

Production and Prices

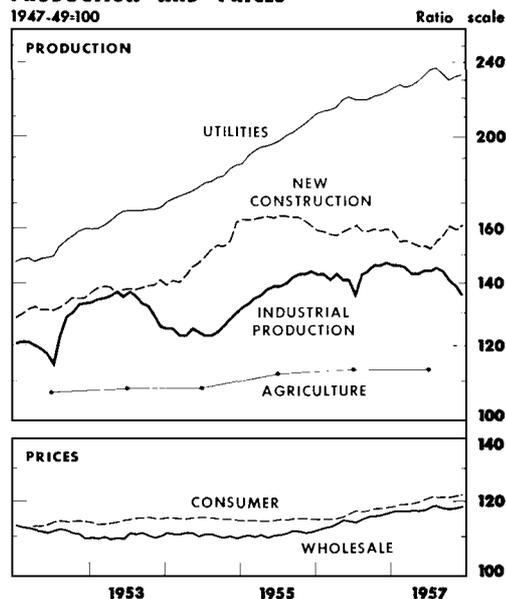
IN THE LATTER PART OF 1957 economic activity declined from the advanced level prevailing during the first three quarters of the year. The number of persons unemployed increased and personal income declined. In wholesale markets, prices of sensitive industrial materials receded, but the average of industrial commodity prices changed little. Food prices declined in early autumn, then advanced. Consumer prices reached a new high toward the year-end.

During the summer months total industrial production rose, after declining somewhat during the spring. With activity and employment in nonmanufacturing lines continuing upward, total nonagricultural employment attained a new high level in July and August. In this period activity in consumer goods industries was increasing in response to expanding demands. Meanwhile, employment and working schedules in industries manufacturing defense hard goods and producers' equipment were being reduced because of declines in military programs and in new orders for capital goods.

In the autumn consumer demands became less active and, with demands for producers' equipment declining further, total production and employment turned downward. By December industrial production had declined to 136 per cent of the 1947-49 average, which compares with the late summer high of 145 and the December 1956 high of 147.

Cuts in output of industrial materials were especially marked as industrial users

PRODUCTION AND PRICES



NOTE.—Industrial production and utilities: Federal Reserve indexes, seasonally adjusted. New construction: value in constant prices based on monthly data of the Departments of Commerce and Labor, seasonally adjusted by Federal Reserve. Agriculture: Department of Agriculture annual index of farm output. Prices: Bureau of Labor Statistics indexes. Latest monthly data are preliminary figures for December.

reduced inventories as well as current production. The total book value of manufacturers' stocks, which had leveled off in the summer, turned down in October.

Curtailment in output of manufactures and minerals in the autumn months was accompanied by a sharp reduction in freight traffic, especially on the railroads. Reductions in industrial demands for electricity and gas, on the other hand, were largely offset by continued expansion in residential and other nonindustrial uses, and total utility

output showed only a moderate decline from the peak reached last summer.

Construction activity in the closing months of 1957 was somewhat above the level maintained in the first half of the year, chiefly because of a moderate pickup in new residential building after a two-year decline. Public utility and highway construction continued to expand but private industrial building declined. Farm output in 1957 equaled the record volume of 1956.

Wholesale prices of industrial commodities at the end of 1957 were slightly above the advanced level reached at the beginning of the year. Steel prices increased in July and machinery and auto prices rose later in the year. Marked declines occurred in prices of sensitive industrial materials from late August to November. Prices of foodstuffs rose during the summer, declined in early autumn, and advanced toward the end of the year to the summer level.

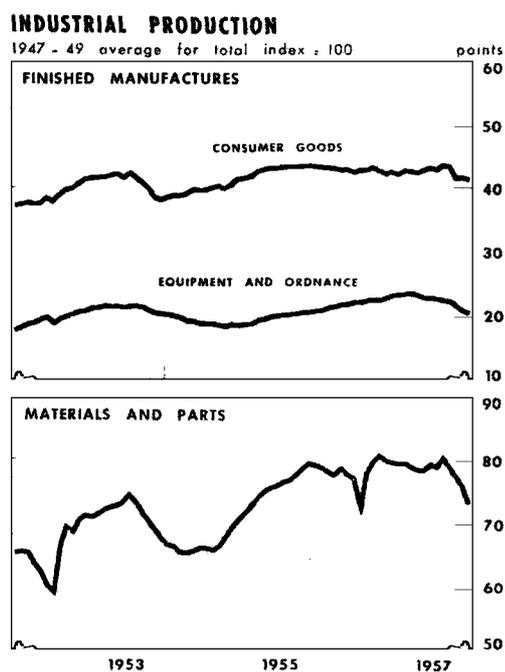
PRODUCTION ADJUSTMENTS

The Board's seasonally adjusted index of production at factories and mines declined 6 per cent in the latter part of 1957. This was as much decline as in the initial period of the 1953-54 and 1948-49 downturns.

During 1956 and most of 1957 industrial production fluctuated within an unusually narrow range around the advanced level of 144 reached in December 1955, as increases in some lines were offset by downward adjustments in others. Through early 1957, downward adjustments were occurring in industries producing consumer durable goods and residential building materials. Upward pressures came mainly from rising investment, defense, and export demands.

Last spring, after reaching a new high in

March, production in the equipment and ordnance sector began to decline. At about that time, however, as a result of earlier inventory adjustments and a brisk pickup in retail trade, production of consumer goods advanced. This rise, continuing from April to August, carried industrial production to somewhat higher ground.



NOTE.—Special breakdown of the seasonally adjusted index of industrial production, expressed as points in the total index. Latest data are estimates for December.

In the autumn, inventories of some consumer goods appeared excessive and production of these goods was reduced. Capital goods producers were continuing to cut output and to reduce stocks of materials and goods in process. As a result, sharp curtailments in production of steel and some other industrial materials developed. In December, as the chart shows, over-all activity in industries making materials and parts was down about 9 per cent from midsummer.

EQUIPMENT AND ORDNANCE

Activity in equipment and ordnance industries, which had been increasing since late 1954, continued upward in the first quarter of 1957 as defense production rose further. Production of capital equipment was generally leveling off as new orders declined and unfilled orders were drawn down. In the second quarter activity in the aircraft and machine tool industries turned down.

After midyear declines in equipment and ordnance production were extended. During the summer and autumn many new defense contracts were withheld, some projects were canceled, and aircraft procurement was generally stretched out. In the autumn surveys of business plans for capital expenditures indicated substantial reductions in 1958, especially in manufacturing and the railroads. Exports of capital goods were showing little change at a level higher than a year earlier. Near the end of the year new defense orders were rising, following reappraisal of military programs.

In December over-all output of equipment and ordnance was about 13 per cent below the March peak, with over half the decline occurring in the last quarter. Output of machine tools was down about a fourth, and declines in most other industrial machinery industries and in aircraft were substantial. Shipbuilding activity advanced until summer and then declined. Late in the year output of railroad equipment, trucks, and farm machinery also declined.

CONSUMER GOODS

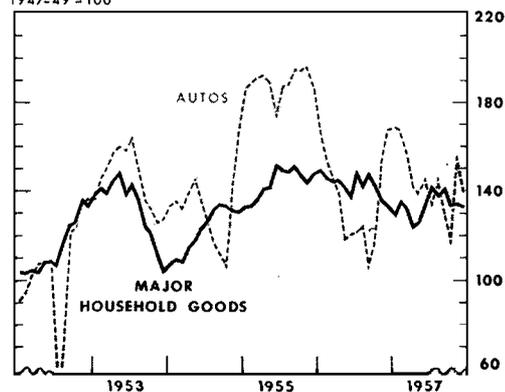
From the end of 1955 to early autumn 1957, output changes in consumer goods lines were most pronounced for autos and household durable items. Consumer demands for non-durable goods were generally rising and out-

put of most such goods either continued at an advanced level or increased somewhat further. In the closing months of 1957, however, production of nondurable as well as durable goods declined. In December total output of industries manufacturing consumer goods was appreciably below the high levels reached in late 1955 and again last summer.

Automobiles. Production of autos fluctuated widely in 1956 and 1957 around levels well below 1955, as the chart below shows. For the year 1957, production totaled 6.1 million units, as compared with 5.8 million in 1956 and 7.9 million in 1955.

Sales of domestically produced new cars over the first 10 months of 1957 were slightly higher than in the corresponding 1956 period, despite moderately lower volume in the early months of the year. In November and December the number sold averaged 3 per cent below the corresponding 1956 period and for the year as a whole sales equaled the 1956 total of 5.8 million. Imports increased steadily and for the year exceeded 200,000—more than double the 1956 volume.

CONSUMER DURABLE GOODS OUTPUT
1947-49 = 100



NOTE.—Seasonally adjusted indexes. Latest data are preliminary figures for December.

Last spring and summer, with sales relatively favorable and stocks not very high at the outset, auto production was maintained well above the corresponding 1956 level and also above the current rate of sales. Dealers' stocks rose over this period and at the end of the summer were at a new high for that season. After a large reduction during the fall model-changeover period, stocks expanded again in November as output of 1958 models increased sharply and sales rose less rapidly than anticipated. In December output was curtailed and the rise in stocks slackened. At the year-end stocks were about two-fifths higher than at the end of 1956.

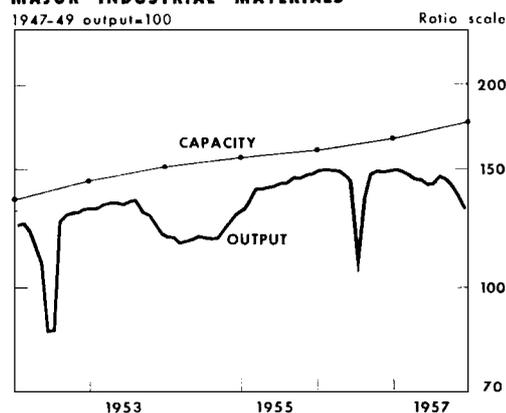
Household durable goods. Production of household durable goods in 1956 and early 1957 was generally declining from the high reached in the fall of 1955. Retail sales leveled off and demands from builders for appliances and heating apparatus were curtailed as the number of new houses built declined. Output was reduced more than sales declined and by late spring of 1957 large inventories accumulated earlier had been worked down.

In late spring and summer of 1957 buying of household durable goods picked up, reflecting in part new-model stimulus and the increase in residential building activity. Output increased and in September was 13 per cent above the low reached in the spring. Inventories—especially of television, furniture, and some appliances—rose again but not to earlier peaks. Subsequently, with retail sales lagging, production of household durable goods was reduced and in December was 132 per cent of the 1947-49 average as compared with 140 in September and 151 at the high in 1955.

MATERIALS OUTPUT

Production of industrial materials generally edged off in the first half of 1957, picked up during the summer, and then declined sharply in the autumn. The summer rise, at a time when demands from equipment and ordnance industries were declining, reflected in part increased takings by consumer goods industries. The sharp autumn reduction reflected lower demands from equipment and

MAJOR INDUSTRIAL MATERIALS



NOTE.—Based on monthly output and end-of-year capacity data for pig iron, steel ingots, primary aluminum, refined copper, cement, cotton yarn, synthetic fibers and yarns, wood pulp, paper, paperboard, petroleum products, coke, and five industrial chemicals, combined with value-added weights. Output index is seasonally adjusted; latest figure shown is preliminary estimate for December.

ordnance industries and consumer goods lines, and was attributable in part to more cautious inventory policies.

Output changes for major industrial materials, including steel, aluminum, cement, and textile fibers, are summarized in the chart. Total production of these materials in December was about an eighth below the high level of a year earlier.

The decline in late 1957, as well as the downward movement to last summer, reflected to a large extent reductions in iron and steel production. Activity at steel mills,

after receding to 86 per cent of capacity in June, dropped sharply later in the year. In early January steel ingot output was running at a rate about two-fifths below the record level of a year earlier and about 56 per cent of the capacity reported for the beginning of 1958.

Output of aluminum and copper also declined in late 1957, but not so sharply as steel production. Cotton textile production declined only moderately from the low levels prevailing earlier, and output of synthetic textile fibers rose somewhat. Output of paper and of most industrial chemicals continued near the high rates prevailing since mid-1956. Cement production was curtailed sharply by a strike in July, rose to a new high in late summer, and declined near the end of the year.

CAPACITY

Industrial capacity for production of both finished goods and materials has increased continuously over the postwar years. As the preceding chart shows, the rate of expansion for major industrial materials slackened in 1954 when available capacity was being less fully used than before. After sharp recovery in industrial activity and demands for materials, capacity expansion was again at an advanced rate in 1956 and 1957.

Production of industrial materials was pressing on capacity in many lines in late 1955 and early 1956. With capacity expanding, a similar level of materials output in late 1956 was reflected in less active use of capacity except for steel.

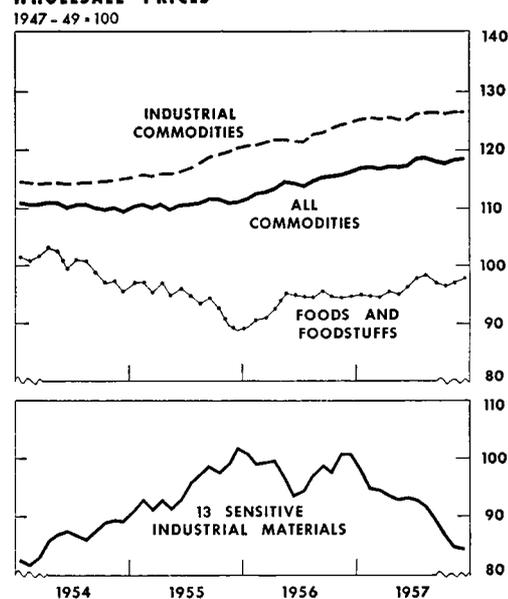
In early 1957 inventory demands for materials slackened, partly as a result of the steady improvement in supplies made possible by expanded capacity. Subsequently,

especially toward the end of the year, output curtailments for various finished goods and inventory reductions by industrial users led to curtailment in output of a number of materials. By the year-end utilization of productive capacity for these materials was down sharply.

WHOLESALE PRICES

The average level of wholesale commodity prices changed little in the first half of 1957, as the chart shows, but rose somewhat during the summer to a level 7 per cent above mid-1955. The midyear rise in prices of foods and foodstuffs was due only in part to seasonal changes in supplies, and in December prices of these commodities averaged 4 per cent above a year earlier. The average level of industrial commodity

WHOLESALE PRICES



NOTE.—Bureau of Labor Statistics index for all commodities; Federal Reserve groupings of BLS indexes for foods and foodstuffs (raw and processed foods and feeds) and industrial commodities (all other commodities in the total index). Sensitive industrial materials based on BLS daily index of 13 raw industrial commodities. Latest figures are for December.

prices also increased in the summer, and at the year-end was up 1 per cent from December 1956 and 9 per cent from mid-1955.

Prices of basic or sensitive industrial materials, some of which reflect demand and supply conditions abroad as well as in the United States, turned down at the beginning of 1957. The decline then, which was mainly a reaction to the rise that had been stimulated by the Suez crisis the previous autumn, was followed by little change in late spring and early summer. In late summer and early fall the widely expected upturn in buying of materials associated with an expected autumn rise in industrial activity failed to develop, and basic industrial commodity prices declined generally.

By November, average prices of the sensitive materials included in the index shown in the chart on page 5 were 15 per cent below the advanced level at the end of 1956 and only slightly above the low of 1954. Consequently, collections of scrap and output of various basic materials were being curtailed. In the final weeks of 1957 prices of these commodities declined little further. Abroad, the lower prices of basic materials were an element in the exchange problems of a number of raw materials producing countries.

Prices of steel mill products, building materials other than lumber, and some other fabricated materials advanced further in the spring and summer of last year. Meanwhile lumber prices continued the decline begun in early 1956, and prices of fuel oils, under pressure of heavy stocks, declined from the advanced levels reached during the Suez crisis. Altogether, prices of industrial materials at the end of last year were down slightly from the August high and not much above the level at the end of 1956.

With a smaller volume of new orders for defense and business equipment, with productive capacity enlarged, and with prices of materials no longer generally advancing, increases in wholesale prices of finished industrial products last year were neither so large nor so widespread as in the 1955-56 period. Prices of machinery and equipment, which had risen 14 per cent from mid-1955 through 1956, advanced 3 per cent in the second half of 1957, following the mid-year increase in prices of steel mill products. Wholesale prices of consumer goods other than foods changed little during the year.

CONSUMER PRICES

Prices for goods and services to consumers continued upward last year, rising 3 per cent or about as much as in 1956. An interruption in the advance in September and October was due mainly to seasonal decreases in food prices.

The consumer price index, in contrast to the wholesale commodity price index, includes rent and many services, which currently have a relative importance of one-third. Steadily advancing service prices in recent months have accounted for much, though by no means all, of the rise in the consumer index.

In 1957 as a whole, the advance in prices of services was about 5 per cent—the highest rate of increase since the period following the outbreak of war in Korea. As in most other recent years, increases were small in gas and electricity, where opportunities to increase productivity have been greater than in most lines. Increases in rates for hospital services and for house maintenance and repair were somewhat greater than the average.

Rents have continued to edge up. Since

1953 they have increased less rapidly than earlier—about 2 per cent or less per year, as compared with an average rate of nearly 5 per cent from 1946 through 1953.

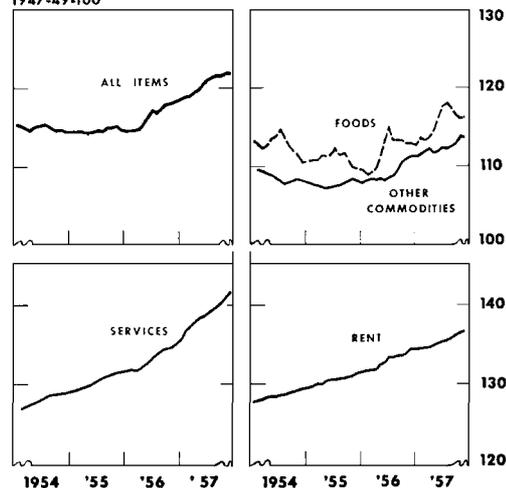
Retail prices of foods advanced last year, and in December were at a record high for this season, 3 per cent above a year earlier. Changes in food prices throughout the year reflected to a large extent changes in prices of meat.

Market supplies of meats, which had increased steadily in 1955 and early 1956, changed little during the first 10 months of 1957. In November and December production was unusually low for that time of year. With consumer demands strong, retail prices of meats rose substantially last spring and summer. Following some seasonal decline, meat prices were rising again toward the year-end and in December were about 10 per cent above a year earlier.

Retail prices of commodities other than foods advanced further last autumn and in December averaged 2 per cent above a year earlier. When 1958 models were introduced in November, prices of autos rose sharply, reflecting mainly reduction in dealer

CONSUMER PRICES

1947-49=100



NOTE.—Bureau of Labor Statistics indexes. Latest figures are Federal Reserve estimates for December.

discounts from those offered on 1957 models but also increases in manufacturers' list prices. Retail prices of apparel were somewhat higher last autumn than they were a year earlier. Prices of coal and fuel oils rose seasonally during this period and by the end of the year were near the record levels reached during the Suez crisis.