Progress of the Postwar Transition

A Review of 1947

By the Office of Business Economics

The year 1947 witnessed virtually full employment of the Nation's resources and continued strong sellers' markets. As the year opened the forward movement of production and distribution engendered by the progress of reconversion was continuing. Prices, freed from the wartime controls which had restrained the upward movement to the middle of 1946, were still seeking a higher equilibrium to balance supply and demand in the market place.

By the second quarter of the year, the initial impetus which came after the end of the war as the economy geared to peacetime requirements was largely spent, and business was evidencing a tendency toward increasing caution. With the spring came a period of relative stability, with the supply-demand position better balanced and with downward adjustments beginning to appear.

The emergence of new and substantial demand factors by mid-year and the continuing strength of some of preexisting demand resulted in a renewal of the upswing in purchasing and prices. The deterioration of the world agricultural situation imposed added requirements upon the United States and influenced domestic prices of farm products, particularly foods.

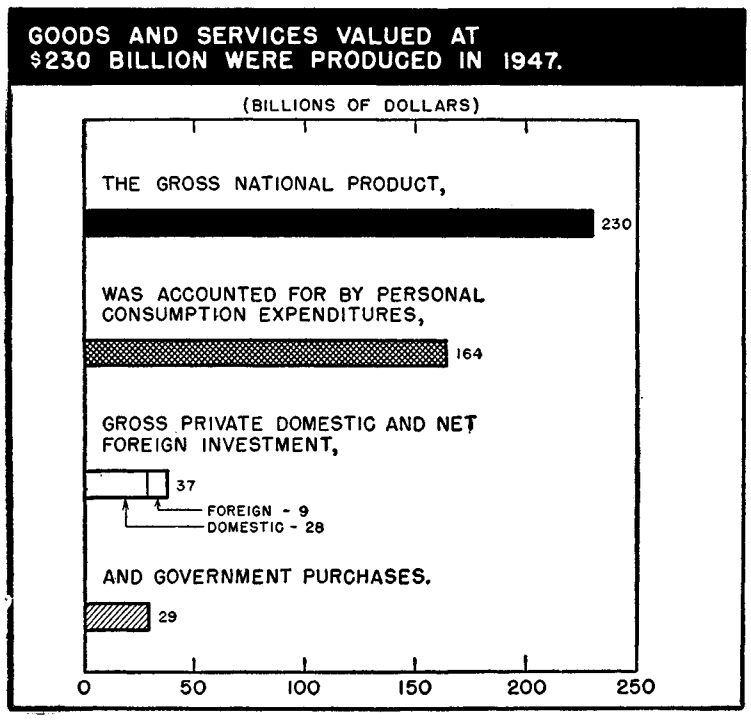
With the resumption of the upward movement of business after mid-year, 1947 as a whole was a period of substantial advance in production, employment, and trade. It was a period of markedly higher money incomes for individual workers, businessmen, and corporations, and of a higher living standard for the population. A substantial addition to the Nation's stock of capital goods—industrial machinery, plants, residential buildings—was made at the same time that consumers' and producers' goods were shipped abroad in large quantities to aid in rehabilitation and reconstruction.

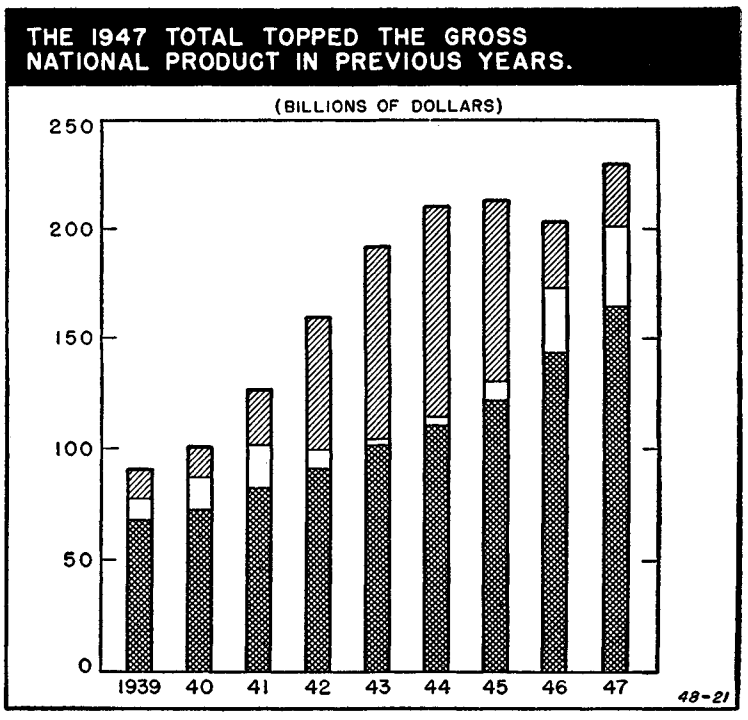
The increase in the total value of goods and services produced from 204 billion dollars in 1946 to 230 billion dollars in 1947 reflected the increase in the real output of goods and services and the further marked price rise.

Pressure on Resources Supply

In 1947, as in the first year of postwar transition, the underlying economic pressures were on the side of demand. This situation had its primary impact on the trend of prices and wages during the year, but it influenced the course of developments in other ways as well. Shortages of raw materials hampered the rate of operations in important durable goods industries and affected the volume and composition of total production, although to a lesser extent than in 1946.

The widespread existence of sellers' markets permitted rising costs to be passed on in rising selling prices, with little effect on profit margins, thereby minimizing the normal competitive pressure to pare operating costs and step up productive efficiency. At the same time the production difficulties which still persisted and the tightness of the labor





market limited the degree of improvement in the efficiency of operations which could be secured in 1947.

With respect to manpower, the pressure of requirements was expressed in a degree of utilization which was near the peacetime maximum, although it did not approach that necessary in the war economy. Total civilian employment averaged 58 million during 1947, exceeding 60 million at the summer peak, and the number of persons without work and actively seeking jobs ranged between 1½ and 2½ million. The total labor force, including the armed forces, was more than 4 million lower than in the peak war year. The average work-week was nominally lower than in 1946 and substantially below that during the war, but it was higher than in a prewar year such as 1939.

Demand Pressure High, but Eased in Second Quarter

Demand pressures were not operative with the same intensity throughout 1947. There was some let-up in the second quarter of the year and a marked pick-up toward the end of the third quarter which gained momentum as the year drew to a close.

The second quarter easing of demand—which was reflected in an interlude of essentially stable prices—followed upon the "wait-and-see" attitude adopted by retailers earlier when expectations of price declines were held in many quarters. Actually, the shift in buying policies was instituted by the larger merchandisers in the latter part of 1946. Outstanding orders of the large department stores regularly reporting to the Federal Reserve Banks were cut in half between the peak in July 1946 and the year end, and there were further substantial reductions until June 1947. The practice of shortening outstanding commitments and culling orders was adopted rather generally by the retail and wholesale communities after the close of the 1946 holiday buying season.

Total business inventory accumulation was lower in the second and third quarters of 1947 than in the first, and small declines were recorded in May, June, and July in the book value of inventories held at the distributive level. Meanwhile, the shift in purchasing carried back to the manufacturing level, chiefly in the textile and women's apparel fields where output moved downward for several months.

An additional area of temporary let-up in demand was in construction, although here there was not a cut-back in actual outlays but a failure of new contracts and activity to show the usual seasonal expansion in the spring. The reason was apparently much the same as in the case of retail buying—that is, an expectation of downward adjustments of the sharply advanced costs.

Exports Rise to Peak

Throughout the year, the trend of exports played an important role in shaping the course of business. During the second quarter when easing tendencies were evident in some domestic markets exports were rising rapidly while imports remained low, so that the net foreign investment rose to an annual rate of better than 10 billion dollars, as compared with about 5 billion in the fourth quarter of 1946. This difference was almost entirely in the goods movement and more than counterbalanced the drop in inventory accumulation. During the time shipments abroad were providing an outstanding element of strength in the demand picture, it was apparent that the rate at which foreign countries were drawing upon their dollar resources to meet the current volume of payments to this country would not be sustained. This fact, coupled with the continuing acute need for rehabilitation of Europe, led to the proposal in Secretary of State Marshall's address in June for a joint program to this end. An immediate effect of this proposal was a recasting of expectations as to the future trend of exports.

In the succeeding months analyses were prepared of European and other foreign requirements in relation to the availability of required goods, and of the probable impact of foreign shipments upon the domestic economy. Emerging from these analyses was a program which, as presented to Congress, would mean future exports considerably larger than would be possible without this aid. Nevertheless, these exports would be less than the export totals reached in the second quarter of 1947. The special session of Congress, convened in mid-November, passed an interim-aid program to cover the most pressing needs while consideration was being given to the longer-run proposals.

Acceleration in Second Half

Notwithstanding some hesitation elsewhere, consumer buying continued strong throughout the first half of the year. Retailers thus were able to clear their shelves of slow-moving merchandise and improve their inventory position substantially, so that they were again ordering in heavy volume as the fall season arrived. In construction, also, there was a marked pick-up in activity which was expressed in better-than-seasonal performance after mid-year.

The renewed strength of domestic demand and the renewal of the upward trend of prices during the second half of the year perhaps can best be explained in terms of a succession of events which led off with the foreign aid proposal and culminated in the removal of restrictions on installment credit in November. Other events which tended to dispel, at least for the near term, expectations of a price drop were the coal wage settlement in July, the summer increases in the price of steel, the effect on agricultural prices of the short corn crop at home and the disappointing crop outturn abroad, and the legislation permitting redemption of veterans' terminal leave bonds after September 1. The 1¼ billion dollars worth of bonds cashed during the final 4 months of the year were an important factor in consumer expenditures during that period.

The impact of this succession of events was seen most clearly in the stepped-up rate of price increases initiated in June. The marked change in business expectations was typified by the widespread resumption of forward purchasing, the unusual strength of residential construction activity in the closing quarter, and the reactivation of plant and equipment plans which had been held in abeyance for various reasons.

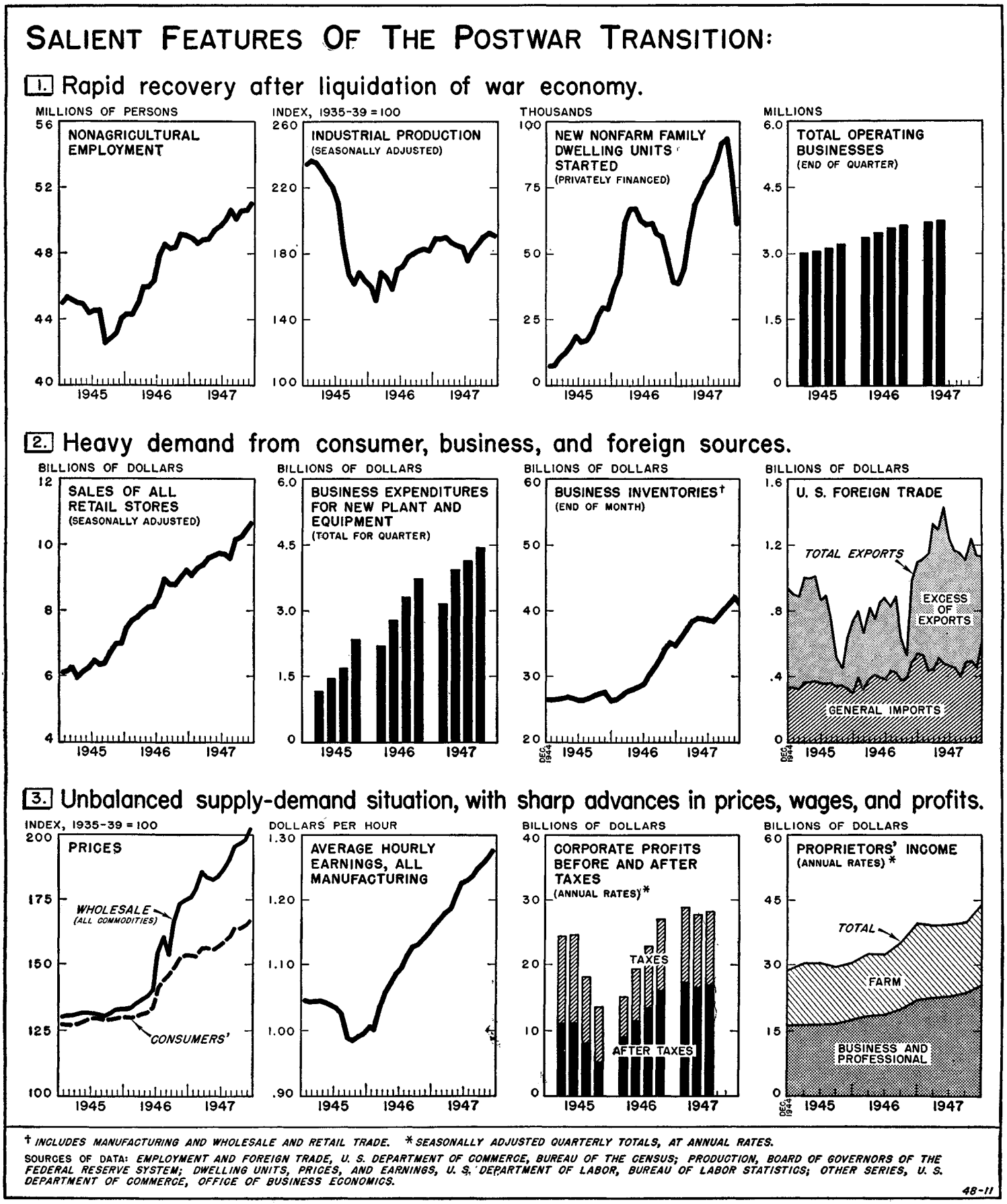
Larger Production

The varying intensity of demand was reflected in the trend of industrial output, as shown in one of the panels in the top row of the chart on page 3. The Federal Reserve industrial production index, after correction for seasonal movements, rose from the final quarter of 1946 to the initial 3-month period of 1947, declined slightly in the succeeding 2 quarters, and then moved upward in the closing quarter to top the first quarter's performance by a small margin. For the year, the index averaged 10 percent higher than in 1946—but less than 3 percent higher than in the fourth quarter of 1946.

For the private nonagricultural economy as a whole, the increase in real output from 1946 to 1947 appears to have been a little more than a third of the 18 percent gain in the

NOTE.—In previous years the large demand from non-subscribers for copies of the February Annual Review Number resulted in early exhaustion of the supply. Although additional copies have been made available this year, subscribers are advised to send in such orders promptly, either to the closest Field Office of the Department or to the Superintendent of Documents, Government Printing Office, Washington 25, D. C. Single copies, 30 cents; quantity orders of 100 or more copies available at a 25-percent discount. Make check payable to the Treasurer of the United States.

Chart 2



† INCLUDES MANUFACTURING AND WHOLESALE AND RETAIL TRADE. * SEASONALLY ADJUSTED QUARTERLY TOTALS, AT ANNUAL RATES.

SOURCES OF DATA: EMPLOYMENT AND FOREIGN TRADE, U. S. DEPARTMENT OF COMMERCE, BUREAU OF THE CENSUS; PRODUCTION, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM; DWELLING UNITS, PRICES, AND EARNINGS, U. S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS; OTHER SERIES, U. S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS.

dollar value of product. The difficulties in the way of a precise adjustment of dollar value for price changes in order to arrive at the corresponding change in real output are, however, particularly acute in any comparison between these 2 years. Because of less favorable weather conditions, agricultural output was slightly lower than in the previous year.

In 1946, when the business expansion was in its initial postwar phase, most industries moved upward or continued on a sustained high level throughout the year. In 1947, the movement was less uniform, and industries running counter to the general tide were readily observable, although they were still in a minority. In any broad expansion of business it is typical for some industries to reach a maximum and them recede, while aggregate activity continues to expand.

Raw materials supplies generally were freer in 1947 than earlier in the postwar period but were nevertheless a limiting factor on the operations of some industries, especially the major steel consumers.

Consumer Purchasing Power Bolstered

Personal income rose almost steadily during the year, the annual total of 197 billion dollars comparing with 177 billion dollars in 1946. Somewhat more than three-fifths of the year-to-year increase was traceable to compensation of employees—about in line with its proportionate share of total personal income.

Increases in average hourly earnings accounted for more than one-half of the rise in wage and salary payments during 1947 and contributed significantly to the increase in disposable income. However, the resultant bolstering of the consumers' position in the market was dissipated to an uncertain extent by price increases generated by higher costs of production, as in the case of important durable goods, or by the pressure of increased incomes against relatively fixed supplies, as in the case of food.

The price advance that characterized the period following the end of the watime controls reduced the purchasing power of those consumer groups whose incomes did not rise to an extent corresponding to the advance in prices. Disposable personal incomes were up 11 percent—less than the 14 percent rise in consumer expenditures from 1946 to 1947—so that personal saving was further reduced from the abnormally high rate of the war period, to a point more in line with the ratio to incomes which characterized prewar years of high business activity. The margin for a further increase in the ratio of expenditures out of current income was largely eliminated.

While large numbers of persons drew upon accumulated savings to support current spending, net additions to aggregate liquid asset holdings of individuals (including unincorporated businesses) continued to be made during the year.

Manifestations of the less easy position of consumers' budgets were the decline in sales of luxury lines such as jewelry and higher-priced wearing apparel and the falling off of business in some amusement trades. Food took an increasing share of consumer incomes, while the continuation of rent controls acted to protect tenants in most dwellings from the full impact of the generally inflationary situation.

In the closing months of the year the pressure of demand was such as to precipitate certain moves by Government authorities to stem the rising tide of prices, including the limited anti-inflation measure adopted at the special session of Congress and the monetary actions taken to restrict credit extension through raising interest rates.

National Product and National Income in 1947

In 1947, the gross national product, which measures the market value of the output of goods and services produced by the Nation, totalled 230 billion dollars, an increase in dollar terms of 13 percent over the 1946 figure of 204 billion. The national income, which reflects the same aggregate in terms of the earnings accruing to suppliers of factors of production, rose from 178 to 203 billions (chart 3).

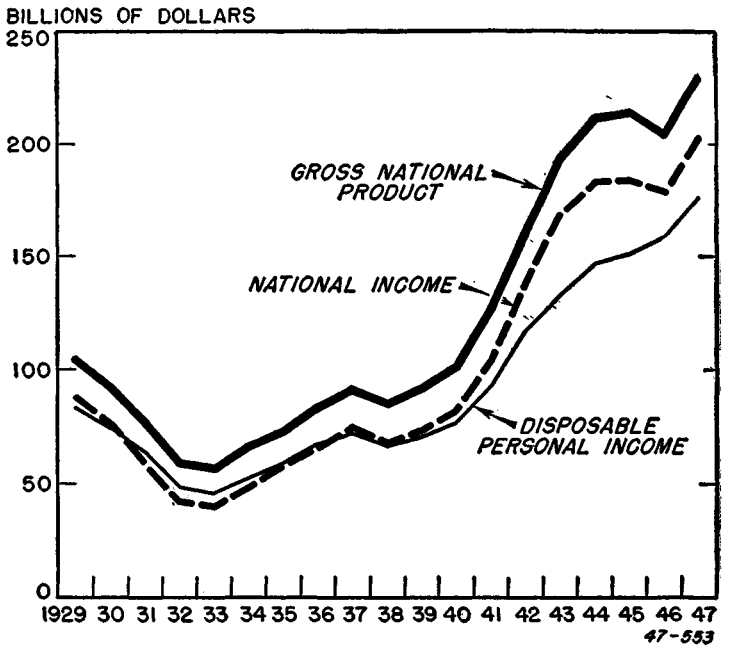
The relative role of price and volume increases is particularly difficult to ascertain in comparing the productive performance of these 2 years. This is partly because of changes in the type of output and partly because of the inadequacy of the price indexes during a period when prices were controlled for a time and then permitted to seek their own level in a free market. But even when qualitative allowance is made for these factors, it is apparent that rising money demand and prices were the major factors in the increase over 1946.

Price Rise Interrupted in Second Quarter

Within the year changes in the volume of national economic activity were small. Successive quarters differed, however, in the degree of price inflation that was in progress.

In the first half of the year aggregate demand continued to be in excess of supply, but there were indications that a balance was being reached after the sharp upsurge of prices which came with the termination of price controls. Consumer markets were gradually ceasing to provide an unlimited outlet at these higher prices for whatever the business system was able to produce. The list of durable goods and services for which demand exceeded supply was becoming shorter, and over widening areas price and disposable income were reasserting themselves as factors determining consumer spending.

Chart 3.—Gross National Product, National Income, and Disposable Personal Income



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

The increase in domestic fixed investment was tapering off, and a major part of the war inherited inventory shortage had been made good. The spectacular level of foreign investment clearly represented a temporary peak.

Government purchases were stable at levels greatly reduced from the war. The gradual balancing of supply and demand and widespread expectations of an impending adjustment gave rise to a cautious attitude on the part of business, which found its most tangible evidence in reduced inventory buying and a shortening of outstanding commitments. In this setting the upward movement of prices was interrupted. Both wholesale and retail prices dropped in April and May below peaks reached in March.

Price Rise Resumed in Second Half

June, however, marked a turning point in the situation. Prices started to rise again in that month and the upward trend continued for the remainder of the year. Several factors accounted for this renewed upsurge. Even as the second quarter progressed, domestic consumer and business capital demand proved in general to be strong, aided to some degree by the fact that foreign countries notwithstanding the impending crisis expanded their purchases so that the export balance rose sharply.

By midyear the international situation had developed to a stage where it was generally anticipated that further aid of a large magnitude to foreign governments would cushion the sharp drop in foreign demand that had seemed imminent. The prospects for a continuing high level of exports were enhanced.

Wage increases which had been extensively granted added both to production costs and to market demand. A short corn crop and the partial failure of foreign wheat crops were special factors contributing to the rise of farm prices. High farm receipts, largely the result of these prices, in turn contributed to market demand.

The proceeds of the redemption of veterans' leave bonds in September and subsequent months significantly added to the disposable income of consumers and, to the extent that they were spent, facilitated the inflationary process. Finally, by the fourth quarter Government purchases for export purposes, in implementation of foreign-aid programs, had reached sizable proportions.

Thus, the second half of the year was characterized by higher consumer expenditures than the first, by an increase in fixed domestic investment, and larger Government expenditures. Reflecting the shift in business expectations, inventory buying was also resumed, although a corresponding increase in sales limited the actual accumulation of stocks. In this setting the contraction which occurred after May in commercial exports was absorbed without adverse effect on the level of employment and production, and did not interfere with a resumption of the general price rise.

National Product

The main section of table 1 shows the consolidated income and product of the private sectors of the economy in 1946 and 1947. The totals differ from national income and national product because they exclude income and product originating in the government. The bulk of private transtions reflects the production of the domestic business system and the various charges against that production. However, income and production originating in the household sphere (such as in the rendering of domestic service and of the services of nonprofit institutions) and in transactions with foreign countries (via the net international flow of property incomes) are also included.

National income and product originating in Government are given separately in table 1. The sum of income and product originating in the private and Government sectors equals the total national income and product of the entire economy.

Major Increase in Investment and Consumer Durables

The market value of private output increased from 183 billion dollars in 1946 to 213 billion in 1947. In the total gross national product this increase was partly offset by a decline in the compensation of government employees, by which production originating in the government is measured. The largest relative increases occurred in net foreign investment, fixed domestic investment (residential construction and producers' durables), and in consumer durables. Consumer nondurables and services showed less than average increases, although in absolute terms they account for more than one half of the total. The change in Government purchases was small, while inventories declined owing to the

Table 1.—Consolidated Income and Product Account of Private and Government Sectors of the Economy, 1946 and 1947 [1]

[Billions of dollars]

Debits	1946	1947	Percent change
PRIVATE SECTORS			
Compensation of employees (excluding compensation of Government employees)	95.6	111.2	+16.3
Proprietors' and rental income	41.8	47.8	+14.4
Business and professional	19.7	23.5	+19.3
Farm	15.2	17.0	+11.8
Rental income of persons	6.9	7.3	+5.8
Corporate profits and inventory valuation adjustment	16.5	23.0	+39.4
Corporate profits before tax	21.1	28.7	+36.0
Corporate profits tax liability	8.6	11.3	+31.4
Corporate profits after tax	12.5	17.4	+39.2
Inventory valuation adjustment	−4.7	−5.7	−21.3
Net interest	3.2	3.6	+12.5
National income originating in private sectors	157.0	185.7	+18.3
Less: Subsidies minus current surplus of Government enterprises	.8	−.1	−112.5
Plus: Statistical discrepancy	−2.1	−3.9	−85.7
Business transfer payments	.5	.5	0
Indirect business tax and nontax liability	16.9	17.9	+5.9
Capital consumption allowances	11.0	12.4	+12.7
Charges against private gross national product	182.6	212.7	+16.5
GOVERNMENT SECTOR			
National income originating in Government (compensation of government employees)	21.2	16.9	−20.3
Total charges against gross national product	203.8	229.6	+12.7

Credits	1946	1947	Percent change
PRIVATE SECTORS			
Personal consumption expenditures	143.7	164.4	+14.4
Durable goods	14.9	19.8	+32.9
Nondurable goods and services	128.8	144.6	+12.2
Gross private domestic investment	24.6	27.8	+13.0
New construction	8.5	10.7	+25.9
Residential nonfarm	3.3	4.9	+48.5
Other	5.2	5.7	+9.6
Producers' durable equipment	12.4	17.9	+44.4
Change in business inventories	3.7	−.7	−119.0
Farm	−.2	−2.0	−900.0
Nonfarm	3.9	1.3	−66.7
Net foreign investment	4.8	8.7	+81.0
Government purchases (excluding compensation of Government employees)	9.5	11.8	+24.2
Private gross national product	182.6	212.7	+16.5
GOVERNMENT SECTOR			
Natonal product originating in Government (compensation of Government employees)	21.2	16.9	−20.3
Total gross national product	203.8	229.6	+12.7

[1] Detail will not necessarily add to totals because of rounding.

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

sharp drop in farm inventories which more than offset the further increase in nonfarm inventories.

These shifts in the composition of the money value of private output permit some conclusions as to the manner in which the increase in real output which occurred between 1946 and 1947 was distributed. It would seem that substantial increases occurred in the volume of American production bought by foreigners, in the volume of fixed domestic investment in private construction and producers equipment, as well as in consumer durables. These increases were made possible by larger total production and by a reduction in farm inventories and by smaller additions to nonfarm inventories than in 1946. The change in the real flow of remaining goods and services (mainly in consumer items other than durables) was small.

Foreign Demand High

The most spectacular feature of the economic picture in the first half of the year was the spurt in foreign demand. Net foreign purchases of American output increased from an annual rate of 5.2 billion dollars in the fourth quarter of 1946 to 8.3 billion dollars in the first quarter of 1947 and to 10.4 billion dollars in the second, while domestic purchases in the aggregate increased much less. At its peak in the second quarter of the year, foreign demand absorbed more than 4 percent of gross national product, a ratio not approximated since the year 1919.

Owing to the progressive depletion of the dollar and gold resources of foreign nations, net exports declined to an annual rate of about 8 billion dollars in the seocnd half of the year, but foreign demand for the output of American business remained extraordinarily high. In view of the strength of other basic demand factors the drop in foreign net purchases was absorbed without affecting domestic employment and production.

Private Construction Expanding

The total value of private construction activity increased by one quarter from 1946 to 1947 to a total of 10.7 billion dollars. Prices were an important element in this increase but the volume of activity also rose. The major expansion occurred in residential construction, where, after a period of hesitancy in the first half of the year, demand was so urgent that it asserted itself in spite of high prices. Notwithstanding the increase which occurred in 1947, residential construction accounted for a substantially smaller proportion of national product than would be expected on the basis of past periods of comparable prosperity and housing shortages. For other types of construction the over-all increase was small, with wide variation among the various components.

Producers' Durable Equipment Levels Off

Purchases of producers' durable equipment in 1947 were 40 percent higher than in 1946, a substantial part of the increase reflecting volume rather than price. At 17.9 billion dollars, this form of investment absorbed almost 8 percent of total output, a figure far in excess of previous periods of prosperity for which information is available.

While accumulated wartime shortages were a necessary condition of the high level of fixed capital expenditures, the general strength of postwar demand for the output of business was an important factor also. Its influence was most evident in the continued expansion of investment in public utilities and transportation. It was obscured in the manufacturing industries where a high level of investment, necessitated by technical requirements of reconversion and largely independent of demand considerations, was reached soon after the end of the war and the subsequent increase was smaller.

During 1947 the rate of increase in producers' durables slackened as the ceiling set by productive capacity in the equipment producing industries was approached. Demand continued to absorb available supplies for virtually all types of equipment but the backlog of demand, as evidenced by unfilled orders, had shrunk as a percentage of monthly sales. The most urgent needs had been met, and the prospect for future demand, although it continued to be favorable, became increasingly dependent upon developments in the general business situation.

Inventory Accumulation Tapers

Investment in business inventories was reduced in 1947, compared with a sharp accumulation in 1946, as farm inventories which had been declining at moderate rates since 1943 showed a sharp drop of 2 billion dollars. Three quarters of this occurred in corn stocks which were drawn upon to supplement the short current crop. Nonfarm inventories held by business continued to increase, and for the year as a whole rose by 1.3 billion dollars as against 3.9 billion dollars in the previous year, after adjustment for price.

Owing to heavy physical accumulation in 1946, the major phase in the postwar restocking movement of nonfarm inventories had been completed by the turn of the year and the rate of accumulation was reduced in successive quarters of 1947.

Consumer Demand Strong

Consumer purchases of goods and services increased from 144 billion dollars in 1946 to 164 billion dollars in 1947. Although in some cases demand became less insistent, it was extraordinarily strong in general. This strength reflected such factors as wage rate increases, the large volume of liquid savings, the high incomes of farmers and businessmen, and the cashing of terminal leave bonds by veterans. It is apparent that some of these factors were both cause and result of strong consumer demand.

This demand was active in pushing prices upward, as consumers were not only absorbing the increased output, mainly of durable goods that became available, but also endeavored to maintain or increase their consumption of goods and services whose production was at capacity levels and could not be expanded further.

Table 2 shows a break-down of consumer expenditures in 1946 and 1947. Both years reflect certain features that are characteristic of the postwar pattern of consumer expenditures—high relative expenditures for food, and expenditures for housing that were low in view of rent control. The outstanding change between the 2 years was the sharp increase in expenditures on consumer durables.

Table 2.—Personal Consumption Expenditures by Major Groups, 1946 and 1947

[Billions of dollars]

	1946	1947
All goods and services	143.7	164.4
Durable goods	14.9	19.8
Automobiles and parts	3.6	6.1
Furniture and household equipment	7.7	9.8
Other durable goods	3.6	3.9
Nondurable goods	87.1	99.3
Clothing and shoes	18.9	19.7
Food and alcoholic beverages	51.7	60.5
Gasoline and oil	3.0	3.8
Semidurable house furnishings	1.8	1.9
Tobacco	3.4	3.8
Other nondurable goods	8.4	9.7
Services	41.7	45.3
Household operation	6.0	6.7
Housing	12.7	13.5
Personal service	3.1	3.2
Recreation	3.3	3.6
Transportation	4.1	4.4
Other services	12.5	14.0

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

Accurate measures of the change in real consumption from 1946 to 1947 are not yet available, but with only a modest expansion in the available supply of goods, most of the rise in consumer spending resulted in higher prices. Changes in the real volume of consumption exclusive of durables were small in the aggregate.

Government Purchases Rise in Second Half

Government purchases of goods and services were lower in 1947 than in 1946. The decline reflected smaller Federal expenditures (mainly for military pay rolls), offset to some extent by increasing State and local expenditures for construction, pay rolls, and other purposes.

In the first half of the year total government expenditures were relatively stable because a continued decline in Federal expenditures was counteracting the State and local increase. In the third and fourth quarters, however, Federal expenditures turned upward primarily because of purchases in connection with foreign aid programs, and total government expenditures increased, reflecting the impact both of Federal and of State and local purchases. The combined effect of government receipts and expenditures on national economic activity is reviewed in the later section titled "Role of Government."

National Income

The left side of table 1 exhibits incomes originating in production and other charges against production.

Employee Share in Total Income

The total compensation of employees rose from 117 billion dollars in 1946 to 128 billion in 1947, an increase of 16 billion in the private sector being offset by a 5 billion decline in the government, due mainly to a reduction in the armed forces. Manufacturing, which accounted for 40 percent of private pay rolls in 1946, was responsible for about 50 percent of the increase.

This disproportionate contribution reflected largely the recovery of durable goods manufacturing from the low operation during the reconversion period in 1946. Construction pay rolls rose similarly. Although they were less than 5 percent of private pay rolls in 1946, they accounted for 10 percent of the increase. Trade and service pay rolls were responsible for the bulk of the remaining increase. Their contribution, however, reflected the importance of these industries in the total, rather than a disporportionate advance.

Larger pay rolls were due in part to higher employment, which was particularly marked in durable goods manufacturing and in construction. A substantial part of the increase, however—more than one-half in the industries for which data are available, and which cover about 70 percent of private payrolls—represented the effect of higher wage rates.

As can be seen from table 1, the share of employee compensation in total national income originating in the private sphere was not maintained, notwithstanding these wage rate increases.

Table 3 places recent developments against a broader historical perspective. It appears from this table that in 1947 the percentage share of employee compensation (excluding government) compared favorably with prewar years of prosperity when output was near capacity levels. The 1947 ratio was, of course, exceeded during the depression years of the thirties, since periods of low economic activity have their sharpest relative impact on profits and are always associated with a high proportion of labor income.

Corporate Profits

Information on corporate profits is at present confined to published reports for the first three quarters of the year and data on the full year 1947 are not yet available. Merely in order to complete the national income table, and not implying an actual forecast for the fourth quarter, it has been assumed that fourth quarter profits before taxes, and corrected for inventory profit, were the same as in the third quarter. It is believed that the annual figure which is obtained on this basis will be near enough the final estimate to support the conclusions of the following discussion.

Corporate profits before taxes rose sharply as compared with 1946. The increase reflects to a substantial extent a recovery from the low levels to which profits had fallen in some industries during the reconversion period, especially in the metal industries. As compared with the fourth quarter of 1946 the gain was much smaller, and profits were relatively stable in 1947.

In judging the level of profits in the context of the general economic situation the data must be interpreted carefully. In the first place, the figure of 29 billion includes 6 billion which reflects higher unit costs of inventories. Had corporations charged the same sales prices, but had it been the universal practice to charge to expense the amounts needed to replace the physical volume of inventories used up in production rather than their money value, corporate profits as reported would have been 6 billion lower. This latter total of $23 billion is the figure reflected by the item "corporate profits and inventory valuation adjustment" in table 1.

Second, the total value of production in 1947 was higher than ever before and corporate profits shared in the general advance. As a percentage of total income originating in the private sphere, corporate profits before taxes corrected for inventory profits were not higher than in prewar years of prosperity although of course they were much higher than in

Table 3.—Percentage Distribution of Private National Income, 1929–47 [1]

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
Total private national income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Compensation of employees	55.9	59.6	64.2	70.8	70.6	66.2	61.3	61.6	61.1	62.1	61.9	59.8	58.1	57.3	58.4	59.1	59.2	60.9	59.9
Proprietors' and rental income [2]	23.8	22.4	21.8	20.0	20.7	20.2	23.9	22.0	23.1	23.5	22.7	22.1	22.1	23.2	22.6	23.0	25.3	26.6	25.8
Business and professional	10.0	10.0	9.8	8.6	8.4	9.9	9.8	10.6	9.9	10.6	10.4	10.5	10.1	10.0	9.9	10.3	11.4	12.6	12.7
Farm	6.8	5.6	5.3	4.6	6.5	5.4	9.6	6.7	8.4	7.4	6.9	6.7	7.3	8.8	8.3	8.3	9.2	9.7	9.2
Rental income of persons	7.0	6.8	6.7	6.7	5.8	4.9	4.5	4.7	4.7	5.5	5.3	4.9	4.6	4.4	4.3	4.5	4.7	4.4	3.9
Corporate profits and inventory valuation adjustment	12.4	9.3	3.0	−5.4	−5.7	2.6	5.9	8.6	9.2	7.2	8.9	12.5	15.5	16.3	16.6	15.7	13.4	10.5	12.4
Inventory valuation adjustment	.6	4.6	4.5	2.8	−6.1	−1.5	−.4	−1.3	0	1.6	−1.1	−.2	−2.8	−1.1	−.6	−.2	−.4	−3.0	−3.1
Corporate profits before tax	11.8	4.7	−1.4	−8.2	.5	4.0	6.3	9.9	9.3	5.6	10.0	12.7	18.3	17.4	17.2	16.0	13.8	13.5	15.5
Corporate profits tax liability	1.7	1.2	.9	1.0	1.5	1.7	1.9	2.5	2.3	1.7	2.3	3.9	8.3	9.6	9.9	9.3	7.7	5.5	6.1
Corporate profits after tax	10.1	3.5	−2.4	−9.2	−1.0	2.3	4.4	7.4	7.0	3.8	7.7	8.8	9.9	7.8	7.3	6.6	6.1	8.0	9.4
Dividends	7.0	7.8	7.6	6.9	5.9	6.0	5.7	7.9	7.0	5.3	5.8	5.5	4.7	3.5	3.1	3.1	3.2	3.6	3.6
Undistributed profits	3.1	−4.3	−9.9	−16.1	−7.0	−3.8	−1.2	−.5	0	−1.5	1.9	3.3	5.2	4.2	4.1	3.5	2.8	4.4	5.7
Net interest	7.9	8.8	11.0	14.6	14.4	11.0	8.9	7.8	6.6	7.2	6.5	5.6	4.4	3.2	2.4	2.1	2.1	2.0	1.9

[1] National income excluding compensation of Government employees.
[2] Including inventory valuation adjustment.

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

Table 4.—Corporate Sales and Profits Before and After Taxes, First Three Quarters of 1947 [1]

[Millions of dollars]

	Corporate sales			Corporate profits before taxes			Corporate profits after taxes		
	First quarter	Second quarter	Third quarter	First quarter	Second quarter	Third quarter	First quarter	Second quarter	Third quarter
All industries, total [2] [3]	71,752	74,062	75,827	7,111	6,966	7,084	4,279	4,231	4,310
Mining	1,419	1,528	1,655	178	196	199	129	141	144
Manufacturing	39,908	40,563	40,969	4,308	4,110	4,144	2,567	2,461	2,494
Metal industries [4]	13,468	14,256	13,724	1,457	1,364	1,355	845	796	791
Other manufacturing	26,440	26,307	27,245	2,851	2,746	2,789	1,722	1,665	1,703
Wholesale and retail trade	21,293	22,650	23,481	1,153	1,208	1,291	680	713	761
Finance, insurance, and real estate [2]				453	463	475	283	289	296
Transportation	3,425	3,506	3,570	254	277	273	138	169	161
Communications and public utilities	2,210	2,085	2,168	404	312	270	246	190	165
All other industries [5]	3,497	3,730	3,984	361	400	432	236	268	289

[1] The profits estimates above are revisions of previously published figures. Only two industrial groups are affected by the revision—wholesale and retail trade, and all other industries. Quarterly profits estimates for 1945 and 1946 for the same industrial breakdown as above were published in the SURVEY for June 1947, p. 10. Annual profits estimates by industries, 1929–46 were published in the National Income Supplement to SURVEY OF CURRENT BUSINESS for July 1947, pp. 30–32. Concepts and methodology have been described in "Trend of Corporate Profits, 1929–45," SURVEY, April 1946, pp. 11–12. The principal change made since that statement was prepared has been to adjust for tax credits flowing from the carryback of unused excess-profits tax credit and net operating loss; that is, these tax credits were added to profits after taxes in those years to which the tax credit was carried back.

[2] Sales figures exclude the industrial division of finance, insurance, and real estate. Presentation of sales data for these industries would be misleading in view of the large part of their receipts which is in the form of property income. It should be noted that the corporate sales estimates above are gross; that is, they include interbusiness transactions and thus to a large extent represent a duplicated count. This is so since the sales of each firm entering into the corporate total include not only the value added by it, but also the value of the materials purchased from other firms, which is already included in the sales of those other firms. The sales estimates above include revisions of the previously published figures for trade, and consequently, the all industry total.

[3] Total profits for all industries include the adjustment for the net flow from abroad of dividends and branch profits.

[4] Metal industries comprise iron and steel, nonferrous metals, machinery (except electrical), electrical machinery, transportation equipment (except automobiles), and automobiles.

[5] All other industries comprise agriculture, forestry and fisheries, contract construction, services, and the international balance adjustment.

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

depression years. Corporate profits after taxes were lower than in years of prewar prosperity because of the heavier incidence of taxation (table 3). Further comments on the ratio of corporate profits to national income are made below.

Data are not yet available for a complete analysis of profit trends in 1947. There was, as in 1946, a considerable variation in profits by industries and firms. When estimates are completed for 1947, the experience of the various industries will be reviewed in the SURVEY.

Proprietors' Income High

Nonfarm proprietorships earned high incomes in 1947 both absolutely and relatively. They continued to secure a somewhat larger share of the private national income than in the war and prewar years.

The percentage increases over 1946 in noncorporate manufacturing and in construction far outdistanced those in other lines, and reflected the substantial increase in the volume of activity as well as in rates of earnings which is traceable also in the movement of pay rolls and corporate profits in these industries. In absolute terms, however, trade and services which account for the bulk of nonfarm unincorporated business were more important and dominated the movement of the totals. These were the industries which already had recorded high levels of activity in 1946, and their subsequent expansion was much smaller than that of manufacturing and construction.

Farm proprietors had another year of high incomes, and maintained the substantially improved relative position which was attained during the war. The moderate increase in the net income of farm proprietors in 1947 was entirely due to rising prices received by farmers. These offset a decline in the volume of agricultural production, rising costs of operations, and a drop in Government payments.

The current position of the various income shares in relation to past experience can be summarized with the aid of table 3. Many comparisons yielding different results are possible depending on the purpose for which they are made. One which may be of interest is the comparison of 1947 with prewar years of high economic activity, such as 1929 and also the period immediately preceding World War II when the war program had become a stimulus to the private economy without yet significantly disturbing its usual patterns through wartime restrictions upon free markets. Such a comparison shows that the compensation of employees as a proportion of income was not lower in 1947 than in the period preceding World War II and that it was significantly higher than in 1929. The relative position of proprietors' and rental incomes was somewhat improved, though the component incomes varied widely, with farmers making an outstanding gain.

Corporate profits, including the inventory valuation adjustment, and net interest together constituted a lower proportion of the total than in prosperous prewar years. Corporate profits roughly maintained their relative position, whereas interest declined sharply.

This decline in interest was due in part to a reduction in private indebtedness and in interest rates. In part, however, it reflects the special treatment of government interest in the national income. Government interest received by corporations is not regarded as a return for current productive activity and is excluded from the national income along with government interest received by individuals. The exclusion is made, however, not by omitting corporate receipts of government interest in calculating corporate profits for national income purposes, but rather by deducting these corporate interest receipts from the interest payments made by corporations to the public.

Hence the decline in the combined share of corporate profits and net interest reflects, in addition to the factors already mentioned, lower corporate returns on current productive activity; and the stability previously noted in the ratio of corporate profits taken in isolation reflects larger interest receipts from the Government.

Shifts in the Industrial Distribution of National Income

Table 5 shows national income originating in major industry groups in 1946 and 1947. It summarizes changes in the position of the various industries which have already been discussed in connection with the account that has been given of the experience of the distributive shares.

Table 5.—National Income by Industrial Origin, 1946 and 1947

[Billions of dollars]

	1946	1947	Percent change
All industries, total	178.2	202.6	+13.7
Agriculture, forestry and fisheries	18.5	20.7	+11.9
Mining	3.1	3.9	+25.8
Contract construction	6.1	8.0	+31.1
Manufacturing	47.7	61.3	+28.5
Wholesale and retail trade	32.8	38.3	+16.8
Finance, insurance, real estate	14.8	15.8	+6.8
Transportation	10.2	11.1	+8.8
Communications and public utilities	4.7	5.0	+6.4
Services	17.0	19.2	+12.9
Government and Government enterprises	23.0	18.8	−18.3
Rest of the world	.2	.5	+150.0

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

Personal Income and Its Disposition

Table 6 compares personal income and outlay and the major components in 1946 and 1947. The largest part of the increase from 177 to 197 billion dollars was in labor income and proprietors' income. The factors responsible for it have already been discussed. Dividend income, though low relative to the level of national income and profits, was nonetheless substantially higher in 1947 than in 1946. The proportion of profits paid out in dividends was less than in the preceding year, as corporations needed large capital funds to finance expansion.

Total transfer payments increased moderately between 1946 and 1947, the increase reflecting largely the gradual expansion of benefit payments under the various Social Security programs, with the exception of unemployment benefits which declined. Striking shifts occurred in the composition of payments going to veterans, but the total of these payments was approximately the same in both years.

Transfer payments in the second half of the year were heavier than in the first half, because of the cashing of terminal leave bonds, which lifted the annual rate of government transfer payments from 10 billion to 13.7 billion dollars in the third quarter and to 10.5 billion dollars in the fourth.

Table 6.—Personal Income and Outlay, 1946 and 1947 [1]

[Billions of dollars]

	1946	1947	Percent change
Personal consumption expenditures	143.7	164.4	+14.4
Plus: Personal saving	14.8	10.9	−26.4
Equals: Disposition of disposable personal income	158.4	175.3	+10.7

	1946	1947	Percent change
Wage and salary receipts, total	109.2	120.7	+10.5
Total employer disbursements	111.1	122.8	+10.5
Commodity producing industries	45.7	55.3	+21.0
Distributive industries	30.9	34.9	+12.9
Service industries	13.6	15.0	+10.3
Government	20.9	17.6	−15.8
Less employee contributions for social insurance	1.9	2.1	+10.5
Other labor income	1.6	1.8	+12.5
Proprietors' and rental income	41.8	47.8	+14.4
Dividends	5.6	6.8	+21.4
Personal interest income	7.7	8.1	+5.2
Transfer payments	11.3	11.6	+2.7
Personal income	177.2	196.8	+11.1
Less: Personal tax and nontax payments	18.8	21.5	+14.4
Equals: Disposable personal income	158.4	175.3	+10.7

[1] Detail will not necessarily add to totals because of rounding.

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

As can be seen from table 6, consumption expenditures increased faster between 1946 and 1947 than did personal income after taxes, and personal saving declined from 14½ billion to 11 billion dollars. This drop was a continuation of the postwar decline in the ratio of saving to disposable income from the abnormally high figures which obtained during the war. The savings ratio in 1947 was very similar to that in previous years of prosperity prior to World War II. Also, the absolute decrease in successive quarterly savings figures was halted during the year.

Though this evidence is suggestive, it should not be construed as proving that in 1947 a relation between saving and income had been established which will continue if present levels of income are maintained. Nineteen-forty-seven was a year that was unique with respect to many factors that particularly affect savings, such as deferred demand, the volume of liquid assets, the large liquidation of farm inventories, and the differential incidence of inflation on various economic groups. A savings pattern which is the result of these circumstances may depart widely from a pattern that would obtain in a less disturbed period.

Role of Government

The effect of government on national income and product through its purchases of goods and services has already been summarized. The direct influence of declining government demand was reinforced by the restraining influence of general fiscal policy. This can be seen from table 7 which compares the consolidated operations of all levels of American government in 1946 and in 1947. Government receipts, expenditures, and surpluses in this table are reported on a national income basis and differ from the basis adopted in government financial reports.

Total expenditures of Federal, State, and local governments declined from 47 billion dollars in 1946 to 43½ billion in 1947. The largest decline was in pay rolls. The discontinuation of Federal wartime subsidies was another major factor. Currently, Federal subsidy payments are roughly of the same magnitude as the surplus on Government business operations, largely of State and local governments.

Revenues of all levels of government increased from 50 billion dollars in 1946 to 56 billion dollars in 1947. The bulk of the increase was due to a larger tax base, reflecting higher incomes, prices, and production, though some new taxes were introduced by State and local governments. Thus, the restraining influence of taxes in 1947 lay mainly in the fact that the tax structure absorbed a sizeable portion of the incomes generated by the increase in national product, and dampened the additional market demand created by expanded economic activity.

As the combined result of expenditure and revenue movements, the surplus (measured on a national income basis) of Federal, State, and local governments increased from 3.5 billion dollars in 1946 to 13 billion dollars in 1947. The in-

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Table 7.—Consolidated Receipts and Expenditures of Federal, State and Local Governments, 1946 and 1947 [1]

[Billions of dollars]

	1946	1947	Percent change		1946	1947	Percent change
EXPENDITURES AND SURPLUS				RECEIPTS			
Compensation of employees	21.2	16.9	+20.3	Personal tax and nontax receipts	18.8	21.5	+14.4
Other purchases	9.5	11.1	+16.8	Corporate profits tax accruals	8.6	11.3	+31.4
Net interest paid	4.5	4.5	0	Indirect business tax and nontax accruals	16.9	17.9	+5.9
Transfer payments	10.8	11.1	+2.8	Contributions for social insurance	6.0	5.7	−5.0
Subsidies less current surplus of government enterprises	.8	−.1	−112.5				
Total expenditures	46.8	43.5	−7.1	Total receipts	50.3	56.4	+12.1
Surplus on income and product transactions	3.5	12.9	+268.5				
Total expenditures and surplus	50.3	56.4	+12.1				

[1] Detail will not necessarily add to totals because of rounding

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

crease in the Federal surplus was larger, because State and local government surplus declined.

Although table 7 presents an over-all summary of the major government receipt and expenditure transactions which influenced economic activity, certain pecularities of the data should be noted. Most important, the expenditure of government loans, which contributed materially to the high level of exports, is reflected as expenditure by foreign nations under "net foreign investment" rather than as government expenditures which for national income purposes are defined to exclude loan transactions.

In 1947, the value of exports financed by government credits amounted to more than 4 billion dollars. It is true, of course, that some of these exports might have materialized even if no United States government loans had been forthcoming, and to that extent the net effect of government operations on the export balance is smaller than this figure. Nevertheless, it can be used as a first approximation of the proportion of foreign demand that was really attributable to the United States government.

Moreover, factors such as monetary and credit policies may be important in judging the impact of government on economic activity. Yet these are not reflected in the table which shows only revenue and expenditure transactions that are components of the current income and production of the economy.

Table 8.—National Income and Product, 1946 and 1947 [1]

[Billions of dollars]

	1946	1947	Quarterly, 1947							
			Unadjusted				Seasonally adjusted at annual rates			
			I	II	III	IV	I	II	III	IV
NATIONAL INCOME BY DISTRIBUTIVE SHARES										
National income	178.2	202.6	48.2	50.1	50.8	53.6	194.6	199.8	203.3	212.3
Compensation of employees	116.8	128.1	30.8	31.5	32.1	33.7	124.7	125.6	128.7	132.9
Wages and salaries	111.1	122.8	29.4	30.1	30.8	32.5	119.1	120.0	123.6	127.8
Private	90.2	105.2	24.8	25.6	26.8	27.9	101.2	102.7	106.2	110.3
Military	8.0	4.1	1.2	1.0	1.0	1.0	4.6	4.1	3.9	3.8
Government civilian	12.9	13.4	3.4	3.4	3.0	3.6	13.3	13.2	13.5	13.7
Supplements to wages and salaries	5.6	5.4	1.4	1.4	1.3	1.2	5.6	5.6	5.1	5.1
Proprietors' and rental income [2]	41.8	47.8	11.5	11.7	11.7	12.9	46.2	46.7	47.0	51.5
Business and professional	19.7	23.5	5.6	5.7	5.9	6.3	22.4	22.9	23.5	25.4
Farm	15.2	17.0	4.2	4.2	4.0	4.6	16.8	16.6	16.2	18.5
Rental income of persons	6.9	7.3	1.8	1.8	1.8	1.9	7.0	7.2	7.3	7.6
Corporate profits and inventory valuation adjustment	16.5	23.0	5.0	6.0	6.0	(3)	20.4	23.9	23.9	(3)
Corporate profits before tax	21.1	28.7	7.1	7.0	7.1	(3)	28.9	27.8	28.2	(3)
Corporate profits tax liability	8.6	11.3	2.8	2.7	2.8	(3)	11.5	10.9	11.1	(3)
Corporate profits after tax	12.5	17.4	4.3	4.2	4.3	(3)	17.4	16.9	17.1	(3)
Inventory valuation adjustment	−4.7	−5.7	−2.1	−1.0	−1.1	(3)	−8.6	−3.8	−4.3	(3)
Net interest	3.2	3.6	.8	.9	.9	1.0	3.3	3.5	3.7	3.8
Addendum: Compensation of general government employees	21.2	16.9	4.5	4.4	3.8	4.3	17.6	17.1	16.5	16.4
GROSS NATIONAL PRODUCT OR EXPENDITURE										
Gross national product	203.7	229.6	54.0	56.2	56.7	62.7	221.0	226.9	229.4	240.9
Personal consumption expenditures	143.7	164.4	37.4	40.4	40.8	45.8	156.9	162.3	165.8	172.5
Durable goods	14.9	19.8	4.1	4.7	4.8	6.1	18.2	19.3	20.2	21.3
Nondurable goods	87.1	99.3	22.3	24.5	24.6	28.0	94.7	98.4	99.9	104.2
Services	41.7	45.3	11.0	11.2	11.4	11.8	44.0	44.6	45.7	47.0
Gross private domestic investment	24.6	27.8	7.6	6.0	7.1	7.1	28.2	26.1	27.0	29.9
New construction	8.5	10.7	2.1	2.4	3.0	3.2	10.3	9.6	10.4	12.4
Residential nonfarm	3.3	4.9	.9	1.0	1.4	1.6	4.4	4.1	4.8	6.3
Other	5.2	5.7	1.3	1.3	1.6	1.5	5.8	5.5	5.6	6.1
Producers' durable equipment	12.4	17.9	4.2	4.6	4.4	4.8	16.4	17.9	18.4	18.8
Change in business inventories, total	3.7	−.7	1.3	−.9	−.3	−.8	1.6	−1.4	−1.7	−1.3
Nonfarm only	3.9	1.3	1.7	−.3	.3	−.4	3.0	.8	.7	.6
Net foreign investment	4.8	8.7	2.1	2.6	2.0	2.0	8.3	10.4	7.8	8.2
Government purchases of goods and services	30.7	28.7	6.9	7.2	6.9	7.7	27.6	28.2	28.7	30.3
Federal	23.7	17.7	4.6	4.4	4.3	4.4	18.3	17.7	17.2	17.7
Less: Government sales	3.0	1.3	.5	.4	.2	.2	2.1	1.4	1.0	.8
State and local	10.0	12.3	2.9	3.1	2.9	3.4	11.4	11.9	12.5	13.3
DISPOSITION OF PERSONAL INCOME										
Personal income	177.2	196.8	46.9	48.0	49.4	52.5	189.8	191.4	199.6	205.8
Less: Personal tax and nontax payments	18.8	21.5	8.7	4.0	4.6	4.2	21.0	21.2	21.6	22.1
Federal	17.2	19.7	8.1	3.5	4.2	3.8	19.3	19.4	19.8	20.2
State and local	1.6	1.8	.5	.5	.4	.4	1.7	1.8	1.9	1.9
Equals: Disposable personal income	158.4	175.3	38.2	44.0	44.8	48.3	168.8	170.1	177.9	183.7
Less: Personal consumption expenditures	143.7	164.4	37.4	40.4	40.8	45.8	156.9	162.3	165.8	172.5
Equals: Personal saving	14.8	10.9	.8	3.6	4.1	2.4	11.9	7.8	12.1	11.2

See footnotes at end of table.

Table 8.—National Income and Product, 1946 and 1947 [1]—Continued

[Billions of dollars]

	1946	1947	Quarterly, 1947							
			Unadjusted				Seasonally adjusted at annual rates			
			I	II	III	IV	I	II	III	IV
RELATION OF GROSS NATIONAL PRODUCT, NATIONAL INCOME, AND PERSONAL INCOME										
Gross national product	203.7	229.6	54.0	56.2	56.7	62.7	221.0	226.9	229.4	240.9
Less: Capital consumption allowances	11.0	12.4	3.0	3.1	3.1	3.2	12.1	12.3	12.4	12.7
Indirect business tax and nontax liability	16.9	17.9	4.2	4.3	4.5	4.9	17.2	17.4	17.8	19.1
Business transfer payments	.5	.5	.1	.1	.1	.1	.6	.5	.5	.5
Statistical discrepancy	−2.1	−3.9	−1.6	−1.3	−1.9	.9	−3.6	−3.0	−4.9	−3.8
Plus: Subsidies less current surplus of Government enterprises	.8	−.1	−.1	0	−.1	−.1	−.2	.1	−.3	−.2
Equals: National income	178.2	202.6	48.2	50.1	50.8	53.6	194.6	199.8	203.3	212.3
Less: Corporate profits and inventory valuation adjustment	16.5	23.0	5.0	6.0	6.0	(3)	20.4	23.9	23.9	(3)
Contributions for social insurance	6.0	5.7	1.6	1.5	1.3	1.2	6.1	6.0	5.4	5.2
Excess of wage accruals over disbursements	0	0	0	0	0	0	0	0	0	0
Plus: Government transfer payments	10.8	11.1	2.6	2.5	3.3	2.7	10.3	10.1	13.7	10.5
Net interest paid by government	4.5	4.5	1.1	1.3	1.0	1.1	4.5	4.5	4.6	4.4
Dividends	5.6	6.8	1.5	1.5	1.6	2.2	6.3	6.5	6.8	7.3
Business transfer payments	.5	.5	.1	.1	.1	.1	.6	.5	.5	.5
Equals: Personal income	177.2	196.8	46.9	48.0	49.4	52.5	189.8	191.4	199.6	205.8

NOTE.—Data for prior years are published in the National Income Supplement to the July 1947 SURVEY.

[1] Detail will not necessarily add to totals because of rounding.
[2] Includes noncorporate inventory valuation adjustment.
[3] Data for estimating fourth quarter corporate profits are not yet available. In order to arrive at a national income total for the fourth quarter and at national income and its components for the year, corporate profits including the inventory valuation adjustment are arbitrarily assumed to be the same in the fourth quarter as in the third. It is believed that the totals calculated on this basis will be suficiently accurate for general purposes.

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

Trend of Prices

Price developments in 1947 continued to reflect the pressure of demand factors upon an economy operating at close to peacetime capacity. There was a period of relative stability in the second quarter of the year, but subsequently the path of prices led sharply upward to a year-end level more than double the 1939 average at wholesale. The underlying economic tendencies which influenced price movements during the year have already been described.

The price rise was widespread both in 1946 and in 1947. The differential movements for the broad industry groups are given in table 9 which also shows the relative movements since 1939. Farm products and foods stand in the forefront of the rise since prewar, although in 1947 these did not deviate markedly from the average for all commodities. Prices of capital and other industrial goods, which typically move sluggishly, shared in the 1947 advance but continued considerably below the advance in other prices since 1939.

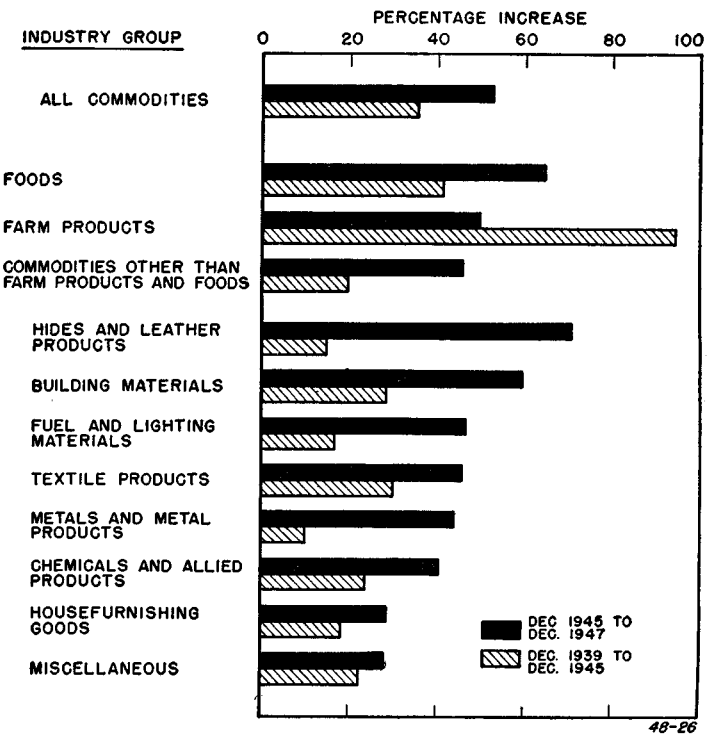
Farm Product Prices Lead Advance

Reports of crop failures in Europe and prospects of a short corn crop in the United States initiated an upward movement of farm prices in June. The impact of foreign purchases—when added to existing strong domestic demand—was felt mainly in the prices of domestic grains, particularly wheat and corn. Wheat prices rose from under $2.30 per bushel at Kansas City in mid-June to almost $3 at the end of the year, while other grains reacted similarly. At the end of the year, the average of farm prices had risen 8 percent above the March peak, and 17 percent over the December 1946 level.

Industrial Price Advance Sharp in Second Half

Although the advance of farm product prices preceded the rise of industrial product prices in point of time, the latter rise was partly a response to a separate set of factors not directly affecting farm products. Following the settlement of wage negotiations in the coal industry in July, coal prices were raised one-tenth, and this move was quickly followed by substantial increases in the prices of related and competitive fuels, and in steel and steel products. The impact of these advances spread quickly through the industrial fabric. As prices were raised to cover these and other cost increases, including the steady uptrend in wages, the movement to rebuild inventories gave further impetus to the price rise and hastened the change in the business climate. By the end of the year, the force of these developments operating upon both the demand side and upon costs had

Chart 4.—Percentage Increase in Wholesale Prices for Selected Periods [1]



[1] Percentages are based upon wholesale price indexes, 1926=100.

Source of data: U. S. Department of Labor, Bureau of Labor Statistics.

lifted industrial prices 17 percent over the level a year earlier—a rise equaling that of farm product prices and comparing with an advance of 11 percent for food.

Price Advance Widely Dispersed

That the postwar price advance has affected all prices with very few exceptions is indicated by the following classification of the unduplicated commodity groups in the Bureau of Labor Statistics wholesale price index:

	December 1945–December 1946	December 1946–December 1947
Number falling	1	5
Number stable	1	0
Number rising—total	45	43
0–10 percent increase	8	13
10–20 percent increase	13	19
20–30 percent increase	7	7
30–40 percent increase	4	1
Over 40 percent increase	13	3
Total	47	48

The concentration of the price advances in the 10–20 percent increase classification in 1947 contrasts with the situation in 1946 when the increases were not only larger in magnitude but were more widely dispersed. The widely different changes in 1946 reflected the varying effectiveness of wartime and postwar price controls and the price pressures that were built up throughout the control period.

Largest Increase in Fuel Group

As shown in table 9, the greatest relative rise over the year was made in the fuel and lighting price group—wherein fuels were the volatile element—and in building materials prices. The former price group advanced 29 percent over the December 1946 level, with most of the rise occurring after the July wage settlement in the bituminous coal mines. An unusual export demand for coal, as well as heavy domestic requirements for all types of fuel, pushed fuel prices even higher than the level existing immediately after the wage settlement in coal. The rate of increase in building material prices, on the other hand, was largest during the first quarter of the year when prices rose 13 percent, but steady advances in the last half of the year brought the year's rise to 21 percent.

Except for the prices of chemicals and allied products and textiles, the other price groups have advanced generally in line with the average of 16 percent for all wholesale prices. In chemicals, the expansion of plant capacity during and since the war operated to limit the average price advance to 7 percent over the year.

Table 9.—Changes in Wholesale Price Indexes

	1939 average to December 1947	December 1945–December 1947	December 1946–December 1947
All commodities	111.5	31.6	15.8
Farm products	201.2	27.8	17.0
Foods	153.4	47.4	11.4
All commodities other than farm and food	78.7	24.1	16.5
Hides and leather products	112.4	48.6	14.9
Textile products	111.8	32.8	9.6
Fuel and lighting materials	70.0	13.3	29.3
Metals and metal products	61.1	27.6	12.9
Building materials	111.0	32.1	21.0
Chemicals and allied products	77.6	30.8	7.4
Housefurnishing goods	56.2	14.8	12.1
Miscellaneous	62.4	14.9	11.6

Source: Computed from data of U. S. Department of Labor, Bureau of Labor Statistics.

Prices of textile products rank high among the increases since the prewar period, although the advance in 1947 was below the average for all commodities. It is noteworthy that prices of housefurnishing goods, which advanced 12 percent in 1947, did not undergo the lull that characterized the general pattern of prices in the second quarter but advanced steadily throughout the year. In part, this reflected the practice in these industries of setting prices which are effective for an entire season. In general, however, with costs rising the existence of large backlog demands for furniture, tableware, glassware, and other items, supplemented by needs arising from furnishing new homes, supported the steady rise of prices.

Flexible and Inflexible Prices

Price movements of commodities which are generally considered to be in the inflexible price group contributed significantly to the price advance in 1947. The inflexible price group in general includes commodities which are not traded in by large numbers of buyers and sellers and includes many iron and steel products, finished industrial commodities, including most types of capital goods, and a few manufactured food products. Building materials are the major class of capital goods which broadly fall within the flexible rather than the inflexible group.

While commodities in the inflexible group were generally in great demand in 1947, the demand pressures were not fully reflected in prices as was the case in the flexible category. Prices of these commodities were low in relation to the price rise that occurred in the flexible and indeterminate category both in 1947 and in the earlier years of war and postwar period. The advance of wholesale prices in the inflexible group is compared with the advances other groups in the table below: [1]

[Index, 1926=100]

	December 1946	November 1947	Percent change December 1946–November 1947
Inflexible prices	121.2	134.3	10.8
Neither flexible nor inflexible prices	138.5	156.1	12.7
Flexible prices	168.3	197.5	17.3

Consumers' Prices at Peak in 1947

Prices paid by consumers for goods and services rose 9 percent during 1947, bringing the total rise from 1939 to 68 percent. Food prices continued to be the largest contributor to the rise, though not quite to the same degree as in 1946. As shown in chart 5, food costs to consumers rose 11 percent during the year, compared with a 7-percent rise in the average of nonfood items. In 1946, the food price rise was 31 percent and the nonfood rise 9 percent. Table 10 gives the break-down of the price indexes by major groups.

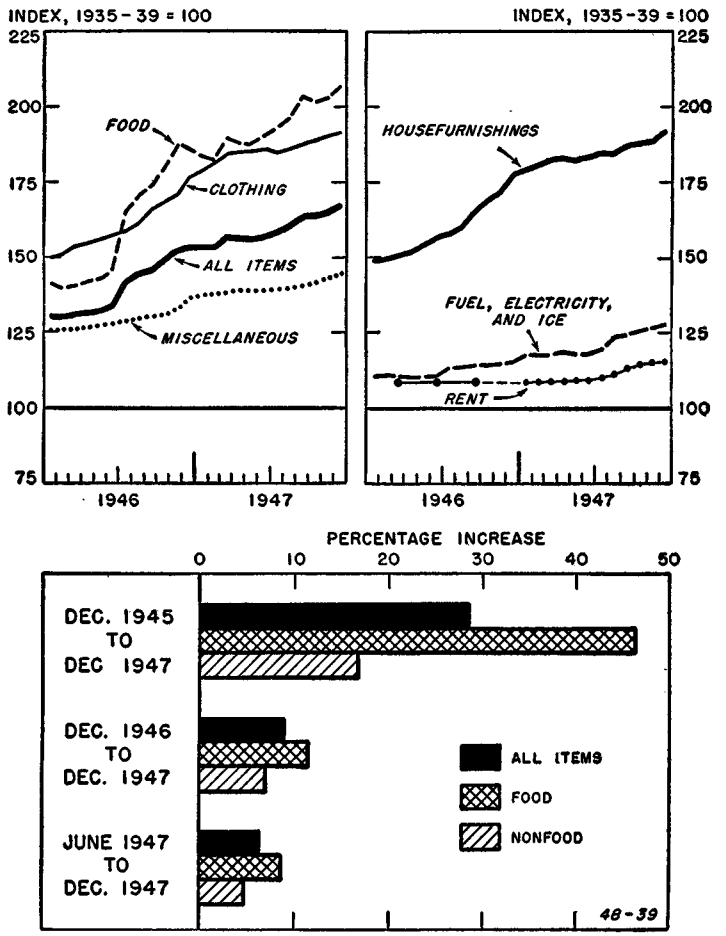
High Meat Prices

Except for a period in the winter of 1946–47, meat prices have continued to rise steadily since price ceilings were lifted. With meat supplies in 1947 only fractionally above 1946, the weight of increasing consumer income was expressed in a 15-percent advance in meat prices. Consumers are currently spending a much larger proportion of their incomes for meat than before the war.

Although consumed at higher prices, the supply of meat, particularly beef, in 1947 represented poorer quality than was the case in any year since 1944. Choice and prime cattle comprised 18 percent of the total number of cattle slaughtered at Chicago in 1947 as compared with 31 percent in 1946 and 36 percent in 1945.

[1] A description of the method of classification of commodities into prices which are flexible neither flexible nor inflexible, and flexible is given in the March 1947 SURVEY, p. 6.

Chart 5.—Consumers' Price Index and Percentage Increase for Selected Periods [1]



[1] Percentages are based upon consumers' price indexes, 1935-39=100.

Source of data: U. S. Department of Labor, Bureau of Labor Statistics.

Fish prices rose 13 percent during the year, as consumers who were unwilling to pay high meat prices transferred their demand to fish and other meat substitutes. Prices of milk and milk products were relatively stable, having scored their major advance in the months following the decontrol of prices in the fall of 1946. Nevertheless, per capita consumption of fluid milk and cream in 1947 was 5 percent below that of the previous year, in reaction to the higher level of prices, but remained above prewar levels. Butter prices, on the other hand, also were stabilized after an initially large rise in late 1946, but per capita consumption remained considerably below the prewar levels.

Table 10.—Consumers' Price Indexes

[1935-39=100]

	1939 average	December 1945	December 1946	June 1947	December 1947
All items	99.4	129.9	153.3	157.1	167.0
Food	95.2	141.4	185.9	190.5	206.9
Clothing	100.5	149.4	176.5	185.7	191.2
Rent	104.3	108.3	108.8	109.2	115.4
Fuel, electricity, and ice	99.0	110.3	115.5	117.7	127.8
Housefurnishings	101.3	148.3	177.1	182.6	191.4
Miscellaneous	100.7	124.8	136.1	139.1	144.4

Source: U. S. Department of Labor, Bureau of Labor Statistics.

Rise Spreads to Fuel and Rent

The residential rent index rose 5 percent in the last 6 months of the year, mainly reflecting increases up to 15 percent permitted under the "voluntary lease" clause of the Rent Control Act of 1947, passed in June. At 115 (1935–39=100), the index was far below the average of 167 for all consumers' prices. It should be noted, however, that the rent index does not measure increased costs to persons compelled to purchase new dwellings because of the housing shortage, higher rents in new units, and various maintenance and repair expenditures shifted to tenants during the war.

Coal prices increased 18 percent over the year, although the inflexible prices of the other utilities such as gas and electric limited the advance for the fuel, electricity, and ice group to 11 percent, as compared with less than 5 percent in 1946.

Consumers' prices for clothing and housefurnishings both were up 8 percent, and remained well above the average of all retail prices in relation to the prewar period.

Manufacturing and Mining Output

Production of industrial products was substantially higher in 1947 than in 1946, although there was only a moderate gain in 1947 over the rate which had been reached by the end of the previous year. As was generally the case in the economy, there was some slackening tendency after the first quarter and it was not until October that the level of production reached in the opening months of the year was reattained.

The output rise in 1947 resulted from a larger and smoother flow of materials, expanded plant capacity, and more continuous operations that stemmed chiefly from a marked decline in time lost because of industrial disputes. Materials shortages continued to hamper the rate of operations in the durable goods industries, so that output generally was below capacity. Notwithstanding the very considerable expansion in the durable goods sector, therefore, the general picture at the end of the year was still one of unbalanced relationships, although the imbalance did not extend over so wide an area as was the case a year ago. At the same time, some of the nondurable goods industries had caught up with the most urgent demands, and there was a tendency toward lower output in some industries in this sector.

Expansion in manufacturing activity last year was most notable in the basic heavy goods industries which include most of the reconversion industries where backlogs were large. Over-all industrial production, as measured by the Federal Reserve index, was about 10 percent higher than in 1946 and about 50 percent higher than in 1940.

The increase of 15 percent in the durable goods industries from 1946 to 1947, contrasts with a rise of 4 percent in the nondurable goods group. The increase in the nondurable goods sector resulted largely from continued advances in the paper, refined petroleum products, and chemical industries where the pressure of demand was exceedingly heavy as was also true for most of the durable goods industries.

Production Trends Uneven

The rapid rise in output, which followed the resumption of peacetime production in the reconverted war plants and the settlement of the labor-management disputes during the first half of 1946, topped off in the initial quarter of 1947. The moderate decline in production in the second quarter was followed by a sharper drop in the summer months. Before the close of the third quarter, however, the uptrend

was resumed, and by the end of the year output slightly exceeded the first quarter rate.

The year also was marked by considerable variation in the production pattern for individual industries. In 1946, rising production trends were quite general throughout manufacturing, but in 1947 significant declines occurred in a number of industries while generally stable or expanded operations were the rule in others.

Raw Materials Shortages Ease, Except for Steel

While the supply of raw materials continued as a major problem throughout 1947, there was considerable improvement for most materials. Stepped-up output eliminated or widened most of the bottlenecks which were evident in 1946. Steel continued in an outstandingly short supply position, and petroleum came into increasing prominence with the intensification of competition of heating, transportation, and export requirements towards the year-end.

In the aggregate, raw materials supplies were about as high in 1947 as in the war period, approximately one-fifth higher than in 1946, and about one-seventh above 1941, when stockpiling for defense programs was important, particularly in the nonferrous metals group. The gain in over-all supplies, however, was matched by an equal rise in consumption as manufacturers absorbed materials as quickly as they became available. Stocks of raw materials held by primary producers at the year-end were generally lower or unchanged from a year ago.

The magnitude of raw materials required to support a high level of manufacturing activity can be seen in table 11, which shows new supplies (domestic production plus imports) of fifteen important industrial materials. It will be seen that for 13 of the 15 commodities listed in the table there was an increase in 1947 over the previous year. It should be recalled that 1941, which also is shown in the table, was not a year of full employment. At that time, the economy was expanding, but unemployment averaged 5½ million for the year.

Table 11.—New Supplies of Raw and Semifinished Materials

Commodity	Unit	1941	1946	1947 p
Iron ore	Mil. of long tons	92.4	70.8	92.2
Pig iron	Mil. of short tons	55.9	45.4	59.0
Steel ingots and steel for castings	Mil of short tons	82.8	66.6	84.8
Copper, refined [1]	Thous. of short tons	1,742	1,033	1,315
Lead, refined [1]	Thous. of short tons	845	453	628
Zinc, slab [1]	Thous. of short tons	862	833	904
Tin [1]	Thous. of long tons	143	59	56
Aluminum, primary [1]	Thous. of short tons	323	451	586
Magnesium, primary	Thous. of short tons	16.3	5.3	12.4
Rubber, natural and synthetic [1]	Thous. of long tons	1,037	1,120	1,200
Woodpulp [1]	Mil. of short tons	11.2	12.4	14.3
Cotton, raw, crop	Mil. of bales	10.7	8.8	11.7
Wool, raw, grease basis [1]	Mil of pounds	1,269	1,395	953
Bituminous coal	Mil of tons	514	532	619
Crude petroleum [1]	Mil. of barrels	1,454	1,822	1,958

p Preliminary.
[1] Data include imports.

Sources: Pig iron and steel ingots, American Iron and Steel Institute; iron ore, coal, crude petroleum, and domestic refinery production of nonferrous metals, U. S. Department of the Interior, Bureau of Mines; domestic production of synthetic rubber, Office of Materials Distribution; domestic production of woodpulp, United States Pulp Producers' Association raw cotton and domestic production of raw wool, U. S. Department of Agriculture; and imports of individual commodities, U. S. Department of Commerce.

Steel ingot operations, which were held down to some extent by shortages of scrap and high quality coking coal, averaged 93 percent of rated capacity in 1947, or over 6 million tons below full capacity operations. However, this was the first peacetime year in which the 90-percent level was bettered. As a result of additions to capacity during the year, the rated ingot capacity at the beginning of 1948 was raised 3 million tons above the figure of 91.2 million tons at the beginning of 1947. Additions to capacity of 1.8 million tons in blast furnaces and 2.2 million tons of coke oven facilities were also reported.

The improvement in the supply of nonferrous metals resulted chiefly from sizable gains in domestic mine output—which was held down by work stoppages in early 1946—rather than from imports of the refined metal and ore concentrates for smelting, which were considerably below 1946. Despite the gains in output, stocks held by producers drifted downward and were lower at the end than at the beginning of the year.

A sustained high level of industrial consumption combined with an appreciable increase in exports—from 42 million to 70 million tons—kept the Nation's coal mines operating at top speed. Last year's output equaled the wartime high of 1944 and, notwithstanding the huge demands, permitted some rebuilding of industrial stocks.

Crude petroleum output totaled almost 2 billion barrels in 1947, as compared with 1.8 billion the year previous. At the end of the year, a new peak production rate of over 5.3 million barrels daily was reached. Output of gasoline and fuel oil, the two major byproducts derived from crude oil, was higher than in any previous year, but demand continued in excess of current refining capacity.

Expansion in Reconversion Industries

Chart 6 shows the production upswing in the two postwar years for 15 important durable goods in comparison with 1941 volume, generally the prewar peak. The increases in output of household electrical equipment were particularly striking, generally representing two-thirds or more above 1946 and, with the exception of refrigerators, more than 50 percent higher than in 1941. The strong postwar uptrend continued throughout the year, except for minor setbacks in the third quarter because of workers' vacations and other production factors. In the case of washing machines, ironers, vacuum cleaners, electric ranges, and electric water heaters, output in the final quarter more than doubled the 1941 monthly average rate.

Production of radios, which include television receivers, increased one-third in number over the high volume of 1946. The gain was due to the relatively low rate of output in the first three quarters of 1946 rather than to any increase in the rate over the high fourth quarter in that year. Perhaps the feature of the year was the attainment of volume production of console models—from 900,000 units to 1.9 million units—and television receivers—from 9,000 to 180,000 sets.

Automobile Output at Prewar Rate

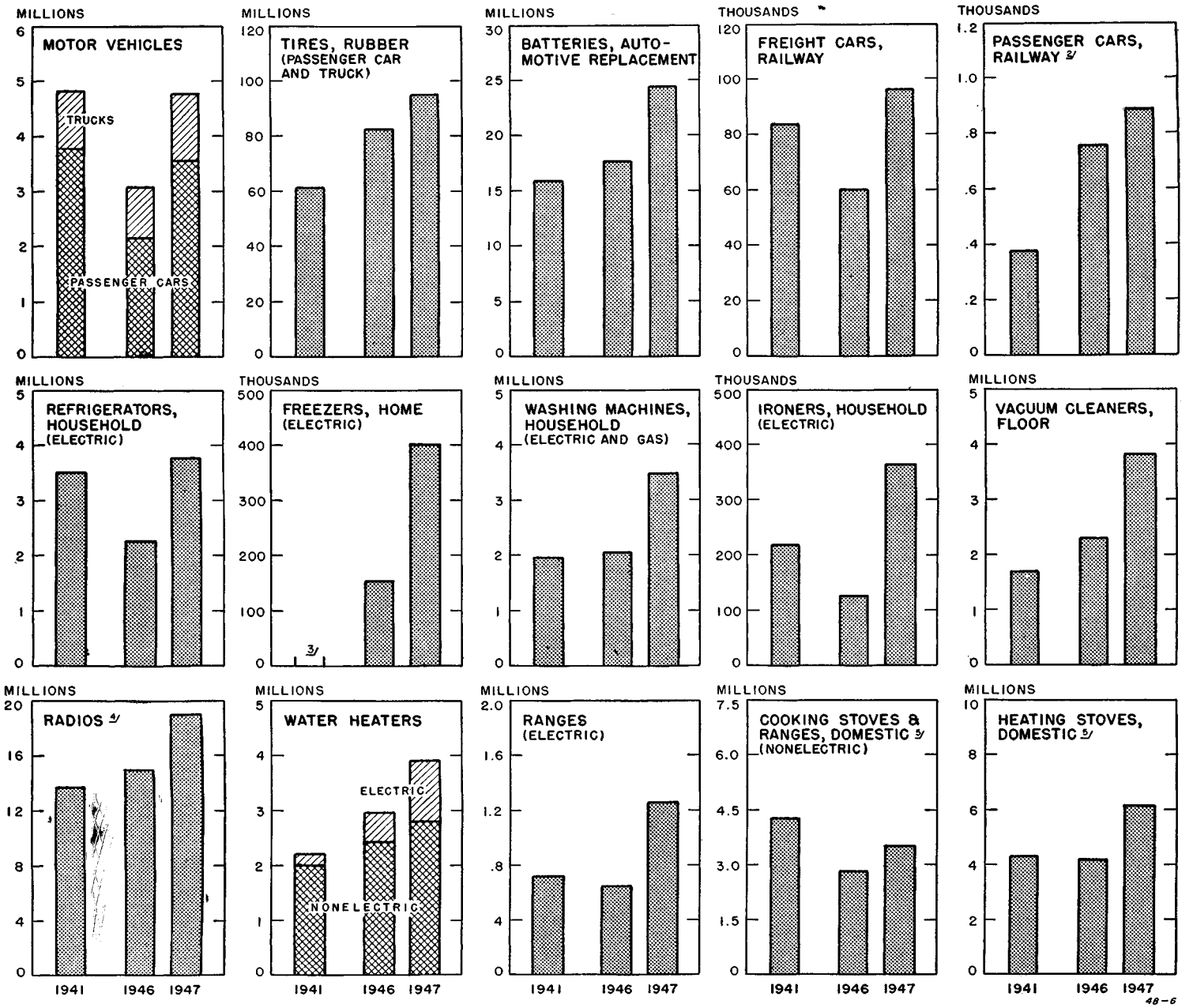
Total United States output of 4.8 million cars and trucks in 1947, up more than 50 percent over the previous year, virtually matched the 1941 volume, although it was still 10 percent under the record number of 5.4 million produced in 1929.

The production performance of the automobile tire industry in the first postwar year was even bettered in 1947. Plants producing passenger car tires rolled out 77 million casings, nearly two and one-half tires for each passenger car on the highway.

More Railroad Equipment

For freight car builders the year was the most active since 1925. A total of 96,000 cars were turned out, of which about 28,000 were for foreign account.

Chart 6.—Production of Selected Manufactured Products [1]



[1] Data represent production or shipments. The 1947 figures for some of the products include estimates for December. Data represent approximately 100 percent of the industries, except for washing machines and ironers.
[2] Exclude troop sleepers which were delivered only in the first half of 1946.
[3] Data for 1941 are not available; production in that year, however, was known to be small.
[4] Include radio-phonograph combinations and television receivers.
[5] Data for 1941 are for the fiscal year 1940-41.

Sources of data: Motor vehicles, Automobile Manufacturers Association; tires, Rubber Manufacturers Association; batteries, Association of American Battery Manufacturers, Inc.; railway cars, American Railway Car Institute; refrigerators, electric freezers, electric ranges, and data for 1946 and 1947 for electric water heaters, National Electrical Manufacturers Association; washing machines and ironers, American Washer and Ironer Manufacturers' Association; vacuum cleaners, Vacuum Cleaner Manufacturers Association; radios, Radio Manufacturers Association; data for 1946 and 1947 for nonelectric water heaters, cooking stoves and ranges, and heating stoves, U. S. Department of Commerce, Bureau of the Census; data for 1941 for electric and nonelectric water heaters, and data for 1940-41 for cooking stoves and ranges, and heating stoves, War Production Board products reports.

Production of freight cars for domestic use, after lagging in the early months, increased substantially in the subsequent period under the stimulus of Government efforts and cooperation among steel producers and car builders. Output of 27,000 cars in the fourth quarter was almost twice the output in the second quarter.

Manufacturer's Shipments One-Third Higher

The rise in the value of shipments which got under way in early 1946 continued throughout most of 1947, although there was an appreciable slackening in the rate of increase after the rapid rise in the previous year. The gross value of goods

shipped by manufacturing concerns in 1947 amounted to $168 billion, an increase of one-third over the value of shipments in 1946. (See table 12.)

The increase is explainable largely by the relatively low volume in the first half of 1946, when only limited quantities of manufactured goods were being turned out by the reconversion industries. In fact, shipments in 1947 did not expand much above the high fourth quarter level of 1946 until the final three months when they reached an annual rate of $185 billion. The postwar trend of shipments for all manufacturing was influenced chiefly by the movement of the durable goods group.

It should be noted that prices played an important part in the higher sales of 1947. Nevertheless, the production data already discussed indicate that the physical quantity of goods delivered in 1947 was substantially larger than in 1946.

As a result of the larger relative increase in sales of the durable goods industries, the proportion of this group to total manufacturing sales increased from 41 percent in 1946 to 44 percent in 1947, which is about in line with the 1940 relationship and compares with a wartime peak of 57 percent.

Table 12.—Value of Manufacturers' Shipments

[Billions of dollars]

Industry	1939	1940	1944	1946	1947p
Total, all industries	56.9	65.8	156.1	125.7	168.8
Durable goods industries	23.3	29.6	89.2	51.9	74.6
Iron and steel and their products	6.6	8.3	16.5	12.7	18.1
Nonferrous metals and their products	2.6	3.2	7.2	6.0	9.0
Machinery, including electrical	5.0	6.5	22.2	12.7	18.8
Automobiles and equipment	4.0	5.3	12.2	6.6	11.3
Transportation equipment (except autos)	.9	1.6	22.2	4.6	5.1
Lumber and timber basic products	1.1	1.4	2.4	2.3	3.3
Furniture and finished lumber products	1.3	1.4	2.8	2.7	3.6
Stone, clay, and glass products	1.4	1.7	2.6	2.9	3.4
Miscellaneous	.3	.3	1.1	1.5	2.0
Nondurable goods industries	33.6	36.2	66.8	73.8	94.2
Food and kindred products	10.6	11.2	22.7	25.4	32.9
Tobacco manufactures	1.3	1.4	2.2	2.4	2.6
Textile-mill products	3.9	4.2	7.6	7.9	8.6
Apparel	3.3	3.6	5.2	6.2	7.5
Leather and leather products	1.4	1.4	2.4	2.5	3.2
Paper and allied products	2.0	2.3	3.6	4.2	5.5
Printing and publishing	2.6	2.9	5.0	6.3	9.0
Chemicals and allied products	3.8	4.3	7.9	8.3	10.4
Products of petroleum and coal	3.0	3.1	5.6	5.6	7.8
Rubber products	.9	1.0	2.7	2.6	3.1
Miscellaneous	.8	.9	2.1	2.3	3.6

p Preliminary.

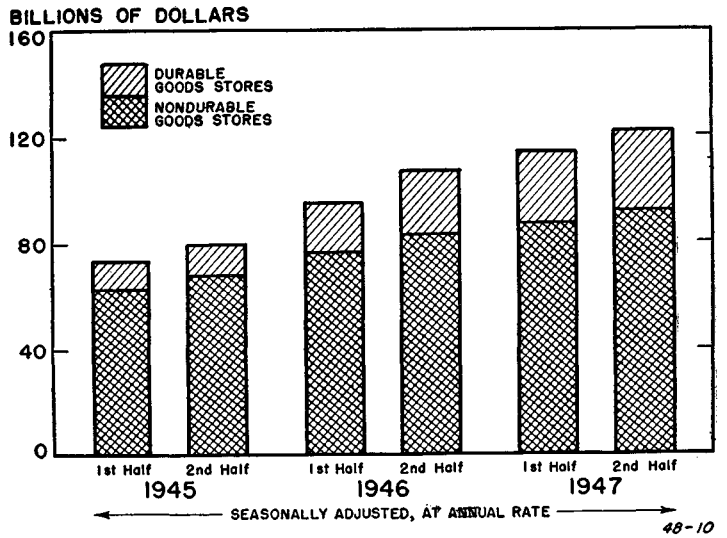
Source: U. S. Department of Commerce.

Retail Trade

Total sales at retail stores of 118 billion dollars in 1947 represented an increase of 17 billion dollars, or 17 percent, over the 100 billion dollar total for 1946 (table 13). Sales at durable goods stores accounted for almost half the year-to-year increase but in 1947 still were only about a fourth of total retail sales, or less than the proportion reached in previous peacetime periods of high business activity.

The 1947 sales pattern reflected other influences peculiar to the postwar transition period in addition to this lower proportion of durables. Some sales groups which are generally considered to be highly responsive to changes in personal income showed quite the contrary behavior in 1947. Jewelry store sales are the outstanding case of this type, falling 3 percent below the previous year's amount despite the 11 percent increase in income. This was in part a reaction to the relatively high position of jewelry sales in the total during the war and early postwar period and in part a reaction to the sharp price increases in 1946 and 1947 for food and other necessities.

Chart 7.—Sales of All Retail Stores



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

While food store sales, at one-fourth of the total in 1947, accounted for a smaller proportion than in the depression and war years, they were more important than in other relatively prosperous peacetime years such as 1929, 1940, and 1941. This behavior was reviewed in the article in the January 1948 issue of the SURVEY which discussed the food expenditure pattern.

Table 13.—Sales of Retail Stores

[Millions of dollars]

Kind of business	1945	1946	1947
All retail stores	76,572	100,255	117,724
Durable goods stores	11,498	20,756	28,666
Automotive group	3,356	7,639	11,855
Motor vehicle dealers	2,293	5,977	10,121
Parts and accessories	1,063	1,662	1,734
Building material and hardware group	4,182	6,612	8,705
Building materials	2,508	4,137	5,644
Farm implements	497	649	844
Hardware	1,177	1,826	2,217
Home furnishings group	2,889	5,162	6,797
Furniture and housefurnishings	2,221	3,477	4,333
Household appliances and radios	668	1,685	2,464
Jewelry	1,071	1,343	1,309
Nondurable goods stores	65,074	79,499	89,058
Apparel group	7,685	8,981	9,149
Men's clothing and furnishings	1,806	2,227	2,314
Women's apparel and accessories	3,589	4,033	4,030
Family and other apparel	1,093	1,262	1,282
Shoes	1,197	1,459	1,523
Drug stores	3,023	3,520	3,616
Eating and drinking places	10,809	12,632	12,499
Food group	20,192	25,555	31,356
Grocery and combination	15,328	19,694	24,899
Other food	4,864	5,861	6,457
Filling stations	3,016	4,066	5,193
General merchandise group	11,614	14,533	15,814
Department, including mail order	7,428	9,621	10,534
General, including general merchandise with food	1,417	1,676	1,858
Other general merchandise and dry goods	1,249	1,463	1,533
Variety	1,520	1,773	1,889
Other retail stores	8,735	10,482	11,431
Feed and farm supply	2,379	2,753	2,961
Fuel and ice	1,671	1,767	2,116
Liquor	1,688	1,912	1,840
Book stores, news dealers, etc	422	520	n. a.
Cigar stores	422	462	n. a.
Florists	398	490	4,514
Office equipment and supplies	381	635	n. a.
Other	1,374	1,943	n. a.

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

Prices Account for Most of Sales Increase

Mounting prices played a dominant role in the growth in dollar sales in 1947, although there is some evidence that the physical volume of trade also advanced. The increase in hard goods output from 1946 to 1947 moved through trade channels to consumers with only small amounts being used to support pipelines and rebuild dealers' stocks. In the case of soft goods, however, declines in the output of clothing and footwear were reflected in lower physical volume at retail—but in each case dollar sales moved higher in 1947. Only for certain types of apparel were there declines both in physical volume and in dollar sales.

In the important food group, the rise in sales just about kept pace with the price increase. Food consumption estimates based directly upon production data and changes in inventory holdings show little change in physical volume from 1946 to 1947.

Sales Increase at Faster Rate Than Income

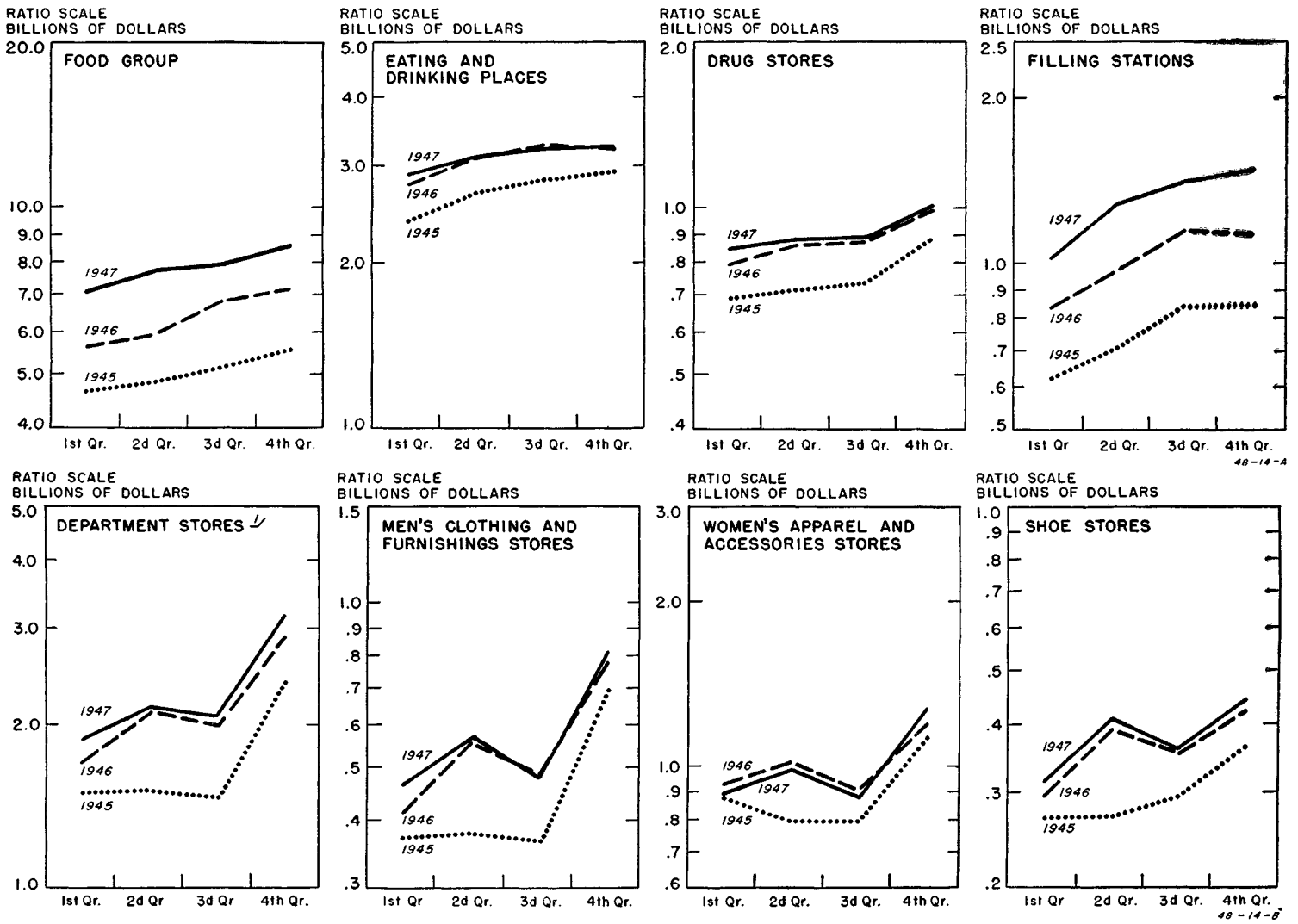
In the period since the war's end, sales at retail stores have been increasing at a considerably faster rate than disposable personal income. From 1945 to 1946 sales rose 30 percent and income 5 percent; from 1946 to 1947 the respective increases were 17 and 11 percent. In 1946, the dollar increase in sales was more than three times the increase in disposable income; in 1947, the sales increase was virtually as large as the income rise.

The chief factors making for this unusual relationship between the movement of sales and income in the postwar period were the wartime price controls and their subsequent elimination, the related reduction from the abnormally high wartime rate of savings, and the increased supplies available to consumers. These factors had considerably less influence in 1947 than in 1946, as is indicated by the narrower spread between the percentage changes for sales and income. From the early twenties until 1941, a rise in sales of 12 percent was associated on the average with a 10 percent increase in income.[1]

Backlog Demand a Factor

The significant improvement in retail sales in 1947 was associated with the backlog of consumer demand. The

Chart 8.—Sales of Selected Groups of Nondurable Goods Stores



[1] Does not include catalog sales of mail-order houses.

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

[1] See "Retail Sales and Consumer Incomes", SURVEY OF CURRENT BUSINESS, October 1944.

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importance of this factor is seen in the exceptionally large increases in sales of automobile dealers and of stores selling household equipment, building materials, and hardware. In each of these areas there was a heavy backlog of demand carried over from the war years when production was drastically curtailed. Only in the case of a few equipment items was the sales increase in 1947 sufficient to meet the demands of customers on merchants' waiting lists, and even here specific name brands were not always immediately available.

Associated with the 65-percent increase in the munber of new cars moving through dealers' hands in 1947—as well as with increased usage by car owners—was an above-average rise in sales at filling stations. Total motor vehicle registrations rose above the 1941 total in 1947 but were considerably below the number that might be expected in view of the high level of incomes, and the important growth factors that were operative before the war.

Reduced Eating Away From Home

The increase in dollar sales at food stores also stands out among the year-to-year changes shown in charts 8 and 9. As already noted, the rise in retail food prices in 1947 accounted for the larger dollar sales at these stores. At eating and drinking places, on the other hand, higher prices were not accompanied by higher sales and there was a sizable decline in the physical volume of trade at these establishments.

The shift to eating at home rather than dining out reflected some readjustment toward a more usual pattern after the war distortions, as well as the pressure on consumer budgets of the higher cost of food and the resultant attempt to conserve purchasing power for other purposes. The decrease in the number of persons living away from home and the reduced mobility of the population were factors contributing to the shift.

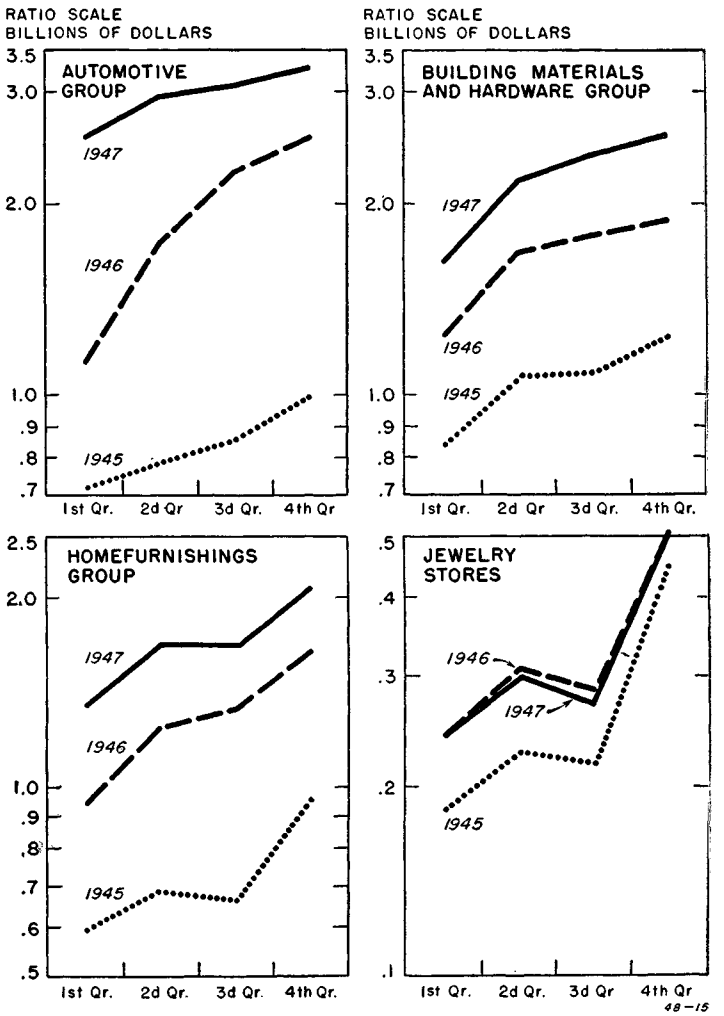
Few Weak Spots in Sales

No serious weakness was exhibited by any of the groups in 1947, although in a few cases decreases in dollar sales were shown. One of the paradoxical developments during the year was that this relative weakness was shown primarily for lines of trade which typically exhibit most strength in high-income periods.

Jewelry stores are the only group in the accompanying charts with sales below 1946 but other declines show up when the detailed break-down of department store sales by departments is examined. On the basis of 11-month totals, such departments as ladies' coats and suits, dresses, furs, handbags, household linens, blankets, and toys registered declines from 1946 dollar sales. Almost without exception, prices rose by a substantial margin during the period in question.

It should be noted that the declines which occurred from 1946 to 1947 frequently were more or less of a corrective movement from an abnormally high sales position carried over from the war. Nevertheless, the declines were indicative of the changed business situation, with generally higher prices and improved supplies working to lessen the advantage of lines of trade which did outstandingly well in the war-distorted consumer market.

Chart 9.—Sales of Selected Groups of Durable Goods Stores



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

Brisk Holiday Buying

The dollar volume of sales at retail stores moved upward almost continuously after the war's end. From an annaul rate of 73 billion dollars in the first half of 1945, retail sales rose to a rate of 122 billion in the second half of 1947, an increase of nearly two-thirds (chart 7).

Although the year-to-year increase was smaller in the second half of 1947 than in the first, the narrowing was the combined result of the sharp price increases after controls were lifted in the latter half of 1946 and the approach to a production plateau during 1947 after the steady rise in the preceding year. Holiday buying was brisk in the closing months of 1947 and the monthly sales index, which is adjusted for seasonal changes, reached its highest point in December.

Domestic Business Investment

In 1947, domestic business investment continued to grow. Expenditures for new plant and equipment were about 30 percent higher than in the preceding year.[1] Expenditures on producers' durable equipment constituted a larger proportion of the gross national product than in any earlier period on record. In contrast, the rate of inventory accumulation by business during the year was 20 percent below 1946, when measured by change in book value.

These percentages are influenced by the steady rise of prices in 1947. Perhaps two-thirds of the increase in out-

[1] These expenditures are exclusive of agriculture, and make no allowance for outlays charged by business to current expenses.

lays for plant and equipment was accounted for by higher costs, and about 80 percent of the rise in inventory book values was attributable to increased replacement charges and price appreciation. After adjusting for the effect of price movements, the rate of real investment in fixed capital was about a billion dollars higher than in 1946; but the rate of growth of business inventories in 1947 was less than half that of the year before.

Expenditures for New Plant and Equipment

Business expenditures for new plant and equipment, exclusive of agriculture, reached a total of 15.7 billion dollars in 1947, nearly one-third more than the 12 billions in 1946. These expenditures were sustained not only by the need for replacement of obsolete and other depreciated facilities, but also by the backlogs arising from war-deferred programs for plant expansion throughout industry. The dollar totals also reflect the influence of rising prices.

Quarterly Trends

Quarterly data at annual rates disclose a sharp rise of business expenditures for new plant and equipment from less than 9 billion dollars in the first quarter of 1946 to nearly 15 billion in the fourth quarter of that year.[2] There was a pronounced decline in total outlays during the first quarter of 1947, reflecting mainly seasonal factors. Expenditures in the second quarter of 1947 recovered to an annual rate of 15.8 billion dollars, although, in a period of rising prices, this amount was only 5 percent above the rate in the fourth quarter of 1946.

Business outlays for new plant and equipment continued to expand in the second half of 1947, with the preliminary estimate for the fourth quarter indicating anticipated expenditures of 4.4 billion dollars or 17.5 billion at an annual rate. For the entire second half of the year, the estimated annual rate of 17 billion dollars was 15 percent above the annual rate for the fourth quarter of 1946. Estimated expenditures for the entire year 1947 were only about 5 percent above the 1946 fourth quarter annual rate.

Industry Groups

Expenditures for new plant and equipment by the combined manufacturing and mining industries were nearly 8 billion dollars in 1947, or 50 percent of all business outlays for new producers' capital outside of agriculture. These expenditures were considerably above 1946 in dollar amount, but only moderately higher in physical volume. The dollar volume of manufacturing and mining capital outlays in the fourth quarter of 1947 was expected to reach a total of more than 2.2 billion dollars, or about 8.8 billion at an annual rate, which is one-sixth more than in the final quarter of 1946.

Capital outlays of the commercial and miscellaneous group of businesses and of the transportation industries other than railroads definitely leveled off in dollar volume during 1947, with the fourth quarter expenditures of both groups approximately the same as those in the last quarter of 1946. It appears that in the latter part of 1947 these industries were obtaining smaller physical quantities of producers' capital goods than in the closing months of the preceding year. However, the dollar volume of investment by the commercial and miscellaneous firms reached 4.2 billion dollars in 1947, which was probably above the entire year 1946 in physical volume as well as in dollar value.

Outlays by railroads increased steadily throughout 1947, amounting to nearly one billion dollars for the year. The fourth quarter rate was far above that of a year before. The sharp rise in the railroads' outlays resulted primarily from the larger production of freight cars and other equipment.

Capital investment by the electric and gas utilities expanded rapidly in 1947, rising to an annual rate of 2.2 billion dollars in the fourth quarter as compared to 1.4 billion in the corresponding quarter of 1946. It indicates a more rapid pace in the accomplishment of long-range plans to expand capacity in response to very heavy demands both by industrial and by private consumers of gas and electricity. For the year as a whole, expenditures by these companies amounted to 1.8 billion dollars, 75 percent higher than in 1946.

Actual Versus Anticipated Expenditures

As might be expected in a period of rising prices, expenditures which business anticipated making on plant and equipment in the postwar period characteristically have been below amounts actually spent. With the exception of the first quarter of 1947, when expenditures were substantially below anticipations probably because of inadequate allowance for the winter seasonal factor, expenditures in succeeding quarters were in each case about 10 percent higher than the preliminary estimates of business.

Among the various groups, railroad capital outlays have provided the only exception to the general rule of underestimation of expenditures. In 1946, and continuing through the third quarter of 1947, railroad outlays for new capital were consistently much below their reported anticipations. This primarily resulted from over-estimates of the rate at which they would receive deliveries of rolling stock.

Plant Versus Equipment

Expenditures for new machinery and other equipment by business amounted to 10.6 billion dollars in 1947, or two-thirds of the total new fixed capital outlays including plant. The proportions of plant and equipment expenditures were unchanged from 1946, both in the aggregate and for the major industry groups. Manufacturers' machinery and equipment expenditures, which accounted for more than half of all such outlays, constituted 73 percent of their total expenditures for new producers' capital in both 1946 and 1947—slightly more than the average for other businesses.

Outlays for new plant and equipment are expected to decline seasonally in the first quarter of 1948, according to the preliminary figures on anticipated expenditures reported by business. The anticipated total of 4.1 billion dollars for the quarter gives no real indication of slackening of the pace established in 1947, as plant construction and equipment deliveries are normally reduced during the mid-winter months. At annual rates, the anticipated expenditures of nearly 16.5 billion dollars in the first quarter of 1948 will be approximately at the third quarter 1947 level, with smaller plant expenditures largely offset by increased expenditures for machinery and equipment.

Inventories

As of the close of 1947, the book value of goods held in inventory by manufacturers, wholesalers, and retailers had increased by 20 percent over the 1946 year-end level. When allowance is made for the effect of rising prices, it is estimated that actual growth of stocks amounted to about one and one-third billion dollars, as compared with nearly 4 billion the year before; this reflects the more conservative inventory policies which were followed during a large part of 1947.

At the end of 1946, several influences were still operating to maintain a high rate of inventory accumulation. Balance in the composition of physical stocks had not yet been attained; there was stocking of items in short supply; and rising

[2] The fourth quarter data are based on the amounts which businesses anticipated spending as of the middle of the quarter.

prices helped to maintain the upward pressure on inventories. But these factors were diminishing in force as deliveries became more regular. At the same time, business policy was influenced in the first quarter of 1947 by a slackening of sales in some lines, by the widespread notice given to the increase in inventories that had occurred in 1946, and by the feeling that the high volume of exports was not likely to continue. The temporary stabilization of prices in the second quarter removed a stimulus to forward purchasing. The effect of all this was that inventory book values increased very little in the second quarter of 1947.

After mid-year, the stage was set for a new but more moderate upswing in inventories by the change in the business tempo described in an earlier section. The upward trend was influenced directly by the general renewal of the upward movement of prices.

Retailers Liquidate

The impact of these forces on quarterly inventory levels varied among the different sectors of business. Retailers were the first to revise their inventory policies. In the first quarter of 1947, the rate of increase in retail inventories was less than half that of 1946. Book values showed no change in the second quarter and a small rise in the third. When the effect of price movements is considered, it appears that retailers' stocks were being reduced during this period. However, they increased moderately in the fourth quarter.

In general, movements at the wholesale level lagged somewhat behind retail shifts. Although the book values of wholesale inventories increased in each quarter, there was some liquidation in July. The increase in stocks was least in the third quarter, and the fourth quarter increase was not up to the record quarter rate.

Manufacturers' inventories were tending to level off during 1947, but, unlike the trade groups, no net liquidation occurred in any month. The rate of inventory accumulation declined fairly steadily to the end of the year.

In all sectors, the more conservative inventory policy was evidenced more strongly in nondurable goods lines than in durables. "Hard goods" inventories were increasing somewhat more rapidly than the sales of this group; in contrast, stocks of "soft goods" were generally increasing more slowly than sales. In both cases, inventories at the end of the year were fairly well in line with sales, to the extent that this can be estimated from historical relationships.

Among manufacturing industries, finished goods inventories increased more rapidly during the year than other inventories. The resulting composition of stocks at the end of 1947 showed better balance than the year before, and was more in line with prewar proportions.

Construction Activity

New construction expenditures increased by almost one-third in 1947 over the previous year, continuing the advance which had started in 1945. The total value in 1947 is estimated at close to 13 billion bollars. By the end of the year 1947, the total dollar volume was running at an annual rate of over 15 billion dollars, after adjustment for seasonal variation.

The 1947 volume of new construction is appreciably less than in previous peak periods, however, if adjustment is made for changes in costs. The current dollar value was 5.3 percent of total gross national product in 1947, compared with more than 10 percent estimated for the 1925–29 period.

The year 1947 was marked by divergent trends within the major types of construction activity. The changes from 1946 are summarized in table 14 and the monthly movements are shown in chart 10. It will be noted that the public segment, led by construction of highways and educational facilities, showed a larger percentage increase than the private segment as a whole. Although government bodies practiced restraint in increasing construction outlays in the face of rapidly rising costs and competing needs elsewhere, it was impossible for them to ignore the great needs in many areas arising from the deferral of projects during the war and the large population growth since 1940. Over one-half of the increase came in highway construction alone.

Table 14.—New Construction Activity, Continental United States

Type of construction	1946	1947	Percent change
	millions of dollars		
Total new construction	9,890	12,825	+30
Total private	7,739	9,871	+27
Residential (excluding farm)	3,183	4,934	+55
Nonresidential	3,350	3,179	−5
Farm	350	450	+29
Public utility	856	1,308	+53
Total public	2,151	2,954	+37

Source of data: Joint estimates of U. S. Department of Commerce, Office of Domestic Commerce, and U. S. Department of Labor, Bureau of Labor Statistics.

The contrast between residential and industrial construction is striking. Apparently the acute shortage of housing, coupled with an easy credit situation, proved sufficient to obtain a strong upsurge in activity, especially in the latter half of 1947, in the face of unfavorable factors reflected in generally rising costs. In the industrial field, on the other hand, the record volume of 1.7 billion dollars in new private construction in 1946 and government sales or leases to industry of an even larger volume of war plants (in terms of original cost) had taken the edge off of the backlog of urgent industrial needs, making management more sensitive to rising costs and other unfavorable factors which were reflected in the much smaller increase from 1946 to 1947 in industrial than in residential construction.

Costs and Volume

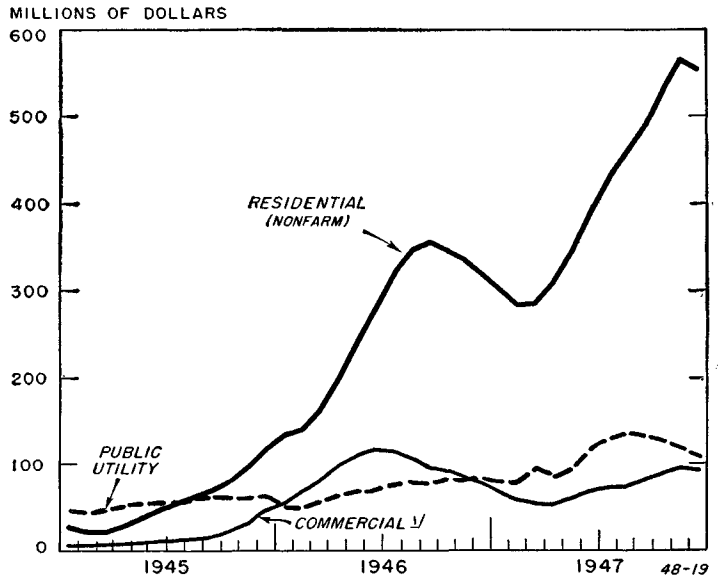
A composite of construction cost indexes, weighted by the value of new construction in the various segments, increased almost 20 percent from 1946 to 1947, and stood more than 90 percent above 1939. There is some disparity, however, between the movements of cost indexes and final construction prices. The conventional indexes, which take account only of quoted prices of materials and average hourly earnings of labor, generally do not reflect changes in efficiency of building operations or changes in contractors' margins for overhead contingencies and profits.

Although the cost indexes are not precise deflators of the value of new construction figures, their movement does indicate that part of the dollar increase from 1946 to 1947 represented a gain in physical volume. Subject to the same qualifications, the 1947 volume was still roughly one-third below the average for the period 1925–29 and the year 1942, but was substantially above the volume of the 1930's.

Materials and Labor

The supply of certain construction materials became considerably easier relative to demand in 1947 than in 1946. Preliminary data indicate that the Department of Com-

Chart 10.—Private New Construction, by Selected Types



[1] Includes warehouses, office and loft buildings, and stores, restaurants, garages.

Sources of data: Joint estimates of U. S. Department of Commerce, Office of Business Economics, and U. S. Department of Labor, Bureau of Labor Statistics.

merce's composite index of production for selected construction materials in 1947 will show a 10 percent increase over 1946, reaching a level slightly above the peak year 1925. Eighteen of the 20 materials included in the index recorded higher production levels in 1947 than in the previous year, with new records for half a dozen items. Despite the impressive level of materials production in 1947, some items were still in short supply relative to demand.

There are no independent estimates of construction employment strictly comparable to the new activity figures, but it appears that increases in employment in 1947 were generally sufficient to put in place the larger volume of available materials. Average hours worked per week remained the same as in 1946. Spot shortages of certain skills, particularly carpenters and plasterers, did persist in 1947, slowing work in some areas. The trend towards a larger proportion of residential to total construction has meant a larger relative demand for skilled workers which will continue into 1948.

Residential Construction

In 1947, the dollar value of private nonfarm residential building put in place approached 5 billion dollars, or almost 40 percent of total new construction. Although this was a record amount, the volume in terms of constant dollars or number of permanent units provided was still substantially below the previous peak in 1925.

In 1947, 855 thousand new permanent dwelling units were started and 835 thousand completed, including a carry-over from 1946 of about 350 thousand unfinished units. During the 2-year period nearly 1.3 million permanent dwelling units were provided. In addition, over 150 thousand temporary family units became available, mainly in 1946, through legislation authorizing Federal Government expenditures for the relocation and reuse of war housing, dormitories, and barracks. Prefabricated housing manufacturers contributed 37,400 units in 1947, about the same number as in 1946. In total, a respectable dent had been made in the large housing backlog, although in relation to the high marriage and birth rates since 1940, and particularly since the end of the war, shortages are still prevalent.

With regard to the proportion of new rental units to total new dwelling units, there is some evidence that the ratio increased during 1947. In 1946 only 8 percent of total new units were in multifamily structures. The proportion was even less in the first half of 1947, but rose to 10 percent in the last half. Part of the increase may be attributed to removal in the first part of 1947 of rent controls on new dwelling units. An added factor was the new policy of the Federal Housing Authority extending the builders' amortization period from 27½ to 32½ years and accelerating depreciation allowances.

Although construction of new rental units is increasing, it is still far below the 1925–29 level when more than a quarter of nonfarm dwelling units were in structures containing three or more units. Part of the discrepancy is due to the shift away from cities to suburban and rural areas. While about one-half of new units started in 1947 were in urban areas, a much larger proportion of new units in the 1920's were located in cities. On a geographical basis, home building in 1947 increased more in the South, Southwest, and Pacific Coast regions than in other parts of the country.

Foreign Trade

The outstanding development in the field of international trade and finance during 1947 was the increase in exports during the first 5 months of the year, their subsequent decline and later apparent stabilization.

For the year as a whole, total transfers of goods and services to foreign countries reached nearly 19.5 billion dollars, exceeded only during the war in 1944. Because the value of imports of goods and services rose less than 1 billion dollars from 1946, the increased exports were almost entirely reflected in the export surplus of goods and services which, according to preliminary estimates, reached more than 11 billion dollars, the highest dollar total for any peacetime year.

Exports sent abroad as gifts did not change much from 1946; thus the higher export surplus was possible only because foreign countries could draw upon the various loans and credits provided by the United States Government and because they chose to liquidate their own gold and dollar reserves.

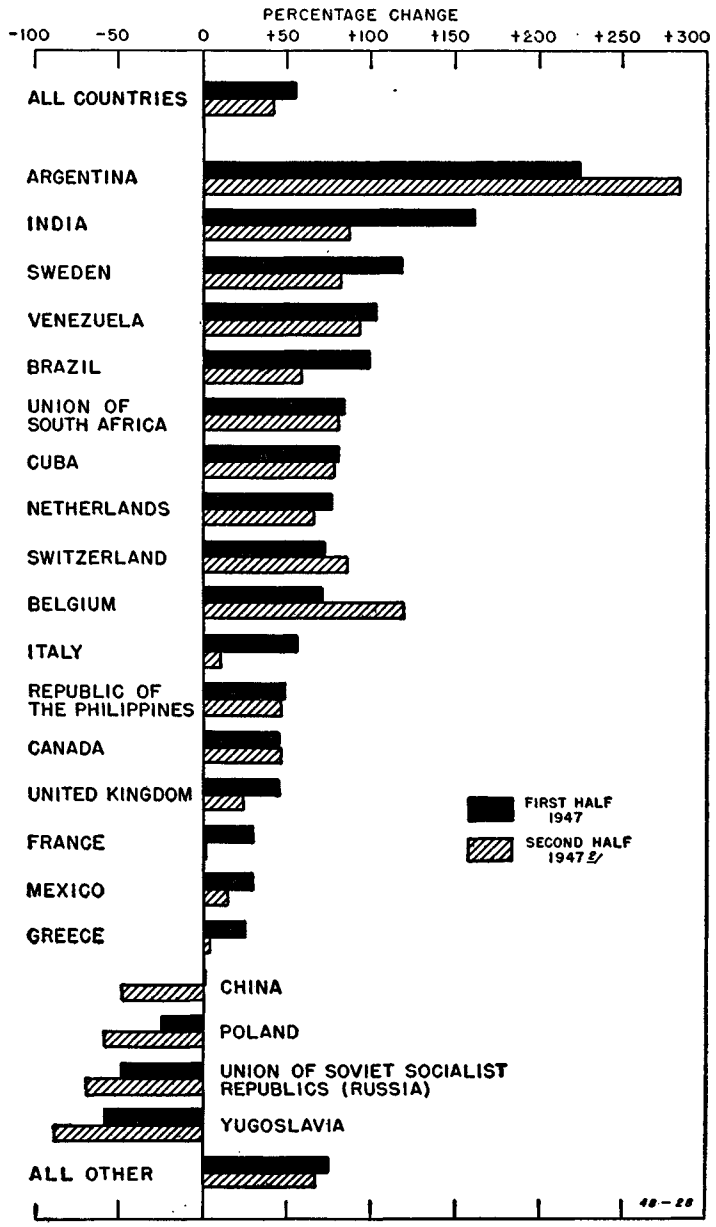
Both available credit margins and foreign reserves declined as the year progressed, forcing more and more countries to impose restrictions upon purchases in the United States. In fact, it became obvious relatively early in 1947 that without additional aid our former allies in Western Europe would have to reduce drastically not only the imports from the United States which are needed to continue their reconstruction, but also imports of goods which are essential to keep their populations in normal health and their basic services and industries in operation.

To prevent such developments the European Recovery Program was inaugurated. This program of mutual assistance was the subject of study by several United States groups, after the 16 European countries involved had established a working set of requirements at Paris. The reports of these groups have been commented upon in earlier issues of the SURVEY, and the program of United States aid is now under consideration by the Congress.

Rising prices in the United States and reduced production abroad through climatic and other adversities brought some countries to the end of their financial means well before the Recovery Plan could be put into operation. The urgency of these needs was such that, toward the end of the year,

interim aid was provided by the Congress for France, Italy, and Austria.

Chart 11.—Percentage Change in Value of U. S. Exports to Selected Countries, First and Second Half of 1947 from 1946 [1]



[1] Percentages are based upon monthly averages for the periods.
[2] Basic data for the second half of 1947 represent an average of 5 months–July–November.

Source of data: U. S. Department of Commerce, Bureau of the Census.

Exports of Durables Show Greatest Rise

During the first half of 1947 sufficient funds were available to foreign countries as a whole not only to provide for their basic needs, but in addition to facilitate the purchase of goods required for reconstruction and industrial expansion, and to meet relatively less basic consumers' needs.

The increase in exports of merchandise as recorded by the Bureau of the Census from the 6 months' average of 1946 to the first half of 1947 was mostly in manufactured products, particularly machinery and vehicles (see chart 12). The latter alone comprised almost 50 percent of the total rise of 2.6 billion dollars.

The next largest increase among the major commodity groups was in textile fibers and manufactures, which accounted for about 430 million dollars, or 16.5 percent of the total rise. Foodstuffs and fuels (the latter included in nonmetallic minerals), which may be considered the most essential products for the maintenance of production and health in foreign countries, and which later in the year had to be provided to some countries through various new relief programs, were among the slower rising commodity groups.

This early progress toward the reestablishment of normal economic conditions abroad was facilitated not only through the large loans and grants provided by the United States Government, and the willingness of foreign countries to use a large part of their own monetary reserves for that purpose, but also by the considerable improvement of the supply situation in the United States.

Prewar Trade a Factor in Export Rise

Since the export rise in the first half of 1947 was due in large measure to increased production in durable manufactures lines it is not surprising that in general the expanded exports went mostly to countries ordinarily dependent on the United States for such goods.

Table 15 indicates that among selected countries which accounted for 70 percent of our export trade during the first half of 1947, those which took a high proportion of their total purchases from the United States during the years 1936 to 1938 in machinery and vehicles showed the largest increase in United States exports during the first half of 1947, over the 6 months' average in 1946. If only the countries which then possessed adequate financial resources are considered—such as Argentina, Cuba, Venezuela, Switzerland, South Africa, and Canada—this tendency is very marked. Canada and Mexico represent exceptions apparently because exports to these countries had already increased during the latter part of 1946, whereas increased exports to overseas countries were delayed until 1947 by work stoppages in the shipping industry.

Table 15.—Increase of Average Monthly Exports to Selected Countries From 1946 to the First Half of 1947 Compared With the Share of Machinery and Vehicles in Total Exports During the Years 1936–38

Country	Average monthly exports during the first half of 1947 in percent of 1946		Exports of machinery and vehicles in percent of total exports, 1936–38	
	Percent	*Rank*	*Percent*	*Rank*
Argentina	324	1	64.2	1
India	261	2	39.7	6
Sweden	218	3	36.0	8
Venezuela	203	4	47.9	4
Brazil	199	5	50.2	3
Union of South Africa	184	6	61.9	2
Cuba	180	7	15.7	13
Netherlands	176	8	15.7	14
Switzerland	172	9	38.5	7
Belgium	170	10	26.5	10
Italy	156	11	9.8	16
Republic of the Philippines	148	12	29.2	11
Canada	145	13	26.8	9
United Kingdom	144	14	13.0	15
France	129	15	17.2	12
Mexico	129	16	44.9	5

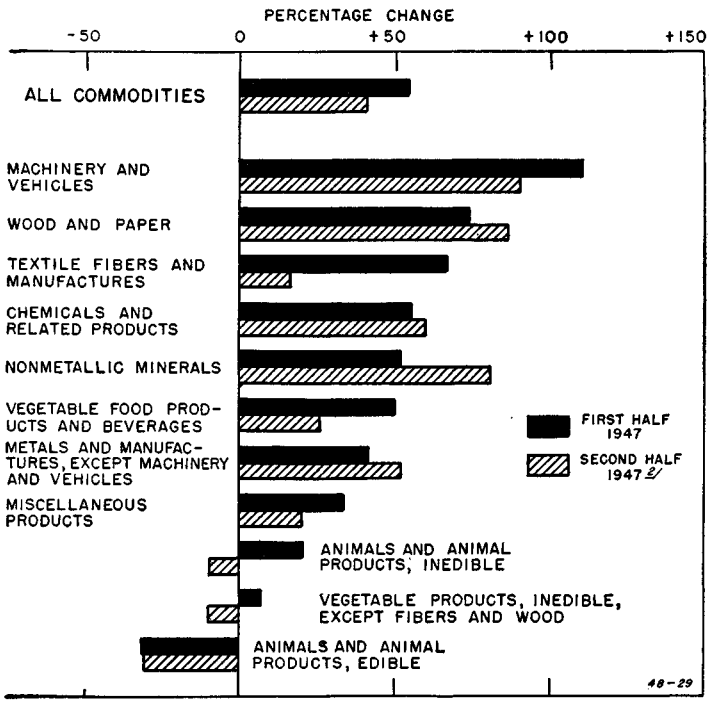
Source: U. S. Department of Commerce, Bureau of the Census.

The degree to which a country was formerly a customer for machinery and vehicles, however, was only one factor determining the extent to which our exports to that country increased. Other factors were the changes in supply of dollar exchange, loans, and grants available. A combination of these factors may in most cases explain the position of countries in respect to their changes in United States exports as shown in chart 11.

In spite of the rise of total exports of the United States during the first half of 1947, exports to certain countries declined. This group of countries consisted mostly of countries in Eastern Europe which during 1946 received aid

through UNRRA and deliveries of lend-lease materials against credit. Both forms of financing were largely exhausted in 1946 and were not replaced through other financial arrangements.

Chart 12.—Percentage Change in Value of U. S. Exports, by Commodity Groups, First and Second Half of 1947 from 1946 [1]



[1] Percentages are based upon monthly averages for the periods.
[2] Basic data for the second half of 1947 represent an average of 5 months—July–November.

Source of data: U. S. Department of Commerce, Bureau of the Census.

Exports Less in Second Half of 1947

The decline of United States exports from the first to the second half of 1947 appears to have been due mainly to three factors: (1) increasing shortage of dollar exchange abroad; (2) supply and prices of raw cotton in the United States; and (3) developments in foreign demand independent of dollar scarcity considerations.

Dollar Shortage Increased

Chart 11 indicates that the countries mentioned above as having adequate dollar resources either continued to increase their purchases here or showed the least decline. On the other hand, the countries registering the most rapid decline in United States exports—China, Italy, and France—either had exhausted their credits or grant appropriations from the United States, or had reduced their gold and dollar supplies to the point where restrictions on imports became inevitable.

Exports to France, Italy, and Greece during the latter half of 1947 dropped back close to the average level reached during 1946, even though the average prices of exports were 24 percent, and the total value of exports to all countries was 41 percent, higher than in 1946.

Some Exports Reduced

During the second half of 1947 fuels and foodstuffs comprised 47 percent of our exports to France and 63 percent of our exports to Italy. Machinery and vehicles accounted for 27 percent of our exports to France and 8 percent of those to Italy. These figures indicate that at least three-fourths of our exports to these two countries consisted of commodities required for the maintenance of health and the operation of basic industries and transportation, and that in spite of the increasing financial difficulties which these countries experienced, imports could not be reduced much further without serious adverse consequences.

Two of the countries that experienced an increasing shortage of dollar exchange—Brazil and Sweden—reduced their imports from the United States almost as much proportionately as did France. Brazil accomplished this by cutting purchases of foodstuffs and of machinery and vehicles. Sweden spread its reductions over many different commodity groups, with textiles, however, accounting for 40 percent of the total decline.

Export Rise to Dollar-Strong Countries Slackens

The countries which apparently still had sufficient dollar resources and, therefore, did not have to impose serious limitations upon imports from the United States—Argentina, Venezuela, Cuba, Switzerland, and the Union of South Africa—either continued their purchases here at the rate of the first half of the year, or increased them further, although not so rapidly as during the previous 6 months.

Cotton and Textile Exports Decline

Perhaps the most significant development in our exports to these countries was the decline in the exports of cotton and cotton textiles which took place in the case of each of the countries concerned. In fact, this development was sufficiently strong, in addition to the dollar scarcity, to determine the extent and direction of the changes in total exports to most of the major countries.

Exports of raw cotton, which averaged 44 million dollars per month in the second quarter 1947, fell to 13 million in July and to less than 2 million in August. During the next 3 months cotton exports rose again but only to about half the dollar volume prevailing before the sharp decline started.

The changes were even more pronounced than is indicated by the over-all figures. Half of the exports during the three months from September to November were United States Government procured and financed exports to Japan, which during the first 6 months of 1947 averaged only 1.3 million dollars. Canada, the United Kingdom, France, Italy, and China—whose purchases of raw cotton during the first half of the year averaged 35.5 million dollars per month—reduced their purchases to 5.8 million per month during the second half of the year.

Real Imports Declined

Commodity imports in 1947 were only 17 percent higher than in the previous year. In fact, since prices of imported goods rose by about 21 percent, the actual volume of imports was apparently smaller than in 1946.

The value of imports of several important commodities actually declined as compared to 1946, with furs and silk the outstanding examples. In both cases the difficulty seems to have been on the demand side, at least at the then prevailing prices. Imports of crude materials and semimanufactures as a whole during the first nine months of 1947 were only 72 percent of the volume which might have been expected on the basis of prewar relationships to national income, as compared with 77 percent during 1946. In the case of finished manufactures, imports fell from 50 percent of "normal" in 1946 to 44 percent for the first 9 months of 1947.

Utilization of Manpower

By the beginning of 1947 almost all of the available manpower was already employed. Further increases in output during the year were limited by the slow growth in population of working ages and by the also slow process of improving output per man-hour. The strong demand for labor had its favorable aspects, particularly in the improved position of marginal workers, but it also influenced the rise in wage rates, without a corresponding increase in productivity, thus continuing the spiral of inflation.

Normal Growth in Labor Force

During 1947 there was about the normal growth in the labor force. The December total was 0.6 million larger than 1 year before. Included in this total are 0.3 million veterans who reentered the labor market during the year. As an offsetting factor, many youths who would have been normal labor market entrants in 1947 were already working.

The average for the year was about 0.8 million above 1946. Comparisons with the average for 1946, however, must be interpreted in the light of the large number of persons who were in the armed forces early in 1946, the rapid demobilization during the first half of that year, and the large number of veterans who were resting, recuperating, or otherwise not seeking work after discharge.

About 1.5 million more persons remained in the labor force in 1947 than might have been expected from prewar participation rates. The larger numbers of older women, men 55 years of age and over, and of teen-agers were sufficient to offset the number of women, aged 20 to 34, out of the labor market because of abnormally high marriage and birth rates and the number of ex-servicemen in school.

The 1.4 million male veterans in school or otherwise not in the labor market in December remain a future source of manpower to be absorbed as they complete their studies or decide to seek employment.

Veterans Augment Civilian Force

With the decline in the armed forces, the average civilian labor force in 1947 exceeded the record average reached in 1946 by almost 2.7 million persons, practically all attributable to the addition of World War II veterans. Comparison between the early months of 1946 and 1947, of course, yields a much larger increase. By December 1947, however, the year-to-year increase had narrowed to 1.2 million.

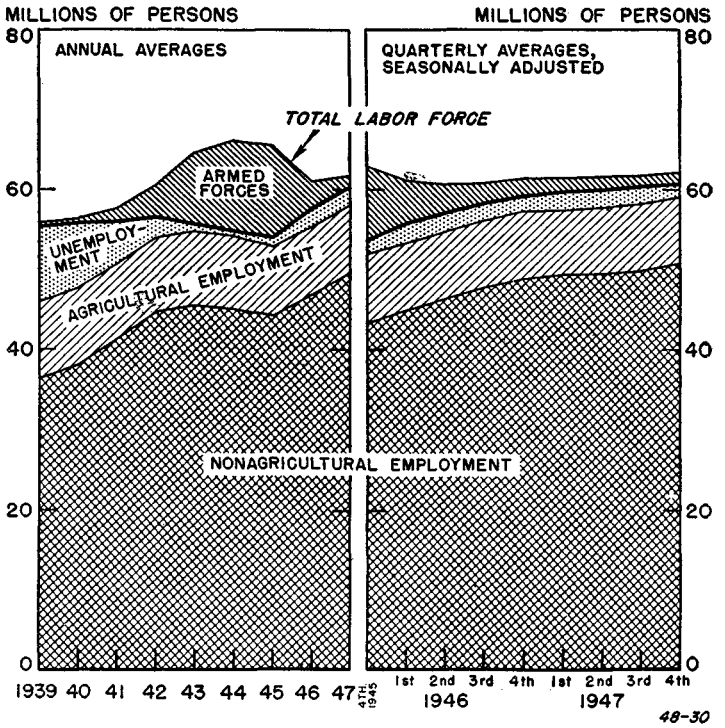
High Employment

Total civilian employment averaged 58 million, an increase of 2.8 million over the average for 1946. The increases in private nonagricultural employment were general, although durable goods manufacturing and construction accounted for a disproportionate share of the rise. Agricultural employment remained substantially unchanged, while government employment declined.

Civilian employment reached a seasonal peak of over 60 million in June and July. When purely seasonal variations are eliminated, however, chart 13 shows a slight upward trend throughout the year.

In manufacturing, employment in the second quarter was affected by the general economic factors reviewed elsewhere. Before the end of the year, however, manufacturing employment was approaching 16 million, more than half a million above the same months of 1946. Similarly, the hesitation in construction in the spring was followed by a resumption of the upward trend.

Chart 13.—Labor Force Trends



Sources of data: Annual averages, U. S. Department of Commerce, Bureau of the Census; seasonal adjustment of the quarterly data, Board of Governors of the Federal Reserve System.

Minimum Unemployment

The strong demand for labor kept unemployment close to a practical minimum throughout the year. The number estimated by the Bureau of the Census as out of work and looking for work averaged just over 2 million. Changes during the year were largely seasonal, with the fourth quarter down to about 1.6 million. For the most part, this unemployment was of short duration, made up largely of workers changing jobs.

With the brisk demand in almost all areas, workers—the new as well as the experienced—found themselves in a very receptive market. Low paying or unattractive jobs were hard to fill. Securing domestic help continued to be difficult. Marginal workers who in a less favorable market might have been at a serious disadvantage were able to hold jobs. Women held on to many factory jobs in which they had first been employed during the war.

Turn-over remained high, reflecting the ease with which new jobs could be obtained. Table 16 shows that the quit rate held far above 1939, but it was considerably below the wartime rate and that in 1946.

Table 16.—Quarterly Quit Rates, All Manufacturing Industries

[Percent of production workers quitting during quarter]

Period	1939	1945	1946	1947
January-March	2.3	13.9	12.4	10.2
April-June	2.2	14.7	12.5	10.3
July-September	2.6	18.1	15.2	11.5
October-December	2.4	14.3	11.4	[1] 8.6

[1] Includes preliminary December figure.

Source: U. S. Department of Labor, Bureau of Labor, Statistics.

Labor management disputes were fewer in number and of shorter duration. Time lost because of these disputes amounted to less than a third of the high figure in 1946. Interruptions in key industries were less serious.

Rise in Wage Rates

The strong demand for labor was also the major influence underlying the further rise in wage rates during 1947. This rise was quite general, although the pattern was uneven and a few groups did not benefit at all. It was not limited to those industries where negotiations for the "second round" of wage increases made the headlines.

Average straight-time hourly earnings in manufacturing rose 11 percent from November 1946 to November 1947, with the increase varying from 16 percent in paper and allied products to 6 percent in tobacco. There were even greater variations in nonmanufacturing fields.

Since the further increase in the real national output, exclusive of price changes, was small during 1947, it is not surprising that wage and salary workers as a group were able to buy very little more with this increased income. The rise in average weekly earnings of all employees was matched by the rise in consumers' prices.

Chart 14 shows the percentage increase in average weekly earnings for selected industries from October 1946 to October 1947 and from the 1939 average to October 1947. In both instances the dotted line shows the increase in the Consumers' Price Index for the same period. Since the percentage increases should be interpreted in the light of the absolute levels from which they started, these figures are shown in the chart.

It is apparent that a number of groups have improved their position slightly over the past year while others have fallen behind. As compared with 1939 almost all groups have an increase in real earnings, although in this comparison the bars on the chart must be partially discounted as a measure of spendable income because of the increase in income and social-security taxes.

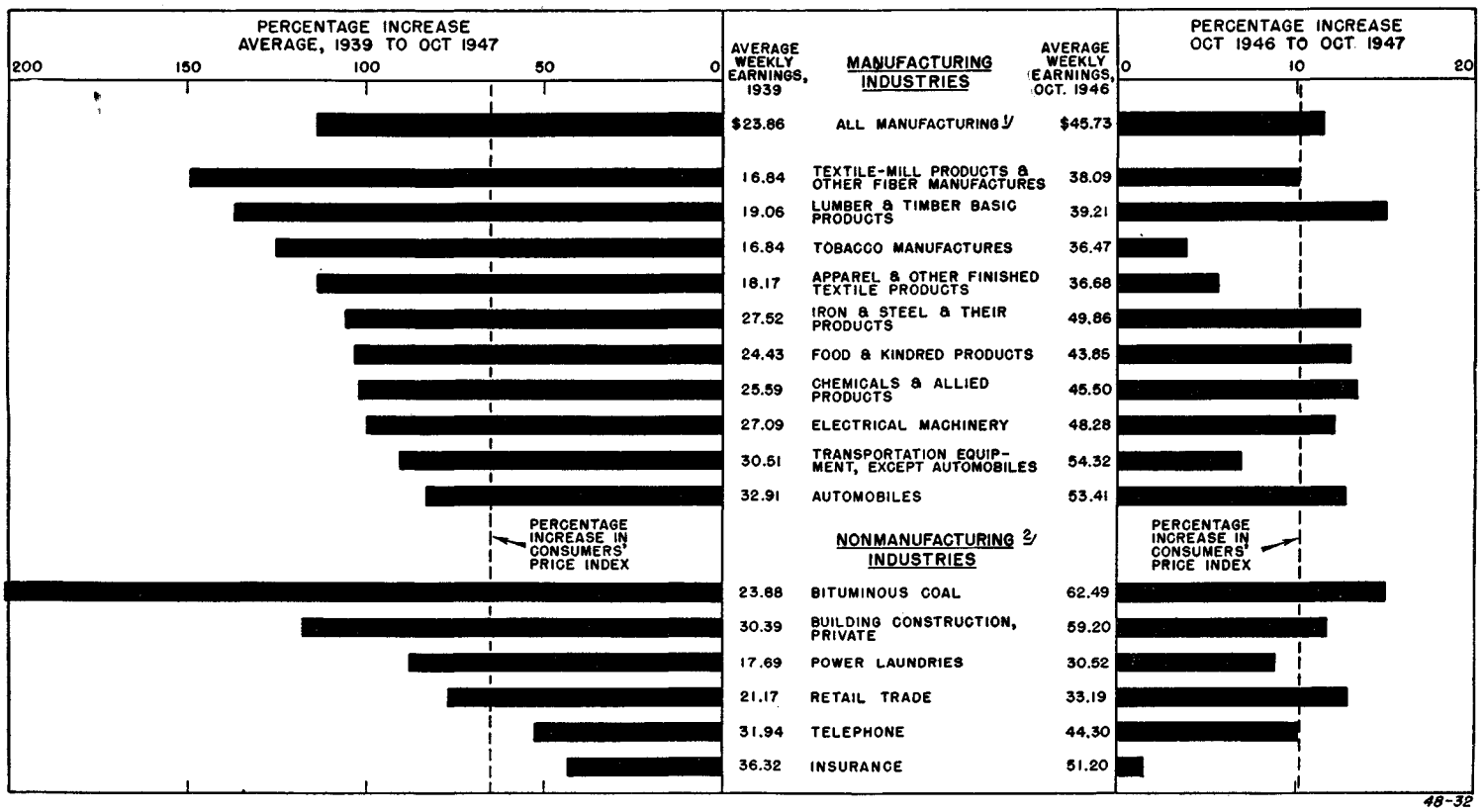
Small Rise in Man-Hour Output

The increase of roughly 7 percent in private nonagricultural employment in 1947 as compared with 1946 seems to have been partially offset by a nominal decline in average hours worked per week. The hours of work in manufacturing averaged about the same as in 1946, slightly higher in the durable goods industries as some of the production bottlenecks were eliminated and slightly lower in the nondurable goods industries where there was a lessening pressure of demand. In the nonmanufacturing field there was a notable decline in hours in bituminous coal mining.

The real product in the private nonagricultural sector of the economy appears to have increased by a slightly larger percentage, indicating only a moderate increase in output per man-hour. The difficulties in the way of a precise adjustment of dollar volume for price changes in order to arrive at the corresponding change in real output are, however, particularly acute in any comparison between 1946 and 1947.

Furthermore, the very concept of real output is not sufficiently clear-cut to justify a precise calculation. For example, there was a substantial increase in employment in retail trade between the 2 years without a corresponding

Chart 14.—Percentage Increase in Average Weekly Earnings in All Manufacturing and Selected Nonmanufacturing Industries for Selected Periods



[1] Basic data for October 1946 and 1947 are for production workers only; basic data for 1939 are for all wage earners. "All manufacturing" includes some industry groups not shown separately in the chart.

[2] Basic data are for all wage earners.

Source of data: U. S. Department of Labor, Bureau of Labor Statistics.

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increase in the physical volume of merchandise moving through retail channels. There is a presumption that this resulted in an improvement in the quality of service provided the customer which cannot be measured. As another example, there appears to have been improvement in the quality of goods and in the range of choice offered the buyer which necessitated a greater input of man-hours in their production but which are not measured by the usual price adjustments or direct measures of physical volume.

In a number of areas where there are direct measures of physical output as well as the input of man-hours, and where the character or quality of the output is not changed materially, increases in output per man-hour from 1946 to 1947 were substantial. In mining, railroad transportation, and the electric and gas utilities this increase was from 4 to 5 percent.

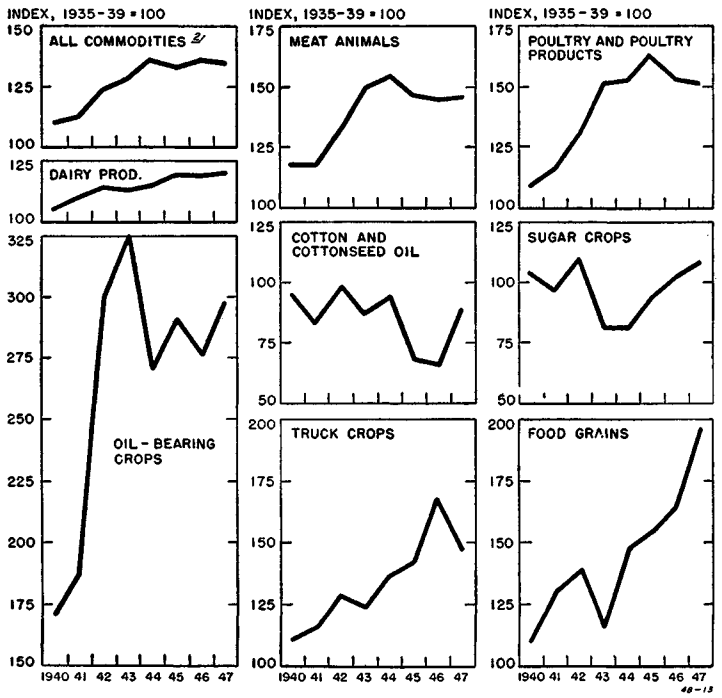
Nevertheless, it seems probable that the increase in output per man-hour in 1947 was sufficient to make up little, if any, of the defficiency by which 1946 fell below a projection of the prewar trend. While some of the production difficulties of the reconversion period had been eliminated, many still remained. With the continued strong demand for most goods and services there still was not the normal competitive pressure for the most efficient use of labor.

Agricultural Production and Income

The agricultural industry operated under relatively favorable conditions in 1947 with a heavy demand for food on the part of both domestic consumers and foreign countries resulting in a sharp advance in prices and in farm incomes. The share of farm proprietors in the National income continued close to the high point reached in 1946, well above the average for earlier years, including the war years.

The 1946–47 increase in cash farm income was a larger advance in absolute terms than in any previous year, but not all groups of farmers participated in the rise. Producers of food grains, livestock, and oil-bearing crops fared particularly well, as prices of these products soared and cotton producers sold a much larger crop at somewhat higher prices. Smaller gains were made by producers of dairy products, most of whom felt the pinch of higher feed prices, and returns were lower than in the year before for fruits. Tobacco returns were about the same as in 1946 and farmers—dissatisfied with the prices obtained—reduced marketing quotas for 1948.

Chart 15.—Volume of Agricultural Production [1]



[1] Indexes for 1946 and 1947 are preliminary.
[2] Includes some commodities which are not shown separately in chart.

Source of data: U. S. Department of Agriculture, Bureau of Agricultural Economics.

The output of farm products was a little lower than in 1946 but the volume of marketings was higher as farmers reduced their inventory holdings of both crops and livestock.

Farm indebtedness remained low, both absolutely and in relation to current high incomes. The steady rise in the price of farm land continued, though to a somewhat lesser degree. The principal adverse developments in this period of farm prosperity were, first, the current feed shortage resulting from the short corn crop and, second, the potential problem developing in the great plains as the high price of wheat fostered the breaking of permanent grasslands, often unsuited for cultivation on a permanent basis. The feed shortage will have an important impact on the economy in 1948 through reduced output of meat.

High Farm Output

Output of livestock and products in 1947 was substantially unchanged from 1946 as meat animals, dairy products, and poultry and poultry products all averaged about the same as in the year before (see chart 15). However, some adjustment was in evidence by the end of the year. Dairy production, after running ahead of the corresponding period in 1946 during the first half of the year, was lagging during the final quarter. Hogs were coming to market in increased numbers in the final quarter and at younger ages and lighter weights than a year earlier. Fewer cattle from the range were placed on feed in the fall of 1947 and those on feed were remaining in the feed-lots for a shorter period than usual. Large cattle marketings were sustained during 1947 by drawing down the number on farms by 5 million head, a reduction of from 5 to 7 percent.

Production of crops for sale and home use was off slightly in 1947, with reductions of 10 percent or more in truck crops and in feed grains and smaller declines in tobacco and fruits and vegetables. Cotton led the expansion in output with a rise of a third over the low output of 1946, while food grains rose 20 percent to a volume well above any previous year's output. Oil-bearing crops were 8 percent larger than in 1946 and sugar crops were up 5 percent.

Rise in Farm Income; Decline in Inventories

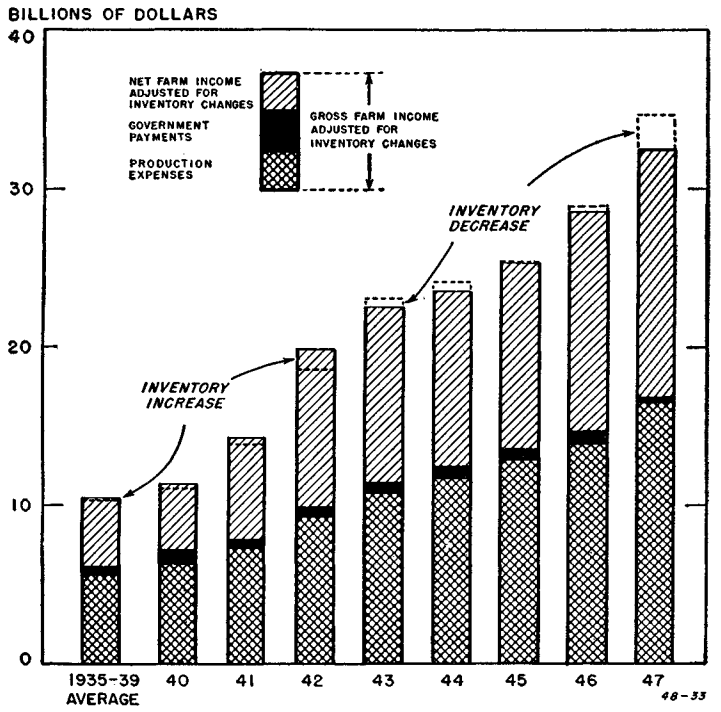
Gross farm income rose 20 percent in 1947, reaching 35 billion dollars, 3½ times as high as the 1935–39 average (see chart 16). Both production expenses and realized net income of operators also rose about 20 percent but net income adjusted for changes in farm inventories was up only half as much, or 10 percent over 1946.

The smaller rise in net compared to gross or cash farm income was the result of an unusually large reduction in farm inventories of crops and livestock during the year. The

reduction—valued at the high year-end prices—amounted to about 2 billion dollars and was concentrated in stocks of corn and in numbers of beef cattle. Between the end of 1946 and the end of 1947, the reduction in farm stocks of corn was 600 million bushels, which at year-end prices amounted to 1.5 billion dollars. During the same period, farm inventories of beef cattle were reduced 4 million head, or about 500 million dollars.

The most important increase in inventories was in wheat stocks on farms, but this was offset by an equivalent reduction in oats. In addition, smaller but important inventory reductions were made during the year in tobacco, and in the principal types of livestock—hogs, milk cows, horses and mules, and sheep and lambs. These changes in feed and in livestock are important not only in their impact upon the current financial position of farmers but also because they point toward reduced marketings in the months ahead.

Chart 16.—Income and Expenses of Farm Operators [1]



[1] Value of inventories includes all crops and livestock whether held for sale or for use on the farm.

Sources of data: U. S. Department of Agriculture, Bureau of Agricultural Economics, except value of inventories which are estimates of U. S. Department of Commerce, Office of Business Economics, based upon data from Bureau of Agricultural Economics.

A large part of the rise in cash farm income from 1946 to 1947 accrued to producers of food grains, meat animals, feed crops, oil-bearing crops, and cotton. In each case the gain was a combination of expanded marketings and rising prices. Income from the sale of food grains was bolstered by the heavy export demand accompanying the present world food crisis. Oil seeds brought high prices both because of large exports by the United States and subnormal imports.

High returns from meat animals in 1947, however, were only indirectly affected by international influences. Exports of meat were insignificant, and imports were, as usual, not important. Finally, although the short corn crop ultimately will mean curtailed marketings of meat animals, its principal effect in 1947 was a temporary bulge in meat output, as hogs were sent to market earlier than usual in the fall without the normal period of fattening on the new corn crop. Moreover, a larger proportion of cattle from the range went directly to slaughter without a fattening period in corn belt feed lots.

Meat animal prices were high in spite of expanded marketings, because of the pressure of domestic demand for meat. An analysis of current consumer spending for food shows that a large portion of the abnormally high expenditures for food is traceable to increased spending for meat. In fact, spending for some major food products, including fruits and vegetables and dairy products, did not increase proportionately with disposable consumer income during the year. In this connection it should be noted that meat prices have risen since the end of price control much more than most other food prices.

Shifts in Farm Product Exports

Exports of farm products continued to bulk large in 1947, averaging about 1 billion dollars a quarter, as increases in military shipments for foreign civilians approximately offset declines in other exports. The dollar value of farm products exported was higher than in 1946, but the increase was less than the average rise in price of these products.

About 10 percent of total United States food disappearance in 1947 was through export channels—the proportion is a little higher in terms of total weight involved than in terms of prewar value weights.

The composition of agricultural exports shifted during the year because of changes in foreign needs and in the availability of dollar exchange and also because of changes in supplies of products available for export. Exports of coarse grains were large in the first half of 1947, but were discontinued after the corn crop failure became apparent in mid-year. Nonfood agricultural exports—mainly cotton and tobacco—declined after the first quarter as foreign nations took measures to conserve dollar exchange by curtailing imports of these products in favor of the more indispensable food grains. For the same reason, exports of the very desirable but rather expensive animal products (such as meat and dairy and poultry products) were lower in 1947 than a year earlier.

Exports of fats and oils were curtailed during the first half of 1947, partly in order to moderate the advance in prices resulting from a squeeze on domestic supplies. When supplies appeared easier in the summer, a substantial step-up in procurement of fats and oils for export was announced—the fourth quarter allocation for export was half as large as total exports for the year. Prices of fats and oils, which had declined during the early part of the year, subsequently rose to approximately double the price prevailing before the end of price control in June 1946. Toward the year end, a reduction was announced in export allocations for the first quarter of 1948.

Strengthened Farm Finances

Farmers have been the recipient of large gains during the past decade of rising prices; because the rise has continued for so long, the financial position of farmers has been strengthened far more than in the inflationary period growing out of World War I. Some distortion in the use of farm resources has developed since the end of the war, however, as permanent grasslands in relatively dry areas have been broken to grow wheat; but the dangers involved have been limited both by the extent of the plow up and by the widespread use of soil and water conservation practices.

Financial Developments

The unprecedented demand for funds to finance the record investment program of private business was met in 1947 from the enlarged flow of internal business funds and of new funds from the capital markets, with bank borrowing on the part of corporations about the same as in 1946. Some firming of interest rates occurred during the year but this development was more the result of steps taken by monetary authorities permitting some upward adjustment of interest rates rather than from any basic shortage of loanable funds to finance requirements. Interest rates at the year end still were lower than in prewar periods of high business activity.

With commodity prices registering a substantial rise during the year, attention was increasingly directed to the possibility of restraining demand forces through the control of credit. The difficulties in the way of traditional methods of control were, however, highlighted by the highly liquid state of the private economy and by the necessity of maintaining an orderly market for the huge volume of United States Government securities outstanding.

The problem of restraining the expansion of credit was made more difficult by the sizable inflow of gold during 1947. The resultant increase in bank reserves provided the basis for a multiple expansion of bank credit. On the other hand, the emergence of a substantial Federal surplus of receipts over outlays and the use of this surplus to reduce the Government debt tended to result in an outright reduction of the private money supply and a contraction of bank holdings of highly liquid Government securities.

Treasury Receipts Exceed Payments

The Federal Government's budgetary surplus in 1947 amounted to 2.4 billion dollars, as compared with a deficit of approximately the same amount in the calendar year 1946. Individual income taxes rose in line with increased incomes. This rise was partially offset by lower corporation income taxes paid—a result of the elimination of the corporate excess profits tax. An increase of 1.8 million dollars in miscellaneous receipts from 1946 to 1947 resulted chiefly from stepped-up sales of surplus property.

On the expenditure side the major changes were a reduction of 9.3 billion dollars for national defense and a rise of 2.7 billion dollars for international finance—the latter rise reflecting primarily the British loan and payments to the International Bank and Fund.

From the standpoint of the relation of Federal finances to the rest of the economy, the consolidated cash position of the Government is perhaps more illuminating than the budget position. During 1947, the Federal Government received 5.7 billion dollars more than it paid out to the public, whereas in 1946 the cash position was roughly in balance. The difference between the "budget" and "cash" statements arises chiefly from including in the latter accounts trust funds receipts not counted in "budget" accounts and from excluding from the cash accounts expenditures not involving actual cash outlays.

Bank Loans Expand Sharply

The increased demand for funds to meet the capital requirements of business and to finance increased purchasing of durable goods by consumers resulted in a sharp expansion of bank loans in 1947. Total loans of commercial banks expanded by 7 billion dollars or 23 percent over the year, with almost all major types of borrowing, except security loans, increasing at record or near record rates.

Consumer borrowing expanded at a rapid pace in 1947. At the end of the year outstanding consumer credit amounted to over 13 billion dollars, or 3 billion dollars higher than a year earlier. The largest area of expansion was in instalment credit—a response to the greater availability of consumer durable goods normally purchased "on time."

Money Supply Expands

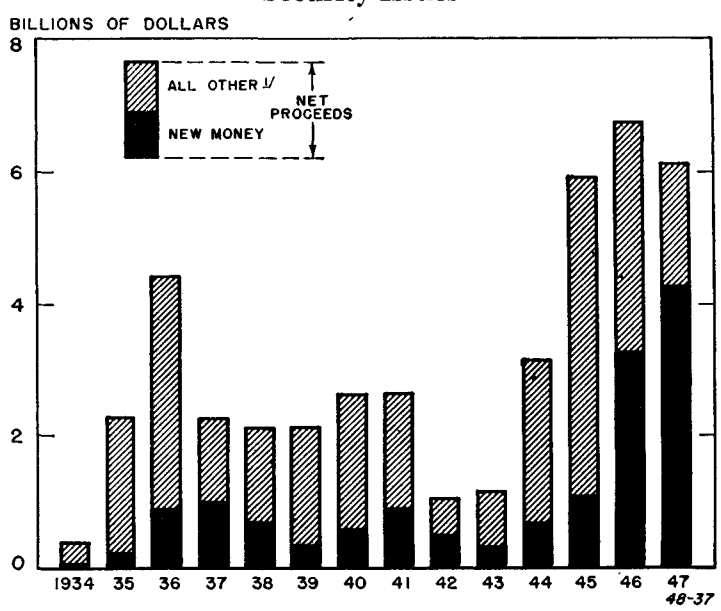
The expansion of bank loans in 1947 was only partly offset by the reduction in banking system holdings of Government securities and, as a result, the privately-held money supply rose during the year. Also contributing to this expansion, was the increase in gold certificates and the further reduction in Treasury cash. The increase in the money supply was 6 billion dollars, which was considerably less than the 13-billion dollar rise in 1946.

The contrast between this relatively moderate expansion in the private money supply in 1947 as compared with 1946 is to be explained by the different sources of funds used to retire the Federal debt. Whereas in 1947 the redemption program was financed almost entirely from a surplus on current operations of the Federal Government, the 1946 redemption program involved the drawing down of the high cash balance of the United States Treasury accumulated during the Victory Loan.

"New Capital" Issues Highest Since 1929

One of the principal sources of funds for expansion of business in 1947 was the "new issues" market (see chart 17). The proceeds from issues of new capital in 1947 amounted to 4.3 billion dollars, over a billion higher then in 1946, and the largest amount since 1929.

Chart 17.—Estimated Net Proceeds of New Corporate Security Issues



[1] Includes primarily net proceeds of issues for retirement of debt and stock.
Source of data: Securities and Exchange Commission.

A notable feature of the 1947 market for new issues was the pronounced rise in the importance of debt as opposed to equity issues. The volume of new stock issues was about the same as in 1946, whereas fixed-interest bearing issues expanded by about 50 percent. In 1946 over two-fifths of new capital issues were stocks; in 1947 the proportion dropped to less than 30 percent. The proportion of debt issues in the total was roughly equivalent to that which prevailed in past prosperous years excluding 1929. A substantial fraction of the total debt in 1947, however, was convertible debentures which represent a call upon common stock at a fixed price.

Large Insurance Company Purchases

The supply of savings made available for the purchase of corporate security issues was channeled to a considerable extent through life-insurance companies. These concerns purchased on balance 2.5 billion bollars of the net increase of 3.9 billion in outstanding corporate securities in 1947. The difference between this total and the new capital issues is accounted for by about a half-billion dollars of retirements of corporate securities, exclusive of direct refunding operations.

Lower Refundings

Refunding operations of corporations fell off sharply in 1947—from 3.5 billion dollars in 1946 to 1.8 billion dollars last year. The lower volume of refunding in the main reflected the working off of the backlog of refundable issues.

Stock Prices Move Within Narrow Range

Although stock price averages showed little net movement in 1947 (see chart 18), with the range between high and low confined to about 10 percent, in terms of monthly averages, the prices were well below the highs reached in the spring of 1946. Prices of industrial stocks, as measured by Standard and Poor's index, ended the year at about the same level as the year before, but public-utility issues drifted downward almost steadily throughout the year and in December averaged approximately 15 percent below prices 12 months before. Railroad issues were also under price pressure during most of the year and showed a drop 13 percent over the same period.

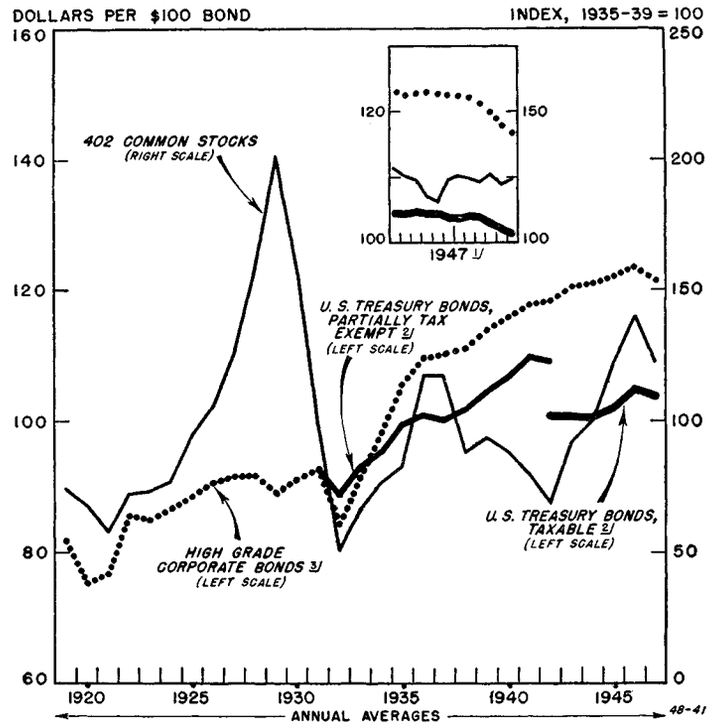
The ratio of corporate earnings to stock prices rose sharply as profits of corporations expanded while stock prices held close to their previous postwar lows, or declined further.

Bond Prices Lower at Year End

Following practically unchanged prices over the first 8 months of the year, bonds prices moved moderately downward in the latter months largely under the impetus of the changes in the Government security market effected by the monetary authorities. The lower average level of bond prices in 1947 marked the first year in the past decade in which such a decline occurred. Over this period—indeed since the depression years of the early 1930's—Government fiscal operations have been a dominant influence on interest rates and in the market for bonds, leading in general to lower interest rates and higher bond prices. The 1947 action of the fiscal and monetary authorities permitting an upward adjustment of long-term rates was dictated by the generally inflationary developments in the economy.

Despite the upward adjustment of yields, the interest charge on new corporate debt issues remained low relative to the cost in prosperous years in the past. The Moody index of bond yields averaged 2.86 percent last year, still well below the yields prevailing throughout the war period, and far below the 4–7 percent range of yields in the preceding two decades.

Chart 18.—Stock and Bond Prices



[1] Bond prices are averages for week ended nearest the end of month; stock price indexes are for the Wednesday nearest the end of month.

[2] Prices are derived from average yields of partially tax-exempt bonds on the basis of 2¾ percent 16-year bonds through October 1941; thereafter, prices are straight averages of market prices of taxable bonds due or callable in 15 years or more.

[3] Prices are derived from average of median yields, as computed by Standard and Poor's Corporation.

Sources of data: U. S. Government bonds, Board of Governors of the Federal Reserve System; corporate bonds and stocks, Standard and Poor's Corporation.

The Business Population

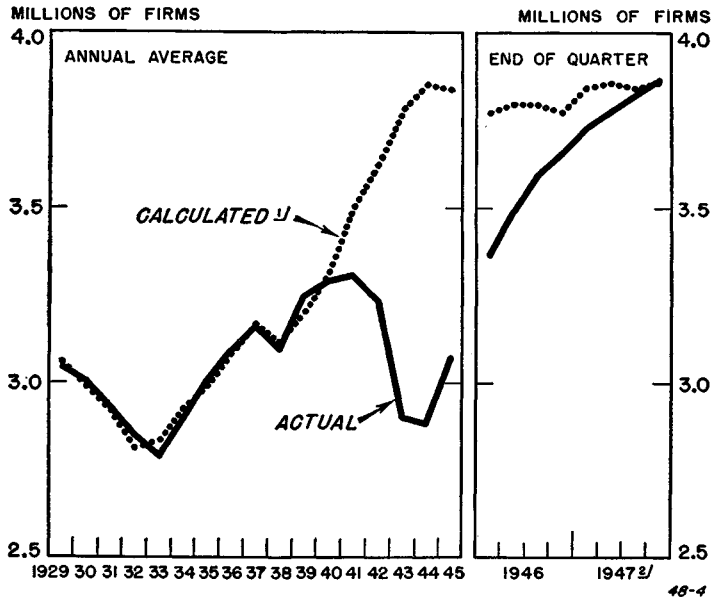
Continuing the steady growth in progress since the war neared its close, the number of business firms in operation rose by more than 200,000 during 1947, to reach 3,870,000. The business population at the end of the year exceeded the prewar high of September 1941 by 470,000 and was fully one million above the wartime low of December 1943.

Four salient characteristics of trends in the number of firms during the year may be noted. (1) The business population once more returned to its prewar relationship with the general level of business activity, completing a readjustment to peacetime patterns in progress since VJ-day. (2) Although still substantial, the rise in the business population had begun to level off in 1947, with a rate of growth appreciably below that of 1946. (3) Business discontinuances, including business failures, remained low throughout the year, despite the record number of new, unseasoned concerns. (4) The relative position of small firms in the business population showed further improvement.

Recent trends in the business population are most effectively appraised against a background of the war period. In the decade before the war the number of firms in operation was closely correlated with the level of production and trade as illustrated in chart 19, which compares the actual business population with an hypothetical level, calculated on the basis of its average prewar (1929–40) relationship with general business activity. The close correspondence of these lines between 1929 and 1940, however, was broken during the war years when the number of firms in operation declined even though business activity increased, reflecting the draft of men into the armed services, supply restrictions, and other special conditions. Since VJ-day the gap between the two lines has narrowed as the actual number of firms rose sharply, and by the end of 1947 they once again coincided as the old prewar relationship was fully restored.

It should be noted that the number of firms at the end of the year was still rising at a substantial rate—at about

Chart 19.—Number of Firms in Operation



[1] Calculated from a linear least squares regression equation for the years 1929–40, Y=23.28+.115x+.068t, where Y=number of firms (hundreds of thousands); X=gross national product, excluding Government, agriculture, and professional and other services excluded from the business population (billions of 1939 dollars); and T=time in 6-month intervals centered at December 31, 1934. Because of revisions in the basic data, this equation differs slightly from that used in previous analyses. See "Business Population and Turn-Over" in the July 1947 *Survey of Current Business*.

[2] Data for the third and fourth quarters of 1947 are estimated.

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

40,000 per quarter. Nevertheless, the pace of the advance had leveled off appreciably; in 1946 the number of firms had risen by 430,000, in 1947 by 210,000. Thus, it is apparent that the contribution of new firms to the growth in the total volume of output and sales and to the demand for inventories, plant and equipment, labor, and capital, was diminishing during 1947, though it remained a considerable factor throughout the year.

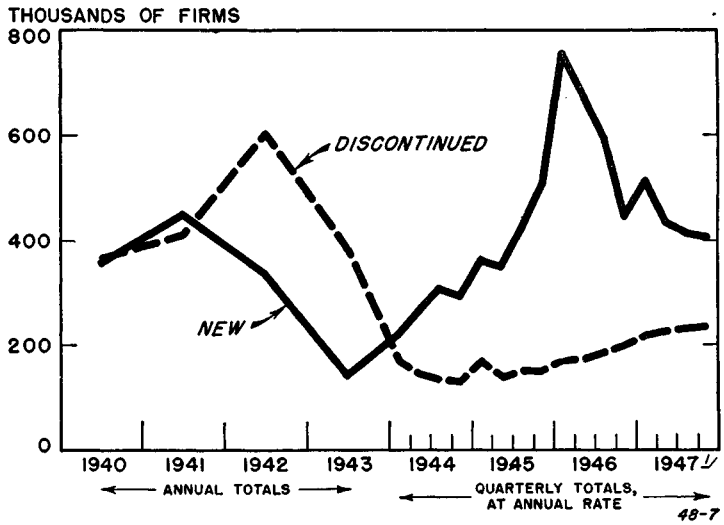
Differences among industries in the behavior of the business population during 1947, of course, were substantial. The comparative figures are given in table 17.

Births Decline

As indicated in this table, the retardation in the rate of increase in the business population in 1947 was evident in all industry groups. Of particular significance from the standpoint of the current business situation, however, is the fact that this slow-down was occasioned for the most part not by a rise in business discontinuances but by a decline in the number of new firms established.

Business discontinuances have of course advanced appreciably, but their increase even from the record low point of 130,000 (at an annual rate) in the fourth quarter of 1944, shown in chart 20, to 240,000 in the last quarter of 1947, amounted to only 110,000. In comparison, the number of new businesses established has declined by 350,000 (at an annual rate) from a high of 750,000 in the first quarter of 1946 to a low of 400,000 in the last quarter of 1947.

Chart 20.—New and Discontinued Businesses



[1] Data for the third and fourth quarters of 1947 are estimated.

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

The decline in the number of new firms started was an obvious reaction to the abnormally high rate of entry which prevailed in the months immediately following the war, when the economy reconverted to peacetime patterns and in numerous and important sectors profit opportunities for new enterprises were both conspicuous and abundant. The narrowly limited advance in discontinuances during the past 3 years, on the other hand, has proved much smaller than might have been expected on the basis of the high mortality rates known to prevail under ordinary conditions among new, unseasoned concerns. Despite the 1,200,000 new firms established since the end of the war, the mortality rate in the sellers' market of 1947 was not much more than half that in 1941. As the chart shows, the positive gap between births and deaths even at the end of the year remained high.

It is notable that these conclusions apply to each of the major industry groups as well as to the aggregate of births and deaths in all industries, as table 18 illustrates.

Table 17.—Number of Firms in Operation and Percent Change, by Major Industry Groups, Selected Dates 1941–47

Industry group	Number of firms (thousands) [1]					Percent change			
	Sept. 1941	Dec. 1943	Dec. 1945	Dec. 1946	Dec. 1947 [2]	Sept. 1941–Dec. 1943	Dec. 1943–Dec. 1947	Dec. 1945–Dec. 1946	Dec. 1946–Dec. 1947
All industries	3,398.0	2,835.6	3,224.1	3,657.8	3,871.4	−16.6	+36.5	+13.5	+5.8
Mining and quarrying	23.4	26.0	26.3	27.8	28.5	+11.1	+9.6	+5.7	+2.5
Contract construction	243.8	147.1	189.2	246.4	286.2	−39.7	+94.6	+30.2	+16.2
Manufacturing	225.8	227.6	262.5	305.1	324.2	+.8	+42.4	+16.2	+6.3
Transportation, communication, and other public utilities	209.2	187.9	206.1	222.3	230.0	−10.2	+22.4	+7.9	+3.5
Wholesale trade	146.2	114.0	143.2	168.8	181.6	−22.0	+59.3	+17.9	+7.6
Retail trade	1,620.8	1,318.0	1,493.0	1,694.3	1,783.4	−18.7	+35.3	+13.4	+5.3
Finance, insurance, and real estate	285.0	267.5	286.0	297.8	300.3	−6.1	+12.3	+4.1	+.8
Service industries	643.8	547.5	617.3	695.4	736.8	−15.0	+34.6	+12.7	+6.0

[1] Because of rounding, totals do not necessarily equal sum of components.
[2] Estimated.

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

Table 18.—Entry Rates and Discontinuance Rates, by Major Industry Groups, 1941–47: Number of New and Discontinued Businesses per 1,000 Firms in Operation at Beginning of Year

Industry	Entry rates							Discontinuance rates						
	1941	1942	1943	1944	1945	1946	1947 [1]	1941	1942	1943	1944	1945	1946	1947 [1]
All industries	135	100	47	96	139	191	121	124	181	123	51	51	56	62
Mining and quarrying	307	226	98	113	143	172	162	226	147	98	124	122	112	137
Contract construction	324	231	102	147	315	428	288	232	390	377	93	94	126	126
Manufacturing	143	129	83	107	165	229	136	109	130	72	55	68	66	73
Transportation, communication, and other public utilities	181	177	72	78	94	128	91	160	226	106	39	38	50	57
Wholesale trade	122	57	60	165	211	259	174	122	157	179	66	68	80	98
Retail trade	74	45	24	84	126	175	98	73	144	105	40	40	41	46
Finance, insurance, and real estate	101	67	56	91	91	98	76	116	104	63	57	57	56	68
Service industries	220	173	50	102	134	189	124	210	239	122	57	56	62	65

[1] Estimated. Source: U. S. Department of Commerce, Office of Business Economics.

Slow Rise in Failures

The number of discontinuances referred to in preceding paragraphs represents business closures of all kinds including those attributable to the retirement or illness of owners, to business failure, or to other reasons. Also available, however, are data on the number of business failures as legally defined, compiled separately. The recent behavior of this series, published by Dun & Bradstreet, Inc., is in general similar to that of the discontinuances.

From the abnormally low levels of the war period, business failures have advanced steadily through 1946 and 1947. Nevertheless, omitting the period since 1943, the number of failures in 1947—3,476—was lower than in any other year since 1871.

Structural Changes

As the business population grew it also changed in structure. While small business sectors of the economy (such as construction, trade, and services) were the ones most sharply curtailed in wartime, since the end of the war the relative position of small business has improved materially—a readjustment which was continued in 1947.

Almost all of the new firms established since VJ-day have been small concerns. In table 19 are presented the percentage distributions of the net increments in the business population—births minus deaths—classified by size for the major industry groups. This table shows that for all the industries taken as a group more than 96 percent of the net additions to the business population consisted of firms with fewer than 8 employees, and only a small fraction of 1 percent had more than 50 employees.

Detailed data on the distribution of the number of firms in operation by size during the war are not available, though as already indicated it is known that the proportion of small firms had declined appreciably when compared to the prewar situation. It is relevant to note, therefore, that for every industry group without exception small firms represented a larger percentage of the net additions during the years 1945–47 than they did in the prewar business population as of September 1939, shown for comparison in the lower section of table 19.

Table 19.—Percentage Distribution, by Size, of Net Number of Businesses Added to the Business Population, July 1945–June 1947, and of Number of Firms in Operation as of Sept. 30, 1939, by Major Industry Groups [1]

Size of firm	All industries	Mining and quarrying	Contract construction	Manufacturing	Wholesale trade	Retail trade	Service industries	Other
	Net number of businesses added, July 1945–June 1947							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less than 4 employees	87.4	21.8	79.1	58.3	86.7	94.1	92.7	88.5
4–7 employees	9.5	57.9	16.6	27.9	10.6	4.7	5.5	9.4
8–19 employees	2.6	18.4	3.5	11.3	2.2	1.1	1.3	1.9
20–49 employees	.5	1.9	.6	2.5	.5	.1	.4	.2
50 or more employees	(2)	0	.2	0	0	0	.1	(2)
	Number of firms in operation September 30, 1939							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less than 4 employees	82.1	39.2	72.3	47.6	63.1	86.4	89.5	85.0
4–7 employees	9.2	20.1	14.8	14.4	16.4	8.8	5.8	7.7
8–19 employees	5.0	20.1	8.3	14.6	12.4	3.5	3.0	4.2
20–49 employees	2.1	10.8	3.0	11.1	5.5	.9	1.0	1.8
50 or more employees	1.6	9.8	1.6	12.2	2.7	.4	.7	1.3

[1] Data for the quarter April–June 1947, entering into the calculations, are preliminary. [2] Less than 0.05 percent. Source: U. S. Department of Commerce, Office of Business Economics.

Domestic Transportation

The demands made on the Nation's transportation facilities in 1947 reflected divergent trends in commodity and passenger traffic. The uptrend in commodity transportation which was underway by the third quarter of 1946 continued in 1947, recovering a considerable part of the loss experienced with the ending of the war. In the case of passenger travel, on the other hand, the completion of demobilization, together with the expansion in the number of automobiles on the road and their greater use, brought about a further substantial decline in passenger traffic.

The over-all volume of intercity transportation in 1947 is estimated to have risen by approximately 6 percent over the

Table 20.—Domestic Intercity Traffic Volume, 1939–47

[Indexes, 1935–39=100]

Year	Total passenger and commodity	Commodity, ton-miles	Passenger-miles	Railroads		
				Net ton-miles	Freight carloadings	Passenger miles
1939	106	107	105	104	101	103
1940	117	118	113	115	109	108
1941	146	147	143	146	130	133
1942	185	178	236	194	138	244
1943	220	201	357	219	137	400
1944	230	209	388	222	140	434
1945	222	199	389	206	135	419
1946	200	182	328	179	132	296
1947 p	212	204	271	198	143	209

p Preliminary.

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

previous year, with a 12-percent gain in commodity transportation more than offsetting the 17-percent drop in passenger traffic (see table 20). The intercity total represented a peacetime high—about 8 percent below the wartime peak reached in 1944. Commodity transportation was substantially at the 1944 peak, as all types of carriers registered gains over the previous year.

Heavier Railroad Freight Traffic

The increase in output which characterized 1947 was reflected in changes in both the level and composition of railroad freight traffic. Total carloadings rose by almost 10 percent over their 1946 level to reach the highest point since 1929, and there was a corresponding increase in net ton-miles. The average haul, however, was well below the wartime high. It was, nonetheless, about 15 percent greater than in 1939–41. This reflects in part the heavy volume of goods moving to coastal ports for shipment abroad as well as the failure of intercoastal water traffic to regain its prewar volume.

Increased Traffic Permits Fuller Use of Equipment

The increase in the volume of freight traffic in 1947 enabled the railroads to make better use of the available car supply. The long-term downward trend in the number of freight-carrying cars in service, which was reversed between 1939 and 1944, continued through 1947 as car retirements exceeded new additions.

Pressure on car facilities made necessary the continuation throughout the year of ODT controls on car utilization. Existing regulations cover the capacity loading of carload freight, the minimum loading requirements for less-than-carload freight, and the movement of cars into export position

Record Movement by Motor Carriers

Outstanding gains in the commodity transportation field were registered by "for hire" motor carriers whose traffic volume in 1947 exceeded the wartime high of 1943. This volume was made possible to a considerable extent by the large increase in truck facilities. As pointed out in the section on production, output of trucks in 1947 expanded by 30 percent over 1946 and exceeded the 1941 production peak by some 16 percent. Estimates by the Public Roads Administration put the number of trucks on the road during 1947 at 6.5 million, including private trucks as well as those for hire—the highest number ever in use.

Ton-miles of freight performed by intercity, "for hire" trucks rose 15 percent over 1946 in contrast to the 10 percent increase registered by the railroads. A more valid comparison, however, is made between truck tonnage and l. c. l. carloadings, which showed a small decline over the year.

It now appears that the trucking industry has at least regained, if it has not already exceeded, the relative position in commodity transportation which it enjoyed in the years just before the outbreak of the war.

Increases in Other Commodity Transportation

A record level of crude petroleum output helped to boost pipe-line volume approximately 10 percent over its 1946 level. Pipe-line facilities available for petroleum movement decreased over the year with the sale by the War Assets Administration of the Big and Little Inch to natural-gas interests.

An increase of approximately one-sixth over the 1946 volume took place in water-borne traffic as intercoastal traffic continued the recovery which began after the war's end, while coastwise traffic and movement through inland waterways also expanded.

Airline freight volume of certified airlines continued the sharp upward trend which has been in progress over the past few years. Airline traffic was discussed in detail in the December SURVEY.

Passenger Traffic Declines

The completion of the demobilization of the armed forces by the end of 1946, together with the substantial increase in the number of automobiles in use during 1947, resulted in a continued falling off in passenger traffic. Total intercity passenger traffic was about 17 percent lower than in 1946, although traffic including local transit lines was down by 12 percent from the preceding year.

The decline in passenger traffic was most marked in the case of railroads. Total railroad passenger-miles declined by a third from 1946 and were down by more than 50 percent from the 1944 peak, although the level was higher than that of any prewar year, including the twenties. Both the number of passengers carried and the average ride per passenger were lower in 1947 than in the previous year.

A substantial increase occurred in the relative position of the airlines as Pullman travel went down, while air travel registered a small rise over the previous year. In 1947, the airlines accounted for almost one-third of the total first class passenger-miles traveled. This compares with 23 percent in 1946 and 13 percent in 1941.

Higher Rail Freight Rates

The railroads began 1947 under a new schedule of freight rates. The rate increase, part of which had been approved on an interim basis in the second half of 1946, was estimated to be approximately 17½ percent higher than the rate level in June 1946.

The final quarter of 1947 witnessed two additional increases in rates totaling 17.5 percent on the average. The second advance did not affect 1947 operating results, since it was not granted until the closing days of the year and was not effective until January 5, 1948. The higher rates remain in effect until June 30, 1948 and it is estimated will add one and one-quarter billion dollars, per annum, to the operating revenues of class I railroads, on the basis of 1947 traffic.

Improvement in Railroad Income

Higher freight rates and passenger fares and increased freight volume permitted and improvement in net operating railway income after taxes from 620 million dollars in 1946 to an estimated 780 million dollars in 1947. Before taxes, the income increase was from about 600 million to over 1 billion dollars. Earnings after taxes in 1946 were actually higher than those before taxes because tax credits exceeded tax liabilities by some 15 million dollars.

In the postwar period, railroad earnings fared less well than did aggregate earnings of all corporations. The carriers 1947 earnings after taxes were about the same as the average for the 1939–41 period but were well below earnings during the high years of the 'twenties and during the recent war years.