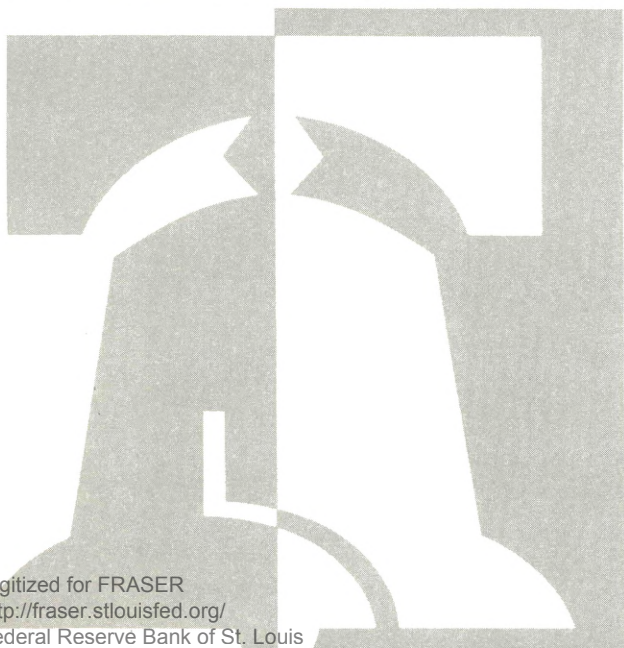


Philadelphia and its Competitors
District Banks Report on Revolving Check Credit:
First Phase A-OK, All Systems Go

FEDERAL RESERVE BANK OF PHILADELPHIA

BUSINESS REVIEW



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Last year in this Review¹ we pointed out that Philadelphia's economy has been lagging behind the national economy. Here we attempt to get at some of the reasons for Philadelphia's missing jobs, by comparing . . .

PHILADELPHIA AND ITS COMPETITORS

Employment in metropolitan Philadelphia increased at only one-twentieth the U. S. rate between 1953 and 1964. The area needed 240,000 new jobs just to match the national rate of increase in nonfarm employment. The 12,000 actually added amounted to only 5 per cent of that goal.²

The situation has improved greatly in recent years, however. From 1959 to 1964, employment in the region increased by 45,000. To reach the goal of meeting the national rate of increase, 136,000 more jobs were needed. Actual growth amounted to 33 per cent of that.

The area's economy therefore has come a long way in five years. During the 1950's employment

declined. During the 1960's, so far, it has increased. The increases have been substantial enough to stem some of the precipitous erosion of Philadelphia's share in the national economy. The region has turned around. But while it was doing so, competition did not wait.

Competition among metropolitan regions

More and more, as the nation's population and economic activity concentrate near cities, regional economic competition becomes competition among metropolitan areas. Philadelphia is deeply involved in this contest, and it is hanging back among the pack. Fairly complete recent information concerning employment is available for 16 of the country's 20 largest metropolitan areas. Among these 16, Philadelphia ranked fourteenth in growth of nonfarm employment between 1959 and 1964.

¹ "Philadelphia's Missing Jobs," September, 1964.

² Throughout this discussion, "employment" refers to nonfarm wage and salary workers. "Philadelphia" means the Philadelphia Metropolitan Area: Bucks, Chester, Delaware, Montgomery and Philadelphia counties in Pennsylvania; Burlington, Camden and Gloucester counties in New Jersey.

This investigation of the competitive position of the Philadelphia Metropolitan Area reveals:

1. Between 1959 and 1964, employment in the region increased at only one-third the U. S. rate while population was growing just as fast as in the nation. New York had a similar pattern of growth, but some other areas—Boston, for one—achieved a better balance.
2. The area's mix of economic activities inhibited its growth very little between 1959 and 1964.
3. The Philadelphia area has improved competitively in recent years, in the sense that employment in more local industries exceeded national growth rates between 1959 and 1964 than between 1953 and 1964. But by reasonable standards the area could do better.
4. When boosts from favorable mixes of industry, which helped New York and Boston, are disregarded, Philadelphia's recent competitive performance equals theirs. But it does not match that of other northern and eastern metropolitan regions.
5. Four industries turned in outstanding competitive performances: instruments, primary metals, transportation equipment, and stone, clay and glass manufacturing.
6. Among nonmanufacturing activities, wholesale and retail trade and construction suffered disproportionately large competitive losses.

This finding, standing alone, goes only part way in revealing Philadelphia's performance. Economic health in a metropolitan region depends on its success in employing its people. Boston ranked thirteenth in employment growth from 1959 to 1964—close to Philadelphia. But the Boston area's performance in employing its people surpassed Philadelphia's. Why? Because in the Boston area during these years employment growth and population growth were in much better balance than in greater Philadelphia. Employment grew at 40 per cent of the national rate; population grew at 45 per cent of the national rate. In the Philadelphia area, employment grew at 33 per cent of the national rate, but population increased just as fast as in the United States. Employment growth in the Boston area therefore practically paralleled the national relationship between employment and population increases; in metropolitan Philadelphia it did not.

The accompanying chart shows the economic performance of the 16 metropolitan areas in these terms.

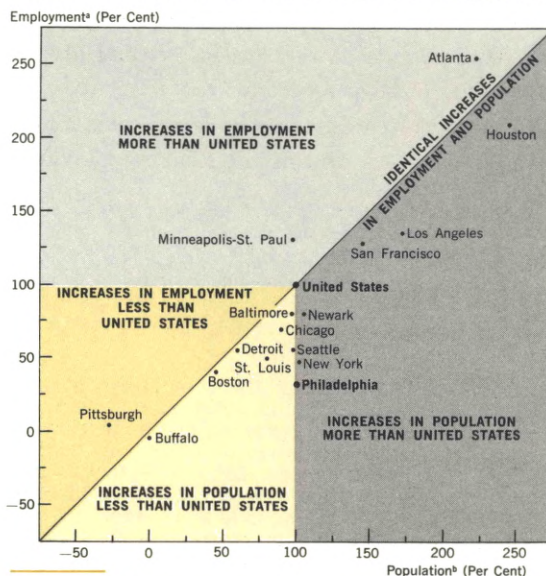
What do these comparisons reveal? First of all, they reveal the power of the fundamental forces that work to shift centers of economic activity in the United States. In today's complex world, economic opportunities are constantly opening up in one place and closing down in another. Consequently, employment needs expand more in one region, less in another, and population follows. The factors that shift the location of economic opportunity—technological developments, changing size of markets, exhaustion of resources—are powerful, and they induce powerful, almost irresistible population flows.³

³ In an approximate way, the relationship shown on the chart represents the influence of the changing basic balance of regional economic advantages and disadvantages. The strength of this relationship, over so short a period as five years, is striking. The linear coefficient of correlation is .91; the coefficient of determination is .83.

This chart compares each area's growth in nonfarm employment and population with that of the U. S. A position opposite 100 on both the population and employment scales would indicate an area that experienced precisely the national rates of increase in both employment and population; a position opposite 50 on both scales would indicate a region that experienced one-half the national rates of increase in each.

The Philadelphia Metropolitan Area just matched the increase in U. S. population. This is indicated by its position at 100 per cent on the population scale. But employment in metropolitan Philadelphia grew only one-third as rapidly as in the U. S. This is indicated by Philadelphia's position opposite 33 on the employment scale.

HOW MAJOR METROPOLITAN AREAS HAVE GROWN IN EMPLOYMENT AND POPULATION



a Percentage change in nonfarm employment in region as per cent of change in U. S., 1959-1964.

b Percentage change in population in region as per cent of change in U. S., 1960-1964.

This aspect of competitiveness is reflected in big differences in growth between areas like

Atlanta or Los Angeles and other regions such as Buffalo or Pittsburgh. It does not matter whether one considers employment, population, or both at once. Fundamental differences in regional economic advantage draw people and economic activity into the one kind of region and away from the other.

Regions can do little to alter these fundamental differences. Exhaustion of resources, shifts in markets, and changes in technology are practically beyond local control, especially over short time spans. Consider the chart again. It is difficult for a region to help itself to move up *along* that diagonal line.

But the chart also suggests a second point. This has to do with an area's position *above, on, or below* the diagonal line. There are many things that may influence this, including, for example, the age and racial composition of the population. And, of course, using the United States pattern as a standard does not mean this is the ideal; the nation itself might not put all its growing population to work. Nevertheless, if we bear all these qualifications in mind, the position of an area above, on, or below the line is one indication of how well the area succeeded in employing its population.

Some regions seem to have adjusted better to their fundamental situation than others. Apparently, the corrective process that works through interactions between employment and population did not operate as well in certain areas as in others. This was a serious matter for those regions where employment grew much less than population, and a windfall for those where it grew more.

Communities have a much better chance to control factors that in this way disturb the process of economic adjustment. Disturbances stem from such influences as time lags in adjust-

ment, failures in the flow of information concerning where economic opportunity is developing or closing down, differences in regional aggressiveness in competing for producers and employers, differing regional mixes of industry, the differing regional incidence of innovators and innovations. These often can be considerably influenced by local action.

Boston, Philadelphia, and New York are cases in point. During the period covered, as was noted earlier, population growth in the Boston area fell well short of the national increase. So did employment growth. During these years migration from the Boston area amounted to about two-fifths of the number of people added through natural increase. Apparently this much out-migration enabled the area to maintain a balance, between growth of population and growth of employment opportunities, that was about the same as the balance prevailing nationally.

The inference is that people in and out of the Boston area during this period of time were reasonably well informed concerning comparative opportunities there and elsewhere. The mechanism that adjusts regional economic growth to a constantly changing regional distribution of economic advantages apparently was working fairly well.

New York's case was different. Population grew faster than in the country as a whole, but employment increased less than half as rapidly as it did in the nation. In Philadelphia population increases just matched those in the country, but employment gains were much smaller. Clearly, in these regions there were disturbances in the process that adjusts population to the growth of job opportunities. If such disturbances are indeed amenable to local influence, there would seem to be plenty of scope for it in these areas.

TABLE 1

THE EFFECTS OF SPECIALIZATION ON METROPOLITAN EMPLOYMENT GROWTH

Metropolitan Area	Percentage Increases in Employment 1959-1964	Jobs Gained (+) or Lost (-) Because of Difference from U.S. Growth	Effect of Industry Mix	Mix Effect as Per Cent of Difference from U.S.
		(Thousands)		
Atlanta	23.4%	+ 52	- 1	2%
Houston	19.3	+ 43	- 6	14
Los Angeles	12.4	+ 70	+17	24
Minneapolis-St. Paul	12.1	+ 16	+ 4	25
San Francisco	11.6	+ 23	+ 4	17
UNITED STATES	9.2	—	—	—
Newark	7.5	- 11	+ 2	18
Baltimore	7.3	- 12	0	0
Chicago	6.5	- 66	+11	17
Detroit	5.2	- 47	-10	21
Seattle	5.1	- 15	- 6	40
St. Louis	4.6	- 34	- 9	26
New York	4.4	-202	+49	24
Boston	3.7	- 59	+ 9	15
PHILADELPHIA	3.0	- 91	- 3	3
Pittsburgh	0.5	- 66	- 2	3
Buffalo	- 0.4	- 42	- 4	10

Imbalance can reflect an obsolete mix of industries

What action can be most effective? This depends on the causes of imbalance. Simply examining information on recent shifts of economic activity does not make possible complete separation of the causes. But one important factor can be isolated—differences in regional industrial specialization.

Assume that each regional industry grew at the national rate for that industry. Discrepancies between growth in the region and nation then would stem only from differences between the national and regional concentrations of productive activities. A region heavily concentrated in slowly expanding, static or declining industries would grow more slowly than the nation; a region specializing in rapidly growing activities would expand more rapidly.

It is quite possible to compute how much each

region would have grown if each industry in it had exactly matched the national growth rate in that particular industry. The difference between the jobs that in total would have been added, given this assumption, and the total actually added, measures the number of jobs the region gained or lost because of its fortunate or unfortunate kinds of specialization. The measure is approximate, of course. But it is useful. Very often, as economic changes come, a region is left with an obsolete industry mix that only time can adjust. Although some differences in specialization and consequent differences in regional growth are inevitable, many only reflect the time it takes to make the adjustment.

Table 1 lists the 16 metropolitan areas in order of their employment growth. The last three columns of the table show the jobs gained or lost because the area exceeded or fell short of the nation's growth, and indicate the contribu-

tion of the local mix of industries to this gain or loss. The contribution can be either to accentuate or to offset the region's difference from the nation. Buffalo, for example, fell short by 42,000 jobs. Of this deficiency, 4,000 can be attributed to specialization in industries having relatively slow rates of expansion during the period (chiefly metals and transport machinery). Boston's job deficiency, on the other hand, would have been greater by 9,000 if it were not for the Boston area's specialization in rapidly growing service industries.

The table indicates that the cases of New York and Philadelphia, superficially similar, were really quite different. New York benefited from unusually heavy specialization in growth activities in services, finance and government. This offset other deficiencies enough to reduce significantly the shortfall in employment expansion. The shortfall would have been 24 per cent greater without this offset, as the percentage in the last column indicates.

Philadelphia, on the other hand, was affected quite negligibly by unfavorable specialization. Industries chiefly responsible for the adverse mix effects that did occur were food processing, transport, and textiles. Service and state and local government activities are important in the Philadelphia area, however, and between 1959

and 1964 the favorable effect of Philadelphia's specialization in these growth activities was almost sufficient to cancel out the drag from other industries.

What would the chart on page four look like if each area's growth rate could be adjusted for mix effects? Eight areas would increase their positions on the employment scale. Philadelphia would move up slightly toward the diagonal line because it had a slight mix disadvantage, traceable to its specialization in several slow-growing manufacturing industries. New York, which benefited considerably from its above-average concentrations of service and governmental activities, would drop even with Philadelphia. Boston's advantage over Philadelphia was entirely one of specialization. Because of this Philadelphia would displace Boston in rank if only competitive conditions were considered, taking over thirteenth place and coming very close to a tie with New York.

Effect of specific industries on Philadelphia's competitive position

Mix effects were not a severe drag on Philadelphia's competitiveness in recent years. What was? This analysis of relative employment growth cannot pinpoint the other factors, except to make clear that much more than the nature of the region's industrial specialization was at work. The analysis can, however, do one more job. It can identify which of the area's manufacturing and nonmanufacturing activities most hurt its growth, and which helped most, between 1959 and 1964. They fall into three groups, shown in Table 2.

Group I is a select group of only four industries which got so much new business between 1959 and 1964 that they added employees more rapidly than their national counterparts. That

If you would like more detail . . .

The methodology and data underlying the conclusions in this article are discussed further in a technical document. Write for *An Analysis of Shifts in Employment Among 16 Large Metropolitan Areas, 1959-1964*. Address Bank and Public Relations, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101.

This publication briefly explains analytical methods and data sources. It also contains tabulations of growth rates, mix and regional-share (competitive) effects.

TABLE 2

HOW SPECIFIC INDUSTRIES HELPED OR HELD BACK PHILADELPHIA'S EMPLOYMENT GROWTH SINCE 1959

Group	Industries in Group	
I. Each of these local industries grew faster than its U. S. counterpart. Consequently, in it Philadelphia's share of the nation's jobs increased.	Instruments a Primary metals	Stone, clay, and glass a Transportation equipment
II. Each of these local industries grew slower than its U. S. counterpart, so Philadelphia's share of employment in it decreased. But of all industries in which Philadelphia's share decreased, these industries each accounted for a smaller proportion of the area's job deficiency than of its employment.	Chemicals Food processing Machinery Paper Finance, insurance, real estate	Transportation and public utilities Services All government activities
III. Each of these local industries grew slower than its U. S. counterpart, so Philadelphia's share of employment in it decreased. But of all industries in which Philadelphia's share decreased, these industries each accounted for a larger proportion of the area's job deficiency than of its employment.	Apparel Construction Electrical equipment Fabricated metals b Furniture and fixtures	Leather b Lumber and wood Ordnance and misc. b Petroleum refining b Printing and publishing b Rubber and plastics Textiles Tobacco b Trade

a Was in lower group before 1959.
b Was in higher group before 1959.

means the Philadelphia area increased its share of the nation's employees in those industries.

Groups II and III consist of activities which increased less rapidly than their national counterparts. Philadelphia suffered a competitive loss of jobs in these industries, because when the period was over it had a smaller share of their total employment than it possessed at the beginning of the period. This follows from the fact that each one of these industries grew faster nationally than it did in Philadelphia.

But some of them fell short of achieving U. S. growth by only a small amount. The paper industry, for example, increased its employment in Philadelphia by 5 per cent from 1959 to 1964; it increased its employment in the U. S. by 7 per cent. Others fell very far short. The apparel industry was one of them. Employment in apparel manufacturing grew 7 per cent in the U. S.; in Philadelphia it declined more than one per cent.

These industries that did not attain U. S. growth rates were in total responsible for many missing jobs. The paper industry accounted for a competitive job loss of 500, as follows:

It had 21,700 employees in 1959.	
To achieve the U. S. paper industry's growth of 7.29 per cent between 1959 and 1964, the local paper industry should have increased employment by 1582, or, rounded off:	1,600
The actual increase was:	1,100
The difference is the competitive job loss attributable to the paper industry:	500

These 500 missing jobs accounted for 0.5 per cent of all those lost to competition in this way. The paper industry, however, made up 1.6 per cent of the employment in all industries experiencing competitive job losses. Therefore its share of the area's competitive job loss was less than its share of employment in such industries.

Group II consists of all industries that, as with paper, accounted for a smaller portion of the area's total competitive job loss than they did of its employment in all industries in Groups II and III.

Group III takes in all the rest. It contains all industries that shared more in Philadelphia's competitive job loss than in employment in all industries in Groups II and III. The apparel industry is an example:

It had 57,500 employees in 1959	
To achieve the U. S. apparel industry's growth of 6.86 per cent, the local industry should have added:	3,900
Actually, its employment decreased:	<u>-800</u>
The difference is the competitive job loss attributable to the apparel industry:	4,700
It consists of the unachieved growth of 3,900 plus the actual decline of 800.	

These 4,700 missing jobs accounted for 5.1 per cent of all those lost to competition in this way. But the apparel industry made up only 4.1 per cent of the employment in all industries in Groups II and III. Therefore its share of the area's competitive job loss was greater than its share of employment in such industries.

In Group I, only one industry—instruments—merits being called a growth industry. This term refers to activities that have been expanding and are expected to expand rapidly during the next decade or two. The electrical equipment industry is growing rapidly, and until recently it expanded at a good rate in the Philadelphia area. It might have reached Group I but for a sharp slowdown that began in 1962. Much of this retardation stemmed from cutbacks in government contracts, which are an important source of business in this industry, particularly in its large electronics component.

Most nonmanufacturing activities are in Group II. These industries include a much higher proportion of local services than does manufacturing. In a large metropolis, most manufacturing is for the external market; most other economic activity serves the local region. The growth of local demand is closely linked to local population growth. In the Philadelphia area during this period, population grew at the national rate.

Therefore, it is reasonable that regional non-manufacturing activities should approach fairly close to national rates of increase.

But Group III includes two nonmanufacturing industries: trade and construction. Trade is a basic function of a city. Its presence in this group suggests that its important wholesale trade component is in trouble in the Philadelphia area. Construction includes a large non-residential component which reflects industrial additions to plant. It should not fall in this group in a region that is planning for expansion.

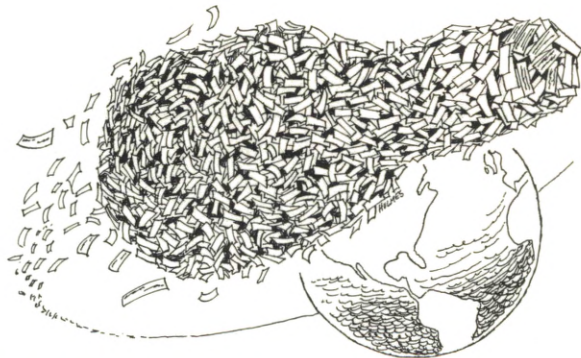
The footnote symbols in Table 2 indicate which industries changed groupings in recent years. Two moved up. Transportation equipment improved most. Between 1953 and 1964 it fell into the group that added disproportionately to the area's competitive losses of employment. But its days of adversity were in the 1950's; since 1959 this industry has added employees faster than its national counterpart. Therefore it shifted from Group III to Group I. The primary metals industry also moved up, from Group II to Group I.

In conclusion

This analysis does not reveal just why the Philadelphia Metropolitan Area has not lived up to its apparent potential for economic growth in the postwar era. It does, however, help to fix the region's position among major competitors, and to identify which economic activities have contributed most and least. And it shows that there seems to be considerable scope for Philadelphia to help itself.

There was one other finding. Philadelphia has turned around. It is helping itself. It is becoming more competitive. That one is worth repeating.

DISTRICT BANKS REPORT ON REVOLVING CHECK CREDIT:



FIRST PHASE A-OK, ALL SYSTEMS GO

Ten years ago a Boston bank pioneered a concept unique in commercial banking in the United States. It blended elements of two conventional but unrelated banking functions to create a new service for its customers. The combination consisted of a loan (in the form of a continuing line of credit) coupled to a personal checking account. Precisely if somewhat prosaically, the bank named its invention "Check Credit."

Commercial banks elsewhere in the nation followed the lead of the Boston bank, and more exotic trade names came into being: standby credit, cashmatic, money-matic, spot cash, ready money, credit line account, and many others. Some banks, unwilling to grant unsecured open loans, coined less complimentary names for their competitors' new practices: funny money, instant debt, perpetual pawn. Generically, the service is known now as revolving check credit.

A typical revolving check credit plan reveals its twin antecedents: an applicant seeks what in essence is an unsecured personal loan. His bank assesses his ability to repay a loan, gauged in terms of a monthly repayment. This amount is multiplied by a fixed number of months, the

total becoming the "loan," or line of credit. A contract is signed, and the customer is given a book of checks, his to use at any time for any purpose. As he draws checks he reduces his available line of credit; as he makes his monthly repayment he re-establishes his maximum line of credit. The bank charges interest on that portion of the "loan" in use, and may charge fees for the "personal checking account." Specific terms are determined by banking statutes in the several states, and by individual bank policy.

Third District experience

Revolving check credit made its debut in the Third Federal Reserve District in 1959. The Department of Research of this Bank promptly canvassed bankers in Pennsylvania, New Jersey, and Delaware to learn their reactions to the plans then newly introduced. Results of the survey were published in the *Business Review*, September, 1959. Summarized, they were that bankers favoring revolving check credit saw it as a profitable new business for banks that customers could, and would, manage without excess or difficulty. Bankers opposing it warned

of inordinate risk for practicing banks, high operating costs, and undisciplined use that would keep consumers in perpetual debt.

Six years have passed. Those Third District banks that offered revolving check credit plans in 1959 have had six years' experience to confirm or dispute their judgments. We interviewed 24 bankers, both advocates and critics, in Pennsylvania, New Jersey, and Delaware to get their opinions today. Here is what we found:

loans: "most," "best," "highest," were the responses. One factor, of course, is the interest rate itself. Another is a service charge, permissible in New Jersey and Delaware; some banks in those states add service charges, some do not. A proposed revision to Pennsylvania's banking code, now before the General Assembly, would make it possible for banks in the Commonwealth to impose certain service fees.

Profitability is also influenced by losses and

CHARACTERISTICS OF REVOLVING CHECK CREDIT PLANS IN THE THIRD FEDERAL RESERVE DISTRICT—19 BANKS

Monthly Repayment Terms	No. of Banks	Interest Rate per Month			
1/20 approved line	6	1% outstanding balance—all banks surveyed in N.J. and Del., and those in Pa. that include life insurance			
1/24 approved line	5				
1/25 approved line	1				
1/20 amount in use	3				
1/21 amount in use	1	.998% outstanding balance—Pa. banks that do not include life insurance			
1/24 amount in use	3				
Maximum Line	No. of Banks	Minimum Size Check		No. of Banks	
(Statutory maximums: Pa.—\$5,000; N.J.—\$2,500; Del.—none)		\$20		2	
\$2,400.	1	\$25		9	
\$2,500.	8	\$50		1	
\$3,500.	3	\$100		1	
\$5,000.	6	no minimum		6	
over \$5,000.	1				
Typical Approved Line	Median	Range	Percentage Of Line In Use	Median	Range
Phila.	\$904.	\$700—\$1,500	Phila.	60.4%	60%—66%
Pa. (outside Phila.)	\$1,000	\$900—\$1,200	Pa. (outside Phila.)	64.5%	52%—85%
N. J.	\$1,000	\$787—\$1,274.	N. J.	66%	55%—75%
Del.	*	*	Del.	*	*

* Only two banks in Delaware offer revolving check credit plans; specifics are omitted to preclude identification. Typical approved line in Delaware tends to be higher than in other sectors of the District; percentage of line in use tends to be lower.

Profitable business

As the table shows, there are significant differences in the characteristics of various plans now operative in the Third District. But bankers are near-unanimous in citing one characteristic common to all—revolving check credit plans to date have been *profitable*.

Superlatives were employed by bankers interviewed to compare profitability of revolving check credit plans to other kinds of personal

delinquencies. Only one banker has found losses in his bank's revolving check credit service to be appreciably higher than in other consumer loans; a few bankers thought them equal, but most said they were less. Delinquency experience has been similar: two bankers asserted that they have had higher delinquency rates in revolving check credit plans, but all others judge them to be not greater, or less.

Operational costs also affect profitability. The

majority of bankers reported their operating costs for revolving check credit plans to be less than, or no more than, costs for other classes of personal loans. Interestingly, this seems true whether or not the plan is functioned by computer. (About half the banks surveyed have computerized their plans, a fourth intends to do so, the balance not.) A number of banks claim to have installed plans without adding personnel; some also say that it takes only a portion of a supervisory officer's time to keep the plan running smoothly.

Promotional activity

Oddly enough, in view of the asserted profitability of revolving check credit plans, few banks currently are using mass media to advertise their plans. Most banks are using controlled direct mail, chiefly in the form of statement stuffers. One bank that uses newspapers and radio, gears its advertising to income tax deadlines, vacation time, back-to-school periods, and the Christmas season.

A seeming contradiction may explain the dearth of mass advertising—it may have proven too effective. “Space” advertising attracts so many applicants that rejection rates skyrocket. Normal rejection rates in the field of revolving check credit average 25–35 per cent. Following a public promotional campaign, it is not unheard of for a bank to reject up to 85 per cent of the applicants.

Promotional rejection rates notwithstanding, several bankers confided to ambitious future advertising programs for their revolving check credit plans. They feel that, although such plans have been offered locally for six years, the public generally is unaware of this service. They reason that the state of the economy augurs well for additional bank participation in re-

volving check credit. Nor can they ignore the profitability aspect of this kind of business.

Effect on other bank business

Bankers are about equally divided on the question, “Does revolving check credit produce, or usurp, other business for your bank?” Some believe that a new customer, attracted by whatever means, is a prime prospect for all the services offered by the bank. Others find that some customers tend to have different banks for different purposes: one for a revolving check credit account, another for a savings account, a third for a mortgage loan, and so on. Those having this experience admit that perhaps they've been doing a poor customer-relations job internally.

Some banks encourage customers to switch from a revolving check credit account to a personal loan, or vice versa, depending on the customer's need and practice. A customer who uses a revolving check credit account but once or twice, then lets it lie dormant, may be channeled to a personal loan. A customer who tends frequently to renew a personal loan may be offered a revolving account as being more suited to his requirements.

A number of banks find that revolving check credit seems particularly fitted to the needs of doctors, dentists, school teachers, and others who have fluctuating incomes, or incomes subject to interruption. They are considered stable risks by banks; and revolving check credit plans provide flexibility of credit that complements the income cycles of these kinds of borrowers.

Overall, Third District commercial banks are experiencing little deviation in the ratio of moneys outstanding in revolving check credit to personal loans. Both have been growing, but

the relationship has been relatively constant.

The critics persist

Despite the favorable experience of banks that offer revolving check credit accounts, not all Third District bankers interviewed are convinced that such services are desirable. They point out that these plans have been successful in an era when local and national economies have spiraled upward for an unprecedented length of time to record heights. They ask, what will happen should prosperity come to a halt, and the economy turn down?

Bankers who have declined to provide revolving check credit plans claim that they have not suffered a loss of lending business by their refusal. (Bankers who offer them assert that revolving check credit gives them a competitive advantage.) They say that their consumer loan commitments are as high as they want them to be. They argue that they have much better control over personal loans wherein they can bring their judgment to bear as to when a customer should exercise his credit, and not have to rely on the customer's opinion.

Another objection advanced is that revolving check credit plans are for big banks only because economical operation of these plans depends on large volume, which entails use of an expensive computer. Most bankers who offer revolving check credit agree that this is true, although a few say that their plans are working well without computers. Bankers on both sides of the controversy believe that a further spread of these plans to other Third District banks is unlikely.

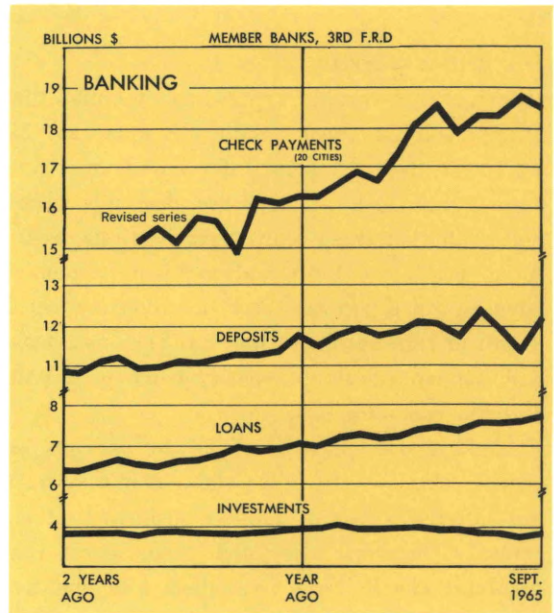
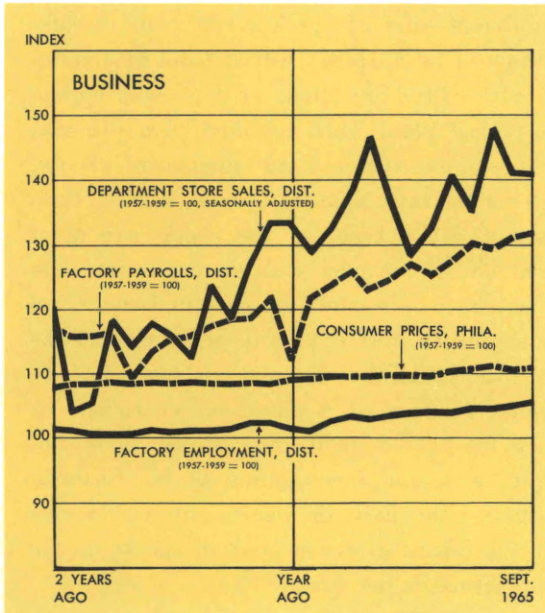
The future

A different kind of check credit plan recently introduced by a Third District bank may counter some of the objections of those who oppose the typical plan. This modified plan provides the customer with a fixed number of checks, each for the same amount—which should reduce the bank's bookkeeping. The checks are numbered and pre-printed with an expiration date set at six months after the date of issue. Once the expiration date is passed, all unused checks are invalid, and thus the open balance of credit originally advanced is effectively cancelled. To renew his line of credit, the customer must submit to a second investigation of his financial position. If he meets the bank's criteria, the customer is issued a second book of checks on the same terms as the first.

A few bankers believe that revolving check credit may be further liberalized, not restricted. They see this facility as merely one step forward in fostering total bank service to all strata of a community. They are of the opinion that some members of their communities, for whatever reasons, do not now enjoy the advantages of commercial banking; and that this condition should be remedied.

Most bankers, however, intend to continue their revolving check credit plans much as they are now, subject of course to changes permitted or required by law. They are persuaded that revolving check credit has successfully passed a six-year trial, has met or exceeded expectations, and offers much promise for banks and consumers in future.

FOR THE RECORD...



SUMMARY

	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Sept. 1965 from		9 mos. 1965 from year ago	Sept. 1965 from		9 mos. 1965 from year ago
	mo. ago	year ago		mo. ago	year ago	
MANUFACTURING						
Production.....	.....	.....	+ 2	+ 6	+ 9	.....
Electric power consumed.....	- 1	+ 8	+ 9	.....	.....	.....
Man-hours, total*.....	0	+ 5	+ 7	.....	.....	.....
Employment, total.....	0	+ 4	+ 4	.....	.....	.....
Wage income*.....	+ 1	+ 7	+ 9	.....	.....	.....
CONSTRUCTION**						
.....	-11	+10	+16	- 3	+10	+ 4
COAL PRODUCTION.....						
.....	- 5	- 4	+ 3	- 7	+ 2	+ 7
TRADE***						
Department store sales.....	0	+ 6	+ 5	.....	.....	.....
Department store stocks.....	.....	.....	.....	.....	.....	.....
BANKING						
(All member banks)						
Deposits.....	+ 2	+ 4	+ 7	+ 2	+ 6	+ 9
Loans.....	+ 1	+10	+11	+ 2	+14	+14
Investments.....	+ 1	- 3	+ 1	+ 1	0	+ 2
U.S. Govt. securities.....	+ 1	-10	- 6	+ 1	-10	- 6
Other.....	+ 1	+10	+13	+ 1	+16	+15
Check payments***.....	- 2†	+14†	+16†	0	+ 8	+11
PRICES						
Wholesale.....	.....	.....	.....	0	+ 2	+ 2
Consumer.....	0†	+ 2†	+ 2†	0	+ 2	+ 2

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

†15 Cities
 ‡Philadelphia

LOCAL CHANGES

	Factory*							
	Employment		Payrolls		Department Store Sales†		Check Payments‡	
	Per cent change Sept. 1965 from		Per cent change Sept. 1965 from		Per cent change Sept. 1965 from		Per cent change Sept. 1965 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Lehigh Valley...	- 1	+ 4	0	+ 6	.....	.....	+ 2	+15
Harrisburg.....	0	+ 2	0	+ 8	.....	.....	+ 5	+17
Lancaster.....	+ 1	+ 7	+ 3	+15	- 1	+ 9	- 2	+ 9
Philadelphia....	0	+ 2	+ 2	+ 7	- 3	+ 4	0	+12
Reading.....	+ 1	+ 3	+ 1	+ 8	0	+ 6	+ 7	+27
Scranton.....	+ 1	+ 4	+ 4	+12	+ 7	+12	- 1	+ 5
Trenton.....	- 4	- 5	- 5	- 8	+ 4	+10	+11	+ 9
Wilkes-Barre...	0	+ 2	0	+ 7	+ 1	+ 6	- 7	+ 9
Wilmington....	+ 5	+ 1	+ 2	- 3	+ 3	+ 8	-16	+23
York.....	+ 1	+ 6	- 1	+13	+ 2	+13	+ 3	+14

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