

By the Office of Business Economics

# *Economic Recovery Under Way . . .*

## *A Review of 1958*

**B**USINESS recovery was marked in the second half of the year, following promptly after the recession bottomed out during the second quarter. By the end of the year, the physical volume of national output had regained its previous peak and the value in current dollars was higher.

With the second-half advance in business activity, gross national product for the year 1958 nearly matched 1957 output in dollars, and was within 3 percent of it in real terms.

In the 1957-58 recession, the sharpest of the three experienced in the past decade, the economy again displayed strong resistance to deflationary forces. Although weaknesses are still apparent in some markets at yearend, the national economy enters 1959 on the rising phase of a cyclical movement.

### *Dimensions of the recovery*

The upswing in demand during the latter part of 1958 carried GNP to a fourth quarter annual rate of \$453 billion. This was \$26 billion above the first quarter low, and \$7½ billion higher than the prerecession peak reached the summer before.

This \$7½ billion rise was associated with an upward movement in prices of final products. In real terms, the overall pace of production about matched that maintained during the four quarters which preceded the downturn of late 1957.

The price advance occurred mainly during the downward phase of the business cycle. The price level having shown relatively little change in the second half-year, virtually the entire 6½ percent recovery in the value of GNP from the recession low represented gains in the real volume of output. (See chart on page 2.)

### *Fiscal and monetary setting*

Fiscal and monetary factors operated to sustain the economy during the first half, and played a significant role in the course of the second half also.

Fiscal developments, as stressed in the SURVEY during the year, helped maintain the current flow of purchasing power to consumers despite the shrinkage of earnings which accompanied the production drop. This was reflected in the \$290 billion consumer market by a series of quarterly increases in purchases—aside from autos—throughout the year.

Income was protected mainly through an enlarged volume of unemployment insurance benefits and other social security payments. Contributing also was the disbursement of corporate dividends at close to the same rate in the first half—when pretax earnings approximated \$32 billion at annual rates—as at the prerecession peak when profits had

been higher by more than \$10 billion. The impact of this reduction in profits was divided about equally between government revenues and retained corporate earnings. In the particular economic setting in which they occurred, these declines seem to have had little effect on government or corporate demand.

Reflecting these stabilizing elements, disposable income stopped \$10 billion short of matching the percentage decline of GNP from peak to trough. In the subsequent recovery, dividends continued essentially stable despite the rise in profits, and transfer payments leveled out though remaining as a substantial factor in consumer buying power throughout the year. Thus, the flow of disposable income was stabilized during the upward phase of the cycle also, with the differential movement again amounting to around \$10 billion.

### *Credit policies*

The second half of last year also contrasted with the first in respect to the monetary and credit policies of the Federal Government. During the business downswing, steps were taken to ease the supply of bank and home mortgage credit.

In the field of bank credit, the monetary authorities cut discount rates and reserve requirements, and engaged in open market operations which offset the effects of a substantial flow of gold abroad. Under these circumstances, concern for liquidity as such never became an important factor in the business downturn; the liquidation of inventories and trade credit that occurred was a reflection of the changing demand picture rather than of financial stress, and proceeded in an orderly fashion which left property values firm.

To ease home mortgage credit, restrictions on the eligibility of loans for government insurance and guarantees were relaxed, and \$1 billion was made available for the support of the secondary mortgage market. Both these steps served to reassure lenders as to the liquidity of loan portfolios, thus encouraging new lending. In addition, the easing of eligibility requirements increased the number of potential borrowers; and the purchases made in the secondary market had a direct effect in freeing private funds for the acquisition of new mortgage paper.

With these various Federal policies operating to facilitate the meeting of borrowers' needs, and the financial requirements of business for investment purposes declining, a general softening of interest rates resulted. Yields on corporate and government bonds and short-term obligations moved down, and a similar tendency was evident in the terms of residential mortgage lending.

Toward midyear, credit conditions stiffened and the fall in interest rates was sharply reversed. Contributing to this turnaround was a shift in market expectations which

has been evident also in a rise of stock prices. Important too was an increase in the demand for funds, associated in particular with Federal financing and with the expanded volume of residential construction.

In the business recovery the Federal Government has acted in the direction of credit restraint. The previously easy reserve position of the member banks was allowed to tighten, while advances in rediscount rates and margin requirements signalled the increasing concern of the monetary authorities with the problem of inflation. The commitment of Federal funds for the purchase of home mortgages ceased as the resources provided by the special authorization were used up. The effect of these purchases and of other Federal actions to stimulate residential building, however, is still a factor in the current volume of construction activity.

### Market expansion since mid-1958

In this setting of stabilizing forces, economic activity recovered at a vigorous rate both in the summer and autumn quarters. Of the \$26 billion annual-rate increase in gross national product from the first quarter low, \$22½ billion occurred after midyear.

The tapering of inventory liquidation added about \$6½ billion to the total demand for new production in the second half, at annual rates. In part this improvement reflected completion of planned adjustments in inventory-sales ratios in various lines. In part it was due to a shift in the business outlook as the strength of the forces sustaining the economy became clearer.

Important among these forces was the uptrend in government purchases. The continued advance in State and local expenditures was reinforced after the first quarter by a series of moderate increases in Federal defense outlays, which during the period of business contraction had been down somewhat from the levels of mid-1957. Also contributing to the rise of Federal spending in the second half was the step-up in farm price support activity.

Comparable in dollar magnitude to the expansion of final demand from government was the upsurge in residential construction which accompanied and followed the easing of credit conditions described above.

All these market developments were reflected in the growth of consumers' income from production, and helped stimulate demand for consumer goods and services. In total, the growth of such demand accounted for about \$8 billion of the second-half rise in the annual rate of GNP.

The steady uptrend of consumer expenditures for services continued in the second half of the year, as did the advance in purchasing of nondurable goods. Consumer durables, after having fallen off considerably in the recession, showed signs of recovering. In the dynamic auto segment, the production increase reflected not only some rise in current demands for new cars but also a buildup—largely seasonal—in dealer stocks of the 1959 models.

Weakness continued in export markets and in business fixed investment. Here declines from 1957 peaks had been important factors in the recession. Since last spring fixed capital outlays have shown little change, and net exports have drifted lower.

### National income and corporate profits

The effects of the recovery on the industrial structure of production are apparent from the shifts since midyear in the national income. The upswing in demand during the second half having focused on lines which produce and distribute commodities, the industrial incidence of the income rise was largely in manufacturing, mining, and transportation. Wholesale and retail trade were also benefited by the

improvement in the demand for goods, while the industries associated mainly with the rendering of final services continued their previous growth.

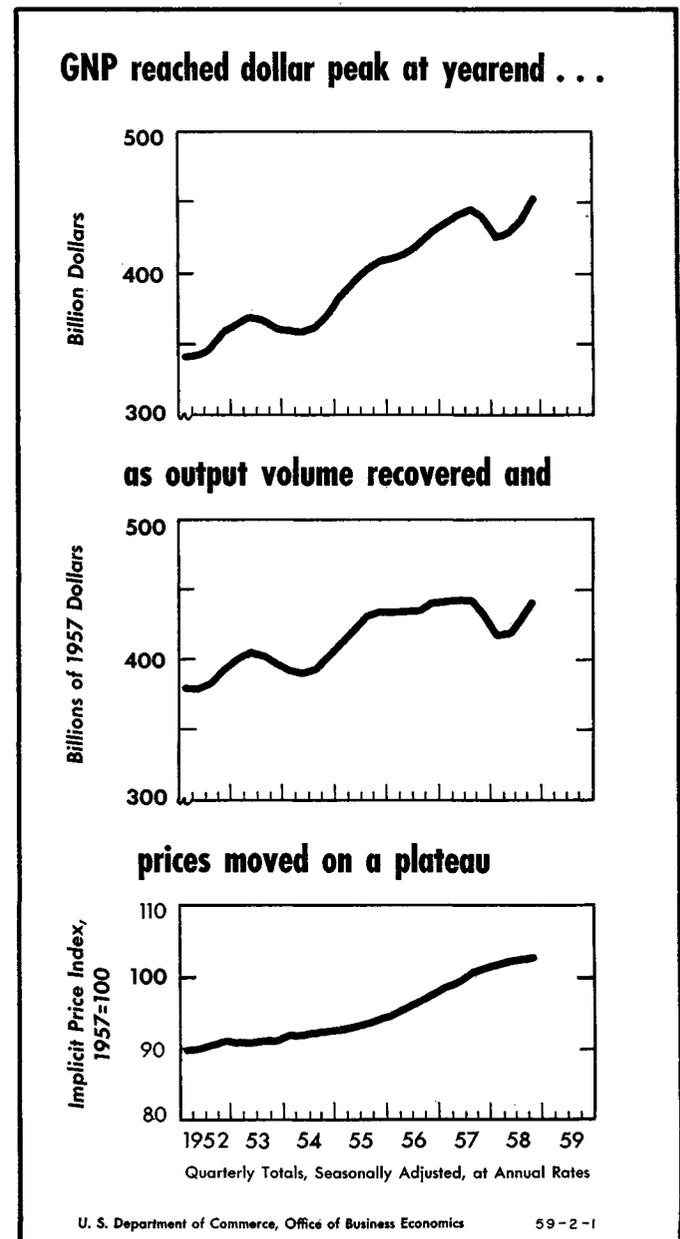
By type of income, the pattern of last year's expansion has been broadly similar to that experienced in the recovery phase in other recent cycles. The major increases have been in payrolls and in profits. Matching their relatively sharp drop when business was declining, profits have shown a comparably rapid advance in the second half.

### Current position and prospect

Market and income developments since mid-1958 have placed the Nation's economy in a position which may be summarized as follows.

The cyclical upswing now in progress has canceled the declines of late 1957 and early 1958, and has shown considerable vigor. The price level recently has held stable in the face of the improvement of final demand, with limited advances in prices of industrial goods being offset by reductions for farm products.

Consumption is at an alltime high, in volume as well as in value, and consumer demand continues responsive to basic



growth trends as well as to the expanding flow of income. Autos remain a question mark for 1959. Sales to final users of 1959 cars have through January been higher than those recorded a year earlier, but the overall strength of demand for 1959 cars is not yet clear.

**Table 1.—Key National Income and Product Data, 1957 and 1958**

[Billions of dollars]

	1957	1958	Seasonally adjusted at annual rates		
			1958		
			III	I	IV
<b>Gross national product in constant (1957) dollars</b> .....	440.3	427.6	442.4	419.3	441.3
<b>Implicit price index</b> .....	100.0	102.4	100.7	101.9	102.7
<b>Gross national product</b> .....	440.3	437.7	445.6	427.1	453.0
Personal consumption expenditures.....	284.4	290.6	288.3	286.2	295.9
Autos and parts.....	17.1	14.1	17.3	13.6	15.9
All other.....	267.3	276.5	271.0	272.6	280.0
Gross private domestic investment.....	65.3	54.4	66.7	50.9	61.6
Residential construction.....	17.0	17.8	16.9	17.1	20.1
Business fixed investment.....	47.4	41.3	47.6	42.0	41.5
Change in business inventories.....	1.0	-4.7	2.2	-8.2	.0
Net exports of goods and services.....	4.9	1.4	4.8	1.7	.4
Government purchases.....	85.7	91.2	85.8	88.3	95.2
<b>National income</b> .....	364.0	360.5	368.7	351.7	N.A.
Compensation of employees.....	254.6	253.8	257.3	250.9	258.4
Corporate profits*.....	41.9	36.2	43.1	31.3	N.A.
All other.....	67.5	70.5	68.3	69.5	71.2
<b>Disposable personal income</b> .....	305.1	311.6	308.7	30.61	315.8

\*Before tax, and including inventory valuation adjustment.

Source: U. S. Department of Commerce, Office of Business Economics.

Residential construction activity, now above the 1955 peak in value, will move higher as work proceeds on the near-record volume of new starts reported for recent months. The experience of 1958 has conformed to that of earlier postwar cycles in that housing demand responded on a considerable scale to shifts in the availability of mortgage credit. Over an extended period, of course, this market depends in the main on more basic factors.

Business demand is clearly an expansionary element in the situation as far as inventories are concerned. In all previous postwar experience, when heavy liquidation has tapered and terminated as it did toward the turn of the year, a swing to accumulation has followed. This observed sequence, of course, has occurred against a background of expansion in final demand in each case.

Business outlays for fixed investment have not yet shown much sign of recovering from the slide which ended around mid-1958. Programs reported late last year for the current quarter indicated little increase. The dimensions of the recent upswing in profits and general business activity may be expected to influence 1959 plans, which will be covered in our annual survey in next month's issue.

In the government market, the sustained growth of State and local buying continues, and may be counted on to play a positive role in the demand situation for 1959 as construction outlays and employee compensation increase further.

The outlook for Federal expenditures depends upon Congressional action on the Budget for the fiscal year which begins next July. The President's Budget message sent to Congress last month contemplates little increase beyond the current rate in purchases of goods and services or in transfer

payments. Subsidies, interest payments and grants-in-aid to the States are budgeted to rise somewhat from present levels. Federal disbursement of loan funds under the 1958 Emergency Housing Act and other programs is to taper off; the reduction in total expenditures proposed in the Budget reflects largely the decline in such disbursements.

## Income and Purchasing

The dollar flow of purchasing power to consumers established a record in 1958, a moderate decline around the beginning of the year having been more than offset by advances since last spring.

Nearly all of the income swing reflected changes in earnings of labor and of business proprietors, which are closely tied to current rates of productive activity. Dividends and interest were about stable. The counter-cyclical rise in Government transfer payments moderated substantially the impact of the production cycle on consumer purchasing power; these payments remained high through most of the year.

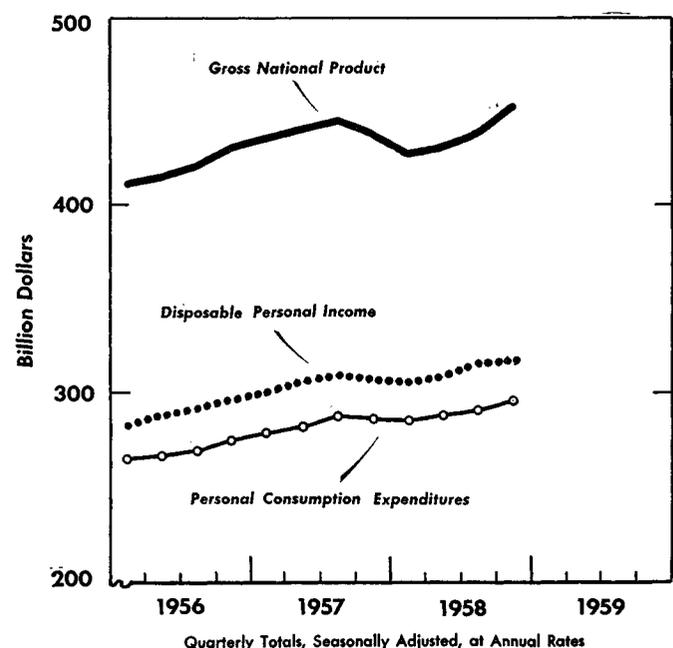
Mirroring the course of disposable income, consumer spending rose 2 percent to a record \$290½ billion for the year. The increase from 1957 about matched that in prices; the real volume of consumption was unchanged.

Expenditures for most types of goods had dipped with the contraction of income toward the end of 1957. Services continued to expand in this period, however, and nondurables spending resumed its advance as 1958 opened. Durable goods buying remained low through the first half and recovered only partially in the second.

Among the major consumption items within these broad categories, the drop in autos was conspicuous; the recession was also apparent in sales of household furnishings and equipment and in clothing. The course of food purchases

## GNP and Disposable Personal Income

Maintenance of consumer buying power and spending limited the recession



U. S. Department of Commerce, Office of Business Economics

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was markedly influenced by price movements. Spending for most other major items continued its past growth, though at a slackened pace.

### *Buying of durables*

A sharp contraction occurred in the new auto market at the opening of last year and sales remained low until the 1959 models were introduced in the fall. For 1958 as a whole, consumer purchases of autos and parts totaled \$14 billion—nearly a fifth below 1957 and the lowest since 1954. Following the introduction of the 1959 cars, consumer expenditures rose. The rise in sales was accompanied by a continuation of the recent shift towards smaller and more economical cars.

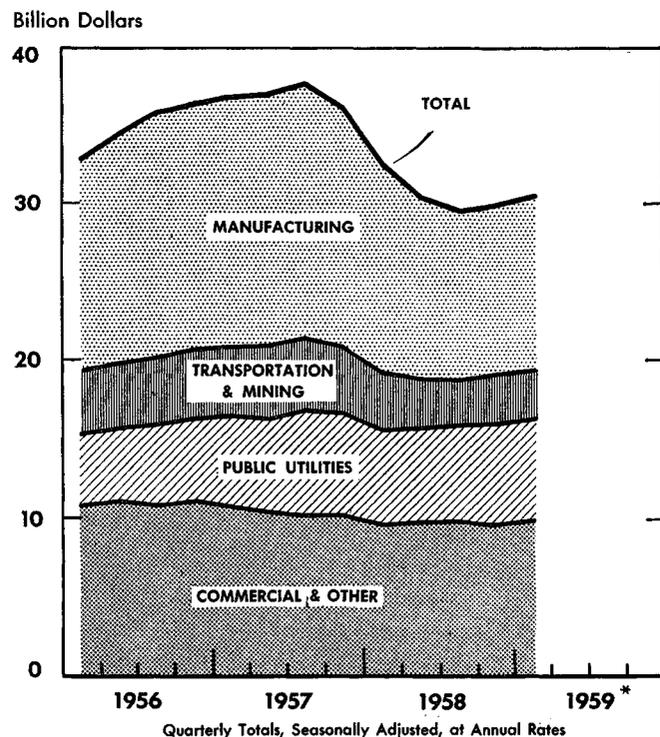
Demand for household furniture and equipment fell much less than auto sales. A decline ending around midyear was reversed in the second half; the total for 1958 approached those of 1956 and 1957 both dollarwise and in real terms.

### *Food and services*

Among the nondurables, relatively long-lived items such as apparel and semidurable housefurnishings showed marked conformity to last year's shifts in the general economic situation. Like expenditures for household durables, outlays for these goods recovered after mid-1958, and reached totals in line with those of the previous two years.

Food spending rose substantially in the first half, as consumers about maintained their real purchases in the face of price advances. Supply conditions seem to have played an important role in the course of prices; these conditions eased in the second half, and the rise in consumer outlays was checked as prices turned down.

## Plant and Equipment Expenditures<sup>1</sup> were cut sharply



\* First quarter anticipated by business

Data: SEC & OBE

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Spending for services continued to advance throughout the year. Growth in these outlays accompanied a general uptrend in prices and rates. In addition, a sustained upward movement in the real volume of service consumption has been associated with the rise in population and number of households.

### *Personal finance*

Personal saving slowed a little as income declined during the recession, but for the year as a whole was close to the 1956 and 1957 amounts.

The largest single addition to the asset side of the balance sheet for individuals was the purchase of new dwellings. Though mortgage credit was used more intensively than in 1957, equity in individually owned housing continued to rise.

Expansion in installment debt, which has been a substantial offset to saving in most of the postwar period, was negligible last year as auto purchases declined. This shift occurred in the face of relatively easy credit conditions.

Individuals added considerably to their liquid asset holdings, most of the increase taking the form of bank deposits and savings and loan association shares. Saving through private insurance and pension plans continued its steady growth.

## *Investment Demand Mixed*

Developments in the general field of investment demand played a key role in the 1957-58 business cycle, as in other such swings in the past. The various types of investment, however, moved in very diverse ways.

Residential construction was an important source of economic strength last year. Its 4½ percent advance from 1957 reflected an expansionary tendency in the second half. Relatively favorable credit conditions were an important factor in this trend, which is analyzed in detail elsewhere in this issue.

### *Plant and equipment expenditures down*

Investment in nonresidential construction and producers' durable equipment totaled \$41½ billion—\$6 billion under the record 1957 figure. Investment began to drop in the fourth quarter of 1957, and fell substantially further in the early part of 1958 before leveling out in the second half. The cutback was more severe than that in the 1953-54 recession, but not much different from the 1948-49 drop.

Last year's slide followed a two-year investment boom. The intensity and pervasiveness of this boom were such that virtually every major industry added new production capacity at a rate that could not be supported by current demand. With the uptrend in such demand flattening as 1957 passed, the need for expansion lessened.

As in previous cycles, the course of the decline in investment has varied widely among industries. Expenditures by railroads were almost halved from 1957 to 1958; and those of manufacturing and mining concerns were cut about one-fourth. Public utilities as a group nearly maintained their 1957 investment, as did commercial enterprises. (See chart.)

### *Manufacturers' cutbacks large*

The reduction in manufacturers' capital outlays was only slightly sharper for durables as a group than for nondurables. Among the durable goods industries, cuts were most pronounced in primary nonferrous metals and motor vehicles; each reduced outlays by almost one-half. (See table.)

Declines in the machinery industries and in several groups producing construction materials were much less sharp.

Among the nondurables, decreases of around 30 percent occurred in the textile, paper, and rubber industries and in petroleum. The petroleum companies' cutback was the largest for this industry in the postwar period and the first since 1949. Oil well drilling bore the brunt of the reduction. The improved demand and inventory situation in the latter part of last year was a favorable element in the investment outlook.

Manufacturers of consumers' soft goods, enjoying a fairly well maintained demand for their products, made the smallest relative reductions among the nondurables.

**Investment outside manufacturing**

The railroad and mining industries, having shared the market experience of manufacturers, reduced their capital outlays substantially last year. The cut in railroad equip-

ment purchases was particularly heavy. Spending by non-rail transportation companies was reduced only moderately, and large programs for jet-aircraft procurement by airlines are a major feature of the equipment market.

Only limited fluctuations occurred in the markets served by the public utilities and the commercial group. These industries continued their programs of expansion to provide for the growth of demand. Electric utilities set a new record for the year; investment by gas companies was scaled down early in 1958 but resumed a sharp upward trend by mid-year. Suburban development was a factor in maintaining trade firms' outlays close to peak rates.

**Inventories contribute to business swing**

Business inventories were reduced \$5 billion in 1958 following an accumulation of \$1 billion a year earlier. Measured from the third-quarter 1957 peak to the first-quarter 1958 trough, the swing was much larger.

Liquidation of stocks began in the fourth quarter of 1957, after a period in which demand for a wide range of products had ceased to expand or had weakened and government and private orders and other forward indicators of business had turned unfavorable. Final demand being relatively well maintained, the adjustment of inventory holdings proceeded rapidly and in orderly fashion in the first and second quarters of 1958. In the second half of the year the business situation firmed and improved, and inventory liquidation tapered as production was stepped up to service an increasing portion of sales. The accompanying rise in earnings reinforced the business recovery.

**Durable goods inventories**

The pattern of inventory adjustment reflected the overall business swing not only in timing but in product and industry composition as well. Liquidation centered in holdings of durable goods and, by industry, in manufacturing. These characteristics emerge clearly from the accompanying chart.

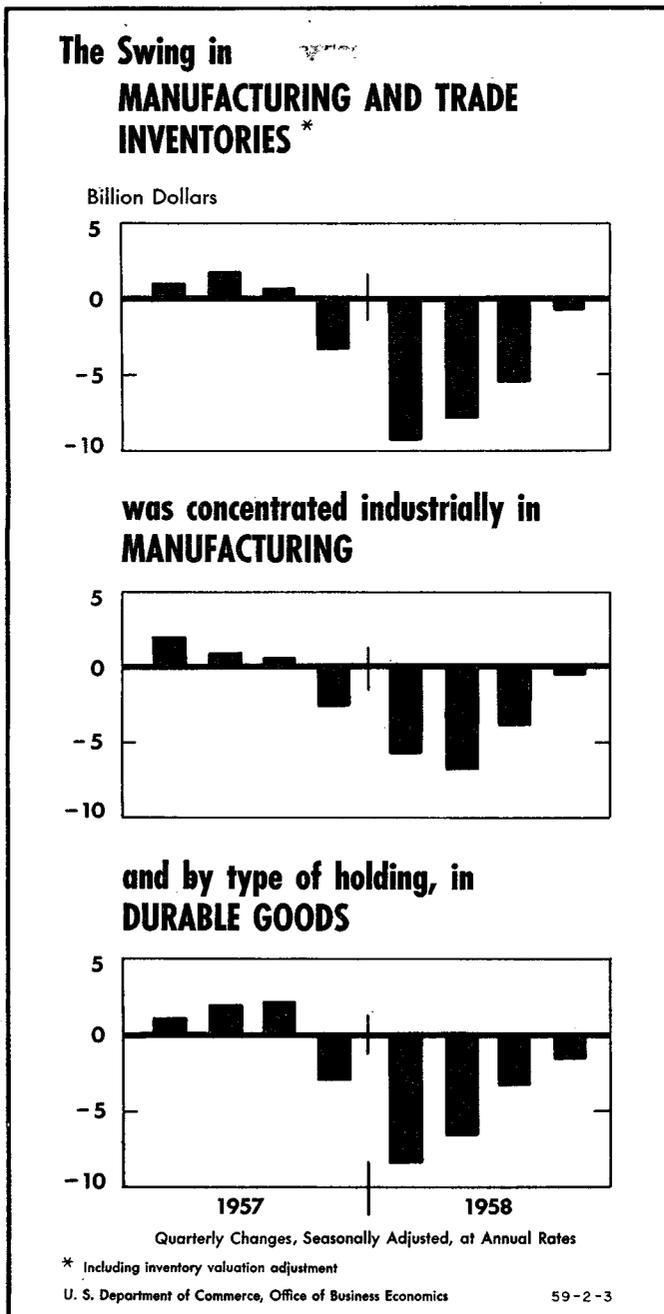
The reduction of inventories in the durable goods manu-

**Table 2.—Expenditures on New Plant and Equipment by U.S. Business,<sup>1</sup> 1956–58**

	[Millions of dollars]		
	1956	1957	1958 <sup>2</sup>
<b>Manufacturing</b> .....	14,954	15,959	11,500
<b>Durable-goods industries</b> .....	7,623	8,022	5,540
Primary iron and steel.....	1,268	1,722	1,222
Primary nonferrous metals.....	412	814	429
Electrical machinery and equipment.....	603	599	448
Machinery, except electrical.....	1,078	1,275	946
Motor vehicles and equipment.....	1,689	1,058	577
Transportation equipment, excluding motor vehicles.....	440	544	358
Stone, clay, and glass products.....	686	572	403
Other durable goods.....	1,447	1,438	1,157
<b>Nondurable-goods industries</b> .....	7,331	7,937	5,960
Food and beverages.....	799	850	741
Textile-mill products.....	465	408	290
Paper and allied products.....	801	811	580
Chemicals and allied products.....	1,455	1,724	1,338
Petroleum and coal products.....	3,135	3,453	2,415
Rubber products.....	201	200	140
Other nondurable goods.....	475	491	456
<b>Mining</b> .....	1,241	1,243	925
<b>Railroads</b> .....	1,231	1,396	755
<b>Transportation, other than rail</b> .....	1,712	1,771	1,505
<b>Public utilities</b> .....	4,895	6,195	6,105
<b>Communications</b> .....	2,684	3,032	9,737
<b>Commercial and other<sup>3</sup></b> .....	8,364	7,366	
<b>Total</b> .....	35,081	36,962	30,527

1. Data exclude expenditures of agricultural business and outlays charged to current account.  
 2. Includes anticipated expenditures for fourth quarter 1958.  
 3. Includes trade, service, finance, and construction.

Sources: U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.



facturing industries followed a downtrend in sales and new orders which had persisted since the turn of 1956-57. New orders reached their lowest point in the opening quarter of 1958 and increased thereafter, with shipments following closely. The liquidation of stocks, however, continued unabated in the second quarter and did not start to taper off until the third.

Principal contributors to the general inventory swing were the aircraft and motor vehicle groups and the machinery industries. The decline in activity of these important metal users led to reductions also in the sales and stocks of metals producers. By yearend inventory movements were leveling out in all these industries.

By stage of fabrication, the bulk of the cutback occurred in purchased materials and goods in process. From mid-1958 on, however, these stocks tended to stabilize and the further declines were mainly in finished goods.

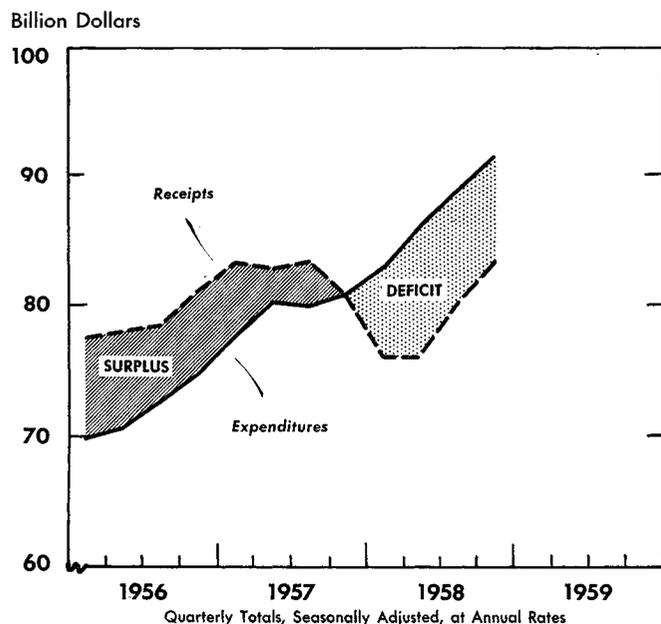
With sales showing improvement after mid-1958, and inventory holdings markedly reduced, stock-sales ratios improved. In the last quarter the overall ratio was the lowest in two years.

In nondurable goods manufacturing, where inventory changes were much more moderate, the principal declines were in foods, petroleum, chemicals, and tobacco. In the case of petroleum products particularly, the cutback involved an adjustment to developments in foreign markets. Reductions in the nondurables group came to a halt in the final quarter of 1958, with small increases appearing quite generally.

Trade inventories were also scaled down last year. Wholesalers' stocks of durable goods displayed a quarterly pattern similar to that of manufacturing though the tapering of liquidation became apparent somewhat earlier. The principal changes in retail inventories likewise occurred in durable goods lines. Auto stocks, which had bulged in 1957, were cut back sharply, with liquidation reaching its

## EMERGENCE OF FEDERAL DEFICIT REFLECTED

- Increase in social security benefits
- • Larger Government purchases
- • • Reductions in corporate profit tax yield



Note.— On national income and product account

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peak in the summer; fourth quarter increases were largely of a seasonal character. Stocks of other durables were reduced in the opening quarter of 1958, but these declines were approximately cancelled overall by increases starting in the spring.

## Business finance

The effect of changes in inventory holdings and fixed investment on the financial position of business may conveniently be summarized in terms of the experience of corporations, which as a group account for a high proportion of the total volume of business.

With a \$6 billion cutback in plant and equipment spending and the large swing from accumulation to liquidation in the inventory account, corporate demand for investment funds was off substantially last year. The supply of funds from current operations almost matched the 1957 total, the fall in retained net income being largely offset by the growth of depreciation allowances.

In this situation business reversed the trends of 1955-57 by cutting back bank and security-market borrowings, and by adding to holdings of cash and near-cash items, which had been drawn down earlier to help finance investment.

Reduction in debt to banks was widespread as working capital needs declined and short-term borrowings were funded. In the security markets, corporate refinancing was a substantial factor early in the year, but new-money flotations—like plant and equipment spending—were down considerably for 1958 as a whole.

## Government Actions

Government buying and other actions played a key role in last year's events. The direct market impact of Federal procurement featured a swing in defense spending, and especially in contract placements, which had declined markedly after mid-1957 and were stepped up early in 1958. Commodity Credit Corporation investment outlays for farm price support had a sustaining effect on income, as did the Federal employee pay increase. The uptrend in State and local outlays, continuing throughout the period, was similarly expansionary.

Of comparable importance in helping to check the downswing in business and to lay the foundations for the subsequent recovery were various other fiscal and monetary adjustments by the Federal Government. Some of these were in direct response to cyclical developments; others stemmed from policies not directly related to economic stabilization.

## Government buying up

As in other recent years, purchases by the Federal, State and local governments together accounted directly for around one-fifth of the overall demand for the Nation's output. These purchases rose substantially during the year.

State and local governments bought \$3½ billion more than in 1957. This increase was about equally divided between employee compensation and outlays for construction, supplies and equipment.

Federal purchases were up \$2½ billion with the advance accelerating during the year. The rise was due principally to developments outside the area of defense spending. The Commodity Credit Corporation stepped up the pace of its activity as bumper crops of wheat were harvested while exports of farm commodities—particularly cotton—slowed. The Federal employee pay increase also contributed to the rise in expenditures.

Defense outlays, which had been reduced late in 1957, rose moderately from the spring quarter on, and by yearend were back to the 1957 peak rate. Within this group of purchases, increased outlays by the Defense Department and Atomic Energy Commission in 1958 were offset by declines in stockpiling and foreign military assistance.

The changing effects of defense procurement on general business activity are not fully apparent from actual purchases. The cut in contract placements in the latter part

**Table 3.—Federal Government Receipts and Expenditures, 1958–60**  
[Billions of dollars]

	Fiscal years		
	1958	1959	1960
		Estimated	
<b>Administrative budget:</b>			
Receipts.....	69.1	68.0	77.1
Expenditures.....	71.9	80.9	77.0
Surplus or deficit (—).....	-2.8	-12.9	.1
<b>Cash budget:</b>			
Receipts.....	81.9	81.7	93.5
Expenditures.....	83.4	94.9	92.9
Surplus or deficit (—).....	-1.5	-13.2	.6
<b>National income and product account:</b>			
Receipts.....	78.3	84.5	93.5
Expenditures.....	82.5	91.0	92.0
Goods and services.....	49.8	54.0	54.0
Other.....	32.6	37.0	38.0
Surplus or deficit (—).....	-4.2	-6.5	1.5

Sources: Administrative and cash budgets from *Budget of the United States Government for the Fiscal Year Ending June 30, 1960*; national income and product data, United States Department of Commerce, Office of Business Economics, based on estimates in the *Budget*.

of 1957 had a dampening effect on business prospects, and their increase in the first half of 1958 influenced general business conditions in reverse fashion through the favorable impact on inventory and production plans.

### Transfers and taxes

Other fiscal shifts which had important consequences for the economy included the rise in transfer payments and the decline in taxes. The role of these developments in stabilizing market demand has been reviewed earlier in the discussion of personal income and its use.

Transfer payments to individuals were up \$4 billion for the year. The total was expanding as 1958 opened, and rose sharply in the second quarter. The further increases were limited and by yearend payments had begun to taper off.

This time pattern reflected chiefly the movements in unemployment compensation and in old age and disability retirement benefits. The former followed the general course of the cycle; the latter spurted last spring as self-employed groups recently brought into the programs started receiving benefits.

The \$3½ billion reduction in the 1958 Federal tax yield reflected almost entirely the sharp decline in corporate tax accruals as corporate profits fell. Individual income tax receipts were off only slightly for the year.

### Government financing

These changes in receipts and expenditures gave rise to the Federal deficit on income and product account which is shown in the accompanying chart and which, in turn, affected the capital markets.

Changes in the distribution of the public debt and guaranteed issues by owner group are summarized in the table

below. Clearly reflected in the bank figures for early 1958 are the easy money policy pursued by the Federal Reserve and the reduced credit needs of private business. The swing seen in the nonbank total stems largely from the seasonal liquidation of corporate holdings to pay profits taxes in the first half. The seasonal bulge of tax payments in this period also explains the concentration of the deficit financing in the second half. Over the year as a whole, the increase in bank holdings about matched that in the total debt.

Aside from changes in fiscal position, the Federal Government influenced the economic picture last year with active monetary and credit policies.

To counteract the business downswing, the monetary authorities reduced discount rates and reserve requirements several times in the early part of the year. Open market operations were conducted on a scale approximately offsetting the monetary effects of the gold outflow which reached a peak during this period.

As the general economic situation improved in the second half, discount rates were gradually raised. The member banks' free reserves, which had risen during the first half with the easy money policy and the lessened business demand for credit, were likewise allowed to fall back toward their mid-1957 position. Margin requirements, lowered early last year, were raised again as stock market prices and activity increased, and by yearend stood at 90 percent.

Steps taken to ease home mortgage credit are detailed elsewhere.

### Implications of new budget

Detailed expenditure proposals and estimates of Federal receipts shown in the President's Budget message to Congress last month can be translated into national income and product terms. The budget outlook will remain tentative pending Congressional action on these proposals, of course, and may be altered thereafter as events unfold.

Total spending on income and product account is budgeted to stabilize this year at a rate not far above that reached at the end of calendar 1958. With receipts estimated to rise sharply as the business upswing continues, elimination of the deficit is implied.

The annual rate of outlays for goods and services during the first half is indicated to be around \$55 billion, or a little more than in the quarter just ended. This estimate allows for a limited further rise in national defense outlays, with the total of other purchases holding even as Commodity Credit Corporation spending for the support of farm prices tapers.

The subsidy category of Federal expenditures is expected to rise in the first half and decline in the second, reflecting shifts in the farm aid program and a proposed increase in postal rates. Outlays for unemployment compensation

### Shifts in Bank and Nonbank Holdings of United States Securities\*

[Billions of dollars]

	1957		1958	
	First half	Second half	First half	Second half
Total.....	-7.7	4.8	.7	8.1
Federal Reserve Banks.....	-1.9	1.2	1.2	.9
Commercial banks.....	-3.5	3.3	5.8	2.3
All other.....	-2.3	.3	-6.3	4.9

\*Excludes securities held in U.S. Government investment accounts.

Source: Treasury Department.

should decline, but the effect on total transfer payments will be largely offset by the continued expansion of old-age insurance and other social security programs. Grants-in-aid to the States are expected to grow further in calendar 1959, and interest costs will also rise somewhat.

All major sources of Federal revenue are budgeted to increase on the assumption of rising business activity. Contributions for social insurance will reflect in addition the rate increase and higher maximum taxable earnings base which became effective in January.

The accompanying table summarizes these anticipations for the fiscal years 1959-60, in terms of the cash and administrative budgets as well as on the national income and product basis. The cash expenditure totals include disbursements under loan programs; as noted above, the economic effects of these programs reached a peak late last year and are currently declining. The other major point of difference between the cash budget and that used for GNP purposes is the recording of corporate profits taxes on a collection rather than accrual basis; during calendar 1959, tax collections will fall short of tax accruals.

### Exports decline

Foreign demand affected both the timing and the severity of the recession. It has not contributed to the subsequent recovery.

The spurt in exports depicted in the lower panel of the accompanying chart contributed to the upward phase of domestic business activity in 1956-57. The slide which followed was one of the factors instrumental in precipitating the downturn here, and added to its intensity.

The swing in foreign demand stemmed from cyclical movements of business activity abroad, as well as the Suez crisis and other special factors, and affected a wide range of American industries serving the export market directly or indirectly.

Import demand has been sustained during the recession by the relative strength of the markets here for a number of food products and by the growth of demand for certain foreign manufactures, including autos in particular.

The upper panel of the chart shows the movement of net exports and the manner in which funds to finance them have been provided. U.S. Government cash grants have been a comparatively stable source of dollars to our foreign customers in recent years, amounting to about \$1½ billion annually. The remaining balance has been covered by U.S. net foreign investment—capital advances by American corporations to their foreign affiliates, and U.S. acquisition of property rights generally, less analogous flows of foreign capital.<sup>1</sup>

## Changes in Structure of Income

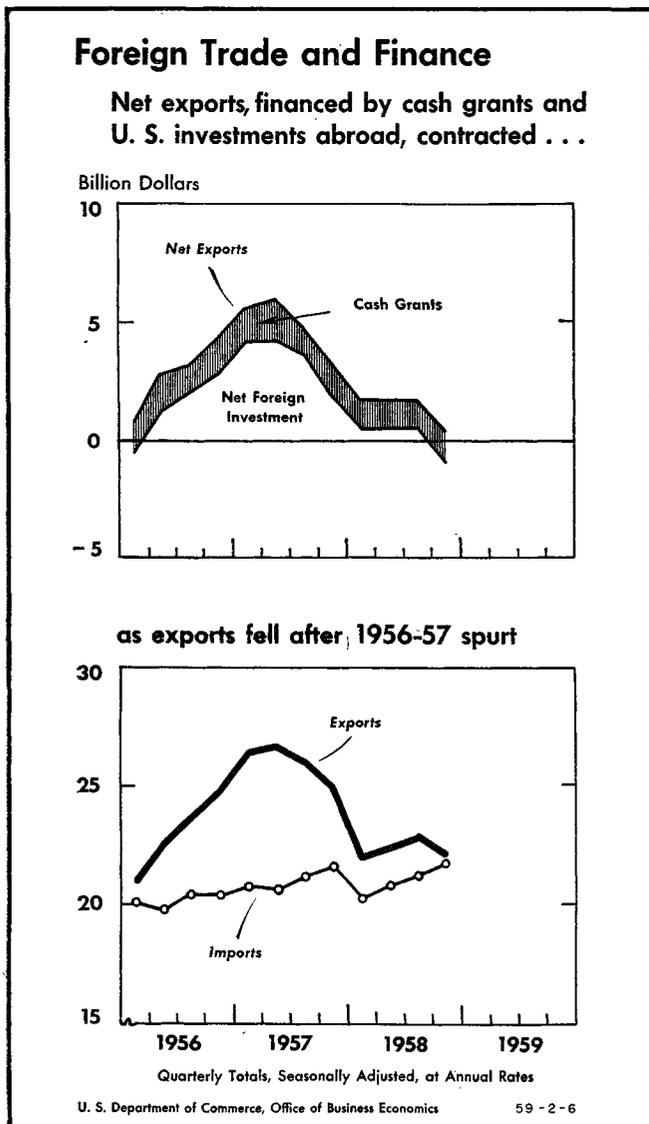
The market shifts reviewed above were reflected in the product pattern of output. The demand for hard goods fell sharply, and recovery is still incomplete. In nondurables, the decline was much milder and has already been more than made good. Services have held close to a basic growth trend throughout the period. These developments carried national income above \$360 billion—close to the 1957 total—and have led to marked swings during the year in the type and industry structure of the income flows.

### Shifts in income types

Durable goods production is largely by corporate business, and the particularly severe curtailment in output of these goods was mirrored in the flow of income from corporations. Compensation of corporate employees fell \$8½ billion, at annual rates, from the third quarter of 1957 to the low point early last year. Corporate profits, swinging widely with the short-term change in demand, experienced an even larger fall. Reflecting partly an improvement in durable goods demand and partly record sales of nondurables, corporate business recovered in the second half of 1958. Mirroring the pattern that had characterized the downswing, the increase was as usual very sharp in the case of profits.

Payrolls have displayed pronounced resistance to deflationary pressures in the postwar period. Wage rates held even or advanced throughout the recession periods and employment fell off substantially less than did production volume overall. The effect of these tendencies is augmented by a shift which has occurred in the composition of the work force. Over the postwar period there has been a significant increase in the proportion of salaried workers in the total, and both the tenure and the pay rates of such workers have characteristically been slow to reflect changes in business activity.

Seen from the standpoint of profits, these tendencies in the payroll structure make for difficulties in adjusting costs to fluctuations in business. The extraordinary growth of depreciation allowances and other items of overhead in



1. A definitional change has been made in the treatment of Government cash grants to foreigners. As explained on page 12 of the December 1958 *Survey*, these grants are now classified as international transfers rather than as government purchases from abroad.

recent years has likewise operated to make profits more sensitive to changes in sales volume.

The swings in corporate payrolls and profits were responsible for the major shifts in the type distribution of national income during 1958. This distribution also showed the effects of advances in earnings from government and from agriculture. The former are measured by the compensation of government employees and the latter consist primarily of the net income of farm proprietors. Together, these corporate and noncorporate developments left profits down somewhat for last year as a whole, employee compensation virtually unchanged, and proprietors' net income above 1957. Interest income continued to advance.

### Uptrend in wage rates

Employee compensation totaled \$254 billion in 1958. Earnings in government were \$3 billion higher than the year before. With the business recovery still incomplete, total compensation of private employees fell a little short of reaching the 1957 total.

Chiefly responsible for the decline in private payrolls was reduced employment. The average length of the work week was also down a little for the year, showing the recession influence as well as the general postwar trend.

Counterbalancing much of the combined effect of these two factors was a continued rise in average hourly earnings. This is reflected on a year to year basis in the final column of table 5, which shows average earnings per employee up 2 percent despite the reduction in hours. The advance is seen to have been industrially widespread, extending to every major industry group. Increases, however, were generally less than those recorded from 1956 to 1957. The slowdown would have been more marked but for the spillover effects of pay increases initiated in 1957; for much of last year the bargaining position of labor was adversely affected by the general uncertainty of the economic outlook. Despite these circumstances, reported month-to-month changes in average hourly earnings during 1958 were preponderantly upward.

Employment in private industry averaged 44.8 million in 1958, as compared with 46.6 million the year before. (See tables 4 and 5.) As usual in the early stages of an economic upswing, the pace of reemployment since last spring has fallen short of the expansion in output. The advance in the

latter has reflected a marked increase in industrial efficiency as the rate of capacity utilization moved toward normal, and there has been some recovery in average hours worked per week.

### Profits, taxes and dividends

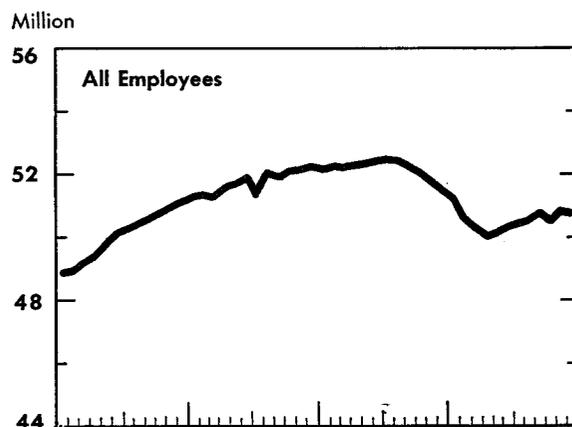
The sharp fluctuations in corporate earnings have been reflected in varying degree in the disposition of these earnings among taxes, dividends and retained net income.

The accompanying chart shows taxes and after-tax profits to have shared about equally in the swing of the pretax total. The recession cut profits after taxes from a \$22 billion annual rate in the summer of 1957 to \$15½ billion in early 1958. Profits taxes fell by a like amount. With the second half recovery, much of the decline was cancelled in each case.

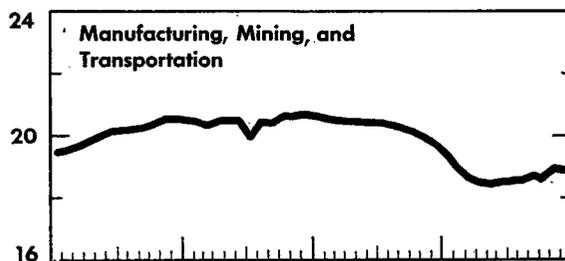
The flow of purchasing power to consumers was scarcely

### Employment in Nonagricultural Establishments

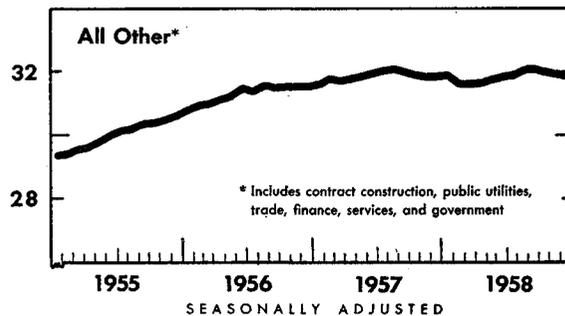
Partial recovery since spring



Principal changes were in goods production and transportation



Other employment fluctuated little



\* Includes contract construction, public utilities, trade, finance, services, and government

1955 1956 1957 1958  
SEASONALLY ADJUSTED

U. S. Department of Commerce, Office of Business Economics

Data: BLS  
59-2-12

Table 4.—Employment in Selected Industries

[Seasonally adjusted]

	1957		1958		Changes	
	July 1 <sup>1</sup>	April 2 <sup>2</sup>	December	July 1957-April 1958	April 1958-December 1958	
	[Millions]					
Total wage and salary workers in non-agricultural establishments.....	52.5	50.1	50.8	-2.4	0.8	
Manufacturing.....	16.9	15.2	15.7	-1.7	0.5	
Durable goods.....	9.9	8.6	9.0	-1.4	0.4	
Nondurable goods.....	7.0	6.7	6.7	-0.3	0.1	
Mining.....	0.8	0.7	0.7	-0.1	0	
Construction.....	2.8	2.6	2.5	-0.3	-0.1	
Trade.....	11.4	11.1	11.1	-0.3	0.1	
Total above industries.....	31.9	29.6	30.1	-2.3	0.4	
Other industries.....	20.5	20.4	20.7	0	0.3	

(Changes computed from unrounded numbers.)

1. Prerecession high.  
2. Recession low.

Source: U.S. Department of Labor.

Table 5.—Employment, Payrolls, and Average Annual Earnings by Major Industrial Division, 1956-58

	Number of full-time equivalent employees <sup>1</sup>			Wages and salaries			Average annual earnings per full-time employee				
	Data in thousands			Millions of dollars			Dollars			Percent changes	
	1956	1957	1958	1956	1957	1958	1956	1957	1958	1956-57	1957-58
<b>All industries, total</b> .....	56,236	56,544	54,827	227,304	238,120	237,096	4,042	4,211	4,324	4.2	2.7
Agriculture, forestry, and fisheries.....	2,007	2,000	2,017	3,289	3,379	3,452	1,639	1,690	1,711	3.1	1.2
Mining.....	819	812	708	4,107	4,237	3,716	5,015	5,218	5,249	4.0	0.6
Contract construction.....	2,904	2,831	2,671	13,572	13,934	13,753	4,674	4,922	5,149	5.3	4.6
Manufacturing.....	16,950	16,863	15,548	77,697	80,630	76,363	4,584	4,781	4,911	4.3	2.7
Wholesale and retail trade.....	10,362	10,483	10,340	40,001	42,133	42,678	3,860	4,019	4,127	4.1	2.7
Finance, insurance, and real estate.....	2,318	2,376	2,417	9,598	10,227	10,690	4,141	4,304	4,423	3.9	2.8
Transportation.....	2,685	2,657	2,457	13,349	13,939	13,325	4,972	5,246	5,423	5.5	3.4
Communications and public utilities.....	1,471	1,493	1,469	6,784	7,186	7,343	4,612	4,813	4,999	4.4	3.9
Services.....	6,936	7,100	7,190	20,861	22,336	22,950	3,008	3,146	3,192	4.6	1.5
Government <sup>2</sup> .....	9,784	9,929	10,010	38,046	40,119	42,826	3,889	4,041	4,278	3.9	5.
Addendum:											
All private industries.....	46,452	46,615	44,817	189,258	198,001	194,270	4,074	4,248	4,335	4.3	2.0
All private nonfarm industries.....	44,601	44,773	42,957	186,496	195,163	191,350	4,181	4,359	4,454	4.3	2.2

1. Differs from data in table 4 as to timing, coverage (in particular, table 4 excludes Armed Forces and household employees), and in being adjusted to a full-time equivalent basis. Full-time equivalent employment measures man-years of full-time employment of wage and salary earners and its equivalent in work performed by part-time workers. Full-time employment is defined simply in terms of the number of hours which is customary at a particular time and place. For a full explanation of the concept, see *Survey of Current Business*, June 1945, pp. 17-18.

2. Includes government enterprises and rest of the world.

Source: U.S. Department of Commerce Office of Business Economics.

affected by the movements in net earnings, dividends being maintained overall. The full impact of the cycle in after-tax profits fell on undistributed net income, which fluctuated widely during the period. As has been noted, the effects of these changes on the availability of investment funds probably had little influence on the demand for capital goods last year.

There was wide variation in the profits experience of individual industries. In general, the pattern of change was in line with that found in the industrial origins of national income.

### Industrial pattern of production

Last year's national income approached that of 1957 mainly because of the strong uptrend in service-associated lines. In general, industries depending chiefly on the final demand for commodities fell short of their 1957 records.

In the group classified as service-connected, the sharpest year-to-year advances were those recorded for the communications and public utilities division and for government. The flow of earnings from finance, insurance, and real estate likewise continued to expand with the country's growth in wealth and population, as did income from business, professional and other services. Contributing to the advance in all these cases were higher prices and rates reflecting, with some lag, the influence of the general 1955-57 uptrend in costs. In total, this group of service-associated industries generated around \$6 billion more income last year than in 1957, and \$14 billion more than in 1956.

The less favorable character of the experience reported for lines producing and handling commodities was especially evident in durable-goods manufacturing, and in the transportation and mining divisions—the latter depending heavily on the hard goods producers' demands for materials and fuel, and the former on their freight business. The apparently substantial gains of these three industries in the final months of the year cannot yet be measured precisely; from the data now available, however, the value of their total net output in 1958 may well have been off as much as \$10 billion measured in terms of factor earnings.

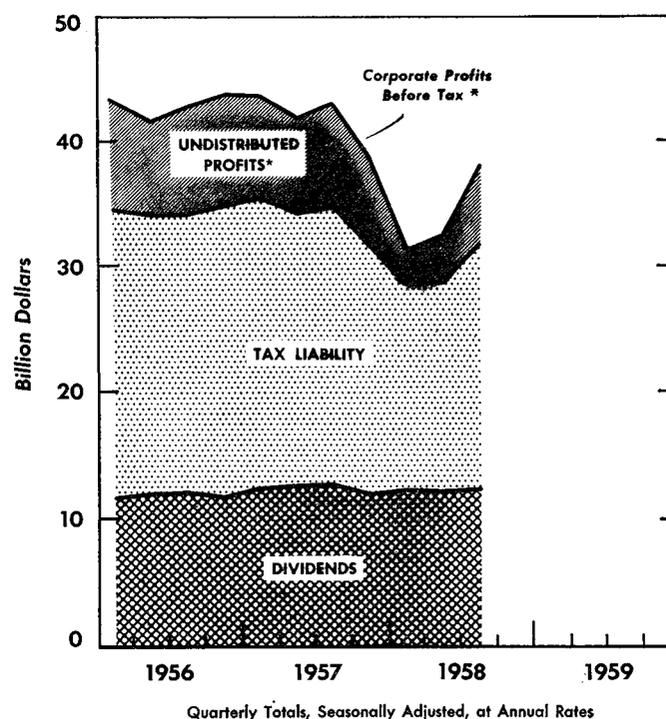
The 1958 record for major industries producing nondurable goods was a great deal better. In agriculture, income moved

up counter-cyclically in response to price and production developments reviewed elsewhere in this issue. In manufacturing, most nondurables groups proved as usual relatively less sensitive to the swing in general business than did the durables.

Nondurable goods manufactures enter importantly into the production of durable items, but a large part of the total

### Corporate Profits

Experienced wide swings



\* Including inventory valuation adjustment

U. S. Department of Commerce, Office of Business Economics

69-2-7

flows directly to final purchasers. The relative stability of the latter flow helped maintain activity in nondurable goods production—and in wholesale and retail trade as well—last year.

## Price Developments

As noted earlier, the quarter-to-quarter advances in the value of GNP last year stemmed mainly from an upswing in the real volume of output. The final-product price index has been very nearly stable since its 3-year advance tapered off last spring.

There have been important shifts in the structure of prices, however, both at wholesale and at retail. These changes—some already referred to as contributing to GNP developments—may be summarized as follows.

### Consumer price index

Consumer prices on the average continued to move up in the first half of 1958, and then leveled off as declining food prices offset small advances elsewhere. At yearend the monthly consumer price index was 2 percent higher than a year earlier. The food price index was up by a similar percentage.

The accompanying table brings out major characteristics of the 1958 price movements.

Among the nonfood goods and services, prices of services extended the steady rise that has characterized their movements in all recent years. The rise during the first half year, containing the trough of the recession, was larger than that in the June–December period with recovery under way; that larger rise is chiefly ascribable to the increase in early 1958 of public transportation rates.

Commodities other than food dipped somewhat in the first half year, then rose as business activity expanded in the second half year, to register a small net increase for the year as a whole. The nondurable nonfoods showed a nominal net decline for the year as the second-half price rise fell short of the first half decline in which lower fuel prices played a leading part. The important apparel group price index dipped in the first half and recovered virtually all of the drop in the last half.

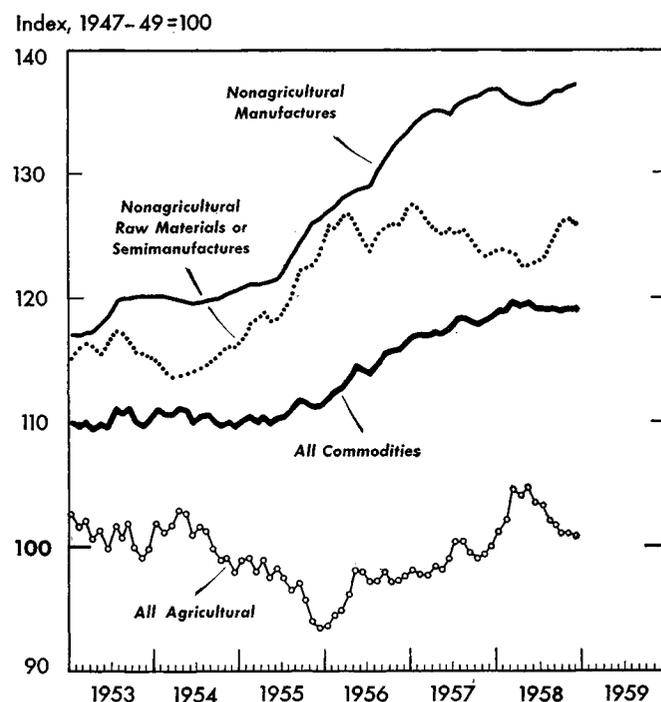
Prices of consumer durables were dominated by new and used car prices. These followed the characteristic seasonal pattern of decline in the first half year as the time for intro-

ducing new models approached and of upturn in the last half as the new models replaced the old. December 1958 prices of new cars were 6 percent above those of December 1957, while prices of used cars were 9 percent higher. Durables other than automobiles were unchanged for the year.

### Wholesale price changes

The all-commodity wholesale price index showed even greater stability in 1958 than did the consumer price index and for the same reason—namely, divergent changes in agricultural and nonagricultural prices largely offsetting each other. The December 1958 index at 119.2 (1947–49=100) was up 0.6 percent above the December 1957 figure, with prices in the intervening months moving fractionally above and below that level.

## Wholesale Prices



U. S. Department of Commerce, Office of Business Economics  
Data: Based on BLS series  
59-2-11

Table 6.—Consumer Prices

[Indexes, 1947-49=100]

	Dec. 1957	June 1958	Dec. 1958	Percent change:		
				Dec. 1957- June 1958	June 1958- Dec. 1958	Dec. 1957- Dec. 1958
All items.....	121.6	123.7	123.7	1.7	0	1.7
Food.....	116.1	121.6	118.7	4.7	-2.4	2.2
All items less food.....	124.5	125.2	126.5	0.6	1.0	1.6
All commodities less food.....	113.6	112.9	114.4	-0.6	1.3	0.7
Nondurables.....	117.3	116.7	117.0	-0.5	0.3	-0.3
Apparel.....	107.6	106.7	107.5	-0.8	0.7	-0.1
All other.....	125.8	125.4	125.4	-0.3	0	-0.3
Durables.....	110.3	109.6	112.9	-0.6	3.0	2.4
New cars.....	135.2	130.8	143.6	-3.3	9.8	6.2
All other.....	103.2	103.4	103.2	0.2	-0.2	0
Services.....	140.0	142.3	143.5	1.6	0.8	2.5
Rent.....	136.7	137.7	138.7	0.7	0.7	1.5
All other.....	141.1	143.8	145.0	1.9	0.8	2.8

Source: U.S. Department of Labor.

In late winter and early spring, at about the same time that business activity and nonagricultural prices were at their recession low points, prices of agricultural products reached their highest level since 1952 as the result of smaller supplies. Supplies of fruits and vegetables were reduced by the last winter's severe weather in the Southern States, while animal marketings were lowered by small production and inventory building on the farms. For major crops where supplies were ample, as, for example, cotton, Government price supports prevented or limited price declines.

During the second half of the year, larger actual or prospective supplies exerted increasing downward pressure, and agricultural prices in December were 4 percent below the spring high and fractionally above the year earlier average. The agricultural raw or semimanufactured materials index in that month stood at 90.2 (1947-49=100), or somewhat below the December 1957 number while the agricultural manufactures index was 107.4 or 2½ percent higher.

Nonagricultural prices moved gradually upward from the

recession low touched in the early spring and closed the year at 134.5, a new high fractionally above the December 1957 level. As a group, the raw or semimanufactured materials reacted more sensitively to demand fluctuations than did the manufactured products. The sharpest decline and rebound occurred in scrap materials; such prices move most freely of all nonagricultural materials in response to relative supply-demand changes, with scrap metals being especially sensitive.

The spread between the index of nonagricultural raw or semimanufactured materials prices and prices of manufactures at the recession low point was the widest in several years but has narrowed since then with the more rapid recovery in raw or semimanufactured materials prices.

Prices of most nonagricultural manufactures declined

little if any during the recession and, resuming the uptrend in the second half of the year, stood higher in December 1958 than they were a year earlier. Chief exceptions were the liquid fuels where gasoline and fuel oil ended the year lower as prices receded further from the peak occasioned by the Suez affair, and the chemicals which closed below the December 1957 level largely because of lower quotations for synthetic textiles and mixed fertilizers. Most durable manufactures showed December-to-December price increases, especially the broad machinery and motive products group; consumer durables such as household appliances and radios, television receivers and phonographs, were the chief exceptions as these registered slightly lower closing prices.

### NEW DATA AND PUBLICATION ON NATIONAL INCOME

Several new tables, containing additional quarterly information on national product, national income and related items are published in this issue of the SURVEY. These tables will henceforth be made available regularly during the year in connection with our periodic analyses of national income and product. A full explanation of the new quarterly reporting system as well as data for 1946-57 can be found in U.S. INCOME AND OUTPUT, which will be available soon at the cost of \$1.50 from the U.S. Government Printing Office, Washington 25, D.C. and the Field Offices of the Department of Commerce. The numbering of the tables that are a regular part of the new reporting system conforms to the one used in U.S. INCOME AND OUTPUT, although the order in which they appear in this issue is not the same.

**Table I-3.—Gross National Product or Expenditure, Seasonally Adjusted Quarterly Totals at Annual Rates, 1957-58**

[Billions of dollars]

	1957	1958	1957		1958			
			III	IV	I	II	III	IV
<b>Gross national product</b> .....	440.3	437.7	445.6	438.9	427.1	430.4	439.8	453.0
<b>Personal consumption expenditure</b> .....	284.4	290.6	288.3	287.2	286.2	288.3	291.5	295.9
Durable goods.....	39.9	36.8	40.4	39.6	36.3	35.6	36.1	38.9
Nondurable goods.....	138.0	141.9	140.5	138.8	139.8	141.4	142.9	143.3
Services.....	106.5	111.9	107.4	108.7	110.1	111.3	112.5	113.6
<b>Gross private domestic investment</b> .....	65.3	54.4	66.7	61.5	50.9	50.7	54.5	61.6
New construction.....	36.5	36.5	36.6	37.1	36.3	34.9	36.3	38.6
Residential nonfarm.....	17.0	17.8	16.9	17.6	17.1	16.2	17.9	20.1
Other.....	19.5	18.7	19.7	19.6	19.2	18.7	18.4	18.5
Producers' durable equipment.....	27.9	22.6	28.0	26.7	22.9	22.3	22.3	23.0
Change in business inventories—total.....	1.0	-4.7	2.2	-2.3	-8.2	-6.5	-4.2	.0
Nonfarm only.....	.2	-5.8	1.3	-3.1	-9.3	-7.8	-5.4	-.9
<b>Net Exports of goods and services</b> .....	4.9	1.4	4.8	3.3	1.7	1.7	1.7	.4
Exports.....	26.0	22.3	26.0	24.9	21.9	22.4	22.8	22.1
Imports.....	21.0	20.9	21.2	21.6	20.2	20.8	21.2	21.7
<b>Government purchases of goods and services</b> .....	85.7	91.2	85.8	86.9	88.3	89.7	92.0	95.2
Federal.....	49.4	51.7	49.7	49.1	49.7	50.7	52.2	54.2
National defense.....	44.3	44.4	44.9	43.9	43.7	44.1	44.5	45.3
Other.....	5.5	7.6	5.2	5.7	6.3	6.9	8.0	9.2
Less: Government sales.....	.4	.3	.5	.5	.3	.3	.3	.3
State and local.....	36.3	39.6	36.1	37.8	38.6	39.1	39.9	41.0

**Table I-4.—Gross National Product or Expenditure, Quarterly, 1957-58**

[Billions of dollars]

	1957	1958	1957		1958			
			III	IV	I	II	III	IV
<b>Gross national product</b> .....	440.3	437.7	110.5	115.6	102.3	106.6	109.5	119.2
<b>Personal consumption expenditure</b> .....	284.4	290.6	70.6	77.3	68.2	71.4	71.4	79.6
Durable goods.....	39.9	36.8	9.6	11.1	8.2	9.0	8.6	11.0
Nondurable goods.....	138.0	141.9	34.1	39.3	32.3	34.5	34.8	40.4
Services.....	106.5	111.9	26.8	26.9	27.8	28.0	28.0	28.1
<b>Gross private domestic investment</b> .....	65.3	54.4	17.4	15.2	12.3	12.1	14.7	15.3
New construction.....	36.5	36.5	10.1	9.5	7.7	8.8	10.1	9.7
Residential nonfarm.....	17.0	17.8	4.8	4.5	3.4	4.2	5.1	5.1
Other.....	19.5	18.7	5.3	5.0	4.3	4.6	5.0	4.6
Producers' durable equipment.....	27.9	22.6	6.9	7.3	5.1	5.8	5.7	6.0
Change in business inventories—total.....	1.0	-4.7	.4	-1.6	-.6	-2.5	-1.1	-.5
Nonfarm only.....	.2	-5.8	.2	-1.8	-.8	-2.9	-1.4	-.7
<b>Net exports of goods and services</b> .....	4.9	1.4	.7	1.3	.5	.5	.0	.4
Exports.....	26.0	22.3	6.1	6.4	5.5	5.7	5.4	5.7
Imports.....	21.0	20.9	5.4	5.2	5.0	5.2	5.4	5.3
<b>Government purchases of goods and services</b> .....	85.7	91.2	21.8	21.8	21.3	22.7	23.3	23.9
Federal.....	49.4	51.7	12.5	12.2	12.4	12.8	13.1	13.5
National defense.....	44.3	44.4	11.3	10.9	10.9	11.1	11.2	11.2
Other.....	5.5	7.6	1.3	1.4	1.6	1.7	2.0	2.3
Less: Government sales.....	.4	.3	.1	.1	.1	.1	.1	.1
State and local.....	36.3	39.6	9.3	9.6	9.0	9.9	10.2	10.5