

Highlights of Economic Expansion . . .

A Review of 1959

THE AMERICAN economy in 1959 continued the recovery underway in 1958. Output, income, consumer buying of goods and services and new houses were all up substantially in real terms. Business expansion was continuing as the year closed.

The strong underpinning of the general market was reflected in the total flow of income to individuals, which moved forward with only a short and moderate interruption during the middle of the year. At year-end, personal income was at a seasonally adjusted annual rate exceeding \$390 billion, which compared with \$367 billion in December 1958. For the year it was \$380 billion, up 6 percent from 1958. Most of this gain represented real purchasing power, as overall prices advanced about 1 percent.

Consumers expanded their purchases in 1959 in line with higher incomes, supplementing such incomes with a large amount of installment and mortgage credit. These borrowed funds were used in part to finance the one-seventh increase in purchases of consumer durables from the cyclically depressed volume of 1958. New car buying was still under the high 1955 peak, but in virtually every other major consumer market, demands exceeded previous highs in both current dollar and real terms.

Improvement in residential construction and in the purchasing of housing, which set in early the preceding year, carried over to mid-1959. There was a let-up in the second half, though expenditures on the purchase of new residences in this latter period substantially exceeded the best previous record.

The dynamic business investment area of the economy was marked by renewed advance in the construction of new plants with more efficient and larger capacity machinery.

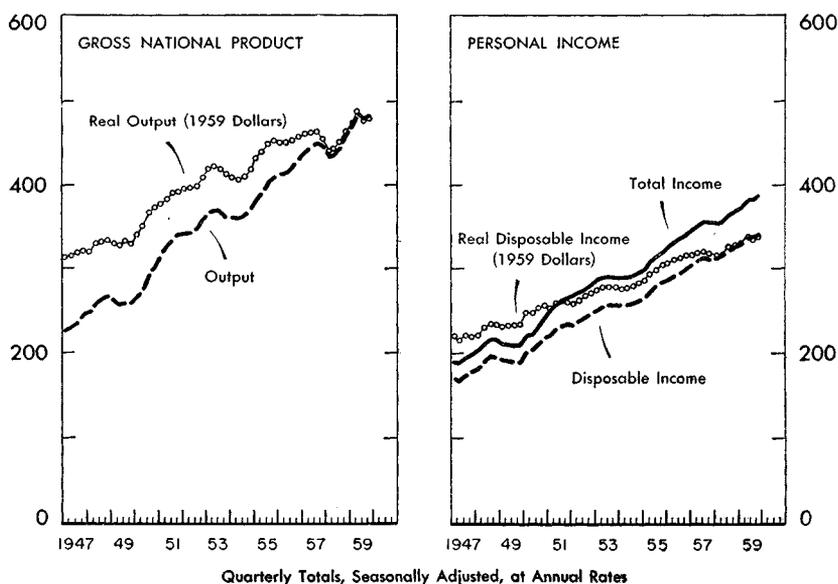
The rise in inventories continued, interrupted by the slackening of output after midyear. The year before had been marked by liquidation in the first half and recovery later. Accumulation of stocks in the first half-year of 1959 provided some cushion to output of final products in the second half of the year. It was not sufficient in some cases—notably automobiles—to sustain full-scale production towards the end of the year.

Capital outlays for industrial plant, equipment and commercial buildings were nearly one-tenth higher last year than in 1958. For the year as a whole, new plant construction and outlays for producers durable equipment were still well under the record spending in 1957.

Government purchases of goods and services were little changed during the course of 1959, but starting the year at a level higher than the average for 1958, total demand by all governments for the year as a whole was higher. Federal purchases were tending slightly downward last year and this within-the-year movement was just about offset by a contrary tendency by State and local units.

National Production and Personal Income

1959 rise was mostly in real terms

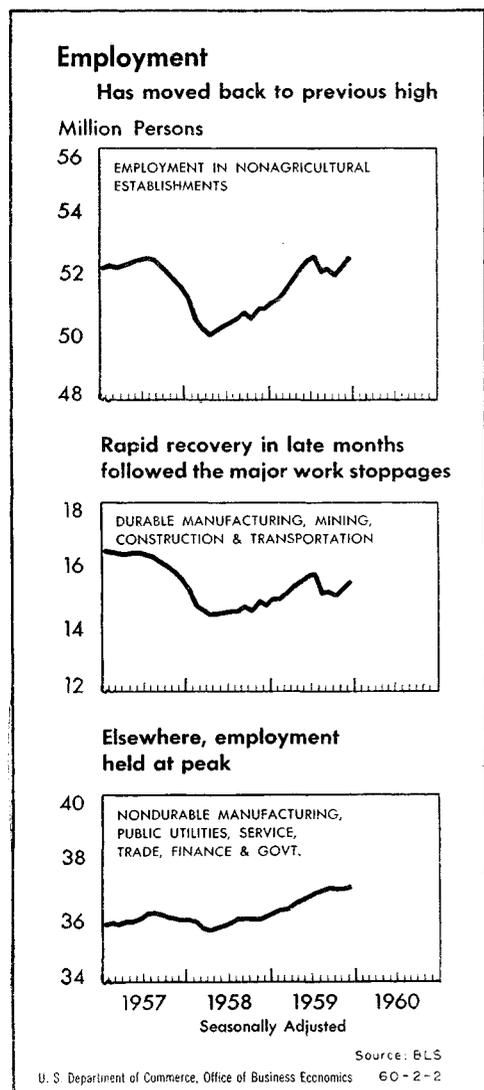


U. S. Department of Commerce, Office of Business Economics

60-2-4

Employment and wages up

With demand forces expanding in 1959, employment moved to a new high and unemployment was reduced. Both employment and unemployment were affected adversely by the work stoppages later in the year; by yearend, however, the number of jobholders was above the mid-1959 figure,



after allowing for seasonal influences. For the year as a whole employment averaged $1\frac{1}{2}$ million above 1958.

In addition to the improved availability of jobs during the year, there was a fairly widespread pickup in the length of the workweek making due allowance for the special effect of work stoppages. Thus, through the earlier part of the year, hours worked per week averaged almost one-half hour higher than in the corresponding interval of 1958.

Among the major industries, only in building construction was there a basic tendency to reduce the workweek.

Industry employment patterns

Improvement in employment from 1958 to 1959 resulted from a combination of resurging demands for products of the cyclically sensitive industries, and moderate advances in basic trend-dominated areas. Roughly half of the 1958-59 increase in jobs was in manufacturing, which had been the focal point of recession in 1958. Durable goods industries—more particularly the machinery groups—accounted for the largest share of the gain.

In the manufacture of nondurable goods, employment was virtually stable over the greater part of the year, after allowing for seasonal influences. It averaged 150,000 better than in 1958 and only fractionally below that for the 1957 period.

Employment in manufacturing averaged over 16 million in 1959, compared with $15\frac{1}{2}$ million the year before and 16.8 million in 1957. The continuing lag behind the 1957 pace was for the most part concentrated in the primary metals, nonelectrical machinery, transportation equipment and fabricated metals groups. The pattern elsewhere was one of small but largely offsetting gains and losses from 1957 totals.

Distributive, service and related industries—in which upward employment tendencies have been persistent—again provided steadily expanded job openings in 1959. This broad grouping accounted for over 20 million employees in 1959, more than 45 percent of all such workers in the private nonfarm industries. The 400,000 gain in employment from 1958 brought the total also well above the previous high in 1957.

In the transportation and public

utilities industries, the slightly-less-than 4 million employees was about the same as in the preceding year, and 200,000 under the postwar peak reached in 1953. This latter aspect reflected the fairly steady drop in railroad employment over this period, a drop which was only partly offset by increases in other transportation and in the utilities. Rail employment was curtailed as a result of the reduction in the traffic flow in the second half of 1959, but by yearend the number of persons on the job was back to the pre-strike experience.

The changes in employment in the recent postwar business swing are set forth in the accompanying text table. All the numbers are seasonally adjusted.

Investment incomes rise

The advance in the other types of income, as well as in labor income, is spelled out in the following national income chapter. Suffice to say here, investment-type incomes—personal interest and dividends—and returns to nonfarm proprietors were also higher, though the drop in farm owners' income ran counter to the general trend.

The recovery of output and income was reflected in accentuated form in business profits, which recovered from the 1958 slump and moved to a new high for the year in the second quarter of 1959. The subsequent fall-off in corporate production and sales in some industries brought a reduction in corporate income and in total profits in the latter half of the year. The year as a whole was one of substantial profit recovery.

Prices show little movement

The moderately higher price level of the economy in 1959, which influenced the dollar national output totals, re-

	Cyclically sensitive ¹			Other ²		
	Level at start	Change	Percent change	Level at start	Change	Percent change
August 1957 to April 1958.....	16.2	-1.8	-11.3	36.2	-0.6	-1.6
April 1958 to July 1959.....	14.4	1.3	9.1	35.6	1.2	3.4
July 1959 to October 1959.....	15.7	-.7	-4.2	36.8	.1	.3
October 1959 to December 1959.....	15.1	.5	3.3	36.9	.2	.5

1. Durable manufacturing, transportation, mining, and construction.

2. Nondurable manufacturing, public utilities, trade, service, finance, and government.

flected the gradual edging upward of prices of most of the individual non-agricultural goods and services. Declines in agricultural prices served to offset increases elsewhere in wholesale markets. Lower food prices in retail markets served to partially offset increases in prices of other consumer goods and services so that the consumer price index averaged nearly 1 percent above that of 1958.

With the rise in business and income and some rise in costs of production and distribution, retail price tags on goods and services, except food, rose by $2\frac{1}{2}$ percent from December 1958 to December 1959; prices of commodities less food rose about $1\frac{1}{2}$ percent; and food prices with the larger supplies available were off 1 percent. The consumer durables as a group were little changed during the year, as price reduc-

tions for some items nearly offset increases for others.

Consumer service prices continued their postwar advance, registering a 3 percent increase in the year ended in December 1959. The rise was widespread. Medical care, transportation services, and the regulated gas and electricity rates scored above-average advances.

The wholesale price index was little changed in 1959 from the 1958 average, and at yearend was fractionally lower than in December 1958. This overall stability resulted from the canceling out of major divergent movements, as products of agricultural origin averaged 2.3 percent lower than in 1958 and commodities of nonagricultural origin (relatively twice as important in the index as the agricultural group) averaged 1.5 percent more.

Raw and processed foods in turn accounted for most of the price drop in the aggregate of products of agricultural origin, and generally the same food items registered declines in the primary markets as in retail markets. The agricultural nonfoods were mostly firm or higher in both the raw and manufactured stages. Cotton and wool manufactures moved higher, though plant and animal fibers averaged somewhat lower in price than in 1958; prices of hides and skins, leather and footwear all averaged more; natural crude rubber prices rose sharply but those for tires and tubes declined.

Out of approximately 172 commodity subgroups covering products of non-agricultural origin in the wholesale price index, 108—nearly two-thirds—increased to some extent in 1959 above their December 1958 quotations, 42 declined and 22 remained unchanged. As may be seen from the accompanying table, raw and manufactured chemical materials and mineral fuels and electric power were the groups exhibiting comparative price stability while commodities, in all stages from the raw to the finished, made from forest materials, metals, and nonmetallic structural minerals were the groups with the largest relative advances.

Pressure on money markets

The considerable buoyancy of private demands was supported in no small de-

gree by ready use of borrowed funds, and the general situation of the demand and supply of funds is reviewed in a later section of this review. Consumers used short- and intermediate-term credit in sharply increased amounts to buy household durables and autos. A record volume of mortgage financing was employed in home buying. Business debt expansion was also high, with the concentration being in short-term types associated with greatly expanded working capital requirements. The cash deficit of Government remained substantial, although considerably reduced and approaching balance by yearend.

The monetary authorities aimed their policies at restricting the supply of bank funds, continuing the approach adopted as the upswing in activity was established in 1958. In this setting, interest rates moved higher during the year, and more so in the area of short- and intermediate-term funds. At yearend, virtually all rates had reached levels not seen since the 1920's, and borrowers experienced the pattern uncommon for an extended period of shorter-term rates exceeding those on long-term funds.

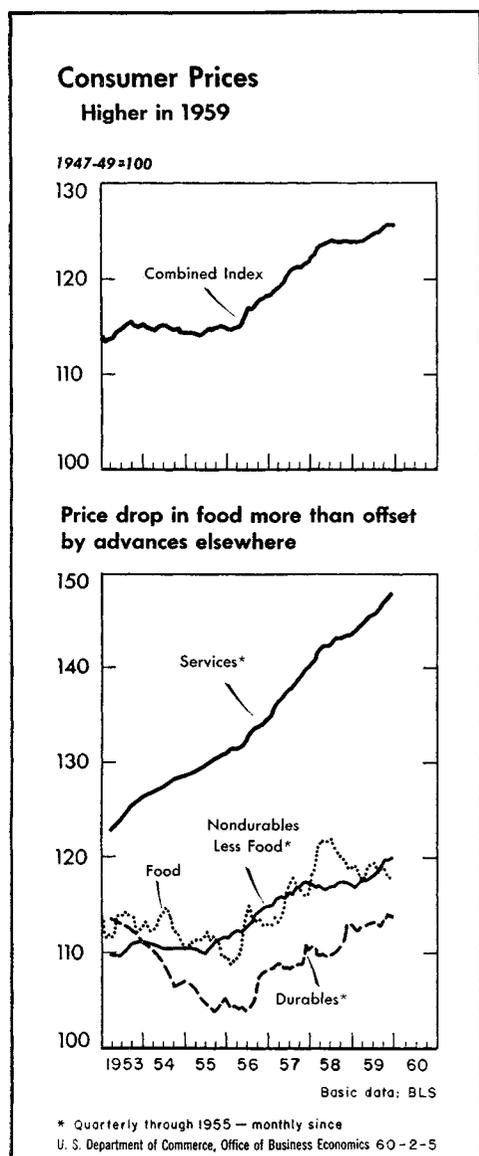
A quite different pattern prevailed in markets for corporate equities. Stock prices maintained an upward course through mid-1959, dropped back in the summer and early fall, but again moved forward in the closing months to a point around their previous high.

For the year as a whole, stock prices averaged higher than in 1958 and with dividends improved to a lesser extent, stock yields traced a somewhat lower pattern in 1959—at a level virtually half the yield basis which prevailed a decade ago. Thus, with borrowing costs up, the historic pattern of interest rates running above dividend yields was reversed in 1959.

International payments position

A factor in the money markets, as well as in the economy generally, was the position of the U.S. international balance of payments. This was marked in 1958 by an increasing deficit in our payments to foreign countries, which continued to rise during the first half of the past year. For the year as a whole it exceeded that of 1958.

Exports started to expand last spring,



but the steel strike dampened the rise in actual shipments. Exports in 1959

as a whole were about the same as in 1958.

Imports usually reflect the adverse effects of a fall in domestic economic activity and in purchasing power, but they did so less in the 1957-58 downturn than in previous such occurrences. The subsequent rise continued until the middle of 1959, and for the remainder of the year imports continued close to peak rate. The rise from the low point in 1958 was featured by the expanding volume of manufactured goods, including automobiles. For the year, imports were substantially above those of 1958.

The result of our foreign trade interchange in 1959 was the smallest excess of merchandise exports—\$1 billion—over imports that has been recorded since 1950 (see chart on page 19). With this shrinkage of our merchandise balance—despite substantially lower net payments to foreign countries than a year earlier for the aggregate of travel, shipping, foreign aid, U.S. capital investments abroad and foreign long-term investments here—the excess of U.S. foreign payments over U.S. receipts from foreign sources was somewhat larger in 1959 than the \$3.4 billion total recorded in 1958. There was, as pointed out in the section covering our international interchange, some improvement in the latter part of the year which reduced our net foreign payments in this period.

The year-end picture

As 1959 drew to a close, recovery from the earlier dislocations was rapid, and the flow of personal income rose to a peak; rebuilding of working stocks was underway so that industrial output was rising, and the path was cleared for full-scale operations. Supplies of final products were flowing in increasing volume into consumption and investment, though inventories of materials were not entirely in balance. Price movements in both retail and wholesale markets were quite limited.

The forward investment plans of business envisage a rise, as indicated by the most recent OBE survey and the character of the basic business trend. Our international interchange of goods and services has shown improvement recently, and prospects are for a rise in some major export commodities.

The near-term indication is for little change in Federal purchasing. Population and related changes, including expanded social service programs, have dominated the postwar picture for State and local governments and the likelihood is for some further increases in their expenditures. Federal Government needs for financing are diminishing, with an improvement underway in its fiscal position, and this frees additional funds for the private segments of the economy.

