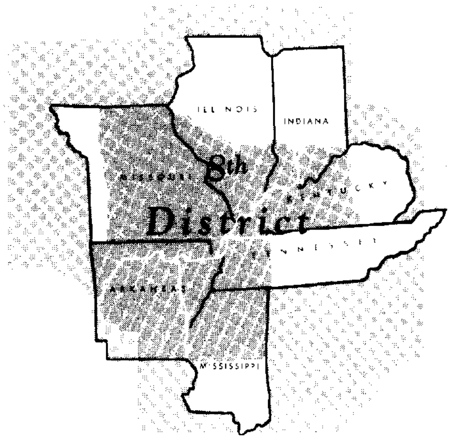

Monthly Review

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Business Activity Increases

BUSINESS ACTIVITY was substantially higher in November and early December than in October, after settlement of some of the strikes which had been retarding growth of industrial production. The sharpest increase of industrial production occurred in the durable goods field, notably in the automobile industry. Construction activity has continued to rise. Wholesale and consumer prices on the average changed little, with price increases in manufactured items being offset by further declines in prices of farm products. Unemployment declined slightly in November, after adjustment for seasonal influences.

Industrial production rose in November following October strikes

Strikes and other work stoppages idled some 450,000 workers in October, causing the loss of about 5.3 million man-days of work, according to estimates of the United States Department of Labor. The time lost was especially great in manufacturing of automobiles, glass, and machinery. The index of industrial production, nevertheless, increased by one point to 138 per cent of the 1947-49 average, as increases in production of nondurable goods and of primary metals and some other durables offset the losses of production in the strike-bound industries.

In November the index of industrial production rose 3 points to 141 per cent of the 1947-49 average, 2 points above a year ago and only 4 points below the August 1957 level. Automobile production rose sharply and was estimated at about 515,000 units for the entire month. Output in December is scheduled for about 600,000 units. Steel operations remained fairly stable during the month of November with output at approximately 74 per cent of capacity.

This picture of economic strength is also evidenced by the continued increase in electric power consumption since the beginning of November. Production of paperboard, which has been at record highs since mid-September, continued to exceed year-ago levels through November. Strikes continuing into November curtailed production of glass and farm machinery.

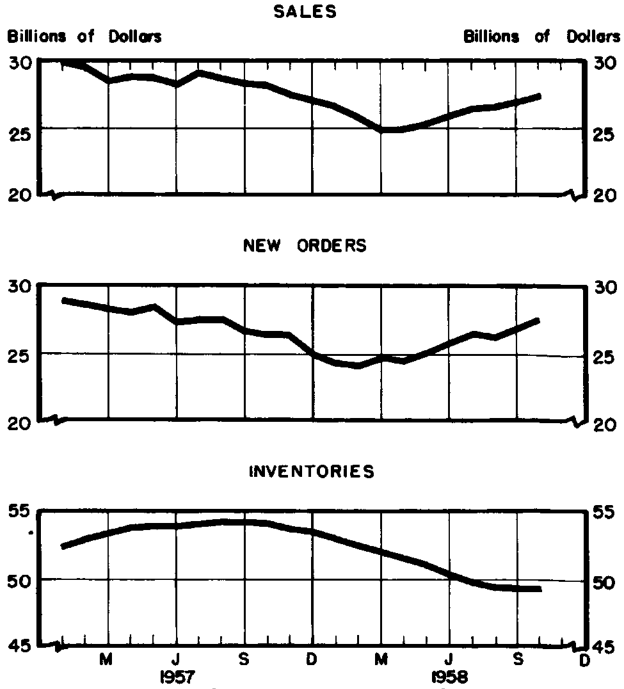
Industrial activity in the Eighth Federal Reserve District has shown substantial gains since October. Most district auto plants operated on 6-day week schedules by late November. The St. Louis area steel ingot rate reached 95 per cent of rated capacity. At Louisville, distilleries have been operating at their seasonal peak. In the same city, manufacturers of transportation equipment, machinery and cooperage have increased production, and employment has consequently improved.

Manufacturers' new orders, sales, and inventories are promising

Manufacturers' new orders in October were up 3 per cent from their September level after seasonal adjustment, were about 15 per cent larger than at their lowest point last February, and were 4 per cent larger than in October 1957. The September-October increase in orders was primarily for durable goods, especially transportation equipment, nonferrous metals and building materials. New orders for electrical and nonelectrical machinery showed a slight decline from their September rate, and orders for fabricated metals were unchanged.

Manufacturers' sales have been increasing. October sales rose by $475 million from September, with $300

MANUFACTURERS' SALES, ORDERS, AND INVENTORIES
Seasonally Adjusted



Sources: Department of Commerce and Board of Governors of the Federal Reserve System.

million of the increase in durable goods, reflecting a substantial rise in automobile deliveries. Shipments of primary metals rose at a more moderate rate (see chart).

One of the most encouraging recent developments has been the behavior of manufacturers' inventories. Since the beginning of the recession in the fall of 1957 inventory liquidation has accounted for much of the decline in production, as manufacturers reduced stocks at the expense of current production. The rate of inventory reduction began to slow last spring, and apparently ended in October. The book value of manufacturers' inventories at the end of October was $49 billion (seasonally adjusted), about $5 billion lower than a year earlier. There are indications that manufacturers may have added slightly to inventories in November, especially materials and goods in process.

Construction continues to show strength

An outstanding feature of the recovery has been the steady growth of construction activity since the first half of this year. The value of new construction put in place rose to a seasonally adjusted annual rate of $52 billion in November, 6 per cent above a year ago. New private housing starts reached a seasonally adjusted annual rate of 1.33 million in the month, the highest rate since June of 1955. Because of the large volume of contracts recently awarded and new homes started, construction activity is expected to continue at a high level in the near future.

Employment levels have risen

Most recent information indicates that the level of employment continues to rise less rapidly than other aspects of economic activity. Seasonally adjusted figures show that in spite of a slight increase in industrial production manufacturing employment declined in October, reflecting the reduction of factory jobs in industries plagued by strikes. On the other hand, a greater-than-seasonal increase in employment occurred in the steel industry which during that month substantially increased its production. Manufacturing employment picked up moderately in November as a result of strike settlements and consequent more normal plant operations. Strikes in the field of transportation, however, have dampened the November rise in nonmanufacturing employment. Claims for unemployment compensation, both initial and continued, showed an increase in November, reflecting seasonal layoffs in the apparel and food processing industries, and in construction and other outdoor work.

In the Eighth District, employment levels have followed the national pattern with November figures showing a marked improvement largely because of the settlement of labor disputes. However, both manufacturing and total nonagricultural employment in most industrial centers in October were still well below the level prior to the recession (see table).

EMPLOYMENT IN MAJOR EIGHTH DISTRICT AREAS
in October 1957 and October 1958
(In thousands)

	Nonagricultural Employment			Manufacturing Employment		
	October 1957	October 1958	Percentage Change	October 1957	October 1958	Percentage Change
Evansville. .	69.1	64.6	—6.5	28.1	25.5	—9.3
Little Rock. .	75.0	77.3	+3.1	13.0	14.0	+7.7
Louisville. . .	245.2	241.1	—1.7	88.9	86.8	—2.4
Memphis. . .	192.8	188.8	—2.1	45.7	41.3	—9.6
St. Louis. . . .	727.4	694.4	—4.5	271.0	248.6	—8.3
Total.	1,309.5	1,266.2	—3.3	446.7	416.2	—6.8

Source: State Employment Security Divisions.

A rise of personal income has aided in the recovery

Throughout the recession personal income declined to a much smaller degree than business activity, reflecting in part the stabilizing influence of unemployment insurance benefits and other transfer payments. On the other hand, the rise in economic activity has been only partly reflected in an increase in personal income. Because of strikes personal income actually declined slightly in October, but was still $6.9 billion above the October 1957 level.

Increased economic activity in November and early December and a decline in the number of man hours lost as a result of labor disputes are reflected in longer factory work weeks and higher weekly earnings, and consequently in a rise in personal income. Increases in wage rates have also influenced personal income. In view of the present holiday season this rise in income may be expected to have an important impact upon the level of consumer spending.

Retail sales have been improving

In November, department store sales, which on a seasonally adjusted basis had shown a slight drop in October, picked up considerably, exceeding last year's November sales by about 2 per cent. Automobile sales rose sharply in late November as dealers' inventories became large enough to provide buyers with a wide range of choice.

Total retail sales in the nation in October were up about 3 per cent from the September level, after adjustment for seasonal factors and trading day differences, and were above the record high established in August 1957. Sales of auto dealers were up about 10 per cent from their low September rate and most other types of stores reported moderate increases.

Price changes have been small on the average

Average prices have remained reasonably stable. The general wholesale price index rose slightly during November, mainly under the influence of price increases for new automobiles, textiles, farm equipment, and some types of machinery. There was some weakness in prices of copper and steel scrap in late November and early December, while other metals experienced some price increases. Prices of farm products and processed foods continued to decline in November.

The consumer price index in October remained steady at 123.7 per cent of the 1947-1949 index. There has probably been little change in average consumer prices in the period since the beginning of November.

Stability in the Money Markets Continues

DURING NOVEMBER and early December the money markets continued to be relatively stable, as they had been in September and October. Despite a large Treasury cash offering and a sizable refunding, interest rates on marketable securities fluctuated only slightly. Bank reserve positions firmed a little as banks expanded loans and investments more than seasonally.

The discount rates at the Federal Reserve Banks have remained (through December 12) at 2½ per cent since the October 24-November 7 period when rates were increased from a level of 2 per cent. Member bank reserve requirements and stock margin requirements were unchanged during November and early December. In the six weeks ending December 10, the Federal Reserve System added $885 million to member bank reserves through net purchases of Government securities in the open market.

Banks

Reserve positions of member banks became slightly tighter during November and early December. Borrowings of member banks from the Reserve Banks averaged about $455 million in the six weeks ending December 10, compared with $425 million in the previous six weeks. At the same time, excess reserves of member banks, which averaged $565 million in the previous period, decreased to $505 million. Accordingly, free reserves decreased from $140 million to $50 million.[1] A seasonal increase of currency in circulation absorbed some bank reserves. Also, banks had to increase their required reserves during the six weeks to support a larger volume of deposits, reflecting an expansion in bank credit. On the other hand, commercial banks gained a sizable volume of funds as a result of net Federal Reserve purchases of Government securities.

Demand for bank credit picked up during the five weeks ending December 3; total loans of reporting banks rose 1½ per cent ($860 million) compared with a normal growth of about 1 per cent at this time. All major categories of loans shared in the expansion, with the greatest strength in advances on real estate. Reporting banks also increased their investment portfolios $160 million over the five weeks. Substantial purchases of the Treasury's new tax-anticipation bills (over $1 billion) were partially offset by net sales of these and other securities during the period.

Reflecting the expansion in bank loans and investments, demand deposits at reporting banks rose over 1 per cent during the five weeks ended December 3, with the gain primarily in Treasury tax and loan accounts. Demand balances of individuals and businesses, however, declined slightly. Time deposits decreased $350 million in the month, partly because of disbursement of Christmas club funds.

Borrowing by the Federal Government

The securities markets were influenced to a great extent during November and early December by Government financing operations. On November 14, the Treasury auctioned about $3 billion of seven-month tax-anticipation bills and subsequently refunded $12.2 billion of maturing securities.

The average rate on the auctioned bills was just under 3 per cent. By comparison, in the early October

(Continued on Page 150)

[1] A discussion of the free reserve concept appears in the November issue of the *Monthly Review* of the Federal Reserve Bank of New York. Copies may be obtained by request directed to the Publications Division, Federal Reserve Bank of New York, New York 45, New York.

Resilience of the American Economy: Tested in Three Postwar Recessions

As THE 1957-58 RECESSION fades into history it leaves interesting questions behind it. Why was the recession no worse? Was the recovery a fortunate accident, or was it something to be expected? In short, what went right in the economy and why? There is much evidence to support a view that in this recession, as in the two preceding ones, the American economy demonstrated a characteristic and powerful resistance to decline. There evidently were strong influences at work during each recession to bring about renewed growth of activity quite aside from deliberate governmental intervention and fortuitous developments which may also have contributed.

The influences combining to arrest a business recession cannot all be ticketed with the proper amounts of credit for the roles they played. Nevertheless, some of the major ones in the postwar recessions can at least be identified. Among them have been fiscal policy measures, changes in monetary policy, varying degrees of liquidity of consumers and businesses, the condition of consumer and business stocks of goods, and international relations. However, this article, in effect, sets such influences to one side in order to focus instead upon certain automatic responses of the economy which have operated in each recession, acknowledging that the effectiveness of such automatic stabilizers has probably been conditioned by the excluded influences. Furthermore, the discussion of each recession is limited almost wholly to what happened in the period between the quarter in which economic activity reached its pre-recession peak and the quarter in which the recession can be judged to have ended and a new expansion of activity to have begun.[1] A fuller treatment of the resilience of the economy would of course include an examination of the boom period just before the peak and of the recovery period which followed each decline. While excluding many important and interesting aspects of the postwar recessions the procedure adopted for this discussion does permit highlighting the working of some significant forces in the economy during periods in which there was much uncertainty about the nature and severity of declines in business activity.

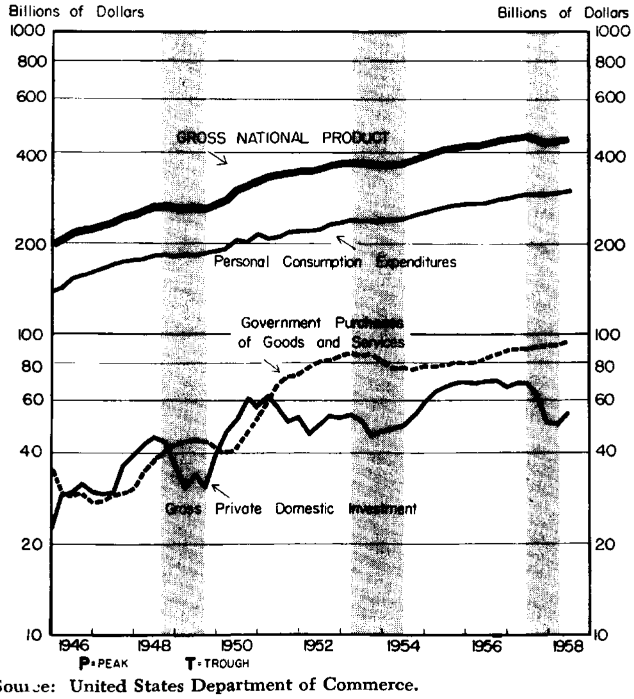
[1] Not all economic measures reached their lowest points in the periods here considered to be the troughs of the three recessions. For example, personal income reached low points 5 months before the middle of the trough quarter of 1954 and 3 months before the middle of the trough quarter of 1958.

How a Recession Might Be Expected to Develop

The three recessions, as can be seen in the chart, have all involved substantial declines in investment. During the 1953-54 recession there was also a sharp decline in defense expenditures, reflecting the end of the Korean War. It is immediately apparent that the rate of decline in total expenditures or gross national product in each recession was much smaller than the rate of decline of investment expenditures. Furthermore, in each recession total consumption expenditures showed no decline between the pre-recession peak quarter and the quarter in which the recession reached its trough. Here perhaps is one key to an explanation of the economy's resilience.

GROSS NATIONAL PRODUCT

Seasonally Adjusted at Annual Rates



Source: United States Department of Commerce.

Note: Plotted on ratio scale in order to facilitate comparisons of changes in relative magnitudes. Equal vertical distances correspond to equal percentage changes. Shading covers the period from peak to trough of each of the three postwar recessions.

According to theories of income and employment which became widely held in the 1930's, investment declines of the magnitudes observed in the last three recessions would have been expected to induce even larger declines in total income. Consumption, in these theories, is assumed to be closely related to current income. Therefore, a reduction of investment or government spending, by reducing incomes of people who produce capital goods or goods and services for the government, would be expected to reduce consumption which in turn would reduce the incomes and consumption of consumer goods producers. Thus, in each of the postwar recessions concern was expressed over the possibility that the initial declines of investment or defense spending would start a cumulative downward spiral of output and income which could not be checked without massive governmental intervention in the form of tax cuts and expenditure programs.

Nevertheless, as we have seen, the much-feared cumulative decline did not materialize in any of these recessions. Reductions in output and employment were confined largely to durable goods manufacturing, transportation, and mining. Indeed, it has been said that the economy had the appearance of a ship with self-sealing compartments, in which damage may be sustained in one or more compartments without seriously affecting the rest of the ship. This figure, while at first appealing, misses the mark. The American economy actually is a highly interdependent one. The fine degree of specialization and the pervasive network of relationships characterizing the economy of this country conflict with the notion that important sectors of it can in some way be sealed off from one another. A better analogy might stress the very complexity, diversity, and flexibility of the relationships among the various parts of the economy as the secret of resistance to the spreading and deepening of recessions.

An explanation of the economy's performance in the last three recessions, which stresses interdependence rather than independence of the sectors, can start with several observations. (1) The influence of declines in government spending or investment outlays upon total disposable personal income was mitigated by numerous automatic offsets, the so-called "built-in stabilizers," so that as some sources of consumer income contracted others expanded. (2) The consumer displayed considerable independence in timing his spending, and so consumption expenditures did not appear to be so closely related to current consumer income as has sometimes been assumed. (3) Reductions in defense spending and business investment were partially offset by rises of other types of expenditure, for example, outlays for residential construction, and spending by states and local governments.

Major Outlines of the Postwar Recessions

For an appreciation of the processes of adjustment at work in the postwar recessions one can turn to the nation's economic accounts. The following tables have all been drawn from the national income and product accounts maintained by the United States Department of Commerce. These accounts provide dollar measures of total national output; the contribution made to the total by business, consumers, and governments; final uses of the total product; and certain transactions with the rest of the world.

To characterize the recessions briefly, it can be seen from the chart and Table I that the most recent one was the deepest in terms of percentage change in gross national product, although it did not last as long as either of the others. The 1948-49 recession was nearly as deep as the one of 1957-58 and was slightly longer. The 1953-54 contraction was considerably less severe than the others although it persisted a little longer than they did. Looking at the table headed Gross Private Domestic Investment

TABLE I

Gross National Product in Three Recessions

(Seasonally adjusted annual rates in billions of dollars)

	1948-1949				1953-1954				1957-1958			
	Pre-Recession Peak Oct.-Nov.-Dec. 1948	Trough Oct.-Nov.-Dec. 1949	Change Amount	Change Per Cent	Pre-Recession Peak Apr.-May-June 1953	Trough July-Aug.-Sept. 1954	Change Amount	Change Per Cent	Pre-Recession Peak July-Aug.-Sept. 1957	Trough Apr.-May-June 1958	Change Amount	Change Per Cent
Personal consumption expenditures	180.8	184.0	+ 3.2	+ 1.8	233.3	238.7	+ 5.4	+ 2.3	288.3	288.3	—0—	—0—
Gross private domestic investment	43.9	30.6	—13.3	—30.3	52.9	48.8	— 4.1	— 7.8	66.7	49.2	—17.5	—26.2
Government purchases of goods and services[1]	40.4	43.2	+ 2.8	+ 6.9	85.2	75.5	— 9.7	—11.4	87.0	90.9	+ 3.9	+ 4.5
Net foreign investment	0.9	— 0.8	— 1.7	....	— 2.6	— 0.9	+ 1.7	....	3.6	0.5	— 3.1	....
Total Gross National Product or Expenditure	**265.9**	**257.0**	**— 8.9**	**— 3.3**	**368.8**	**362.0**	**— 6.8**	**— 1.8**	**445.6**	**429.0**	**—16.6**	**— 3.7**

1 Includes state and local

All tables cover the periods indicated by the shading on the chart.

Source for all tables: U. S. Department of Commerce, National Income and Product Accounts, *Survey of Current Business*, July, September, November, 1958.

(Table II), it can be seen that a shift from accumulation of business inventories to liquidation accounted for the largest part of the decline of investment expenditures in each recession. However, there also were sharp declines in business fixed investment in 1948-1949 and 1957-1958, as shown by the changes in expenditures for nonresidential construction and for producers' durable equipment. The 1953-1954 contraction appears to have been primarily the result of changes in Federal Government purchases of goods and services (Table III). National security purchases fell during the period covered in the table below by $11.1 billion in seasonally adjusted annual rate, or about 21 per cent, and nondefense purchases of the Federal Government declined by $2.5 billion, or nearly 32 per cent. A small decline of national security purchases was also a feature of the 1957-58 recession.

How Consumer Disposable Income Was Affected

As production of goods and services for the government and for business investment was curtailed, private wages and salaries declined, with the greatest percentage decline occurring in the 1948-1949 recession (Table IV). This is what might be expected to intensify a recession, touching off a cumulative downward spiral of output and income. But at this point several of the automatic responses intervened. In each of the periods under review transfer payments rose, offsetting nearly one-third of the reduction in private wages and salaries in 1948-1949 and more than half of it in 1953-1954 and 1957-1958. Part of the growth in transfer payments was supplied by unemployment compensation and part by rises of social security benefits as contraction of employment opportunities apparently induced some older workers to retire. Additional growth in transfer payments resulted from broadening of coverage and increases in compensation rates under social security and unemployment compensation programs. For example, the Federal program of Temporary Unemployment Compensation was instituted in 1958 for the aid of people who had exhausted compensation rights under the regular state programs.

Although wage and salary income fell in each recession, most other sources of income either continued to grow or remained stable. It is evident from Table IV that proprietors' income has been an exception, showing considerable variation in behavior from recession to recession. During the 1948-1949 recession farm income was falling precipitously from its postwar peak, while in the 1957-1958 contraction income of farm proprietors rose. Incomes of business and professional proprietors declined by about 3.5 per cent in the recessions of 1948-1949 and 1957-1958, largely as a result of reductions in some types of retail trade.

When all the types of income are added up it can be seen that total personal income declined by 3 per cent in 1948-1949 and remained virtually unchanged

TABLE II

Gross Private Domestic Investment in Three Recessions

(Seasonally adjusted annual rates in billions of dollars)

	1948-1949				1953-1954				1957-1958			
	Pre-Recession Peak Oct.-Nov.-Dec. 1948	Trough Oct.-Nov.-Dec. 1949	Change Amount	Change Per Cent	Pre-Recession Peak Apr.-May-June 1953	Trough July-Aug.-Sept. 1954	Change Amount	Change Per Cent	Pre-Recession Peak July-Aug.-Sept. 1957	Trough Apr.-May-June 1958	Change Amount	Change Per Cent
New residential nonfarm construction	9.7	10.9	+ 1.2	+12.4	14.0	15.8	+ 1.8	+12.9	16.9	16.2	— 0.7	— 4.1
Other construction	9.7	9.0	— 0.7	— 7.2	13.8	14.4	+ 0.6	+ 4.3	19.7	18.7	— 1.0	— 5.1
Producers durable equipment	20.1	16.0	— 4.1	—20.4	22.0	20.7	— 1.3	— 5.9	28.0	22.3	— 5.7	—20.4
Change in business inventories	4.3	— 5.3	— 9.6	....	3.1	— 2.1	— 5.2	....	2.2	— 8.0	—10.2	....
Total Gross Private Domestic Investment	**43.9**	**30.6**	**—13.3**	**—30.3**	**52.9**	**48.8**	**— 4.1**	**— 7.8**	**66.7**	**49.2**	**—17.5**	**—26.2**

TABLE III

Government Purchases of Goods and Services in Three Recessions

(Seasonally adjusted annual rates in billions of dollars)

	1948-1949				1953-1954				1957-1958			
	Pre-Recession Peak Oct.-Nov.-Dec. 1948	Trough Oct.-Nov.-Dec. 1949	Change Amount	Change Per Cent	Pre-Recession Peak Apr.-May-June 1953	Trough July-Aug.-Sept. 1954	Change Amount	Change Per Cent	Pre-Recession Peak July-Aug.-Sept. 1957	Trough Apr.-May-June 1958	Change Amount	Change Per Cent
National security	16.9	17.8	+ 0.9	+ 5.3	53.0	41.9	—11.1	—20.9	46.9	46.0	— 0.9	— 1.9
Other Federal	7.4	6.7	— 0.7	— 9.5	7.9	5.4	— 2.5	—31.6	4.0	5.8	+ 1.8	+45.0
State and local	16.1	18.7	+ 2.6	+16.1	24.3	28.2	+ 3.9	+16.0	36.1	39.1	+ 3.0	+ 8.3
Total Government Purchases of Goods and Services	**40.4**	**43.2**	**+ 2.8**	**+ 6.9**	**85.2**	**75.5**	**— 9.7**	**—11.4**	**87.0**	**90.9**	**+ 3.9**	**+ 4.5**

TABLE IV

Personal Income, Consumption, and Saving in Three Recessions

(Seasonally adjusted annual rates in billions of dollars)

	1948-1949				1953-1954				1957-1958			
	Pre-Recession Peak Oct.-Nov.-Dec. 1948	Trough Oct.-Nov.-Dec. 1949	Change Amount	Change Per Cent	Pre-Recession Peak Apr.-May-June 1953	Trough July-Aug.-Sept. 1954	Change Amount	Change Per Cent	Pre-Recession Peak July-Aug.-Sept. 1957	Trough Apr.-May-June 1958	Change Amount	Change Per Cent
Wage and salary disbursements	**138.7**	**133.2**	**— 5.5**	**— 4.0**	**198.8**	**195.4**	**— 3.4**	**— 1.7**	**240.5**	**233.6**	**— 6.9**	**— 2.9**
Private	118.7	112.2	— 6.5	— 5.5	164.8	160.8	— 4.0	— 2.4	199.9	191.8	— 8.1	— 4.1
Government	20.0	21.0	+ 1.0	+ 5.0	34.0	34.6	+ 0.6	+ 1.8	40.6	41.8	+ 1.2	+ 3.0
Transfer payments	**10.7**	**12.6**	**+ 1.9**	**+17.8**	**14.1**	**16.5**	**+ 2.4**	**+17.0**	**21.6**	**26.2**	**+ 4.6**	**+21.3**
Proprietors' Income	**40.4**	**35.0**	**— 5.4**	**—13.4**	**40.7**	**40.9**	**+ 0.2**	**+ 0.5**	**43.5**	**44.1**	**+ 0.6**	**+ 1.4**
Business and professional	23.1	22.3	— 0.8	— 3.5	27.5	27.8	+ 0.3	+ 1.1	31.7	30.7	— 1.0	— 3.2
Farm	17.3	12.7	— 4.6	—26.6	13.2	13.1	— 0.1	— 0.8	11.8	13.4	+ 1.6	+13.6
Property income	**24.0**	**26.1**	**+ 2.1**	**+ 8.8**	**33.2**	**35.3**	**+ 2.1**	**+ 6.3**	**43.8**	**43.8**	**-0-**	**-0-**
Rents	7.6	8.7	+ 1.1	+14.5	10.5	10.9	+ 0.4	+ 3.8	12.0	12.1	+ 0.1	+ 0.8
Dividends	7.6	7.8	+ 0.2	+ 2.6	9.4	9.7	+ 0.3	+ 3.2	12.7	12.4	— 0.3	— 2.4
Interest	8.8	9.6	+ 0.8	+ 9.1	13.3	14.7	+ 1.4	+10.5	19.1	19.3	+ 0.2	+ 1.0
Other income	**0.6**	**1.0**	**+ 0.4**	**+66.7**	**1.9**	**1.6**	**— 0.3**	**—15.8**	**2.4**	**2.2**	**— 0.2**	**— 8.3**
Total Personal Income	**214.4**	**207.9**	**— 6.5**	**— 3.0**	**288.7**	**289.7**	**+ 1.0**	**+ 0.3**	**351.8**	**349.8**	**— 2.0**	**— 0.6**
Less: Personal tax and nontax payments	20.4	18.6	— 1.8	— 8.8	35.9	32.9	— 3.0	— 8.4	43.1	42.3	— 0.8	— 1.9
***Equals:* Disposable Personal Income**	**194.0**	**189.3**	**— 4.7**	**— 2.4**	**252.8**	**256.8**	**+ 4.0**	**+ 1.6**	**308.7**	**307.5**	**— 1.2**	**— 0.4**
Less: Personal consumption expenditures	180.8	184.0	+ 3.2	+ 1.8	233.3	238.7	+ 5.4	+ 2.3	288.3	288.3	-0-	-0-
***Equals:* Personal Saving**	**13.2**	**5.3**	**— 7.9**	**—59.8**	**19.6**	**18.0**	**— 1.6**	**— 8.2**	**20.4**	**19.2**	**— 1.2**	**— 5.9**

TABLE V

Corporate Profits and Dividends in Three Recessions

(Seasonally adjusted annual rates in billions of dollars)

	1948-1949				1953-1954				1957-1958			
	Pre-Recession Peak Oct.-Nov.-Dec. 1948	Trough Oct.-Nov.-Dec. 1949	Change Amount	Change Per Cent	Pre-Recession Peak Apr.-May-June 1953	Trough July-Aug.-Sept. 1954	Change Amount	Change Per Cent	Pre-Recession Peak July-Aug.-Sept. 1957	Trough Apr.-May-June 1958	Change Amount	Change Per Cent
Corporate profits before taxes	**32.4**	**26.0**	**— 6.4**	**—19.8**	**41.4**	**33.7**	**— 7.7**	**—18.6**	**44.2**	**32.0**	**—12.2**	**—27.6**
Corporate profits tax liability	12.3	10.2	— 2.1	—17.1	21.9	17.1	— 4.8	—21.9	22.0	16.3	— 5.7	—25.9
Corporate profits after taxes	20.2	15.8	— 4.4	—21.8	19.6	16.7	— 2.9	—14.8	22.1	15.7	— 6.4	—29.0
Dividend payments	**7.6**	**7.8**	**+ 0.2**	**+ 2.6**	**9.4**	**9.7**	**+ 0.3**	**+ 3.2**	**12.7**	**12.4**	**— 0.3**	**— 2.4**

in the other two periods.[2] The larger size of the contraction of personal income in 1948-1949 can be attributed to the fall of farm income in that period, which in turn can probably be attributed much more to world-wide changes in supplies of farm products occasioned by the war and reconstruction than to the United States recession.

Still another automatic stabilizer tending to damp the influences of reductions of personal income in each recession was a fall in personal tax payments, largely in Federal income taxes. In early 1954, reductions in Federal excise tax rates contributed also to the maintenance of consumer disposable income. State and local tax payments have not, in general, been so sensitive to changes in personal income, partly because of a rising trend in rates and because of being based in part upon property taxes. Although small in proportion to total personal income, the reductions in personal tax payments have been significant. Disposable personal income, the current income available for consumption expenditures and for saving, contracted by only 2.4 per cent in 1948-1949, grew during the 1953-1954 recession, and declined by less than 1 per cent in the most recent business contraction.

Returning for a moment to the discussion of income sources, the stability of dividend income is especially interesting. Corporate profits before taxes (Table V) fell nearly 20 percent in 1948-1949 and 1953-1954, and nearly 30 per cent in the last recession.

Yet dividends actually increased in two of the recessions and were reduced only slightly during the 1957-1958 contraction. How could this be? One obvious influence was a drop in corporate tax liabilities of roughly half the drop in profits. Dollar earnings available for distribution to the stockholders or for retention in the business thus fell much less than did the dollar volume of earnings before taxes. In addition, because corporations were reducing rates of investment in plant and equipment and inventories in each of the recessions, the need for retained earn-

[2] On a monthly basis, personal income declined 1.1 per cent from the pre-recession peak of July 1953 to the recession low of March 1954 and declined 1.6 per cent from the August 1957 peak to the recession low of February 1958.

ings was smaller. Consequently, corporations found it possible in each of the recessions to maintain rates of dividend payments, providing significant support for personal income.

What Consumers Did with Their Incomes

Since about two-thirds of the total production of goods and services of the economy are for the direct use of consumers it is no wonder that so much effort has been devoted to attempts to find out what determines consumer behavior. Consumer behavior in the postwar period evidently cannot be satisfactorily explained merely in terms of reactions to changes in current disposable income caused by fluctuations in government spending or business investment. The power to save, or to draw upon savings, or to borrow has given the consumer substantial freedom to gear his spending to income and income payments over a longer time. Indeed, the consumer may well initiate major changes in business activity as he exercises his preferences in the market place.

In the three recessions consumer habits or accustomed standards of living, price changes, and changes in interest rates, apparently sustained consumption expenditures and investment in housing at levels higher than might have been expected in view of the income rates that prevailed. For example, in the 1948-1949 and 1953-1954 recessions growth of total consumption expenditures plus the increase in purchases of new housing (indicated roughly by expenditures for residential construction in the investment table) exceeded growth of disposable income, suggesting that consumers reduced their rate of saving or borrowed in order to carry out their purposes. The adjustment of expenditures to income in each period was, no doubt, facilitated by financial institutions with which consumers deal as savers and borrowers.

When changes in major types of consumption expenditures during recessions are examined several interesting examples of consumer adjustment to changing circumstances appear (Table VI). In the business contractions of 1953-1954 and 1957-1958 spending for services and nondurable goods rose while spending for durable goods fell. One reasonable explanation for this pattern of behavior is that services and nondurable goods consist largely of shelter and food which those consumers having reductions in income appear reluctant to curtail. But they can adjust their budgets by reducing purchases of durable goods without having to curtail their use of durable goods. In order to buy other things they can, in effect, draw upon the savings stored up in durable goods by postponing replacement purchases. During the last two recessions it can be seen that purchases of new automobiles were sharply reduced while the use of automobiles, as indicated by spending for gasoline and oil, apparently did not decline.

Consumer spending in the 1948-1949 recession did not involve reduction of durable goods buying for the sake of maintaining or increasing consumption of nondurables and services. To the contrary, expenditures for automobiles rose nearly 32 per cent and purchases of furniture and household equipment increased by more than 8 per cent, while spending for clothing and food fell. In this period demand for durable goods pent up during World War II had not yet been satisfied. Furthermore, retail prices of clothing and food fell by approximately the same percentage amount as did dollar purchases of the two classes of goods. Consumers were therefore able to divert income to spending for automobiles and other durables without having to reduce consumption of food and clothing.

TABLE VI

Personal Consumption Expenditures in Three Recessions

(Seasonally adjusted annual rates in billions of dollars)

	1948-1949				1953-1954				1957-1958			
	Pre-Recession Peak Oct.-Nov.-Dec. 1948	Trough Oct.-Nov.-Dec. 1949	Change Amount	Change Per Cent	Pre-Recession Peak Apr.-May-June 1953	Trough July-Aug.-Sept. 1954	Change Amount	Change Per Cent	Pre-Recession Peak July-Aug.-Sept. 1957	Trough Apr.-May-June 1958	Change Amount	Change Per Cent
Durable goods	**23.1**	**26.3**	**+ 3.2**	**+13.9**	**33.4**	**32.3**	**— 1.1**	**— 3.3**	**40.4**	**35.6**	**— 4.8**	**—11.9**
Automobiles and parts	7.9	10.4	+ 2.5	+31.6	14.5	13.3	— 1.2	— 8.3	17.3	13.5	— 3.8	—22.0
Furniture and household equipment	11.7	12.7	+ 1.0	+ 8.5	14.8	14.6	— 0.2	— 1.4	17.5	16.6	— 0.9	— 5.1
Nondurable goods	**99.2**	**96.3**	**— 2.9**	**— 2.9**	**118.6**	**119.6**	**+ 1.0**	**+ 0.8**	**140.5**	**141.4**	**+ 0.9**	**+ 0.6**
Clothing and shoes	20.7	19.0	— 1.7	— 8.2	22.3	21.7	— 0.6	— 2.7	25.1	24.0	— 1.1	— 4.4
Food and alcoholic beverages	55.6	53.7	— 1.9	— 3.4	65.4	66.5	+ 1.1	+ 1.7	77.1	78.6	+ 1.5	+ 1.9
Gasoline and oil	4.6	5.2	+ 0.6	+13.0	7.4	8.0	+ 0.6	+ 8.1	10.3	10.3	-0-	-0-
Services	**58.5**	**61.5**	**+ 3.0**	**+ 5.1**	**81.2**	**86.9**	**+ 5.7**	**+ 7.0**	**107.4**	**111.3**	**+ 3.9**	**+ 3.6**
Household operation	8.0	8.7	+ 0.7	+ 8.8	11.7	12.2	+ 0.5	+ 4.3	15.8	16.7	+ 0.9	+ 5.7
Housing	18.2	20.0	+ 1.8	+ 9.9	27.2	29.2	+ 2.0	+ 7.4	35.7	36.9	+ 1.2	+ 3.4
Transportation	6.2	6.1	— 0.1	— 1.6	8.1	7.9	— 0.2	— 2.5	9.2	9.1	— 0.1	— 1.1
Total Personal Consumption Expenditures	**180.8**	**184.0**	**+ 3.2**	**+ 1.8**	**233.3**	**238.7**	**+ 5.4**	**+ 2.3**	**288.3**	**288.3**	**-0-**	**-0-**

Maintenance and Growth of Total Final Demand

Thus far this review of the postwar recessions has focused on ways in which personal consumption demand has been maintained in the face of declines in government spending and business investment. Shifts in composition of consumer spending during recessions have been seen to enable consumers to maintain consumption standards. But the economy's resistance to cumulative decline does not by any means reside entirely in the consumer sector.

Even though declines in investment have produced much of the decline of total national output in each of the postwar recessions, there were offsetting and stabilizing influences within investment itself. A stabilizing influence has been the rise in importance of research and development, which logically can be considered capital investment. Although firms cut back on plant and equipment expenditures in the recessions they apparently did not reduce expenditures for research and development. This incidentally contributed directly to maintenance of consumer income through supporting wages and salaries of research and development staffs. The product of research and development, of course, has a longer run impact upon stability and growth through the creation of new products and new wants.

Some other forms of investment which tend to be curtailed during periods of high business activity have increased in each of the postwar recessions. Private residential housing, alluded to briefly above, and state and local government construction are the main examples of this. A rise in expenditures for private residential construction had not yet been reflected in the accounts (Table II) by the second quarter of 1958 but had been foreshadowed by a rise in new housing starts which began in March. Population growth, urban-suburban migration, and rising living standards have produced a large backlog of demand for housing and public facilities. During a capital investment boom, such as the one in 1956 and early 1957, the competition for capital funds drives interest rates high enough that home mortgages become relatively unattractive to investors, and some units of government may be deterred from borrowing, especially where there are statutory restrictions upon interest rates they may pay. When interest rates ease with declining business investment these other types of investment can attract larger amounts of funds. Much of the increase of state and local government purchases of goods and services shown in Table III during the 1957-1958 recession, for example, is attributable to rising investment in public facilities.

Still other forms of investment and expenditures are not especially contra-cyclical in their timing but simply display a rising trend. A prominent example is the Federal Highway Program, a massive investment program which will require years and many billions of dollars. A similar observation can be made about consumer demands. Expenditures for services rise from year to year, reflecting changes in living standards and consumer preferences.

In sum, final demand for the output of the American economy has been supported in three postwar recessions by the automatic stabilizers which damp the influence of wage and salary declines upon consumer disposable income, by the willingness of consumers to reduce their rate of saving, and by the partial offsetting of declines in business investment by expansion of other forms of private and public investment.

The Money Markets—*Continued from page 144*

cash offering the Treasury paid 3¼ per cent for a seven-month obligation. For the $12.2 billion of securities which matured on December 1 and December 15, the Treasury offered a choice of a 3⅜ certificate maturing November 15, 1959 or a 3⅝ per cent note coming due in May 1961. About $7.7 billion of the maturing securities were exchanged for the new certificates and $4.1 billion for the new notes. Holders of only about $0.4 billion refused the offering and requested cash, amounting to 3 per cent of the total or 10 per cent of the $4.3 billion held outside the Federal Reserve System. The Treasury also announced an intention to institute a new cycle of six-month bills. The first issue was dated December 11, 1958 and will mature June 11, 1959.

Despite the large Treasury cash offering, interest rates on marketable securities remained fairly steady during November. A part of the demand for funds was met at least temporarily by an expansion in bank credit. In early December, most market rates of interest rose (see table).

SELECTED INTEREST RATES

Average Rate for Week Ended		Treasury Bills	Treasury Certificates August 1959	Long-term Government Securities
September	6	2.32	2.76	3.72
	13	2.37	2.81	3.75
	20	2.45	2.83	3.76
	27	2.48	2.85	3.74
October	4	2.70	3.04	3.83
	11	2.64	2.98	3.72
	18	2.67	2.76	3.74
	25	2.69	2.74	3.77
November	1	2.53	2.67	3.75
	8	2.49	2.68	3.75
	15	2.71	2.74	3.71
	22	2.73	2.73	3.69
	29	2.72	2.72	3.67
December	6	2.79	2.78	3.73
	13P	2.83	2.81	3.76

P—Preliminary

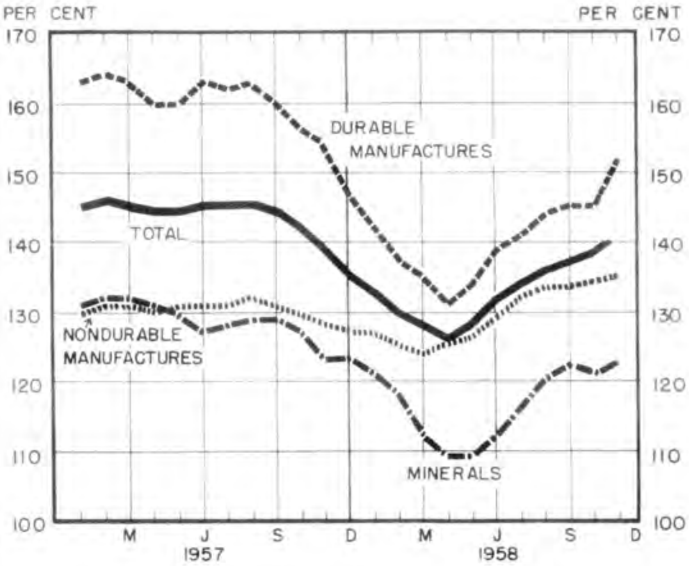
MONTHLY REVIEW INDEX—1958

Selected Current Business Indicators

INDUSTRIAL PRODUCTION[1]

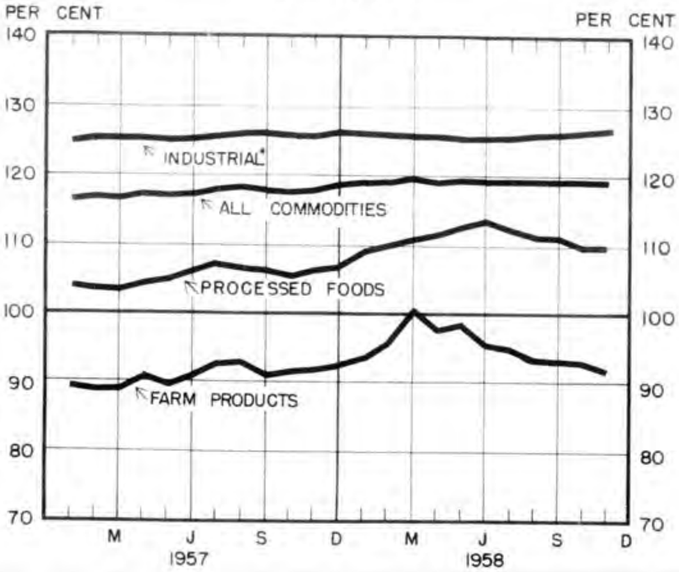
Adjusted for Seasonal Variation

1947-49=100



WHOLESALE PRICES[3]

1947-49=100

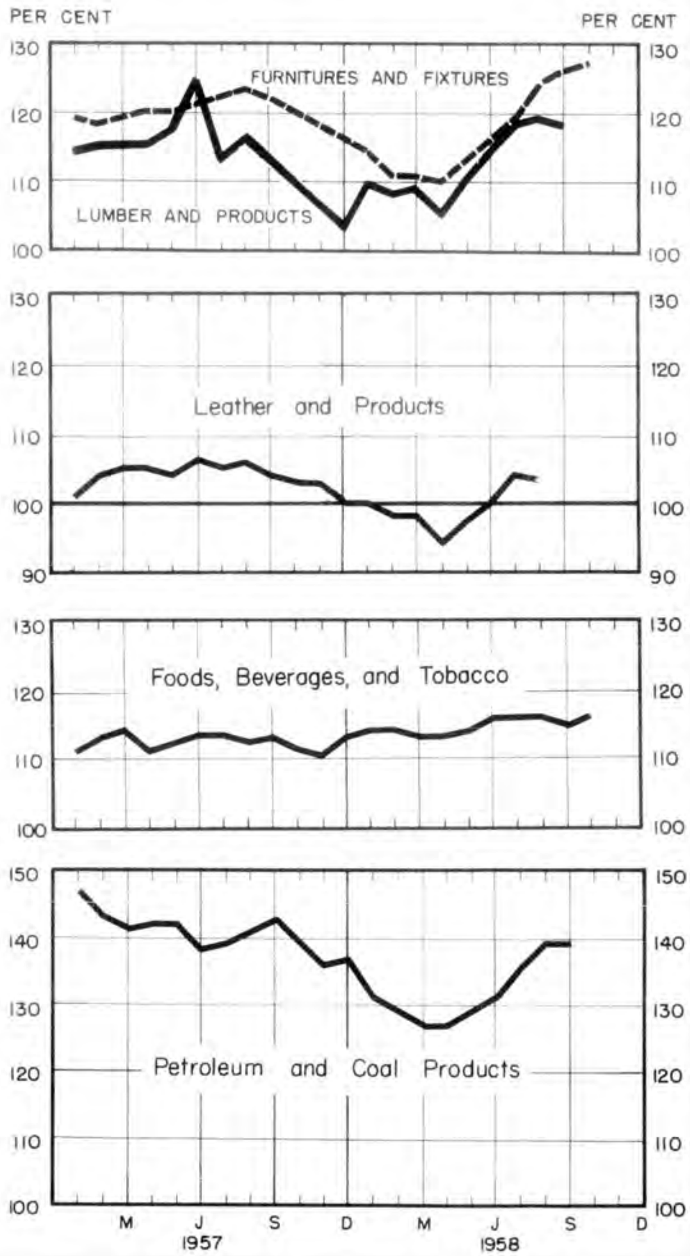


SELECTED INDUSTRIES[2]

Included in the Industrial Production Index

Adjusted for Seasonal Variation

1947-49=100



1. *Source:* Board of Governors of the Federal Reserve System; 2. National FRB indexes of industries of particular importance in the Eighth Federal Reserve District; 3. *Source:* Bureau of Labor Statistics.