NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: December 31, 1974 RELEASED: January 23, 1975

Growth of total spending slowed in the fourth quarter, with significant declines reported in spending for consumer durable goods, residential construction, and producers' durable equipment. Total spending increased 6.2 percent from the fourth quarter of 1973 to the fourth quarter of last year, compared to an average annual increase of 10.7 percent over the previous three years.

Total production decreased sharply in the fourth quarter and prices continued to rise at an accelerated rate. Over the year ending in the fourth quarter, output decreased 5.0 percent and the general level of prices increased 11.8 percent.

Despite the sharp drop in total production experienced since late in 1973, the rate of output in the economy in the fourth quarter was not substantially below the economically productive capacity of the economy, given the recent autonomous increases in commodity prices and changes in governmental agriculture, environment, safety, and resource allocation regulations. This cut in economic productive capacity, a portion of which is temporary, represents a wealth loss to the economy. The loss, which was made effective by the rapid acceleration of inflation experienced in the last year, has been manifested in several ways other than the recent decrease in employment in the economy. The effect is also evident in the reduction in real wages reported last year and the decrease in the stock of real money balances.

Throughout most of 1974, the effect of this wealth loss was concentrated in just a few industries, such as the automotive industry which is closely tied to the market for petroleum products. As a consequence, production and employment in other industries continued to expand. It was not until late in the year that the depressive effects spread to other industries and markets that are dependent on the income generated in the automotive and housing sectors. The rate of unemployment remained essentially unchanged through the first eight months of the year, but has increased from 5.4 percent of the labor force in August to 7.1 percent in December.

The developments of the past year indicate that the economy suffered a substantial decrease in production opportunities and the standard of living in the country declined commensurately. The economic contraction, while almost impossible to reverse in a period of one or two quarters, is not cummulative, however. The data indicate that the recession is in the process of spreading through the economy, not that the depressive effect on the entire economic system is mounting.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: January 31, 1975 RELEASED: February 26, 1975

A new dimension has been added to the current contraction of economic activity. Growth of aggregate demand, which had continued unabated through the early stages of the recession, has slowed significantly since last summer. This slowdown in the growth of demand is now compounding the problems that had originated as a result of the constraints on production stemming from the long list of special factors which have plagued the economy for the last few years.

Total production declined sharply in the fourth quarter of last year, following two quarters of slight decrease. Real product in the fourth quarter was 5 percent below the rate of a year earlier. About one third of this decrease was reflected in real purchases of consumer durables, mostly automobiles. Purchases of autos have picked up in recent weeks in response to the rebate program, but remain well below the rate of 1973.

The decline in real product in the fourth quarter was broad based and was reflected in both consumer and business activity. Consumer spending on nondurable goods and business fixed investment, both in real terms, declined in the fourth quarter after remaining about unchanged over the prior three quarters. Residential construction continued to slide and showed a steady decrease throughout the past year. Accumulation of inventories was sharply higher in the fourth quarter, with about half the rise due to increased dealer's inventories of automobiles.

The sharp decline in production since late last year has resulted in an equally large decrease in employment, at a 6.3 percent annual rate from September to January. The rate of unemployment, which had held steady at slightly more than 5 percent of the labor force from January to August, has since risen sharply and reached 8.2 percent in January of this year.

The average level of prices in the economy, as measured by the GNP deflator, rose rapidly in the fourth quarter to a level 12 percent higher than a year earlier. The rate of increase of prices has moderated in recent months, however, as the adjustment to the special factors runs its course. The consumer price index, for example, has increased at an 8 percent annual rate in the past two months, compared to a 12 percent rise over the prior year.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: February 28, 1975 RELEASED: March 26, 1975

The rate of increase of prices has slowed in recent months from the extreme pace of last year. Consumer prices have increased at an 8.1 percent annual rate since November, compared to a 12.6 percent rate over the prior eleven months. The rate of increase in wholesale prices began to slow late last summer, and has averaged 4.3 percent per annum since August. Prices of industrial commodities have increased at an 8.4 percent annual rate since August, a pronounced slowing from the 35 percent rate of increase experienced over the prior eight months.

The reported moderation in the rate of increase of the various price indexes has coincided with the restriction of the growth of aggregate demand which began last summer and the consequent deepening of the economic recession. This break in the rate of increase in prices is not indicative of a substantial easing of fundamental inflationary pressure in the economy. The effect of slower growth in aggregate demand on the general rate of inflation has been only marginal and the basic inflation rate continues in the range of 5-7 percent per year. The rate of inflation is now falling from the temporary double-digit bulge, which had been induced by the removal of price controls, the changed energy situation and other special factors. This adjustment should continue over the coming months, barring any unforeseen developments such as those which have plagued the economy since 1971.

The decrease in production and employment was particularly severe in the fourth quarter of last year and the available monthly data indicate a further substantial decrease in aggregate economic activity in the first quarter of this year. Industrial production, for example, has decreased at almost a 27 percent annual rate since September, and civilian employment has decreased at a 6.5 percent annual rate. The rate of unemployment, which stood at 5.8 percent in September of last year, was 8.2 percent in February of this year. Personal income, which had continued to grow in excess of 9 percent per annum through much of last year, has increased at a 3.2 percent annual rate since November.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: March 31, 1975 RELEASED: April 23, 1975

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Preliminary data for the first quarter indicate that total spending, a guage of movements in aggregate demand, declined for the first time since 1960. Also, real product registered one of the largest quarterly decreases on record since 1947. The reduction in spending and output took the form of a massive inventory adjustment, as the book value of goods in stock was reduced at an $18 billion annual rate. Business inventories had increased by almost $18 billion at an annual rate in the fourth quarter, and so the estimated liquidation in the first three months of this year represents a decrease of about $36 billion in this spending category.

To the extent that inventories are held as buffers which smooth the effects of variations in demand, the recent inventory adjustment is indicative of better days ahead for aggregate production and employment. There are, however, several provisos to this type of analysis in the current situation. For example, much of the adjustment so far this year has been in auto stocks, but the depressed demand in that market reflects more than the general forces of economic recession. Demand for new automobiles also has been affected adversely by increased costs of new car ownership and uncertainty about the future energy situation. Increased aggregate demand would do little to counter these considerations.

Spending other than for inventories (final sales) increased at a 7 percent annual rate in the first quarter, about the same rate as in the previous year. Fixed investment continued to decline, however, with decreases reported in the first quarter for all major categories. Consumer spending increased at a 9.5 percent annual rate in the first quarter. Purchases of durable goods increased somewhat from the depressed level of the fourth quarter, but much of this was due to the temporary auto-rebate program.

The rate of increase of prices has fallen off substantially in recent months. The implicit price deflator for GNP rose at an 8 percent annual rate in the first quarter, compared to a 12 percent increase over 1974. Similar patterns are evident in both the consumer and wholesale price indexes, with the wholesale index actually declining in each of the past four months.

This slowing in the growth of prices is partly a response to the severity of the current recession but, more importantly, it reflects the first stages of adjustment to the unsustainable rate of inflation experienced last year. The fundamental rate of inflation in the economy continues in the neighborhood of 5 percent per annum and, in the absence of any further stimulative shocks, the pressure will be for the rate of increase of prices to approach that level.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: April 30, 1975 RELEASED: May 28, 1975

The rate of inflation has decreased substantially since late last year. Consumer prices have risen at a 7 percent rate since November, compared to a 12.4 percent annual rate of increase over the prior eleven months. Wholesale prices have increased at a 4.9 percent rate since August. A rapid rise in the price of farm products resulted in a sharp rise in the wholesale index in April. This effect is expected to be temporary, however, and was due in part to farmers holding cattle in feeder lots in order to take advantage of a decline in feed prices. The index of wholesale industrial prices continues to rise at progressively slower rates.

A sharper than expected run off of inventories in March was largely responsible for a downward revision of real product in the first quarter. Current estimates show real product decreasing at a 10.2 percent annual rate since the third quarter of last year and at a 6.2 percent annual rate from late 1973. While the revision in real inventory investment was the major reason for the adjusted estimate, all major categories of real domestic spending were revised downward. Industrial production continued to decrease in April, although the rate of decline was substantially less than that of prior months.

Unemployment rose to 8.9 percent of the labor force in April. Total civilian employment increased in April, however, following 6 months of decline. Employment has declined, on balance, at a 5.1 percent annual rate since October. Despite this decrease, employment as a proportion of the population of labor force age remains high by historical standards.

Consumer purchases of new homes and automobiles have increased rapidly in the early stages of recovery from prior recessions. While housing starts increased in April and auto production increased in both March and April, there is little prospect of employment in these areas increasing substantially in the coming months. There is still a relatively large inventory of residential structures, especially multi-units, on the market. Auto producers, after reducing inventories of new cars, have cut back on near-term production schedules.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: June 30, 1975 RELEASED: July 28, 1975

The economy is showing many of the early symptoms of recovery from the recession which began late in 1973. Real product declined only marginally in the second quarter, according to preliminary estimates, after having decreased at a very rapid rate in the prior two quarters. The steep slide in industrial production apparently ended in March and production has increased slightly over the past three months. Employment has increased since March, but the reported rate of unemployment has remained about unchanged. The sharp drop in the unemployment rate in June must be discounted at this time because of uncertainty about technical problems in the computation procedure.

Growth of demand increased in the second quarter. While investment demand continued to be relatively weak, other spending increased substantially. Consumer spending has risen at a 9.7 percent annual rate so far this year, about in line with the rate of expansion over the 1970-73 period. This increase in demand has yet to be translated into expansion of production, however, as liquidation of business inventories continued at a rapid pace through May. Spending other than for inventories rose at a 9 percent annual rate in the second quarter. Adjusted for price changes, the increase was at a 3.3 percent rate, the first quarterly rise since the third quarter of 1973.

The recent income tax rebate and the $50 payment to Social Security recipients contributed to a substantial increase in personal income in June. Much of this increase, however, is nonrecurring; thus the recent personal income data overstate the basic rate of income growth. The reported rate of personal saving rose substantially in the second quarter, but this too is probably temporary. The increased saving rate is more reflective of the accounting procedures used to determine personal savings than of reluctance of consumers to spend.

The rate of inflation continues to slow and the general level of prices, as measured by the GNP deflator, has increased at a 6.8 percent annual rate since the fourth quarter of last year, compared to a 12 percent rise over the previous year. Consumer prices have increased at a 7 percent annual rate since last November, also substantially slower than the previous year.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: July 31, 1975 RELEASED: August 27, 1975

More complete data on inventories and foreign trade in the second quarter have led to a revised estimate of real product, which now shows a slight increase from the first quarter of the year. While the rise is insignificant in magnitude, it marks the first time since 1973 that total production in the economy did not decrease, strengthening confidence that the bottom of the current recession has passed. A reduced pace of inventory adjustment and a preliminary increase in corporate profits also add to the signs that an improvement in the private sector has begun; however, private investment spending remains depressed.

Industrial production, while remaining relatively low, has increased at a 5.6 percent annual rate over the last two months. The increase has been broad based, with substantial expansion reported in the production of consumer durables, including autos. Employment continues to increase and the rate of unemployment decreased again in July, following an unusually sharp decline in the previous month. As is typically the case in the early stages of an economic expansion, productivity rose sharply in the second quarter as expansion of output outstripped the growth of employment and hours worked.

The rate of inflation continues to ease from the temporary bulge of last year. But while much of the productive capacity of the economy remains idle, expansion of demand relative to supply has resulted in severe price pressures in particular sectors. These problems have resulted in sharp increases in the indexes of both consumer and wholesale prices. The consumer price index rose at a 12.2 percent annual rate over the past two months, and has increased at an 8.0 percent rate since last November. Wholesale prices increased at annual rates of 6.8 and 0.6 percent, respectively, over the same periods. Almost 60 percent of the increase in consumer prices since May was due to increased prices of food.

The GNP deflator, a much better gauge of general price patterns, has shown its mildest quarter-to-quarter increase since the fourth quarter of 1972, continuing the deceleration which began last winter. While recent movements in the consumer and wholesale price indexes are not indicative of increasing inflationary pressure across the economy, they do serve as a warning that relatively high unemployment is not sure protection from inflationary pressure. The danger of more severe inflation in the near future is still present.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: October 31, 1975 RELEASED: November 28, 1975

The pace of economic activity continues to advance quite briskly. Production, employment, and income all rose in October as they have done, on balance, since last April. Prices also advanced at a relatively fast clip last month, although the GNP deflator suggests that inflation has moderated to rates far less than in 1973 and 1974.

Industrial production has increased at a 12.4 percent annual rate since April, compared to a 12 percent decline in the previous year. The recent surge of industrial production was especially strong for consumer durables, which accounted for about 14 percent of the increase since April.

The employment picture is strong, contrary to the impression conveyed by the historically high unemployment rate and the reported rise in unemployment in October. Payroll employment has increased at a 2.7 percent annual rate since April, compared to a 2.4 percent decline in the previous year. Even though employment relative to labor force appears low, when compared to population of labor force age, employment is higher than in most of the period 1955-1969 (see table).

	AVERAGE FOR PERIODS INDICATED				
	I/75 to III/75	1970 to 1974	1965 to 1969	1960 to 1964	1955 to 1959
Employment as a Percent of Population of Labor Force Age 1/	63.1	64.2	63.7	61.4	61.6
Employment as a Percent of Labor Force 2/	91.5	94.6	96.2	94.3	95.0

1/ Civilian employment (age 16-64) as a percent of civilian noninstitutional population (age 16-64).

2/ Civilian employment (age 16 and over) as a percent of civilian labor force (age 16 and over).

Buoyed by the rise of employment, personal income has risen at a 13.8 percent annual rate since April. In the year prior to April, personal income rose only 6.9 percent.

The current price picture appears to be somewhat mixed. Recently, the fixed weight measures of prices (consumer and wholesale prices) have advanced more rapidly than the GNP deflator, which is based on variable weights. During periods when some prices move up relative to others, the fixed weight procedure biases the indexes upward as consumers shift purchases from those items whose prices are rising more rapidly toward those items whose prices are rising more slowly. As a result, the rise in the GNP deflator at a 4.9 percent rate since early in the year is probably a more accurate indication of current price trends than the 7.4 percent rate of increase in consumer prices from April to October.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: November 30, 1975 RELEASED: December 29, 1975

The U.S. economic recovery continues to build as the major indicators have increased quite steadily since early spring. Prices have advanced at a slightly faster pace since the beginning of the recovery than from November 1974 to April. The time period November 1973 to April 1975 is used here as the latest recession, although the dates have not yet been defined by the National Bureau of Economic Research. The first column in the table represents the period of constraints on aggregate supply, while the second period was induced by restriction of aggregate demand.

Industrial production has increased at an 11 percent annual rate since April after falling at a 10 percent rate during the recession beginning in November 1973. Both total civilian employment and payroll employment have risen at a 2.4 percent annual rate, after declining in the five months previous to April.

	11/73-11/74	11/74-4/75	4/75-11/75	10/75-11/75
Industrial Production	4.5%	-21.7%	11.0%	2.1%
Total Civilian Employment	0.1	4.4	2.4	2.3
Payroll Employment	0.5	5.8	2.4	0.6
Personal Income	7.7	3.8	12.7	10.7
Retail Sales	3.6	12.8	14.7	13.0
Wholesale Prices	23.7	2.4	8.2	0.1
Consumer Prices	12.1	7.0	7.5	8.6

In November, wholesale prices of all commodities remained essentially unchanged, after increasing at a 9.6 percent rate in the previous six months. The unchanging position of the index for all commodities in November masks offsetting movements of the components. Farm products and processed foods and feeds, which account for almost 30 percent of the total index, decreased at a 13.3 percent rate in November after increasing at about a 14.6 percent rate from April to October. Wholesale prices of industrial commodities increased at a 7.6 percent annual rate in November, up slightly from the 7.3 percent rate increase in the previous six months and the 3.7 percent rate from November 1974 to April.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: December 31, 1975 RELEASED: January 29, 1976

The U.S. economy continues on an upward course which began in the spring of 1975. Production, employment, and income have been increasing since spring. Prices are rising more slowly, on average, when compared to the double-digit inflation rates which prevailed during 1974; however, the rates of increase continue high by historical standards.

Despite a major revision in the GNP data, the contours of the recent recession and the current recovery are not substantially changed from those depicted by earlier data. Real GNP has risen at a 6.8 percent rate since first quarter 1975, after declining for 4 consecutive quarters. The implicit price deflator for GNP rose at a 6.5 percent rate in fourth quarter 1975 and has risen at a 5.9 percent rate since first quarter last year, which compares with an 11 percent rate of increase in the previous year.

Industrial production rose at a 13 percent rate in December, about the same as the rate of growth since April 1975. Industrial production decreased at a 10.0 percent rate during the recession period from November 1973 to April 1975. Total civilian employment and payroll employment have both risen at a 2.6 percent rate since last April. Retail sales have increased at about a 17 percent rate since April and have shown increases in seven of the last eight months. The increases in consumer and wholesale prices since last April have been slower than in the previous year, with consumer prices rising at a 7.3 percent annual rate and wholesale prices at a 6.5 percent rate. By comparison, consumer and wholesale prices rose 10 and 13 percent, respectively, in the year ending April 1975.

Major comprehensive revisions in personal income and the national income and product accounts were announced January 16, 1976. The revisions, which go back to 1946, are the largest revisions to take place since 1965. The revisions include: (1) regular updating for the estimates of 1972-1974 which usually take place in July; (2) benchmarking of GNP-related estimates to various censuses conducted since 1963; (3) a change in the valuation period for constant dollar estimates from 1958 to 1972; and (4) a number of changes in definition and classification.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: February 29, 1976 RELEASED: March 26, 1976

The employment picture remains strong, with total civilian employment increasing at a 2.9 percent rate in the ten months ending February 1976, compared to a 0.2 percent rate of growth in the two years prior to April 1975. Payroll employment has followed the same pattern, increasing at a 3 percent rate since April 1975, following a 0.1 percent rate of increase in the previous two years. Unemployment as a percent of the civilian labor force fell to 7.6 percent in February, after averaging 8.4 percent in the previous twelve months. The unemployment rate for household heads was 4.9 percent in February, after averaging 5.8 percent since February 1975.

The consumer price index increased at a 5.2 percent rate in the four months ending February, after increasing at a 7.4 percent rate from April to September 1975. Wholesale prices for all commodities have decreased at a 2.8 percent rate since October 1975. This decline can be attributed in a large part to the component, farm products and processed foods and feeds, which has decreased at a 21 percent rate since October. Prices of industrial commodities have increased at a 5.8 percent rate for the same time period.

Nominal and price-deflated data suggest income and profits have increased substantially since last spring. Personal income (a measure of household income) has grown steadily over the last several years, increasing at an 8.3 percent rate in the two years ending April 1975, and increasing at an 11.9 percent rate since then. But when deflated by the consumer price index, personal income declined at a 1.7 percent rate in the two years prior to April 1975. Since April deflated personal income has increased at a 5 percent rate. Personal income is a factor influencing personal consumption expenditures. Real personal consumption decreased at a 0.1 percent rate during the two years ending second quarter 1975. Real personal consumption has increased at a 4 percent rate since second quarter.

Corporate profits after taxes, a factor influencing investment by business in plant and equipment, have followed a trend similar to that of personal income. Deflated by the implicit price deflator for fixed nonresidential investment, these profits decreased at a 13 percent rate in the two years ending second quarter 1975. Since second quarter, real profits have increased at an almost 40 percent rate. Real nonresidential fixed investment decreased at 7.8 percent rate over the two years ending second quarter 1975. Since then, they have increased at a 2.7 percent rate.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: March 31, 1976 RELEASED: April 26, 1976

Total spending increased almost 13 percent in the last year, after growing at only a 4.8 percent annual rate in the previous five quarters. However, since total spending is influenced by swings in inventory accumulation, final sales tend to give a more accurate indication of the fundamental strength of the economy. Final sales have increased 10 percent since early 1975 compared to 7.5 percent in the previous year. Real output rose in each of the last four quarters and is up 6.9 percent from a year earlier. The advance of output follows five successive quarters of decline. Accompanying the expansion has been a marked deceleration in the advance of prices. The implicit price deflator for gross national product rose 5.5 percent in the last year, compared to an 11 percent rate of increase during the recession period from late 1973 to early 1975.

Buoyed by an 11.3 percent advance in disposable income and a resumption of growth in real wealth, personal consumption expenditures have increased 11 percent in the last year, after rising at a more moderate 9.2 percent rate during the recession. Expenditures for durable goods have been especially strong, growing 23 percent since a year ago. Investment expenditures have also advanced briskly in the past year mainly because the inventory situation has turned from massive liquidation to substantial accumulation in the most recent quarter. Residential construction is also up sharply from the depressed rates of a year earlier.

Reflecting the advance in output, total civilian employment has risen 3.1 percent since a year ago March, which compares with a 2.2 percent decline the previous year. With the labor force increasing 2 percent, unemployment has been reduced to 7.5 percent from 8.5 percent a year earlier.

Even though prices have slowed rather dramatically in recent months, it appears that the underlying rate of inflation continues to be about 6 percent. Wholesale industrial prices have risen 6 percent in the past year, and consumer prices have advanced 6.1 percent. By comparison, in the previous year wholesale industrial prices increased by 19 percent and consumer prices by 10 percent.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: April 30, 1976 RELEASED: May 27, 1976

Industrial production increased 11.5 percent in the year ending April 1976. This compares with a 12 percent decrease in the previous year. Employment has followed the trend of production: civilian employment increased 3.7 percent in the year ending April, after decreasing 2 percent in the previous year and payroll employment rose 3.2 percent in the past twelve months, after posting a 2.4 percent decline in the previous year. Personal income increased 11.5 percent in the last year, compared to an increase of 7.2 percent over the previous year.

The rate of price change has slowed somewhat over the last year. Consumer prices increased 6 percent in the year ending April 1976, after increasing 10.2 percent in the previous year. Wholesale prices of industrial commodities increased at about the same rate as consumer prices, increasing 6.2 percent for the year ending in April, after increasing almost 16 percent in the previous year.

Final sales plus changes in inventories yield GNP in the national income accounts. Final sales and GNP generally follow the same pattern of growth, but in this recovery the pattern in the change in business inventories has been unusual. In the four recoveries prior to the present recovery (defined here as being the first three quarters from the trough), there have been positive figures for the change in business inventories. In both recoveries of second quarter 1954 to first quarter 1955 and second quarter 1958 to first quarter 1959, there were average increases of less than $1 billion in business inventories. In the 1961 recovery, there was an average rise of $2.2 billion in business inventories. In the last recovery (fourth quarter 1970 to third quarter 1971) the change in business inventories averaged $6.1 billion. In the present recovery, second quarter 1975 to first quarter 1976, there has been an average decline of $4.6 billion in business inventories. There were decreases registered in all four quarters of 1975, averaging $14.6 billion. The behavior of inventories in the present recovery is unusual in registering a sizable average decline during the first three quarters. The only increase in inventories registered so far has been in the first quarter of 1976, but during that quarter there was a very large increase of $15.5 billion.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: May 31, 1976 RELEASED: June 25, 1976

Industrial production has risen at a 9.8 percent annual rate in the six-month period ending in May. This compares with a 10.4 percent rate of increase in the first eight months of the recovery period from March to November 1975. Industrial production posted increases in each of the last thirteen months, following declines in twelve out of the previous seventeen months -- the duration of the recession.

Productivity, as measured by output per hour of all employed persons in the total private economy, has made strong gains in the last several quarters. After declining at a 2.4 percent rate during the recession (defined as fourth quarter 1973 to first quarter 1975), productivity advanced 5.6 percent in the year ending first quarter 1976. Compensation per hour increased at a 10.7 percent rate during the recession, and 7.4 percent in the year following the recession. The combination of the advance in productivity and the slowing of compensation increases has led to a marked slowing in the rise of unit labor costs. Unit labor costs increased only 1.7 percent in the last year, after rising at a 13.5 percent rate during the recession.

Significant employment gains have been made in the last six months, with total civilian employment expanding at a 6 percent rate during this period. This increase compares with an advance at a 2 percent rate from March to November 1975. Personal income and retail sales have continued to register strong increases in the last six months, as they did in the previous eight months.

Prices continue to follow their moderating course. Consumer prices have risen at a 4.6 percent rate in the last six months, compared with a 7.3 percent rate of increase in the previous eight-month period. Wholesale prices of all commodities have increased at only a 2.1 percent rate in the last six months while wholesale prices of industrial commodities have advanced at a 3.7 percent rate. From March to November 1975 wholesale prices of all commodities and industrial commodities rose at rates of 8.4 and 6.8 percent, respectively. Wholesale prices for farm products and processed foods and feeds have decreased at a 2.2 percent rate in the last six months, after increasing at a 12.6 percent rate from March to November. These recent rates of increase are low, especially when viewed in the context of the double-digit rates of inflation which prevailed from late 1973 through October 1974.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: June 30, 1976 RELEASED: July 29, 1976

Total spending rose at a 9.3 percent rate in second quarter 1976. This was a marked slowdown from the 13 percent increase experienced in the previous four quarters. The growth of real product followed the same slowing pattern, rising at a 4.4 percent rate in the last quarter, after expanding 7.3 percent during the previous year. Prices, as measured by the implicit price deflator, increased at a 4.7 percent rate in second quarter, after rising 5.4 percent from first quarter 1975 to first quarter 1976.

Expenditures on consumer goods remain strong, bolstered by an almost 9 percent rate of increase in disposable personal income in the most recent quarter. Personal consumption expenditures grew at an 8.3 percent rate during the second quarter, after rising 11.8 percent in the previous year. However, the rate of increase in durable goods expenditures slowed to a 7.3 percent annual rate in second quarter, far below the 24 percent rise in the year ending first quarter 1976. Residential investment has made strong gains in the last six quarters by posting a $18 billion rise during this period of recovery. Even though these increases offset the $15.5 billion decline registered during the 1973-75 recession, residential investment is still $3.5 billion less than the peak of $68 billion which was reached in second quarter 1973.

Industrial production increased at a 5.7 percent rate from March to June 1976, compared with a 14.7 percent advance in the previous year. Civilian employment expanded at a 3.8 percent rate during the last three months, after growing 3.1 percent in the year ending March 1976. The unemployment rate, which averaged 8.5 percent during 1975, has fallen one percentage point to a six-month average of 7.5 percent in 1976.

The 6.1 percent rate of increase in consumer prices over the last three months is the same as that posted for the year ending March 1976. Wholesale prices of industrial commodities have slowed to a 3.6 percent rate of increase since March, after posting a 6 percent rise in the year ending March 1976.

The annual three-year revision in the national income and product accounts, which takes place each July, is included in the data reported in this release. The revision incorporates both new source data, which were not available at the time the estimates were made originally, and new seasonal factors.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: August 31, 1976 RELEASED: September 27, 1976

Most measures of economic activity indicate a moderation of growth from the very rapid and unsustainable pace which occurred early in the recovery. Industrial production grew at a 6.3 percent rate in the five months ending August 1976, less than half the 14.7 percent increase which was experienced during the first year of the recovery. The growth in personal income has been significantly slower in the last five months when compared with the previous year. Personal income grew at an 8.7 percent rate from March to August of this year, compared with the 11.1 percent rise of the previous year.

Consumer prices for all items increased at a 6.1 percent rate in the last five months, the same as that for the year ending March 1976. Wholesale prices for industrial commodities have exhibited a similar pattern of growth over these two periods, increasing at a 5.6 percent rate in the last five months, compared with a 6 percent rise during the previous year.

The unemployment rate has averaged 7.6 percent of the labor force during the last five months, after averaging 8.4 percent during the first year of the recovery. During the first year of the recovery, civilian employment grew 3.1 percent. In the following five months, employment growth accelerated slightly to a 3.6 percent annual rate. The civilian labor force only expanded 2 percent during the year ending March 1976, but since then the rate of increase has more than doubled. Several reasons have been proposed for the upsurge in the labor force, including entry into the labor force of so-called "discouraged workers". These are individuals who had previously not sought work because of the expected unavailability of jobs associated with the recession. The participation rate of women has risen significantly, with an average 47.1 percent of the female population of labor force age either working or looking for jobs during the last five months. This compares to an average of 46.2 percent in the first year of the recovery. The participation rate of teenagers also has followed this pattern, averaging 55.1 percent of the teenage labor force during the five-month period ending in August, compared to 54.1 percent in the preceding year.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: September 30, 1976 RELEASED: October 27, 1976

Nominal GNP rose at an 8.5 percent annual rate in the third quarter, somewhat less than the 9.9 percent rate of growth registered in the second quarter and significantly less than the 13.1 percent gain made in the year ending first quarter 1976. Real product, following the same slowing pattern, increased at a 4.2 percent rate from the first quarter of this year, after expanding 7.3 percent during the previous year. The implicit price deflator, which is a measure of the general price level, advanced 5.4 percent during the year ending first quarter 1976, and has been followed by a 4.8 percent annual rate of increase over the last two quarters.

Personal consumption expenditures, which account for about 64 percent of total spending, expanded 11.8 percent in the first year of the recovery and have been followed by an 8.9 percent rate of growth since the first quarter. Durable goods expenditures, which account for about 15 percent of personal consumption expenditures, grew at a 10 percent rate during second quarter and slowed further to an 8.2 percent rate in the third quarter. For comparison, durable goods spending rose 24 percent in the year ending first quarter 1976. Nonresidential fixed investment has grown at a rapid pace since the beginning of the year, expanding at about a 12 percent rate, compared to an increase of only 3.6 percent during the previous year.

Industrial production grew at a 3.7 percent annual rate from June to September 1976, after increasing at a 6.4 percent rate from March to June. These rates of growth are substantially slower than the 14.7 percent advance registered during the first year of the recovery. Reflecting the slowdown in production growth, civilian employment has increased at only a 1.5 percent rate since June of this year. During the three-month period beginning with March, civilian employment grew at a 3.8 percent rate, and in the previous year it expanded by 3.1 percent. Unemployment has averaged 7.6 percent of the labor force since March, which is considerably less than the 8.4 percent average posted for the first year of the recovery.

Wholesale prices of industrial commodities have increased at a 6.6 percent rate since March 1976, slightly higher than the rate of advance experienced during the previous year. Consumer prices rose at a 5.9 percent rate in the six-month period ending in September, about the same as the 6.1 percent increase in the previous twelve months.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: October 31, 1976 RELEASED: November 26, 1976

Nominal GNP has slowed to a 9 percent annual rate of growth since the first quarter of this year. During the year of the recovery ending in the first quarter 1976, the rate of growth of total spending was 13.1 percent. The slowdown in the rate of growth of spending has been reflected in both the rate of inflation and the rate of growth of output.

Inflation, as measured by the rate of change of the implicit price deflator, has declined from 5.4 percent during the first year of recovery to a 4.7 percent annual rate since the first quarter of this year. Similarly, consumer prices, which slowed to a 6.4 percent rate of increase in the recovery year, slowed further to a 5.3 percent annual rate of advance since the first quarter of this year. The unsustainable 7.3 percent rate of growth of real output during the recovery year has slowed to a 4.1 percent annual rate of increase since then.

The slowdown in the growth of real output has been reflected in two of the three major components of constant dollar spending. In the last two quarters, personal consumption expenditures have risen at a 3.8 percent annual rate, compared to 6.1 percent in the four prior quarters. Gross private domestic investment has risen at a 9.9 percent annual rate since the first quarter, compared to 29.2 percent for the prior year. The rate of growth of government purchases of goods and services has risen slightly from 1.9 percent for the four quarters of recovery to a 2.8 percent annual rate since the first quarter of this year.

Employment has grown at a rapid 3.5 percent annual rate since the first quarter of this year. This rate exceeds both the rate for the first year of the recovery (2.5 percent) and the normal rate of growth of the labor force. Concern over the seriousness of the economic slowdown has focused primarily on the unemployment rate. Unemployment has averaged about 7.7 of the civilian labor force for the last eight months. The high unemployment rate continues to reflect the unusually large rate of growth of the labor force in the first half of this year.

Inventory accumulation, as measured by changes in the ratio of manufacturing and trade inventories to sales, has increased in the five months from April to September. The level of this ratio reached 1.51 in September, but remains below the long-term average level of 1.53 (1948-1975). Inventories continue to be low relative to sales due to the large depletion of inventories in the recession and the gradual rate of replacement which began in the first quarter of this year.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: November 30, 1976 RELEASED: December 27, 1976

Most postwar economic recoveries have been characterized by an initial period of rapid growth in both nominal and real terms, followed by continued growth but at a slower pace. The pattern of growth in the current recovery is no exception. The period of rapid growth extended from early spring 1975 to early spring 1976. Since early spring of this year, there has been a slowing in the growth of production and employment.

A period of less rapid growth appears to have extended from early spring of this year to fall. After advancing almost 15 percent in the first year of the recovery, industrial production slowed to a 3.1 percent annual rate of increase from March to October 1976. Total civilian employment rose 3.1 percent in the year ending March 1976, and slowed to a 2.1 percent annual rate of increase from March to October. Likewise, payroll employment followed the same pattern, increasing 2.8 percent during the first year of the recovery, followed by a 1.7 percent rate of growth from March to October.

Since fall, the pace of economic activity appears to have quickened, although the period is too short to provide a firm basis for such a conclusion. Industrial production posted a 15.8 percent annual rate of increase in November, following two consecutive months of decreases. Total civilian employment rose at a 5 percent rate in November, after declining in the previous two months. The unemployment rate for household heads has remained constant over the last three months at 5.4 percent of the civilian labor force, after averaging 5.1 percent during the previous six months. Personal income has grown at an 11.8 percent rate since September, following a 7.6 percent rate in the previous six months.

Consumer prices have advanced at a 5.9 percent annual rate during the entire recovery to date. Wholesale prices of all commodities increased at a 5.1 percent rate from March 1975 to August of this year, but since then, have risen at a 9 percent rate. Wholesale prices of industrial commodities have registered an 11.6 percent rate of increase over the last three months, compared to a 5.9 percent annual rate in the first 18 months of the recovery.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: January 31, 1977 RELEASED: February 28, 1977

In contrast to the economic gains made in 1976, sales and production declined in January. Industrial production declined at an 11 percent annual rate, after increasing 6.8 percent in the year ending December 1976. Retail sales fell at a 21 percent rate, after rising 11.6 percent during 1976. This disruption in the recovery is attributable to the severe winter weather and energy shortages which led to temporary shutdowns of schools and industrial facilities nationwide during January.

Even though production was curtailed, unemployment fell from 7.8 percent of the civilian labor force in December to 7.3 percent in January, the lowest since May 1976. Underlying the drop in the unemployment rate was a 5.4 percent annual rate of decline in the civilian labor force and a 1.6 percent rate of increase in employment. However, the January survey of employment conditions was taken before the onset of the severe weather later in the month.

After moderating in 1976, the rate of advance of prices quickened somewhat in January. Consumer prices rose at a 10 percent rate in January, compared to a 4.9 percent increase in the previous twelve months. The January advance partially reflected sharply higher prices for fuel and food, but due to the early survey date, further effects can be expected in February.

The housing industry has made substantial gains since the recession which ended in March 1975. This resurgence in housing follows one of the most severe declines for this sector since World War II. Housing starts declined at about a 34 percent annual rate during the 1973-75 recession. The number of private housing starts increased at about a 44 percent rate from March 1975 to December 1976. Homebuilding was temporarily disrupted in January because of the weather, with housing starts dropping sharply.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: February 28, 1977 RELEASED: March 30, 1977

Recently released data regarding the current state of economic activity suggest that an undercurrent of strength is building. One indication of such strength is provided by data on industrial production. The February figures show a sharp rebound from January's weather-induced decline. Furthermore, the data for January, along with November and December, have been revised upward to indicate somewhat greater growth than was first reported. In February, industrial production rose at a substantial 12.5 percent rate, more than offsetting the 9.5 percent rate of decline which occurred in January. Initially, industrial production was reported to have risen, on balance, at a 3.4 percent rate from October through January. With the revisions and the addition of February, industrial production advanced at a considerably more rapid 6.6 percent rate in the period from October.

Recent employment growth is also indicative of the economy's upward momentum. After a rather sluggish 1.6 percent rate of growth in January, total civilian employment grew at a considerable 5.6 percent rate in February. Such growth, however, was just sufficient to offset the rise in the number of individuals available for work, and the unemployment rate rose slightly from 7.3 percent in January to 7.5 percent in February.

After plunging in January, February data on retail sales appear to reaffirm the upward trend established in the second half of 1976. The 23 percent rate of rise recorded in February follows a 24 percent rate of decline in January. In comparison, in the last six months of 1976, retail sales growth accelerated to a 15 percent rate from the near 9 percent rate which prevailed in the previous six months.

The renewed vigor in the pace of economic activity is cast in an environment of continued strong inflationary pressures. For example, consumer prices have risen 6 percent in the past twelve months, slightly less than the 6.3 percent which occurred in the previous year (February 1975-February 1976). Wholesale prices continue to rise rapidly, also advancing 6 percent in the past twelve months, compared to 4.7 percent in the previous twelve months.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: March 31, 1977 RELEASED: April 27, 1977

The U.S. economy is rebounding sharply from a weather-wracked January. Economic developments since last fall indicate the presence of fundamental strength that was only temporarily interrupted by a depressed January. Even with the negative impact of January, GNP rose substantially from the fourth to the first quarter, confirming the quickening pace of activity.

Nominal GNP climbed at an 11.3 percent annual rate in the first quarter, compared to an 8.5 percent rate in the previous two quarters and a 13 percent increase in the year ending second quarter 1976. The GNP gain consisted of a 5.2 percent rate of growth in output and a 5.8 percent rate of increase in prices. In comparison, real GNP advanced 5 percent in the previous year and prices rose 4.6 percent.

The first quarter growth in GNP reflected considerable strength in final spending by households and businesses. Personal consumption advanced at a 13 percent annual rate, compared to 11 percent in the previous year. Most impressive, however, was the jump in fixed investment, which rose at a 21 percent rate, compared to 17 percent in the previous year. Spending for residential structures continued as a source of strength, while spending for producer durables increased especially sharply. Government purchases of goods and services rose at a 4.5 percent annual rate from fourth to first quarter. Government purchases have grown at a moderate 6 percent rate for the last five quarters, after increasing at a 13 percent average rate from late 1973 to late 1975.

Accompanying the strong growth in production has been a significant advance in employment since last fall. Total civilian employment rose at a 4.8 percent rate from October to March, after changing little in the previous five months. With a 3.1 percent rate of increase in the civilian labor force since last fall, unemployment declined from 7.9 percent of the labor force in October to 7.3 percent in March.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: April 30, 1977 RELEASED: May 25, 1977

Despite some slowdown in the advance of economic activity in April, the pace is up substantially from last fall. While sales, production, and employment have all risen sharply, it is unlikely, and probably undesirable, that increases will continue at such rapid rates in coming months. The recent acceleration of activity has been accompanied by an uptick in the rate of inflation.

Retail sales were little changed from March to April, but the April figure still represents an 18 percent rate of advance from last October. Such sales rose 16 percent in the first year of the recovery from March 1975, then slowed to about a 4 percent rate of increase from March to October 1976.

Industrial production has been rising at an unsustainable rate in recent months. In part, the advance is attributable to a catch-up effect operating since a depressed January, but the 9 percent rate of increase since last fall is indicative of fundamental economic strength. The recent acceleration follows a 3 percent rate of growth from March to October 1976, and a 15 percent rise from March 1975 to March 1976.

Employment has shown exceptionally strong growth since last October. Total civilian employment has risen at a 5.3 percent annual rate since October, while payroll employment has advanced at a 4.6 percent rate. In comparison, total employment increased at a 2.6 percent average rate from March 1975 to October 1976. Of the population of working force age, 65.3 percent were employed in April, only slightly below the 65.4 percent figure recorded in the pre-recession peak of November 1973.

Prices have also accelerated since last fall. With food and energy items increasing most rapidly, consumer prices have risen at an 8 percent annual rate since October, after increasing 5.2 percent in the previous year. Wholesale industrial prices rose at a 7.2 percent rate from October to April, compared to 6.6 percent in the previous year.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: June 30, 1977 **RELEASED:** July 29, 1977

Nominal GNP grew more rapidly in the first half of 1977 than earlier in the current recovery. The most recent advance in GNP included both faster output growth and an increased rate of inflation. Real GNP expanded at a vigorous 7 percent annual rate in the first half of 1977, compared to a 5.6 percent average rate of increase in the first seven quarters of the recovery, which began in the first quarter of 1975. Inflation, as measured by the GNP implicit price deflator, accelerated to a 6 percent rate of increase, exceeding the 5.5 percent rate of advance in the previous seven quarters.

Growth of real spending in 1977 has been characterized by a shift in the relative growth of the major components of spending from the pattern exhibited earlier in the recovery. For example, real personal consumption expenditures, which expanded at a 6.1 percent rate over the first part of the recovery, have slowed to a 3.6 percent rate of increase so far in 1977.

In marked contrast, real expenditures for gross private domestic investment advanced at a 35.7 percent rate in the first half of 1977, compared to a 14.7 percent rate over the first seven quarters of the recovery. Of particular interest is the speed-up in real fixed nonresidential investment, that is, business spending for plant and equipment, which grew at a very slow 1.2 percent rate over the first seven quarters of the recovery. Over the most recent two quarters this measure of business capital spending has increased at a very brisk 13.9 percent rate.

Part of the strong advance in investment in the first half of 1977 is attributable to increases in production held as inventories. As a result, although the growth of output has accelerated, the growth of real final sales (real GNP less real changes in inventories) has been at the same rate in the most recent two quarters as in the earlier quarters of the recovery (4.7 percent).

Real government purchases, which grew at only a 1.1 percent rate in the first seven quarters of the recovery, advanced at a 4 percent rate in the first two quarters of 1977. Purchases at both the Federal and state and local levels rose, although increases at the Federal level were at a faster rate.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: August 31, 1977 **RELEASED:** September 28, 1977

After the brisk pace of economic activity experienced in the first half of 1977, many analysts expected some slowing in the rate of expansion during the second half of the year. Economic data available so far in the third quarter confirm these expectations. Nevertheless, the economy has made significant strides since the "pause" of 1976.

Industrial production has increased at a strong 7.4 percent annual rate since autumn of 1976. Since June, however, gains have been at a 1.3 percent rate, compared to a 9 percent rate of growth in the previous eight months. Mirroring this pattern, personal income has risen at a vigorous 11.4 percent rate since October 1976, with a 9.4 percent rate of increase in the most recent two months, and an 11.9 percent rate in the prior eight months.

While the trend rate of employment growth remains quite rapid, gains in total civilian employment have slowed recently. From October 1976 to last June, employment expanded at a 5.1 percent rate, while growth in the most recent two months has been limited to a 0.6 percent rate. The unemployment rate, after posting substantial declines in the first quarter of 1977, has oscillated around 7 percent since April.

Price increases have moderated somewhat since spring and early summer, although the trend rate of inflation remains high. Wholesale prices have shown little change since April. This is the result, in part, of very sharp declines in wholesale prices for farm products and processed foods and feeds, which have offset increases in prices of wholesale industrial commodities. In contrast, from October to April wholesale prices (all commodities) registered a 10 percent rate of increase, primarily because severe weather conditions contributed to very large increases in wholesale food prices early in the year. The consumer price index has also risen more slowly since June, advancing at a 4.4 percent rate, compared to a 7.8 percent rate in the previous eight months.

Over the course of the current business expansion the housing sector has made a strong recovery from the sharp declines experienced during the 1973-75 recession. Data for August 1977 indicate that after two and one-half years of expansion housing starts have risen to rates equalling 81 percent of their 1973 peak. Very sizable gains have been centered in the construction of single-family units, which have exceeded their 1973 peak in three of the last four months. In contrast, multi-family starts in August 1977 equalled only 52 percent of their 1973 peak. The relative sluggishness in multi-family starts suggests prior overbuilding in such units and a changed demand and supply situation which favors single-family relative to multi-family units.*

* See Neil A. Stevens, "Housing: A Cyclical Industry on the Upswing," Federal Reserve Bank of St. Louis Review (August 1976), pp. 15-20.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: September 30, 1977 RELEASED: October 26, 1977

Recently released third quarter GNP data confirmed the slowing in the growth of economic activity which had been expected by many economic analysts. The 9.2 percent rate of advance in nominal GNP during the third quarter represented a return to a more sustainable pace of expansion, following the very brisk 13.5 percent rate of growth recorded in the first half of 1977. The more moderate growth of GNP in the third quarter included a slower rate of inflation as well as a more temperate rate of output growth.

The 3.8 percent rate of advance in output in the third quarter was below the very strong 6.8 percent rate of growth in the first two quarters of 1977. However, the recent rate of increase in output was in line with trend rates of output growth recorded in the past. For example, from 1950 through 1976, output growth averaged 3.4 percent per year. Real output has advanced rapidly in the present expansion and now exceeds the prior peak attained in 1973 by about 8 percent.

The continued growth of output, but at a less hurried pace, was reflected in two of its major components. Advances in personal consumption expenditures and investment spending (both measured in constant dollars) were less rapid in the third quarter than in the first half of the year. In particular, the rate of inventory accumulation slowed in the third quarter, in contrast with the first half of 1977 when inventories were growing at an accelerating rate. However, government purchases (also in real terms) grew at a faster pace in the third quarter than in the previous two quarters of 1977.

Several other indicators reflected the third quarter moderation in economic activity. Since June, industrial production has advanced at a 2.9 percent rate, following a 7.3 percent rate of increase in the previous six months. Civilian employment increased at a 1.8 percent rate in the most recent three months, compared with a 5.1 percent rate in the prior six months. The 9.4 percent rate of growth in personal income since June was slightly slower than the 10.5 percent rate of increase from December to June. However, speed-ups in industrial production, civilian employment, and personal income in September offer indications of underlying strength in the economy.

Accompanying the more moderate growth of output has been a slowing in the pace of price increase. The annual rate of inflation in the third quarter, as measured by changes in the GNP implicit price deflator, was close to 5 percent, slower than the 6.2 percent annual rate of increase recorded in the first two quarters of 1977. Declining food prices have been a major aspect of the recent slowing in the rate of price increase.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: October 31, 1977 **RELEASED:** November 30, 1977

Revised figures for third quarter gross national product were recently released by the U.S. Department of Commerce. The revision indicates that the growth of total spending and output was stronger than previously estimated. Total spending (nominal GNP) advanced at a 10 percent annual rate, with output increasing at a 4.7 percent rate and prices at a 5 percent rate. These revisions are indicative of continuing economic strength; since a year ago, income, sales, production, and employment have all registered substantial gains.

Personal income rose 11.8 percent in the last twelve months, somewhat faster than in the previous year. Accompanying the strong advance of personal income was a 10.8 percent increase in retail sales over the last year. Although income and sales can diverge for short periods, over periods of a year or more they usually rise concomitantly.

October rates of production were well above a year earlier, even though the growth of industrial production has slowed since mid-summer. Over the past year, industrial production rose 6.8 percent, about the same as the 6.5 percent increase from October 1975 to October 1976.

Total civilian employment has continued to rise, but with parallel growth in the labor force since April, the unemployment rate has changed little since then. Over the last year employment showed significant strength, advancing 4 percent, somewhat greater than the 3.1 percent rise in the previous year. Civilian employment comprised 65.6 percent of the population of working force age (16-64 years) in October, one of the highest proportions in the post-World War II period.

Price trends have not changed significantly over the last two years, except for prices of farm products and processed foods, which have been characteristically volatile. Consumer prices rose 6.5 percent from October 1976, representing an uptick from the 5.2 percent increase in the previous year. Wholesale industrial prices have advanced steadily over the last two years, at a 6.7 percent average annual rate. Farm and food prices rose 2.6 percent from a year earlier, after declining 5.9 percent from October 1975 to October 1976.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: December 31, 1977 RELEASED: January 30, 1978

Economic activity in 1977 maintained the brisk momentum established in the initial stages of the current expansion. Total spending, or GNP, in 1977 (the change from IV/1976 to IV/1977) grew by 11.9 percent, compared to an 11.4 percent rate of increase posted in the first seven quarters of the current expansion (I/1975 to IV/1976). Output of goods and services increased by 5.7 percent in 1977, essentially the same as the 5.6 percent rate of growth recorded in the earlier part of the recovery.

No progress was made during 1977, however, in slowing inflation. The general price level, as measured by the GNP implicit price deflator, rose 5.9 percent in 1977, compared to a 5.5 percent rate in the first seven quarters of the recovery. Other measures of inflation, such as the consumer and wholesale price indexes, showed similar patterns. Consumer prices increased 6.7 percent in 1977, up from the 5.7 percent rate of advance registered from March 1975 to December 1976. Wholesale prices rose 5.9 percent in 1977, compared to a 5.5 percent rate of increase in the previous 21 months.

Industrial production, a measure of the output of the nation's factories, mines, and utilities, increased 5 percent in 1977, less rapid than the 10.5 percent rate of growth posted from March 1975 to December 1976. Production at yearend 1977, however, was slowed by a strike in the coal industry.

Personal consumption expenditures constitute about 64 percent of GNP. In 1977 consumption expenditures in real terms increased 4.4 percent, compared to a 6.1 percent rate of advance in the initial stages of the recovery. Although there was an overall slowing in 1977, the fourth quarter gave indications of continuing strength in consumer spending. Retail sales from September to December advanced at a 14.5 percent rate, compared to the 5.5 percent rate from December 1976 to September 1977.

Notably large gains in investment occured in 1977. Total investment (adjusted for inflation) increased 16.8 percent in 1977, a faster pace than the 14.7 percent rate of the previous seven quarters of the recovery. Business fixed investment in real terms expanded 9.4 percent in 1977, substantially exceeding the 1.2 percent rate of increase recorded in the initial part of the recovery. Residential investment on a constant dollar basis continued buoyant in 1977, increasing by 15 percent, following the 22.8 percent rate of growth in the first seven quarters of the expansion. Housing starts totaled 1.99 million units in 1977, with single-family starts achieving a historic peak.

Accompanying the rapid growth of output was a large growth in employment. From December 1976 to December 1977, employment increased 4.7 percent, compared to a 2.8 percent rate of increase from March 1975 to December 1976. In December 1976, 57 percent of the population aged 16 years and older was employed. By December 1977 this ratio had increased to 58.6 percent. Reflecting these gains in employment, the unemployment rate dropped from 7.8 percent in December of 1976 to 6.4 percent in December of 1977.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: January 31, 1978 RELEASED: February 28, 1978

Real GNP growth in the fourth quarter represented a slowdown from rates posted earlier in 1977, but the deceleration reflected a slackening in inventory accumulation rather than a moderation in final purchases. Investment in business inventories in the fourth quarter slowed to a $6.8 billion annual rate (1972 dollars), compared to an average annual rate of $12.9 billion in the previous three quarters. Real final purchases rose at a 6.8 percent rate in the fourth quarter, more rapid than the 4.4 percent rate in the first three quarters of 1977.

Over the last three months of 1977 the ratio of manufacturing and trade inventories to sales plummeted, and in December reached the lowest level in 26 years. This decrease reflected both a continuation of the cautious inventory policies practiced by businesses over the course of the current expansion and a recent uptick in spending. From September to December, retail sales surged ahead at a 22 percent rate, compared to a 6 percent rate of advance over the previous nine months of 1977. Sustaining this rise in spending was a 17 percent rate of increase in personal income over the last three months of 1977, a pickup from the 10 percent rate of growth posted over the previous nine months.

Fourth quarter data give evidence of strong final demand and suggest the possibility of future advances in production as businesses replenish inventories. However, the transitory effects of severe weather and the coal strike are likely to dominate economic activity in the first quarter. The January declines in industrial production and retail sales are indicative of the distortions caused by energy cutbacks and difficult climatic conditions.

REVISION OF CPI

Beginning with January 1978 data, the Bureau of Labor Statistics will publish three indexes of consumer prices (CPI): (1) a new index, called The CPI for All Urban Consumers, (2) the revised index, called The Revised CPI for Urban Wage Earners and Clerical Workers, and (3) the old index. The old index will be available on a nonseasonally adjusted basis, and will be discontinued after June 1978. The new index and the revised CPI, both seasonally adjusted, will be published in this release. The rate-of-change triangle and chart (pp. 4 and 5) will show, beginning January 1978, the revised CPI for urban wage earners and clerical workers, replacing the old CPI.

The revised and the new index both reflect a modernization of statistical methods and an updating of (1) the weights assigned to expenditure categories, (2) the sample of items priced, and (3) the sample of establishments where prices are surveyed. Both the revised CPI and the new index will be issued as a continuation of the old series.

The new index represents about 80 percent of the noninstitutional civilian population and includes urban wage earners and clerical workers, the self-employed, professional and other salaried workers, retirees, the unemployed, and others not in the labor force. The revised index for urban wage earners and clerical workers represents about 40 percent of the noninstitutional civilian population.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: February 28, 1978 **RELEASED:** March 30, 1978

Economic activity has begun to rebound from the weather-induced January slowdowns. Recent advances in income, production, and employment suggest a continuation of the forward momentum of economic performance. Industrial production in February recouped much of the January downturn. This measure of the output of the nation's factories and mines was constrained, however, by the continuation of the coal strike throughout February.

Since the beginning of the current expansion period (in early 1975), output of goods and services (GNP adjusted for price changes) has grown at an average annual rate of 5.6 percent. In contrast, over the entire postwar period, output growth has averaged 3.5 percent per year. In the maturing stages of the expansion, some slowing in the rate of growth of output will allow the economy to expand at a rate more in line with the growth of productive potential.

Rapid employment growth has characterized the current expansion. Employment data are collected using two methods. The household survey is the basis for the total employment and unemployment figures. A statistical sample of households is questioned each month to determine whether household members are employed, unemployed, or not in the labor force. Miners on strike are counted as employed in the household survey. The other source of employment data is a survey of nonagricultural business establishments. These data are the basis of the payroll employment series. As a result of the coal strike, approximately 160,000 miners on strike were removed from industrial payrolls. These strikers represented less than 0.2 percent of total payroll employment in February and, therefore, did not have a significant impact on recent employment growth. Workers in other industries who are laid off as a result of the strike in the coal industry are classified as unemployed in the household series and are also excluded from the establishment employment data. However, the Bureau of Labor Statistics estimated that these secondary employment effects involved only a small number of workers in February.

Indexes of both wholesale and consumer prices have risen about 6 percent over the last year. Past monetary expansion provides no basis for expecting any near-term slowing in the trend rate of inflation. Recent sharp price rises, particularly for food and agricultural products in January and February, primarily reflected temporary difficulties in transporting goods to markets in the face of severe weather conditions.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: April 30, 1978 **RELEASED:** June 5, 1978

Economic activity has rebounded sharply from the temporary lull of January and February. Following the rapid gains in March, measures of production, income, and employment moved up vigorously in April and portend a strong second quarter. Industrial production surged ahead at an annual rate of 15 percent over the most recent two months, more than offsetting the 2 percent rate of decline recorded from December to February. The rate of expansion of production in the first four months of 1978 exceeded the increase posted during all of 1977.

Accompanying the upturn in production, growth of personal income rose at an 18 percent rate from February to April, compared to a 4.4 percent rate of increase in the first two months of the year. With the striking coal miners returning to work, mining payrolls contributed appreciably to the large advance. Sizeable gains in construction income, reflecting improved weather conditions, also boosted personal income in April.

With rising incomes, consumers increased their purchases dramatically in the last two months. Retail sales were up at nearly a 20 percent rate from February to April, compared to a 3.7 percent rate of decline in the previous two months. Automobile sales in March and April averaged 49 percent above levels of the first two months of the year. Housing starts were also exceptionally strong, averaging 36 percent above the rates recorded early in the year.

Employment growth in the most recent two months was also quite rapid, with 800 thousand additional workers finding jobs. The unemployment rate fell to 6 percent in April, the lowest rate in three and one-half years. The retention of employees in the face of production slowdowns early in 1978 contributed in large part to the 2.9 percent rate of decline in productivity in the first quarter. While this decrease was probably a temporary aberration, productivity gains in the future will become increasingly constrained as economic capacity is very close to being fully utilized.

A more somber aspect of recent economic developments has been the very high rate of price increase. Wholesale prices were up at a 12 percent rate in the first four months of 1978, much faster than the 6 percent increase over all of 1977. Part of this acceleration was associated with volatile prices of farm products and processed foods and feeds, which have soared at a 29 percent rate since December. However, industrial prices rose at an 8.1 percent rate over the first four months of the year, more rapidly than the 7 percent rise registered over all of 1977. Consumer prices increased at a 9.6 percent rate from December to April, compared to a 6.5 percent rise during 1977.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: May 31, 1978 **RELEASED:** July 5, 1978

Inflation continues to plague the economy. Wholesale prices increased 6.4 percent over the last twelve months, while consumer prices rose 7 percent. One of the effects of such high rates of price increase is the distortion in some measures of economic activity. Even measures which appear at first glance to be immune from inflationary distortions, such as the inventory-to-sales (I/S) ratio, can be affected. Estimates of inventories and sales both reflect price changes, so the ratio of the two measures would appear to be unaffected by inflation. However, sales are valued at current prices, whereas inventories are appraised at book value. The effect of price level changes on the measurement of inventories depends on the method of inventory accounting (LIFO or FIFO) and the speed of turnover in inventories but, in general, inflation will increase valuations of inventories slower than sales. Thus, inflation will produce a downward bias in the nominal I/S ratio.

Recognizing these distortions, the Commerce Department has developed an alternative (real) I/S ratio which corrects the inflationary bias. Quarterly estimates of both the nominal and real I/S ratios are presented in the table below. These data confirm the existence of a downward bias in the nominal ratio since 1972, a period of rising prices.

The I/S ratio is frequently compared to past trends in order to assess the current state of inventories. I/S ratios substantially below the trend can be an indication of future increases in production to build up inventory stocks and I/S ratios above trend can suggest future slowing in production while sales are met through inventory reduction. Using the nominal I/S ratio in this manner can be misleading. For example, the nominal I/S ratio in the first quarter of 1978 (1.44) was much lower than the average nominal I/S ratio from 1968 to 1976 (1.54). In contrast, the first quarter I/S ratio corrected for inflation (1.66) was about equal to the average real I/S ratio for the period from 1968 to 1976 (1.67).

MANUFACTURING AND TRADE INVENTORY
TO BUSINESS SALES RATIO, SEASONALLY ADJUSTED

		Real[1/]	Nominal[2/]			Real[1/]	Nominal[2/]			Real[1/]	Nominal[2/]
1972	I	1.65	1.53	1974	I	1.64	1.44	1976	I	1.66	1.48
	II	1.63	1.52		II	1.66	1.45		II	1.67	1.48
	III	1.62	1.51		III	1.67	1.48		III	1.68	1.49
	IV	1.58	1.46		IV	1.77	1.57		IV	1.67	1.49
1973	I	1.56	1.43	1975	I	1.80	1.63	1977	I	1.64	1.45
	II	1.58	1.45		II	1.77	1.61		II	1.65	1.45
	III	1.60	1.46		III	1.72	1.55		III	1.66	1.46
	IV	1.62	1.44		IV	1.70	1.53		IV	1.63	1.43
								1978	I	1.66	1.44

1/A description of this series is presented in the Survey of Current Business (May 1976), pp. 11-24.

2/Data are quarterly averages of the monthly ratio presented on p. 20 of this release.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: June 30, 1978 **RELEASED:** August 1, 1978

Following the slowdown in economic activity in the first quarter, when the extraordinary factors of severe weather and a prolonged coal strike restrained the economy, total spending (GNP in current dollars) surged in the second quarter. For the first two quarters together, total spending rose at a 12.5 percent annual rate, slightly faster than the 11.9 percent increase recorded in the previous year.

Growth in both consumption and investment spending accompanied the gain in total spending in the first half. A decline in the excess of imports over exports from fourth quarter 1977 to second quarter 1978 was also reflected in GNP. An unusual development revealed by the recent data was the significant drop in Federal purchases of goods and services in the first half of the year.

A large proportion of the first half advance in total spending took the form of price increases, as the GNP implicit price deflator jumped at an 8.6 percent annual rate. This rate of advance was almost 3 percentage points higher than the rate prevailing over the preceding portion of the current expansion. Consumer prices have risen sharply since the end of last year, reflecting a spurt in food prices of 18.3 percent at an annual rate. Prices of all consumer items less food advanced at a less rapid rate of 8.5 percent.

Indicators which are not affected by inflation signal slowing to growth rates that are consistent with growth of the economy's productive potential. GNP in 1972 dollars increased at a 7.4 percent annual rate in the second quarter, offsetting the slight drop which occurred in the first three months of the year. Over the two-quarter period as a whole, real GNP registered a 3.6 percent growth rate. This was somewhat slower than last year's gain of 5.5 percent. Industrial production, after recovering in March and April, grew at decreasing rates in May and June, but was up at a 6.7 percent rate from December's level.

Growth in employment continued at a strong pace. The civilian labor force exceeded 100 million persons for the first time in May and climbed even higher in June. Despite this flood of entrants into the job market, employment increases were sufficient to bring the unemployment rate down to 5.7 percent in June, the lowest percentage in nearly four years.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: July 31, 1978 **RELEASED:** August 31, 1978

Gross national product in 1972 prices registered an 8 percent annual rate of growth for the second quarter of 1978, resulting in a rate of increase of 3.9 percent for the first half of the year. Over the past year real GNP grew 4.1 percent, down from the 4.5 percent gain in the prior four quarters. Growth of industrial production maintained a steady 6 percent pace over the three months ending in July. Although this was less than the 7.7 percent rate of advance in the first four months of this year, it was above the 5 percent increase attained in the year ending December 1977. Nonresidential fixed investment, after adjusting for price changes, rose at a 12.3 percent annual rate from fourth quarter 1977 to second quarter 1978. This rate of increase is up from the 9.1 percent rate recorded in the previous year.

The strength in nonresidential fixed investment contrasts with the slowing in consumer spending and residential fixed investment in the first half of 1978. Consumer spending, adjusted for price increases, grew at a 2.5 percent annual rate for the first half of 1978, down from the 4.8 percent recorded in 1977. Consumer spending increases were in large part associated with a reduction in the growth of real disposable income in the first half of 1978. Real residential fixed investment declined slightly from fourth quarter 1977 to second quarter 1978, after increasing 15 percent in 1977. Housing investment has been one of the most robust components of total spending during the current expansion.

Sharp increases in prices have accompanied the continued advance in output. The GNP implicit price deflator rose at a 9 percent rate for the first half of 1978. From fourth quarter 1976 to fourth quarter 1977 the deflator increased 6.1 percent.

Some moderation in the rate of price increase is evident in recent monthly data on producer and consumer prices. Associated with the decline in farm products and processed food prices in July, the producer price index (PPI) rose at an average annual rate of 7.2 percent for April through July. This was below the 12.5 percent rate recorded for the preceding three-month period and the 10.1 percent increase for the first seven months of this year. The consumer price index (CPI) slowed to a 6.3 percent rate in July as the advance in food prices moderated. The CPI for the first 7 months of 1978 increased at a 9.7 percent annual rate.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

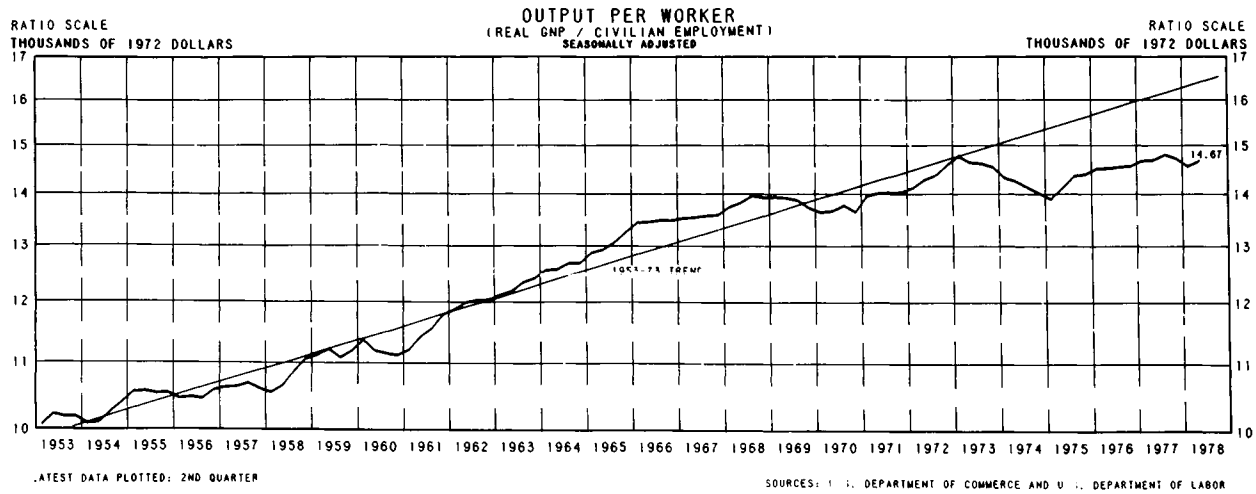
MONTH ENDING: August 31, 1978 **RELEASED:** September 29, 1978

Growth in employment and output remains strong after more than three years of economic expansion. Over the past year, total civilian employment advanced 4.2 percent, somewhat above the pace of 3.4 percent in the previous year. Gross national product, in 1972 dollars, increased 4.3 percent for the year ending second quarter 1978, little changed from the 4.5 percent gain in the preceding year.

During the first year of the current expansion, real output per worker grew 4.4 percent, about the same as the average rate of increase posted in the first year of the four previous recoveries. Typically, productivity growth slows as the economy moves into the more mature phase of an expansion. In the past year output per worker has registered virtually no growth.

The pattern of rapid productivity growth early in an expansion generally arises because of the underutilization of resources which occurs during a recession. With economic recovery, labor productivity is increased as idle plant and equipment are reemployed. In the advanced stages of an expansion, continued gains in productivity growth become more difficult to sustain and require an increased rate of new plant and equipment spending. In the current expansion, real nonresidential fixed investment has risen at a rate of 8.8 percent over the past year after declining 1.9 percent in the first year following the 1973-75 recession.

The chart below depicts the movements of labor productivity from 1953 to present. Although output per worker in the current expansion has followed the same pattern as in previous expansions, the chart indicates that the 1953-73 trend has not been regained. Instead, it appears that the trend growth path has been shifted downward since 1973. An important factor contributing to this shift in labor productivity has been the increase in the cost of energy resources with the resulting impact on energy usage, capital costs and the production mix. A return to the 1953-73 growth path of labor productivity, which has occurred during the four previous expansions, does not appear likely.



LATEST DATA PLOTTED: 2ND QUARTER

SOURCES: U. S. DEPARTMENT OF COMMERCE AND U. S. DEPARTMENT OF LABOR

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: September 30, 1978 RELEASED: October 31, 1978

Total spending for goods and services (GNP in current dollars) continued its rapid advance in the third quarter and is 11.7 percent higher than a year earlier. This pace is the same as that recorded in the previous year (third quarter 1976 to third quarter 1977). Continuation of such a rapid rate of total spending growth so far into the current expansion is unusual when viewed in relation to other periods of economic expansion. A rapid rise in the money stock has been a significant factor in propelling the growth in total spending over the past two years. The narrowly defined money stock has grown at an 8 percent average annual rate since autumn 1976.

Despite the uninterrupted growth in total spending, the growth of output (GNP in 1972 dollars) has slowed. This development is to be expected, however, as the economy approaches the limits of its productive potential. Output rose at a sustainable 3.4 percent rate in the third quarter and is up 3.8 percent from a year earlier. By comparison, output increased 5.3 percent in the year ending third quarter 1977.

Reflecting the advance of output over the last two years, employment has moved up strongly. From autumn 1976 to third quarter 1978, total civilian employment showed an average rate of gain of 3.8 percent. During this same period the civilian labor force expanded at a 2.9 per cent average rate. As a result, the unemployment rate declined from 7.7 percent of the labor force in third quarter 1976 to 6 percent in third quarter 1978.

The slowing of output growth in combination with an unchanged rate of increase in total spending indicates that inflation has accelerated. The general level of prices rose at a 7 percent annual rate in the third quarter and has increased 7.7 percent over the last year. For the year ending third quarter 1977, prices rose 6.1 percent. This acceleration in the average level of prices reflects, in part, volatility in food prices. After increasing only 5.4 percent in the year ending third quarter 1977, food prices surged 10.4 percent over the past year.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

Month Ending: November 30, 1978 Released: December 29, 1978

The expansion in economic activity appears to have accelerated in recent months. From September to November, industrial production increased at a 7.5 percent annual rate following a rise of 6.6 percent over the prior year. Retail sales growth since September surged to a 22 percent rate, substantially above the 11.7 percent increase from September 1977 to September 1978. Personal income growth has also been faster since September, expanding at a 14.5 percent rate after a 12.1 percent rise for the year ending in September.

The rapid pace of expansion has raised the Federal Reserve Board capacity utilization rate for manufacturing to 85.7 percent in November, compared to 82.9 percent a year earlier. The current rate of utilization has been exceeded in this decade only during the period from late 1972 through mid-1974. During 1973, the utilization rate peaked at an annual average rate of 87.5 percent.

The stock of inventories relative to output and sales is low compared to historical experience. The ratio of manufacturing and trade inventories to monthly sales fell to 1.39 in October, the lowest level in twenty-seven years. Similarly, the constant dollar ratio of inventories to business final sales declined to .268 in the third quarter of this year, equaling the ratio in the fourth quarter of 1977. Except for the end of 1965 and beginning of 1966, when the ratio was about .265, this is the lowest level of inventory stocks relative to sales in the post-World War II period.

Employment growth at a 5.6 percent rate in the most recent two months is also very rapid. This rate of increase in civilian employment exceeded the 4.1 percent rise in the prior year and resulted in an increase of 867 thousand jobs in two months. The pace of employment growth has reduced the unemployment rate from 6.7 percent in November 1977 to 5.8 percent in November 1978.

The rate of increase of prices has also accelerated. From September to November, producer prices of industrial commodities rose at a 10.9 percent rate, greater than the rapid increase over the prior year of 7.3 percent. Producer prices for all commodities rose at a 12.8 percent rate over the last two months after increasing 8.7 percent in the prior year. Consumer price increases have also accelerated slightly from the 8.2 percent rise for the year ending in September 1978, to an 8.4 percent rate of increase over the last two months.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: December 31, 1978 RELEASED: January 31, 1979

During 1978, the pace of economic activity expanded rapidly and inflation accelerated. From the fourth quarter of 1977 to the fourth quarter of 1978, total spending grew 12.9 percent, a one percentage point increase over 1977. The GNP deflator rose 8.3 percent over the most recent four-quarter period, substantially faster than the 6.1 percent increase of the prior year. Real GNP growth, at a rapid 4.3 percent in 1978, was slower than the advance of 5.5 percent for the year ending in the fourth quarter of 1977.

The acceleration in inflation during 1978 is also reflected in other price measures. From December 1977 to December 1978, producer prices for all commodities rose 9.7 percent after increasing 5.9 percent during the comparable period for 1977. Producer prices for industrial commodities rose 8.4 percent during 1978 after increasing 6.8 percent in 1977. Similarly, consumer price increases accelerated to 9 percent from 6.8 percent in 1977. The price of labor services reflected the same acceleration as hourly compensation in the private business sector rose 9.8 percent over the year ending in the fourth quarter of 1978, following the 7.5 percent increase in the prior year.

The growth rates of some components of real output declined during 1978. Personal consumption expenditures grew 3.8 percent in the year ending fourth quarter 1978, slower than the 4.8 percent rate of 1977. This slowing was associated with a moderation in real disposable income growth from the 5.4 percent increase in 1977 to 3.3 percent in 1978. The growth of purchases of goods and services by the Federal government dropped sharply from a 6.3 percent rate of increase in 1977 to a 0.3 percent decline from the fourth quarter of 1977 to the fourth quarter of 1978.

The rate of growth of industrial output accelerated in 1978. From the fourth quarter of 1977 to the fourth quarter of 1978, industrial production grew 7.3 percent, after expanding 5.9 percent in the corresponding period for 1977. The recent pace of expansion has contributed to a rise in the utilization of manufacturing capacity, as measured by the Federal Reserve Board, from an 82.9 percent rate in the fourth quarter of 1977 to 85.7 percent in the fourth quarter of 1978. Rapid production growth and high levels of capacity utilization contributed to the fast growth of real nonresidential fixed investment at an 8.3 percent rate in 1978.

Employment growth continued at a rapid pace in 1978. From the fourth quarter of 1977 to the fourth quarter of 1978, civilian employment grew 3.9 percent, faster than the 3.0 percent increase in the civilian labor force. Consequently, the unemployment rate declined from an average rate of 6.6 percent in the fourth quarter of 1977 to 5.8 percent in the fourth quarter of 1978. Comparing employment growth to that of real GNP suggests that productivity grew very slowly. Output per hour in the private business sector expanded only 0.5 percent from fourth quarter 1977 to fourth quarter 1978.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: February 28, 1979 **RELEASED:** March 29, 1979

Total spending (GNP) in fourth quarter 1978 was more vigorous than previous estimates indicated. GNP growth from third to fourth quarter 1978 registered a 15.6 percent annual rate of increase, according to most recent figures. Real output rose at a substantial 6.9 percent rate, up 4.4 percent from a year earlier. The general level of prices increased at an 8.2 percent rate in the fourth quarter. For the year, the 8.3 percent increase in prices was considerably higher than the 6.1 percent rise in the previous year.

Gross private domestic investment accelerated at a 16.9 percent rate during the fourth quarter, but much of this apparent growth reflected higher prices. The constant dollar rate of gross private investment in the economy rose 5.8 percent, somewhat below the 6.5 percent increase recorded over the four quarters of 1978. The difference between nominal and real magnitudes is particularly evident in residential fixed investment. Total outlays for residential structures rose at a 17.2 percent rate during fourth quarter 1978, but, in 1972 dollars, growth in these outlays was at only a 4.1 percent rate. Over the four quarters of 1978, residential fixed investment rose 13.2 percent, but real growth was virtually flat. In contrast, real housing investment rose 15.3 percent in 1977.

The rise in real investment spending during the fourth quarter and for the year was primarily in nonresidential fixed investment. Fourth quarter investment in new plant and equipment rose at a 9.3 percent rate when measured in 1972 dollars, the same as the 9.4 percent rate of expansion for the year ending fourth quarter 1978. In the previous year, real investment in plant and equipment increased 9.1 percent.

Inventory accumulation, which slackened in the third quarter, slowed further during fourth quarter 1978. Real inventory investment was at an $8.2 billion annual rate compared to an average rate of $11.3 billion over the first three quarters of 1978.

Price increases continue to affect the economy. For the two-month period ending in February, producer prices rose at a 17.4 percent rate, up considerably from the already rapid 11 percent rate of increase during the three months ending in December. Consumer prices also escalated during the first two months of 1979. From December to February, the consumer price index rose at a 14 percent annual rate.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: March 31, 1979 RELEASED: April 30, 1979

Total spending in the economy slowed in the first quarter, rising at a 9.5 percent annual rate compared to the 15.6 percent rate of increase in the previous quarter. Most of the advance in spending reflected price increases, as the implicit price deflator rose at an 8.7 percent rate. First quarter growth in output was hampered by winter weather and a major strike. The less than 1 percent rate of expansion in real output in the first quarter was down sharply from the nearly 7 percent rate of increase in the final quarter of 1978.

Real consumer spending increased at a 1.7 percent rate, considerably slower than the 7.7 percent gain in the previous quarter. The slowdown in consumer spending reflected efforts to adjust spending to changes in real income growth. Real disposable personal income rose at a 3.2 percent rate in the first quarter, much slower than the 6.1 percent rate of rise in the fourth quarter. Over the two quarters, real consumer spending increased at a 4.7 percent rate, the same as the rate of growth in real disposable personal income.

Real business investment in structures declined in the first quarter, in part, as a result of the impact of winter weather on construction activity. However, businesses invested heavily in producers' durable equipment in the first quarter, which rose at an 8 percent rate in real terms, following a 9 percent rate of expansion in fourth quarter 1978. Real investment in inventories rose at an annual rate of $11.8 billion during the first quarter, up from the $8.2 billion increase in the previous quarter.

Total civilian employment growth continued unabated despite slowing in output. For the three months ending in March, total civilian employment increased at a 4.2 percent rate, above the 3.6 percent rate of growth for the year ending December 1978. The labor force grew less rapidly than employment, resulting in a reduction in the unemployment rate from 5.9 percent in December to 5.7 percent in March.

Consumer and producer prices advanced sharply during the first quarter. Producer prices rose at a 16.5 percent annual rate for the first three months of 1979. From December to March, consumer prices rose at a 13.9 percent rate, compared to a 9.1 percent increase in the previous twelve months.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MONTH ENDING: April 30, 1979 **RELEASED:** May 29, 1979

The expansion of real economic activity has slowed since late 1978. Real GNP grew at only a 0.5 percent annual rate during the first quarter of this year, following a 4.4 percent increase over the prior four quarters. A further slowing in the expansion of economic activity during April is indicated by data for production, income, retail sales, and employment.

First quarter output developments in 1979 reflect, in part, the influence of unusually severe weather conditions, as in the first quarter of 1978 when real GNP declined slightly. During the first quarter of both 1978 and 1979, the slowdown in the growth of the nation's output of goods and services was mirrored in relatively large declines in productivity. In each case, civilian employment grew quite rapidly; in 1978, at a 4.6 percent rate, and in 1979, at a 4.2 percent rate. Output per hour of all persons in the private business sector, however, declined at a 4.3 percent rate in the first quarter of 1978, and at a 4.6 percent rate this year.

In the initial quarter of both 1978 and 1979, the slowing in output was primarily reflected in a slowing of purchases by government and consumers. During the first quarter of 1978, real government purchases fell at a 3.5 percent rate, while real personal consumption expenditures declined at a 1.4 percent rate. Comparable figures for this year are a 4.2 percent rate of decrease for government purchases, and growth in real personal consumption expenditures at only a 0.3 percent rate.

During April, declines were registered for industrial production and civilian employment, while payroll employment, personal income, and retail sales showed relatively slow growth. These developments reflect, in part, a temporary disruption in material deliveries and production due to the truckers lockout early in the month, as well as the slowing of monetary expansion from October 1978 to March 1979.

By historical standards, inventory stocks continue to be low relative to sales. In March 1979, the ratio of manufacturing and trade inventories to monthly sales was 1.37, the lowest level since September 1950. For the economy as a whole, the ratio of the constant dollar stock of inventory to real final sales was .267 in the first quarter. This was only slightly higher than in the fourth quarter of 1978 when this measure of inventory stocks was at the lowest level in the history of the series.

Prices continued to climb at double-digit rates in April. Producer prices rose at a 16.2 percent annual rate from December 1978 to April 1979, sharply higher than the 10.9 percent rate of advance over the prior four months, or the 11.6 percent rate of increase during the same four-month period last year. Producer industrial commodities have risen at a 12.6 percent rate since September 1978, the month before the announcement of wage-price guidelines. During the year ending in September 1978, such prices increased 7.4 percent. Producer prices for fuels and related products and power have risen at a 25.1 percent rate since the Iranian turmoil in November 1978. In the most recent two months, the annual rate of increase of these prices was 39.4 percent.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

Month Ending: August 31, 1979 Released: September 28, 1979

GNP expanded at only an 8.6 percent annual rate during the first two quarters of this year, reflecting in part a slowing in money stock (M1) growth. During these quarters, the implicit price deflator rose at a 9.3 percent rate and real GNP fell at a 0.6 percent rate. The money stock, without adjustments for new means of payment introduced in November 1978, declined at a 1.5 percent rate during the five months from October 1978 to March 1978, following a 7.8 percent rate of increase during the two years ending last October.

In recent months, the economy continued to show signs of weakness. Industrial production rose at only a 1.6 percent rate from the fourth quarter of 1978 to the second quarter of 1979. From March to August, however, industrial production declined at a 3.3 percent rate, putting the index lower in August than in December 1978. Payroll and civilian employment growth have also slowed markedly since March. Unemployment has risen from 5.7 percent of the civilian labor force in March to 6.0 percent in August.

Inventories are at low levels relative to sales despite evidence that they have expanded faster than sales in recent months. The ratio of business inventory to business final sales (both in 1972 prices) rose from .269 in the last quarter of 1978 to .278 in the second quarter of this year. Except for two quarters just prior to the 1966-67 slowdown, the ratio at the end of 1978 was at the lowest level in postwar history. The second quarter ratio is about the same as the average for 1973, a year marked by shortages and low inventory.

Prices continue to reflect the impact of substantial increases in energy costs over the past nine months and the pace of monetary growth over the past three years. Consumer prices rose at a 12.7 percent rate over the three months ending in August while producer prices rose at a 13.3 percent rate. The producer price index for fuel and related products and power rose at a 43.6 percent rate from November 1978 to August. From June to August, these prices rose at a 77.1 percent rate.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

Month Ending: September 30, 1979 Released: October 31, 1979

Nominal GNP grew at an 11 percent annual rate from the second to the third quarter of this year, following an 8.6 percent rate of increase during the first half of the year. Final sales (GNP less inventory investment) growth was even stronger, accelerating to a 13.7 percent rate in the third quarter, following a 7.5 percent rate of increase in the prior two quarters. This acceleration is due, in part, to the acceleration in money stock (M1) growth from a 1.0 percent rate from the third quarter of 1978 to the first quarter of 1979 to an 8.9 percent rate during the past two quarters.

Third quarter growth of GNP included an 8.4 percent rate of increase in prices and a 2.4 percent rate of increase in real output. Real output growth was faster than during the first half of this year when real GNP fell at a 0.6 percent rate. The faster pace of output growth during the quarter was reflected in most major components of spending. Real personal consumption expenditures showed the sharpest gain, rising at a 4.4 percent rate, in spite of a decline in real disposable personal income at a 1.1 percent rate during the quarter. During the first two quarters, real consumer spending declined at a 1.1 percent rate. Real nonresidential fixed investment rose at a 3.6 percent rate during the third quarter, following a 1.9 percent rate in the first two quarters of this year. While real residential fixed investment declined at a 4.8 percent rate in the third quarter, this was slower than the 10.7 percent rate of decline registered in the first two quarters. Real government purchases of goods and services also rose slightly in the third quarter, following a decline at a 2.6 percent rate during the first two quarters of 1979.

The growth of total civilian employment also accelerated, reaching a 3.3 percent rate in the third quarter, following a 1.7 percent rate of increase in the first two quarters of this year. Unemployment averaged 5.8 percent of the civilian labor force during the third quarter, virtually unchanged from the 5.7 percent rate during the first half.

While the third quarter rate of increase of the GNP deflator declined from the 9.3 percent rate of the first two quarters, other measures of prices have not slowed appreciably. Consumer prices rose at a 14.5 percent rate in September. The rate of increase of these prices in the third quarter was 12.9 percent, about the same as the rate during the first two quarters of the year. Producer prices of all commodities rose at a 20.3 percent rate in September. The 13.6 percent rate of increase of these prices in the third quarter was little changed from the 13.9 percent rate of the first two quarters.

NATIONAL ECONOMIC TRENDS

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

Month Ending: November 30, 1979 Released: December 31, 1979

Growth in total spending (GNP in current dollars) has moderated in 1979. As a result of the added impact of increased energy prices, output rose at a sluggish 0.6 percent annual rate in the first three quarters of 1979, compared with a 4.8 percent rate of increase in the year ending in the fourth quarter of 1978. Prices, as measured by the implicit price deflator for GNP, accelerated to a 9.1 percent rate of increase from an 8.2 percent rate in 1978.

Although total spending by consumers, businesses, and government slowed in 1979, the most noteworthy cutbacks in spending occurred in consumer purchases of durable goods, especially automobiles, and in residential investment. Real spending for consumer durables declined at a 4.5 percent rate in the first three quarters of 1979, compared with the 6.8 percent rate of expansion in the year ending in the fourth quarter of 1978. Similarly, residential investment in constant dollars declined at a 7.7 percent rate, after rising at a 7.3 percent rate in the two-year period ending in the fourth quarter of 1978. Expenditures for homes and durables have been influenced by rising home prices, credit availability, and energy price developments.

The effect of energy price increases on real spending is especially apparent in domestic sales of automobiles. Domestic sales of new passenger cars fell to an annual rate of 8.7 million units for the first three quarters of 1979 from the 9.3 million sold in the previous year. Moreover, import sales increased from 2.0 million in 1978 to an annual rate of 2.3 million units, as consumers switched to smaller, more energy-efficient automobiles. For the first three quarters of 1979, large and intermediate cars made up only 44 percent of total sales, declining from 51.5 percent in the fourth quarter of 1978. Imports rose from 17 percent of the new car sales market in late 1978 to 21.2 percent in the first three quarters of 1979. Similar shifts in the sales of automobiles took place following the oil embargo and energy price increases of 1973-74.

Despite recent large layoffs in a few industries, employment data indicate continued strength. From September to November, payroll employment rose at a 2.6 percent rate, basically unchanged from the period December 1978 to September. Unemployment in November was the same as in September at 5.8 percent of the civilian labor force.