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Annual Operations and Executive Changes

FEDERAL RESERVE BANK of PHILADELPHIA

business review



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On our cover: Located on the east side of The Green, Dover's tree-shaded public square, is Delaware's Old State House, the nation's second oldest still in administrative use. (Photo courtesy of the Delaware State Visitors Service, Dover, Delaware.)

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Airport Congestion: Can Some New Cures Get Off the Ground?

By Howard Keen, Jr.

For many Americans, traveling by airplane isn't as much fun as it used to be. As if the energy crisis weren't enough of a nuisance, there's the seemingly insoluble problem of traffic congestion, not just on highways but runways too. Taking off in flight from a large airport is becoming almost as big a hassle as battling freeway traffic to reach it. More and more air travelers are victims of airports that can't handle air traffic at peak hours. As a result, congestion and delay mount as planes are backed up waiting to land or take off.

The most obvious solution to this problem—building more runways—is running into some turbulence. Land in the right location is scarce and airports experiencing the most congestion are those in areas already crammed with homes and factories. The costs of land, construction, and financing are soaring. Concern for preserving the environment imposes additional limita-

tions. Even without these problems, the time needed to construct new airports can be as much as ten years.

One way to bail out of this problem is to extract more use from airports *already in existence*. If existing facilities can be used more efficiently, the obstacles to airport expansion don't have to spell "stacked up." And the key to this efficiency is putting a price on runway space.

CONGESTION IS COSTLY

Congestion is a big waste. It wastes time and lost time is costly. Delays during take-offs and landings impose costs on airport users and, to some degree, on nonusers. Most obvious are the costs of aircraft operation, especially apparent when planes are "stacked" waiting to land. This results in extra costs of fuel and extra wear and tear on the mechanical parts of the aircraft. In the

case of planes with a crew, extra salary expenses are another cost of congestion. These extra operating costs resulting from congestion come out of the pockets of the aircraft owners initially but are bound to find their way into prices charged air travelers.

Time Is Money. Passengers also experience costs from delays. If delays prevent them from earning money, the cost of the delay to them is represented by these foregone earnings. Conversely, if the delay time would have been used for leisure activities, then the cost of the delay is given by the value passengers place on their leisure. These are the *opportunity costs* of delay. Congestion resulting in delays rules out the opportunity to use time in alternative ways. (See Box for the differences in opportunity and operating costs of the two major users of airports—air carriers and general aviation.)

More Pollution. Planes in the air and on the ground add to air and noise pollution. Those waiting to land and take off merely compound

pollution. While this may be a problem only near airports, extra pollution costs can be substantial.

Higher Accident Risk. Finally, a flock of planes in the air waiting to land has a higher accident risk than only a few planes. Increased danger of accidents raises the cost of control tower operations because crowded skies require more careful monitoring of air traffic. Moreover, passengers, crews, and nonusers of airports are endangered by this increased accident risk.

An idea of the magnitude of these delay costs can be drawn from a few attempts to estimate them. In 1968 U.S. airlines put their costs resulting directly from delays at roughly \$52 million annually.¹ This didn't include attempts to value the opportunity costs of passengers. A study which did attempt to estimate these costs found that delays at New York City's three major airports alone during April 1967 to March 1968

¹U.S., Congress, Senate, Committee on Commerce, *National Airport and Airway System: Report to Accompany S. 3641*, 90th Cong., 2d sess., 1 July 1968, p. 51.

RUNWAY CUSTOMERS DIFFER

Users of airport runways, control tower facilities and ground service and storage areas fall into two major categories. *Air carriers* are aircraft which provide scheduled air transportation over specified routes. They are certified by the Civil Aeronautics Board (CAB) and consist largely of passenger-carrying airlines. *General Aviation* is the label given all civil aircraft not classified as air carriers. General aviation includes smaller corporate jets, recreational and instructional aircraft.

In general, the *opportunity costs per plane* of air carriers is greater than those of general aviation since air carriers have many more passengers. Furthermore, the operating costs are higher for air carriers as they are more costly to fly and require greater crew expenses than general aviation.

As a rule, general aviation has lower opportunity and operating costs per plane than air carriers and, as a consequence, imposes higher delay costs on air carriers than in the opposite situation. While general aviation contributes to peak-hour congestion at large airports, so do air carriers. In 1968 almost half of U.S. airports enplaning a million or more passengers per year experienced congestion because of peaking of flights, and air carriers made up more than 60 percent of peak-hour traffic at half of these congested airports.*

*U.S., Congress, Senate, Committee on Commerce, *National Airport and Airway System: Report to Accompany S. 3641*, 90th Cong., 2d sess., 1 July 1968, p. 89.

amounted to almost five million minutes or \$50 million.² Delay costs for the U.S. as a whole would be much higher. The old adage that “time is money” is certainly applicable to time lost from airport congestion.

WHAT’S HOLDING UP THE LINE?

Federal Subsidies and Pricing. Public airports are not operated for the purpose of making a profit. The revenue goal is typically to cover costs. Consequently, the price charged for using runways and landing facilities is designed to raise revenue rather than force airport users to pay the full economic costs of using the facilities. Congestion is the result.

The bulk of airport revenue is from fees other than runway charges. Nonrunway revenues are from rentals, concessions, parking, and fuel sales. This part of airport operations uses facilities (terminals and access roads) which are not Federally subsidized.³ The predominant method of granting concessions is to award them to the highest bidders. Here price allocates a limited number of concessions among competing demanders.

Runways (which receive Federal subsidies) are *not* allocated by price. Rather, they are open to all users on a first-come, first-serve basis. Fees charged airplanes to use runways are essentially a residual—to cover the difference between airport expenses and nonrunway revenues.⁴ The

typical charge is a landing fee based on aircraft weight.

So, in effect, users of airport runways and landing facilities are subsidized in two ways. One is through Federal grants and the other through revenue from other phases of airport operations such as terminal concessions. This means that there is no pressure on airport operators to charge runway users prices that reflect in any way the cost of resources used in landing and taking off or external costs (costs imposed on others who are delayed). With runway charges no higher at popular hours than at less popular times, it’s not surprising that there’s a waiting line.⁵

Moreover, the treatment of air carriers and general aviation with respect to landing fees is uneven. All large “hub” airports charge air carriers landing fees based on gross landing weight. General aviation, by comparison, is charged no landing fee whatsoever at 21 percent of large hub airports. Landing fees, when charged, don’t vary according to the time of landing, the cost of airport resources used up, or the delay costs imposed on other users.

Government Regulations. Domestic interstate airfares are under the control of the Civil Aeronautics Board (CAB). One result of CAB policies is that air carriers have little chance to compete for passengers by offering lower prices. Except for some lower promotional fares and night fares on certain routes, interstate airfares are uniform across arrival and departure times. Consequently, there’s a strong incentive to resort to competitive scheduling to attract passengers. Most airlines rank passenger preferences (along

²Ross D. Eckert, *Airports and Congestion: A Problem of Misplaced Subsidies* (Washington: American Enterprise Institute for Public Policy Research, 1972), p. 18.

³Public airports have received Federal subsidies for runway construction and development since 1946. Through 1969 over \$1 billion in matching grants went to over 2,000 airports. Current programs call for annual disbursements of \$310 million in Federal monies for fiscal years 1974–75.

⁴Runway fees could make up the bulk of airport revenue if terminal and other ancillary concessions were of low market value. However, this is not the general rule at the larger airports which experience most of the congestion. See Michael E. Levine, “Landing Fees and the Airport Congestion Problem,” *Journal of Law and Economics* 12 (1969): 79–108.

⁵This is not to say that, *on average*, landing fees are necessarily too low. While fees may not cover the full cost of providing runways and control tower facilities, the total revenues generated for a community by air travel may be highest when runways are priced below cost. This can occur if low landing fees make flying less expensive, thus increasing the number of travelers. More travelers would mean additional revenues to other terminal facilities as well as many other local businesses.

with good equipment utilization) high on their list of scheduling considerations. Passengers, given little incentive in the form of lower airfares, prefer to land or take off at a few concentrated hours. This results in an uneconomically large number of arrivals and departures at peak hours.

INEFFICIENCIES RESULT

The upshot of current subsidy and regulation policies is a pricing structure that encourages inefficiency and congestion. Prices that aren't designed to ration the available runways and that don't provide information about users' preferences result in inefficient use of existing airport facilities.⁶ This inefficiency is manifested in several ways.

There are too many peak-hour flights in relation to the number the facilities can handle. This "excess demand" originates with both air carriers and general aviation. Airport facilities are strained and the costs from congestion—lost opportunities, aircraft operation, pollution and accident risk—mount.

Inflexible runway charges can also lead pilots to use the longest runways available, regardless of their real landing requirements. When airports have runways of different lengths, pilots usually prefer the longer ones because of the extra measures of safety they afford. However, the use of longer runways by small planes can delay air carriers waiting to land since the shorter runways are often inadequate to handle the commercial passenger craft.

Passengers and general aviation pilots have little opportunity to indicate how much they value delay-free use of airports at any particular

time. It's likely that some would be willing to pay much more for less congestion—an indication that the opportunities lost from delays are worth a lot to them. Others may feel that their money cost and the cost of delays usually encountered are in about the right balance to suit their tastes. But as long as landing fees and airfares remain fixed, these preferences can't be fully expressed.

Airport investment suffers from this lack of information. The "need" for investment in additional facilities depends upon how much the additional facilities are worth to the ultimate users. Without this information, the chances of misguided investment are high.

In addition to inefficient use of individual airports, the overall airport system is used less efficiently. When airports are available to all users at below-cost prices occasionally, there's a preference for more modern, conveniently located airports. Even if landing fees were somewhat higher at large public airports than at smaller public or private airfields, quality of services, ease of access, and location still may outweigh any small price differences. What results is relative disuse of airports that could handle much more air traffic—especially general aviation. This avoidance of smaller private or public airports discourages investment in them to accommodate future air traffic growth.

SOME PROPOSED CURES

Several solutions to the problem of crowded airports have been offered. After taking a look at what causes airport congestion, it's no surprise that the indicated solutions focus on the pricing structure faced by airport users. Various twists could be added to proposed solutions, but mainly they fall under two major categories: variable congestion charges and exchangeable landing rights.

Variable Congestion Charges. Variable congestion fee proposals are in the form of either variable landing fees or variable passenger fees. Landing fees that vary with the time of day (or even with the day of the week)—with higher fees for peak-congestion hours—would tend to dis-

⁶Price isn't the only rationing device—available supplies can be rationed by quotas too. In fact, both the Civil Aeronautics Board and the Federal Aviation Administration have quotas and quota-like policies in effect to alleviate congestion. However, quotas are far less efficient in providing information about air travelers' preferences than are prices. See James C. Miller, III, "Short-Run Solutions to Airport Congestion," *Atlanta Economic Review*, October 1969, pp. 28–29; and Eckert, *op. cit.*, pp. 34–38.

courage congestion. Those not valuing peak-time use will be encouraged to land and take off at nonpeak hours. Air traffic would flow more evenly over a 24-hour period instead of being concentrated at a few popular hours. Since airport "capacity" is usually viewed as the facilities needed to handle *peak-hour use*, pressure for expansion to higher levels of capacity would be lessened.

Pressures on air carriers to overschedule at peak hours would be reduced by varying landing fees. Reluctance by the CAB to permit differential airfares (to jibe with differential landing fees) might impede passing the incentives from airlines to their passengers. But there needn't be a complete blockage. Airlines could cut costs by reducing in-flight services or the number of peak-hour flights. With more fully loaded planes, the same number of passengers could be handled with fewer flights. In this way, airline passengers would have some (although limited) way of expressing how much they value airport use at peak hours compared to less-congested times.

Variable landing fees can also be expected to alter the time and location of airport use by general aviation. In 1968 peak-hour landing fees at New York City's three major airports were raised from \$5 to \$25 for aircraft seating fewer than 25 people (mostly general aviation).⁷ The results were striking: general aviation use at peak hours dropped by almost a third. Apparently, the peak-hour value to a third of general aviation of these airports compared to nonpeak hours or less desirable airports was minimal.

Besides reducing congestion at heavily used airports, variable landing fees should result in more use of airports that currently are shunned.

There would be incentives for increased use of smaller airports at peak hours (and even during nonpeak times if landing fee differentials were higher than they are now). With higher fees for general aviation at large hub airports, public and private airports in relative disuse now might become more attractive.

Variable passenger fees are another form of variable congestion charges. With these, differences in price would affect air passengers directly. Passengers would have to pay more to arrive or depart at peak hours than at nonpeak times. These charges could be in the form of variable airfares, but congestion could be effectively reduced even if airfares remained as they are now.

Either the airlines or airport operators could levy a surcharge on passengers arriving or departing at peak times. Since not all airports experience the same degree of congestion, this type of surcharge could be applied selectively only where it's desirable to reduce peaking of flights. In this way the structure of airfares would not have to be changed at all. Congestion surcharges would merely be tacked onto regular ticket prices.⁸

Exchangeable Landing Rights. A second type of proposed solution involves turning the right to use runway and landing facilities into a commodity. This "good" would then be sold to the highest bidders. The idea is to take a time slot—say half an hour—and offer a given number of landings to be handled—say 50. These 50 landings could then be awarded to the 50 highest bidders. As with variable landing fees, the willingness and ability to pay the price would determine use of airport facilities.

Users would have a way of indicating how much they value airport use at different times.

⁷Airports receiving Federal aid must be available to the public without undue discrimination. Since the increase in landing fees favored larger planes at peak hours, a legal question was raised. In *Aircraft Owners and Pilots Association v. Port Authority of New York*, 305 F Supp. 93 (1969), it was ruled that this structure of landing fees was a reasonably valid method for using available facilities efficiently. Eckert, op. cit. p. 56.

⁸To have a maximum impact on congestion, variable passenger fees would have to be combined with some method of limiting general aviation traffic at peak hours. Either variable landing fees or surcharges at peak hours could accomplish this. If low-cost or no-cost access were still available to general aviation while air carrier traffic were reduced, peak-hour use by general aviation might even increase.

The more they value use at a particular time, the more they would bid for that time slot. As circumstances change, landing rights could be traded just as other goods and services are exchanged in everyday market transactions. Airport authorities, after selecting the number of slots for a given time period, would auction them off. Both air carriers and general aviation would then bid for them.⁹

Like variable landing fees, exchangeable landing rights would result in less-wasteful use of airport resources. By offering only a limited number of operations at any one time, airport operators will force air traffic to be spread more evenly over a 24-hour period. Just as important, with landing and take-off slots granted to the highest bidder, users could indicate how they value the use of airports. Not only will this assure that scarce facilities go to those valuing them the most, but it will also give airport operators indications of the "need" for airport investment. Finally, congestion costs would be lowered, the necessity for continued expansion would diminish, and resources could be diverted to other uses.

⁹For a fuller discussion of exchangeable landing rights, see Eckert, *op. cit.*, pp. 50–53.

TIME FOR AN EXPERIMENT?

It would take some time to iron out the administrative wrinkles in the new system under either of these proposals. For example, air carrier landing fees are set out in contracts with airport operators. These take time to negotiate, especially if a change in fees is proposed.

Even if these administrative details were taken care of, airport operators would still have basic decisions to make. With variable landing fees, there's no advance information to indicate how traffic will vary with flexible fees. And with exchangeable landing rights, it's not known how the bids would vary with the number of slots offered. Trial and error would supply answers.

There are guidelines, however. Fees should approximate the full costs of use as closely as possible. They should account for direct costs (wear and tear on runways as well as control tower operations) and indirect costs (delay costs imposed on others). In short, users should be charged higher fees during peak-load periods.

New airports can't be built forever, and airplanes can't stack up forever. For airplanes to have a better chance of finding a place to land, present airports have to be used more efficiently. The present pricing structure of airports *encourages* inefficiency and congestion. Variable congestion charges and exchangeable landing rights would *discourage* this waste while at the same time taking some of the headache out of air travel.

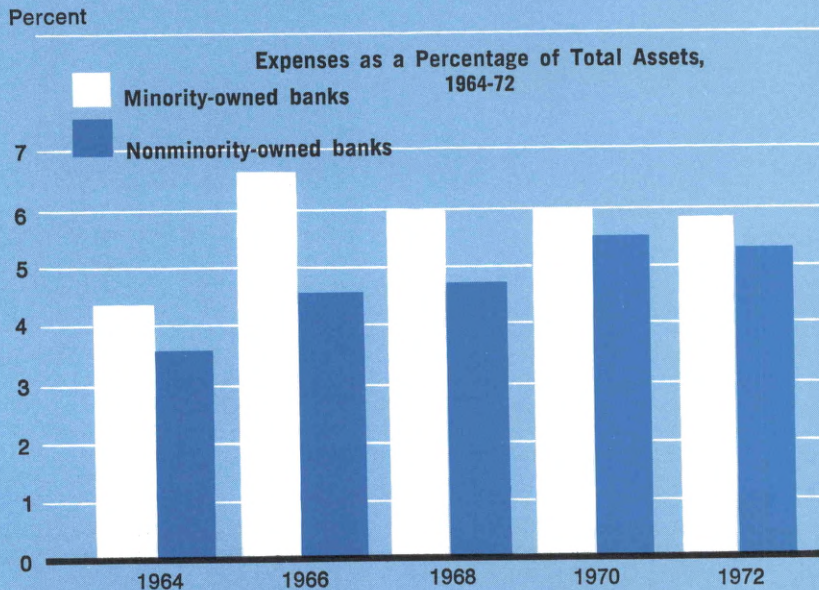


Minority-Owned Banks: Profit Picture Improving

By Robert Ritchie

CHART 1

IN THE LAST FEW YEARS THE OPERATING EXPENSES OF MINORITY-OWNED BANKS* HAVE BEEN ABOVE THE NORMS SET BY THEIR NONMINORITY COUNTERPARTS.



*The figures used are from eight minority banks and 46 nonminority sample banks in the SMSAs of New York, Chicago, Los Angeles, Houston, St. Louis, and Washington. The data used here are based on a study of these banks, John T. Boorman, *New Minority-Owned Commercial Banks: A Comparative Analysis* (Washington: Federal Deposit Insurance Corporation, 1973).

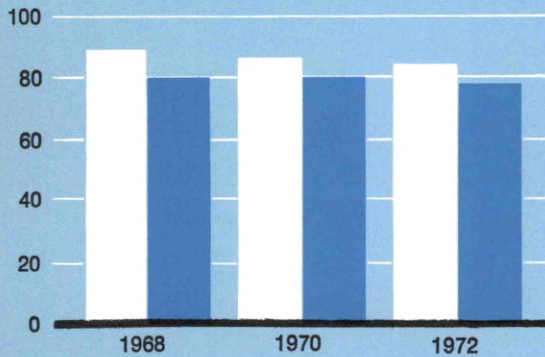
Note: Ratios are averages across banks, weighted by asset size.

CHART 2

THE NEED TO SERVICE LARGE NUMBERS OF SMALL RETAIL ACCOUNTS (ESPECIALLY SAVINGS ACCOUNTS) HAS FORCED MOST OF THE MINORITY-OWNED BANKS TO CARRY ABOVE-AVERAGE COMPLEMENTS OF EMPLOYEES. ACCORDINGLY, THEIR PERSONNEL COSTS HAVE EXCEEDED THOSE OF NONMINORITY BANKS . . .

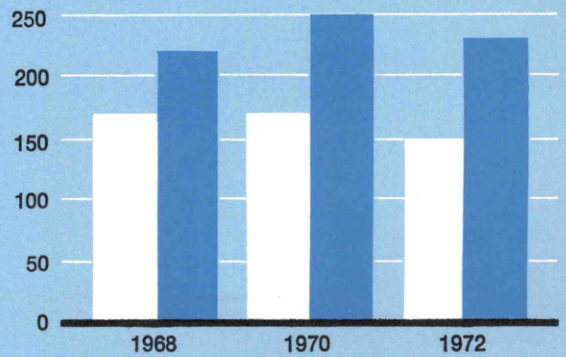
Percent

Percentage of Total Accounts Less Than \$1,000



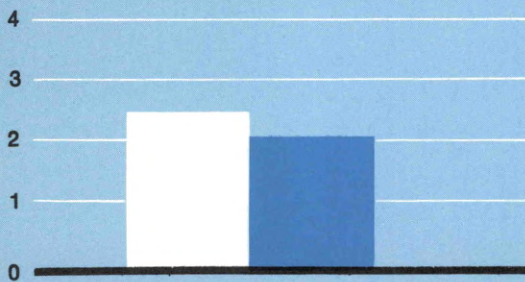
Dollars

Average Size of Deposits in Accounts of Less Than \$1,000



Number of Employees

Number of Employees Per Million Dollars in Assets, 1969-72



Percent

Total Employee Expenses as a Percentage of Total Operating Expense

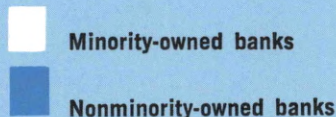
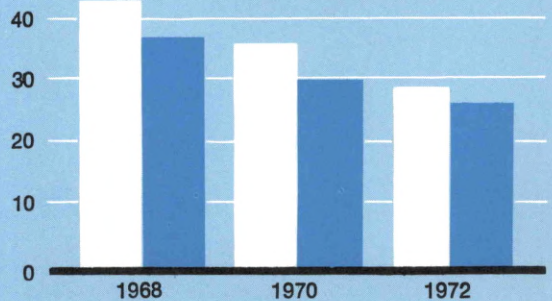
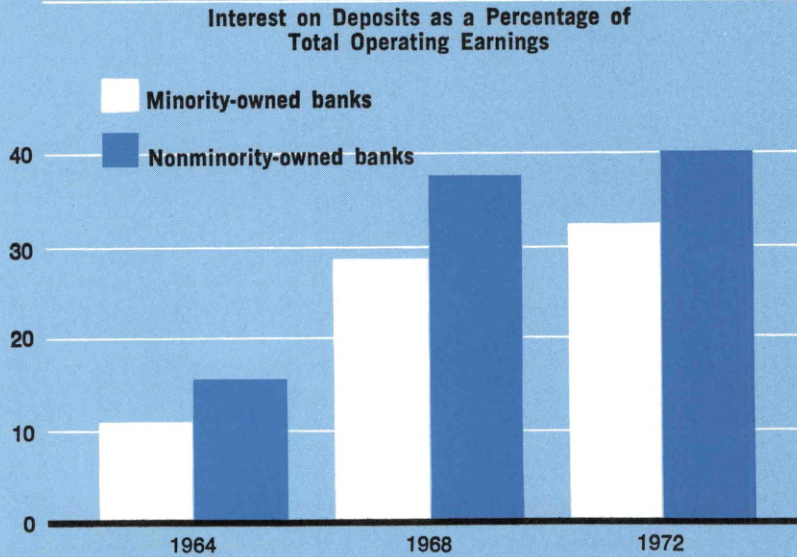


CHART 3

HOWEVER, THE HIGH COSTS OF SERVICING THESE ACCOUNTS HAVE BEEN LARGELY OFFSET BY THE LOWER NET INTEREST COSTS THAT MINORITY BANKS PAY FOR DEPOSITS AND THE HIGHER SERVICE CHARGES THEY LEVY.

Percent



Percent

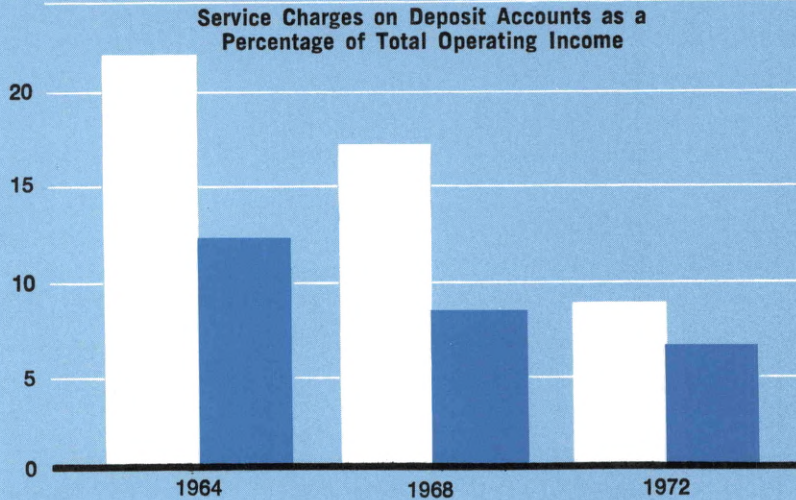


CHART 4

THE KEY DIFFERENCE IN EXPENSES WOULD SEEM TO BE THE HIGH LOSS EXPERIENCE ON LOANS OF THE MINORITY-OWNED BANKS.

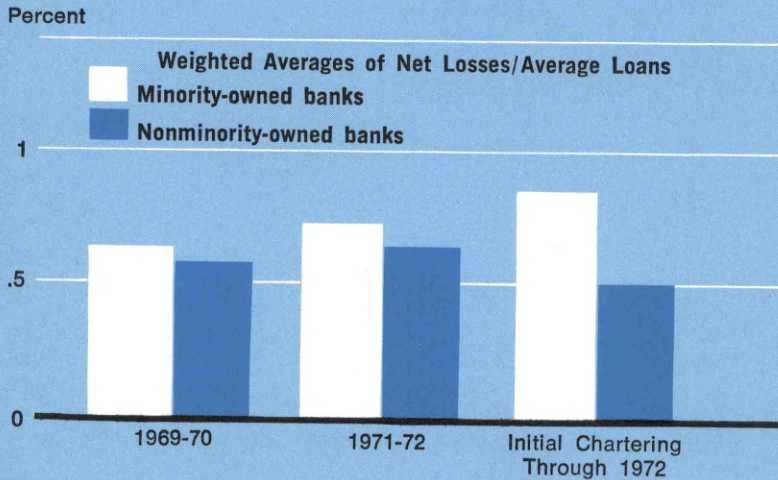
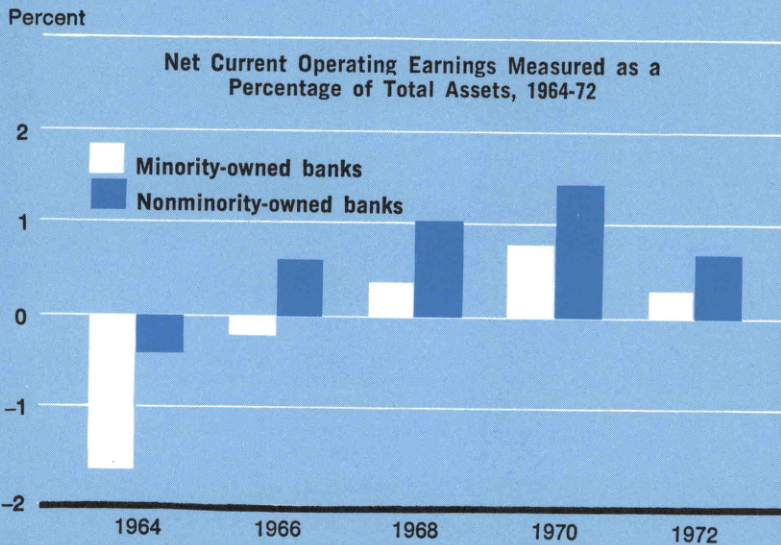


CHART 5

NONETHELESS, NET PROFIT LEVELS AT MINORITY BANKS ARE GRADUALLY APPROACHING THOSE OF NONMINORITY INSTITUTIONS.



Note: Ratios are averages across banks, weighted by asset size.

Regional Wrap-up 1973: Climb, Crunch, and “Crisis”

By Curtis R. Smith

In both the nation and the Third Federal Reserve District,¹ 1973 was like riding an economic roller-coaster. The region registered healthy gains in real growth, construction, retail sales, and banking during the past year. However, inflation, high interest rates, and shortages of important commodities hampered the growth of the area's economy. And by year-end, many guideposts of economic progress were pointing to a slowdown.

A GRADUAL SLOWDOWN

Both the nation and the District grew strongly during 1973, although the pace of economic activity started slowing as the economy reached

full capacity and began to feel the pinch of shortages toward the end of the year. Real growth in GNP during 1973 averaged a solid 4 percent in the U. S., but growth varied from a resounding 8.6 percent in the first quarter to an anemic 1.3 percent rate of increase in the fourth. The District also started strong but was stalling at year end. The local measure of industrial growth, electric power consumption in manufacturing,² rose at a rate of 3.6 percent during the first eleven months of the year.³ Like the national index,

²Electric power consumed in manufacturing has been a reliable indicator of industrial activity, but it may be that the reexamination of energy use this country is now undergoing will result in more efficient manufacturing plants that use less power. In this case, this measure may be less representative in the future.

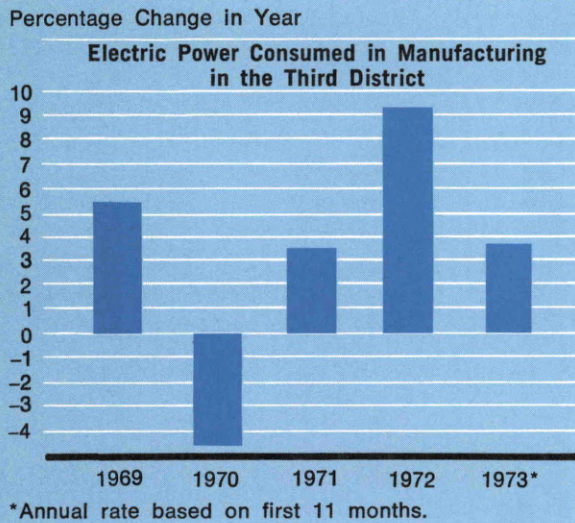
³Except where noted otherwise, 1973 growth rates are based on the first 11 months of the year.

¹The Third Federal Reserve District covers the eastern two-thirds of Pennsylvania, the nine southern counties of New Jersey, and all of Delaware.

electric power consumption was rising at more than a 10 percent rate in the first quarter, but grew much more slowly in the next two quarters (about 2½ percent).

The growth rates experienced in the early months of 1973 are above those that the economy is able to sustain over the long run, especially since they follow on the heels of significant gains in 1972. After nearly two years of boom, some slowing was clearly in order even without the added burden of the energy crisis and oil shortfalls, just beginning to be felt at year-end.

ELECTRIC POWER CONSUMED BY THIRD DISTRICT MANUFACTURERS ROSE BY MORE THAN 3½ PERCENT DURING 1973, SUGGESTING A COMPARABLE ADVANCE FOR THE REGION'S INDUSTRIAL ECONOMY.

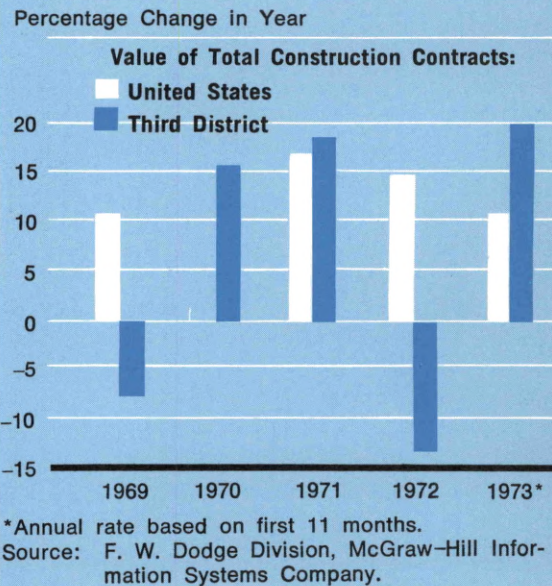


Area Construction Shows Strength.

Construction has been a bright spot in the regional picture. Fueled by gains in public works construction, the value of total construction contracts in the Third District increased 20 percent in 1973. In an area the size of the Third District,

public works construction can fluctuate greatly from year to year. In 1972, public works construction awards nosedived and, as a result, the value of total contracts was down substantially. However, in 1973, the opposite was true as public contracts increased by 70 percent from the previous year's figure. On the national level, public works construction awards tend to be

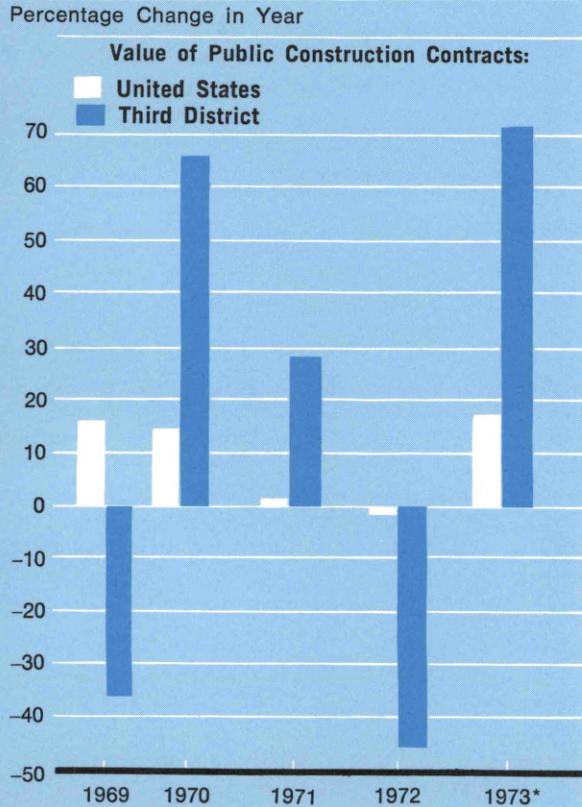
THE CONSTRUCTION INDUSTRY HAD A STRONG YEAR OVERALL.



steadier from year to year, and increased 17 percent last year after falling minimally in 1972.

The dollar value of private construction rose slightly both in the nation and the District. However, the value of private contracts increased only 3 percent in the region, compared to 1972's 7 percent gain. The residential component of private construction fared worse than the non-residential segment. After chalking up gains of close to 40 percent in 1972, the value of residential construction awards in the District was down 2 percent during 1973. While national in-

GAINS IN THE PUBLIC WORKS CONSTRUCTION SECTOR OF THE DISTRICT WERE SIZEABLE AFTER A VERY SOFT YEAR IN 1972 . . .

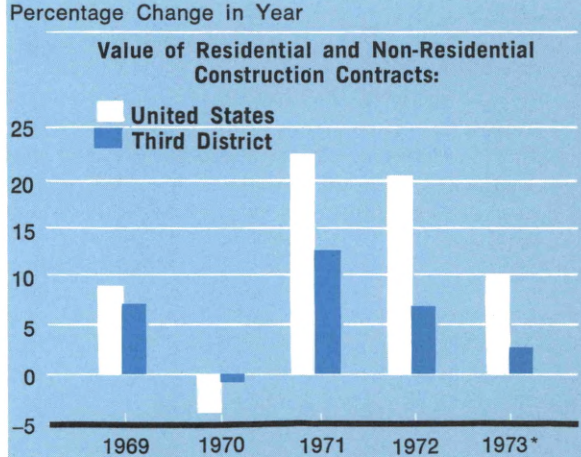


*Annual rate based on first 11 months.
Source: F. W. Dodge Division, McGraw-Hill Information Systems Company.

creases were also considerably off their 1972 pace, the slowing in homebuilding elsewhere was not quite as pronounced as in the local area.

The extra softness in this region may be partly a result of the additional drag on area housing starts caused by the mortgage crunch that occurred during the summer and fall of 1973. High interest rates created shortages of mortgage money in virtually every part of the nation as

. . . WHILE PRIVATE CONSTRUCTION'S ADVANCE WAS MUCH MORE MODEST . . .



*Annual rate based on first 11 months.
Source: F. W. Dodge Division, McGraw-Hill Information Systems Company.

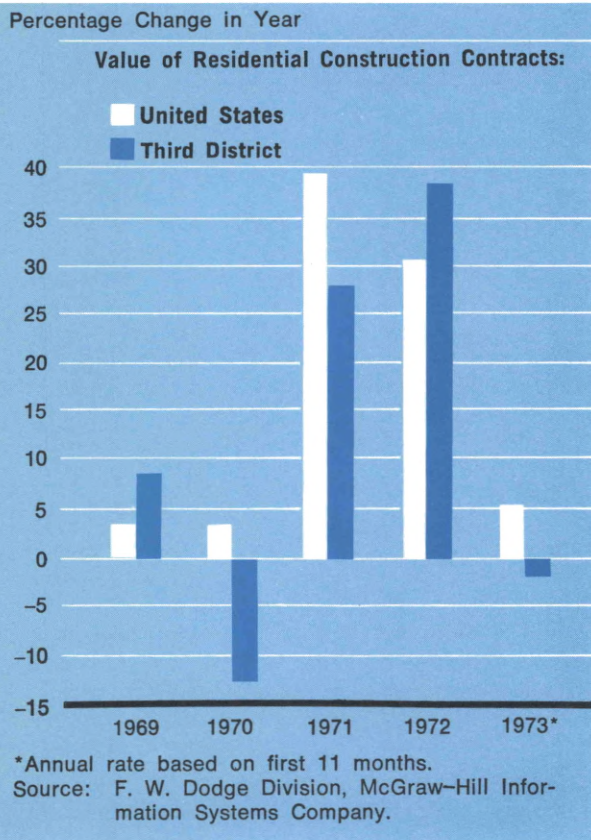
more attractive rates on competing investments pulled funds out of mortgage lending institutions. In Pennsylvania and New Jersey the legal interest rate ceilings on home loans kept mortgage rates below the level of other market rates. This reduced the flow of residential mortgage money to a trickle, thus aggravating the housing construction slowdown in this area.

Retailing Does Its Part. The retail sector also reflected the growth in regional output during 1973. Total department store sales in District cities surveyed were about 10 percent higher in the first 11 months of 1973 than during the comparable 1972 period. In the Wilkes-Barre-Hazleton area, the spurt of replacement buying necessitated by Hurricane Agnes was completed in 1972 and sales have returned to more normal levels. On the national scene, the first eleven months of the year were excellent for merchants.

INFLATION INTENSIFIES

Inflation was a major concern both for

BECAUSE RESIDENTIAL CONSTRUCTION WAS UNABLE TO MAINTAIN THE TORRID PACE IT SET IN '71 AND '72.



businessmen and consumers during 1973. Prices of goods and services, as measured by the Consumer Price Index (CPI), rose more than 9½ percent in the Philadelphia area during 1973.⁴ This compares with a rise of just over 3 percent during 1972.

Food costs were the main culprit, increasing at an annual rate of over 20 percent during the entire year. Since food accounts for 22 percent of the total Consumer Price Index, hefty jumps in this component of the index brought the overall

⁴12-month data.

CPI up substantially. Rising gasoline and fuel oil prices in the latter part of the year further exacerbated the problem by upping the costs of household operations and transportation.

Consumers elsewhere in the nation suffered slightly less than their counterparts in the Philadelphia area. Nineteen seventy-three saw an 8.8 percent increase in consumer prices for the country as a whole. This was well above '72's 3½ percent increase, but a bit under Philadelphia's figure. In the nation, too, boosts in the prices of food and fuel accounted for most of the rise in the CPI.

Real Income Falls. Shoppers, both in the nation and in the region, had to find new ways to stretch their dollars in '73. Although farmers saw their incomes surge, workers in the nonfarm sector didn't fare as well. While prices of goods and services were accelerating, paychecks of manufacturing production workers were rising more slowly than they did in 1972. Average weekly earnings in manufacturing in the Third District rose at a 7.8 percent rate in 1973, compared with an 8.4 percent increase during 1972. Average manufacturing earnings in the nation increased at a similar rate of 6.8 percent during this past year⁵ compared to 8.4 in '72.

The high rates of inflation, therefore, more than wiped out what otherwise would have been healthy pay increases. The loss of real purchasing power for the average manufacturing worker in the District amounted to between 1 and 2 percent last year. In the nation, manufacturing employees lost ground also, finding that their pay would buy about 2 percent less than in '72.⁶

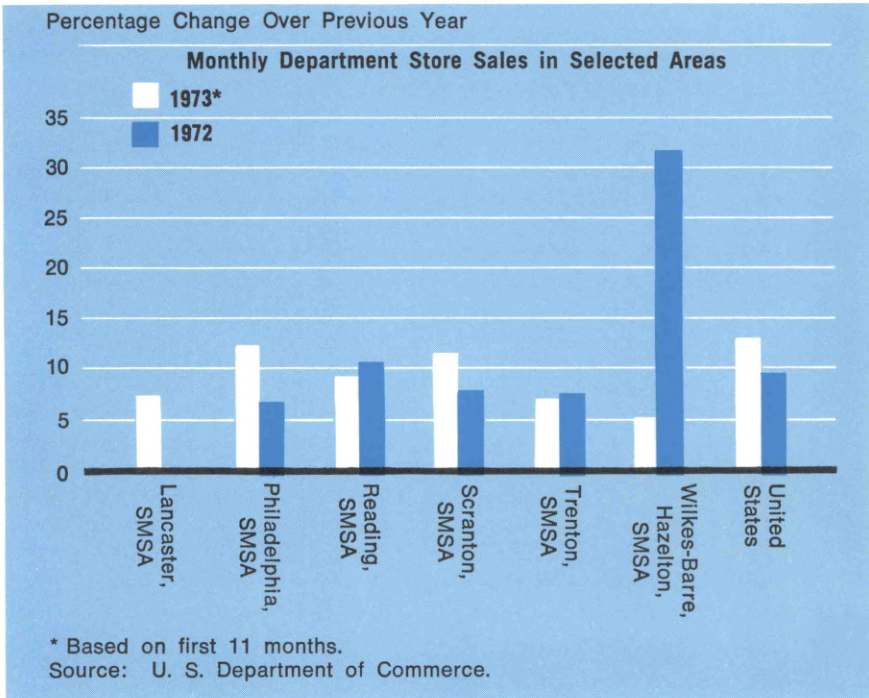
MORE JOBS AVAILABLE

Labor markets tightened as the economy approached capacity last year. The U. S. unemployment rate hit bottom at 4.5 percent and averaged a bit under 5 percent for the year. District

⁵12-month data.

⁶If real disposable personal income, which includes farm incomes, is used as a measure of the earnings increases of workers nationwide, the rise in incomes in 1973 was slightly

RETAIL MERCHANTS SHOWED EXCELLENT INCREASES IN DOLLAR SALES DURING '73, BUT RISING PRICES RATHER THAN HIGHER VOLUME WERE RESPONSIBLE FOR MOST OF THOSE GAINS.



workers had something to cheer about early in the year when their unemployment rate was below the nation's. Yet, while the national rate was trending downward, the District rate was moving upward. The regional unemployment rate started the year around 4.5 percent and rose to the 5 percent range by year-end.

In spite of the sticky unemployment rate, the number of people having jobs in the region registered its best increase in five years. Total employment in the Third District was up 3 percent during 1973. Manufacturing employment, a problem area in the past, showed a 0.9 percent rise during 1973 after a small decrease in 1972.

above the national inflation rates. However, no comparable measure exists for the Third District.

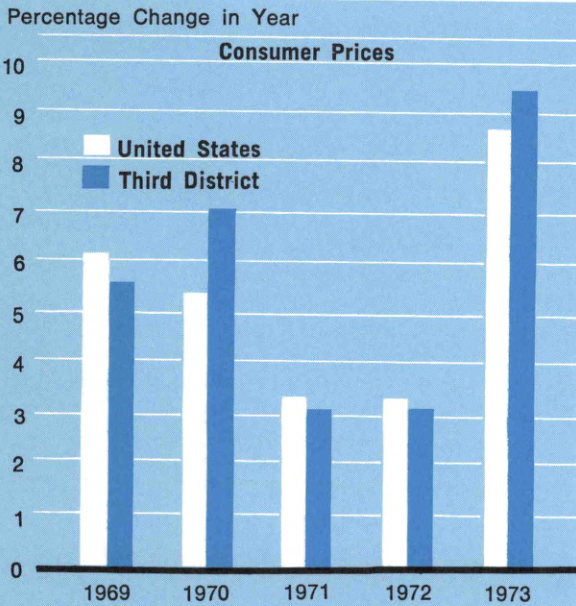
However, the local area still trails the nation in job creation. Both total employment and manufacturing employment in the U.S. rose at a rate of more than 3½ percent during 1973.⁷

HEALTHY GROWTH IN THE FINANCIAL AREA

In the financial sector of the economy, the picture was a bright one as loans outstanding continued to rise both in the District and the nation. The value of the loan portfolio of all District member banks climbed nearly 13 percent in the 12 months of 1973. National figures show an 18 percent increase, perhaps re-

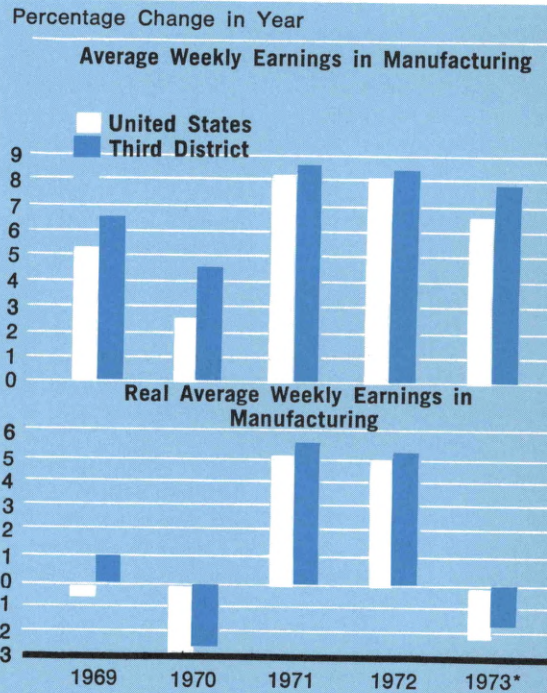
⁷The data on Third District employment and earnings are adjusted to the 1972 benchmark and are in the process of revision by the Federal Reserve Bank of Philadelphia.

INFLATION WAS THE REGION'S MOST PERPLEXING PROBLEM AS RISING FOOD AND PETROLEUM COSTS LED ALMOST UNIVERSAL INCREASES IN THE PRICES CONSUMERS PAID.



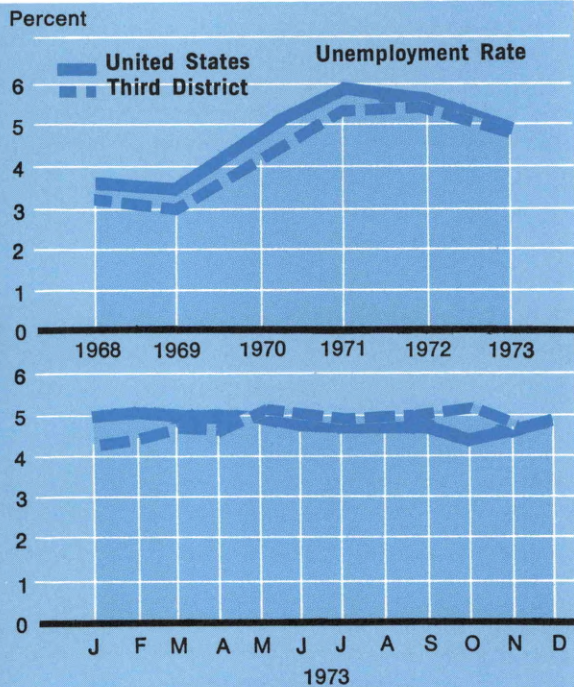
Source: U. S. Department of Labor.

ALTHOUGH MANUFACTURING WAGES REGISTERED STRONG GAINS, SKYROCKETING PRICES CAUSED REAL INCOME TO FALL.



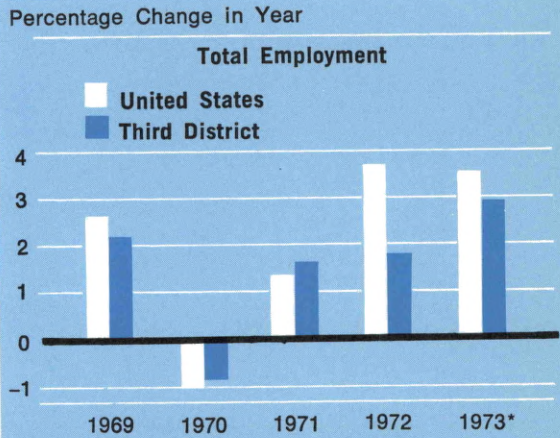
*Third District figures based on first 11 months.
Source: U. S. Department of Labor.

1973 SAW THE NATION MAKE SOME PROGRESS IN THE FIGHT TO REDUCE UNEMPLOYMENT, BUT THE DISTRICT WAS BEDEVILED BY AN OPPOSITE TREND.



Source: U. S. Department of Labor.

THE TOTAL NUMBER OF JOBS SHOWED A HEALTHY RISE IN BOTH THE NATION AND THE DISTRICT . . .



*Annual rate based on first 11 months.
Source: U. S. Department of Labor.

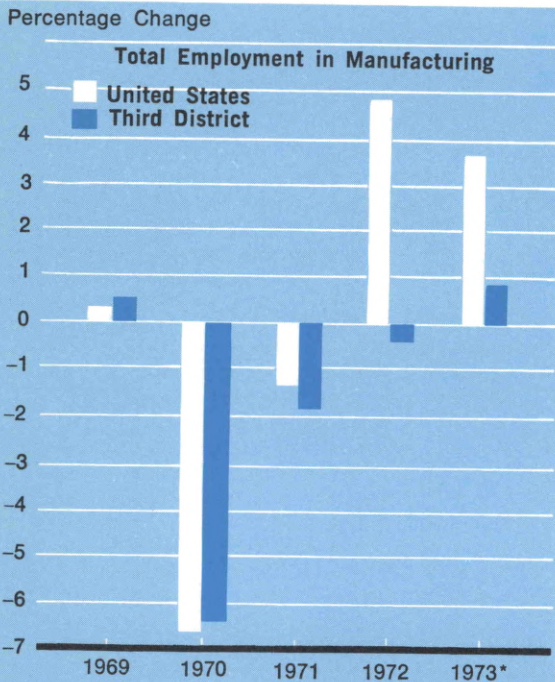
flecting the slightly slower overall growth of the region. Both national and regional banks showed a slower expansion of loans than in 1972, consistent with both slower economic growth overall and monetary pressures to restrain credit expansion.

Investments held by banks dropped in 1973. As the economy grew through the year, bankers transferred funds from fixed-income securities to loans that would bring greater returns. This is borne out by the 2 percent drop in investments registered by District member banks in 1973. However, there was evidence that bankers were beginning to shift some funds back into securities as loan demand softened toward the end of the year.

ONWARD TO '74

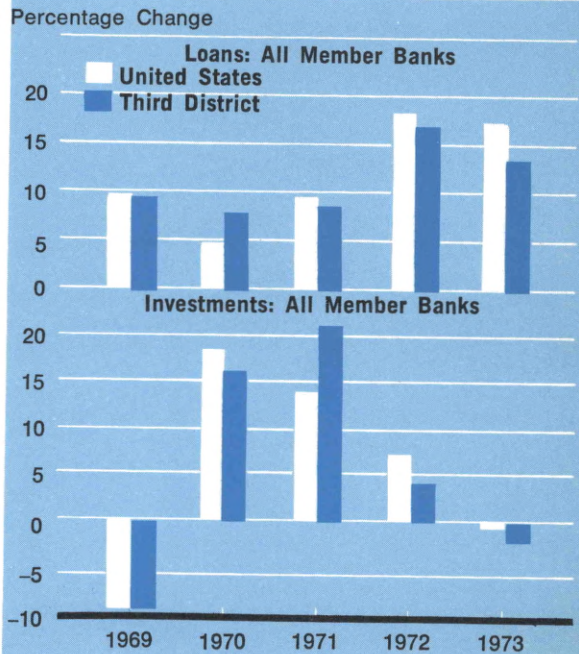
In short, the past year was one of continued growth. While tempered at year-end, manufacturing output, construction activity, and retail sales showed healthy increases. The banking sector provided money to finance the expansion, with the exception of the summer problems in the mortgage market. The District still has problems with unemployment and can expect these to continue. Inflation took such a big bite out of consumers' pocketbooks during 1973 that most nonfarm wage earners actually lost some of their buying power. The year-end economic slowdown and the uncertain oil situation do not bode well for the local region in 1974. This bearish outlook is consistent with the expectations of area businessmen, who are pessimistic about business prospects in the months ahead. (see Box).

... BUT AREA MANUFACTURING EMPLOYMENT, ALTHOUGH RISING IN RESPONSE TO ECONOMIC GROWTH, CONTINUED TO LAG BEHIND THE NATION.



*Annual rate based on first 11 months.
Source: U. S. Department of Labor.

THE BANKING SECTOR SHARED IN THE DISTRICT'S ECONOMIC PROGRESS— INCREASING LENDING TO FINANCE MUCH OF THE COMMERCIAL AND CONSUMER EXPANSION.



THIRD DISTRICT BUSINESSMEN LOOK INTO '74

The Federal Reserve Bank of Philadelphia conducts a monthly business outlook survey. This survey is designed to gain insight into prospective economic conditions in the Third Federal Reserve District, an area that includes the eastern two-thirds of Pennsylvania, the nine southern counties of New Jersey, and Delaware. Executives of manufacturing firms with 500 or more employees are polled with regard to their readings of local business activity.

Since its inception at the request of the regional business community almost six years ago, the Business Outlook Survey has become a useful source of economic intelligence both for business and public policymakers. Copies of the monthly summary of the Outlook Survey may be obtained by writing to Public Services, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101.

Outlook for 1974

Area executives responding to the Federal Reserve Bank of Philadelphia's "Business Outlook Survey" are bearish about business prospects during the next six months. Close to two-thirds of the businessmen surveyed see a decreased level of general business activity in the next half-year. More than half report that they expect their new orders to be lower by midyear, and roughly one-third of the firms plan to be laying off workers during the first half of 1974. Respondents are also worried about inflation as more than 80 percent of the firms expect to be paying higher prices for their materials as well as charging their customers more in the next six months.

On the whole, 1974 looks like a lean year for the Third District, but with some luck the economy will rebound by the latter part of the year and be moving in an upward direction by the time 1975 rolls around.



Annual Operations and Executive Changes

DIRECTORS AND OFFICERS

An election was held to choose directors of this Bank to succeed Richard A. Herbster, President, Lewistown Trust Company, Lewistown, Class A director, and William S. Masland, President, C. H. Masland & Sons, Carlisle; Class B director, who completed their terms of office. Electoral Group 3 banks elected Thomas L. Miller, President, Upper Dauphin National Bank, Millersburg; to succeed Mr. Herbster, and member banks in Electoral Group 1 reelected William S. Masland to succeed himself. Each will serve a three-year term ending December 31, 1976.

The Board of Governors of the Federal Reserve System redesignated John R. Coleman, President, Haverford College, Haverford, Pennsylvania, as Chairman of the Board of Directors of this Bank, and Federal Reserve Agent for 1974. Mr. Coleman will begin serving his second three-year term as a Class C Director. Edward J.

Dwyer was reappointed Deputy Chairman of the Board for the year 1974.

The Board of Directors selected James F. Bodine, President and Chief Operating Officer, First Pennsylvania Corporation and The First Pennsylvania Banking and Trust Company, to serve in 1974 as the member of the Federal Advisory Council from the Third Federal Reserve District, succeeding G. Morris Dorrance, Jr., Chairman of the Board and Chief Executive Officer, The Philadelphia National Bank.

Effective January 1, 1973, Hugh Barrie, Vice President, became Senior Vice President, with responsibility for Computer Applications, Data Processing, and Emergency Operations; Edward G. Boehne, Vice President and Director of Research, became Senior Vice President, with responsibility for the Research Department; and Alexander A. Kudelich, Vice President, became Senior Vice President, with responsibility for Cash and Collections and Check Processing Operations. Hiliary H. Holloway, Counsel and Assistant Secretary, was appointed Vice President

and General Counsel. D. Russell Connor, Assistant Vice President, was appointed Vice President, Donald J. McAneny, Chief Examining Officer, was appointed Assistant Vice President. Edwin C. Lodge was appointed Research Officer and Lawrence C. Santana, Jr. was appointed Security Officer.

On March 1, Edward G. Boehne, Senior Vice President, with responsibility for the Research Department, also became officer in charge of Credit Discount and Bank Services. Edward A. Aff, Vice President, retired. Hugh A. Chairnoff, Assistant Vice President, became Vice President and Lending Officer, replacing Mr. Aff. Richard W. Epps, Research Officer and Economist, became Vice President and Assistant Secretary. He will direct the new Operations Research function. W. Lee Hoskins, Research Officer and Economist, became Vice President in the Research Department. Ira P. Kaminow, Research Officer and Economist, became Economic Adviser in the Research Department. Lawrence C. Murdoch, Jr., Vice President and Secretary, became responsible for the Public Services function, in addition to having assumed overall direction of the Building Department and Internal Services on January 1. William E. Roman, Vice President and Budget Officer, assumed responsibility for the Statistical Information Section formerly located in the Department of Research. Edwin C. Lodge, Research Officer, became Statistical Officer. Kathleen C. Holmes was appointed Research Officer.

Effective May 1, 1973, Richard W. Epps, Vice President, Operations Research, assumed responsibility for a new Transportation Section. Also, Victor H. Shumaker, Examining

Officer—Trust retired from the Bank. Effective June 30, 1973, J. David Stoner, Assistant Counsel, resigned from the Bank.

Effective August 13, 1973, William E. Roman, Vice President and Budget Officer, transferred to the Collections and Check Processing Operation. Richard W. Epps, Vice President and Assistant Secretary, assumed responsibility for all Accounting and Budgeting activities. David H. Scott, Regulations Officer, began reporting to Hugh Chairnoff, Vice President and Lending Officer. Joseph M. Case, Vice President, began serving as internal consultant to Thomas K. Desch, Vice President of the Department of Supervision and Regulation.

Russell P. Sudders, Assistant Vice President, retired September 30, 1973. James H. Muntz, Accounting Officer, retired October 31, 1973. However, Mr. Muntz will continue his current responsibilities in the Accounting Department until April 30, 1974 as an internal consultant.

Donald J. McAneny, Assistant Vice President, and Kathleen C. Holmes, Research Officer, assumed the responsibilities of assistant secretaries on November 16, 1973. They replaced Joseph R. Joyce, Vice President, and Richard W. Epps, Vice President.

Effective January 1, 1974, D. Russell Connor, Vice President, began devoting full time to construction of the new building. Lawrence C. Santana, Jr., Security Officer, assumed responsibility for the Building, Purchasing, and Printing Departments, succeeding Mr. Connor. Mr. Santana will continue to be in charge of the Protection Department with the title of Building and Security Officer.

DIRECTORS AS OF FEBRUARY 1, 1974

JOHN R. COLEMAN, Chairman of the Board and Federal Reserve Agent
EDWARD J. DWYER, Deputy Chairman

GROUP		Term expires December 31
	CLASS A	
1	JOHN C. TUTEN Chairman and Chief Executive Officer National Central Bank and National Central Financial Corporation Lancaster, Pa.	1974
2	JOHN J. HASSLER President The City National Bank and Trust Company of Salem Salem, New Jersey	1975
3	THOMAS L. MILLER President Upper Dauphin National Bank Millersburg, Pa.	1976
	CLASS B	
2	C. GRAHAM BERWIND, JR. President and Chief Executive Officer Berwind Corporation Philadelphia, Pa.	1974
3	BERNARD D. BROEKER Executive Vice President Bethlehem Steel Corporation Bethlehem, Pa.	1975
1	WILLIAM S. MASLAND President C. H. Masland & Sons Carlisle, Pa.	1976
	CLASS C	
	JOHN R. COLEMAN President, Haverford College Haverford, Pa.	1976
	EDWARD W. ROBINSON, Jr. President and Chief Executive Officer Provident Home Industrial Mutual Life Insurance Company Philadelphia, Pa.	1974
	EDWARD J. DWYER Chairman of the Board ESB Incorporated Philadelphia, Pa.	1975
	MEMBER OF THE FEDERAL ADVISORY COUNCIL	
	JAMES F. BODINE President and Chief Operating Officer First Pennsylvania Corporation and the First Pennsylvania Banking and Trust Company Bala-Cynwyd, Pa.	1974

OFFICERS AS OF FEBRUARY 1, 1974

DAVID P. EASTBURN, President

MARK H. WILLES, First Vice President

HUGH BARRIE, *Senior Vice President*
 EDWARD G. BOEHNE, *Senior Vice President*
 WILLIAM A. JAMES, *Senior Vice President (On Leave)*
 ALEXANDER A. KUDELICH, *Senior Vice President*
 LYLE P. BICKLEY, *Computer Systems Coordinator*
 JOSEPH M. CASE, *Vice President*
 HUGH CHAIRNOFF, *Vice President and Lending Officer*
 D. RUSSELL CONNOR, *Vice President*
 THOMAS K. DESCH, *Vice President*
 RICHARD W. EPPS, *Vice President*
 HILARY H. HOLLOWAY, *Vice President and General Counsel*
 W. LEE HOSKINS, *Vice President*
 JOSEPH R. JOYCE, *Vice President*
 IRA P. KAMINOW, *Economic Adviser*
 G. WILLIAM METZ, *Vice President*
 LAWRENCE C. MURDOCH, JR., *Vice President and Secretary*
 WILLIAM E. ROMAN, *Vice President*
 KENNETH M. SNADER, *Vice President*
 ROBERT R. SWANDER, *Vice President and General Auditor*
 JACK P. BESSE, *Assistant Vice President*
 DONALD J. McANENY, *Assistant Vice President and Assistant Secretary*
 WARREN R. MOLL, *Assistant Vice President*
 ELIZABETH A. SCHENK, *Assistant Counsel*
 EVELYN G. BATTISTA, *Human Resources Officer*
 SAMUEL J. CULBERT, JR., *Bank Services Officer*
 PETER M. DiPLACIDO, *Fiscal Operations Officer*
 GEORGE C. HAAG, *Public Services Officer*
 JUDITH H. HELMUTH, *Computer Applications Officer*
 KATHLEEN C. HOLMES, *Research Officer and Assistant Secretary*
 PAUL E. KIRN, JR., *Cash Operations Officer*
 EDWIN C. LODGE, *Statistical Officer*
 A. LAMONT MAGEE, *Assistant General Auditor*
 DOMINIC L. MATTEO, *Check Processing Officer*
 STEPHEN M. ONDECK, *Examining Officer - Commercial*
 JOSEPH J. PONCZKA, *Examining Officer - Commercial*
 LAWRENCE C. SANTANA, JR., *Building and Security Officer*
 DAVID H. SCOTT, *Regulations Officer*
 ROBERT A. WALLGREN, *Examining Officer - Trust*

STATEMENT OF CONDITION

Federal Reserve Bank of Philadelphia

(000's omitted in dollar figures)	End of Year	
	1973	1972
ASSETS		
Gold certificate account	\$ 817,012	\$ 632,518
Special Drawing Rights Certificate	23,000	23,000
Federal Reserve notes of other Federal Reserve Banks	63,038	54,487
Other cash	2,217	10,240
Loans and securities:		
Discounts and advances	19,436	92,950
Federal Agency Obligations	106,094	72,143
United States Government securities	4,296,215	3,840,445
Total loans and securities	<u>\$4,421,745</u>	<u>\$4,005,538</u>
Uncollected cash items	394,286	446,809
Bank premises	10,435	4,515
All other assets	46,196	54,918
Total assets	<u>\$5,777,929</u>	<u>\$5,232,025</u>
LIABILITIES		
Federal Reserve notes	\$4,092,296	\$3,646,351
Deposits:		
Member bank reserve accounts	1,028,954	1,010,598
United States Government	139,424	121,026
Foreign	12,740	15,080
Other deposits	39,301	23,916
Total deposits	<u>\$1,220,419</u>	<u>\$1,170,620</u>
Deferred availability cash items	330,854	307,206
All other liabilities	51,176	30,055
Total liabilities	<u>\$5,694,745</u>	<u>\$5,154,231</u>
CAPITAL ACCOUNTS		
Capital paid in	41,592	38,897
Surplus	41,592	38,897
Total liabilities and capital accounts	<u>\$5,777,929</u>	<u>\$5,232,025</u>
Ratio of gold certificate reserve to Federal Reserve note liability	20.0%	17.3%

EARNINGS AND EXPENSES

Federal Reserve Bank of Philadelphia

(000's omitted)	1973	1972
Earnings from:		
United States Government securities	\$257,976	\$199,460
Other sources	6,529	587
Total current earnings	<u>\$264,505</u>	<u>\$200,047</u>
Net expenses:		
Operating expenses*	21,089	16,888
Cost of Federal Reserve currency	2,053	1,985
Assessment for expenses of Board of Governors	2,192	1,816
Total net expenses	<u>\$ 25,334</u>	<u>\$ 20,689</u>
Current net earnings	\$239,171	\$179,358
Additions to current net earnings:		
Profit on sales of U. S. Government securities (net)	0	181
All other	71	63
Total additions	<u>\$ 71</u>	<u>\$ 244</u>
Deductions from current net earnings:		
Loss on sales of U. S. Government securities	1,894	0
Miscellaneous non-operating expenses	2,348	2,698
Total deductions	<u>\$ 4,242</u>	<u>\$ 2,698</u>
Net deductions	4,171	2,454
Net earnings before payments to U. S. Treasury	235,000	176,905
Dividends paid	<u>\$ 2,417</u>	<u>\$ 2,344</u>
Paid to U. S. Treasury (interest on Federal Reserve notes)	229,888	174,073
Transferred to or deducted from (-) Surplus	2,695	488
	<u>\$235,000</u>	<u>\$176,905</u>

*After deducting reimbursable or recoverable expenses

VOLUME OF OPERATIONS

Federal Reserve Bank of Philadelphia

Number of pieces (000's omitted)	1973	1972	1971
Collections:			
Ordinary checks*	515,463	438,534	412,949
Government checks (paper and card)	38,052	36,560	39,689
Postal money orders (card)	11,285	12,016	12,917
Non-cash items	963	948	993
Food stamps redeemed	89,494	79,369	73,807
Clearing operations in connection with direct send- ings & wire & group clearing plans**	585	608	606
Transfers of funds	382	382	349
Currency counted	377,043	372,511	368,459
Discounts and advances to member banks	2	(a)	(a)
Depository receipts for withheld taxes	2,038	1,664	1,691
Fiscal agency activities:			
Marketable securities delivered or redeemed	289	292	355
Computerized marketable securities (Book entry transactions)	18	12	15
Savings bonds and notes (F.R. Bank and agents)			
Issues (including reissues)	12,589	10,665	11,511
Redemptions	8,609	7,497	7,557
Coupons redeemed (Government and agencies)	592	726	856

* Checks handled in sealed packages counted as units

** Debits and credit items

(a) Less than 1,000 rounded

VOLUME OF OPERATIONS (CONT'D)

Federal Reserve Bank of Philadelphia

Dollar amounts (000,000's omitted)

Collections:			
Ordinary checks	\$164,136	\$139,115	126,693
Government checks (paper and card)	13,433	11,795	10,506
Postal money orders (card)	226	219	236
Non-cash items	2,698	2,707	2,243
Food stamps redeemed	172	152	124
Clearing operations in connection with direct sendings & wire & group clearing plans*...	98,938	87,787	76,689
Transfers of funds	616,427	568,433	515,117
Currency counted	3,058	2,853	2,837
Discounts and advances to member banks	15,502	2,725	2,260
Depository receipts for withheld taxes	9,754	8,275	7,294
Fiscal agency activities:			
Marketable securities delivered or redeemed	11,452	8,950	11,297
Computerized marketable securities (Book entry transactions)	30,560	29,657	30,902
Savings bonds and notes (F.R. Bank and agents)			
Issues (including reissues)	680	623	586
Redemptions	540	355	360
Coupons redeemed (Government and agencies)	356	158	159

* Debits and credit items

**NOW AVAILABLE
BROCHURE AND FILM STRIP ON
TRUTH IN LENDING**

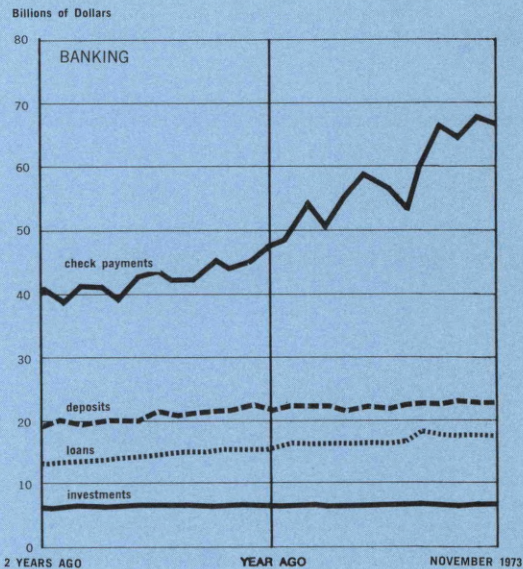
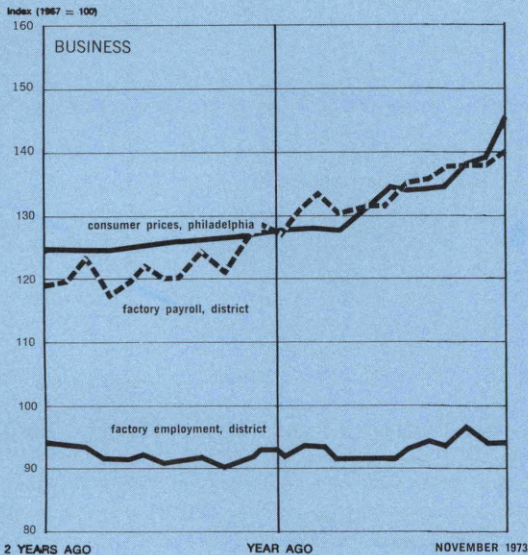
Truth in Lending became the law of the land in 1969. Since then the law, requiring uniform and meaningful disclosure of the cost of consumer credit, has been hailed as a major breakthrough in consumer protection. But despite considerable publicity, the general public is not very familiar with the law.

A brochure, "What Truth in Lending Means to You," cogently spells out the essentials of the law. Copies in both English and Spanish are available upon request from the Department of Bank and Public Relations, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101.

Available in English is a film strip on Regulation Z, Truth in Lending, for showing to consumer groups. This 20-minute presentation, developed by the Board of Governors of the Federal Reserve System, is designed for use with a Dukane project that uses 35mm film and plays a 33 RPM record synchronized with the film. Copies of the film strip can be purchased from the Board of Governors of the Federal Reserve System, Washington, D. C. 20551, for \$10. It is available to groups in the Third Federal Reserve District without charge except for return postage.

Persons in the Third District may direct requests for loan of the film to Truth in Lending, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101. Such requests should provide for several alternate presentation dates.

for the record ...



SUMMARY

	Third Federal Reserve District			United States		
	Percent change			Percent change		
	November 1973 from		11 mos. 1973 from	November 1973 from		11 mos. 1973 from
	mo. ago	year ago	year ago	mo. ago	year ago	year ago
MANUFACTURING						
Production	N/A	N/A	N/A	-2	+6	+10
Electric power consumed.	N/A	N/A	N/A	N/A	N/A	N/A
Man-hours, total*	+1	+4	+3	0	+3	N/A
Employment, total	0	+1	+2	0	+4	N/A
Wage income*	+3	+11	+11	0	+10	N/A
CONSTRUCTION**	-33	-30	+20	-12	+11	+12
COAL PRODUCTION	-5	+1	-3	-1	+6	0
BANKING						
(All member banks)						
Deposits	0	+5	+7	-2	+10	+12
Loans	+1	+13	+14	+1	+19	+22
Investments	0	-4	-1	+1	+1	+2
U.S. Govt. securities	0	-15	-7	+3	-11	-7
Other	0	0	+2	-1	+7	+7
Check payments***	-1†	+40†	+38	N/A	N/A	N/A
PRICES						
Wholesale	N/A	N/A	N/A	+2	+17	+13
Consumer	+1†	+9†	+6†	+1	+8	+6

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

†15 SMSAs
 ‡Philadelphia

LOCAL CHANGES

Standard Metropolitan Statistical Areas*	Manufacturing				Banking			
	Employment		Payrolls		Check Payments**		Total Deposits***	
	Percent change Nov. 1973 from		Percent change Nov. 1973 from		Percent change Nov. 1973 from		Percent change Nov. 1973 from	
	month ago	year ago	month ago	year ago	month ago	year ago	month ago	year ago
Wilmington	+2	+4	+8	+22	+18	+29	0	-88
Atlantic City	0	+6	+3	+17	+8	+16	+2	+12
Bridgeton	0	-2	N/A	N/A	N/A	N/A	+1	+13
Trenton	0	-1	+1	+3	-29	+162	-1	+6
Altoona	+1	0	+3	+5	-6	+16	-3	+8
Harrisburg	N/A	N/A	N/A	N/A	+4	+22	+3	+8
Johnstown	+1	+1	+16	+23	+2	+22	-2	+13
Lancaster	+1	+4	+3	+11	+4	+51	0	+15
Lehigh Valley	0	+3	+12	+21	+9	+35	-1	+7
Philadelphia	N/A	N/A	N/A	N/A	0	+37	0	+8
Reading	+1	0	+4	+11	-3	+15	+1	+13
Scranton	0	-4	+2	+4	+5	+16	0	+11
Wilkes-Barre	-1	+1	+1	+6	+11	+18	+3	+7
Williamsport	N/A	N/A	N/A	N/A	-5	+17	0	+15
York	+1	+4	+3	+14	+1	+19	0	+12

*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.



**FEDERAL RESERVE BANK of PHILADELPHIA
PHILADELPHIA, PENNSYLVANIA 19101**

business review

**FEDERAL RESERVE BANK
OF PHILADELPHIA
PHILADELPHIA, PA. 19101**