

May 1961

SURVEY OF CURRENT BUSINESS

durable goods and construction. Both the falloff in corporate profits and that in compensation of employees have been concentrated in these industries.

At a \$293½ billion annual rate in the first quarter, employee compensation was down \$2 billion from the closing quarter of last year and about \$4 billion from the third quarter peak. As shown in table 2, a continued increase in government payrolls has been more than offset since last summer by a decline in private wages and salaries. The drop in the private segment from its mid-1960 high to the first quarter of 1961 amounted to \$5 billion—the same dollar reduction that was recorded in the combined total for durables manufacturing, mining, railroads, and contract construction. Changes in other industries were comparatively limited.

Profits decline extended

By the end of 1960 pre-tax profits as measured in the national income were already \$7 billion under their best 1960 quarter, and they have fallen somewhat further since the turn of the year (though sufficient data will not be available for some time to compute this portion of the first-quarter national income total). Profits experience in the latest

period appears particularly unfavorable by comparison with the opening quarter a year ago, when the peak of the 1959-60 advance was reached.

The fragmentary information provided by first-quarter financial reports of some of the largest companies has featured declines for a number of durable goods manufacturing industries and for the railroads. Income of iron and steel producers, which dropped sharply during 1960, seems to have continued downward in the opening months of 1961. Profits of auto makers and construction materials companies, which held up relatively better last year, also experienced sharp reductions in earnings after the turn of the year. The curtailment of durable goods production in the second half of 1960 has been reflected in lower railroad earnings; with this factor aggravated by unfavorable weather, several of the larger eastern lines have reported deficits for the first quarter of 1961.

In some other areas, profits have held up very well or even expanded. The service-type industries, notably communications and the public utilities, have continued their growth into this year. Some of the nondurables manufacturing lines have maintained the

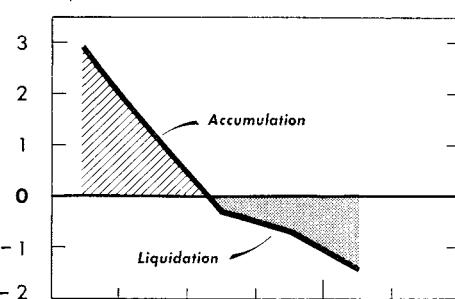
Table 3.—Gross National Product by Major Type of Product in Current and Constant Dollars (I-6, I-7)¹

	1958	1959	1960	1960		1961		1958	1959	1960	1960		1961				
				I	II	III	IV				I	II	III	IV			
				Seasonally adjusted at annual rates							Seasonally adjusted at annual rates						
				Billions of current dollars													
Gross national product	441.2	482.1	503.2	501.3	505.0	503.5	503.5	499.8	401.0	428.0	439.2	440.5	442.2	438.0	437.0	432.4	
Final sales	446.7	476.1	499.6	489.9	499.7	503.0	506.5	504.4	403.2	422.8	436.0	430.7	437.4	437.4	439.4	436.1	
Inventory change	-2.5	5.9	3.6	11.4	5.3	.6	-3.0	-4.5	-2.2	5.2	3.2	9.8	4.8	.6	-2.4	-3.8	
Goods output	229.1	249.9	257.8	261.0	261.3	255.7	253.1	247.4	211.2	228.3	233.8	237.5	237.1	231.5	229.1	223.6	
Final sales	231.6	244.0	254.2	249.6	256.1	255.1	256.0	251.9	213.4	223.1	230.6	227.7	232.3	230.9	231.5	227.3	
Inventory change	-2.5	5.9	3.6	11.4	5.3	.6	-3.0	-4.5	-2.2	5.2	3.2	9.8	4.8	.6	-2.4	-3.8	
Durable good output	80.2	94.1	96.3	101.7	98.0	93.9	90.8	84.0	71.5	82.1	83.8	88.7	85.3	81.4	79.8	73.5	
Final sales	83.3	91.0	93.9	91.8	94.9	91.0	94.8	90.2	74.2	79.5	81.9	80.4	82.6	81.5	83.1	78.9	
Inventory change	-3.1	3.1	2.2	9.8	3.1	-1	-3.9	-6.2	-2.7	2.6	1.9	8.3	2.7	-1	-3.4	-5.4	
Nondurable goods output	148.9	155.8	161.7	159.3	163.3	161.8	162.3	163.4	139.7	146.2	150.0	148.8	151.8	150.1	149.3	150.0	
Final sales	148.3	153.0	160.3	157.8	161.1	161.1	161.3	161.7	139.2	143.6	148.7	147.3	149.6	149.4	148.3	148.4	
Inventory change	.6	2.8	1.4	1.5	2.2	.7	1.0	1.6	.5	2.5	1.4	1.5	2.2	.7	1.6	1.6	
Services	164.3	175.9	188.7	184.0	187.0	190.8	193.4	195.0	145.3	151.6	157.9	155.6	157.4	158.8	160.6	161.4	
Construction	50.8	56.3	56.6	56.3	56.7	57.0	57.2	56.5	44.4	48.1	47.5	47.4	47.6	47.7	47.5	47.4	

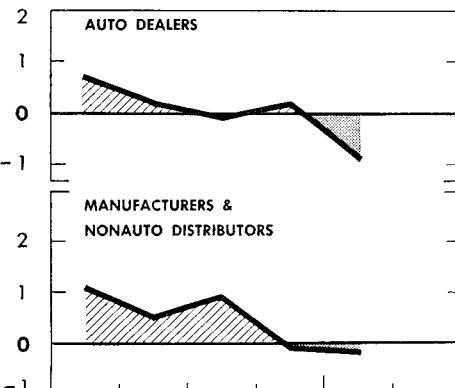
¹ For quarterly data beginning 1947, see SURVEY OF CURRENT BUSINESS, November 1960, pages 18 and 19.

Step-Up in Liquidation of BUSINESS INVENTORIES in 1st Quarter

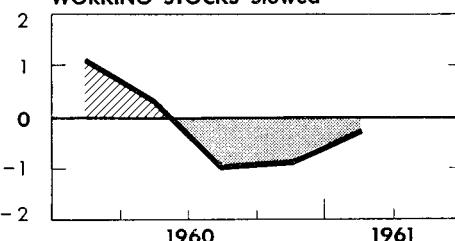
Billion \$



Centered in FINISHED STOCKS . . .



While Cutback in Manufacturers' WORKING STOCKS Slowed



1960 1961
Quarterly Changes in Book Value of Inventories, Seasonally Adjusted

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

61-5

earnings levels they reached early last year, and the petroleum industry, in particular, reported higher profits in the March quarter due to a large heating-oil demand, an improved supply-demand-price position, and cutbacks in costs.

Profits data now available for the full year 1960 show a slight reduction from 1959. Pulled down by a \$41 billion fourth quarter rate, pretax earnings and IVA totaled \$44½ billion as against \$46½ billion the year before. After-tax net income was \$23 billion, \$1 billion under the 1959 total.

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real terms, they are still below any quarter of 1956 or 1957.

Capital outlays currently represent a lesser proportion of GNP than in the mid-1950's. In fact, if the average ratio of fixed investment to GNP is computed for 5-year periods (to minimize the effect of cyclical factors) the recent decline appears to be but a continuation of postwar adjustments.

Period	Business Fixed Investment			Percent [Billions of constant (1954) dollars] (5-year averages)
	GNP	Investment	Percent	
1947-51-----	314	33	10.5	
1952-56-----	387	38	9.8	
1957-61-----	430	37	8.6	

Capital investment during the decade or so following World War II reflected a number of special factors. In the 1947-51 period, activity in certain areas was abnormally stimulated by the absence of normal growth during the depression and war periods; in others, it was curtailed by materials shortages or by the conversion of Government facilities erected during the war. Finally, the outbreak of the Korean war stimulated capital outlays in certain strategic areas of the economy.

During the 1952-56 period, materials were generally abundant and investment in many areas, notably durable goods manufacturing, was still feeling the stimulating effects of the Korean expansion program, and the introduction of accelerated amortization. Thus, the last 4 or 5 years are the first in the postwar period when business investment has not been greatly distorted by the effects of severe depression and war. The problem of raising investment to more satisfactory levels in relation to GNP must be viewed in this light.

Residential construction lower

The decline in residential construction was an important factor in moderating the first quarter advance in GNP. In the previous quarter, activity had come close to matching the 1959 second quarter peak of \$23.5 billion, though in real terms it was still 5 percent below that quarter.

The weather in many areas of the country may have had some effect on

the rate of construction activity in late 1961 and early 1962. The number of new private housing units authorized by local building permits during the winter months (December-February) reached a volume not achieved since early 1959. On the other hand, housing starts during this period, at an annual rate of 1,225,000 units, were off sharply from the 1,400,000 units started in October. Building permits were off slightly in March, but starts rose sharply to regain the October level, and in April residential construction activity moved above the first quarter average.

As noted in the article on "Capital Formation, Savings, and Credit" in this issue of the SURVEY, financial conditions in the mortgage market have remained relatively favorable with in-

terest rates on mortgage debt continuing to move down slightly in the opening months of the year.

Government Purchases Rising; Net Exports Off

Government purchases of goods and services increased another 2½ percent in the first quarter, with higher Federal defense expenditures and increased State and local outlays. The recent increases in Federal Government purchases reflect the full impact of the measures taken to meet the Berlin crisis and accelerate the growth of military strength.

Net exports were off \$½ billion, following a rise which had contributed nearly \$1½ billion to the fourth quarter rise in GNP.

National Income and Purchasing Power Move Higher

HIGHER employee compensation accounted for most of the first quarter increase in national income. On the basis of preliminary evidence, corporate profits do not appear to have changed much from the \$52 billion (annual rate) of the first quarter, following three successive quarterly rises cumulating to \$12 billion.

Within manufacturing, where half of all corporate profits originate, earnings were nearly one-third above the

cyclical lows of the first quarter of 1961, though about the same as in the fourth quarter of last year. Small declines in a number of manufacturing industries were counterbalanced by a sharp increase in profits of primary metal producers.

Outside of manufacturing, still low rail profits advanced as recovery from the recession was extended; earnings of the communications and public

(Continued on page 20)

Table 3.—Gross National Product by Major Type of Product in Current and Constant Dollars (I-6, I-7)

	1959	1960	1961	1961				1962		1961				1962						
				I	II	III	IV			I	1959	1960	1961	I	II					
				Seasonally adjusted at annual rates								Seasonally adjusted at annual rates								
															Billions of current dollars		Billions of 1954 dollars			
Gross national product -----	482.8	504.4	521.3	500.8	516.1	525.8	542.2	548.3	428.4	440.8	448.8	433.2	445.6	451.8	464.6	468.2				
Final sales	476.5	500.2	519.1	504.8	513.2	521.3	537.0	541.6	422.9	436.8	446.7	436.5	442.6	447.9	459.9	462.1				
Inventory change	6.3	4.2	2.2	-4.0	2.8	4.5	5.3	6.8	5.5	4.0	2.1	-3.2	2.9	3.9	4.7	6.1				
Goods output -----	250.3	258.5	259.0	245.7	257.1	261.4	271.6	274.9	228.6	234.6	233.6	221.9	232.5	235.4	244.6	247.1				
Final sales	244.0	254.3	256.8	249.7	254.3	256.9	266.3	268.1	223.1	230.6	231.5	225.2	229.7	231.6	239.8	241.0				
Inventory change	6.3	4.2	2.2	-4.0	2.8	4.5	5.3	6.8	5.5	4.0	2.1	-3.3	2.9	3.9	4.7	6.1				
Durable goods output	94.9	96.7	92.8	81.6	90.9	96.1	102.6	103.3	82.9	84.7	80.9	71.4	79.4	83.5	89.4	90.0				
Final sales	91.3	94.3	92.7	87.4	91.2	92.6	99.6	99.8	79.8	82.4	80.9	76.5	79.6	80.5	86.8	87.1				
Inventory change	3.6	2.5	1.1	-5.8	-3	3.5	3.1	3.5	3.1	2.3	.1	-5.1	-2	3.0	2.6	2.8				
Nondurable goods output	155.4	161.8	166.1	164.1	166.2	165.3	168.9	171.6	145.7	150.0	152.7	150.5	153.2	151.9	155.2	157.1				
Final sales	152.8	160.1	162.3	163.0	164.3	166.7	168.3	143.3	148.3	150.7	148.7	150.0	151.0	153.1	153.9	154.0				
Inventory change	2.6	1.8	2.0	1.8	3.2	1.0	2.2	3.3	2.4	1.7	2.0	1.8	3.1	.9	2.1	3.2				
Services	176.2	189.3	203.6	197.9	201.1	205.1	210.0	214.3	151.7	158.7	166.2	163.2	164.7	167.1	169.8	172.4				
Construction	56.2	56.6	58.8	57.2	57.9	59.2	60.7	59.1	48.1	47.5	48.9	48.0	48.3	49.2	50.3	48.7				

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Fixed business investment stable

Business outlays for fixed investment continued at the peak rate of \$51 billion, which was reached in the third quarter of 1962, following a moderate cyclical rise from the first quarter of 1961. A minor improvement in outlays by manufacturers, mining firms and railroads during the quarter just about offset the continued decline in "other transportation", representing mainly reduced expenditures for jet aircraft, and in public utilities. On the other hand, outlays for commercial and other community facilities appear to have leveled off for the moment after accounting for about half of the total increase in fixed investment over the past 2 years.

The OBE-SEC survey of business investment intentions indicates a resumption of the investment rise in the current quarter.

Housing activity off

Residential construction was the only major GNP component to show a decline in the first quarter, being down about \$1½ billion from the closing quarter of 1962. This was the third successive year in which the year began with a sharp drop in housing activity and reflected a series of unusually severe winters, and possibly, in addition, improper seasonal adjustments.

Housing starts, which were off sharply (after seasonal correction) in January and February, recovered sharply in March, and though still short of the best 1962 months suggested some recovery in dollar outlays for the second quarter.

Federal outlays sharply higher

Government expenditures for goods and services contributed over \$3 billion to the \$8 billion rise in GNP noted for the first quarter. A sharp rise in defense outlays, the largest in over a year, accounted for most of this increase. There was only a modest increase, less than \$1 billion, in State and local government as unfavorable weather effected a slight reduction in construction activity following sharp increases in the latest 1962 quarters.

Government outlays thus continued to play an important direct, as well as indirect, role in the expansion of eco-

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nomic activity. As compared with a year ago, for example, total government outlays accounted for \$8½ billion out of a total GNP increase of \$27 billion. The former was about equally divided into a \$4 billion increase in Federal outlays and a \$4½ billion increase in State and local.

Table 2.—Personal Income and Its Use (II-2)

[Billions of dollars]

	1960	1961	1962	1962				1963
				I	II	III	IV	I
				Seasonally adjusted at annual rates				
Personal income	400.8	416.4	440.5	432.0	439.5	442.6	448.0	452.1
Wage and salary disbursements	271.3	278.8	295.8	289.9	295.9	297.8	299.7	303.3
Commodity-producing industries	110.4	110.8	117.2	115.0	118.1	118.0	117.8	118.3
Manufacturing only	87.4	87.5	93.6	91.9	94.4	94.1	94.0	94.6
Distributive industries	71.8	72.9	76.2	74.9	76.1	76.5	77.1	78.1
Service industries	40.7	43.4	46.3	45.1	45.9	46.9	47.3	48.1
Government	48.4	51.8	56.2	54.9	55.8	56.4	57.5	58.8
Other labor income	11.0	11.4	12.3	12.0	12.3	12.4	12.5	12.6
Proprietors' income	46.2	47.8	49.8	49.1	49.5	49.7	50.9	50.5
Business and professional	34.2	34.8	36.8	36.2	36.8	37.0	37.3	37.7
Farm	12.0	13.1	13.0	12.9	12.8	12.8	13.6	13.0
Rental income of persons	11.9	12.3	12.8	12.6	12.8	12.9	12.9	13.0
Dividends	14.4	15.0	15.9	15.8	15.8	15.8	16.4	16.4
Personal interest income	25.8	27.4	29.7	28.8	29.4	30.0	30.6	31.3
Transfer payments	29.4	33.4	34.6	34.1	34.2	34.4	35.7	36.5
Old-age and survivors insurance benefits	11.1	12.6	14.3	13.7	14.4	14.5	14.8	14.9
State unemployment insurance benefits	2.8	4.0	3.0	3.3	2.7	2.7	3.2	3.0
Veterans' benefits	4.5	4.8	4.8	4.8	4.8	4.7	4.9	4.8
Other	10.9	12.0	12.5	12.3	12.3	12.5	12.7	13.8
Less: Personal contributions for social insurance	9.2	9.7	10.5	10.3	10.5	10.5	10.6	11.8
Less: Personal tax and nontax payments	51.4	52.8	57.6	56.4	57.7	58.5	58.7	59.5
Federal	44.0	45.0	49.1	48.0	49.2	49.9	50.1	50.5
State and local	7.4	7.8	8.5	8.4	8.5	8.6	8.7	9.0
Equals: Disposable personal income	349.4	363.6	382.9	375.6	381.8	384.1	389.3	392.6
Less: Personal consumption expenditures	328.5	338.1	356.7	350.2	354.9	358.2	363.5	367.8
Equals: Personal saving	20.9	25.6	26.2	25.4	26.9	26.0	25.8	24.8
Addendum: Disposable personal income in constant (1954) dollars	317.3	327.3	341.6	336.6	340.9	342.1	345.8	347.1

Table 3.—Gross National Product by Major Type of Product in Current and Constant Dollars (I-6, I-7)

	1960	1961	1962	1962				1963		1962	1963	
				I	II	III	IV	I				
				Seasonally adjusted at annual rates								
				Billions of current dollars						Billions of 1954 dollars		
Gross national product	503.4	518.7	553.9	545.0	552.0	555.3	563.5	571.8	440.2	447.9	471.9	467.4
Final sales	499.4	516.6	550.6	538.3	547.9	554.2	562.3	568.7	436.5	446.0	468.9	461.5
Inventory change	4.1	2.1	3.2	6.7	4.0	1.0	1.2	3.0	3.7	2.0	2.9	5.9
Goods output	258.2	259.4	276.9	274.9	276.7	275.7	280.4	286.2	234.0	233.5	247.7	246.4
Final sales	254.1	257.2	273.7	268.2	272.6	274.7	279.2	283.1	230.3	231.5	244.8	240.5
Inventory change	4.1	2.1	3.2	6.7	4.0	1.0	1.2	3.0	3.7	2.0	2.9	5.9
Durable goods output	97.2	94.0	104.5	103.4	104.5	104.9	105.6	108.3	85.0	82.1	90.8	89.9
Final sales	95.0	94.0	102.9	99.9	102.6	103.0	106.4	108.6	82.9	82.0	89.5	87.0
Inventory change	2.3	0	1.6	3.5	1.9	1.9	—8	—2	2.1	1.4	2.9	1.6
Nondurable goods output	160.9	165.4	172.4	171.5	172.2	170.8	174.8	177.8	149.1	151.4	156.9	156.5
Final sales	159.2	163.3	170.8	168.4	170.0	171.7	172.8	174.5	147.5	149.5	155.3	154.7
Inventory change	1.8	2.1	1.6	3.1	2.2	—9	2.0	3.3	1.6	1.8	1.6	3.0
Services	188.6	200.7	214.8	211.1	213.5	215.9	219.5	223.2	158.3	165.2	173.0	171.8
Construction	56.7	58.6	62.1	59.0	61.8	63.6	63.7	62.4	47.8	49.3	51.2	49.2
Addendum: Auto product¹	20.8	17.5	21.5	20.1	21.1	21.6	23.2	23.0	17.3	14.5	17.8	16.8

¹. Data for 1947-62 were presented in the February 1963 SURVEY OF CURRENT BUSINESS, pp. 14 and 15.

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of the economic recoveries and expansions differed in the earlier periods. Thus, the 1961-63 upswing has already run as long as the 1958-60 advance, which reached its peak rate in the ninth quarter following the early 1958 trough. In contrast, after the 1954 low point, activity continued to expand for a total of 13 quarters, with an overall rise of 14½ percent from trough to peak.

Notwithstanding the average rise in total real output, a rapid gain in productivity during the current expansion has held the increase in employment to modest levels. Since the cyclical low in early 1961, employment has gone up from 66.8 million to 68.7 million—a gain of 2½ percent. During similar time spans—nine quarters from the cyclical low—of the earlier periods of expansion, the increases in employment were greater: 4½ percent in 1958-60, and 6½ percent in 1954-56.

The existence of relatively high unemployment and excess industrial capacity has led to only small price rises during the current business expansion. This is in sharp contrast to the experience during the 1954-57 expansion, when the rise in demand was accompanied by a steady uptrend in prices.

Expansion centers in durables production

So far in the current period of economic expansion, the real volume of output of durable goods has gone up by one-third. As the chart on page 4 shows, this expansion is far greater than in either of the two previous upswings. In 1958-60, the maximum expansion in real durable output was 28 percent, and in 1954-56, it was 24 percent.

The cyclical expansion in business fixed investment through the ninth quarter of economic expansion has reflected mainly the rising demand for equipment; nonresidential construction has shown little change. Consumer buying of autos, household furniture and appliances, and of other durable goods has jumped by over one-fifth since the cyclical low in early 1961, while total consumer buying has gone up by less than one-tenth. In sharp contrast to the other recent periods of

economic advance, when Government buying of durables was sharply reduced, hard goods purchases by the Federal Government have expanded steadily since early 1961, rising by nearly one-fifth for the period as a whole.

In general, the gains in demand for a wide variety of durable items have been pervasive and well sustained all during

the present business upswing, as can be seen from the chart on page 4. The sharp second quarter 1963 rise shown in the chart in part reflected the stockpiling of steel which undoubtedly temporarily accentuated production of hard goods.

(Continued on page 28)

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[Billions of dollars]

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				Seasonally adjusted at annual rates				
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Wage and salary disbursements	271.3	278.8	297.1	296.8	299.4	301.5	304.5	310.8
Commodity-producing industries	110.4	110.8	118.5	119.2	119.5	119.6	120.1	123.6
Manufacturing only	87.4	87.5	94.2	94.8	95.0	94.8	95.5	98.2
Distributive industries	71.8	72.9	76.6	76.4	77.3	77.8	78.4	79.6
Service industries	40.7	43.4	46.4	46.2	47.0	47.3	48.2	49.1
Government	48.4	51.8	55.6	55.1	55.7	56.8	57.8	58.6
Other labor income	11.0	11.4	12.1	12.0	12.2	12.3	12.4	12.6
Proprietors' income	46.2	48.1	49.8	49.6	49.8	50.3	50.7	50.0
Business and professional	34.2	35.3	36.5	36.5	36.6	36.9	37.2	37.4
Farm	12.0	12.8	13.3	13.1	13.2	13.4	13.5	12.6
Rental income of persons	12.1	12.1	12.0	12.0	12.0	12.0	12.0	12.0
Dividends	14.5	15.3	16.6	16.4	16.5	17.1	17.1	17.6
Personal interest income	25.8	27.7	30.0	29.7	30.3	31.1	31.6	32.1
Transfer payments	29.5	33.6	34.8	34.4	34.6	35.9	37.0	36.5
Old-age and survivors insurance benefits	11.1	12.6	14.3	14.3	14.5	14.8	14.8	15.4
State unemployment insurance benefits	2.8	4.0	2.9	2.7	3.2	3.0	2.6	2.6
Veterans' benefits	4.5	4.8	4.8	4.7	4.7	4.9	4.9	5.0
Other	11.1	12.2	12.8	12.6	12.8	13.0	14.2	13.5
Less: Personal contributions for social insurance	9.2	9.5	10.2	10.2	10.3	10.3	11.5	11.7
Less: Personal tax and nontax payments	51.4	52.9	57.7	57.9	58.1	58.5	59.4	59.9
Federal	44.0	45.1	49.0	49.3	49.4	49.7	50.0	50.4
State and local	7.3	7.8	8.7	8.6	8.7	8.8	9.4	9.6
Equals: Disposable personal income	349.9	364.4	384.4	382.7	386.5	391.4	394.5	400.0
Less: Personal consumption expenditures	328.2	336.8	355.4	352.9	356.7	362.9	367.4	370.4
Equals: Personal saving	21.7	27.6	29.1	29.8	29.7	28.5	27.1	29.6
Addendum: Disposable personal income in constant (1954) dollars	317.8	328.4	343.6	342.6	345.1	348.2	349.5	353.2

Table 3.—Gross National Product by Major Type of Product in Current and Constant Dollars (1-6, 1-7)

	1960	1961	1962	1962		1963		1960	1961	1962	1962		1963				
				Seasonally adjusted at annual rates							Seasonally adjusted at annual rates						
				II	III	IV	I				II	III	IV	I			
				Billions of current dollars							Billions of 1954 dollars						
Gross national product	502.6	518.2	554.9	552.4	556.8	565.2	571.8	579.6	439.9	447.7	474.8	474.0	475.6	481.0	485.3	489.4	
Final sales	499.1	516.3	549.3	546.0	553.1	561.2	566.6	575.4	436.8	446.0	470.1	468.3	472.7	478.0	490.4	485.6	
Inventory change	3.5	1.9	5.5	6.5	3.6	4.0	5.1	4.3	3.1	1.7	4.8	5.7	2.9	3.4	4.9	3.8	
Goods output	257.1	259.1	278.3	277.2	278.4	281.4	281.4	286.8	289.8	233.0	249.1	249.1	248.5	248.8	251.7	256.4	257.8
Final sales	253.7	257.3	272.8	270.7	274.8	277.4	281.7	285.6	229.9	231.5	244.4	242.8	245.9	248.2	251.4	254.0	
Inventory change	3.5	1.9	5.5	6.5	3.6	4.0	5.1	4.3	3.1	1.7	4.8	5.7	2.9	3.4	4.9	3.8	
Durable goods output	96.5	93.4	104.4	102.9	105.1	104.8	107.5	112.6	84.2	81.3	91.0	89.6	91.4	91.9	94.0	97.8	
Final sales	94.2	93.8	101.5	99.9	102.6	103.5	106.3	109.6	82.2	81.6	88.5	86.9	89.2	90.7	93.0	95.2	
Inventory change	2.3	-4.4	2.9	3.1	2.5	1.3	1.1	3.0	2.1	-3	2.6	2.7	2.2	1.2	1.0	2.5	
Nondurable goods output	160.6	165.7	173.9	174.2	173.3	176.6	179.4	177.3	148.8	151.9	158.1	158.8	157.5	159.8	162.4	160.0	
Final sales	159.5	163.5	171.3	170.8	172.1	174.0	175.3	176.0	147.7	149.8	155.9	155.9	156.7	157.6	158.4	158.8	
Inventory change	1.1	2.2	2.6	3.4	1.2	2.6	4.0	1.3	1.1	2.2	2.9	2.2	2.9	2.2	3.9	1.3	
Services	188.8	200.4	214.5	213.5	215.2	220.2	222.5	226.5	158.8	165.3	174.4	174.2	174.8	177.5	177.8	180.2	
Construction	56.7	58.6	62.1	61.8	63.1	63.6	62.5	63.3	48.1	49.2	51.4	51.3	52.0	52.2	51.2	51.4	
Addendum: Auto product	20.8	17.5	21.7	21.2	21.6	23.5	23.3	23.9	17.3	14.5	17.9	17.5	17.7	19.6	19.5	19.7	

May 1964

SURVEY OF CURRENT BUSINESS

9

Recent Advances in Corporate Profits¹
[Billion dollars]

	Business cycle:		Current	Percent changes	
	Peak II 1960	Trough I 1961		II-1960 IV-1963	I-1961 IV-1963
	Seasonally adjusted annual rate				
All industries total	45.2	38.8	53.2	17.7	37.1
Manufacturing	23.2	18.6	28.1	21.1	51.1
Durable goods industries	11.7	8.4	15.6	33.3	85.7
Nondurable goods industries	11.5	10.2	12.5	8.7	22.5
Transportation, communications, and public utilities	7.1	6.7	8.3	16.9	23.9
All other industries	14.9	13.5	16.9	13.4	25.2

1. Before tax and inventory valuation adjustment.

gins as well as the expanding level of business activity. As noted in recent issues of the SURVEY, corporate profit margins, whether measured as a percent of corporate output or as a percent of national income originating in corporate enterprise, have been unusually strong.

Manufacturing profits strong

In the current expansion, as in the earlier advances, profits in all major industries have shared in the general uptrend.

Durable manufacturing profits have continued to expand through the 12th quarter since the cyclical trough; over the past year earnings in durable manu-

facturing have risen by \$2 billion, to reach a record \$15½ billion in the final quarter of 1963. In the 1954-57 period, profits in durable manufacturing reached a peak in the sixth quarter of expansion and declined sharply thereafter. In the 1958-60 expansion, the topping out was evident after a little more than a year of sharp increases and the trend was generally downward thereafter.

Earnings in nondurable goods industries rose only slowly after the 1961 trough, but, in contrast to the experience of the two previous upswings, they were still increasing as 1963 ended. Following recovery from the troughs of 1954 and 1958, profits in soft goods industries leveled off after about a year and a half of recovery, and declined gradually thereafter.

Table 3.—Personal Income and Its Use (II-2)
[Billions of dollars]

	1961	1962	1963	1963				1964
				I	II	III	IV	
				Seasonally adjusted at annual rates				
Personal income	417.4	442.1	463.0	453.9	459.9	465.2	473.0	479.1
Wage and salary disbursements	278.8	297.1	312.3	304.5	310.8	314.6	319.4	323.6
Commodity-producing industries	110.8	118.5	123.8	120.1	123.6	124.9	126.5	128.0
Manufacturing only	87.5	94.2	98.3	95.5	98.2	99.0	100.5	101.7
Distributive industries	72.9	76.6	79.8	78.4	79.6	80.3	81.0	82.0
Service industries	43.4	46.4	49.5	48.2	49.1	50.0	50.6	51.2
Government	51.8	55.6	59.3	57.8	58.6	59.5	61.3	62.5
Other labor income	11.4	12.1	12.6	12.4	12.6	12.7	12.8	12.9
Proprietors' income	48.1	49.8	50.5	50.7	50.0	50.5	50.8	50.8
Business and professional	35.3	36.5	37.7	37.2	37.4	37.8	38.2	38.6
Farm	12.8	13.3	12.8	13.5	12.6	12.7	12.6	12.2
Rental income of persons	12.1	12.0	12.1	12.0	12.0	12.1	12.2	12.3
Dividends	15.3	16.6	17.8	17.1	17.6	17.6	18.8	19.1
Personal interest income	27.7	30.0	32.5	31.6	32.1	32.8	33.5	34.3
Transfer payments	33.6	34.8	36.9	37.0	36.5	36.7	37.5	38.5
Old-age and survivors insurance benefits	12.6	14.3	15.3	14.8	15.4	15.5	15.5	15.7
State unemployment insurance benefits	4.0	2.9	2.8	3.0	2.6	2.6	3.1	2.8
Veterans' benefits	4.8	4.8	5.0	4.9	5.0	5.0	5.1	5.1
Other	12.2	12.8	13.8	14.2	13.5	13.6	13.8	14.9
Less: Personal contributions for social insurance	9.5	10.2	11.8	11.5	11.7	11.9	12.0	12.3
Less: Personal tax and nontax payments	52.9	57.7	60.5	59.4	59.9	60.8	62.1	60.4
Federal	45.1	49.0	50.9	50.4	51.1	52.2	49.9	49.9
State and local	7.8	8.7	9.6	9.4	9.6	9.7	9.9	10.6
Equals: Disposable personal income	364.4	384.4	402.4	394.5	400.0	404.4	410.9	418.7
Less: Personal consumption expenditures	336.8	355.4	373.1	367.4	370.4	374.9	379.9	387.9
Equals: Personal saving	27.6	29.1	29.3	27.1	29.6	29.5	31.0	30.8
Addendum: Disposable personal income in constant (1954) dollars	328.4	343.6	354.9	349.5	353.2	356.0	360.7	366.0

Table 4.—Gross National Product by Major Type of Product in Current and Constant Dollars (I-6, I-7)

	1961	1962	1963	1963				1964								
				I	II	III	IV									
				Seasonally adjusted at annual rates												
				Billions of current dollars				Billions of 1954 dollars								
Gross national product	518.2	554.9	585.1	571.8	579.6	588.7	600.1	608.0	447.7	474.8	492.9	485.3	489.4	495.1	501.7	506.4
Final sales	516.3	549.3	580.3	566.6	575.4	584.5	594.8	605.8	446.0	470.1	488.5	480.4	485.6	491.1	496.7	504.3
Inventory change	1.9	5.5	4.7	5.1	4.3	4.2	5.4	2.1	1.7	4.8	4.4	4.9	3.8	4.0	5.0	2.1
Goods output	259.1	278.3	291.6	286.8	289.8	292.4	297.2	301.2	233.2	249.1	259.3	256.4	257.8	259.8	263.4	266.7
Final sales	257.3	272.8	286.9	281.7	285.6	288.2	291.8	299.1	231.5	244.4	254.9	251.4	254.0	255.8	258.3	264.6
Inventory change	1.9	5.5	4.7	5.1	4.3	4.2	5.4	2.1	1.7	4.8	4.4	4.9	3.8	4.0	5.0	2.1
Durable goods output	93.4	104.4	111.8	107.5	112.6	111.8	115.1	116.8	81.3	91.0	97.2	94.0	97.8	97.1	100.0	101.9
Final sales	93.8	101.5	109.6	106.3	109.6	110.0	112.6	116.0	81.6	88.5	95.4	93.0	95.2	95.5	97.8	101.0
Inventory change	-.4	2.9	2.1	1.1	3.0	1.8	2.5	.9	-.3	2.6	1.8	1.0	2.5	1.6	2.2	.8
Nondurable goods output	165.7	173.9	179.9	179.4	177.3	180.7	182.1	184.4	151.9	158.1	162.1	162.4	160.0	162.7	163.4	164.8
Final sales	163.5	171.3	177.2	175.3	176.0	178.3	179.2	183.1	149.8	155.9	159.5	158.4	158.8	160.4	160.5	163.6
Inventory change	2.2	2.6	4.0	1.3	2.4	2.9	1.3	2.0	2.2	2.6	3.9	1.3	2.3	2.8	1.2	
Services	200.4	214.5	228.0	222.5	226.5	229.6	233.6	237.1	165.3	174.4	180.7	177.8	180.2	181.8	183.1	184.2
Construction	58.6	62.1	65.4	62.5	63.3	66.7	69.3	69.7	49.2	51.4	52.9	51.2	51.4	53.5	55.3	55.5
Addendum: Auto product	17.5	21.7	24.1	23.3	23.9	23.2	25.9	25.8	14.5	17.9	20.0	19.5	19.7	19.2	21.3	21.5

sumption expenditures increased by nearly \$15 billion from the close of 1963 to the spring of 1964. In the same period, personal saving rose \$5½ billion and the saving rate (personal saving as a percent of disposable income) rose from a little over 7 percent to a little over 8 percent. The second quarter rate is near the upper end of the comparatively narrow range of 6 to 8½ per-

cent in which the personal saving rate has fluctuated since the end of the Korean War. In the past increases in disposable income about as large as the 2½ percent gain of the second quarter 1964 have typically been associated with large increases in the saving rate. However, the length of time it has taken for the rate to return to a more typical figure has varied.

Table 3.—PERSONAL INCOME AND ITS USE (II-2)

[Billions of dollars]

	1961	1962	1963	1963			1964	
				II	III	IV	I	II
				Seasonally adjusted at annual rates				
Personal income	417.6	442.4	464.1	460.2	466.3	474.5	480.9	487.9
Wage and salary disbursements	278.8	297.1	312.1	310.1	314.3	318.8	323.2	328.7
Commodity-producing industries	110.8	118.5	123.3	122.9	124.1	125.5	126.7	128.9
Manufacturing only	87.5	94.2	98.0	97.7	98.5	99.9	100.6	102.4
Distributive industries	72.9	76.6	80.3	79.7	81.0	81.9	82.7	84.1
Service industries	43.4	46.4	49.3	49.0	49.9	50.2	51.3	52.4
Government	51.8	55.6	59.2	58.5	59.4	61.3	62.4	63.4
Other labor income	11.6	12.3	13.1	13.0	13.2	13.4	13.7	14.0
Proprietors' income	48.2	49.8	50.6	50.1	50.7	51.5	51.2	51.7
Business and professional	35.3	36.6	37.6	37.3	37.8	38.3	38.6	39.1
Farm	12.9	13.2	13.0	12.8	12.9	13.2	12.6	12.6
Rental income of persons	12.2	12.2	12.3	12.3	12.4	12.4	12.4	12.4
Dividends	15.2	16.5	18.0	17.7	17.9	19.1	19.4	19.8
Personal interest income	27.5	30.0	32.9	32.4	33.4	34.2	35.0	35.7
Transfer payments	33.6	34.7	36.7	36.3	36.5	37.2	38.3	38.0
Old-age and survivor's insurance benefits	12.6	14.3	15.2	15.3	15.4	15.4	15.6	16.1
State unemployment insurance benefits	4.0	2.9	2.8	2.6	2.6	3.0	2.8	2.5
Veterans' benefits	4.8	4.8	5.0	5.0	5.0	5.1	5.2	5.3
Other	12.2	12.7	13.7	13.3	13.4	13.6	14.8	14.2
Less: Personal contributions for social insurance	9.6	10.3	11.8	11.7	11.9	12.1	12.3	12.5
Less: Personal tax and nontax payments	52.9	57.9	61.6	61.1	61.9	63.3	61.4	56.6
Federal	45.1	49.1	51.9	51.5	52.2	53.4	51.2	46.1
State and local	7.8	8.8	9.6	9.6	9.7	9.9	10.2	10.5
Equals: Disposable personal income	364.7	384.6	402.5	399.1	404.4	411.2	419.5	431.3
Less: Personal consumption expenditures	337.3	356.8	375.0	372.0	377.4	381.3	390.0	396.1
Equals: Personal saving	27.3	27.8	27.5	27.1	27.0	29.9	29.5	35.2
Addendum: Disposable personal income in constant (1954) dollars	328.2	343.4	354.9	352.6	356.3	360.7	366.7	375.7

Table 4.—GROSS NATIONAL PRODUCT BY MAJOR TYPE OF PRODUCT IN CURRENT AND CONSTANT DOLLARS (I-6, I-7)

	1961	1962	1963	1963		1964		1961	1962	1963	1963		1964			
				II	III	IV	I				II	III	IV	I	II	
				Seasonally adjusted at annual rates							Seasonally adjusted at annual rates					
	Billions of current dollars					Billions of 1954 dollars										
Gross national product	518.7	556.2	583.9	577.4	587.2	599.0	608.8	618.6	447.9	476.4	492.6	487.9	494.8	502.0	508.0	513.5
Final sales	516.8	550.3	579.5	573.7	583.0	592.6	606.4	614.9	446.2	471.2	488.5	484.6	490.9	496.1	505.6	510.2
Inventory change	1.9	5.9	4.4	3.6	4.2	6.4	2.5	3.7	1.7	5.2	4.1	3.3	4.0	5.9	2.4	3.3
Goods output	259.8	279.5	290.1	289.8	296.7	300.7	308.0	323.6	250.3	258.1	257.7	257.8	263.2	266.2	271.8	
Final sales	257.9	273.6	285.8	286.5	285.7	290.3	298.2	304.3	232.0	245.1	254.0	254.4	253.8	257.3	263.8	268.5
Inventory change	1.9	5.9	4.4	3.6	4.2	6.4	2.5	3.7	1.7	5.2	4.1	3.3	4.0	5.9	2.4	3.3
Durable goods output	94.4	105.3	110.4	113.7	108.1	113.4	114.9	121.4	82.1	91.7	96.3	98.7	94.3	99.0	100.4	105.4
Final sales	94.5	102.3	108.2	111.0	106.6	110.4	114.3	119.0	82.1	89.2	94.4	96.4	93.0	96.4	99.8	103.3
Inventory change	-1.1	3.0	2.2	2.7	1.5	3.0	.7	2.5	-1	2.6	1.9	2.3	1.2	2.6	.6	2.1
Nondurable goods output	165.4	174.2	179.8	176.4	181.8	183.3	185.7	186.6	151.6	158.6	161.8	159.0	163.6	164.2	165.8	166.4
Final sales	163.4	171.3	177.6	175.6	179.1	179.9	183.9	185.4	149.8	155.9	158.6	160.9	160.9	164.0	165.2	165.2
Inventory change	2.0	2.9	2.2	.9	2.7	3.4	1.8	1.2	1.7	2.6	2.3	1.0	2.7	3.3	1.8	1.2
Services	200.8	214.7	228.4	223.5	231.2	234.5	239.6	241.7	165.4	174.8	181.4	178.1	183.5	184.2	186.8	186.7
Construction	58.1	62.0	65.2	63.7	66.2	67.8	68.6	68.9	48.9	51.3	53.0	52.1	53.5	54.6	55.0	55.0
Addendum: Auto product	17.7	21.9	24.4	24.2	24.3	25.6	25.8	26.4	14.8	18.3	20.4	20.1	20.4	21.6	21.7	22.0

Corporate income and taxes

In contrast to the personal income tax cut, the entire direct effects of the corporate tax reduction were reflected in first quarter after-tax profits. The decline in the tax rate, coupled with a continued gain in corporate before-tax profits, led to a very sharp increase in after-tax earnings.

In the first quarter, the \$2½ billion rise in profits before taxes (excluding the inventory valuation adjustment) at the old tax rates would have yielded a rise in after-tax profits of about \$1½ billion. The actual rise was nearly \$3 billion, so that roughly \$1½ billion is traceable to the new tax law. After-tax profits advanced slightly in the second quarter, reflecting a rise in before-tax profits of about three-quarters of a billion dollars.

Federal corporate tax accruals actually declined by only one-half of a billion dollars from fourth quarter to first, as the jump in profits before taxes nearly offset the effects of the tax reduction (see chart).

Dividends have continued to rise at a moderate pace this year so that most of the increase in after-tax income has gone into retained earnings. The latter have risen by \$2½ billion in the past 6 months. The increase in corporate internal funds—retained earnings plus capital consumption allowances—has been \$3½ billion, or nearly one-tenth, since the fourth quarter.

The Federal Budget

Reflecting the initial full quarter effects of reduced receipts due to the tax cut and the increase in defense expenditures, the Federal deficit on income and product account was \$9 billion at a seasonally adjusted annual rate in the second quarter. This was a sharp change from the small deficit incurred in the first quarter, which was mainly the result of the drop in taxes, stemming from the new tax law. In 1963, with revenues rising in line with economic activity and with total Federal outlays changing little during the year, there was a steady decline in the deficit, from an annual rate of nearly \$5 billion in the opening quarter of the year to an approximate balance in the closing quarter.

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Table 2.—National Income by Type of Income (I-8, I-9)

[Billions of dollars]

	1961	1962	1963	1963		1964			Seasonally adjusted at annual rates	
				III	IV	I	II	III		
				Seasonally adjusted at annual rates						
				Seasonally adjusted at annual rates						
National income	426.9	455.6	478.5	481.9	490.0	498.4	507.1	514.5		
Compensation of employees	302.2	323.1	340.3	342.7	347.7	352.5	358.6	364.8		
Wages and salaries	278.8	297.1	312.1	314.3	318.8	323.2	328.7	334.4		
Private	227.0	241.6	252.9	255.0	257.6	260.8	265.3	269.4		
Military	10.2	10.8	10.9	11.7	11.7	11.7	11.7	11.8		
Government civilian	41.6	44.7	48.3	48.7	49.6	50.7	51.7	53.2		
Supplements to wages and salaries	23.4	25.9	28.2	28.4	28.8	29.4	29.9	30.4		
Employer contributions for social insurance	11.8	13.6	15.1	15.2	15.4	15.7	15.9	16.2		
Other labor income	11.6	12.3	13.1	13.2	13.4	13.7	14.0	14.2		
Employer contributions to private pension and welfare funds	9.2	9.7	10.4							
Other	2.4	2.6	2.7							
Proprietors' income	48.2	49.8	50.6	50.7	51.5	51.2	51.7	52.1		
Business and professional	35.3	36.6	37.6	37.8	38.3	38.6	39.1	39.6		
Income of unincorporated enterprises	35.3	36.6	37.6							
Inventory valuation adjustment	0	0	0							
Farm	12.9	13.2	13.0	12.9	13.2	12.6	12.6	12.6		
Rental income of persons	12.2	12.2	12.3	12.4	12.4	12.4	12.4	12.4		
Corporate profits and inventory valuation adjustment	44.1	48.4	50.8	51.4	53.1	56.4	57.9	58.1		
Profits before tax	44.2	48.2	51.3	51.3	54.3	56.6	57.9	58.0		
Profits tax liability	22.3	23.2	24.6	24.5	26.0	25.4	26.0	26.0		
Profits after tax	21.9	25.0	26.7	26.7	28.3	31.2	31.9	32.0		
Dividends	15.2	16.5	18.0	17.9	19.1	19.4	19.8	20.0		
Undistributed profits	6.7	8.5	8.7	8.9	9.2	11.8	12.1	12.0		
Inventory valuation adjustment	-.1	.3	-.4	.2	-1.2	-.2	-.1	.1		
Net interest	20.1	22.1	24.4	24.7	25.4	25.9	26.5	27.1		

1. Third-quarter national income total and the corporate profits share are based on preliminary estimates and are subject to revision in next month's SURVEY.

Table 3.—Personal Income and Its Use (II-2)

[Billions of dollars]

	1961	1962	1963	1963		1964			Seasonally adjusted at annual rates	
				III	IV	I	II	III		
				Seasonally adjusted at annual rates						
				Seasonally adjusted at annual rates						
Personal income	417.6	442.4	464.1	466.3	474.5	480.9	487.9	494.5		
 Wage and salary disbursements	278.8	297.1	312.1	314.3	318.8	323.2	328.7	334.3		
Commodity-producing industries	110.8	118.5	123.3	124.1	125.5	126.7	128.9	130.8		
Manufacturing only	87.5	94.2	98.0	98.5	99.9	100.6	102.4	103.8		
Distributive industries	72.9	76.6	80.3	81.0	81.9	82.7	84.1	85.7		
Service industries	43.4	46.4	49.3	49.9	50.2	51.3	52.4	52.9		
Government	51.8	55.6	59.2	59.4	61.3	62.4	63.4	64.9		
 Other labor income	11.6	12.3	13.1	13.2	13.4	13.7	14.0	14.2		
 Proprietors' income	48.2	49.8	50.6	50.7	51.5	51.2	51.7	52.1		
Business and professional	35.3	36.6	36.6	37.6	38.3	38.6	39.1	39.6		
Farm	12.9	13.2	13.0	13.2	13.2	12.6	12.6	12.6		
 Rental income of persons	12.2	12.2	12.3	12.4	12.4	12.4	12.4	12.4		
 Dividends	15.2	16.5	18.0	17.9	19.1	19.4	19.8	20.0		
 Personal interest income	27.5	30.0	32.9	33.4	34.2	35.0	35.7	36.3		
 Transfer payments	33.6	34.7	36.7	36.5	37.2	38.3	38.0	38.0		
Old-age and survivors insurance benefits	12.6	14.3	15.2	15.4	15.4	15.6	16.1	16.1		
State unemployment insurance benefits	4.0	2.9	2.8	2.6	3.0	2.8	2.5	2.4		
Veterans' benefits	4.8	4.8	5.0	5.0	5.1	5.2	5.3	5.2		
Other	12.2	12.7	13.7	13.4	13.6	14.8	14.2	14.2		
 Less: Personal contributions for social insurance	9.6	10.3	11.8	11.9	12.1	12.3	12.5	12.8		
 Less: Personal tax and nontax payments	52.9	57.9	61.6	61.9	63.3	64.1	57.7	58.8		
Federal	45.1	49.1	51.9	52.2	53.4	51.2	47.3	48.2		
State and local	7.8	8.8	9.6	9.7	9.9	10.2	10.5	10.6		
 Equals: Disposable personal income	364.7	384.6	402.5	404.4	411.2	419.5	430.2	435.6		
 Less: Personal consumption expenditures	337.3	356.8	375.0	377.4	381.3	390.0	396.1	404.6		
 Equals: Personal saving	27.3	27.8	27.5	27.0	29.9	29.5	34.0	31.0		
Addendum: Disposable personal income in constant (1954) dollars	328.2	343.4	354.9	356.3	360.7	366.7	374.7	378.8		

* Revised

Table 4.—Gross National Product by Major Type of Product in Current and Constant Dollars (I-6, I-7)

	1961	1962	1963	1963		1964			Billions of current dollars	
				III	IV	I	II	III		
				Billions of current dollars						
				Billions of current dollars						
Gross national product	518.7	556.2	583.9	587.2	599.0	608.8	618.6	628.4		
Final sales	516.8	550.3	579.5	583.0	592.6	606.4	614.9	625.7		
Inventory change	1.9	5.9	4.4	4.2	6.4	2.5	3.7	2.8		
Goods output	259.8	279.5	290.2	289.8	296.7	300.7	308.0	313.3		
Final sales	257.9	273.6	285.8	285.7	290.3	298.2	304.3	310.5		
Inventory change	1.9	5.9	4.4	4.2	6.4	2.5	3.7	2.8		
Durable goods output	94.4	105.3	110.4	108.1	113.4	114.9	121.4	122.0		
Final sales	94.5	102.3	108.2	106.6	110.4	114.3	119.0	120.7		
Inventory change	-.1	3.0	2.2	1.5	3.0	.7	2.5	1.3		
Nondurable goods output	165.4	174.2	179.8	181.8	183.3	185.7	186.6	191.3		
Final sales	163.4	171.3	177.6	179.1	179.9	183.9	185.4	189.8		
Inventory change	2.0	2.9	2.2	2.7	3.4	1.8	1.2	1.5		
Services	200.8	214.7	228.4	231.2	234.5	239.6	241.7	246.0		
Construction	58.1	62.0	65.2	66.2	67.8	68.6	69.2	68.9		
Addendum: Auto product	17.7	21.9	24.4	24.3	25.6	25.8	26.4	26.8		