May 1967

Headquarters: Centers of Corporate Control

Home Is Where the Money Is

Business Review

Federal Reserve Bank of Philadelphia

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Headquarters: Centers of Corporate Control
... A revealing look at Philadelphia's position as a corporate headquarters center.

Home Is Where the Money Is
... It takes more than LSD—loan supply, demand—to turn a home builder on.

BUSINESS REVIEW is produced in the Department of Research. Evan B. Alderfer is Editorial Consultant. Donald R. Hulmes prepared the layout and artwork. The authors will be glad to receive comments on their articles.

Requests for additional copies should be addressed to Bank and Public Relations, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Community leaders across the country strongly believe corporate headquarters are an important asset to their local economies. The Philadelphia Metropolitan Area is no exception. Therefore, it is understandable that the community is concerned because it feels headquarters are declining in the region. Since this current concern has been based on fragmentary evidence, we were challenged to find out whether a problem really exists.

HEADQUARTERS: CENTERS OF CORPORATE CONTROL

by Elizabeth P. Deutermann

Headquarters of business corporations historically have concentrated in the nation's major population centers. Philadelphia is one of them. Among the ten largest metropolitan areas in the country, Philadelphia ranks third as a location for headquarters of giant corporations.[1] Unfortunately, this observation is but a snapshot of the top of an iceberg. Beneath the surface are numerous signs that the region has lost much of its strength as a center for headquarters. Underwater photography reveals a decline in the number of major corporations headquartered here, relatively slow asset growth of those remaining, and a greater-than-expected tendency of smaller firms to be controlled by headquarters outside of the region.

WHY HEADQUARTERS ARE IMPORTANT

Business leaders consider headquarters a vital economic asset to their community. The reason is that home offices house the companies' key decision-makers. They make the major choices with respect to production, sales, purchases, research, and other operations. And it is strongly felt that many company decisions are substantially influenced by where the decision-makers live and work. By virtue of residence of these executives, the home town of the headquarters is blessed with special economic benefits.

For example, top corporate executives in Philadelphia will most likely give the lion's share of their company business to local banks, advertising agencies, law firms, auditors, other service industries and producers. When considering a site for a new production facility, the decision-makers will definitely include Philadelphia in the choice—if not give the area top priority. Furthermore, a large number of headquarters executives make an invaluable contribution to community well-being in a broader sense. They take the time, and have the energy and desire, to make their region a better one in which to live and do business.

These views are widespread. They have prompted a plethora of promotional activity across the

[1] *References to Philadelphia throughout the article are to the Standard Metropolitan Statistical Area. This is also the case for other cities named. For Philadelphia, the area includes the counties of Bucks, Chester, Delaware, Montgomery, and Philadelphia in Pennsylvania and Burlington, Camden, and Gloucester counties in New Jersey.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

nation to attract headquarters to one's home town. They have prompted us to raise some questions concerning corporate headquarters in Philadelphia. As a starting point, how does the region rank as a headquarters center? Where is it going?

HOW PHILADELPHIA COMPARES

The opening reference to Philadelphia's leadership as a headquarters center includes corporate "giants" only—a subject to which we shall return.[2] But Philadelphia's economy is not dominated by a few giants. It is characterized by a high proportion of intermediate-sized firms. So, to gauge the region's strength as a headquarters center calls for a broader view of the economy. Therefore, let's take a look at all firms with a million dollars net worth or more.[3] This then covers the small wholesaler in Montgomery County, Pennsylvania, with two employees as well as a manufacturer in Camden with 27,000 employees.

On this basis, where does Philadelphia stand as a corporate headquarters center? Among the ten largest metropolitan areas, Philadelphia ranks fifth in the number of firms headquartered here. This fact alone is not too surprising. To a considerable extent, the largest population centers have the most headquarters. For example, the three top headquarters centers—New York, Chicago and Los Angeles—also are the nation's top three population centers. People alone, however, do not explain a region's attraction for headquarters. If they did, Philadelphia would be in fourth place, instead of fifth as seen in Table 1.

Compared to population, there is a stronger relationship between the concentration of corporate control and the number of firms in a region. The more firms, the more headquarters. However, Philadelphia is in a somewhat unique position. It is the only metropolitan area ranking higher in firms than in headquarters. (See Table 2.) In addition, the region ranks higher in subsidiaries than headquarters. Relative to other large regions, firms in Philadelphia appear slightly more prone to corporate control outside of the area than within it.

[2] *These are the nation's 750 largest industrial and non-industrial corporations enumerated by* Fortune *magazine.*

[3] *Comparisons of metropolitan areas throughout this section are based on data obtained from Dun and Bradstreet, Inc. The data cover the year 1965.*

TABLE 1

HOW HEADQUARTERS CONCENTRATE IN THE LARGEST CITIES

Standard Metropolitan Area	Number of Headquarters' Ranking	Population Ranking
New York	1	1
Chicago	2	3
Los Angeles	3	2
Boston	4	6
Philadelphia	5	4
Detroit	6	5
St. Louis	7	10
San Francisco	8	7
Pittsburgh	9	9
Washington	10	8

Source: Dun and Bradstreet, Inc., 1965, and U.S. Bureau of the Census, 1965.

TABLE 2

THE MORE FIRMS IN A REGION, THE MORE HEADQUARTERS—USUALLY

Most Areas Rank the Same in Numbers of Headquarters and Firms:	Some Rank Higher in Headquarters Than Firms:	One Ranks Higher in Firms Than Headquarters:
New York	Boston	Philadelphia
Chicago	St. Louis	
Los Angeles		
Detroit		
San Francisco		
Pittsburgh		
Washington		

Source: Dun and Bradstreet, Inc., 1965.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Locational advantage

At this point we begin to see a tendency for some regions to be more home-office-oriented than others. Their comparative position as headquarters centers is not in direct proportion to their size or number of firms. A further indication of this tendency is seen in the relationship between headquarters and employment in an area. Although New York and Chicago still hold the top spots as headquarters centers relative to employment, the relationship begins to fall apart for the eight other regions. For example, Boston and St. Louis rank third and fourth, respectively, in the number of headquarters as a percentage of each region's employment. Philadelphia again is in fifth place.

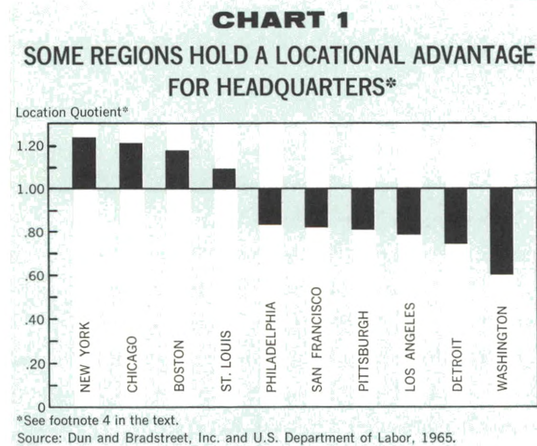


CHART 1
SOME REGIONS HOLD A LOCATIONAL ADVANTAGE FOR HEADQUARTERS*

*See footnote 4 in the text.
Source: Dun and Bradstreet, Inc. and U.S. Department of Labor, 1965.

These four regions—New York, Chicago, Boston and St. Louis—appear to have a locational advantage for corporate headquarters. They have something going for them that the other six regions don't. However, Philadelphia does lead the rest of the underachievers, as shown in Chart 1.

The chart graphically depicts the locational advantage or disadvantage for corporate headquarters in each region. It shows the concentration of home offices in any one region relative to the total for all ten metropolitan areas. The measure of regional concentration, or specialization, used here works like this: if headquarters are the same proportion of employment in one region as all headquarters are to total employment of the ten metropolitan areas, that one region would have an index of 1.[4] This is frequently cited as having a "fair share." In these terms, Philadelphia stands short of its fair share.

Manufacturing's role

Philadelphia's rather undistinguished position as a headquarters dynamo is strongly weighted by manufacturing corporations. At first glance it would appear that the manufacturing sector of the economy might enhance the region's headquarters leadership. Further probing suggests this is not the case.

As we take that first glance, we see that Philadelphia ranks fourth in the number of headquarters of manufacturing firms compared to other metropolitan areas. This standing is right in line with the region's population rank, one step above its "all headquarters" position. One would expect the region to rank high as home base for manufacturing corporations because Philadelphia is a manufacturing town. And, as previously noted, the more firms in an area, the more headquarters.

[4] *This is a descriptive measure of concentration, usually called a location quotient. It is a device for comparing a region's percentage share of a particular activity (in this case, headquarters) with its percentage share of some basic aggregate (employment). As used here, the location quotient for the concentration of headquarters in a region is stated by the formula*

$$\frac{Hr/Er}{Hn/En} \quad or \quad \frac{Hr/Hn}{Er/En} \quad where:$$

Hr = the number of headquarters in the region; Er = employment of the region; Hn = the sum total of headquarters in the ten regions; and En = the sum total of employment in the ten regions.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

But relative to its size as a manufacturing town, it falls short in local corporate control over operations. For example, compared to the other major metropolitan areas, Philadelphia places low in the proportion of its manufacturing firms headquartered in the region. It's in seventh place. In other words, six of the nine other regions have more home-town control over their manufacturing enterprise. In addition, Philadelphia holds the top spot for manufacturing subsidiaries as a percentage of all firms. What this suggests, therefore, is that executives outside of the region make many key management decisions about Philadelphia's industrial activity, and to a greater degree than in most other major metropolitan areas.

The region's comparative position as a center of corporate control is less influenced by nonmanufacturing activities. But then Philadelphia is less of a nonmanufacturing region. In terms of total nonmanufacturing firms headquartered in the area, it places fifth. The same rank holds for the percentage of nonmanufacturing firms whose home offices are in Philadelphia. Nonmanufacturing appears neither to add to nor subtract from the region's strength as a corporate headquarters center.

THE CREAM OF THE CROP

To this point we have taken a very broad look at Philadelphia as a headquarters complex. Included in this total picture are the corporate giants to which we referred earlier.[5] Nevertheless, they warrant some special attention. Since business leaders feel headquarters generally are an important asset to the local economy, the largest home offices are of particular interest.

TABLE 3

HOW THE LARGEST REGIONS RANK AS HOME BASE FOR CORPORATE GIANTS*

Standard Metropolitan Area	Number of Headquarters Ranked	
	1965	1956
New York	1	1
Chicago	2	2
Philadelphia	3	3
Pittsburgh	4	4
San Francisco	4	6
Los Angeles	6	8
Detroit	7	5
St. Louis	8	6
Boston	9	9
Washington	10	10

**Corporate giants refer to the 750 largest manufacturing and nonmanufacturing corporations in the nation.*

Source: Fortune *magazine.*

When a major headquarters moves into a region, or becomes a giant through acquiring firms outside the region, rejoicing follows. Conversely, the loss of one such home office results in much wringing of hands throughout the business community.

Philadelphia's present stand as a mecca for this cream of the crop is excellent. As mentioned at the outset of this article, the region is in third place in the *number* of major corporations headquartered in Philadelphia. And it has held on to this position for almost a decade (1956 to 1965). Only New York and Chicago continue to surpass it. But how much longer Philadelphia can retain its rank is questionable. Some ominous signs are evidenced.

Down the down staircase

Together, the ten largest metropolitan areas in the nation actually lost major corporate headquarters between 1956 and 1965. The total decline was 6 per cent. A probable reason for this

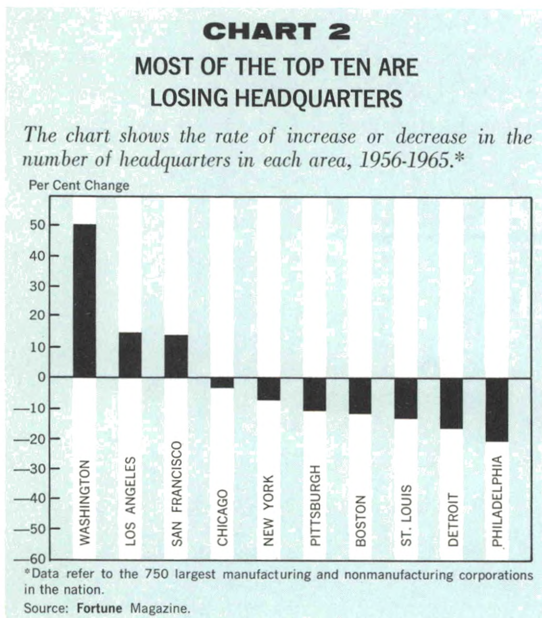
[5] *Comparisons of metropolitan areas throughout this section are based on* Fortune *magazine's data on the nation's 750 largest industrial and nonindustrial corporations.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

loss is stepped-up mergers and acquisitions over the period. Another is the movement from the top metropolitan areas to some of the smaller regions of the country where population and employment growth have been booming. One further possible explanation is that corporations in some areas outside the big ten have grown to join the ranks of the largest 750 corporations, therefore displacing headquarters formerly in the top ten.[6]

Of the ten largest regions, three actually increased their number of corporate headquarters: Washington, which started from a very low base in 1956; San Francisco and Los Angeles—reflecting rapid population and economic growth in general. The other seven metropolitan areas registered losses. Some areas were more adversely affected than others. The greatest regional loss in the number of major corporate headquarters was 20 per cent. The region is Philadelphia.

[6] *Covered by* Fortune.



This area's total decline has been slow but steady. And both manufacturing and nonmanufacturing headquarters have participated in the drop. Of the ten regions, only San Francisco increased its number of giant manufacturing home offices. The other areas either experienced no change or declined. Philadelphia is in the loss group. In fact, its rate of loss was surpassed only by Detroit's. Nevertheless, Philadelphia's manufacturing headquarters base is strong. It was sufficiently strong in 1956 to keep the area in fourth place over the nine-year period, in spite of the downtrend.

The experience of Philadelphia's nonmanufacturing headquarters was similar to manufacturing. In half of the metropolitan areas examined, home offices of nonmanufacturers increased or remained unchanged. However, Philadelphia is in the losing half. Of the losers, only three fared worse than Philadelphia.

Control of corporate wealth

If declining numbers of corporate headquarters are a drag on the local economy, what is the economic importance of the drag? Numbers alone don't determine the ability of headquarters to stimulate business in other sectors of the regional economy. Among other things, strength of the stimulus depends on the economic wealth and health of corporations headquartered in the area. Take banking as an example. Declining headquarters in a region may mean fewer accounts with local banks. However, if headquarters of the wealthiest corporations are not part of the decline, those fewer bank accounts may be fatter.

Then let's look at what is happening to corporate wealth of Philadelphia-based companies. Although assets of corporations headquartered in each of the ten metropolitan areas are growing, they are growing at the slowest rate in Philadelphia. Between 1956 and 1965, the total growth

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

rate for all ten regions was 72 per cent. In Philadelphia, it was 39 per cent. As a result, the area slipped from fifth to seventh place in the value of corporate assets locally controlled.

Assets of manufacturers headquartered here rose similarly to the total picture presented above. They increased in all of the major metropolitan areas—except Washington, where no giant headquarters exist in manufacturing. But once again Philadelphia's growth rate was the slowest. Consequently, the region dipped comparatively from sixth to seventh place in value of assets over the nine-year span. In addition, manufacturing sales of these locally headquartered companies increased at a slower rate than in any of the other regions.

Nonmanufacturing assets, as a group, also turned in a consistent performance. Increased assets characterized all ten regions. Philadelphia—growing at next to the slowest rate—dropped from fourth to fifth place between 1956 and 1965. Local banks, life insurance firms, and transportation companies all retained their relative position with other regions over the years. Merchandising corporations and utilities increased their standing in asset value. Nevertheless, asset growth for all nonmanufacturing groups was comparatively low or moderate at best.

CHALLENGE IN CONTEXT

In determining where Philadelphia stands as a headquarters center, and particularly where it is heading, a rather discouraging tale emerges. But the story should be kept in perspective.

Some recapitulation may help. Among the ten largest metropolitan areas, Philadelphia is the third largest center of major corporate headquarters. It is surpassed only by New York and Chicago. Philadelphia can still be considered the leader of secondary centers of corporate control. Philadelphia also continues to have the fourth largest concentration of giant manufacturing headquarters. With firms of all sizes included, this region has only a small locational disadvantage for headquarters. And the fifth place standing for all headquarters is only one step behind the area's population rank.

Apparently, Philadelphia has had sufficient strength in the past to hold its relative position as a major headquarters complex—in spite of all of the signs of decline. Nevertheless, these signs are warnings to a concerned business community. The first challenge to the region is to arrest the downtrend. The second is to reverse it.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

HOME IS WHERE THE MONEY IS

by D. Russell Connor

Sharply and as suddenly as anyone can remember, a dramatic change in the availability and cost of mortgage money is happening now in the eight-county Metropolitan Philadelphia Area.*

Since January—in marked contrast to the tight money environment of 1966—local mortgage lenders have been amassing loanable funds in increasing quantities. Pressures to get these funds invested are mounting. But the demand for them to date, although improving, is short of earlier anticipation.

Responding to supply-demand factors, mortgage rates are coming down; many say more quickly than in their experience. Add-ons to which mortgage loans were subject last year—"points," miscellaneous fees—have largely disappeared on prime single-family residences. Equities are less and terms longer.

Money at six per cent simple interest is now generally available for conventional mortgages on desirable home properties in the Greater Philadelphia area. In special circumstances, a few mortgages are being financed at 5⅞ per cent, fewer still at 5¾ per cent. If the relationship of supply and demand continues as it has been through the first third of the year—admittedly, a low period of new construction—the near-term prospect is that rates below six per cent will become more common.

Bankers and builders have problems. Bankers look for a two-way stretch from government: action in one direction, non-action in another. Builders are conducting a two-pronged search:

* *Bucks, Chester, Delaware, Montgomery and Philadelphia counties in Pennsylvania; Burlington, Camden and Gloucester counties in New Jersey.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

for work crews disbanded last year, and for worthwhile developmental sites from a dwindling inventory in the eight-county area.

The prospective home buyer has problems, too. The price of money—the mortgage interest rate—is but one of the prices he must pay to move. Others are the price of the property, prices of services, fees, and incidentals inherent in relocation, and the price of dis-saving. But he has an out: apartments.

Those are the eclectic facts and inferences drawn from conversations with lenders, builders, and realtors over the past several weeks. A more universal theme is that the hoped-for home-building boom in the Greater Philadelphia area may be delayed until 1968.

The bankers—different dilemmas

Savings and loan associations and mutual savings banks together grant more residential mortgage loans than all other financial institutions. Their main source of funds is discretionary income in the hands of the public, for which they must compete. In 1966 a process termed dis-intermediation took place. High yields in the market attracted potential savings shares and savings deposits directly, and away from the financial intermediaries, the thrift institutions and commercial banks. Dis-intermediation thus reduced the amount of mortgage money available from S&L's and savings banks.

Financial intermediaries also compete with each other for savings. From January 1, 1962, through December 5, 1965, interest rates permitted to be paid by commercial banks for savings and time deposits were raised in fractional steps. Commercial banks became stiffer competitors for savings, and captured a bigger share.

The signals were changed last year. A rate permitted commercial banks on a certain class of time deposits was lowered, and local S&L's and mutuals, after a time lag, began in January to gain a net inflow of funds.

Federal S&L's used the new funds to rebuild liquidity and to retire indebtedness to the Federal Home Loan Bank, incurred during their deposit drought. The inflow continues, however, and now thrift institutions must put their money to work in traditional ways. Principally, that means into new mortgage loans.

This brings about a dilemma. So long as the demand for mortgage loans fails to keep pace with the swelling supply of savings in S&L's and mutuals, competitive pressure impinges on the mortgage rate. Thus success in attracting deposits cuts into potential profit per deposit.

Thrift institutions are not wholly dependent on the local market; they can and do invest in mortgages nationwide. However, what is hapening here is happening elsewhere, and profits on out-of-state mortgages are narrowing also.

Another complication intrudes. Mutuals and S&L's are paying relatively high rates for new funds—up to 5¼ per cent on certificates. Posited against a 6 per cent mortgage rate, there's little spread to cover operating expenses, let alone provide a profit. Again, competition helps determine a rate, this time the dividend rate paid by the thrift institutions. Unilateral reduction of its dividend rate, each thrift institution seems to fear, would merely drive its clientele to a competitor. And it cannot join with its sister institutions in a cabal to curtail the prevalent rate; that's against the law.

So the savings banks and savings and loan associations look to government for relief. They would welcome rulings by regulatory agencies lowering the permissible maximum rates for savings in all institutions. They view this mandated reduction as an escape route from their present dilemma—perhaps the only way out, in the short run, unless and until the saver gets

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

off his fireside and starts to spend for new housing.

Commercial banks are in a somewhat different situation. They have a broader lending universe, are not so dependent on mortgage loans. Local banks have cut back deposit costs by individually reducing their CD rates. Although some commercial banks are permanent lenders for single-family residences, others specialize in construction loans, mortgage loans for apartment complexes, or in nonresidential, commercial mortgage loans. Proximate commercial banks, therefore, are not as intra-competitive for mortgages as are thrift institutions.

In common with thrift institutions, commercial banks have more money to lend this year than last. New reserves supplied by the Federal Reserve in the past six months have done much to ease the posture of tight money characteristic of 1966. Overall loan demand by business and consumers is not matching the rates of growth experienced last year. As a consequence, interest charges on commercial bank loans are undergoing some compression, as witness the recent reduction in the prime rate, locally and nationally.

Philadelphia-area commercial banks that are residential mortgagees did not actively seek new mortgage loans last year, because of their limited funds and intensive loan demand from other sectors. Now they are seeking them, and to that extent are contributing to the downward tilt of the mortgage rate. A resurgence in business and consumer borrowing—more profitable than mortgage lending—could alter the slope. But until these borrowers increase their demands, renewed emphasis is on mortgage lending. Banks are not asking aid from government, but are demanding better results from advertising and new business staffs. They'd rather do it themselves.

Mortgage bankers per se are a different breed of catalyst in the mortgage/construction scheme of things. They are essentially traders, buying and selling mortgages for clients—insurance companies, welfare and pension funds, and other non-bank investors, as well as for banking institutions. They may hold mortgages for their own accounts, or they may "warehouse" them with commercial banks (use them as collateral for loans), reinvesting the proceeds in still more mortgages for resale. They may service mortgages for clients, for which they charge a fee; and for bringing mortgagor and mortgagee together, they occasionally earn a "finder's fee."

To be successful, mortgage bankers need activity. They trade on fractions of one per cent; it takes a lot of fractions to add up to a profit. Last year when residential construction was in the doldrums, little building and little money put a double squeeze on mortgage bankers.

There's more activity now but it's unbalanced. Insurance companies, more liquid this year as policy loans slough off, are back in the mortgage market, predominantly for apartments and commercial construction. Non-bank investors, finding opportunities in other fields shrinking, are adding to the mortgage money supply. As indicated, so are banking institutions. It all adds up to supply picking up faster than demand.

There is another condition mortgage bankers would superimpose on balanced activity: stability of the rate structure. They, along with other mortgage lenders, see the current six per cent mortgage rate as an equitable one for seller and buyer alike. They do not view six per cent as a deterrent to the prospective home buyer. In fact, they consider six per cent as clothed with legal sanction: it's the usury rate limitation set by the states in the Third Federal Reserve District, Pennsylvania, New Jersey, and Delaware.

A stable rate permits mortgage bankers to

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

plan for the future with some assurance. Six per cent allows them to trade with a margin for miscalculation, and make a profit. That's why mortgage bankers, unlike their cousins the savings banks and savings and loans, seek non-action from government. They do not want FHA to lower its present six per cent rate on Government-insured mortgages.

The builders' rock and roll

It takes more than LSD—loan supply, demand—to turn a builder on. It takes time. Time to lure workmen back from the industrial jobs they took last year when residential construction was slack. Time to renegotiate land leases lapsed last year when money was scarce. Time to get samples built. And time to reestablish the momentum of building and selling homes.

There was, it is true, quite a bit of residential building locally in 1966, but of a special kind: garden-type apartments. Builders like apartments. Smart ones can get in and out of apartment construction with very little of their own capital. Apartment building has some elements of mass production, sadly lacking in the construction business generally. A maximum number of living units can be crammed onto a minimum amount of land, land that is becoming precious in suburban Philadelphia. And many investors like apartments; the six per cent limitation on mortgage loans doesn't apply.

Builders claim apartments have a salutary effect on local tax structures. That they've been persuasive is evidenced by the mushroom growth of apartments in the boroughs and townships ringing Philadelphia. Not all local officials are believers, however. They cite narrow country roads overcrowded with the cars of apartment residents. They point to instances of shoddy materials and workmanship, visualize slum problems ahead. They may prefer the political status quo, apprehensive of the party affiliations of potential newcomers.

Home building, too, is not without its problems. Costs are going up as local zoning boards set higher minimum acreage requirements, insist on basic improvements such as in-place sewers. Along with land, labor and materials are more expensive, boosting the price of a 1967 house 10 per cent higher than in 1965, and making it somewhat more difficult to sell.

From the builders' viewpoint, these considerations add up to selective residential construction this year. Emphasis will probably be on more homes than apartments in the three New Jersey counties, where land and labor seem relatively more abundant and less expensive. (Including an innovation in suburban "town houses," which Philadelphians will term row houses, by one nationally known builder.) In the five Pennsylvania counties, probably emphasis on apartments. In all eight counties, a lag. Builders were rocked by the events of last year, and it takes time to get rolling again.

The buyer—in the driver's seat, with safety belt

On the other side of the savings window is the potential home buyer/mortgagor. He is employed in record numbers in the metropolitan Philadelphia area today, and is saving more than ever. He likes the high return his savings and other investments are earning. It affords him the luxury of choice.

He makes subjective comparisons. Five per cent from the bank is no more than right; six per cent for the bank, and for the real estate agent, is too much. Friends from other states tell him housing here offers as much or more value than in any other metropolitan area. His comparison is strictly local and several years ago, when last he and the missus looked at new houses. In terms of personal economics, houses

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

cost too much, banks and realtors charge too much, and if he spends his savings he loses too much.

He may elect, as dictated by his economics, to do nothing; many of his fellows are watching and waiting. If he is induced to improve his housing standards, he has several choices. He can use the rationale that housing values and costs will continue to rise, and decide he'd better move now. He can add rooms and conveniences to his present dwelling. Or he can opt for an apartment, the safety belt of the buyer-saver in the driver's seat.

Apartments enjoy an "in" status in the "City of Homes" and its environs. Once the recourse of "empty nesters" and moneyless newlyweds, they now appeal to affluent families who like mobility and dislike the confinement of home ownership. Apartment developments in the Greater Philadelphia area offer a wide range of rentals and locations, plus the pleasurable amenities of golf courses, tennis and swimming facilities, and even marinas. And they seem economically advantageous to many, requiring minimum investment and permitting retention of savings income. Perhaps now more than heretofore, home is where the money is.

At press time

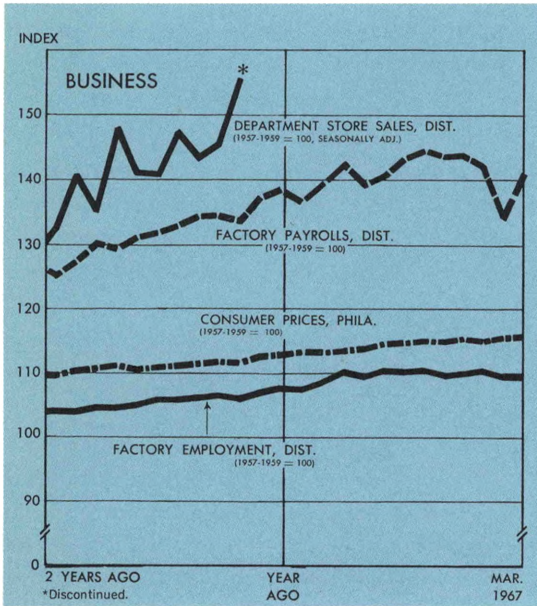
A recheck with interviewees indicates that in the first week of May there is continued imbalance between mortgage money supply and demand. Despite this, the six per cent rate on conventionals is holding firm, as investors are reluctant to commit themselves to a lesser return. Some builders are resisting service charge and construction loan rates, but construction is improving. However, the bulk of new starts will not be salable until later in the year.

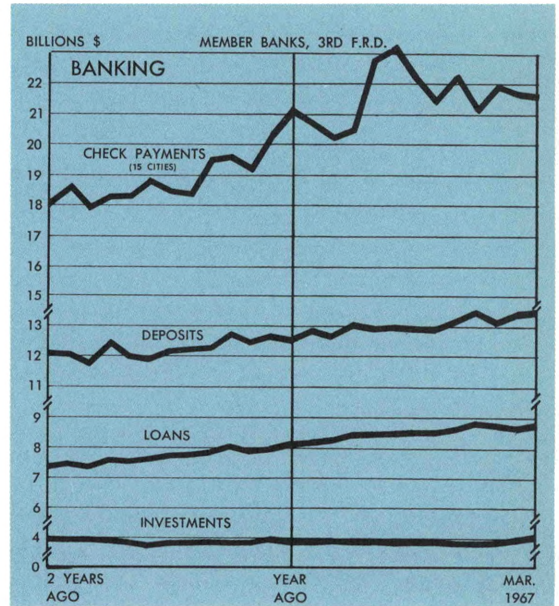
Hard hit by tight money last year, some lenders are apprehensive that a rising Federal deficit could cause a turnabout in monetary ease in the second half of the year. Their advice to the prospective home buyer is to take advantage of the current situation, and arrange his point-free six per cent financing now. But others look to a reduction in the FHA rate, and see conventional rates coming down shortly thereafter.

In sum, the situation is fluid, and no one is confident of its resolution. But it is better for all concerned than 1966, and may improve still more in 1968. This years seems an interim period.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

FOR THE RECORD . . .





SUMMARY

	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	March 1967 from		3 mos. 1967 from year ago	March 1967 from		3 mos. 1967 from year ago
	mo. ago	year ago		mo. ago	year ago	
MANUFACTURING						
Production	....	....	....	+ 1	+ 2	+ 3
Electric power consumed	+ 7	+ 2	+ 4	....	....	....
Man-hours, total*	+ 4	− 2	− 2	....	....	....
Employment, total	0	+ 1	+ 2	....	....	....
Wage income*	+ 4	+ 2	+ 3	....	....	....
CONSTRUCTION**	+36	− 1	0	+34	− 7	−11
COAL PRODUCTION	−13	−17	− 8	− 1	− 3	+ 2
BANKING						
(All member banks)						
Deposits	+ 1	+ 7	+ 7	+ 1	+ 6	+ 6
Loans	+ 1	+ 9	+10	+ 1	+ 6	+ 7
Investments	+ 2	+ 4	+ 1	+ 3	+ 9	+ 4
U.S. Govt. securities	+ 1	− 3	− 7	+ 3	+ 6	− 1
Other	+ 4	+12	+10	+ 3	+13	+11
Check payments***	− 1†	+ 5†	+ 8†	0	+ 9	+12
PRICES						
Wholesale	....	....	....	0	0	+ 1
Consumer	0‡	+ 2‡	+ 3‡	0	+ 3	+ 3

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

†15 SMSA's
‡Philadelphia

LOCAL CHANGES

Standard Metropolitan Statistical Areas*	Manufacturing				Banking			
	Employment		Payrolls		Check Payments**		Total Deposits***	
	Per cent change March 1967 from		Per cent change March 1967 from		Per cent change March 1967 from		Per cent change March 1967 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Wilmington	− 1	0	+ 6	+ 2	−18	+ 4	0	− 1
Atlantic City	....	....	....	....	+13	0	− 1	+12
Trenton	− 2	− 6	+ 3	− 8	+19	+31	0	+ 2
Altoona	− 1	+ 3	+ 2	+ 1	− 1	+ 4	+ 3	+10
Harrisburg	0	+ 4	+ 6	+13	− 1	+10	+ 3	+10
Johnstown	+ 2	+ 2	+11	+12	+ 4	− 4	+ 2	+ 7
Lancaster	0	+ 2	+ 2	0	+ 7	+ 4	+ 2	+ 7
Lehigh Valley	0	− 1	+ 5	+ 2	0	− 4	+ 2	+ 5
Philadelphia	0	+ 1	+ 5	+ 4	+ 2	+ 4	0	+10
Reading	− 2	− 3	0	− 6	+ 4	− 2	0	−39
Scranton	− 1	+ 3	− 2	+ 9	− 8	+ 1	0	+ 7
Wilkes-Barre	− 2	0	0	+ 4	− 1	+ 9	+ 1	+ 7
York	− 1	+ 2	+ 1	+ 9	− 1	+16	+ 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.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

SEE BACK OF VOLUME FOR

MAY 1967 SUPPLEMENT

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis