

The Rim of the Saucer?

Since mid-1954 economists have actively sought signs that the economy is once again on the upgrade. Those who trace the economy's course by plotting economic statistics on charts have searched for the characteristic saucer-like curve which, they explain, has historically appeared in some series of economic data between recession and recovery. Efforts to find that historic pattern have brought various interpretations of the current economic scene. Some observers believe the downward trend in economic activity is continuing; some believe the recession has hit bottom. Others read the charts and are convinced that the economy is climbing the rim of the saucer.

The National Economy

There is some evidence that the decline in national economic activity has halted or—more succinctly—that it has “bottomed out.” Stability in industrial output this year at about 9 percent below the peak of 1953 tends to support this view. Unemployment, which reached a high in March of this year, has been gradually reduced and according to the latest data on insured unemployment, the decline in numbers of unemployed workers is continuing. Changes in production and employment between June 1953 and March 1954 indicate that a recession did occur and that it reached a low point, but the average of all wholesale prices and consumer prices held reasonably steady. Since spring, stable prices and output have prevented a further decline in the nation's gross national product, which declined in the latter part of 1953 and early 1954.

Some areas of economic activity such as construction have shown great vitality through the summer. Spending by consumers at a record annual rate of 234 billion dollars in the third quarter of 1954 has also been gratifying. Another source of satisfaction is the recent quickening in some lines that had previously experienced a slowing-up in tempo. Production of primary metals, electrical equipment, lumber products, and nondurable goods, for example, started to edge up in September. And though business inventories were still being reduced, the rate of reduction had slackened. Finally, it is worth noting that the amount of consumer instalment credit outstanding rose about 684 million dollars between March and August, following a sharp decline that began in January 1954.

Increased output in some lines, improvements in the inventory situation, and consumers' renewed use of credit could bring a further rise in general economic activity, although just now the magnitude of these forces seems insufficient to offset reductions in business spending for durable equipment, in Federal spending, and in farm income. The annual rate of spending on durable equipment by business firms fell about 2.4 billion dollars between the third quarter of 1953 and the second quarter of 1954. Estimates by the Department of Commerce on expenditures of business firms indicate a cutback in such spending in the fourth quarter of 1954. Cash outlays of the Government in fiscal 1955 are expected to be down an estimated

2.4 billion dollars from outlays a year earlier, and the decline in farm income that started in 1951 continues.

Sixth District Developments

Economic changes in the Sixth District, like those in the nation, manifest mixed tendencies. Industrial activity has been low, but is improving slightly. Factory employment in August was 6 percent below its 1953 peak on a seasonally adjusted basis, principally because of the poor performance of the lumber and textile industries. Since spring-time, manufacturing employment has gotten some support from the opening of new plants such as the Rayonier plant at Jesup, Georgia, the General Electric plant at Rome, Georgia, and the Bowaters Southern paper plant at Calhoun, Tennessee. More recently, total factory employment has risen by the normal seasonal amount. Factory payrolls have also risen but no more than seasonally.

Although Factory Employment Not Up Much, Insured Unemployment at New Low

One sign of modest industrial recovery is the September decline in insured unemployment to the lowest point of the year. Although the total number of District unemployed workers has declined recently, improvements in Chattanooga, Knoxville, and Columbus, and nine minor areas have not yet been great enough to warrant removing those areas from the “substantial labor surplus” classification. Recall of workers in furniture, textile, construction, and cotton oil industries in Jackson, Mississippi, however, has been sufficient for a reclassification of that city.

Steel May Be Strengthening Force but Lumber Still Somewhat Weak

Another reason for hope that industrial activity in the District is at least moving into a normal seasonal upswing is the rise since late August in steel production at Birmingham, Alabama. The steel operating rate there rose from 58 percent of capacity on August 19 to 74 percent on October 14. Increased steel production has been accompanied by a gain in the region's textile activity, as indicated by a modest rise of 4 percent in the seasonally adjusted index of cotton consumption between July and September. This rise has come after a desultory and dragging pattern of consumption during the first part of the year.

Unfortunately, the District's important lumber industry is not adding much, if any, steam to the fall upswing. During the summer, demand for southern pine increased because of a strike of lumber workers on the West Coast. That demand was met largely from inventories. Yet stocks in District states remain above year-ago levels. Despite the relatively large stocks, pine lumber prices have been fairly steady, indicating that demand has not weakened. Even so, not much increase in lumber production is likely until stocks are further reduced or demand picks up sharply.

Construction Likely to Continue Strong

Construction activity has been a strong sustaining force in the District as well as in the nation, and seems likely to

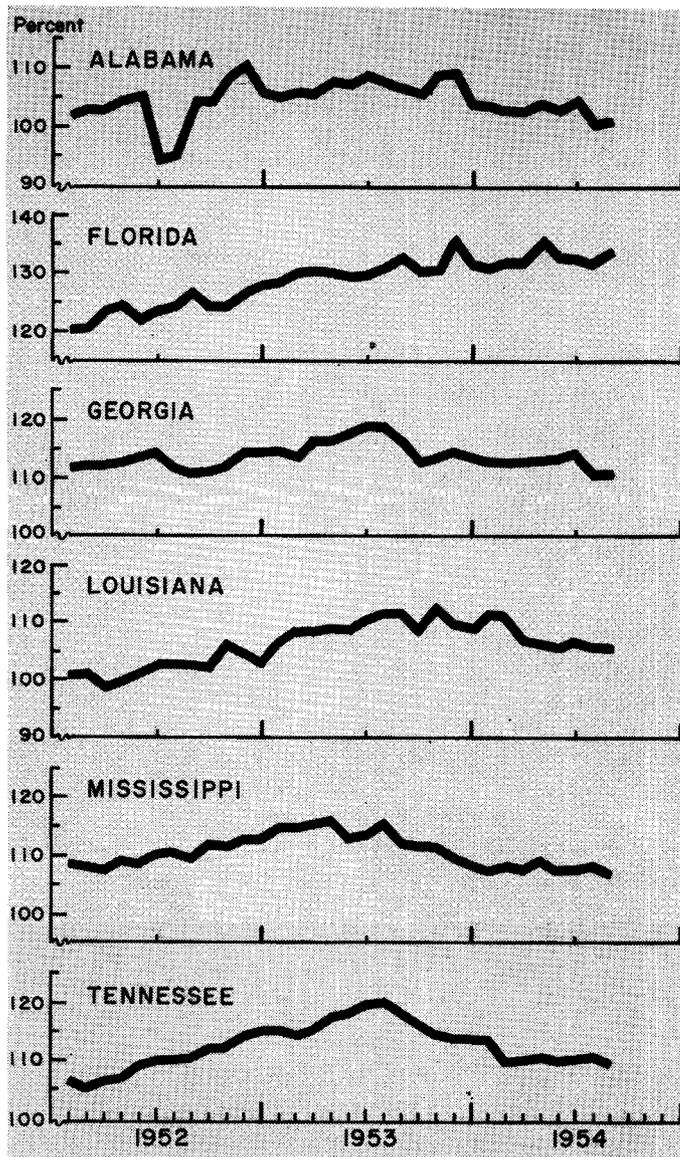
continue in that role. Construction contracts awarded for residential and nonresidential building increased during August and were greater than awards a year ago. This gain adds to the record value of contracts awarded in the District during early 1954 and helps to assure a high rate of construction through the fall and early winter months.

Consumer Spending Shows Seasonal Rise

A recovery in consumer spending has also been a support for District business this year. New automobile sales in the first part of the year, for example, were higher than in 1953, with May and June sales especially heavy. Continued high department and furniture stores sales since the recession low point in March also indicate that consumers have been spending more freely. In most months since March, major appliance and floor covering sales have been running ahead of last year.

Consumers' changed pattern of spending is also reflected in their use of credit. Consumers decreased their indebtedness to banks between October 1953 and May of this year.

MANUFACTURING EMPLOYMENT SINCE 1952
1947-49 = 100, Seasonally Adjusted



In June, however, they began borrowing more heavily, principally to buy automobiles and to pay other bills. Since July they have been borrowing more from banks to buy various types of hard goods. Gains in most types of loans since June, however, have been less than seasonal.

There is little evidence that the free spending stream of many of the District's urban consumers is likely to dry up this fall. On the other hand, there is severe distress in rural areas of the District where extreme drought persists. Farm cash receipts in the region will likely be off about a tenth from 1953 receipts. Because of lower incomes, farm families will unquestionably reduce their spending and avoid new debt as much as possible. For that reason there is small likelihood that total District consumer spending will rise more than seasonally this fall.

Business Spending and Bank Loans Lag

Although total consumer spending shows signs of rising seasonally, business spending is tending to be slack. Businessmen's plans for plant construction and expansion, for instance, have apparently been altered in recent months. In the first half of 1954 the number of announcements for new and expanded plants was unchanged from recent comparable periods. In the third quarter of this year, however, announcements were small in number, compared with like months in former years. Nor is business spending for inventories likely to be spectacular. District wholesale inventories this year have been slightly higher than in 1953, with the greatest concentration in automobile, appliance, and refrigeration equipment lines. Department stores and furniture stores reduced their inventories significantly earlier in the year. There has been a pick-up in their new orders, however, apparently because the gain in sales since early summer has eaten into their mid-year stocks sufficiently to stimulate reordering. But such inventory replenishment is unlikely to cause much of a rise in national production.

Trends in District bank loans fail to show that the region's economy is in a marked upswing. In fact, bank loans indicate that the increase in business activity has been no greater than would ordinarily be expected at this time of the year. Total loans at selected banks in the District have been well above 1953 levels during most of the year and since August have risen in a seasonal manner. Since District banks currently have very large excess reserves, compared with 1952 and 1953, there is little reason to expect that a shortage of funds will curtail bank loans and therefore bring about a slackening in business activity.

Saucer Shallow and Broad

Business activity in the District and the nation remains high and evidently there has been a hesitant recovery from the 1953 recession. The hope for a further advance in economic activity rests largely on the building boom and consumers' apparent willingness and ability to spend. There is, however, a counter-balancing slackness in business and Government expenditures and in farm income. Failure of District business to show more than seasonal improvement so far this year suggests that a substantial revival in economic activity has not begun. This creates suspicion that the nation's current economic saucer is shallow but broad.

ARTHUR H. KANTNER