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EXPANSION IN ECONOMIC ACTIVITY

High and rising business activity with continued stability in prices of finished goods characterized the latter part of 1952. Industrial production recovered rapidly following settlement of the steel strike and reached a year-end rate about 8 per cent higher than last spring. Marked gains in output of both durable and nondurable goods occurred in response to increases in private demands as Government expenditures for national security leveled off. Expansion of output in manufacturing and mining contributed to increased activity in transportation and utility industries. Agricultural output and marketings also expanded, and activity in the construction and service industries was maintained. Total employment reached a new high and unemployment decreased to new postwar lows.

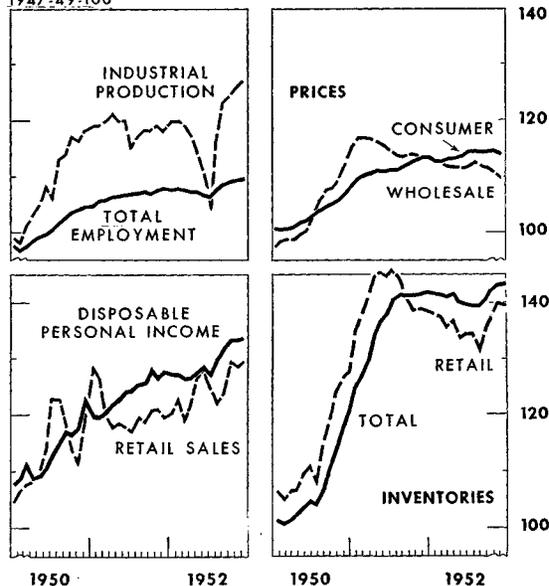
Growth in employment was accompanied by more overtime work beginning in September and, with wage rates continuing upward, hourly and weekly earnings at factories increased sharply. Aggregate wage and salary income, which had been stable in the first half of 1952, subsequently rose substantially. Farm income, however, fell below the levels of a year earlier. Total personal income at the end of the year approached an annual rate of 280 billion dollars, 6 per cent above the levels prevailing from late 1951 to mid-1952.

Expansion in consumer spending to new highs during the latter part of 1952 was

a resumption of the substantial rise that had begun in the second quarter. The rise had been interrupted during the summer, when supplies of automobiles were sharply reduced by lack of steel. Accompanying this development and important output adjustments earlier in other consumer lines, retail inventories were reduced through August, as shown in the chart. Strengthening of consumer demand after early 1952 contributed to renewed business buying and marked gains in production of consumer goods. Out-

SELECTED BUSINESS INDEXES

1947-49=100



NOTE.—Seasonally adjusted series, except for prices. Indexes based on Department of Commerce value data for income, sales, and inventories; Bureau of Labor Statistics and Census Bureau data for employment, which includes agriculture and the armed forces; and B.L.S. data for prices. December 1952 estimated.

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put of textile products began to increase as early as May, and output of major durable items expanded during the autumn to a rate about 30 per cent above last spring. Distributor demands for these and other consumer goods were active, and there was some replenishment of inventories.

The sustained high rate of new housing starts and further moderate increases in business outlays for plant and equipment also contributed to the high and rising levels of economic activity. Government outlays for military equipment were maintained at about the rates reached in the spring.

With total business inventories at a record level and industrial production at new post-war highs, demands for industrial materials and finished products were being met in late 1952 without any general upward tendency in prices. A further moderate reduction in the average level of wholesale prices reflected mainly marked declines in prices of some agricultural products. Marketings of cattle expanded considerably and export demands, especially for cotton, were lower. Consumer prices showed little change, with foods easing, as meat supplies increased, and rents and prices of other services advancing.

EXPANSION IN CONSUMER BUYING

A sharp rise in automobile sales after the steel strike and a boom in television featured developments in consumer goods markets. Retail sales of furniture, apparel, and most other consumer goods also were at advanced rates, after a general rise beginning last spring. As prices were relatively stable, the expansion in dollar sales indicated an important increase in the physical volume of consumer takings in the latter part of 1952.

Marked gains in personal incomes beginning in late summer contributed to the expansion in consumer buying. The upturn in sales of durable goods also reflected more

liberal credit terms and a greater consumer willingness to incur debt. Instalment credit outstanding increased sharply beginning in May, and at the end of 1952 it was an estimated 2.8 billion dollars higher than a year earlier. This increase compares with no change in 1951 and a rise of 2.6 billion in 1950.

Strong consumer demands and increasing output brought to an end the downward adjustment in distributors' inventories which began in 1951. Inventory changes varied among lines, however, during the latter part of 1952. Stocks held by apparel stores rose steadily and approached the previous high level of June 1951, but remained lower in relation to the rate of sales. Stocks at furniture and appliance stores, as well as at department stores, showed little change. At automotive stores, stocks recovered substantially from the sharply reduced summer levels, accounting for the bulk of the expansion in total retail inventories.

Automobiles. Output of automobiles was stepped up considerably as soon as the flow of steel permitted, and changeovers to new models were completed more quickly than usual. After August strike losses were made up, and output for the year totaled 4.3 million cars—about as many as permitted under Federal limitation orders. Assemblies in early January were maintained at an annual rate of about 5.3 million units.

Of the 1,700,000 cars produced from September through December, only 120,000 went to replenish dealers' stocks, as sales were exceptionally strong for this season of the year. Credit buying became a more important factor; an estimated 70 per cent of the number of new cars sold in the latter part of the year were purchased on instalment, compared with 50 per cent in both 1950 and 1951. Sales of used cars also rose

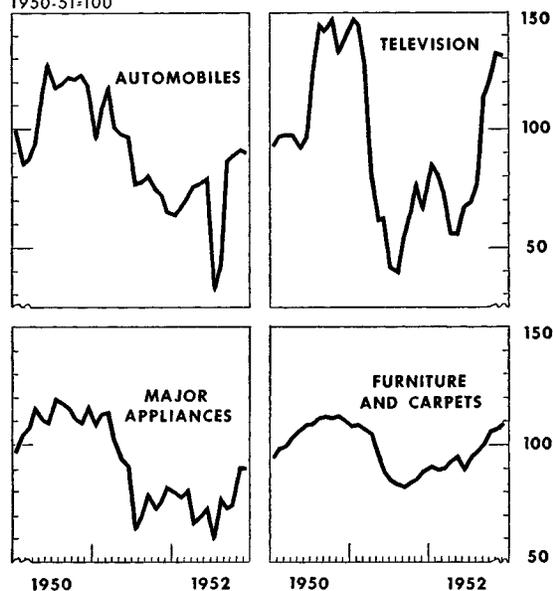
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substantially. Used car stocks increased to more normal levels by the end of the year, and prices showed only seasonal weakness.

Household durables. By the fourth quarter of 1952 output of major household durable goods had increased substantially. As indicated in the chart showing seasonally adjusted indexes, the sharpest rise from last spring was in television, which more than doubled. Output of major appliances was up 30 per cent and furniture and carpets 15 per cent.

OUTPUT OF CONSUMER DURABLES

1950-51=100



NOTE.—Seasonally adjusted indexes. December 1952 estimated.

Television production reached an annual rate of 10 million sets, the same unit rate as in the autumn of 1950. In the earlier period, however, more expensive phonograph combination models were a much larger portion of the total. Consumer purchases of television—at a rate about equal to production—were stimulated by extension of reception areas, replacement of small screen sets, and liberal credit terms.

Demand for newer types of appliances, such as freezers, driers, and automatic wash-

ing machines, continued much stronger than for refrigerators and electric stoves. Total retail sales of appliances in 1952 were about equal to the 1951 volume, with inventories in 1952 showing a substantial reduction. Total production of major appliances in 1952 was about 15 per cent below that of 1951, but was rising sharply near the year-end.

RISE IN INDUSTRIAL ACTIVITY

Strengthening in consumer buying, together with sustained large demands for construction materials and for military and producers' equipment, led to a marked increase in industrial production in the latter part of 1952. The Board's index of industrial production was indicated to be about 235 per cent of the 1935-39 average at the year-end, as compared with a midyear rate around 205 and an earlier postwar high of 223. For the year as a whole industrial production averaged 219, or about the same as in 1951.

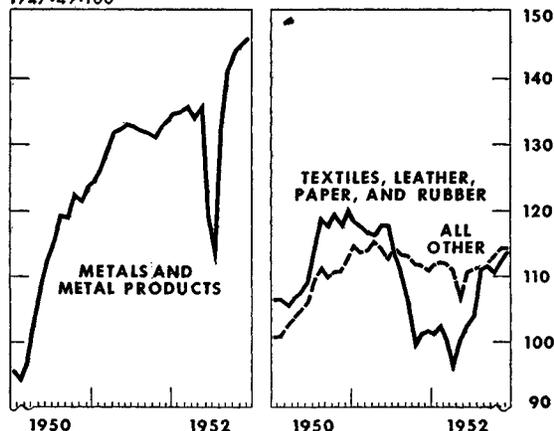
Metals and metal products. The most pronounced fluctuations in output during 1952 occurred in metals and metal products industries, as shown in the chart on the next page. These were related in very large part to the prolonged steel labor dispute, which reduced steel output moderately last spring and sharply at midyear. The poststrike recovery was swifter than had generally been expected and, with important new additions to capacity coming into operation, steel output since early October has been at a record annual rate of 115 million tons. Production for the year totaled 93 million tons, 12 million less than in 1951. Capacity at the beginning of 1953 was rated at 117.5 million tons, 9 million above a year ago.

During the long period of high levels of steel output that preceded the strike, metal fabricators had built up working stocks substantially. This made it possible for most

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PRODUCTION OF MANUFACTURES

1947-49=100



NOTE.—Seasonally adjusted indexes. December 1952 estimated.

manufacturers to maintain output through June. In a number of lines that generally are large steel consumers—notably automobiles—activity was reduced sharply during the summer. Sustained consumer demands during this period led to further marked reductions in distributors' stocks of automobiles and of some other consumer metal products.

Over-all activity in machinery, transportation equipment, and other metal fabricating industries recovered by September to earlier highs and continued to rise in later months. The further rise reflected mainly the marked expansion in production of consumer goods and also inventory replenishment at all stages of the fabricating process. Considerable increase in activity was shown at factories producing metal products and other durable materials used by the construction industry. Output in producers' equipment lines recovered in the latter part of 1952 to the sharply expanded rates which had been maintained from early 1951 until last summer. Production of military equipment was leveling off, following the earlier rapid defense build-up, and the defense share was accounting for roughly one-fourth of total output in the metal and metal products in-

dustries as compared with about one-tenth in early 1951.

Nondurable goods. In the late spring of 1952 declining tendencies that had prevailed earlier in textiles, paper, and some other important nondurable goods industries were reversed, and in the latter part of the year output of nondurable goods was not far below earlier records. Strengthening of consumer demands for apparel in the second quarter of 1952, when large factory and distributor inventory accumulations of late 1950 and early 1951 had been substantially liquidated, was quickly reflected in expansion of production throughout the textile and apparel industries. At the year-end, activity at textile mills was up 20 per cent from the spring low.

In late summer and in the autumn of 1952 there were gains among other nondurable goods industries. Shoe production rose sharply, exceeding the low year-ago levels by about one-fifth after August, and activity in the rubber industries also increased substantially. The curtailment in paperboard output developed earlier than in other paper industries, persisted longer, and extended further—reflecting mainly the sharp drop in packaging needs as output of finished consumer goods and of materials used in their production was reduced. Similarly, the marked rise in paperboard output last autumn was closely related to the broad advance in consumer goods production.

PRICE CHANGES VARIED

Changes in supply and demand in particular markets have continued to result in diverse price developments since mid-1952. While consumer and business demands for many types of goods have increased, production has expanded considerably and prices of most finished goods have changed little in

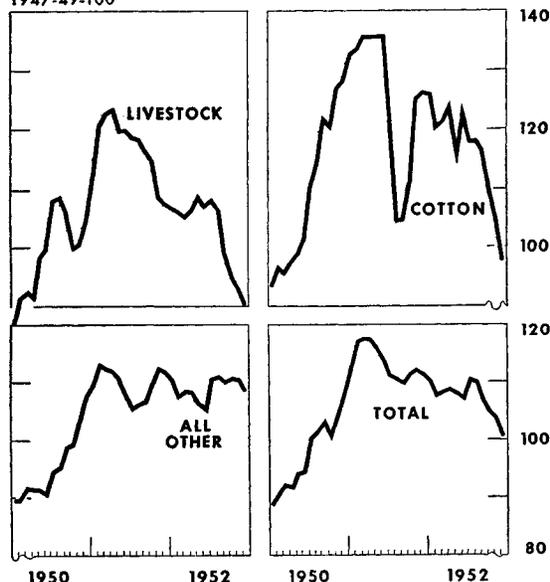
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wholesale and retail markets. Decreases in prices of some industrial materials have been largely offset by increases in others. In markets for agricultural commodities, however, supplies have expanded while export demands have been reduced, resulting in sharp declines in prices of some products.

Agricultural products. Average prices of farm products have declined 9 per cent since last summer. In mid-December they were 15 per cent below the 1951 peak and only 6 per cent above the June 1950 (pre-Korean) level. Decreases were concentrated in prices of cotton and livestock, shown on the chart. By early January livestock prices recovered moderately, as marketings contracted seasonally, but cotton declined somewhat further and grains weakened.

PRICES OF FARM PRODUCTS

1947-49=100



NOTE.—B.L.S. midmonth indexes. "All other" series derived by Federal Reserve. December 1952 estimated.

The cotton crop has turned out to be larger than indicated earlier in the season. Total supplies—production and carryover combined—however, are little larger than last season, but exports have been substantially

smaller and domestic consumption is expected to continue only moderately greater. Cotton prices have fallen one-fifth since summer, to Federal support levels. Prices of the other basic crops and of butter and wool are also close to support levels, which are about 15 per cent above June 1950. Federal loan and purchase activities have expanded considerably this season.

Record numbers of cattle on farms and slower building of herds contributed to an increasing volume of marketings in 1952, 10 per cent larger than in 1951. With hog slaughter little changed, total meat production was 5 per cent greater than in 1951. Average prices of livestock and meats declined sharply in the last half of 1952 about the levels of early 1950. Decreases in prices of cattle for feeding or herd building were considerably greater than decreases in higher grade slaughter cattle. Declines in wholesale beef prices were also much greater for the lower grades. Average prices of all meats are down 17 per cent since summer, accounting for most of the 6 per cent decline in prices of all foods at wholesale.

Industrial commodities. Average wholesale prices of commodities other than farm products and foods have changed little in recent months. Following 15 months of fairly general decline, prices of most industrial materials stabilized at midyear as demands in this country strengthened. Also, speculative holdings abroad of such materials as burlap and hides apparently had been largely liquidated by midyear. Average prices of finished industrial products have been unusually stable since early 1951.

Prices of most metals continued at Federal ceilings during 1951 and the first half of 1952, reflecting the high rates of expenditures for defense and producers' equipment; in late July ceiling prices of steel mill products,

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aluminum, copper, and brass mill products were raised. Lead and zinc prices, which had been reduced last spring as demands eased, were reduced further in the autumn.

Among finished products, prices of producers' machinery and trucks have generally continued at or above the highs reached in early 1951 and are one-sixth above June 1950. Federal price ceilings continue to be significant in markets for most of these goods, as well as in markets for the metals from which they are fabricated.

Average wholesale prices of consumer goods other than foods are 3 per cent below the early 1951 high but 8 per cent above June 1950. Wholesale prices of apparel, footwear, and carpets, which had declined substantially from earlier highs, and furniture, appliances, and radios, which had declined only moderately or had been stable, have strengthened since mid-1952.

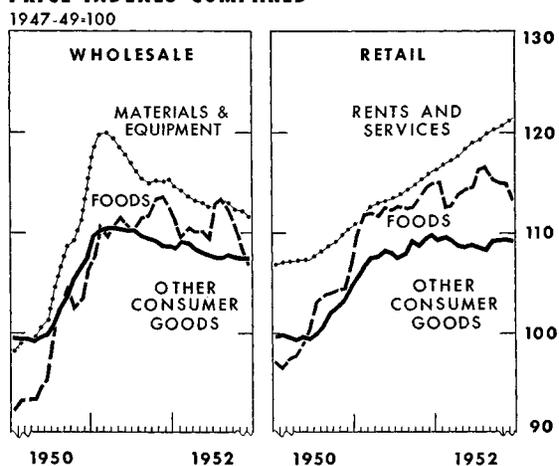
Consumer goods and services. The consumer price index, which includes retail prices of both goods and services, advanced to a new high last summer and has changed little since. The easing in retail food prices toward the end of 1952 reflected increases in supplies, in part seasonal, of meats, eggs, and dairy products. Prices of most other consumer goods strengthened after midyear.

Rents and prices of other services purchased by consumers continued the uninterrupted rise that began with the relaxation of wartime controls in 1946, increasing 5 per cent during 1952. The advance in rents accelerated in the final months of the year following suspension of controls in a number of areas. While the chart shows the increase from the 1947-49 average to be greater for rents and services than for goods, the increase from pre-World War II levels has

been considerably greater for goods than for rents and services.

During most of the past three years—the period shown on the chart—changes in retail prices of foods and other consumer goods have generally paralleled changes in wholesale prices of such goods. During the past

PRICE INDEXES COMPARED



NOTE.—Federal Reserve regrouping of B.L.S. wholesale and consumer price indexes. "Materials and equipment" includes raw and semi-finished foodstuffs as well as industrial materials and producers' machinery and trucks. December 1952 estimated.

year, and particularly since summer, changes in price indexes for meats have been larger at wholesale than at retail—to an unusual degree. This reflected in part greater declines in the lower grades of beef which are of less importance in the retail index. As compared with a year earlier, average wholesale prices of meats in mid-December were shown to be down 19 per cent and retail prices were down 6 per cent.

The divergent movements of the consumer and wholesale price indexes since early 1951, shown in the chart on page 1, are largely accounted for by the persistent rise in rents and in prices of other services, on the one hand, and the decline in prices of materials, on the other hand. Averages of all finished goods prices, at wholesale and retail, have changed little during the past two years.