Business Review

The Move to Municipals

Danger: Labor Negotiations Ahead

SPDF 'Smiles on Our Beginnings'

September 1966

Federal Reserve Bank of Philadelphia

The Move to Municipals

. . . Banks bought a large volume of municipals in the past five years. Now they're fighting to regain liquidity, and municipals are being knocked down.

Danger: Labor Negotiations Ahead

. . . Charts indicate 1967 will be a critical year for labor relations.

SPDF 'Smiles on Our Beginnings'

. . . SPDF really spells HELP to new ventures and established firms in need of risk capital.

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In the great business boom of the 1960's, commercial bankers have become silent partners in a widening array of public undertakings. Bank financing has helped build schools, hospitals, highways, and a host of other projects undertaken by state and local governments. The tax-exempt municipal bonds bankers have collected in return have provided profitable investments in a period in which interest rates bankers pay for money (and other costs of doing business) have risen at a fast clip. Now, however, with production in the economy pressing against capacity and with industry scrambling for raw materials, plant, and equipment, banking's more traditional customer—the businessman—is knocking on the door with increasing frequency. Intensifying pressures for business loans have some interesting implications for . . .

THE MOVE TO MUNICIPALS

by Jack C. Rothwell

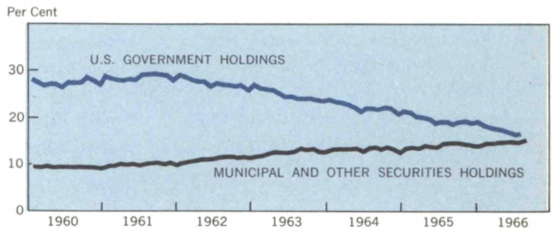
In 1960 commercial bankers had a little over 7½ cents out of every deposit dollar invested in municipal securities. During the next four-and-a-half years they put over 23 cents out of each new dollar into state and local government securities, a sum big enough to purchase over 50 per cent of the net volume of municipals issued annually. By mid-1965 the nation's bankers, scanning their balance sheets, could boast a municipal portfolio which accounted for almost 12 cents out of every dollar of deposits.

Meanwhile, holdings of Federal Government securities declined. By mid-1965 banks held around 18 cents out of every deposit dollar in Governments, down from almost 27 cents at the end of 1960.

This shift in the security portfolio of commercial banks raises some important questions. Typically, in periods of monetary restraint, bankers sell Governments to meet burgeoning loan demands from business and other borrowers. Now, with municipals looming much larger in security portfolios, some of the pressures generated by rising loan demand may well be brought to bear on the municipal portfolio. This is especially true since a large portion of the Government securities portfolio at many banks is "pledged" to secure U.S. Government and other public deposits.

CHART 1

BANK HOLDINGS OF U.S. GOVERNMENT SECURITIES HAVE DECLINED AS A PROPORTION OF TOTAL DEPOSITS WHILE MUNICIPAL AND OTHER SECURITIES HAVE RISEN AT A RAPID CLIP



Source: Federal Reserve Bulletin, *all commercial banks.*

In this article we take a look at the dimensions of the move to municipals. What forces are responsible for the aggressiveness with which commercial bankers have accumulated municipals? Which banks have been *most* aggressive in the market? Does bank demand for municipals vary substantially by geographic area and size of bank? Have maturities lengthened as portfolios have swelled?

The answers to these and other questions may assume increasing importance in coming months,

Table 1

THE MOVE TO MUNICIPALS APPEARS TO HAVE BEEN INFLUENCED BY THE SIZE OF TIME DEPOSIT FLOWS AND THE STRENGTH OF LOAN DEMAND

12 Federal Reserve Districts ranked according to change in time deposits relative to total deposits, 1960-1965		Change in loans relative to change in deposits		Change in municipals relative to change in deposits
1. These Districts had the **largest increase** in time deposits relative to total deposits (93.6 per cent: Kansas City, Dallas, St. Louis, Minneapolis).	→	The pressure to earn money to pay increasing time deposits costs was satisfied by a strong loan demand (98 cents out of every dollar of deposits went into loans)	→	. . . . and with a strong loan demand these Districts had less of an increase in municipals relative to deposits than in some other districts (25.5 per cent).
2. These Districts had a **medium increase** in time deposits relative to total deposits (83.0 per cent: New York, Cleveland, Chicago, Philadelphia).	→	The pressure for increased earnings to pay increasing time deposit costs was not so completely absorbed by loans (84.5 cents out of every dollar of deposits went into loans)	→	. . . . so these Districts had the **largest increase** in municipals relative to deposits (28.2 per cent).
3. These Districts had the **least increase** in time deposits relative to total deposits (70.7 per cent: San Francisco, Boston, Atlanta, Richmond).	→	However, loan demand was slightly higher than in Group II above (91 cents out of every dollar of deposits went into loans)	→	. . . . with a smaller increase in time deposits and a stronger loan demand, these Districts had the least increase in municipals relative to deposits (22.8 per cent).

especially if business continues brisk and loan demand strong.

Why the shift to municipals?

Banking's romance with municipals in the half decade 1961-1965 was sparked by several developments. First of all, Federal Reserve policy over much of the period was directed at stimulating an economy operating at considerably less than preferred capacity. This meant that bank reserves grew and banks had ample funds to lend and invest.

Meanwhile, bank time deposits were growing rapidly (much faster than demand deposits) and interest rates were rising. As a result of these and other forces, bank costs soared. To keep profit margins from falling, bankers had to put reserves and deposit dollars to work, preferably in higher-yielding assets. If loan demand failed to keep pace with the flow of bank funds then other assets had to be sought. The "other asset" which caught the eye of bankers in increasing numbers was the municipal bond. For a bank in the 48 per cent tax bracket, the tax-exempt yield of municipals looked good compared with the after-tax yield of Governments and even though less liquid than Governments, municipals were considered a suitable outlet for time deposits. Table 1 shows how bank municipal portfolios were affected by loan and time deposit experience (among other factors) in the 1961-1965 period.

But, as already noted, the current financial environment is far different from that which prevailed earlier in the business expansion. The demand for credit is exceptionally strong and bankers are under pressure to make loans. Since some of the loan pressure may be brought to bear on the municipal portfolio, the characteristics of that portfolio have become of considerable interest. The question "Who owns what for how long?" is both relevant and timely.

Geography of the move to municipals

As can be seen in Table 2 below, banks in the Northeastern sector of the nation have been the heaviest investors in municipal securities, while banks in the South and Mid-west were further down the list. Banks in the Cleveland Federal Reserve District ranked at the top of the heap, pumping over 33 cents out of every deposit dollar into municipals during the 1961-1965 period. Boston was next, followed by New York, and Philadelphia in that order.

Table 2

BANKS IN THE NORTHEASTERN SECTOR OF THE NATION PUT MORE OUT OF EACH DEPOSIT DOLLAR INTO MUNICIPALS THAN DID BANKS IN OTHER AREAS DURING THE PERIOD 1960-1965

Federal Reserve District	Per Cent of Each Deposit Dollar Going into Municipals December 1960-June 1965
Cleveland	33.2
Boston	30.9
New York	29.4
Philadelphia	24.1
St. Louis	23.4
Dallas	21.9
Chicago	20.2
Kansas City	19.4
Atlanta	18.7
San Francisco	18.7
Minneapolis	18.2
Richmond	17.5

Source: Board of Governors of the Federal Reserve System, all commercial banks.

Big vs. small banks

Medium- and larger-size banks have been leaders in the move to municipals. Indeed, Chart 2 shows that smaller banks, those with $5 million and under in deposits, actually *reduced* their holdings of municipals on balance in the early to mid-sixties. Chart 2 also shows a regular stair-step pattern in acquisition of municipals by medium and larger banks. As size increased, so did the allocation of funds to municipals. Banks with $10-to-$25 million in deposits put around 19 cents out of each deposit dollar in municipals while banks with $100 million and over in deposits used almost 25 cents out of every deposit dollar to purchase municipals.

In the Third Federal Reserve District (also shown in Chart 2), the pattern differed from that in the nation as a whole. Middle-sized banks in the Philadelphia district put more into municipals than did the larger banks.

How many years to maturity?

Data available from bank examination reports for the past three years suggest that bankers have been adding to municipal holdings both at the short and long end of the maturity scale. Securities maturing within one year amounted to almost 20 per cent of the municipal portfolio in 1965, up 3 per cent from 1963, and bonds maturing in over ten years accounted for a little over 25 per cent of total municipal holdings, up slightly from 1963. The maturity breakdown is shown in Table 3.

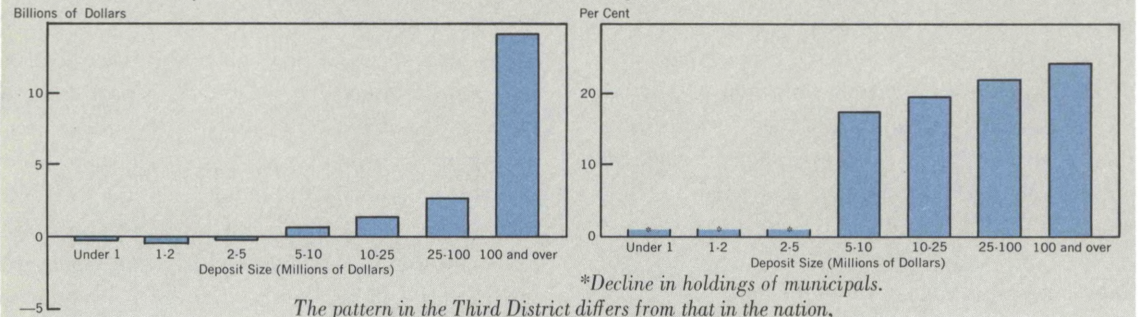
Behavior of the nation's largest banks, how-

CHART 2

MEDIUM- AND LARGER-SIZE BANKS HAVE BEEN LEADERS IN THE MOVE TO MUNICIPALS DURING THE 1960-65 PERIOD, PUTTING MORE FUNDS INTO TAX-EXEMPTS BOTH . . .

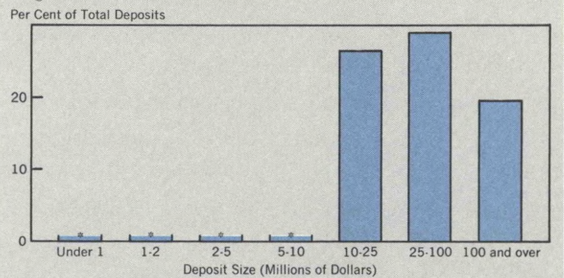
. . . in dollar amount. *(Change in holdings of municipal securities classified by size of banks, December 1960-June 1965)*

. . . and as a percent of each additional deposit dollar. *(Change in municipals as a percent of change in deposits, December 1960-June 1965)*



**Decline in holdings of municipals.*

The pattern in the Third District differs from that in the nation, with middle-size banks adding more to municipal holdings than larger banks.



**Decline in holdings of municipals.*
Source: Board of Governors of the Federal Reserve System, all commercial banks.

Source: Board of Governors of the Federal Reserve System, all commercial banks.

ever, differs significantly from the picture for all banks. The larger institutions, those with $500 million and over in deposits, reduced holdings of municipals in all but the longest maturity sector (over 10 years to maturity). In this sector, the big bankers added to their holdings, pushing the longer municipals up from almost 29 per cent of the total portfolio in 1963 to 33 per cent in 1965.

Large banks in the Philadelphia Federal Reserve District (also shown in Table 3) added substantially more both to the longer and shorter end of their municipal portfolio than did large banks in the nation as a whole. However, even with large additions to the "over-ten-year" maturity sector, Philadelphia banks had only 26 per cent of their portfolio in the longest sector (compared to 33 per cent for all of the larger banks) and maintained almost 29 per cent of their portfolio in the "one-year-and-under" sector (vs. around 20 per cent for all large banks).

Conclusions

Municipal securities provided an attractive outlet for bank funds during the early and mid-sixties. With reserves readily available, costs rising and loan demand less pressing than now, sound-quality tax exempts appeared a logical choice for commercial bank investment. As a result, banks allocated an increasing portion of each deposit dollar to municipals, often to bonds of longer maturity.

In making this decision, many bankers took a calculated risk, the risk that loan demand in the future could be accommodated by attracting new deposits, by internal amortization of exist-

Table 3

THE MATURITY OF MUNICIPAL BOND PORTFOLIOS VARIES SIGNIFICANTLY ACCORDING TO SIZE OF BANK

All national banks added to municipal holdings at both the long and short end of the maturity spectrum . . .

Maturity	Percent of Total Portfolio in 1963	Percent of Total Portfolio in 1965	Change, 1963 to 1965
1 yr. and under	16.45	19.58	+ 3.13
1-5 years	31.66	29.33	− 2.33
5-10 years	27.89	26.06	− 1.83
Over 10 years	24.00	25.47	+ 1.47

. . . national banks with $500 million and over in deposits added municipals of longer maturities on balance . . .

Maturity	Percent of Total Portfolio in 1963	Percent of Total Portfolio in 1965	Change, 1963 to 1965
1 yr. and under	21.04	19.86	− 1.18
1-5 years	26.96	25.46	− 1.50
5-10 years	23.22	21.67	− 1.55
Over 10 years	28.78	33.01	+ 4.23

. . . national banks with $500 million and over in deposits in the **Third District** added substantially more to municipal holdings both at the long- and short-end of the list compared to large banks in the nation.

Maturity	Percent of Total Portfolio in 1963	Percent of Total Portfolio in 1965	Change, 1963 to 1965
1 yr. and under	18.76	28.95	+10.19
1-5 years	29.26	18.39	−10.87
5-10 years	35.88	26.63	− 9.25
Over 10 years	16.10	26.01	+ 9.91

Source: Board of Governors of the Federal System, all national banks, book value of municipals.

ing credits, and by other means. Yet, as events unfolded, loan demand has run ahead of projections at many banks and municipals have been sold, often at discounts from purchase price.

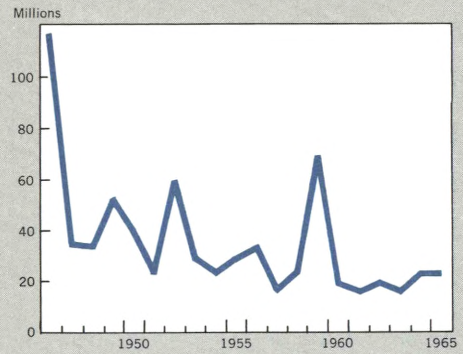
Today, as in years gone by, the banker must weigh the chance of gain against requirements for liquidity. The need for liquidity is as old as the Italian "bench" bankers and as young as "computerized" accounting.

Yet in today's environment liquidity considerations have assumed an added dimension. Not only has the structure of bank assets changed, liability items for many banks have been altered as well. The large volume of negotiable CD's now outstanding is a case in point.

The implications of these shifts are plain for all to see. A premium has been placed on liquidity and this premium is especially important during a period of rapid business expansion and monetary restraint.

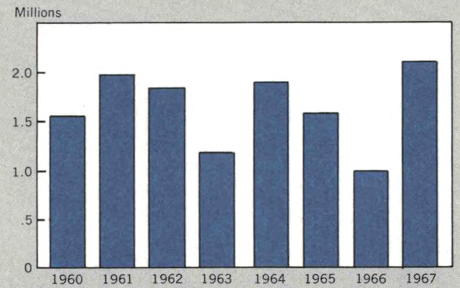
DANGER: LABOR NEGOTIATIONS AHEAD

MAN–DAYS IDLE BECAUSE OF WORK STOPPAGES



1. In recent years the number of man–days lost because of strikes has been rather steady.

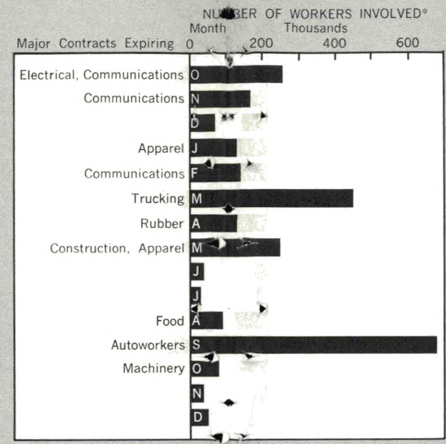
NUMBER OF WORKERS INVOLVED IN CONTRACT EXPIRATIONS*



*Agreements covering 5,000 or more; based on agreements known to be in effect on Jan. 1 on every year except 1967.

2. However, in the remaining months of 1966 and in 1967 a large number of workers will be involved in contract expirations . . .

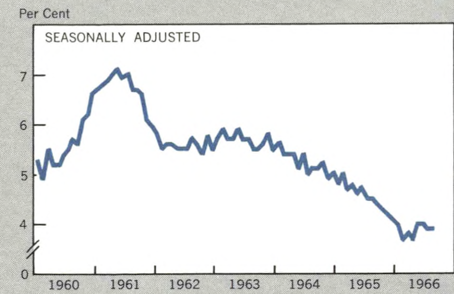
UNION CONTRACT EXPIRATION CALENDAR, OCT. 1966–DEC. 1967



*Agreements covering 5,000 or more.

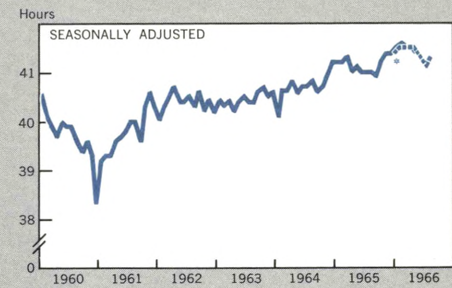
3. . . . across a wide spectrum of industries.

UNEMPLOYMENT RATE



4. Negotiations come at a time when the labor market is particularly tight, as reflected both in low unemployment rates.

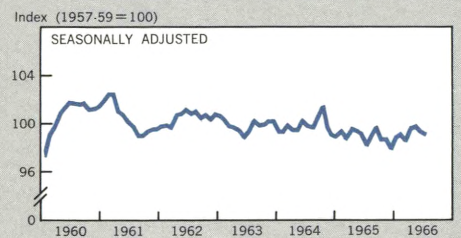
AVERAGE HOURS—MANUFACTURING



*Revision.

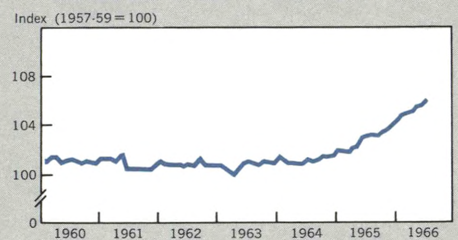
5. . . . and in high work hours.

UNIT LABOR COSTS—MANUFACTURING



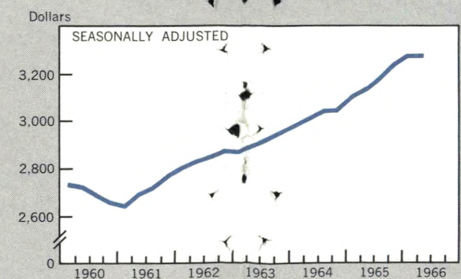
6. So far during the '60's, unit labor costs have remained remarkably stable . . .

WHOLESALE PRICES OF MANUFACTURES



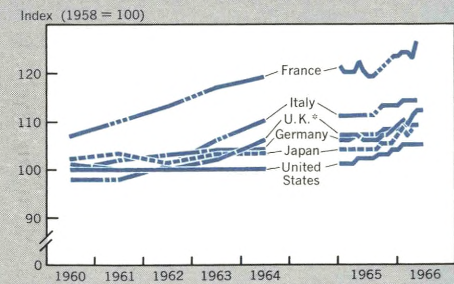
7. . . . which has helped hold prices down until very recently.

PER CAPITA REAL INCOME



8. During the past five years, real income per capita has risen markedly . . .

WHOLESALE PRICES IN MAJOR MANUFACTURING COUNTRIES



*Basic materials.
Source: U.N.

9. . . . and the U.S. has maintained a strong competitive position in world markets.

Whether these generally favorable conditions will continue in 1967 will be dependent in large measure on the outcome of prospective labor negotiations.

SPDF 'SMILES ON OUR BEGINNINGS'

by D. Russell Connor

Few of us can translate the Latin inscription "Annuit Coeptis," even though we see it every day. It's printed on U.S. currency as part of the Great Seal of the United States, and means, "He smiles on our beginnings." To the beginning businessman, urgently in need of risk capital to start a new venture, this might seem a classic of unwitting irony. Rebuffed by investors and lenders, unable to secure governmental aid, he would tell you that much of the time money just laughs at him.

But not all of the time. Today, in the Greater Philadelphia area, new enterprises short on risk capital can get long-term loans from private sources. Financing is available from utilities, manufacturers, mercantile firms, refineries, and other established concerns, as well as from conventional sources. These companies have a mutual interest in assisting new businesses—enlightened self-interest. Their means are skill and effort as well as money. Their focus is Bucks, Chester, Delaware, Montgomery, and Philadelphia counties. Their tool is SPDF, called by some the "pal without a vowel," the Southeastern Pennsylvania Development Fund.

As Maine goes . . .

SPDF is three years old this month. Its genealogy is similarly brief. It goes back only to 1949, and north to New England. In that year Maine's Development Commission reported to the Maine Bankers Association that a number of businesses were anxious to locate in the state, but could not qualify for credit from conventional lenders. Some needed equity capital rather than credit, some needed loans for longer terms than banks customarily were willing to grant, some had unattractive balance sheets. In short, they were credit risks that banks would not accept. Despite this, some were judged sound prospects for the future, offering opportunity to Maine to diversify its industrial base and increase employment. Could anything be done?

A pool of bank funds was first proposed, to spread risk over several lenders. This idea was quickly abandoned—an unsound loan is not made safer by sharing, and supervisory authorities would take a dim view of such loans. Finally it was decided to create a completely new corporation to provide this kind of risk financing. Stock would be sold to private companies whose long-term success depended on the prosperity of the community. They were to understand that dividends might never be paid; their return would be indirect.* Financial institutions would be invited to participate; their membership would entail commitments to lend a small percentage of their resources to the new corporation at going

* *Development credit corporations in some states are required to pay dividends; others are not. SPDF is not required to pay dividends, but intends to do so when conditions warrant.*

rates of interest. In turn the corporation would make loans to applicant businesses at slightly higher rates of interest.

Maine's legislature passed a special act enabling the formation of a Development Credit Corporation—which has since become a generic term for similar corporations—in 1949; the Corporation made its first loan in 1950. Following Maine's lead and benefitting from Yankee ingenuity, a total of 21 states now have kindred corporations: all six New England states, the three Middle Atlantic states, Maryland, four southern Atlantic Coast states (excepting Georgia), and Arkansas, Kansas, Kentucky, Mississippi, South Dakota, Washington, and Wisconsin. Additional states have enacted enabling legislation, but as yet do not have development credit corporations in being.

All the states with operational DCC's have one each, save Pennsylvania. It has three. The first was chartered in 1962, has jurisdiction in nine western counties around Pittsburgh. Two others completing coverage of the Commonwealth were chartered simultaneously in September, 1963. One, with headquarters in Harrisburg, operates in the 53 counties between the western Pennsylvania corporation's area and the five-county domain of SPDF.

The law and its implementation

Public Law 1647, enacted by Pennsylvania's General Assembly December 1, 1959, as amended, is tailor-made to the purposes and functions of development credit corporations. Here are selected excerpts of its provisions, and their implementation by SPDF:

> *Capital, Participation:* "The capital stock of a (development credit) corporation shall be not less than $100,000 to be evidenced by 10,000 shares having a par value of $10 each." "All business corporations organized for the purpose of doing business within this Commonwealth . . . are authorized to acquire . . . or dispose of . . . the capital stock of a corporation . . ."

Twenty-five shareholders, consisting of 24 blue-chip companies and one individual, all active in the Greater Philadelphia area, have purchased $975,000 of SPDF's authorized capital stock of $1.5 million. The companies include public utilities, manufacturers, department stores, supermarket chains, oil refineries, real estate firms, a baking company and a shipping company. Philadelphia Electric Company is the largest shareholder, $500,000. The unsold shares are available for purchase by area firms.

> *Purposes:* "To . . . develop and advance the business prosperity and economic welfare . . .; to encourage and assist in the location of new business . . . , to rehabilitate existing business . . . , and to assist in expansion of all kinds of business activity which will tend to provide . . . maximum opportunities for employment; to cooperate with other organizations (with similar purposes); and to furnish money and credit to approved and deserving applicants for the . . . development and conduct of all kinds of business activity in the various regions of the Commonwealth, thereby establishing a source of capital and credit not otherwise readily available therefor."

Although a broad range of activities are authorized, SPDF's efforts to date have been oriented toward helping existing firms that are short of operating funds, and assisting new enterprises to get started, rather than enticing "gypsy" companies into its five-county area. It couldn't care less about corporate kidnapping. Companies now on SPDF's books run alphabetically from an abattoir to a wax manufacturer; no "Z" as yet, but William Zucker, president of SPDF and its ally, SPEDCO, can claim to fill that void.* As to its other purposes, SPDF cooperates regularly with local, state, and Federal developmental agencies, and with private conventional lenders.

> *General Powers and Lending Agreements:* "To borrow money and otherwise incur indebtedness . . .; to lend money . . . or otherwise assist financially any person, firm, corporation (et cetera); and to purchase, or otherwise acquire, and to sell, or otherwise dispose of, real and personal property. . ." "Any financial institution is hereby empowered to make a lending agreement with a (development credit) corporation."

As of July 31, 1966, SPDF had approved 41 loans totaling more than $4.4 million; of these, 33 were outstanding, in aggregate just over $3.3 million. A majority of the four new and 29 established firms aided by SPDF loans are manufacturers; about half are in Philadelphia, the balance scattered through Bucks, Chester, Delaware, and Montgomery counties. Choice of location for new companies is strictly up to the entrepreneur; SPDF doesn't assign sites, is concerned with regional development, not local ambitions.

SPDF's loans have terms ranging up to 15 years currently, although it may lend money for longer periods. Interest charged by SPDF is two to three percentage points higher than the near-prime rate it pays to lending banks. This spread is to compensate for the kinds of risks taken, and provides operational income. SPDF lost money in its first two years, but in the first nine months of its third year it made a cash profit on operations of $23,000.

Largest loan now outstanding is for $500,000; an "average" loan is for $100,000. None of SPDF's loans usurps the prerogative of financial institutions to make direct loans. The law makes this quite clear, stating, "Before a (development credit) corporation formed hereunder may provide any loan or assistance, it shall be necessary for the applicant to provide satisfactory evidence of his inability to obtain the desired financial assistance from the financial institutions in the region." SPDF loans are available for purchase by financial institutions; as a matter of fact, some loans initially turned down by banks have later been accepted by the same banks, based on factors discovered by SPDF's loan committee.

Sources of SPDF's loan funds are its capital funds and lending agreements with 26 commercial banks, five savings banks, one investment bank, and one insurance company, all with offices in the five counties. Banks having lending agreements with SPDF represent less than two-thirds of the banks in the area, but these are by far the larger banks, holding about 97 per cent of all area bank deposits. Lending agreements now in force with participating banks give SPDF lines of credit of about $6.7 million. Since its approved loans are now $4.4 million, SPDF would appear to be two-thirds loaned up, barring repayments. To widen this gap, SPDF may next solicit lending agreements with savings and loans and additional insurance companies, with which it is empowered to conclude such agreements.

* *SPEDCO—Southeastern Pennsylvania Economic Development Corporation—is a kind of godfather to SPDF, although its predecessor by only one month. It is a nonprofit organization mainly devoted to investigation and research designed to help business activity in the five southeastern counties of Pennsylvania. Its incorporators were the chief executive officers of two area public utilities and three Philadelphia banks. Fruits of its research are made available at no charge to local industry, as are other kinds of planning, engineering, and technical assistance. One of its studies, an intensive analysis of Philadelphia's apparel industry, led to the formation of a third affiliated institution, the SPDF Realty Corp. This firm, a wholly owned subsidiary of the Fund, conducts the realty affairs of SPDF-SPEDCO.*

Case history

Businesses seeking SPDF's aid have varied backgrounds, but all share a common characteristic: a dual lack of capital and bank-worthy credit. A brief sketch of how SPDF helped one such enterprise is illustrative, if not typical, of its assistance to others.

A new firm was formed in the spring of 1965 by an engineer and a marketing expert, both former employes of a major electronics manufacturer. The basis for their coming together and striking out on their own was an idea, a "machine that could read." The engineer was confident he could perfect, and his partner certain he could sell, a unit capable of pattern and character recognition, and direct feed of data from source documents into computer systems. Such a device would eliminate input errors, so costly to correct, and have other advantages.

But the two would-be entrepreneurs lacked capital, certainly the $1,000,000 they estimated it would take to: (1), plot the market scientifically; (2), establish the gross design of the machine; and (3), to create, capitalize, and get operational a manufactory for their product. They began to seek risk capital from established lenders in Philadelphia, and were turned away time and again: no credit standing.

Through private sources, the partners learned of SPEDCO and SPDF—could they help? Officers of those organizations investigated the two men personally and professionally, and responded yes, they could. One suggestion was that the partners begin operations in the Southeastern Pennsylvania Regional Development Laboratory, in West Philadelphia. The Laboratory is a non-profit venture sponsored jointly by SPEDCO, the Area Redevolpment Administration (since supplanted by the Economic Development Administration), and the West Philadelphia Corporation. It offers work space, technical advice, special equipment and other services to inventors at modest fees. Its raison d'etre is to assist in the development of new products that will eventually produce jobs (for their manufacture) and aid the economy. SPEDCO-SPDF also suggested other avenues to private risk capital; encouraged, the partners eventually obtained initial equity capital from private investors.

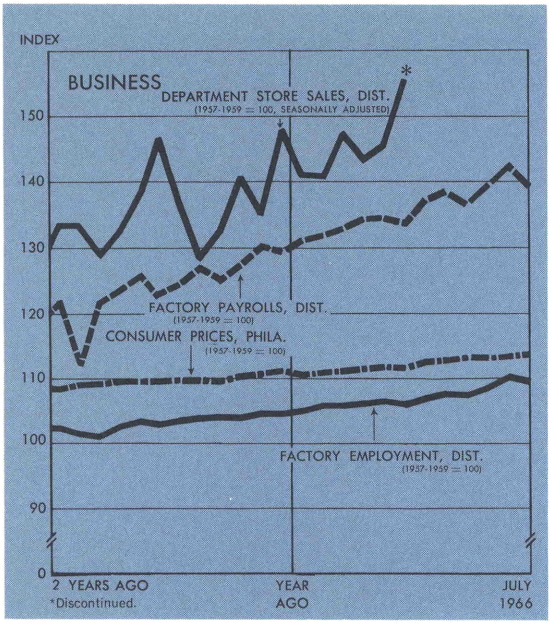
Today, less than a year later, the new company is operational, has booked some orders, and is about ready to leave its nest—the Laboratory—and seek its own facilities in the Greater Philadelphia area. SPDF has proffered it a loan, subject to certain conditions, to assist it further.

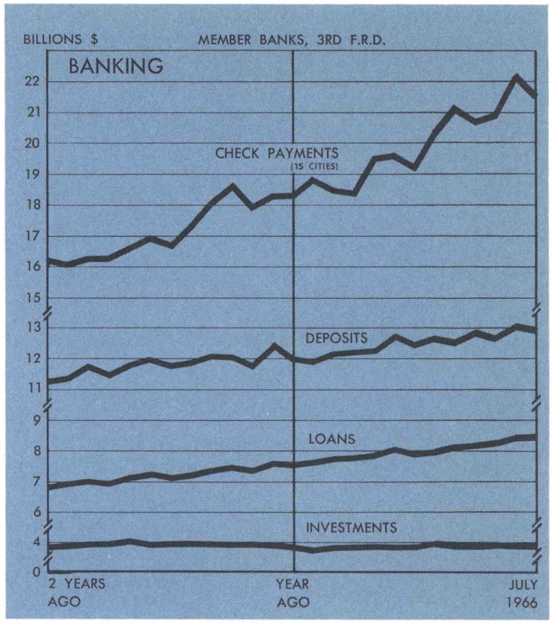
Critics and credits

Its few critics find it difficult to fault SPDF . . . so far. It has won recognition as a private enterprise active in a field—community economic development—that many have come to regard, perhaps resignedly, as the exclusive province of government. It is an example of private endeavor working harmoniously with governmental agencies, more the exception than the rule on the American scene. SPDF has persuaded bankers to lend, if indirectly, not only on the presence of financial collateral, but on the promise inherent in human collateral—talents, ambitions, ideas. SPDF has elicited from its investors, whose corporate purpose is to make money, funds for which it says candidly there will be no direct return soon. On the other hand SPDF has begun to show a monetary profit itself, dispelling fears that it was a kind of altruistic anti-poverty program for ailing businesses. And in the course of so doing, it has helped create, or cause to be retained, some 3,000 jobs in its five-county purview.

There is this, however. SPDF's lifespan thus far is limited to a period of uninterrupted and unparalleled prosperity. Should the five-and-a-half year upswing reach an apex then turn down, what will happen to SPDF and its customers? Critics say that then its marginal borrowers may fail, and SPDF will become a social experiment too costly to continue. Not so, say its supporters; should a recession set in, then the efforts of Southeastern Pennsylvania Development Fund become more vital than ever, and it would be financial, as well as social, folly to let it expire.

FOR THE RECORD . . .





SUMMARY

	Third Federal Reserve District: Per cent change, July 1966 from mo. ago	year ago	7 mos. 1966 from year ago	United States: Per cent change, July 1966 from mo. ago	year ago	7 mos. 1966 from year ago
MANUFACTURING						
Production	....	....	....	− 5	+ 9	+10
Electric power consumed	− 3	+ 7	+ 9	....	....	....
Man-hours, total*	− 2	+ 3	+ 5	....	....	....
Employment, total	− 1	+ 4	+ 4	....	....	....
Wage income*	− 2	+ 7	+ 9	....	....	....
CONSTRUCTION**	+26	+19	0	− 2	0	+ 7
COAL PRODUCTION	−20	− 1	− 3	−22	+ 3	+ 2
BANKING						
(All member banks)						
Deposits	− 1	+ 8	+ 6	− 1	+ 8	+ 8
Loans	0	+12	+11	− 1	+13	+13
Investments	0	0	− 1	+ 1	0	0
U.S. Govt. securities	− 1	−10	− 9	0	− 9	− 8
Other	+ 1	+13	+11	+ 2	+12	+12
Check payments***	+11†	+25†	+16†	+ 2	+13	+15
PRICES						
Wholesale	....	....	....	+ 1	+ 3	+ 4
Consumer	0‡	+ 2‡	+ 2‡	0	+ 3	+ 3

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

†15 SMSA's
‡Philadelphia

LOCAL CHANGES

Standard Metropolitan Statistical Areas*	Manufacturing: Employment, Per cent change July 1966 from mo. ago	year ago	Manufacturing: Payrolls, Per cent change July 1966 from mo. ago	year ago	Banking: Check Payments**, Per cent change July 1966 from mo. ago	year ago	Banking: Total Deposits***, Per cent change July 1966 from mo. ago	year ago
Wilmington	− 3	0	− 3	+ 3	+65	+84	− 7	0
Atlantic City	....	....	....	....	− 2	+ 9	+ 8	+12
Trenton	− 1	− 1	− 2	+ 3	−36	− 6	0	+10
Altoona	− 1	+11	0	+11	− 1	+ 7	+ 3	+ 9
Harrisburg	+ 1	+ 5	+ 4	+14	− 1	+ 6	0	+10
Johnstown	+ 1	+ 3	+ 4	+ 2	− 4	+ 9	0	+ 7
Lancaster	0	+ 7	− 4	+12	+ 3	+14	+ 2	+11
Lehigh Valley	− 1	+ 2	− 2	+ 7	+ 2	+ 6	0	+ 6
Philadelphia	0	+ 4	− 1	+ 8	+ 6	+18	0	+10
Reading	− 2	+ 1	− 7	+ 5	+ 3	+ 6	−45	−39
Scranton	− 1	+ 3	− 2	+ 9	+ 6	+ 4	+ 1	+11
Wilkes-Barre	0	+ 9	+ 1	+19	+ 2	+12	0	+ 6
York	0	+ 4	− 2	+12	+ 2	+24	+ 1	+ 5

*Not restricted to corporate limits of cities but covers areas of one or more counties.
**All commercial banks. Adjusted for seasonal variation.
***Member banks only. Last Wednesday of the month.