

## Changing Demands in 1957

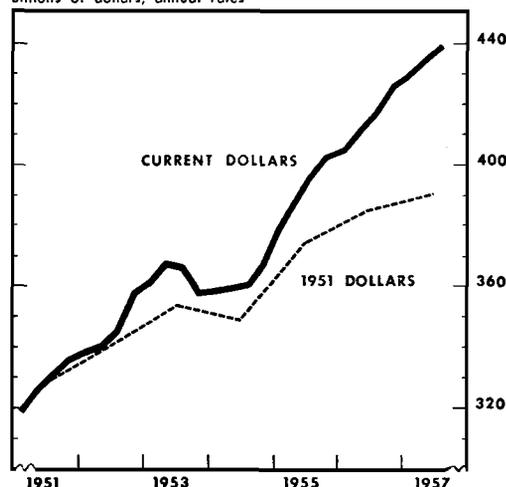
GROSS NATIONAL PRODUCT in current dollars has continued to rise to new highs and for the year 1957 may total \$436 billion, 5 per cent above 1956. The bulk of the increase reflects higher prices and real output is up only slightly. Pressure on productive resources has eased as the labor force has continued to grow and industrial capacity has been significantly enlarged. Most recently, industrial production has contracted somewhat, and demands for bank credit have declined. In mid-November a number of the Federal Reserve Banks reduced their discount rates.

The economy has been operating at expanding or advanced levels of activity for three years. In 1955 expansive forces were widespread, culminating in intensive utilization of manpower and industrial resources and in strong upward pressures on prices. In 1956 a sharp advance in business expenditures for fixed capital was a major influence in maintaining pressure on resources and prices, despite large reductions in consumer outlays for new automobiles and houses.

This year, business outlays for fixed capital have leveled off. Business inventory policies have been cautious; additions to stocks have been much smaller than in 1955 or 1956. Net foreign investment has declined from the exceptionally high level reached early this year. Exports have come down from the peak they attained during the Suez crisis, while imports have been fairly stable.

Consumer outlays for goods and services this year have about kept pace with growth

**GROSS NATIONAL PRODUCT**  
Billions of dollars, annual rates



NOTE.—Current dollars are Department of Commerce quarterly estimates, adjusted for seasonal variation; 1951 dollars were converted by Federal Reserve from Department of Commerce annual estimates in 1947 dollars. Figure for 1957 estimated by Federal Reserve.

in incomes after taxes. Expenditures for nondurable goods and services have risen considerably further, while purchases of durable goods and new houses, taken together, have not varied much.

An upsurge in Federal defense outlays that began in the spring of 1956 continued to mid-1957. Since midyear, defense spending has been reduced. State and local spending has maintained its steady growth.

Recently, the impact of lower business and defense demands has shown up primarily in durable goods lines and in minerals. In manufacturing, output of durable goods in October was down 7 per cent from the end of 1956, while output of nondurable

goods was little changed. Easing in demand for durable goods is also indicated by the reduced level of manufacturers' new orders in recent months and by a continued decline in unfilled orders. Industrial capacity has been expanded and the margin of unutilized capacity has widened. Materials and finished goods are in easier supply than they were earlier in the period of general expansion.

While prices of scrap metals and other basic industrial materials have declined this year, prices of some of the more highly fabricated materials have increased. Average prices of all industrial materials have shown little change. Meanwhile, prices of finished goods have edged up and farm products have been higher than in 1956. At the consumer level, prices have increased further this year, with some tendency to level off in recent months.

Stability of aggregate real output, growth in the labor force, and sizable increases in output per manhour have been reflected in some easing in the labor market. Unemployment in October, at 2.5 million, was moderately above a year earlier and, after seasonal adjustment, amounted to 4.6 per cent of the labor force. Nonfarm employ-

ment, seasonally adjusted, declined somewhat after August and in October was only a little above a year earlier. Manufacturing employment was down 450,000 over the year and the average workweek was more than one hour shorter. In nonmanufacturing activities, employment has not changed much since midyear and in October was 600,000 above a year earlier.

#### BUSINESS INVESTMENT

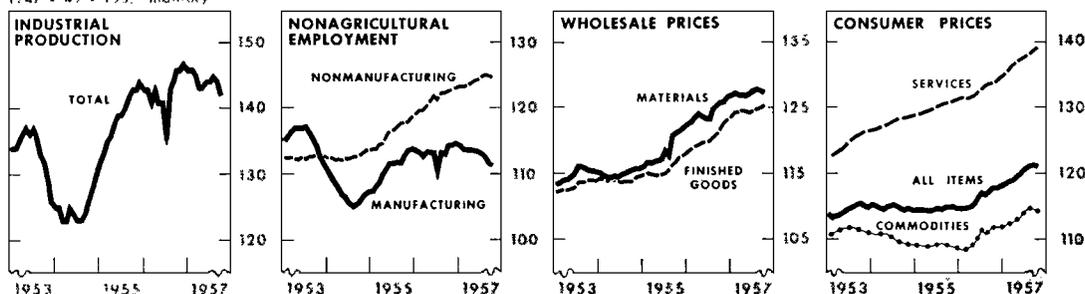
Business investment outlays this year are likely to equal the record amount spent in 1956. Expenditures for producers' durable equipment and construction, which rose sharply in 1955 and 1956, have remained at a high level, as the chart shows. Inventory accumulation has been less than half as large as in either of the preceding two years.

Corporate profits after taxes in the first half of 1957 were about the same as a year earlier, with sales up and profit margins down. Retained earnings were smaller, however, and, notwithstanding substantial growth in depreciation reserves, internal funds available to corporations were little larger than in 1956.

To finance the record volume of fixed investment outlays in 1957, corporations, par-

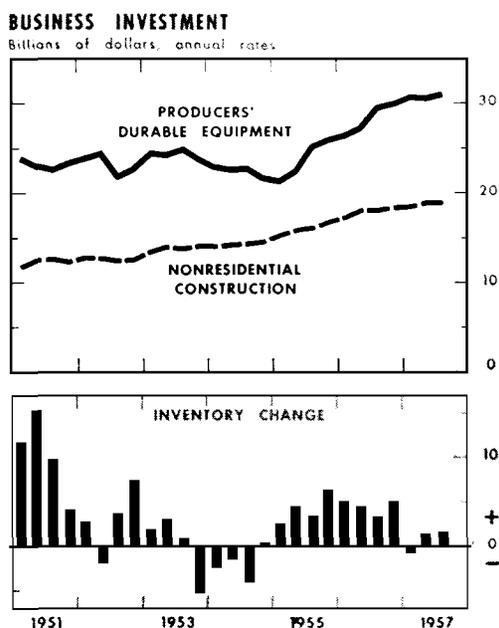
#### SELECTED BUSINESS INDEXES

1947 = 49 × 100, monthly



NOTE.—Seasonally adjusted series, except for prices. Bureau of Labor Statistics data for employment and consumer prices, and Federal Reserve data for production. Wholesale prices

are Federal Reserve groupings of B.L.S. sector indexes and exclude foods and feeds. Latest figures shown are for October, for which prices were estimated by Federal Reserve.



NOTE.—Department of Commerce quarterly estimates, adjusted for seasonal variation. Construction includes all private nonresidential construction.

ticularly in the utilities industry, have relied heavily on the capital markets. In the first 10 months of this year new issues of corporate securities were 30 per cent larger than in the corresponding period of last year. On the other hand, business borrowing from banks has been considerably less than last year, partly because inventory accumulation has been smaller. Since mid-summer such borrowing has changed little although a substantial seasonal rise ordinarily occurs. Corporate liquidity, as measured by the ratio of cash and Government security holdings to current liabilities, declined further to midyear, the latest date for which figures are available.

**Fixed investment.** Outlays for plant and equipment by nonfarm businesses, as measured by the Commerce Department-SEC Survey, have leveled off this year after expanding by more than two-fifths from early

1955 to late 1956. Expenditures by farm operators for construction and equipment are also little changed from last year. Investment outlays of nonprofit institutions, such as churches, schools, and hospitals, have continued to rise.

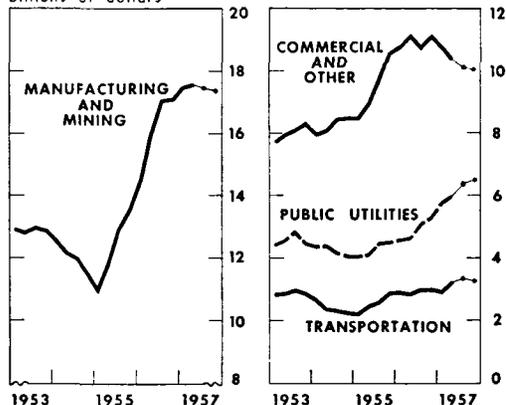
Construction costs and prices of machinery and other equipment have risen somewhat further, and the physical volume of fixed investment is apparently down some from its high of late 1956 and early 1957. While about half of business spending for fixed capital is for replacement and modernization of facilities, additions to capacity this year, as in 1956, have been substantial and widespread. According to present estimates, generating capacity of electric utilities will rise 7 per cent. Increases in capacity for major industrial materials range from an estimated 2 per cent for primary aluminum and 5 per cent for steel ingots to 14 per cent for synthetic rubber.

Business spending for fixed capital has shown diverse tendencies this year, in contrast to 1955 and 1956 when nearly all major industries increased their capital spending. As may be seen in the chart on the following page, expenditures in public utilities have advanced steadily; in manufacturing they rose slightly and then leveled off; in transportation, including railroads, they have changed little. In the commercial group, outlays have declined throughout the year and in the current quarter are estimated to be one-tenth below their high of late 1956.

Nonfarm businesses plan to reduce their spending for plant and equipment 7 per cent in 1958, according to the survey taken in late September and October by the McGraw-Hill Publishing Company. The anticipated decline is concentrated in manufacturing industries, where outlays are scheduled to fall

### PLANT AND EQUIPMENT, BY MAJOR INDUSTRY

Billions of dollars



NOTE.—Department of Commerce and Securities and Exchange Commission quarterly estimates of outlays by nonfarm business, adjusted for seasonal variation. Estimates for third and fourth quarters of 1957 are based on expenditures anticipated by business.

16 per cent. Railroads and mining also show large percentage reductions. Further small increases are planned by the electric and gas utility and petroleum industries.

The main influence on business decisions to reduce plant and equipment programs is a widespread decrease in rates of capacity utilization. According to the McGraw-Hill Survey, manufacturing industries were operating at 82 per cent of capacity in September, compared with 86 per cent at the end of 1956 and 92 per cent in December 1955.

**Inventories.** The rise in book value of nonfarm business inventories has slowed markedly. The increase from December to September was \$2.3 billion, after seasonal adjustment, compared with \$5.2 billion a year earlier. Higher costs of replacement have continued to account for much of the increase in value of inventories, and physical accumulation has been small.

Most of the increase since last December has been in value of manufacturers' inventories, where half of it has been in finished goods. Since July, the level of such stocks

has changed little. Accumulation in the first half of the year was largest in durable goods lines, particularly in the primary metals, transportation equipment, and machinery industries.

Distributors' stocks declined early this year but have increased moderately since spring. In September, stocks were little larger than at the year-end, and in a number of lines they were smaller. In October, dealers' stocks of new automobiles were reduced further from advanced levels.

Sales by manufacturers and distributors have declined in recent months and stock-sales ratios have continued to rise. In durable goods lines, particularly in manufacturing, ratios were higher in September than in most recent years, but in nondurable goods lines they have continued to fluctuate in a narrow range.

### RESIDENTIAL CONSTRUCTION

The number of new private nonfarm dwelling units started in recent months has been moderately above the low reached early this year, after allowance for seasonal factors. About one million private units are likely to be started in 1957, compared with 1.1 million in 1956 and 1.3 million in 1955. Vacancy rates have continued low, and new houses have been selling rather well at higher prices.

Expenditures for private nonfarm residential construction, after a two-year decline, have risen moderately since the spring. Activity has continued to be supported by a shift toward somewhat larger and more expensive units and by expansion in outlays for additions and alterations.

Throughout the period of decline, the number of housing starts financed under conventional arrangements remained large, while the number financed under Federally

underwritten programs declined sharply. As other interest rates rose, the rates permitted on FHA-insured and VA-guaranteed mortgages became less attractive to investors.

To facilitate purchases of houses, the Federal Housing Administration in December 1956 raised the maximum permissible interest rate on FHA-insured mortgages from 4½ per cent to 5 per cent. Since then the number of applications for mortgage assistance received monthly by the FHA has increased appreciably. In addition, the FHA this year reduced the required downpayment and increased the maximum interest rate to 5¼ per cent. At the same time, however, it placed a limit of 1 to 2½ per cent on the discounts that builders or sellers may pay lenders on FHA mortgages.

#### CONSUMER EXPENDITURES

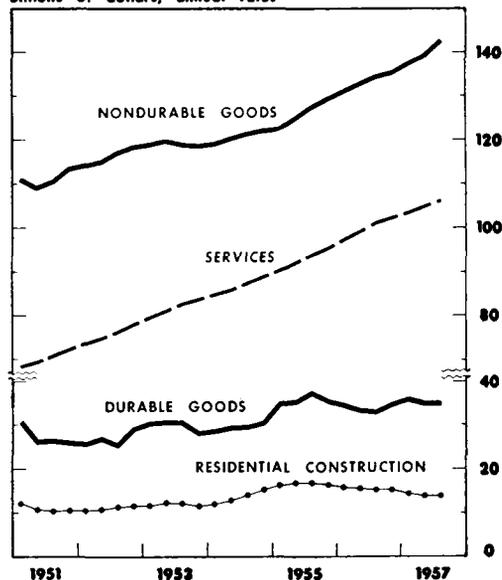
In contrast to a leveling off or decline in some important areas, consumer spending has been an expansive force this year. In September and October, however, retail sales fell below their summer peaks, with widespread incidence of influenza probably contributing to the decline.

Consumer outlays for goods and services in 1957 will probably show a rise of 5 per cent, the same as in 1956. Owing to advances in consumer prices, less than half of the increase will represent a gain in real consumption. On a per capita basis, real consumption has changed little since the spring of 1956.

**Nondurable goods and services.** Consumer expenditures for nondurable goods and services accounted for most of the rise in gross national product from late 1956 to the summer of 1957. In the third quarter spending for nondurable goods was 6 per cent above a year earlier. A 7 per cent

#### CONSUMER EXPENDITURES

Billions of dollars, annual rates



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

increase in outlays for food reflected higher prices and population growth. Nearly all of the 4 per cent rise in outlays for clothing and shoes represented a gain in real takings, as prices were up only slightly. Spending for nondurable goods, which was especially strong in the spring and early summer, receded somewhat in early autumn.

Expenditures for services have continued their steady growth and for the year may be up 6 per cent. Consumer demands have been strong for such services as shelter, utilities, medical care, and education, and prices of services have maintained their persistent advance.

**Durable goods.** The value of consumer purchases of durable goods so far this year has remained near the level of late 1956. This stability is in contrast to a sharp expansion in 1955 and to a downward adjustment in 1956.

Sales of domestically produced new automobiles to consumers and business may total 5.9 million units in 1957, as compared with 5.8 million in 1956 and 7.4 million in 1955. In addition, imports are about double the number of last year. List prices averaged about 7 per cent higher for 1957 models than for 1956 models. With dealers' margins apparently holding up at least as well as last year and with purchases of accessories expanding further, consumer outlays increased much more than the number of units sold. Manufacturers have raised list prices on the recently introduced 1958 models, but the increase is considerably smaller than the one last year.

Consumer purchases of automobiles have been facilitated by widespread use of credit, at a somewhat higher cost. Nearly two-thirds of the new cars purchased this year have been financed by instalment credit, a proportion slightly below the postwar high of 1956. Terms have continued liberal and, with an increasing proportion of new car contracts stipulating maturities of 36 months, the average maturity has lengthened further. Downpayments on new cars have not been significantly liberalized. The amount of instalment credit extended for purchasing new and used automobiles has risen further, reflecting an increase in the average amount of the contract. Repayments have also continued to grow and the volume of auto instalment debt outstanding is likely to rise about as much as it did in 1956.

Consumer purchases of furniture and household equipment this year have remained at the advanced level reached in the spring of 1956. Prices of household durable goods, particularly furniture and floor coverings, have risen since then and the physical volume of purchases has apparently declined

somewhat. Purchases of major appliances, such as refrigerators, freezers, washing machines, and driers, have declined from a year ago, while demands for the smaller appliances have apparently been strong. Sales of television sets have about matched last year's performance.

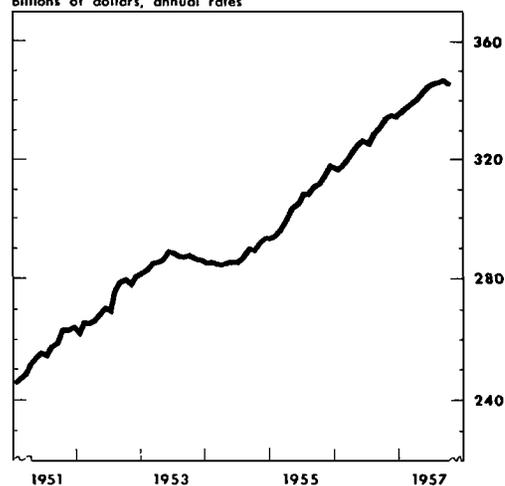
#### PERSONAL INCOME AND SAVING

Personal income for 1957 is estimated at \$343 billion, about 5 per cent larger than in 1956. The advance that began in 1954 continued to midsummer, as the chart shows, but a decline occurred in October.

Through August, wages and salaries rose more slowly this year than last, and then came down. In October the total, at an annual rate of \$240 billion, was close to the June level and 3½ per cent above a year earlier. Recent declines in wages and salaries have reflected reductions in employment and hours of work in manufacturing industries, mainly in durable goods lines. Increases in wage rates in manufacturing

#### PERSONAL INCOME

Billions of dollars, annual rates



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

have averaged less this year than in 1956. Wage and salary payments in such activities as finance and services have continued to expand.

Government transfer payments have been considerably larger than in 1956 because of broadened coverage and increased benefits under social security programs. Income of farm proprietors in the first 10 months of 1957 was slightly larger than in the same period of 1956. Nonfarm business and professional income rose to a new high at mid-year and has since shown little change. Dividends and interest income have continued to increase.

Consumer spending for goods and services has increased about as much as personal disposable income, and personal saving in 1957 may equal the 1956 total of \$20 billion. The ratio of saving to disposable income, however, may be down slightly.

Saving in financial forms by individuals was larger in the first three quarters of 1957 than in the corresponding period of 1956. Growth in time deposits was particularly marked. Net purchases of corporate securities were also larger than in 1956 or in most other recent years. A major offset to growth in financial saving in these forms was the fact that redemptions of United States savings bonds exceeded purchases by a larger amount than in 1956.

Mortgage debt of individuals has grown less than last year, reflecting the smaller volume of residential construction and the larger volume of repayments. Short-term consumer instalment debt outstanding, mainly for financing purchases of durable

goods, has increased about the same amount as in 1956.

#### GOVERNMENT PURCHASES

Federal Government purchases of goods and services expanded markedly in the year ending June 1957 as spending for national security programs increased. Federal purchases of goods and services for other purposes changed little. Despite an increase in tax receipts resulting from expansion in incomes, the Federal cash surplus was smaller and the Federal Government's fiscal operations exerted less restraint on the economy than in fiscal year 1956.

The estimates of Federal expenditures for fiscal year 1958 contained in the Midyear Budget Review released in August indicated reductions in military outlays from the advanced rates reached in the spring, and such expenditures have come down somewhat. The major impact of these reductions has been in the aircraft industry, where overtime work has been curtailed and employment has declined. Civilian employment in the Defense Department and the size of the armed forces have also been reduced. More recently, some upward revision in the estimate of military spending has been officially announced. The defense program is being re-examined in the light of recent scientific and other developments abroad.

State and local government expenditures for goods and services have expanded steadily. This growth reflects a large and continuing rise in employment, higher salaries, and enlarged expenditures for schools, highways, and other construction.