Business Review

Philadelphia's Lagging Loans

Managing the Public Debt at High Interest Rates

Prosperity Hits Home

February 1966

Federal Reserve Bank of Philadelphia

Philadelphia's Lagging Loans:
. . . Business loans made by Philadelphia bankers have lagged behind national experience in the present business expansion. Principal reason: Philadelphia's trailing industrial growth.

Managing the Public Debt at High Interest Rates:
. . . The recent issuance of 5 per cent Government securities recalls the Magic Fives brought out more than six years ago.

Prosperity Hits Home:
. . . Third District metropolitan areas shared more fully than usual in the current business expansion. Prospects for 1966 are even better.

BUSINESS REVIEW is produced in the Department of Research. Donald R. Hulmes prepared the layout and artwork. Jack C. Rothwell and Arthur H. Darling were primarily responsible for the article "Philadelphia's Lagging Loans," Kathryn Kalmbach for "Managing the Public Debt at High Interest Rates," and Bertram W. Zumeta for "Prosperity Hits Home." The authors will be glad to receive comments on their articles.

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During 60 months of solid economic expansion, bank loans to business firms have increased by well over 50 per cent. Despite the general strength in business loans, however, commercial banks in the Philadelphia area have lagged behind their counterparts in other major cities in lending to the businessman. Here we take a look at some of the reasons for . . .

PHILADELPHIA'S LAGGING LOANS

Bankers typically relish the prospect of lending to businessmen. Indeed, business often gets the nod for credit even if funds can be employed elsewhere at a higher interest rate, say, invested in mortgages or in municipal bonds.

For one reason, the businessman is an important source of lendable funds. As a depositor he provides raw material for loans and hence may often be accorded a privileged position in the queue-up for credit. For another, commercial bankers have traditionally been lenders to business—the short-term business loan and its longer-term (but usually amortized) counterpart fit in well with the perennial banking need for liquidity.

Yet as shown in Chart 1, banks in the Philadelphia area* have lagged behind other regions in lending to the businessman. Out of every $100 increase in loans during the period 1961–1965, a fraction over $30 went to the businessman. Meanwhile, in the Boston area over $43 went into business loans and in the nation as a whole about $38 went to business.

This lag leads to several questions. Perhaps most important: (1) is the shortfall in Philadelphia because Philadelphia bankers are less eager than their counterparts elsewhere when it comes to making business loans, or (2) is it related more to demand, bankers in the Philadelphia area being pressed less for loans by their business customers.

1—ALLOCATION OF FUNDS

The banker, it goes without saying, has options in putting the depositor's dollar to work. Some portion of the funds he receives he will hold in cash or near-cash assets for liquidity purposes. The rest he can put into earning assets ranging from business loans to municipal and Treasury bonds. Has the pull of liquidity and the attractiveness of other options drawn dollars away from the businessman?

Providing for liquidity

While banks are in business to make a profit (and must lend and invest to do so) they are also obliged to come up with cash when their customers wish to exchange deposits for currency and when flows of funds to other banks result in a net drain of deposits.

To meet these liquidity demands, banks must *not* commit all their funds to loans. They must hold some of their assets in cash and highly liquid investments such as Treasury bills.

How bankers in fact weight these two factors—the need for earnings on the one hand and liquidity requirements on the other—will go far

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* *In this article the term "Philadelphia-area" banks refers to weekly reporting member banks in the Third Federal Reserve District. Banks in the city of Philadelphia account for almost 80 per cent of the total assets of these banks and banks in the Philadelphia* metropolitan *area account for 85 per cent of total assets. Banking data for other geographic areas cited in the article also are for weekly reporting member banks and contain banks outside the central city.*

CHART 1

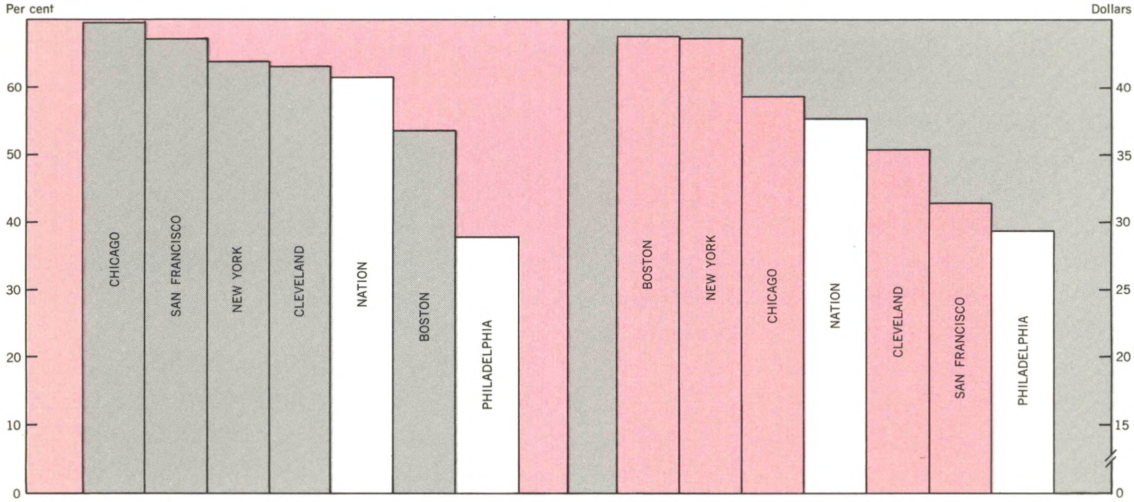
PHILADELPHIA AREA COMMERCIAL BANKS HAVE LAGGED BEHIND OTHER REGIONS IN LENDING TO THE BUSINESSMAN BOTH . . .

. . . IN PERCENTAGE TERMS

Per cent increase in business loans (February 1961–December 1965).

. . . AND IN RELATION TO THEIR TOTAL LENDING

For every $100 increase in total loans during the period 1961–1965, business loans increased by:



Source: Federal Reserve Board, weekly reporting member banks.

to determine lending policies. An arch-conservative assessment of liquidity needs will mean a relatively large buildup of cash and near-cash assets, perhaps at the expense of business loans. A more liberal attitude toward liquidity would tend to allow greater flexibility in lending to business.

Of course, liquidity needs differ among individual banks depending, among other things, on the nature both of their liabilities and their other assets. Despite this heterogeneity, two measures have been widely used to gauge bank liquidity: the ratios of loans to deposits and of cash and short-term Government securities to total assets.

As Chart 2 shows, Philadelphia banks appear to have stressed liquidity somewhat less than banks in the nation as a whole when loan-deposit ratios are compared. Indeed, Philadelphia banks held a greater proportion of their deposits in the form of loans in 1965 than did banks in the nation and also than in the other areas selected. Also, Philadelphia banks showed no pronounced difference in comparison to the other regions in their holdings of cash and short-term Government securities.

Another way of looking at liquidity, however, suggests that such pressures may have been at least partially responsible for the lag in loans. Philadelphia bankers, as shown in Chart 3, *began* the current business expansion back in 1961 with a higher ratio of loans to deposits. They also held a smaller portion of their assets in cash and short-term Governments than did most other areas. Hence, they had less room to maneuver in expanding the overall loan portfolio than did banks in several of the other areas. Still, New

York and Boston banks also started off the present period of business prosperity with a high level of loans relative to deposits (and with lower ratios of cash and short-term Governments to total assets), yet out of every dollar of total loans these banks earmarked over a third again as much for business loans as did Philadelphia area banks. This behavior suggests that something other than liquidity considerations must be involved in the Philadelphia lag in business loans.

The installment plan

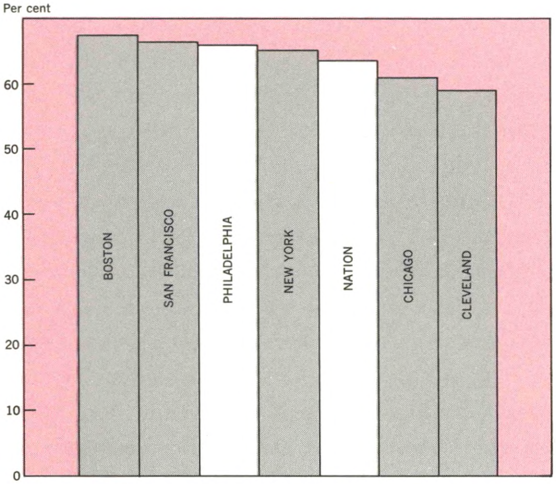
Once the banker has provided for liquidity needs he has several other options in putting funds to work. Is it possible that these other options have pulled dollars away from business loans? One option has been especially attractive to bankers over the nation in recent years and to Philadelphia area bankers in particular. This option is the consumer—king of the fishtailed automobile and lord of the color television set. His demand for goods has seemed all but insatiable in the postwar period. And of special interest to the banker, he has been willing to pay top dollar in order to buy now, pay later. In short, the consumer loan pays a higher rate of interest on average than the business loan, a fact not overlooked in the meting out of the depositor's dollar.

As shown in Chart 4, consumer loans at banks in the Philadelphia area represent by far a higher proportion of total assets than do consumer loans in the other regions noted. Moreover, during the period 1961 to 1965, banks in the Philadelphia area earmarked a larger proportion of each dollar increase in assets for consumer loans.

CHART 2

BANKS IN THE PHILADELPHIA AREA DO NOT APPEAR TO BE OUT OF LINE WITH BANKS IN OTHER AREAS IN THEIR PROVISION FOR LIQUIDITY . . .

Loans as per cent of deposits—1965 (weekly reporting member banks, yearly average of weekly data for selected districts).

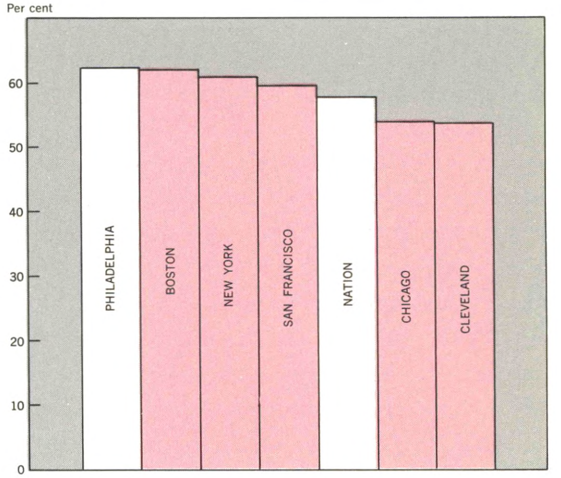


Source: Federal Reserve Board, weekly reporting member banks.

CHART 3

. . . YET BANKS IN THE PHILADELPHIA AREA HAD LESS ROOM TO EXPAND LOANS COMPARED TO SEVERAL OTHER AREAS BECAUSE THEY BEGAN THE PRESENT BUSINESS BOOM BACK IN 1961 WITH RELATIVELY HIGH HOLDINGS OF LOANS TO DEPOSITS.

Loans as per cent of deposits—1961 (weekly reporting member banks, yearly average of weekly data for selected districts).



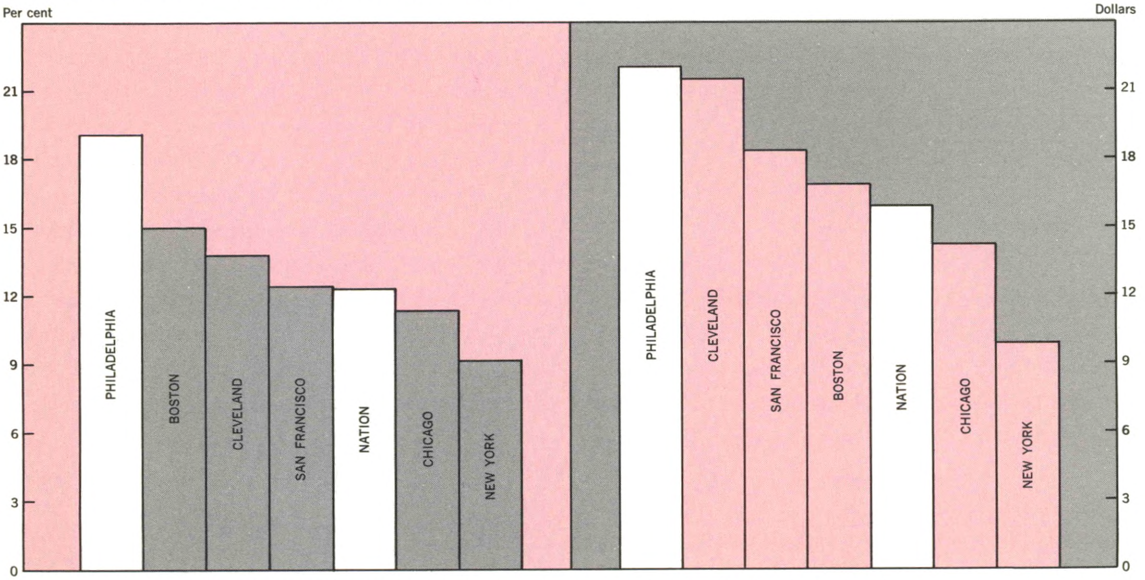
Source: Federal Reserve Board, weekly reporting member banks.

CHART 4

BANKERS IN THE PHILADELPHIA AREA HAVE A RELATIVELY LARGE PORTFOLIO OF CONSUMER LOANS COMPARED TO OTHER AREAS . . .

. . . AND THEY EARMARKED A HIGH PROPORTION OF EACH DOLLAR INCREASE IN ASSETS BETWEEN 1961 AND 1965 FOR CONSUMER LOANS

Consumer loans as per cent of total assets—1965.*



** Includes loans to individuals and other loans to churches, hospitals and charitable institutions.*
Source: Federal Reserve Board, weekly reporting member banks (yearly average of weekly data).

Other uses of funds

How about other uses of funds? Have Philadelphia bankers singled out areas in addition to consumer loans in which to concentrate their lending and investing?

Table 1 provides some insight into this question. A quick glance at the table reveals once more the lag in business loans and the relatively heavy commitment of funds to consumer loans. It also shows an allocation of funds to "all other" loans (all others but consumer and business) about in line with experience in the nation and a relatively lesser commitment of funds to municipal securities compared to the nation.

Summing up the loan portfolio, the table shows that *total loans*—pulled *up* by consumer loans and pulled *down* by business loans—comes out on balance with a commitment of funds about in line with what has happened in the rest of the country. Clearly, the outstanding fact revealed in Table 1 is that Philadelphia bankers, while light on business loans, have a romance going with the consumer.

Still the question remains whether this romance is one of convenience or of love, whether—given sufficient demand for business loans—the banker's affections would really lie with the businessman. The consumer loan department will probably do its best to influence banking policy toward lending more to the consumer, but when the chips are down it may be the businessman who gets the nod.

The lag in business loans in the Philadelphia

TABLE 1

FOR EVERY $100 INCREASE IN TOTAL ASSETS DURING THE PERIOD 1961–1965, COMMERCIAL BANKS IN THE SELECTED AREAS INCREASED . . .

. . . this asset . . .	*. . . by this amount*						
	Nation	Boston	New York	Philadelphia	Cleveland	Chicago	San Francisco
Total Loans	74.0	76.9	72.6	74.2	70.1	73.2	79.1
Business Loans	28.0	33.5	33.1	22.1	24.7	28.8	24.8
Consumer Loans	15.9	16.9	9.8	22.1	21.8	14.5	18.1
"All other" Loans	30.2	26.4	33.1	30.0	23.5	29.9	36.2
Municipal Securities	23.4	26.3	26.8	19.5	36.0	20.5	19.9

** Individual loan items are shown gross, whereas total loans are exclusive of loans to domestic commercial banks and after deduction of valuation reserves.*
Source: Federal Reserve Board, weekly reporting member banks.

area may thus be related less to factors on the *supply* side—liquidity considerations, preference for other areas of lending and the like—and more to factors on the *demand* side. In short, the queue-up of commercial borrowers at the loan officer's desk (and the size of their credit needs) may have lagged behind that in other regions.

2—THE DEMAND FOR BUSINESS LOANS

Why should business demand for loans at Philadelphia area banks grow less rapidly than demand at other commercial banks across the nation? Many factors might help answer this question but two points seem particularly relevant, both having to do with the behavior of the Philadelphia area economy relative to its national counterpart. For even though Philadelphia banks lend outside the immediate area (and thus are affected by economic developments across the nation and in many foreign countries), still a very large proportion of their business is transacted closer to home. Hence, the structure and behavior of local industry are likely to have a pronounced effect on the demand for business loans, possibly accounting for much of the lag apparent since 1961.

Industry mix

One way industry in the Philadelphia area might differ enough from its national counterpart to create a lag in loans concerns the particular "mix" of local industry. Simply put, if the local area were top-heavy with industries which generally borrowed less actively from commercial banks, then the demand for business loans would tend to lag here relative to that in areas where the opposite kind of industry mix prevailed. Is this kind of top-heavy mix typical of the Philadelphia area?

As a matter of fact, the Philadelphia area enjoys a *favorable* industry-loan mix.[1] Phila-

(Continued on Page 10)

[1] *To determine the nature of the industry-loan mix in the Philadelphia area, the* national *growth rate for all commercial and industrial loans was computed (for the period November 1961 to June 1965) and the growth rate in loans for 16 different industry categories was compared to it. The comparison provided an indication of which industry groups were heavier borrowers, on average, from commercial banks and which were lighter-than-average borrowers. It was then determined that the Philadelphia area was slightly top-heavy in the industrial categories which borrowed more heavily from commercial banks. (This determination was made by the simple procedure of multiplying (a) the difference observed between total loan growth rate in the nation and growth rates in the several industrial classes by, (b) the average loans outstanding in the Philadelphia area in each of the industrial classes in the 12 months beginning in November 1961. The resulting dollar amounts were then summed. On balance, Philadelphia area banks were able to lend $8.5 million more than they otherwise would have because of a favorable industry-loan mix).*

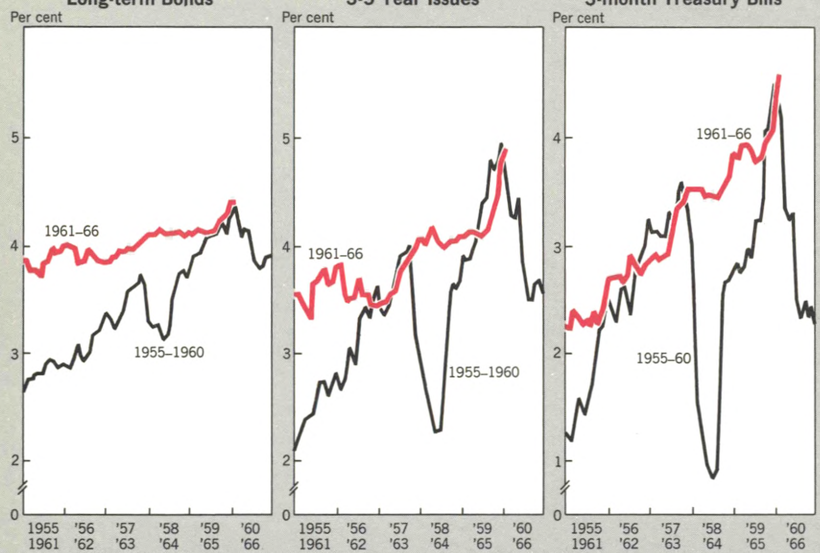
MANAGING THE PUBLIC DEBT AT HIGH INTEREST RATES

The Magic Fives of 1964 aroused widespread interest among investors when the Treasury brought them out in October, 1959. The new 5 per cent notes of 1970 suggest that the situation now facing managers of the public debt is similar in many ways to that of six years ago.

1. Yields on Government securities are about as high as at their peak in 1959.

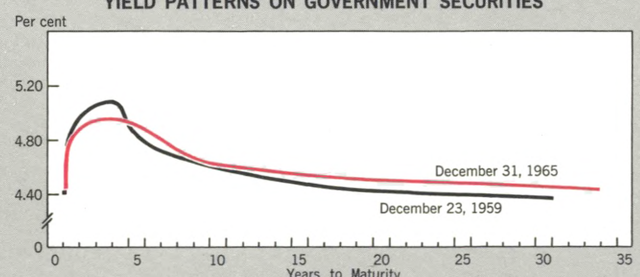
YIELDS ON GOVERNMENT SECURITIES

Long-term Bonds | 3-5 Year Issues | 3-month Treasury Bills



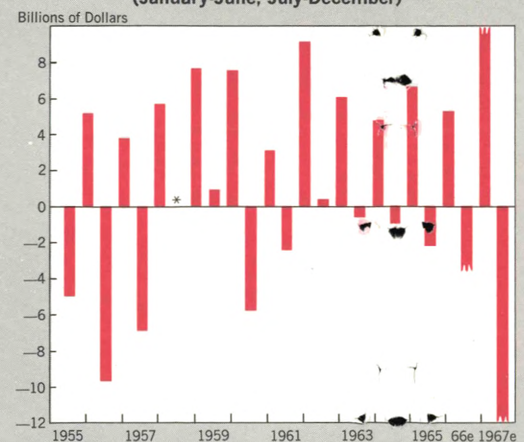
2. The yield pattern again takes the shape characteristic of a period of high interest rates.

YIELD PATTERNS ON GOVERNMENT SECURITIES



3. The Treasury needs little new money in the rest of this fiscal year, and cash expenditures and receipts are budgeted to be about in balance in fiscal 1967 as a whole. But even assuming spending for Vietnam does not exceed present expectations, a substantial volume will have to be raised in the first half of the coming fiscal year, and, in addition, the Government is scheduled to sell sizable amounts of financial assets.

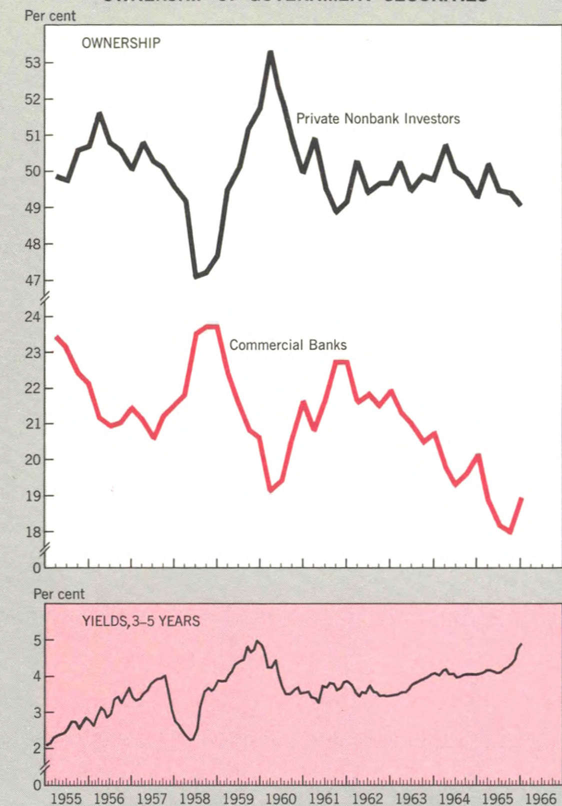
NET CASH BORROWING (+) OR REPAYMENT (–) OF DEBT (January-June; July-December)



*Less than $100 million.
e—estimated.

4. A large part of the debt will have to be placed with nonbank investors. During periods of strong credit demands and high interest rates, commercial banks usually reduce their holdings of Government securities. Nonbank investors, however, also face large competing demands for their funds.

OWNERSHIP OF GOVERNMENT SECURITIES



5. Renewal of the present temporary debt limit will be required.

DEBT OUTSTANDING SUBJECT TO LIMITATION

e—estimated.

6. And so long as the limitation of 4¼ per cent interest rate on new long-term debt prevails, high interest rates mean that the Treasury will have to confine its financing to short- and intermediate-term issues. This will tend to shorten the average maturity of the debt once more.

AVERAGE MATURITY OF MARKETABLE INTEREST-BEARING PUBLIC DEBT

*January and February estimated.

(*Continued from Page 7*)

delphia is slightly top-heavy in industries which tend to borrow more, not less, on average from commercial banks. Thus, if "industry mix" were the only factor on the demand side affecting business loans, the Philadelphia area would have tended to lead rather than lag the nation in growth of commercial and industrial loans in recent years. We must look elsewhere to find reasons why demand for loans in the Philadelphia area has lagged behind the nation.

Competition

An area where employment, sales, construction, and other economic activities are growing faster than average will probably have a greater demand for business loans than will areas growing less rapidly. Among other reasons: there are likely to be more plants to build, more inventory to finance, more machinery to purchase and many other activities which require business credit.

As has been pointed out several times in the *Business Review*,[2] the Philadelphia area is lagging behind the rest of the nation in the competitive scramble for jobs and income. Could Philadelphia's loan lag be related in one way or another to differences in economic growth?

Chart 5 shows the differential rates of growth of employment and business loans turned in by 16 different industry groups in recent years in the nation and the Philadelphia area. Two main facts stand out in Chart 5.

First of all, business loans tend to follow employment growth as a faithful dog does its master. In 12 of the 16 industry groups, an edge in employment growth (either in favor of the nation or the Philadelphia area) is accompanied by an edge in loan growth.

A second important fact about Chart 5 is that the edge in loan and employment growth most often is claimed by the nation (employment in 14 of the 16 industries has grown faster in the nation than in the Philadelphia area; loans in 12 of the 16 industries have grown faster in the nation than in the Philadelphia area).

Moral of the story: Bankers who wish to make business loans (and secure business deposits) should do all within their power to encourage strong, competitive growth of firms in the area which they serve. Indeed, had growth in employment in the Philadelphia area more closely approximated that in the nation during the 1961–65 period (and in turn had this growth spurred a business loan expansion in the Philadelphia area that matched the rate of growth of loans in the nation) then Philadelphia area banks would have loaned over $120 million more to business customers than in fact they did. To the banker, the price of lagging growth comes high.

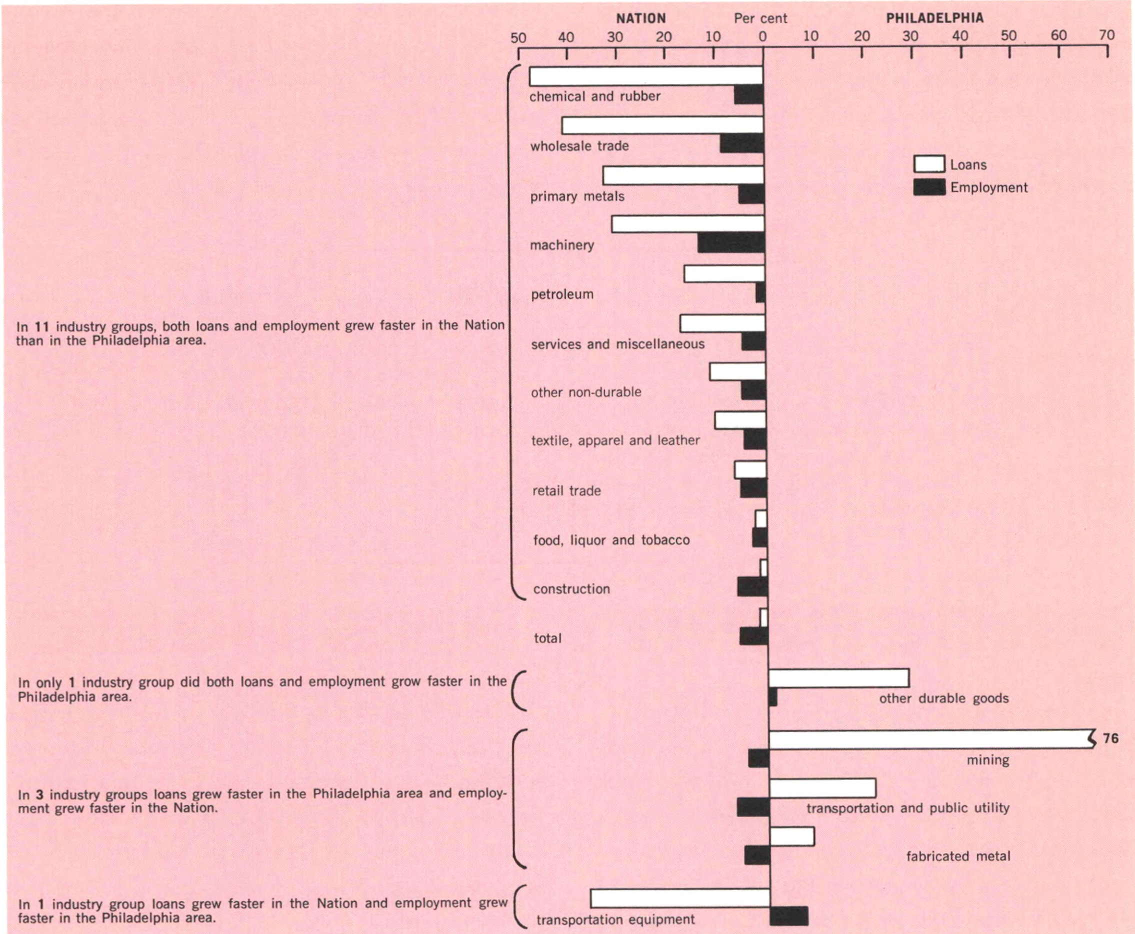
IN CONCLUSION

Factors on both the demand and supply sides of the equation doubtless have interacted with one another to produce the lag in business loans in the Philadelphia area. We have mentioned several possible explanations on the supply side, including the banking industry's traditional need for liquidity (and consequent pressures to steer to the conservative side in making loans), and the alternatives inherent in allocating funds among a wide spectrum of borrowers (from businessmen to the consumers). On the demand side we have looked at the industry-loan mix in the Philadelphia area and the area's competitive performance compared to that of the nation.

[2] *See* Business Review, *"Philadelphia's Missing Jobs," September, 1964 and* Business Review, *"Philadelphia and Its Competitors," November, 1965.*

CHART 5

BETWEEN 1961 AND 1965 BUSINESS LOANS AND EMPLOYMENT GREW FASTER IN:



Note: employment data are for all nonfarm wage and salary workers in the nation and in the Philadelphia Metropolitan Area. The period of comparison is November 1961 to June 1965.

There are many other factors as well which may have had something to do with the lag in loans. Included among these are Philadelphia's proximity to New York (hence the physical ease of traveling to the nation's financial capital to negotiate a business loan), the smaller size of Philadelphia's banks relative to their New York cousins (which means that New York banks can loan more in one chunk to the firm with larger credit needs), and the fact that Philadelphia in recent years has lost some head offices of major firms through the merger route and otherwise.

However, one should realize that Boston too is near New York (and so is Houston in the jet age), that banks in many other areas are no larger than those in Philadelphia, and that many Eastern cities have lost head offices of major firms to other areas. Yet it is Philadelphia where business loans have lagged the most and where growth also has fallen behind.

That is not to say that these other factors have no bearing on Philadelphia's loan lag. Indeed, in many loan transactions they may be decisive. Yet the statistical evidence seems to point to Philadelphia's lagging growth as a very important reason for its lagging loans.

Damon Runyan once said that the race is not always to the swiftest nor the prize to the fairest but, all things considered, that's the way to bet. In the race for business loans (and business deposits) odds makers and statisticians alike may well put their money on economic growth as a major factor in explaining Philadelphia's lagging loans.

New Release

Forecasts for 1966. The Department of Research has compiled and analyzed a number of predictions made by businessmen, economists, and Government officials. This compilation includes a summary of forecasts for the economy as a whole and particular sectors of the economy. The more important indicators are presented in chart form.

Copies of this release are available on request from Bank and Public Relations, Federal Reserve Bank of Philadelphia.

PROSPERITY HITS HOME

Last week, good business got Mike Hatlik a job. Mike comes from a labor surplus area. A quarter-century back, the chief industry in his home town was mining. Now the mines have closed. For years people have been moving away, and not enough industry has grown up at home to keep busy everybody who remained.

When a recruiting team from a big machinery plant in Philadelphia came through recently, Mike answered their ad. He was hired. The company will train him on the job.

The recruiting trip, and the training, too, are expensive. Last year the company wouldn't have done it. Last year the demands for their product, and for people in their machine shop, were not so intense. A year ago, Mike might have been among those people called "structurally unemployed."

Experiences of this kind are being reproduced all over. February, 1966, marks the fifth consecutive year of what now ranks as this nation's longest business expansion. During this time, total employment in the U. S. has risen 13 per cent, compared with 8 per cent in the strongest previous postwar rise.

Employment expansion in the Third Federal Reserve District

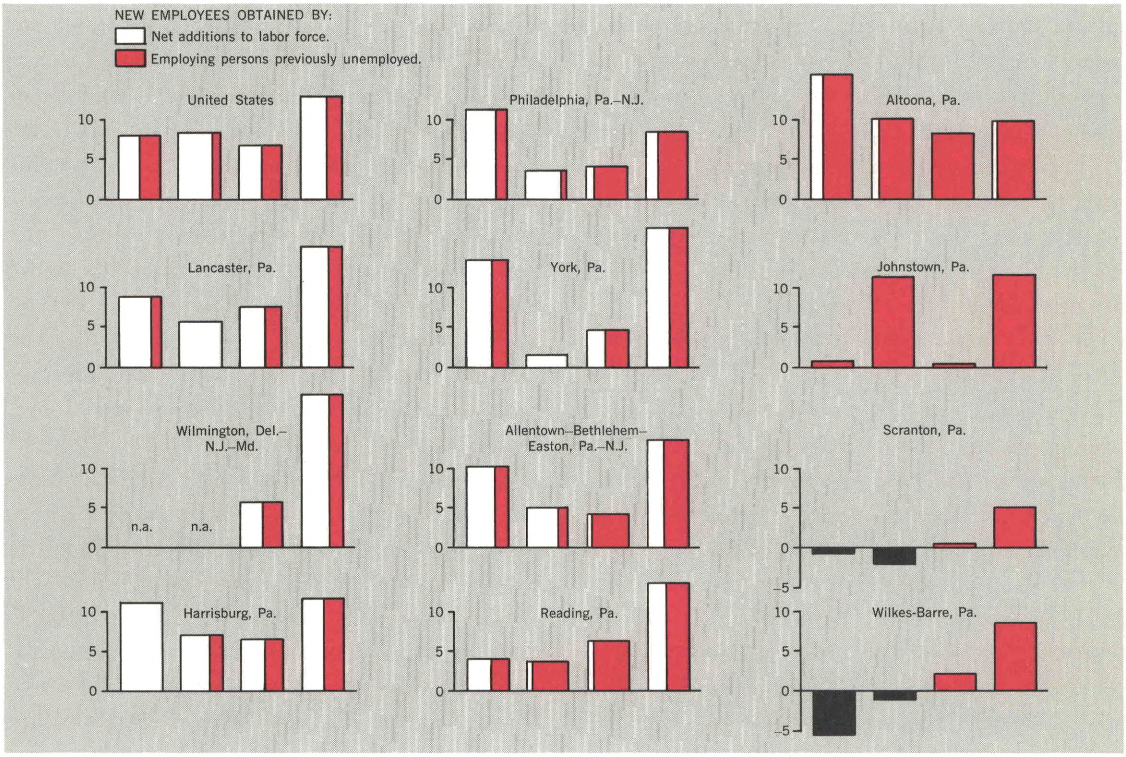
The Third Federal Reserve District contains a number of areas that often fail to participate fully in economic upturns. Most of them have done unusually well in this business expansion. They illustrate the force with which economic activity has advanced in the 1960's.

The charts show how strong the advance has been. Each bar represents the percentage rise in

This chart shows percentage gains in employment were less in the business expansions of 1954–1957 and 1958–1960 in most Third District areas than in the U. S. Also, employment gains in these expansions dropped off more in the District than in the nation. (This is evident on the chart in the pronounced sag of the middle two bars for most areas in the Third District.) But in the 1960's, most District areas have recovered smartly. Furthermore, the current expansion has used up unemployment pools more and therefore has stimulated more labor force expansion—a healthy sign.

STAFFING BUSINESS EXPANSIONS

*Percentage increases in employment during four business expansions.**



* *In each case the shaded portion of the bar represents the proportion of new jobs filled by persons previously unemployed. The unshaded portion represents new jobs staffed by net additions to the labor force. Data refer to labor market (standard metropolitan) areas, not cities.*

employment for each area in each of four postwar economic upturns, beginning with October, 1949.* On the chart representing the United States, there is a suggestion of a sag in the middle, as the economy developed slack in the 1950's. In most Third District areas, this sag is very pronounced. These regions participated much less in the later business expansions of the 1950's than in the rise during the Korean War period, from 1949 to 1953, when there was little slack in the U. S. economy. Even the more prosperous parts of the Third District—the Lan-

* *The periods referred to here follow the chronology of the National Bureau of Economic Research, Inc., as recorded in* Business Cycle Developments, *U.S. Department of Commerce, December, 1965.They are: October, 1949–July, 1953; August, 1954–July, 1957; April, 1958–May, 1960. The final period covered here runs from February, 1961 through November, 1965.*

caster area, for example—show this sagging pattern.

But in the 1960's every one of the eleven metropolitan areas has shown significant improvement. A number of them have enjoyed expansion in employment more than double the rise experienced during the previous business upturn, thereby surpassing the nation's relative improvement. Many have had percentage increases greater than the percentage growth of employment nationally.

The current increase in economic activity has, in short, penetrated the Third District more than any rise since the Korean War period. In many regions, it has had even more effect than the expansion during the Korean War.

Labor force expansions evidence pressure for more producers

When demand grows rapidly for the goods and services an area makes, jobs become plentiful. Unemployment is low; people are attracted to the region; its employment and labor force increase. Conversely, when demand for an area's product drops, its unemployment increases and people do not move in so readily. They do not necessarily move out. If they continue to seek work, the labor force, which consists of those employed plus those seeking work, may remain large but contain a disproportionate number of unemployed.

This situation will eventually be relieved in part by withdrawals of unemployed from the labor force. They may move away, or they may simply stop looking for work, and so cease to be part of the region's labor force. But the relief will be only partial.

In business expansions, industries in such a region are able to hire many people from the ranks of the unemployed. The chart accompanying this article arranges regions roughly in order of their condition in this respect. Third District areas in the first column characteristically have little surplus labor; those in the middle column have not usually been quite so fortunate; those in the right-hand column have had surpluses of labor and high unemployment rates in most recent years.

The bars are divided according to how much cyclical expansions of employment have been staffed by hiring the unemployed (shaded portions of bars) and how much by inducing more new entrants to offer their services for employment than the number who withdrew because of age, sickness, discouragement or for other reasons. The difference—new entrants minus withdrawals—is the net change in a region's labor force. The unshaded portions of the bars indicate the extent to which added jobs have been filled in this way, by net expansion of labor forces.

In the areas with substantial labor surpluses, job needs during business expansions were entirely covered by declines in unemployment, so there are no unshaded parts on the bars. This does not mean there were not new entrants in these labor markets. There were more withdrawals than new entrants, however, so labor forces in total contracted. During the abortive business rise of 1958–1960, some regions in the second column also exhibited this sort of pattern.

But this time it has been different. The current upturn has gone on long enough and developed sufficient strength so that in the nation and in the more active economic regions of the Third District labor force expansion provided half or more of the new employees required. This means those regions made deep inroads into their pools of unemployed, still needed more workers, and got them through labor force expansion.

Even the regions with labor surpluses have made unusually large inroads. In such regions, if employment is to expand, unemployment must go down (1) enough to cover the continuing decrease in the region's labor force and (2) enough more to provide workers as new jobs open up. In Johnstown, Scranton, and Wilkes-Barre-Hazleton, employment has increased more and unemployment has decreased more in the 1960's than in any previous postwar expansion.

An impressionistic reading of the chart serves to sum up these points. A sweep from left to right reveals darker and darker bars indicating the tendency of labor-surplus regions to draw down their pools of unemployed workers first as business improves. A second look, comparing the latest two expansions, reveals strength this time as the economic advance called up more resources, even to the extent of practically using up the unemployment rolls in some places. This contrasts with the previous business upswings when in areas such as Reading or Allentown very little expansion of labor forces occurred.

Unused resources remain

That this business expansion has not used up all potential producers is evident not only in labor-surplus areas, but also in Philadelphia, the Third District's most important region. The Philadelphia Metropolitan Area contains close to half the Third District's total economic activity. Its improved performance in the 1960's is clear from the chart, which implies somewhat greater inroads into the pool of potential workers because it shows somewhat more expansion in the labor force.

But the Philadelphia area differs from the regions having labor surpluses. It has a younger population. Unlike the labor-surplus regions, it is experiencing population gains at close to the national rate, and in-migration. Its potentially productive people therefore should be more plentiful. Consequently, it is not quite clear why growth in the 1960's has been insufficient to produce a pattern more like, say, Reading's, where labor force expansion played a much greater part in staffing employment increases in the current business rise.

Some of the explanation undoubtedly lies in metropolitan Philadelphia's larger supply of very young people. Young persons (college age or below) have lower rates of participation in the labor force, because they are busy training themselves for later participation. Some of the explanation lies in the Philadelphia area's larger group of persons with less training, particularly in the old cities of the region.

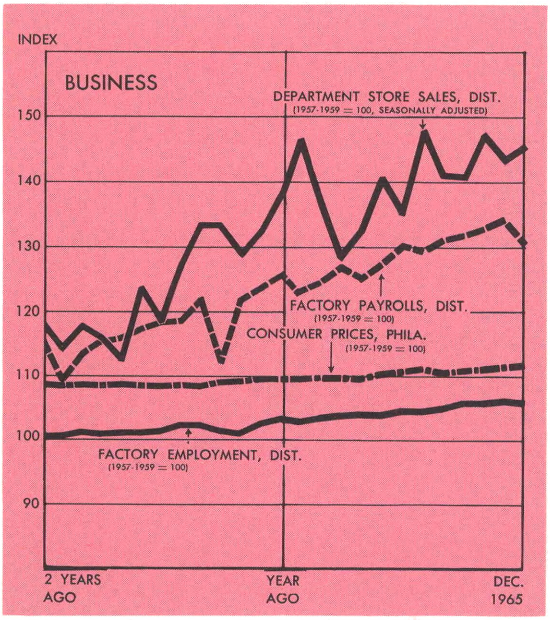
Whatever the reasons, it is clear that substantial concentrations of potential producers remain in some portions of the Third District, with Philadelphia the outstanding example.

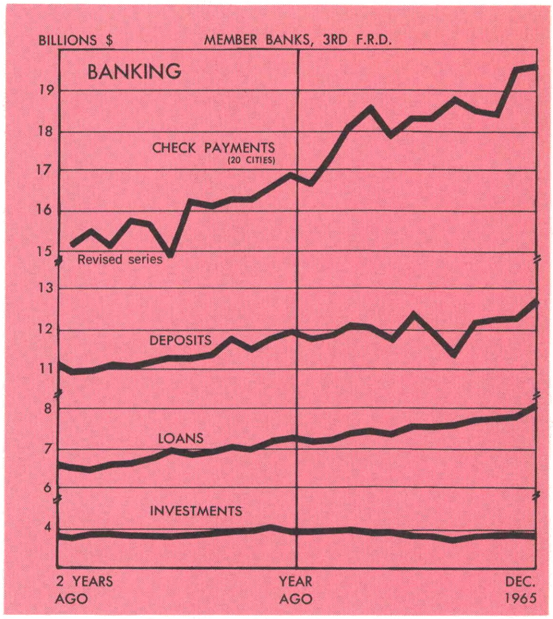
New demands in 1966

New demands sparked by military needs will put some of these people to work in 1966. These new needs, and the accompanying strengthening of forecasts on which economic decision-makers base their judgments, promise an even closer approach to full utilization of resources this year than last.

The United States as a whole has enjoyed many prosperous years since World War II, but not every region has participated fully in this prosperity. In 1965, in the Third District, more areas came close to full participation than at any time in more than a decade. In 1966, it might be unanimous.

FOR THE RECORD...





SUMMARY

	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Dec. 1965 from		12 mos. 1965 from year ago	Dec. 1965 from		12 mos. 1965 from year ago
	mo. ago	year ago		mo. ago	year ago	
MANUFACTURING						
Production..................	....	....	....	− 2	+ 8	+ 9
Electric power consumed....	− 1	+ 9	+ 9	....	....	....
Man-hours, total*..........	− 4	+ 1	+ 6	....	....	....
Employment, total...........	0	+ 3	+ 4	....	....	....
Wage income*.............	− 3	+ 5	+ 9	....	....	....
CONSTRUCTION**..........	+38	+40	+ 7	− 1	+ 3	+ 4
COAL PRODUCTION.........	0	+19	+ 3	− 3	+10	+ 7
TRADE***						
Department store sales.......	+ 1	+ 9	+ 6	....	....	....
BANKING (All member banks)						
Deposits..................	+ 3	+ 8	+ 7	+ 3	+ 8	+ 9
Loans..................	+ 3	+13	+11	+ 4	+14	+14
Investments...............	− 1	0	0	+ 1	+ 1	+ 2
U.S. Govt. securities........	− 2	− 8	− 7	0	− 8	− 6
Other..................	+ 1	+12	+13	+ 2	+15	+15
Check payments***..........	0†	+16†	+16†	+ 2	+15	+11
PRICES						
Wholesale.................	....	....	....	+ 1	+ 3	+ 2
Consumer.................	0‡	+ 2‡	+ 2‡	0	+ 2	+ 2

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

†15 Cities
‡Philadelphia

LOCAL CHANGES

	Factory*							
	Employ-ment		Payrolls		Department Store Sales†		Check Payments†	
	Per cent change Dec. 1965 from		Per cent change Dec. 1965 from		Per cent change Dec. 1965 from		Per cent change Dec. 1965 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Lehigh Valley....	0	+ 7	− 2	+10	....	....	− 1	+18
Harrisburg......	+ 2	+ 4	+ 1	+ 7	....	....	+ 7	+23
Lancaster.......	− 2	+ 5	− 3	+ 9	− 2	+ 9	− 4	+12
Philadelphia.....	0	+ 3	+ 1	+ 8	+ 3	+10	− 1	+13
Reading........	0	+ 4	− 1	+ 9	− 5	+ 4	+ 3	+ 8
Scranton.......	0	+ 5	0	+17	− 4	+ 7	+ 4	+15
Trenton........	0	+ 3	− 1	+ 5	+ 5	+ 8	+ 5	+18
Wilkes-Barre....	0	+ 4	0	+10	− 3	+ 6	+ 3	+31
Wilmington.....	0	+ 2	− 2	− 1	+ 1	+ 5	0	+30
York..........	− 1	+ 3	− 1	+11	− 8	+ 9	+ 6	+27

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