

OCTOBER 1962

BUSINESS REVIEW

Mass Media and the Gulliver Fallacy

1962—A Rough Year for Farmers

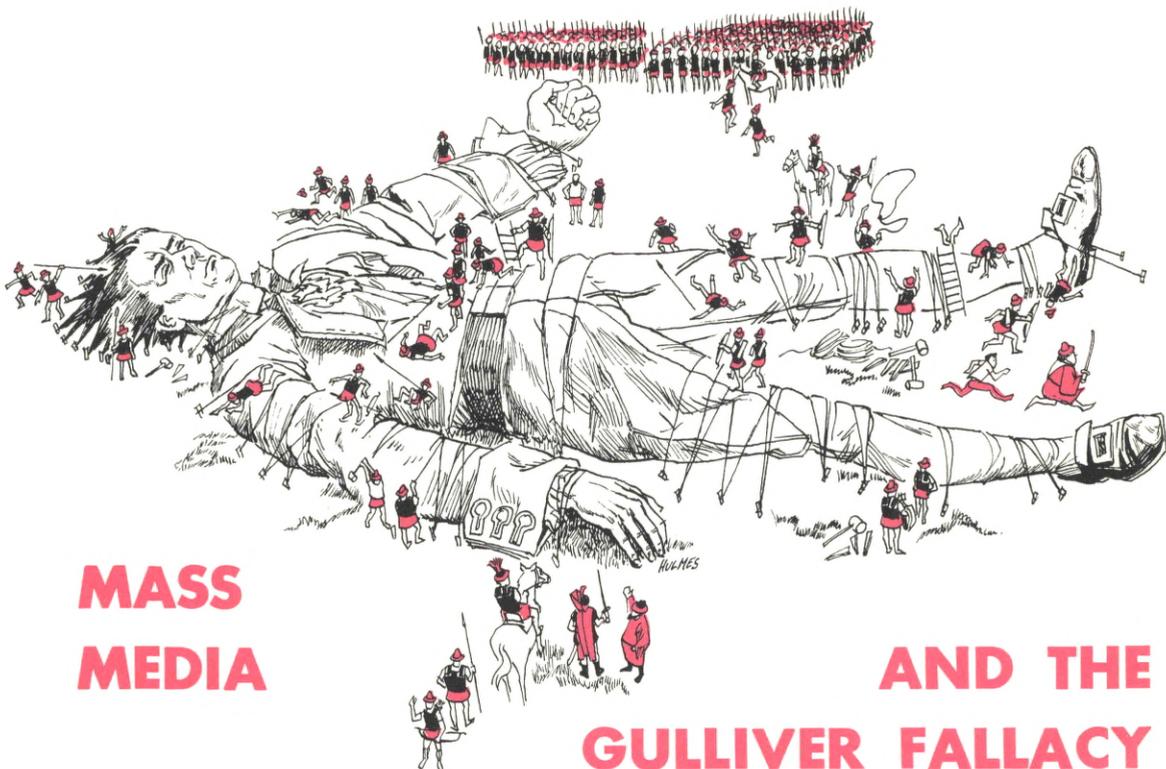


FEDERAL RESERVE BANK OF PHILADELPHIA

BUSINESS REVIEW

is produced in the Department of Research. Lawrence C. Murdoch, Jr., was primarily responsible for the article “Mass Media and the Gulliver Fallacy” and J. Allan Irvine for “1962—A Rough Year for Farmers.” The authors will be glad to receive comments on their articles.

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MASS MEDIA

AND THE GULLIVER FALLACY

Americans wake up to clock radios, read newspapers at breakfast and on the train, listen to background music at work, scan magazines at lunch, read some more and watch television in the evening.

This voracious appetite for diversion has made the mass media—magazines, newspapers, radio and television—big business. Consumers spend over \$5 billion a year to be exposed to them and advertisers pay another \$7 billion for time and space. But big business is not necessarily good business. Each one of the mass media is in some kind of serious difficulty.

Disappointing growth. Since 1956 neither magazine nor daily newspaper circulation has increased as fast as the number of households. Radio listening and TV watching have de-

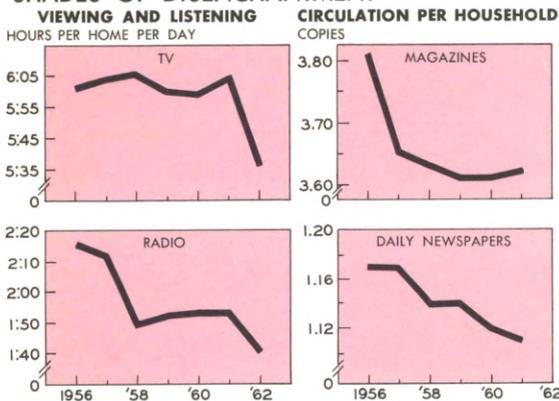
clined during the same period, according to the A. C. Nielsen Company. The former dropped from over two hours per family per day to one hour and 40 minutes; the latter decreased from about six hours to five hours and 36 minutes.

Declining advertising. The lines of advertising carried by national magazines have decreased 20 per cent in the past six years. Daily newspaper lineage is down about 6 per cent.

Thinning ranks. The number of national magazines is off about 20 per cent from the 1953 peak. There are 25 fewer daily newspapers than there were a decade ago.

Anemic profits. One-third of all radio stations operate at a loss, and of those in the black, 30 per cent make a profit of less than \$5,000. About two out of five magazines lost money last year.

SHADES OF DISENCHANTMENT



Sources: Radio and TV, A. C. Nielsen Company; Magazines, Audit Bureau of Circulation; Newspapers, Department of Commerce.

Profits of the 35 largest publishers declined from 4.3 per cent of sales in 1950 to 1.7 per cent in 1960.

Trouble with Government. The Federal Government has severely criticized both radio and television. Newton Minow, Chairman of the Federal Communications Commission, has called radio a “casbah” and television a “wasteland” and he seems set on doing something to improve the situation.

BEHIND THE MALAISE

Television is said to have weakened the other three media in the struggle for public attention. It is true that the five or more hours an average family watches TV reduces the time available for radio and magazines, but causes of the media malaise go deeper.

Sweeping economic and social changes have hurt all four media, experts claim. Great increases in income, education, and home ownership mean that people are reading more books, participating in more sports, taking up more hobbies, working more on homes and gardens, playing more games, entertaining more friends, attending more cultural activities, and, after all

that, probably sleeping more.

All of the above reasons seem to be valid. We feel, however, that there is another major explanation of the mass media’s difficulties. We call it . . .

The Gulliver Fallacy

One of middle childhood’s most vivid memories is of Lemuel Gulliver lying unconscious on a broad beach. He looked like the most massive of giants with swarms of Lilliputians climbing over his body.

Possibly many publishers and broadcasters still regard their public as a Gulliver—a naive, unimaginative giant, a single entity with one set of tastes, interests, and desires. Once this may have been reasonably true, but no longer. The fact is the public has come more and more to resemble the Lilliputians—a host of individuals and each one different.

As Eric Sevareid, the writer and commentator, says the public “. . . is a collection of minorities vastly different in desires and tastes and educational levels and it should be so treated.” But too many of the media seem to treat the public as a single-minded majority—a giant Gulliver—and therein lies a cause of their difficulties. Audiences and readers with fragmented interests and tastes are attracted less and less by equalitarian fare.

Did they jump or were they pushed?

New technology has made it possible to reach more people but, according to the media themselves, that is not the reason they have been aiming at a giant Gulliver. They would say they were forced into it by advertisers. As national advertising grew in importance in the post-World War II period, agencies wanted to get their messages to the maximum number of people.

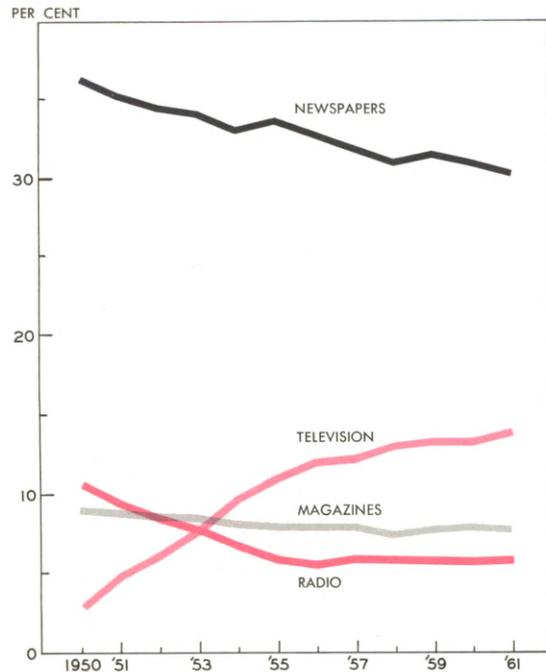
Advertisers demanded quantity and the media tried to meet this demand. (Media must be sensitive to advertisers' wishes because advertising accounts for almost all TV and radio revenue and about two-thirds of magazine and newspaper receipts.)

At the time it did not seem an unreasonable demand. The public was more homogeneous a decade ago. Interests and tastes had not yet been shredded by increases in income, education, mobility, and leisure. Common denominators were easier to find. Almost everybody, it seemed, liked the *Saturday Evening Post*, Amos and Andy, the daily papers, Charlie McCarthy, and Milton Berle.

Market research techniques were less sophisticated in the late 1940's and early 1950's. Advertisers had to settle for aggregates—the size of an audience or total circulation—as a measure of an

HOW THE PIE IS SLICED

Percentage of total advertising expenditures accounted for by four mass media.



Source: *Printers' Ink*.

ad's effectiveness. It appeared not to matter much who was exposed to an ad or whether they had any interest in the product being sold.

For these and other reasons the mass media became contestants in what is now known as the "numbers game." The publication or broadcast that could claim the largest number of people was the winner until another made a higher claim. The prize was the national advertisers' dollars.

Then, several years ago, some advertisers began to change. They seemed to downgrade the importance of sheer numbers. They emphasized quality more, quantity less. The new attitude was summed up by John P. Cunningham, President of the Cunningham and Walsh Agency, who said recently, "It is better to use a program that reaches the people you want to reach instead of just hitting out at the masses."

The change from trying to reach everybody to reaching only the *right* people was largely a matter of increasing efficiency. It was made possible by new research which isolated and defined consumer markets. It was motivated, in a general way, by the leveling of retail sales and by businesses' growing disenchantment with advertising. Both put pressure on agencies to prove and improve their selling efficiency.

The mass media were left in a difficult position. Because of the splintering of public interests and tastes, they found it more difficult and expensive to maintain, let alone increase, their giant audiences and circulations. At the same time, the media found advertisers less willing to pay high prices for numbers.

SISTERS UNDER THE SKIN

Magazines, newspapers, radio, and television seem to have certain feminine characteristics. They all want to be popular and they are vitally concerned with appearances and with being in

style. At the present time, the mass media are trying to attract the attention of the public much as four women compete for the attention of one man. Meet the quartet of competitors.

The Dowager

Mass magazines are the Grande Dames of communications—elegant, traditional, and well bred. Although they have seen better days, magazines probably have the intelligence and character to adjust to their new situation.

Declining advertising is one of the main problems of mass magazines. Last year alone advertising lineage dropped 8 per cent. Ad men often feel their money will work more effectively in other media. If a product requires a mass audience—and many still do in spite of the fragmentation of the consumer market—television is often cheaper per exposure.

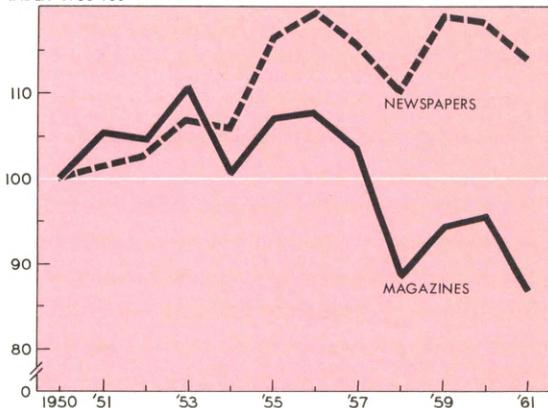
On the other hand, if a product has a limited demand—and more and more do—it may be more economical to buy space in a selective magazine. It is the precision of a rifle shot compared to the broad blast of a shot gun. Professor S. Watson Dunn gives a good illustration in his book *Advertising, Its Role in Modern Marketing*. Suppose you are considering two magazines, *Banking* and *Life*. The former has a cost per page per thousand of \$15.92 and *Life* a cost of only \$4.62. If you are interested in reaching only bankers, however, it would cost almost \$600 per thousand to reach them in *Life* compared with \$15.92 per thousand in *Banking*.

As a result of their selectivity, special interest magazines are running counter to the industry trend. More than two dozen magazines aimed at small segments of the public were started in 1961. Several of the newcomers deal with the performing arts exclusively; one is designed for the upper-bracket career woman; another appeals to

APATHETIC ADVERTISERS

Advertising lineage in national magazines (general and farm) and in daily newspapers (52 cities).

INDEX 1950=100



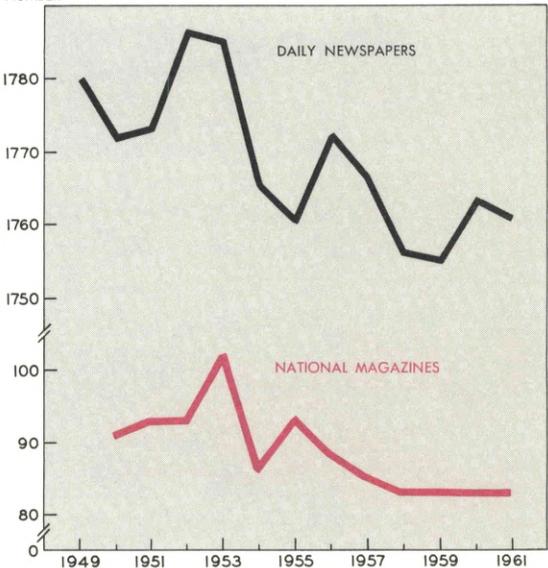
Sources: Publishers Information Bureau and *Editor and Publisher*.

retired people. These new arrivals join many already successful “niche” magazines such as *Play Boy*, *Ebony*, *The Reporter*, *Harper’s*, *Scientific American*, *The New Yorker*, *Seventeen*,

OLD FACES ARE MISSING

The number of daily newspapers and national magazines (general and farm).

NUMBER



Sources: Publishers Information Bureau and *Editor and Publisher*.

Yachting, *Business Week*, *Fortune*, many trade journals, and others.

The mass magazines are struggling to find solutions to their problems. Some have used format changes but this tactic has at least two drawbacks. First, magazines are comfortable “old friends” and many readers are sorry to see changes of any nature.

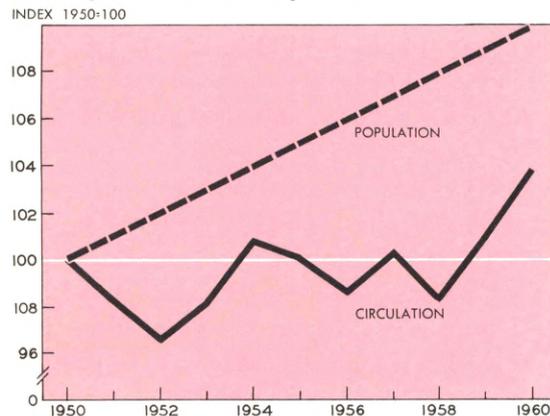
A more important weakness is the tendency to pattern new formats after those that have been proved successful by other magazines. Mass magazines have taken to imitating each other’s use of color, editorial policies, and layout styles. This, of course, is shortsighted because one of the reasons certain formats were successful is they were different.

The Housewife

Newspapers, like the housewife, serve the whole family with tireless energy. They are inquisitive, always interested in a good story and the latest gossip. They are full of information about sales and bargains. Newspapers also can be hard to handle and sometimes a bit drab.

NEARLY EVERYBODY?

Circulation of three major Philadelphia daily newspapers compared to the population (over 14 years) of the Philadelphia Standard Metropolitan Area.



Sources: Audit Bureau of Circulation and U. S. Census.

Since metropolitan areas are cross sections of the nation and are subject to much the same fragmentation of tastes and interests, big city papers are not immune to the Gulliver fallacy. Papers that try to be everything to everybody may wind up being nothing much to anybody.

We don’t mean to say that the demand for big city dailies is disappearing; it is not, of course. But there may not be a great demand for many such papers in the same area. In Philadelphia, for example, there are only three major newspapers and their combined circulation has been relatively stable over the past decade.

The movement to the suburbs has hurt the city papers. Suburbanites are less interested in news of the city and they can keep up with national and international developments on radio and TV. Suburban living often changes commuting habits from public conveyance to private automobile and this too reduces the demand for daily newspapers. Suburban papers, in contrast to the city dailies, are doing well—their number has more than doubled since 1950. They appeal to a limited area and feature neighborhood news and shopping information.

Many specialized and distinctive papers also enjoy considerable success. *The Wall Street Journal* appeals to businessmen; trade papers such as *Home Furnishings Daily* are designed for readers in specific industries; *The New York Times* caters to the segment of the public that wants only “news that is fit to print”; *Grit* is a mainstay for rural families. In Philadelphia, the *Daily News* scores significant circulation gains by developing a distinctive personality.

Newspapers still handle far more advertising than any other medium. They account for about 32 per cent of all ad expenditures—down from 37 per cent in 1950. One reason for this decline is that newspapers specialize in local advertising,

and national advertising has been growing faster.

The girl next door

Radio could be likened to the girl next door with whom you grew up. She is accessible, economical, and good company.

In the 1930's and 1940's, radio's massive audience sat and listened attentively to sudsy sobbers such as Our Gal Sunday, Ma Perkins, and Helen Trent from dawn to dusk. After supper, it was comedy and drama or drama and comedy, depending on which network one tuned in.

Then in the early 1950's radio took sick and all but died. It suffered from at least two major ailments: competition from television (in those early days people even watched test patterns) and growing disenchantment with the lack of variety in network radio programming.

Radio eventually realized it couldn't compete with television head-on. Few would listen to a play on the Lux Radio Theatre when they could see one on Playhouse 90. So radio decided to be what TV wasn't—a fragmented, intensely personal medium. Station after station abandoned the network offerings and adopted the music-and-news formula.

It sounds like more of the sameness but actually it wasn't. There is a great variety of music and each type has its own enthusiastic following. Radio stations began to specialize: one played rock-and-roll exclusively and another banned it completely: one featured standard pop tunes, another big band music. On FM classical music, show tunes, jazz, and Muzak-type background music were available.

Recently radio has added serious discussion to its menu. One New York station talks around the clock and many others air lengthy conversations and interviews. One evening not long ago we

heard programs on politics, economics, the 17th century novel, and the merits of commercial art as a career.

Radio also has become an essentially local medium. Many stations feature community news such as who has been elected president of the Rotary Club. In Philadelphia several stations have helicopters which report on rush-hour traffic jams. Lately a number of stations have been speaking out editorially on local issues: "Why can't we have better street lights on Main Street?"

Advertising has followed this local emphasis. Since 1946 the dollar volume of national radio advertising has declined slightly and local advertising has increased almost 200 per cent. Much of the gain has come from merchants who find that radio neatly covers their trading area. As a result, radio is now hotly competitive with newspapers for retail advertising.

Radio, more than any other mass medium has abandoned the Gulliver fallacy—the policy of catering to a huge audience with supposedly a single set of tastes and interests. Through diversified and localized programming, radio has been trying to appeal to the many Lilliputian segments of the public. Has it worked? The anemic profits and declining listening hours we cited might make it seem that this attempt has not done much to solve radio's difficulties.

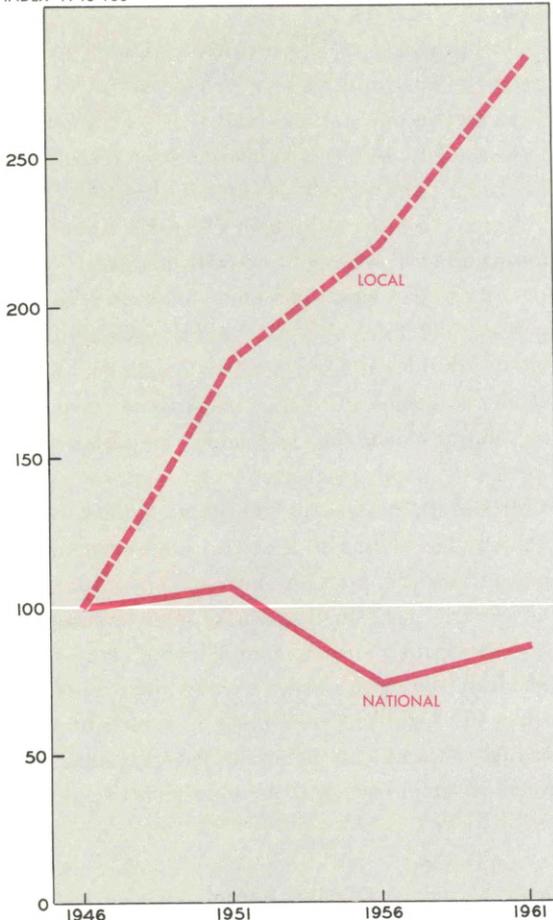
But without the changes that have taken place in the last five years radio now would be in a far worse position than it actually is. Some experts claim that commercial radio would have withered into oblivion had it stuck to the old, all-things-for-all-people network programming.

Furthermore, it is possible that the recent decline in listening hours as measured by the A. C. Nielsen Company actually is a reaction to radio's recovery. Realization that radio was once again an effective medium brought a number of

RADIO'S CLOSE-TO-HOME SUPPORT

Expenditures for local and national radio advertising.

INDEX 1946=100



Source: Printers' Ink.

new advertisers. They ended the long slide in total advertising revenues but their hard-sell tactics may have alienated a number of listeners. Newton Minow says of radio, "In too many communities, to twist the radio dial is to be shoved through a bazaar, a clamorous casbah of pitchmen and commercials which plead, bleat, pressure, whistle, groan, and shout."

But if radio thinks it has trouble with the Government, it should talk to television.

The glamour girl

Television is the glamorous member of the quartet. Like most sirens, it is fast, fickle, and expensive. It was all but irresistible when young but as it ages, it might gradually be losing some of its appeal.

Of the four media, television has had the most success in the numbers game. About 90 per cent of all homes have TV, a higher percentage than have telephones or bath tubs, it is said. Advertising revenues continued to increase through 1961 and TV now accounts for 14 per cent of all ad expenditures. These records border on the sensational when you remember that commercial television, for all intents and purposes, is only about 15 years old.

What about the Gulliver fallacy? Doesn't it apply to this "massiest" of all media? The 1962 decline in viewing hours may be the harbinger of a major trend away from the television set. Certainly there has been a growing protest against TV programming, much of which is bulldozed to suit a single set of tastes and interests. The outcry originated in the many segments of the public which fail to find satisfactory entertainment in the predictable doings of cowboys, private detectives, and saccharine parents.

The Federal Government has sensed this public disenchantment and reacted in several ways. The FCC has threatened not to renew a station's license if it does not act "in the public interest." Congress has authorized the FCC to require that all newly manufactured sets be equipped to receive numerous Ultra High Frequency channels as well as the common Very High Frequency ones. Another bill provided financial aid to educational stations and the Department of Health, Education and Welfare has launched a study of the impact of TV on children.

The programming controversy is not one-sided

by any means. The television industry claims to have good reason for its policies. Spokesmen contend that television is merely giving the public what it wants, as expressed by the ratings. The majority of viewers seek entertainment and diversion rather than information and enlightenment, it is claimed. After a day's work, the average person wants to be transported to an absorbing never-never land rather than look in on the problems of real life. Another defense is to point out that the number of public service programs—documentaries, special events, and other serious information programs—has in-

creased significantly in the past few years. One network claims it devotes 17 per cent of its time to such programs.

One proposal to improve television is to increase competition among broadcasters by authorizing more stations and perhaps another network or two. This is supposed to increase both the quality and variety of TV offerings.

Bernard Smith, writing in *Harper's* magazine, doubts if more competition will achieve hoped-for results. He says that more stations will not increase the total size of the TV audience but merely divide it into smaller sections. With smaller audiences to attract advertising revenue, the stations will be less able to afford the expense of good programs.

Mr. Smith makes another point against competition. He claims it leads to sameness rather than variety. Suppose one network has a successful western. The other networks tend to compete by putting their own westerns in the same time slot. Last year Ben Casey, a show about doctors, was a big hit. This year there is a rash of new medical shows: one is about psychiatrists, another about nurses, and there is even one about veterinarians.

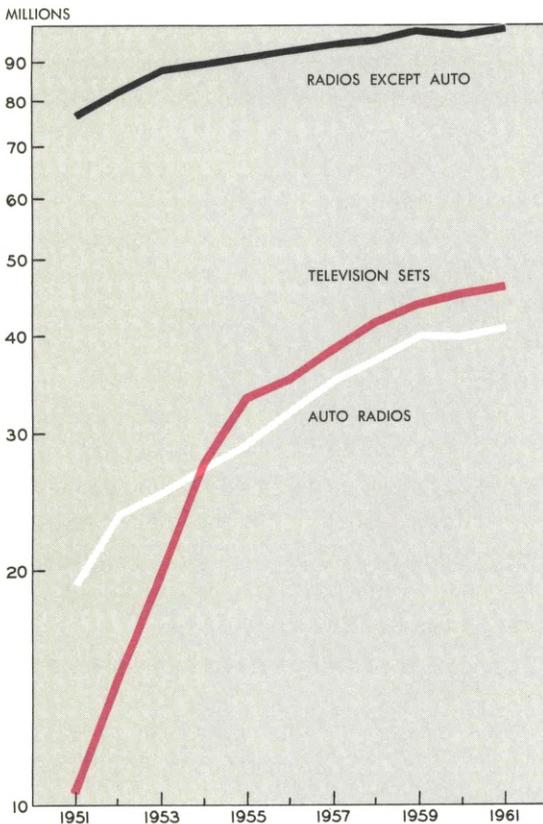
CONCLUSION

Like so many industries these days, the mass media are plagued with excess capacity. Some of their capacity to reach people is no longer needed. They built this capacity in the mid-1950's to meet a peak demand and obsolescence came quickly.

Excess capacity usually intensifies competition within an industry and this is certainly the case with the mass media. The "girls" are fighting each other fiercely for public attention. Increased competition among the media may lead more to imitation than to innovation, however. Magazines, newspapers, radio, and TV all seem

ELECTRONIC COMPANIONS

Number of sets in use.



Sources: Electronic Industries Association and *Electrical Merchandising*.

to fight back with this “sincerest form of flattery.” This policy may be self-defeating in the end because it means more and more similarity which was one of the causes of the trouble in the first place.

There are two main methods to eliminate excess capacity—increase demand or decrease the ability to supply. A certain number of mass media will always be necessary but it does not appear that the demand for them will increase enough to solve the problem. If anything, the fragmentation of markets and tastes is accelerating and advertisers now seem to realize the value of reaching the right audiences.

The elimination of excess capacity, therefore, probably will be achieved by decreasing the number of mass media in operation. It is happening already. A number of daily papers as well as *Collier's*, *Coronet*, and other magazines are missing from the newsstands.

Perhaps other publications and broadcasters will disappear in coming years. In addition, more media probably will try to appeal to selected audiences. By abandoning the “numbers game,” they will content themselves with a smaller, more digestible piece of the pie. But dieting is seldom easy; it takes some getting used to. With smaller audiences or circulations, advertising rates may have to be cut, and this could be disastrous if costs are not slimmed also.

If more and more publishers and broadcasters try to aim at fragmented audiences, won't that merely transfer the problem of excess capacity from the mass to the specialized media? It

could, but there is still plenty of room among the “rifle shooters.”

The Lilliputian segments of the public have been growing so rapidly that the N. W. Ayer Agency now calls them “miniature mass markets.” In many cases they are large enough to support a number of publications. For example, there are 8 million boat owners, some 20 million families have cats, and 11 million people attend symphony concerts. Intellectuals number almost 9 million if they are defined as college graduates.

Media that specialize by locality could get a shot in the arm from local advertising. Local advertising may be growing faster than national advertising before long. Retailing is in a state of turmoil, and keen competition could spur merchants to advertise more. Equally important, large discount stores are spreading rapidly—often at the expense of the small independent retailer. The former are heavy advertisers in localized media, the latter as a group do little if any advertising.

Local service establishments—dry cleaners, auto and appliance repair shops, laundromats, gardeners, and others—are enjoying booming demand. Their big expansion puts them on the threshold of advertising. They should become increasingly heavy users of local media which reach their potential customers.

Final solutions to the problems of the mass media won't come overnight, however. Adjustment to the changing needs of a changing public will take much time and effort. It is not easy to bury a giant.



1962—A ROUGH YEAR FOR FARMERS

Agriculture is a part of the economy of the Philadelphia Federal Reserve District that is hurting considerably more than some others. One of the most widespread droughts in many years has resulted in all but a half dozen of our leading agricultural counties being declared drought-disaster areas. Crop output has been sharply reduced, according to latest Department of Agriculture estimates, and production costs in dairying—a highly important segment of our agricultural industry—have risen steeply.

We have talked with county farm agents in our leading producing areas and what follows is their description of the agricultural situation as the 1962 growing season draws to a close.

A miserable growing season

Farmers in most of Pennsylvania report one of the most miserable growing seasons in years. The situation seems to have been only a shade or two better in parts of southern New Jersey

and Delaware. Drought was the big culprit but in some areas a late frost in the spring and hail storms during the summer also took their toll of crop production. About the best that can be said of the past season is that it was a relatively cool one, with no prolonged heat waves to aggravate the widespread drought. By early September, soil moisture conditions were showing improvement in many sections. Some late crops will benefit, but the relief came too late to be of significant help to most of those maturing earlier.

Disaster status of limited help

In counties declared disaster areas and eligible for Government assistance, drought damage apparently had progressed too far for farmers to make much use of acreages in the Soil Bank withheld from 1962 production. And the county agents told us that surprisingly few applications were made to the Farmers Home Administration for low-interest loans available to farmers in

areas given disaster status. Apparently, the most helpful provision of the relief measures is the lower freight rates allowed on hay and other livestock feeds that farmers are purchasing to tide them over the winter months. For many, this means a considerable saving.

Field crops damaged most

Pastures were virtually useless over much of the season. This, coupled with a record low hay crop in many areas, has left dairy farmers with a feed bill of near-staggering proportions. Field corn, another major livestock feed, is expected to yield from one-fourth to one-third less than a year ago. Moreover, quality in some cases is said to be poor, consequently much corn grown for grain will be cut for silage. This year's harvest of small grains also was down substantially. A good part of this reduction, however, reflects a smaller planted acreage, rather than drought damage. Potatoes were disappointing to many growers, as the tubers developed poorly in the dry soil. Soybeans, of increasing importance in the local farm economy, seem to have withstood the drought better than most other field crops.

Tobacco prospects are brighter

Although this year's yield per acre has been reduced somewhat, midsummer estimates of the crop have been revised upward. County agents say the early planted tobacco looks best. Some of the later plantings have grown slowly in the absence of needed moisture and there is increasing concern over the possibility of damage from an early frost. Disease problems have been relatively light this year and somewhat less than the usual amount of insect damage is reported.

In this season's drought situation, the use of high-quality plants seems to be paying off rather

well. Our Lancaster County tobacco growers also are said to be saving on labor through improved cultural practices. One of these involves the use of what is known as a growth regulator. This prevents, or at least retards, the development of suckers that can only be removed by time-consuming hand labor.

Wide variation in vegetable yields

Most early harvested vegetables were high in quality, and yields were average or better with few exceptions. The situation changed swiftly, however, as the drought intensified. Production declined sharply on nonirrigated fields and quality deteriorated. Tomatoes showed the greatest variation. On irrigated fields, particularly in southern New Jersey, tomatoes grown for processing were a bumper crop, in some cases running 20 tons to the acre. They were of good quality and here the growing season was one of the longest in recent years.

But it was another story on many nonirrigated tomato fields in Pennsylvania and in parts of Delaware. Late frosts in some places had necessitated a lot of replanting and vines had scarcely become established before drought changed the picture. Yields were light and quality was off, with dry rot becoming a serious problem. Vegetable prices in the fresh market fluctuated considerably over the season but in most cases were not high enough to compensate for reductions in volume. Processing prices generally held near last year's levels.

Orchard fruits of high quality

Drought interfered with the proper sizing of peaches and early apples, but yields generally were well above last season's short crops. What the early fruit lacked in size, it made up in quality. But there were exceptions. Where hail

damage occurred it seems to have been severe. Pennsylvania orchards suffered most in this respect and there were many reports of bark damage that could affect next year's crops. Late apples are sizing better and color seems to be improving rapidly. Growers hope to market a somewhat larger proportion of this year's crop as packaged fruit bringing higher prices. As processors are said to have a smaller carryover than in 1961, contract prices should not be too bad.

Dairymen in bad shape for feed

The feed bill this year will hurt all dairymen—take a big chunk out of the milk check. These farmers, hard-pressed to maintain milk production after pastures failed, have been feeding increasingly heavy supplementary rations since very early in the summer. With home-grown hay in extremely short supply, and purchased hay priced as much as three times what it costs to produce it, dairymen have been forced to turn to whatever substitute feeds are available.

Much larger quantities of grain are being fed, but there is a supply problem here as well because yields on many farms in this area were considerably below average this season. The corn crop is especially important to our dairymen and a great deal of corn originally grown for grain is being cut for silage. Beet and citrus pulps are two other hay substitutes used in increasing quantities because they are relatively low-cost feed ingredients.

Feeder cattle operations on smaller scale

Although feeder cattle were less affected by the drought than dairy herds, this type of operation nevertheless has been on a somewhat smaller scale because of uncertainty in the feed situation. This was unfortunate because beef prices have

held up fairly well and seem to be strengthening now. Grain supplies are more essential to feeder stock than hay, consequently the prospect of good corn for grain in areas where such feeding is important may encourage some expansion during the fall months.

Poultry situation mixed

Most poultrymen seem to be having a little better year than in 1961. This is particularly true of those who raise broilers. Although overproduction still plagues the industry, prices have held well above the ruinous levels prevailing over much of last year. Poultrymen with laying flocks experienced weak egg markets in the spring and early summer but prices have strengthened in recent weeks. As a result of heavy culling, most flocks are down to average size and earlier surplus problems are disappearing. The demand for poultry meat other than broilers has fluctuated considerably but current prices are said to be satisfactory. This has not been one of the better years for poultry farmers, nor has it been among the worst. The more efficient operators should come out fairly well.

Production costs higher

Nearly all of the items the farmer has to buy seem to have risen again this year. Purchased feed for livestock is the big out-of-pocket expense and it will not ease until next year's crops are harvested. Continuing wage-rate advances, particularly for experienced workers, are another area of deep concern. Increased mechanization is about the only alternative, but the cost of farm machinery and other equipment remains high and largely out of reach for many small operators. Prices of fertilizer are somewhat higher than in 1961. Because of increasing use, this material is becoming a more important item in the over-all

cost picture. In some areas, property re-evaluations mean a larger tax-take this year.

Capital outlays on a small scale

With the cost-price squeeze becoming tighter, farmers are said to be holding capital spending to a minimum. More repairs will be made to machinery and in many cases where replacement has become a must, farmers are turning to the used-equipment market. Barn building and barn renovations seem to be on a decidedly smaller scale this year. In recent years dairymen have accounted for the greater part of capital spending by farmers in this area. But outlays from this source have been sharply curtailed by the necessity of making heavy feed purchases.

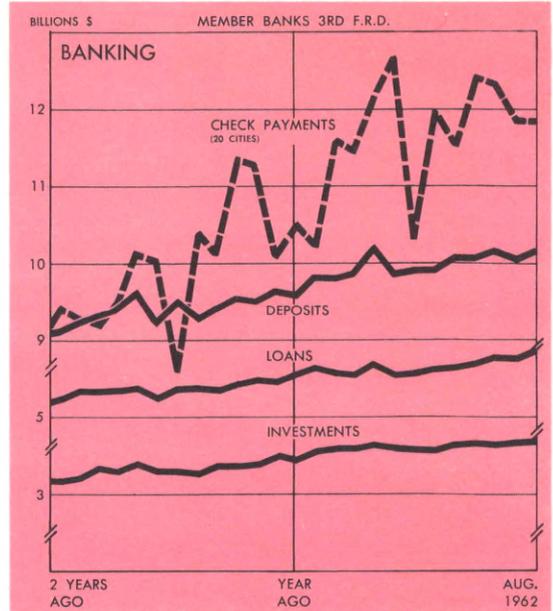
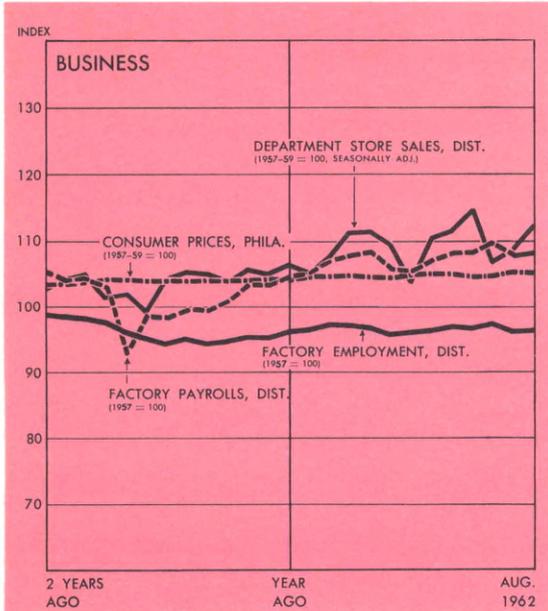
Financial position weakened

Some farmers will come through this season without having to increase their indebtedness,

but many others may have to borrow to tide them over an exceptionally poor crop year. It is hard to see how net farm income can show anything but a decline. Prices have not been strong enough to offset crop losses; and high production costs, particularly for those who must buy livestock feed, will make a big dent in the credit side of the ledger.

Farm cash income has continued below year-ago levels in every month through July. Receipts from the sale of livestock and livestock products were down 4 per cent in that period. Surprisingly, the decrease for crops was only 1 per cent, but this was due to somewhat larger sales in early months of the year. The decline from a year ago in total farm cash income was not large, but it must be remembered that 1961 was not one of the better years for farmers in the tri-state area of Pennsylvania, New Jersey, and Delaware.

FOR THE RECORD...



SUMMARY

	Third Federal Reserve District				United States			
	Per cent change				Per cent change			
	Aug. 1962 from		8 mos. 1962 from year ago	Aug. 1962 from		8 mos. 1962 from year ago		
	mo. ago	year ago		mo. ago	year ago			
MANUFACTURING								
Production.....	....	....	....	+ 3	+ 5	+10	....	....
Electric power consumed	+ 6	+ 4	+10	....	....	....	....	....
Man-hours, total*.....	0	0	+ 3	....	....	....	....	....
Employment, total.....	0	0	+ 1	+ 1	+ 2	+ 3	....	....
Wage income*.....	0	+ 3	+ 6	....	....	....	....	....
CONSTRUCTION**	- 8	+ 3	+21	- 3	+ 2	+12	....	....
COAL PRODUCTION	+61	- 1	+ 7	+61	+ 2	+ 8	....	....
TRADE***								
Department store sales.....	+ 3	+ 5	+ 5	+ 1	+ 5	+ 5	....	....
Department store stocks.....	0	+ 7	....	....	....	....	....	....
BANKING								
(All member banks)								
Deposits.....	+ 1	+ 5	+ 5	0	+ 7	+ 7	....	....
Loans.....	+ 2	+ 5	+ 5	+ 1	+10	+ 8	....	....
Investments.....	0	+ 6	+ 8	0	+ 5	+ 9	....	....
U.S. Govt. securities.....	- 1	+ 3	+ 8	- 1	- 2	+ 4	....	....
Other.....	+ 3	+15	+ 7	+ 1	+26	+21	....	....
Check payments.....	0†	+12†	+15†	+ 1	+10	+11	....	....
PRICES								
Wholesale.....	....	....	....	0	0	0	....	....
Consumer.....	0‡	+ 1‡	+ 1‡	0	+ 1	+ 1	....	....

*Production workers only.
 **Value of contracts.
 ***Adjusted for seasonal variation.

‡20 Cities
 †Philadelphia

LOCAL CHANGES

	Factory*				Department Store†				Check Payments	
	Employment		Payrolls		Sales		Stocks		Check Payments	
	Per cent change Aug. 1962 from		Per cent change Aug. 1962 from		Per cent change Aug. 1962 from		Per cent change Aug. 1962 from		Per cent change Aug. 1962 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Lehigh Valley...	+ 1	0	0	+ 4	....	....	....	....	+ 1	+10
Harrisburg.....	0	0	0	+ 4	....	....	....	....	+ 2	- 5
Lancaster.....	+ 1	+ 6	+ 4	+15	+ 7	+ 1	- 3	+ 3	+ 7	+17
Philadelphia....	+ 1	- 1	+ 2	+ 4	+ 2	+ 6	- 1	+ 9	- 1	+ 8
Reading.....	+ 1	+ 3	- 1	+ 6	+ 3	0	+ 5	+18	+ 8	+ 8
Scranton.....	+ 1	0	- 2	+ 6	+ 1	- 3	- 3	+ 5	+ 5	+ 4
Trenton.....	- 2	+ 1	- 7	+ 1	+ 4	0	+ 2	+ 6	-18	+22
Wilkes-Barre...	0	0	+ 1	+ 8	+ 5	+ 5	+ 1	+ 3	+ 4	+ 8
Wilmington....	- 3	+ 2	- 5	+ 4	+ 9	+ 3	+ 4	+ 7	+ 6	+52
York.....	+ 1	- 1	+ 1	- 1	+ 6	+ 9	+ 1	+10	+ 7	+ 3

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