

When the records are all in, the year 1957 may well be characterized as the "Uncertain Year". For most of the year, in fact up to the very recent past, it was most difficult to judge whether 1957 would end on an upbeat or a downbeat. Reflecting that fact, business psychology all year veered like a weathervane, and until just recently business attitudes and business statistics never were very close together. By and large, the statistics kept on indicating that economic activity was level; while the record read this way, business attitudes swung between optimism and pessimism - neither of which was justified by the record. Thus the production index registered 146 in January, 143 in May, and 144 in October. Personal income was \$336 billion (annual rate) in January, \$343 billion in May, \$346 billion in October. Nonagricultural employment was around 59 million on all dates; wholesale prices went from 116 to 118.

This record of level performance reflected a whole series of adjustments that were going on in the economy - some ups and some downs. This is what made it difficult to judge whether or not the year would end on an up or downbeat. It now seems to be fairly well established that the downbeat will characterize the year end. The statistics of late October and November, plus some information as to plans for 1958 indicate that a cyclical turning-point has been reached.

At this time, the probable record of 1958 is for continuation of this rather mild downward drift for some time, with an upturn coming well before the end of the year. Here I think it well to look at the economy by segments so as to judge its prospects as a whole.

In the recent downturn of 1953-54, the two major factors that pulled activity down were business spending for inventory and Government spending for defense. Both categories showed marked reductions in that period. Consumer

spending, which comprises the bulk of all spending, went merrily on its way.

The weak spots in prospect now are business spending for plant and equipment and perhaps business spending for inventories. The recent surveys of business intentions point to a 7 per cent decline for capital spending in 1958. Spending for inventories has shown a declining rate of gain recently.

Defense spending was scheduled to drop, but by far less than the actual decline which occurred in 1953-54. What it will do now is almost anybody's guess; prospects, however, seem better for it to hold level or gain rather than decline. Consumer spending, after being quite strong, seems to have tapered off just a little in recent weeks.

The factors to watch in 1958 are these. First, keep an eye on defense spending and on consumer buying of durable goods and of housing. Second, watch business capital spending and inventories. Strength in the first two would point to continued mildness in the downturn and perhaps to another turning point on the upside. Further weakness in the second two would point to accented weakness on the downside.

On the monetary front, the keynote to policy during 1957, until just recently, was restraint. With prospects about equal for a breakout of more inflation or a mild downturn, with production and employment fairly level but with some strength in prices, a policy of restraint seemed called for. The discount rate change which came in August underlined that policy and was meant to indicate clearly that the Federal Reserve had no intention of relaxing its policy of restraint as long as there was some prospect of further inflation.

The recent discount rate action can be interpreted in only one way. For the time being, the inflationary forces are under control; the problem has become one of providing adequate funds for sustainable growth in the economy. Therefore, a policy of strong credit restraint is no longer indicated, and presumably will not be indicated as long as underlying conditions remain as they are.

In 1958, the monetary situation should be somewhat more stable than it has been in 1957. Operating under a tight debt ceiling, the Treasury has had to walk a very narrow path in 1957. This has resulted in fairly frequent trips to the market and in some consequent market disturbance. Coupled with the heavy demand for other capital funds and the basic imbalance between savings and investment, the money market situation has been as uncertain and as subject to swings in psychology as the general business situation.

The factors should not operate with the same degree of force in 1958. Savings and investment have come into far better balance and, as noted, capital spending is expected to be down in 1958. The Treasury can hardly be in any tighter situation than it has been in; it may even find an opportunity for more flexibility in its operations.

All in all, 1958 promises to be a fairly good year, but a year in which activity may well show a downtrend for the first part and an uptrend for the second. If one could use the Roman numeral V for 5, 1958 then might be called the V-8 year - V for both 5 and for the probable course of economic activity.