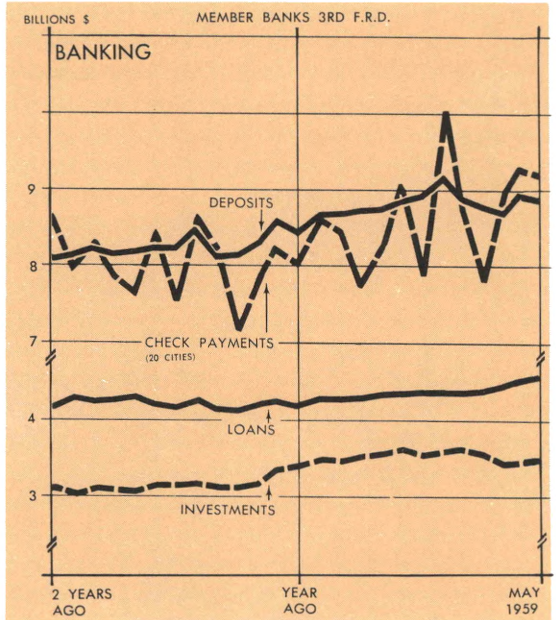
The Federal Funds Market, a Study by a Federal Reserve System Committee, is now available for distribution by the Board of Governors of the Federal Reserve System. This pamphlet of 111 pages gives a cross-section view of an important segment of the short-term money market by presenting information about the structure of the Federal funds market, the volume of operations in the market, and the use of the market by banks and others.

A revised edition of George Garvy's *The Development of Bank Debits and Clearings and Their Use in Economic Analysis,* first published in January 1952, is now ready for distribution under the title *Debits and Clearings Statistics and Their Use.* A new edition of the earlier pamphlet was necessitated by a revision of debits statistics by the Federal Reserve System which incorporated most of the suggestions made in the first edition.

The price of each pamphlet is $1.00 per single copy, and 85 cents each for 10 or more copies of either publication in single shipment. Orders should be addressed to the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington 25, D. C.

FOR THE RECORD...





SUMMARY	Third Federal Reserve District: Per cent change, May 1959 from mo. ago	Third Federal Reserve District: Per cent change, May 1959 from year ago	Third Federal Reserve District: 5 mos. 1959 from year ago	United States: Per cent change, May 1959 from mo. ago	United States: Per cent change, May 1959 from year ago	United States: 5 mos. 1959 from year ago
OUTPUT						
Manufacturing production	+1	+9	+4	+1	+20	+15
Construction contracts	+6	−4	+16	−6	+4	+17
Coal mining	+2	+17	+12	+6	+18	+8
EMPLOYMENT AND INCOME						
Factory employment (Total)	+1	+3	+1	+1	+7	+3
Factory wage income	+1	+15	+9	....	....	....
TRADE*						
Department store sales	−2	+8	+6	+4	+8	+7
Department store stocks	+1	+5	....	0	+5	....
BANKING (All member banks)						
Deposits	−1	+5	+6	−1	+4	+6
Loans	+1	+9	+6	+1	+10	+7
Investments	0	+2	+8	−2	0	+7
U.S. Govt. securities	0	+2	+9	−2	−2	+7
Other	0	+1	+6	−1	+7	+10
Check payments	−1	+15	+12	−5	+11	+9
PRICES						
Wholesale	....	....	....	0	0	0
Consumer	0‡	0‡	+1‡	0	0	+1

*Adjusted for seasonal variation. †20 Cities ‡Philadelphia

LOCAL CHANGES	Factory*: Employment, Per cent change May 1959 from mo. ago	Factory*: Employment, year ago	Factory*: Payrolls, Per cent change May 1959 from mo. ago	Factory*: Payrolls, year ago	Department Store†: Sales, Per cent change May 1959 from mo. ago	Department Store†: Sales, year ago	Department Store†: Stocks, Per cent change May 1959 from mo. ago	Department Store†: Stocks, year ago	Check Payments, Per cent change May 1959 from mo. ago	Check Payments, year ago
Lehigh Valley	+4	+3	+5	+19	....	....	....	....	−2	+9
Harrisburg	+2	+10	+2	+23	....	....	....	....	−2	+6
Lancaster	0	+6	+1	+18	−17	+9	+3	+5	0	+14
Philadelphia	0	+2	0	+12	−5	+8	0	+7	+2	+18
Reading	0	+8	−2	+21	+2	+10	−7	−1	−1	+8
Scranton	+1	−1	+2	+2	−2	+4	0	+6	+2	+5
Trenton	0	+5	+2	+16	−4	+8	+4	+8	−19	−2
Wilkes-Barre	+2	+6	+4	+11	+2	+4	+1	0	−5	+4
Wilmington	+1	+4	−4	+14	−1	+11	0	+4	−18	+9
York	0	0	+2	+10	−1	+8	+1	+12	+1	+13

*Not restricted to corporate limits of cities but covers areas of one or more counties.
†Adjusted for seasonal variation.