

Recent Patterns of Demand

CYCLICAL RECOVERY and expansion have proceeded at an uneven pace since early 1961, with periods of rapid advance in production, employment, and incomes alternating with intervals of slow rise. After a period of slack at the beginning of this year, economic activity showed a strong rise during the spring. In recent months the rate of expansion has been moderate.

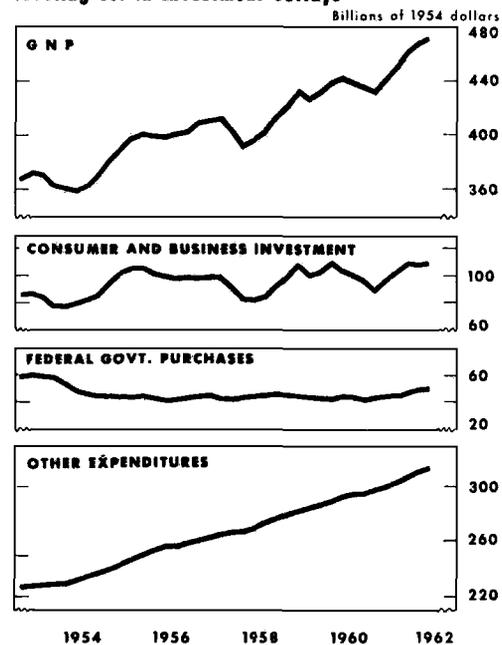
Expansion this year has been slower than during 1961. Such a development is not unusual at about this stage of a cycle. Gross national product in constant prices increased at an annual rate of 3.2 per cent from the fourth quarter of 1961 to the second quarter of 1962. This compares with a 9 per cent rate in the first three quarters of cyclical recovery.

The slower rate this year has reflected primarily a leveling off in the total of business investment expenditures and of consumer investment-type outlays. In the second quarter consumer purchases of durable goods, residential construction activity, and business outlays for fixed capital were only a little above the levels reached in late 1961, while the rate of inventory accumulation was down considerably. Throughout this article GNP and its components are stated in constant (1954) dollars unless otherwise noted.

Following a sharp increase in the preceding five quarters, Federal government purchases of goods and services increased only slightly during the second quarter of 1962, and new commitments for defense spending declined.

However, consumer expenditures for non-

SLOWING CYCLICAL EXPANSION reflects mainly leveling off in investment outlays



NOTE.—Department of Commerce quarterly figures, at annual rates, adjusted for seasonal variation. Consumer and business investment, as used here, represents personal consumption expenditures on durable goods; residential construction; other private construction; producers' durable equipment; and change in inventories. Other expenditures represent personal consumption expenditures on nondurable goods and services and State and local government purchases of goods and services. Latest figures shown, second quarter.

durable goods and services have continued the steady growth characteristic of the post-war period. So too have State and local government outlays. Such outlays are largely to provide public services for consumers.

Among monthly measures of business activity, industrial production has risen 3.5 per cent since December, compared with an expansion of 12 per cent from its low in February 1961 to the end of the year. Non-agricultural employment and personal in-

come have shown smaller increases in recent months than they had earlier. Unemployment showed little change between February and June, averaging 5.5 per cent of the civilian labor force, but declined to 5.3 per cent in July.

Average wholesale prices of industrial commodities have remained almost stable, as they have since early 1959. Indeed prices of some industrial materials have declined. Consumer prices have continued to drift up, mainly because of advances in prices of services.

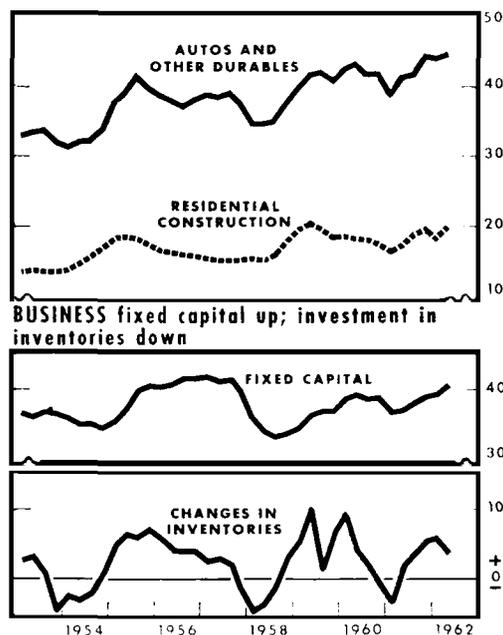
Among the influences contributing to continued stability of prices of goods are the following: Available resources of manpower and industrial capacity have been ample for further expansion, even though growth in the labor force over the past year has been far less than that expected. Output per manhour has continued to rise. In manufacturing, labor costs per unit of output have shown relatively little change in recent years. In many lines domestic producers have been facing keen competition from abroad.

CONSUMER DURABLE GOODS

Consumer purchases of durable goods declined in the first quarter of 1962, after a substantial increase from early 1961 to the fourth quarter. In the second quarter of this year such outlays expanded again, to levels only a little higher than in the fourth quarter of 1961. The monthly pattern has been more irregular than the quarterly one; after declines in May and June there was a sizable increase in such purchases in July, when retail sales of consumer durable goods were above the second-quarter average.

The jagged contour of the expansion since early 1961 has reflected mainly alternating increases and decreases in auto sales, due

CONSUMER durable goods and housing up only a little from late 1961



NOTE.—Department of Commerce quarterly figures, at annual rates, adjusted for seasonal variation. Business fixed capital represents producers' durable equipment and private non-residential construction. Latest figures shown, second quarter.

partly to supply problems in the industry, partly to general developments in the economy. The slow-down last winter was associated with a widespread pause in the economy. But it also may have represented some reaction to the sharp increase in auto sales in late 1961 after strikes had limited supplies of new models in the third quarter.

In the second quarter of this year sales of new domestic autos rose to a seasonally adjusted annual rate of 6.9 million units. If sales of imported cars are included, total new car sales were at a rate of 7.2 million, compared with 6.8 million in the fourth quarter of 1961 and 5.3 million at the recession low in early 1961.

Although total sales of new cars in June were moderately below the April-May

level, they rose to a rate of 7.4 million in July. It appears likely that auto sales this year will be second only to the 1955 total of 7.5 million units. Sales of used cars have also been strong, and used car prices have risen 9 per cent over the past year to a new high.

An upturn in spending on furniture, appliances, and other household equipment began early in 1961 and coincided with the recovery in residential construction activity. In the fourth quarter such spending was moderately above the earlier high reached in 1959. But in the first quarter of 1962 it weakened and remained soft through the second quarter. Sales of radio and television sets appear to have been stronger in recent months than sales of appliances and furniture.

RESIDENTIAL CONSTRUCTION

During the past year and a half residential construction activity has passed through a period of moderate expansion, from early 1961 through the fourth quarter; of pronounced weakness in the first quarter of 1962; and of strong recovery in the second quarter, to new high levels for this expansion period. Residential building was off a little in July, but remained well above the second-quarter average. As may be seen in the chart, such activity has not quite attained the record level of the spring of 1959.

Housing starts have shown unusually wide fluctuations, and this has led to considerable uncertainty about prospects for housing outlays in the current upswing. Private nonfarm housing starts were at a near-record seasonally adjusted annual rate of more than 1.5 million units in April and May, but declined to 1.4 million in June. In contrast to housing starts, building permits showed a steady rise

to early 1962; since then they have shown a small but irregular decline.

One feature of the housing market in this upswing has been the further shift to multifamily units. In the first 5 months of this year apartments accounted for 27 per cent of all private nonfarm housing starts, compared with 23 per cent in 1961 and 15 per cent in 1959.

Mortgage credit has generally remained in ample supply, and mortgage interest rates have tended to edge down this year. In addition, mortgage loans have had somewhat more liberal terms with respect to downpayments and contract maturities.

BUSINESS INVESTMENT

Expansion in business outlays for plant and equipment and for inventories slowed in the first quarter of 1962. In the second quarter, outlays for plant and equipment resumed a faster rate of increase, but investment in inventories dropped sharply after the steel settlement; and total business investment was not quite up to its level in the fourth quarter of 1961.

The internal cash flow to corporations tended to level off in the first half of this year following a sharp rise during 1961. Depreciation allowances continued their steady rise, but profits and retained earnings apparently declined somewhat from their late 1961 highs.

Plant and equipment. After a small decline in the 1960-61 recession, business expenditures for fixed capital have increased fairly steadily—though at a moderate pace—since the second quarter of 1961 as the chart on page 930 shows. In the second quarter of this year they were 3 per cent above their 1960 cyclical high but some 3 per cent below the record level reached in 1957. The latest Commerce-SEC survey of

nonfarm business plans for expenditures on new plant and equipment indicates a further advance for the last half of this year. If these plans are realized, such outlays, after adjustment for price changes, would be back by the end of 1962 to the high established in early 1957.

Thus far in the current upswing, as well as in the 1958-60 expansion, utilization of industrial capacity has been lower than it was through much of the postwar period. This reduced pressure on industrial capacity has been primarily responsible for the moderate nature of the expansion in business outlays for fixed capital. Since 1957 emphasis in manufacturing investment has been on replacement and modernization of facilities rather than expansion.

Since last fall manufacturing industries have been operating at an average rate of about 85 per cent of capacity, a rate that

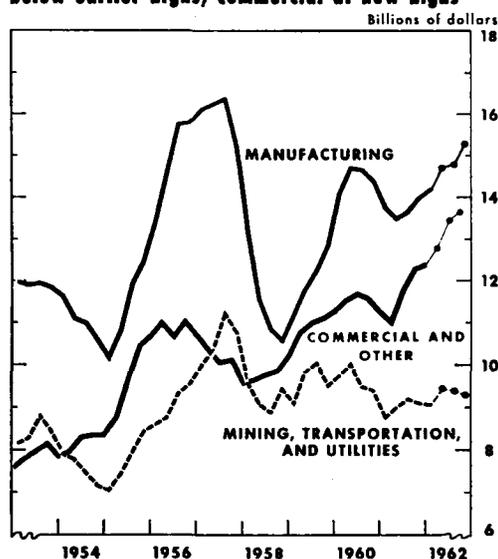
has not generated strong pressure for expansion. In the second quarter of 1962, the rate of capacity utilization was a little above 85 per cent. The level of manufacturers' spending for plant and equipment now indicated for the end of the year—shown in current dollars in the preceding chart—is below the 1957 high, mainly because of less spending by durable goods industries. Unutilized capacity has also contributed to the pronounced lag in spending on plant and equipment by mining, transportation, and utility companies.

Firms in the commercial and other category, however, have been expanding their fixed capital outlays at a substantial rate—in keeping with the large further expansion in recent years in demands for services, broadly defined. The upward trend has reflected the large volume of construction of office buildings, shopping centers, communication facilities, and other commercial and service facilities.

The Federal government has taken steps to strengthen financial incentives for business spending on fixed capital. In July new depreciation schedules were established for tax purposes, permitting a faster write-off of machinery and other equipment. In addition, Congress is considering legislation giving businesses a tax credit for specified equipment purchases. These measures would substantially increase the cash flow to corporations.

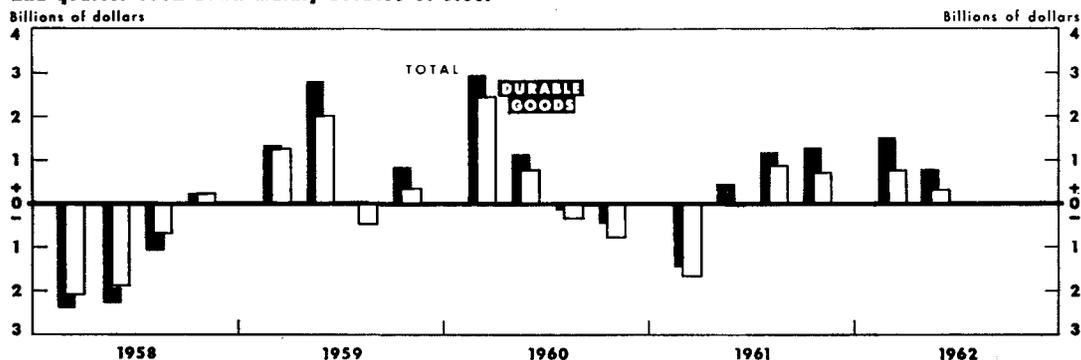
Inventories. Businesses shifted unusually early from net decumulation to net accumulation of inventories at the time of the cyclical turn-around in early 1961. During the remainder of the year they added to their inventories at an increasing rate. As is typical of early cyclical recovery, the book value of inventories increased at a pace somewhat slower than sales. The magnitude

FIXED CAPITAL OUTLAYS for most industries still below earlier highs; commercial at new highs



NOTE.—Department of Commerce and Securities and Exchange Commission quarterly estimates of expenditures on new plant and equipment by nonfarm business, at annual rates, adjusted for seasonal variation. Figures for last three quarters of 1962 represent anticipated spending.

**CHANGES IN DURABLE GOODS INVENTORIES dominate the total;
2nd quarter 1962 down mainly because of steel**



NOTE.—Quarterly changes in book value of business inventories, for manufacturers and distributors, based on Department of Commerce monthly figures adjusted for seasonal variation. Latest figures shown, second quarter.

of changes in inventory investment compared with changes in business fixed capital outlays and consumer investment-type outlays is suggested in the chart on page 930.

Accumulation of inventories by manufacturers of durable goods was beginning to slow around the turn of this year, at a time when steel consumers were faced with the threat of a possible midyear strike in the steel industry. Demands for steel expanded sharply, and in the first quarter of 1962 the book value of business inventories increased at an annual rate of \$6 billion, the highest rate of this expansion period. About half of this represented accumulation of stocks by steel producers, consumers, and warehouses. Accumulation of steel, however, was substantially smaller than in the first half of 1959. Stocks of other durable goods showed little further rise in the first quarter of 1962.

Early agreement on a labor contract in late March was followed by an abrupt drop in demand for steel. Steel stocks were reduced beginning in the second quarter, as output was curtailed sharply while consumption was on the whole maintained. The rate of accumulation of nondurable goods stocks also declined. As a result, the book value

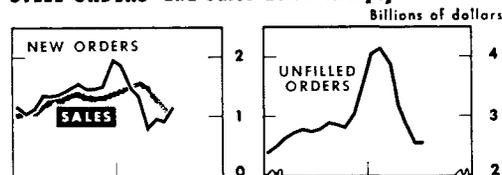
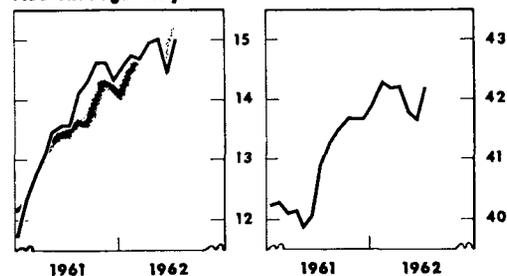
of business inventories increased at an annual rate of \$3 billion in the second quarter, or half of the first-quarter rate.

Fluctuations in dealers' stocks of autos have at times strongly affected the changes shown for durable goods. Auto stocks were down sharply in the first quarter of 1961, and this decline accounted for more than half of the decline shown for total business inventories. In recent months dealers' inventories have changed little, remaining at a level somewhat below that at the beginning of the year.

On the whole, stock-sales ratios in June were little changed from the year-end level. Business stock-sales ratios have tended to be somewhat lower in recent years, as a result of generally ample supplies, prompt deliveries, improved inventory management, and stable prices.

ORDERS AND SALES IN DURABLE GOODS INDUSTRIES

The durable goods sector of manufacturing absorbs much of the impact of changes in investment outlays and in Federal defense expenditures. The following chart compares recent fluctuations in sales and orders

STEEL ORDERS and sales down sharply**OTHER durable goods industries rise through May**

NOTE.—Department of Commerce monthly figures for durable goods manufacturing industries. New orders and sales, adjusted for seasonal variation; unfilled orders, not adjusted for seasonal variation. Latest figures shown, July (partly estimated by Federal Reserve).

in the steel industry, which has been subject to abrupt shifts in inventory demands, with those in other durable goods industries. Although the data are in current dollars, they are an approximate measure of fluctuations in physical volume because price changes have been small in recent years.

New orders and sales generally showed strong cyclical recovery from early 1961 to last autumn. Then, around the turn of the year, there was a deluge of new orders in the steel industry although activity was slackening elsewhere. That bulge in orders for steel brought total new orders for durable goods to a peak in January 1962; then a sharp decline in new orders for steel led to a decline in total new orders for durable goods. The corresponding large rise and fall in unfilled orders for steel dominated changes in the order backlog for durable goods. Most recently, new orders for steel have moved up from their low.

Outside the steel industry cyclical expansion was resumed in late winter, and new orders and sales expanded through May—although not so rapidly as during most of 1961. Following a dip in June, new orders and sales recovered in July to about the May level.

CYCLICAL COMPARISONS

Postwar cycles in economic activity have been characterized by large fluctuations in consumer and business investment outlays and in purchases of goods and services by the Federal government. These fluctuations have taken place against a backdrop of relatively steady growth in other expenditures—consumer expenditures for nondurable goods and services and outlays of State and local governments. The generally sustained increase in such expenditures has been a major influence limiting cyclical declines.

The timing and amplitude of declines and expansions in investment outlays and in Federal government purchases have differed considerably, and these differences have led to variations in the timing and amplitude of recessions and expansions in GNP. Patterns of cyclical change in the recent recession and current upswing and in the two preceding cycles, measured from peak to peak, are shown in the accompanying chart.

In the 1960-61 and 1957-58 recessions, consumer investment declined more than in 1953-54. The recovery thus far in the current upswing has been smaller than in the corresponding period of the 1958-60 upswing, and both recent expansions have been smaller than the 1954-55 rise.

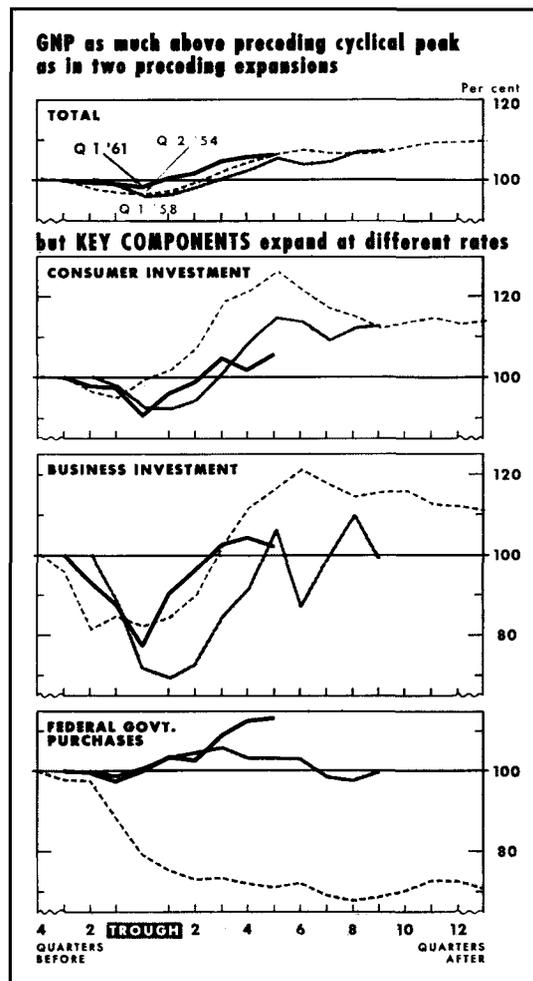
Business investment turned up sooner in the current upswing than in either of the two preceding cycles. But the increase to date has not come up to that of earlier expansions. As was true of consumer invest-

ment, however, the main contrast is between growth in the 1954-57 upswing and in the two most recent expansions.

On the other hand, Federal government purchases have expanded more in the current cycle than in 1958-60, and this increase is in marked contrast to the decline in 1953-55 after the Korean War. Federal government purchases currently represent about 10.5 per cent of GNP.

Mainly because of the leveling off in consumer and business investment in the first half of 1962, the rise in GNP from the early 1961 recession low to the second quarter of 1962 was smaller than in the comparable phase of the two preceding cyclical upswings. Nevertheless, because the 1960-61 recession was unusually mild, GNP in the fifth quarter of recovery was as far above the preceding cyclical peak as it was in the fifth quarter after the 1958 and 1954 troughs.

The slackening in recent years in the growth of consumer investment and business investment, particularly the latter, has been a major influence making for smaller and less sustained cyclical advance in overall activity. Most of the economic growth from cycle to cycle has stemmed from expansion in the broad noncyclical area—that is, in other expenditures, shown in the chart on page 929. These expenditures have increased from 63 per cent of GNP in 1955 to 67 per cent currently.



NOTE.—Indexes based on preceding GNP cyclical peaks as 100, calculated by Federal Reserve from Department of Commerce quarterly figures, in 1954 dollars, adjusted for seasonal variation. Indexes (for 1953-57 cycle shown as green dashed line; for 1957-60, as green solid; for 1960-62, as black solid) centered at troughs in GNP. Consumer investment, as used here, represents personal consumption expenditures on durable goods and residential construction. Business investment represents other private construction, producers' durable equipment, and change in business inventories.