

FEDERAL RESERVE BULLETIN

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EXPENDITURES IN 1953

Gross national product this year will total about 368 billion dollars, 5 per cent larger than in 1952 and a record in both dollar amount and physical volume. The increase reflects an upsurge in activity which began in the fall of 1952 and reached a high in the late spring of this year. Expansion was based primarily on growth in private spending and was dominated by rising consumer expenditures. Business outlays for fixed investment also increased further to record levels, and outlays for inventory accumulation expanded considerably. Federal expenditures for national security rose only moderately, in contrast to sharp advances in the preceding two years when such outlays accounted directly for about half of the increase in national product.

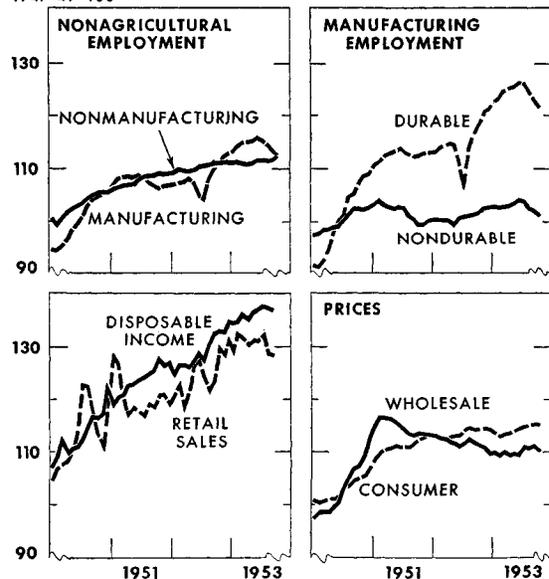
Since midyear the pace of economic activity has slackened somewhat. With supplies of materials and finished goods generally ample and with manufacturers' and distributors' sales in many lines below earlier levels, new orders have been reduced and production of both durable and nondurable goods has been curtailed moderately. Factory employment has also declined, as may be seen from the chart. Reflecting these developments, the rate of buildup of business inventories has been considerably retarded. The small decline in national product in the third quarter reflected mainly this change in the rate of inventory accumulation. The rate of resource utilization has remained very

high, however, and unemployment has continued exceptionally low.

Average wholesale prices have been remarkably stable for a period which included a strong upsurge in demand and output, elimination of price and wage controls, truce in Korea, and more recently some general easing in demand together with intensified competitive pressures among producers and distributors. Industrial prices edged up until August but have since declined slightly.

SELECTED BUSINESS INDEXES

1947-49=100



NOTE.—Seasonally adjusted series, except for prices. Indexes based on Bureau of Labor Statistics data for employment and prices, with employment seasonally adjusted by Federal Reserve, and on Department of Commerce data for income and sales. Latest figures shown are for October 1953 for employment and prices, and for September 1953 for retail sales and disposable income. Consumer prices for October 1953 estimated by Federal Reserve.

EXPENDITURES IN 1953

Prices of farm products have declined somewhat further this year, following sharp reductions in the latter part of 1952, and are back to the pre-Korean level. Consumer prices have increased steadily since late winter, but in October they were only about 1 per cent higher than a year ago.

GOVERNMENT EXPENDITURES

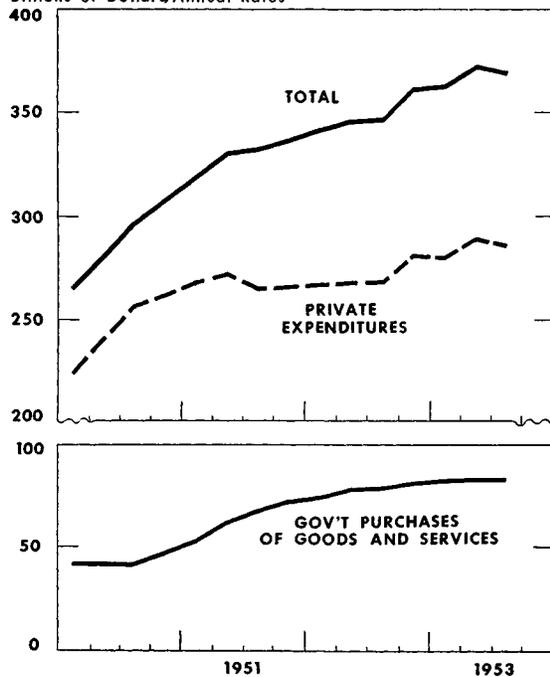
Government purchases of goods and services continued to rise slowly in the first half of this year but were unchanged in the third quarter, as may be seen from the chart. Federal expenditures for national security pro-

employment of civilians in the defense establishment has been reduced moderately. National security expenditures declined a little in the third quarter and will decline somewhat further by mid-1954 if the estimates in the Budget Review of August are realized.

Federal expenditures for goods and services for nondefense programs will be moderately larger this year than in 1952, with increases in outlays under the farm price support program more than offsetting reductions in other activities. State and local government purchases will be in record amount, about 7 per cent larger than in 1952.

GROSS NATIONAL PRODUCT

Billions of Dollars, Annual Rates



NOTE.—Department of Commerce quarterly estimates, adjusted for seasonal variation.

grams are estimated to be only moderately larger in dollar amount this year than in 1952, accounting for about one-seventh of total output in both years. The size of the armed forces has changed little this year, but

BUSINESS FIXED INVESTMENT

Business outlays for fixed investment—construction of facilities and producers' durable equipment—rose moderately in the first half of 1953, and remained at the advanced level in the third quarter. For the full year, fixed investment outlays may be about 5 per cent above the record 1952 level. Farm investment, however, has been running well below

GROSS NATIONAL PRODUCT
(Seasonally adjusted annual rates, in billions of dollars)

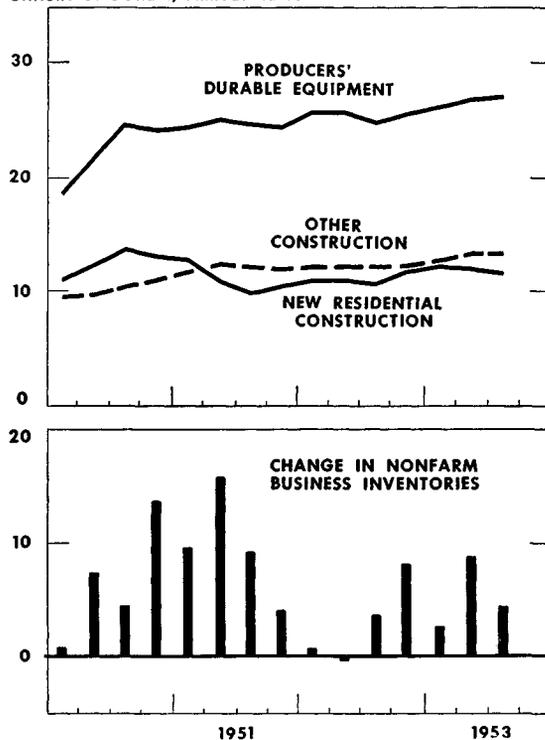
Type of expenditure	1953		1952	
	3rd. Q.	2nd. Q.	4th. Q.	3rd. Q.
Gross national product	369.0	372.4	361.1	345.3
Personal consumption expenditures	231.0	230.4	224.4	217.2
Durable goods	30.4	30.7	28.2	25.1
Nondurable goods	121.3	122.1	121.1	118.7
Services	79.2	77.6	75.1	73.3
Gross private domestic investment	56.5	61.0	57.9	52.3
New construction:				
Residential, nonfarm	11.5	12.0	11.6	10.8
Other	13.4	13.4	12.3	12.3
Producers' durable equipment	27.1	26.9	25.5	24.9
Increase in business inventories:				
Nonfarm	4.4	8.7	8.1	3.6
Farm1	.1	.4	.6
Net foreign investment	-2.1	-2.5	-1.6	-2.0
Government purchases of goods and services	83.6	83.5	80.4	77.8
Federal	58.4	58.9	56.4	54.6
National security	52.1	53.5	50.5	49.2
Other	6.8	6.0	6.3	6.0
Less: Government sales5	.7	.5	.6
State and local	25.2	24.6	24.0	23.2

NOTE.—Department of Commerce estimates.

EXPENDITURES IN 1953

PRIVATE DOMESTIC INVESTMENT

Billions of Dollars, Annual Rates



NOTE.—Department of Commerce quarterly estimates, adjusted for seasonal variation. Changes in farm inventories are not shown.

a year ago; outlays for both construction and equipment have declined substantially as a result of the lower level of farm incomes.

Among the major nonfarm industry groups, plant and equipment outlays of electric and gas utilities are expected to show a rise of 15 per cent and manufacturing industries a rise of 6 per cent for the year 1953. The commercial and miscellaneous group as a whole will apparently show only a small expansion, although construction of commercial facilities has increased considerably since late 1952. Outlays in transportation industries other than railroads and in mining are expected to be about unchanged, while railroads have programmed a 7 per cent reduction.

Manufacturing industries have shown diverse tendencies, with a rise of 8 per cent

expected for nondurable goods industries and 3 per cent for durable goods lines. Industries with large relative increases are beverages, chemicals and allied products, electrical and other machinery, paper and allied products, and petroleum and coal products. On the other hand, relatively large declines are reported by makers of textile mill products and transportation equipment other than motor vehicles.

The record volume of business outlays for expansion and modernization this year reflects a variety of influences, of which a major one has been further activity in connection with the defense program. Incentives provided by the program of accelerated amortization for tax purposes have continued to stimulate investment in defense and related industries. A large part of the work planned or started under this program has not yet been completed.

Other influences of importance in maintaining capital outlays this year have been the generally expanded volume of sales, further rapid growth in population, continued high rates of internal migration, and sustained industrial research. Currently, however, demands generally are placing less pressure on capacity than earlier, with the easier supply conditions reflecting in part the substantial increases in capacity that have taken place in recent years.

INCREASE IN BUSINESS INVENTORIES

Accumulation of nonfarm business inventories was resumed on a substantial scale in the fall of 1952 and has continued this year, as shown in the chart. For the full year the increase in the physical volume of nonfarm business inventories, measured at current prices, is likely to approximate 5 billion dollars, as compared with 3 billion in 1952.

Privately held inventories of farm prod-

EXPENDITURES IN 1953

ucts will probably show little change in 1953 following accumulation valued at 600 million dollars in 1952. Cattle herds have been unchanged this year following a very rapid buildup from late 1950 until late 1952, when marketings began to expand sharply. The substantial additions this year to stocks of grains and cotton have been going mainly under price support loan or into Commodity Credit Corporation holdings, which are not included in the figures cited for privately held farm inventories.

Total nonfarm business stocks rose only moderately in the first quarter of this year, as reductions in some nondurable goods lines partly offset a continued rapid growth in durable goods lines. From early spring to about midyear, accumulation was substantial in both durable and nondurable goods lines and at both manufacturing and distributor levels, as may be seen from the chart. The desire to expand inventory holdings further, in line with growth in sales, continued to be an important consideration, but in some areas stocks became larger than desired.

Since midyear new orders have been curtailed and production has been cut back in

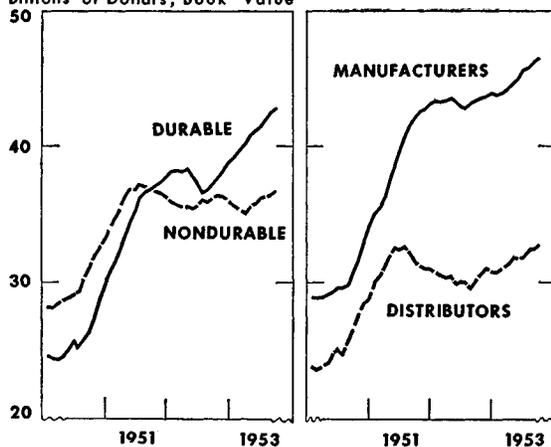
a number of lines to stabilize or reduce stocks. Expansion in the physical volume of inventories was considerably less in the third quarter than in the second. The increase in book value of stocks was somewhat smaller, and reflected price advances to a greater extent, than in the second quarter.

The book value of nonfarm business inventories at the end of September amounted to 79 billion dollars, 8 per cent larger than a year earlier. The increase was divided about equally between manufacturers and distributors and was concentrated in durable goods lines, in which total stocks expanded 15 per cent. In manufacturing, additions to stocks of 7 per cent were concentrated in metals and metal products industries. Wholesalers' inventories rose 7 per cent, with the largest increases in electrical goods, machinery and metals, and apparel. Retail stocks rose 10 per cent, with inventories of automotive outlets accounting for more than half of the rise. Expansion also was considerable at general merchandise and building materials outlets.

Ratios of stocks to sales were reduced in late 1952 and early 1953 by a substantial rise in sales. With continued growth in stocks, and some reductions in business sales during the summer, however, ratios of stocks to sales have risen generally since early spring.

INVENTORIES

Billions of Dollars, Book Value



NOTE.—Department of Commerce monthly data, seasonally adjusted. Latest figures shown are for end of September 1953.

RESIDENTIAL CONSTRUCTION

Expenditures for private nonfarm residential building, seasonally adjusted, have declined by more than one-tenth since early this year and are currently at about the year-ago level. The number of private housing units started from July to October was 8 per cent fewer than a year earlier. For the year as a whole, however, the number of housing units started, including those publicly financed, will be about 1.1 million, approxi-

EXPENDITURES IN 1953

mately the same as in each of the two preceding years.

In recent months markets for residential real estate have eased somewhat. Sales of both new and old houses have continued in large volume but transactions apparently have taken longer to close, with concessions frequently being given on prices and terms. Residential construction costs have been stable following slight increases earlier in the year. Construction of new dwelling units has continued to exceed net formation of new households, and vacancies, while still low, have been rising.

Reflecting the continued high level of market activity and the steady increase in the average size of loan, mortgage loans on new and existing properties have been extended in record volume this year and the volume of outstanding mortgage debt has increased substantially further. Funds for Federally underwritten mortgages, and particularly commitments for financing future construction, have been difficult to obtain in many areas. Recently, however, credit markets generally have eased, and mortgage funds and commitments have become more readily available.

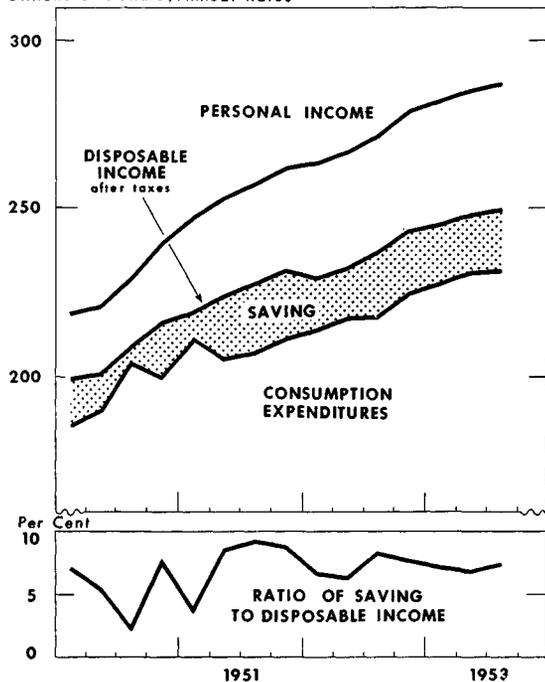
PERSONAL INCOME

Personal income will total about 285 billion dollars this year, nearly 6 per cent above last year's record level. Such income, seasonally adjusted, was moderately larger in the third than in the second quarter, as may be seen from the chart. It reached a monthly peak in July, and then declined slightly in August and September.

Wages and salaries accounted for the moderate growth in total income in the first half of this year and the small declines in recent months. Increases in manufacturing payrolls slowed up after a sharp rise in the last

PERSONAL INCOME, CONSUMPTION, AND SAVING

Billions of Dollars, Annual Rates



NOTE.—Department of Commerce quarterly estimates, adjusted for seasonal variation.

half of 1952, and since July some declines have occurred. After rising gradually through June, seasonally adjusted manufacturing employment has declined. In mid-October, such employment was 3 per cent below its summer peak and only slightly higher than a year earlier. Average weekly hours of work have been reduced this year and at 40.3 in October were about one hour below last October. Hourly earnings have continued to advance, although much less rapidly than during the second half of last year. In nonmanufacturing activities, wages and salaries continued to rise until July but since then have shown little change.

Income of farm proprietors, reflecting further reductions in prices of farm commodities, has declined markedly and currently is about at the postwar low reached in late 1949. Business and professional income has

EXPENDITURES IN 1953

shown little change this year, while rental income, dividends, and interest have continued to increase steadily.

Disposable personal income (after taxes) in the third quarter was nearly 6 per cent larger than a year ago. After allowance for slightly higher consumer prices and further growth in population, real disposable income per capita was 2 per cent above the level of a year ago. Since the end of 1952 the change has been slight.

CONSUMER EXPENDITURES

For the year 1953, total consumer expenditures for goods and services will be at a new high, in both dollar amount and physical volume. Following a sharp expansion in late 1952, such expenditures rose moderately further in the first half of this year. In the third quarter they increased only slightly as declines in expenditures for apparel and automobiles and parts about offset a substantial rise in outlays for services. In real terms, total consumption outlays in the third quarter were well above a year earlier, about 3 per cent on a per capita basis, but the change since early spring has been small.

In dollar volume, personal saving in 1953 may slightly exceed the postwar record level of the previous two years, and the proportion of disposable income saved will be close to the relatively high ratios of 1951 and 1952. Saving by individuals in liquid forms will apparently be larger than last year.

Durable goods. Consumer expenditures for durable goods for the year 1953 will reach a dollar volume somewhat above the previous record of 1950; in physical terms, total takings will be exceeded only by those of 1950. Consumer durable goods outlays began to rise appreciably in the spring of 1952, following a year of restrained demands and, in some areas, limited supplies. After

a brief interruption because of the steel strike in the summer, the rise continued through the first half of 1953. Outlays declined slightly in the third quarter, but were about one-fifth larger than in early 1952.

Purchases of new automobiles have accounted for the bulk of the rise since the spring of 1952 in consumer spending for durables. Registrations of new passenger cars increased from an annual rate of 4.3 million in the first half of 1952 to 5.8 million in the first half of 1953, reflecting both a resurgence of demand and an expansion in the supply of new cars permitted by greater availability of metals. Since June, sales of new automobiles, though exceptionally large, have been moderately lower than in the spring, as is indicated by the chart.

Increased availability of credit following suspension of instalment credit regulations in May 1952 contributed importantly to large-scale purchases of autos. Total outstanding consumer instalment credit expanded by 6.6 billion dollars from the end of April 1952 to the end of September 1953, with most of the increase accounted for by automobile credit. In recent months, however, the rate of growth in outstanding credit has diminished considerably.

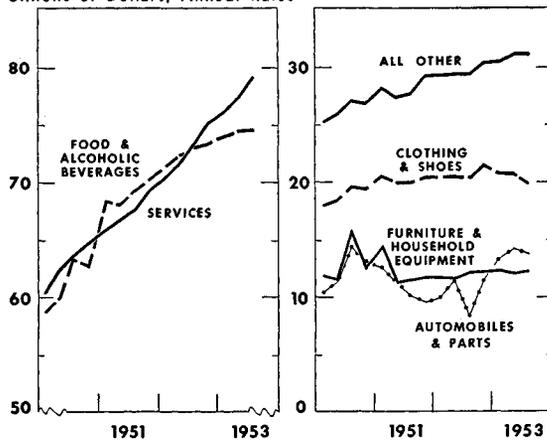
Passenger car output in 1953 is estimated at about 6.1 million units, a total second only to the 6.7 million units of 1950. The number of passenger cars in use may rise by 2 million or more to a total of 44 million at the end of 1953. This will be two-thirds more than the 26 million in use at the end of World War II.

Sales of furniture and household equipment, which had increased after the spring of 1952, declined moderately this spring. Such purchases recovered briefly in early summer, however, and total outlays in the third quarter were somewhat above the level

EXPENDITURES IN 1953

PERSONAL CONSUMPTION EXPENDITURES

Billions of Dollars, Annual Rates



NOTE.—Department of Commerce quarterly estimates, adjusted for seasonal variation.

of the second quarter. Television sales showed about the usual seasonal rise after late summer. In October, however, with output at advanced rates, television inventories expanded to unusually high levels and some production cutbacks occurred. Output of furniture and appliances was curtailed markedly during the summer and early autumn, reflecting the need to work off inventories. In early autumn, output of major appliances was about one-fourth and of furniture one-tenth below the highs in the first quarter.

Nondurable goods and services. Consumer expenditures for nondurable goods rose markedly in late 1952 and slightly further in the first half of this year. In the third quarter, however, outlays for such goods, seasonally adjusted, declined somewhat. Expenditures for clothing and shoes, which rose sharply in late 1952 to a new high, have declined appreciably this year and in the third quarter were at the lowest level since the summer of 1951.

Dollar outlays for food and beverages in 1953 rose at a much lower rate than in earlier postwar years, as may be seen from the chart, and in the third quarter were only 2 per cent larger than a year earlier. With con-

sumer prices of food in the third quarter somewhat lower than a year earlier, the rise in spending indicates a moderate growth over the past year in the amount of food consumed. A sharp reduction in retail beef prices in the past year has been accompanied by a marked increase in consumer takings. Total meat consumption in 1953 is estimated by the Department of Agriculture at a postwar record 151 pounds per person, 5 per cent more than in 1952.

Consumer spending for services has maintained its uninterrupted postwar growth and in the third quarter was 8 per cent greater than a year earlier, with probably half of the rise representing higher prices. Expenditures for housing services rose 9 per cent, in considerable part reflecting rent advances, which accelerated after the termination of rent controls at the end of July. Outlays for other types of services, including household operation, medical care, and transportation, have also continued to advance.

Economic activity and employment have advanced to new peaks in 1953, under the impetus mainly of expanding private demands. The year as a whole will be one of substantial achievement in terms of utilization of manpower and industrial resources, additions to productive capacity, higher consumer living standards, and over-all stability of prices. Since midyear, however, demands have eased and some declines have occurred in output and employment. If Federal expenditures for national security programs are moderately reduced as scheduled, the maintenance next year of current high levels of resource utilization and further growth in aggregate output will depend primarily on renewed expansion in consumer and business demands.