

Stability in Prices

INDUSTRIAL COMMODITY MARKETS were more competitive in 1961 than in earlier postwar periods of business expansion. Prices of some commodities advanced, but prices of others declined because of larger productive capacity and of greater competition from foreign supplies of goods. While industrial production in December was up one-eighth from the recession low reached in February, industrial commodity prices as a group were a little lower than they were in early 1961. Moreover, their level was only slightly above the high reached in 1957.

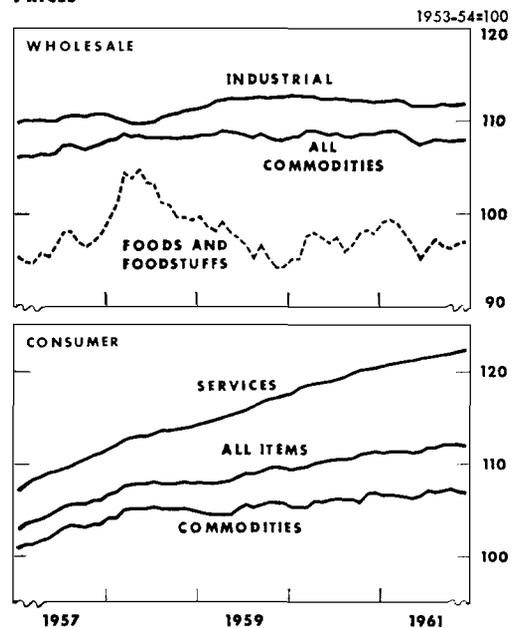
In the corresponding period of recovery after the 1957-58 recession, in contrast, industrial commodity prices advanced nearly 2 per cent. At that time there were increases not only in prices of materials that are typically sensitive to business fluctuations, but also in prices of steel mill products and many finished metal products in response to delayed increases in costs growing out of the inflation that accompanied the 1955-57 boom.

Fluctuations in prices of foods in recent years have reflected other influences more than short-run changes in industrial activity. Mainly as a result of larger output and marketings, prices of livestock and products were a little lower in late 1961 than a year earlier. Meanwhile, prices of crops increased moderately as Federal price support levels were generally raised. Toward the end of 1961 average wholesale prices of food commodities were somewhat lower than in late 1960.

The consumer price index rose less than 1 per cent in 1961. Retail prices of commodities late in the year averaged about the

same as a year earlier, with foods down slightly and other goods up somewhat. Average prices of consumer services continued to rise, but the increase of 1.5 per cent was the smallest of any postwar year.

PRICES



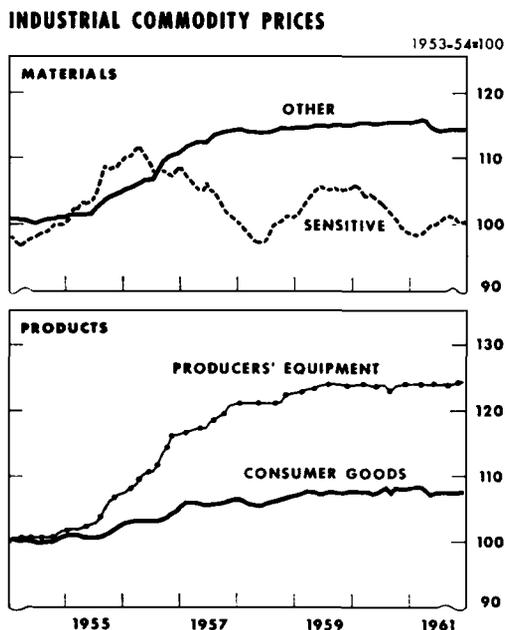
NOTE.—Based on Bureau of Labor Statistics data, shifted to 1953-54=100. Latest figures shown, December estimates.

INDUSTRIAL PRICES IN CURRENT EXPANSION

Along with the upturn in business activity, average prices began to rise for such cyclically sensitive materials as steel scrap, lumber, rubber, and hides. As shown in the chart on the following page, the index of

prices for these sensitive materials, after declining 7 per cent from the January 1960 high, rose 2.5 per cent from February 1961 through August. The index then leveled off as the pace of expansion in industrial activity slowed, in part because of strikes in the auto industry.

Prices of sensitive materials declined a little in the fourth quarter of 1961, despite renewed expansion in industrial activity, but toward the year-end prices of steel scrap and of a few other materials strengthened again.



NOTE.—Based on Bureau of Labor Statistics data for commodities other than foods and foodstuffs, shifted to 1953-54=100. Latest figures shown are December estimates.

Over the whole period since last winter, markets for sensitive materials have shown less strength than in the comparable periods of expansion in 1954-55 and 1958-59.

For some of these commodities—particularly metals and rubber—prices are strongly influenced by developments abroad as well as by domestic conditions. In some countries

the pace of expansion slowed in 1961, and inventory demands were reduced.

While prices of sensitive materials as a group increased somewhat in 1961, prices of other industrial materials, on balance, declined a little. Industrial chemicals, which had declined 1 per cent in late 1960, fell 2 per cent further last year to the lowest level since 1955. Wholesale prices of drugs and pharmaceuticals also declined, to a level nearly 4 per cent lower than in mid-1960.

Prices of paperboard had turned down at the end of 1960 and by September 1961 were down by 10 per cent. Paper bags and other packaging materials were reduced in the spring of last year, but later these products partly recovered.

Average list prices of machinery and other producers' equipment changed little during 1961. However, producers raised prices of some machine tools in late summer, after having lowered them in the spring, and producers of farm equipment and construction machinery announced some price increases toward the end of the year. On the other hand, prices of electrical equipment, which had declined in 1960, decreased further during the spring and summer of 1961.

Among consumer goods, the new auto models were introduced last autumn with no significant change in average wholesale prices for the third year in succession. On balance, wholesale prices of household durable goods changed little in 1961. Furniture increased slightly but radio and television sets declined somewhat. Wholesale prices of textile housefurnishings and apparel showed little change.

LONGER-TERM TRENDS IN INDUSTRIAL PRICES

The postwar years have included three periods of substantial advance in industrial

commodity prices. The first two—from the end of wartime price controls in 1946 to late 1948 and from the spring of 1950 to early 1951—were associated with wars, and the increases in prices were large and widespread.

In the third period, 1955-57, price increases were widespread but they were much larger for metals and metal products than for other industrial commodities. Prices of these other industrial commodities rose about 5 per cent. Metal materials and metal products turned up earlier, in 1954, and rose nearly 20 per cent by late 1957.

A slight further rise in prices of metals and metal products occurred in late 1958, when large wage increases went into effect in accordance with contracts agreed to during the 1955-57 business expansion. Since 1958, prices of metals and metal products have shown little net change.

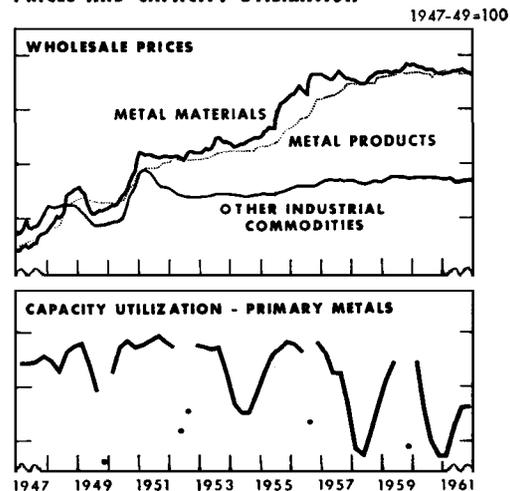
Metals. Over the postwar period many forces have influenced prices of metals and metal products. During most of the period through early 1957, production of primary metals was high in relation to capacity—except for interruptions occasioned by strikes and the brief recessions. When demands for final products expanded, shortages of metals and metal components often proved to be bottlenecks, limiting output of final products.

Under these conditions most users of metals attempted to hold larger inventories than they would have otherwise, and from time to time this caused a pyramiding of orders for steel and other metals. When prices and costs of metals increased, in response to these demand pressures, prices of machinery and other metal products also rose.

Since the summer of 1957 output of primary metals has not been so high in relation to capacity, except for short periods just

before and after the steel strike of 1959 when inventory accumulation was at a rapid rate. Capacity in the primary metals industries has increased by about a fifth since the beginning of 1957, but output has not grown apace. Consequently competition among metals and between metals and other materials has intensified.

PRICES AND CAPACITY UTILIZATION



NOTE.—Monthly price indexes based on Bureau of Labor Statistics data. Metal materials include intermediate products and components as well as primary metals. Quarterly capacity utilization index, seasonally adjusted, based on data for iron, steel, aluminum, and copper. Dots indicate points for quarters when steel strikes occurred; the point for the third quarter of 1959, 33 per cent, is not shown. Latest figures shown, December estimates for prices and fourth quarter (partly estimated) for capacity utilization.

Over recent years requirements for metals—mainly steel—have declined in relation to output in metal fabricating industries. A major example is the expansion since 1957 in output of compact autos to about one-third of total domestic manufacture in 1960-61. The use of cans made of lighter weight tinplate or aluminum and the increased substitution of plastics for metals are illustrations of both increased competition and a trend to a smaller volume of metal use in relation to output of finished products.

An additional feature of the situation since 1958 is that imports of steel have exceeded exports as capacity and productive efficiency abroad have increased. With the easing of domestic supplies and the leveling off of metal prices, moreover, users of metals apparently have judged their inventory requirements to be smaller than they did before the extended 1959 steel strike. As a result of all these developments, incentives to hold down or reduce costs and prices have been greater than they were earlier in the postwar period.

Employment costs per hour in the primary metals industries have increased less rapidly in recent years than earlier. Since 1958 average hourly earnings—which include premium pay for overtime work but do not reflect changes in fringe benefits—have increased about 3 per cent per year, compared with about 6.5 per cent per year from 1954 through 1958. Since 1958, moreover, the rate of increase in these industries has been no faster than in manufacturing as a whole, whereas in the 1954-58 period it was faster.

Employer contributions to pension funds, medical insurance, and other types of supplementary benefits have continued to rise. According to figures available in the national income statistics, fringe benefits in primary metal industries increased from 11 per cent of payrolls in 1954 to 13 per cent in 1958 and 14 per cent in 1960. As with average hourly earnings, supplementary costs grew faster in the primary metals industries than in manufacturing as a whole through 1958, but they appear to have been rising no faster since then.

Meanwhile, continuing gains in output per manhour in the primary metals industries have operated in the direction of offsetting increases in wage costs. Measures of productivity changes for relatively short periods are rough at best, and their interpreta-

tion is often obscured by work stoppages and fluctuations in output. But output per manhour appears to have increased at least as fast since 1958 as it had in the earlier postwar period.

Other industrial commodities. Average prices of industrial commodities other than metals and metal products were no higher at the end of 1961 than in 1957. Prices of construction materials as a group advanced about 5 per cent from the spring of 1958 to mid-1959 in response to the sharp rise that occurred in residential construction activity. But the contraction in residential building after the summer of 1959 was followed by a decline in prices of construction materials in 1960 to the level of early 1958.

With revival in housing activity in 1961, prices of lumber began to rise last spring. Thus far, however, the rise in housing starts has been less rapid than in earlier periods of expansion, and lumber prices declined again after mid-1961. Prices of other building materials on the whole have changed little.

Wholesale prices of most nondurable goods last autumn were close to their levels at the end of 1957. Prices of leather products were an exception. Prices of hides and leather, which show wide cyclical fluctuations, were considerably higher than in late 1957, and prices of shoes were up about 10 per cent.

Prices of rubber and products, on the other hand, were nearly 5 per cent lower last autumn than in 1957. Crude rubber prices fluctuated cyclically through 1958-60 but showed relatively little change in 1961 despite expanding business activity. Continued growth in the use of synthetic rubber has moderated fluctuations in prices of the natural product and has contributed to declines in prices of tires and other rubber products.

CONSUMER PRICES

Prices of goods and services purchased by consumers rose less than 1 per cent during 1961. Further increases in prices of medical care, public transportation, and other consumer services accounted for most of the advance. Services, however, rose less than in other postwar years.

Prices of consumer services—many of which are strongly influenced by wage costs—have risen continuously since World War II. With some lag, the rate of advance has slowed down in recessions—1949, 1954, and 1958—and quickened after expansion has been in progress for a time. During the business expansion in late 1959 and early 1960, however, the annual rate of increase of about 3 per cent was less than from mid-1956 through the first quarter of 1958. Also, the rate of increase since the first quarter of 1960—less than 2 per cent—has been a little slower than in 1954-55.

Average prices of commodities represented in the consumer price index showed mainly seasonal fluctuations in 1961 and at the year-end were about the same as at the end of 1960. Prices of foods purchased for home consumption declined slightly. There

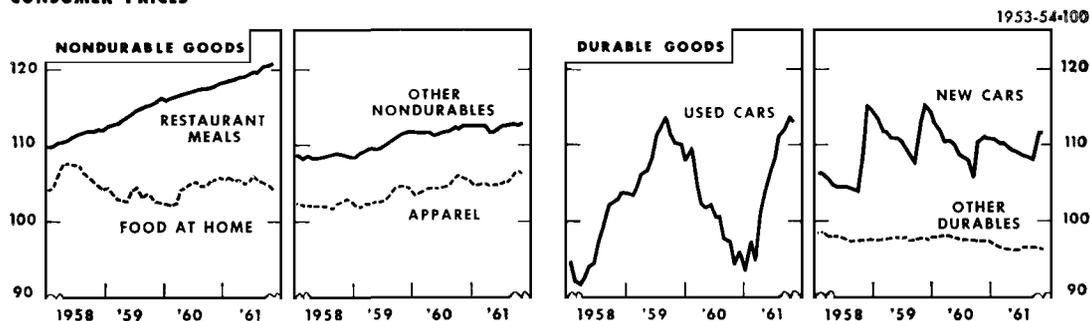
were decreases in prices of both poultry and eggs. Supplies of poultry increased sharply and in the autumn were about a fifth larger than a year earlier. Egg production, which had fallen off a little in 1960, has been slightly larger since July than a year earlier. Prices of meats other than poultry were little changed last autumn from late 1960, although supplies were somewhat larger, and prices of cereal and bakery products increased further.

Prices of restaurant meals, which account for nearly a fifth of the total food group in the consumer index, rose 2.5 per cent in 1961. Although grouped with commodities, prices of restaurant meals have behaved like those of services. They have moved up almost continuously since their introduction into the index at the beginning of 1953 and have risen nearly a fourth since then.

Apparel prices tend to be higher in the autumn during the selling season for winter clothing than at other times of the year. Prices in the autumn of 1961 were close to their level a year earlier, after having risen in 1959 and 1960.

Retail prices of other nondurable goods were generally stable in 1961. The 1959 rise in prices shown in the chart for these

CONSUMER PRICES



NOTE.—Bureau of Labor Statistics indexes, shifted to 1953-54=100. Latest figures shown, November.

nondurable goods occurred in large part because of increases in State taxes on tobacco products and gasoline.

Used cars were a major exception to relative price stability last year. Used car prices have shown wide cyclical swings in recent years. In 1961 they rose about a fifth from a sharply reduced level. Toward the year-end the substantial rise in new car sales increased the flow of cars traded in, and used car prices leveled off.

Prices of new cars have been fairly stable since 1958, apart from seasonal changes. In the early months of a new model-year cars

sell at prices close to manufacturers' lists, and then they decline to a seasonal low just before the next year's models are introduced. Prices in late 1961 were about unchanged from a year earlier but a little lower than in late 1959 and late 1958.

The price index for durable goods other than cars declined slightly in 1961. Retail prices of passenger car tires decreased further and were down 15 per cent from early 1959. Paralleling changes in wholesale prices, retail prices of appliances and of radio and television sets also declined, while prices of furniture increased slightly.
