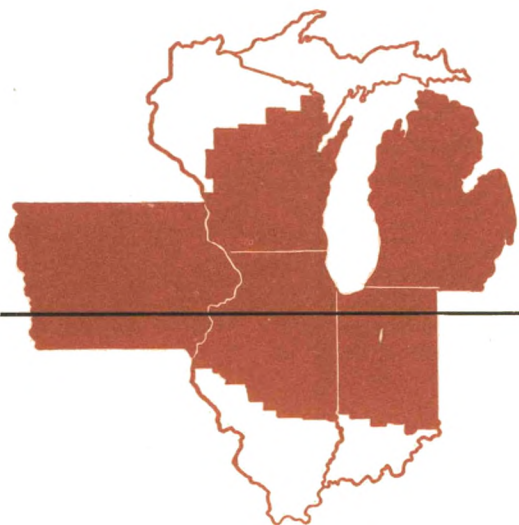


A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1955 January



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THE Trend OF BUSINESS

The tone of business generally has continued to show improvement in recent weeks. Industrial production scored a sizable advance in November, while wage and salary employment increased somewhat more than seasonally to midmonth. Steel output is now above 80 per cent of rated capacity, as compared with 63 per cent as recently as last August. Business loans at city banks recently have shown significant increases for the first time this fall.

There are widespread evidences of business optimism, and this is an important factor for the immediate future. By far the most dramatic indicator of bullish attitude, of course, has been the post-election upsurge in stock prices. In addition, however, representatives of many leading industries in recent weeks have reported at least moderately optimistic expectations regarding sales for the months ahead. If they persist, such expectations could have significant repercussions on business inventory policies and capital expenditure programs.

The recovery in over-all economic activity

still has some distance to go before it regains all the ground lost since the summer of 1953. Wage and salary employment, for example, declined by two million from the 1953 peak and, through mid-November, had recovered only 300 thousand from the summer's low. Industrial production dropped off 10 per cent and has regained about two-fifths of this loss in recent months.

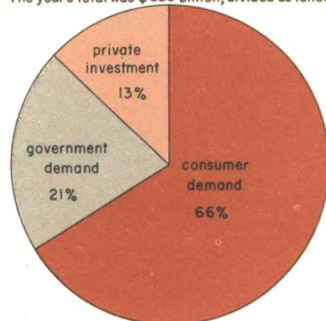
The nation's total output of goods and services—the most comprehensive measure of over-all activity—fell 14 billion dollars (about 4 per cent) between mid-1953 and the third quarter of 1954. Government purchases declined 13 per cent in this period, largely because of a sharp cutback in national security outlays. The 8.5 billion dollar drop in private investment expenditures was largely accounted for by a reversal in the trend of inventories—from rapid accumulation during most of 1953 to substantial liquidation in 1954. The magnitude of the inventory shift has concealed smaller divergent movements in construction outlays and business

purchases of durable goods. Consumer spending—by far the largest component of total demand—actually increased slightly in the face of these declines, as rising expenditures for services more than offset a moderate drop in purchases of durable goods.

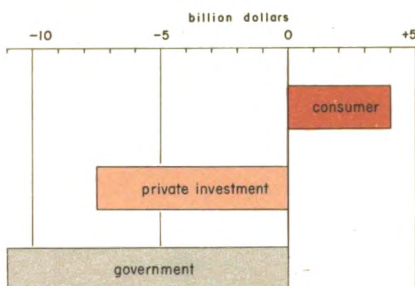
Which of these forces are likely to play dynamic roles in influencing business activity

Demand for the nation's output of goods and services dropped back slightly in 1954

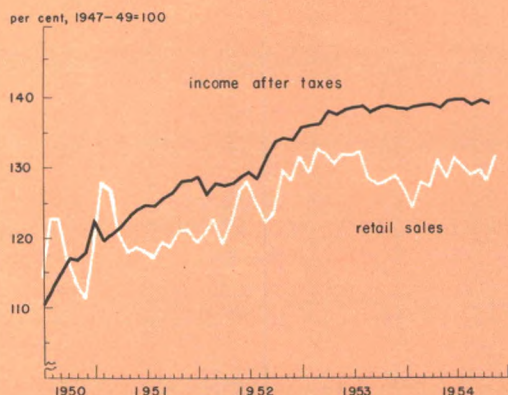
The year's total was \$356 billion, divided as follows:



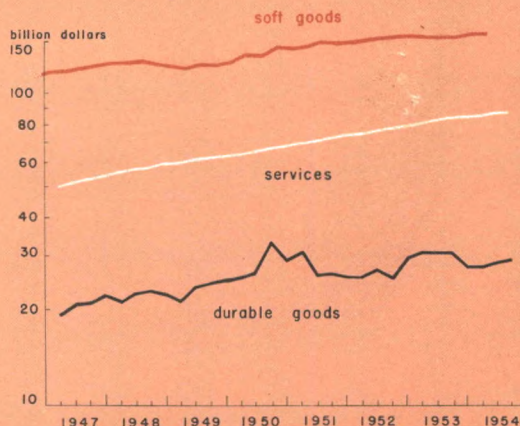
Changes from 1953's peak rate were:
(3rd quarter 1954 from 2nd quarter 1953)



Durable goods purchases most variable component of personal consumption expenditures



Spendable income well maintained, but retail sales have been moderately lower since mid-1953



in the months ahead? The curtailment in Government purchases, a dominant factor in the business decline after mid-1953, promises to be much less significant in the immediate future. Most of the scheduled cutback in national security outlays has already taken place. Thus, it seems likely that continued growth in state and local spending will largely offset any further drop in Federal purchases. If so, shifts in the major components of private demand will provide the dynamic elements in the course of business in the months ahead. These are examined briefly in the sections which follow.

Consumer attitudes favorable—expect good business, lower prices, and think it a good time to buy

	Nov. 1952	Oct. 1953	June 1954	Oct. 1954
	(favorable attitudes minus unfavorable plus 100)			
General business outlook	150	128	129	138
Price expectations	121	115	121	120
Buying conditions for large household goods	86	98	110	117

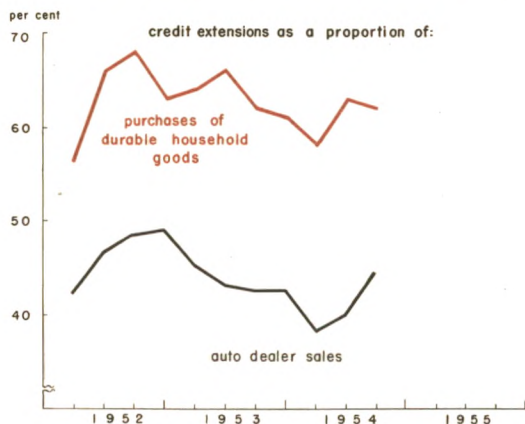
SOURCE: Survey Research Center, University of Michigan.

Consumer spending, which accounts for about two-thirds of the demand for goods and services, usually follows changes in spendable income rather closely. Personal income after taxes has been well maintained (see p. 16) and is likely to increase moderately further in the months ahead.

Even small percentage changes in consumer expenditures have important repercussions on total demand, however, and some types of spending are more variable relative to income than others. Service outlays in general have increased gradually but continuously through the postwar period. Expenditures for soft goods also have shown a relatively stable growth. Durable goods purchases, although a fairly small part of total consumer spending, have accounted for a large part of the variation in expenditures relative to income.

Several factors other than income and prices have a bearing on consumer demand for durables (and big-ticket nondurables). Perhaps most important is the state of consumer attitudes regarding their current and prospective financial situation and the favorableness of buying conditions for durable goods. Attitude surveys taken from time to time by the Uni-

Instalment credit extensions have picked up recently in relation to durable goods purchases



versity of Michigan seem to indicate a moderate improvement in the consumer's state of mind as compared with a year ago.

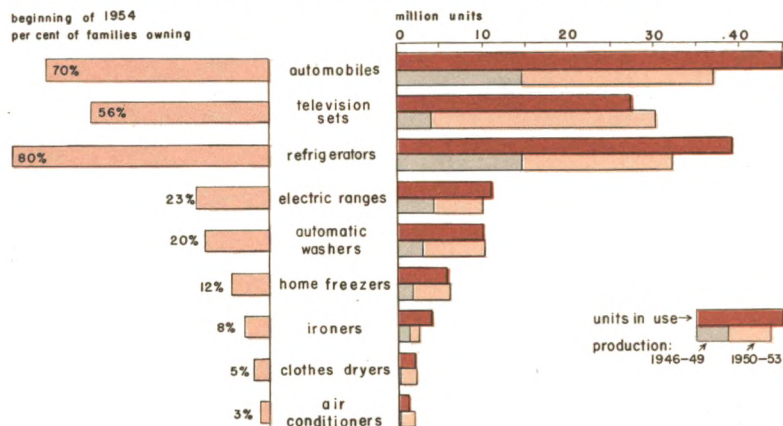
The willingness and ability of consumers to utilize instalment credit is also an important factor in the durable goods picture. The volume of new credit extensions had dropped off gradually from mid-1953 through last spring, with the result that the rapid postwar rise in indebtedness slowed and then was reversed during this period. Since spring, however, credit terms have generally been liberalized, lenders have competed more vigorously for new credits, and many consumers have made final repayments on old debts. In recent months credit extensions have begun to rise, and credit as a proportion of durable goods sales has again turned upward.

The size and condition of consumer holdings

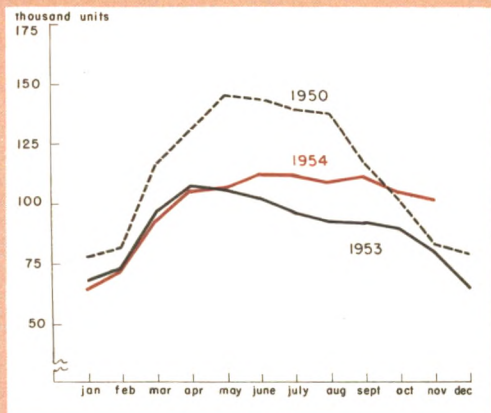
of durable goods also influences the strength of markets for these particular products. Postwar purchases of most types of durables have been very large by historical comparisons. As a result, many of the older types of products, such as cars, refrigerators, radios and vacuum cleaners are now distributed about as widely as possible, so far as single-owner families are concerned. Newer and improved products such as air conditioners, automatic washers and dryers, and even television sets, however, still have large potential markets to tap. In addition, larger consumer holdings of durables in general imply a more vigorous replacement market, although a very high proportion of durable products in use at the beginning of 1954 were postwar in origin.

Construction expenditures increased throughout 1954 in the face of lower business generally. Total private and public outlays for the year amounted to about 37 billion dollars, 5 per cent more than in 1953. All major construction categories contributed to the gain. Within the public category, building of schools and highways was especially strong (see p. 13). Commercial construction, institutional building and a continued high level of public utility outlays buoyed up the private nonresidential totals. Departments of Commerce and Labor

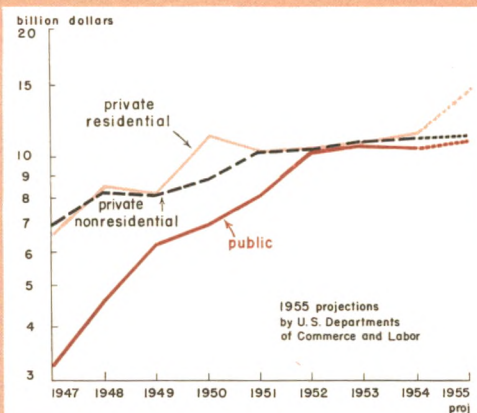
Consumers hold large amounts of fairly new durable goods, but many markets are far from saturation



Private housing starts especially strong since midyear



Residential building leads in prospective construction gain



projections for 1955 anticipate further increases in these categories as well as housing, with the result that total expenditures are expected to rise another 7 per cent.

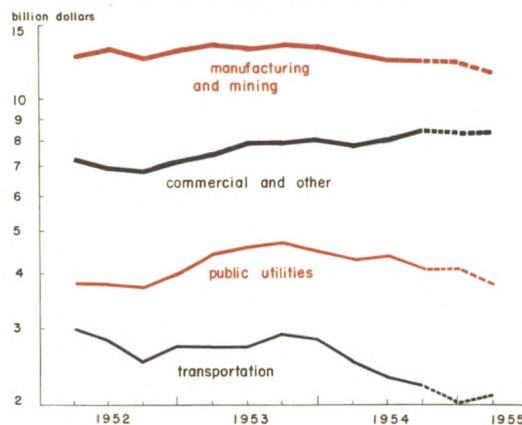
Residential building became increasingly strong as 1954 progressed. Private housing starts, about even with 1953 through the first half, averaged nearly a fifth higher from July through November. Easier mortgage terms and ready availability of credit appear largely responsible for the upsurge in home-building. Many observers anticipate that 1.3 million new houses will be started this year, as compared with about 1.2 million in 1954 and somewhat more than one million in 1953.

The outlook for business purchases of durable producers' equipment is less sanguine. Such purchases, at a 22 billion dollar annual rate in the third quarter of 1954, had dropped off by one-eighth in the past year. For some industries, such as railroad equipment, farm machinery and machine tools, the decline has been considerably sharper and of longer duration. For the broad electrical and non-electrical machinery category, order backlogs have declined 40 per cent since January 1953, although this was partly accounted for by a

sharp cutback in military hard goods orders.

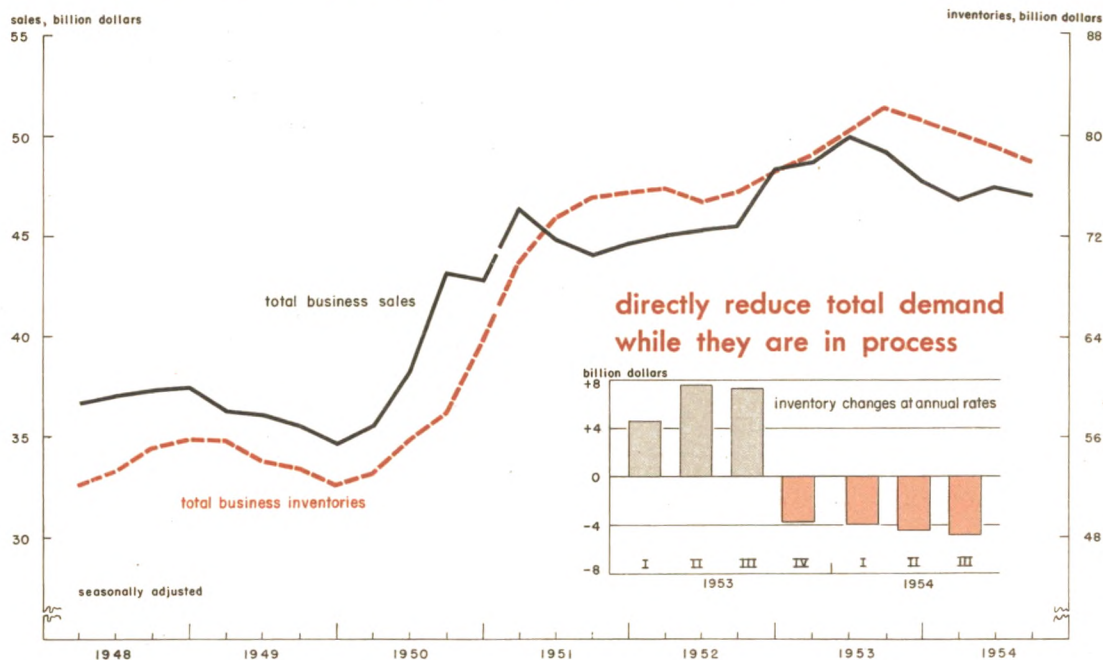
A recent SEC—Commerce Department survey of business intentions to invest in new plant and equipment indicates a continued moderate downtrend in such outlays through at least the first quarter of 1955. Expenditures

Business outlays for new plant and equipment expected to drop moderately through the winter



SOURCE: SEC—Department of Commerce

Inventories adjust to changes in the level of sales. Shifts from inventory building to liquidation, such as occurred in late 1953 . . .



in that period, after seasonal adjustment, are expected to be 10 per cent below the 1953 summer rate. Outlays are expected to be down from the 1953 peak by 43 per cent for railroads, 20 per cent for public utilities and 12 per cent for manufacturing firms. With production capacity more than ample to meet current needs in most industries, there seems to be little reason to expect a pickup in equipment purchases in the near future.

Business inventories have played a major part in the business downturn since mid-1953. Partly in response to lower sales and new orders, additions to inventories during the first three quarters of 1953 gave way to a liquidation which has continued steadily for more than a year. Inventory building adds to current demand for goods while liquidation provides a part of current sales from past production. Consequently, the reversal in trend had a double-barreled impact on output and employment in manufacturing and raw materials.

Since the liquidation in inventories began in October 1953, business stocks have been cut by 4½ billion dollars. Seven-eighths of this reduction has been in stocks of durable goods, which have been cut 9 per cent in this period. The magnitude and duration of the liquidation suggests that most durable goods firms have had ample time to adjust stocks to the lower level of new orders and sales. In fact, inventories of durable goods manufacturers rose 250 million dollars after seasonal adjustment in October for the first increase in 12 months.

At the same time, the relationship between total business inventories and sales has changed little over the past year because of the concurrent drop in sales volume. The over-all ratio of inventories to sales, in fact, remains about as high as any time in the past. Thus, although the inventory liquidation may well have been halted in November, it seems doubtful that much rebuilding will take place unless sales and new orders increase sharply.

District bank loans reflect shifts in business activity

A quickening of the boom in housing credit and a pickup in farm loans highlighted developments in the loan portfolios of Seventh District member banks during 1954. In contrast to these vigorous upturns, consumer instalment credit at banks sagged slightly while business loans, despite pickups in some lines, continued to show over-all sluggishness.

These diverse tendencies added up to an over-all District total of loans outstanding which was virtually unchanged in the course of the year. This seeming stability at Midwest banks was paralleled in the loan picture for the nation as a whole and broadly reflected the mixed elements existing in the short-run pattern of general business activity.

Sharp rise in VA mortgage loans

The steadily mounting volume of residential mortgages attests to the record-breaking level of construction activity. Leading member banks of the District reported a rise of some 18 per cent in their real estate loan holdings in the 11 months through November. The upturn in residential mortgages has been especially sharp since midyear. However, there were wide differences in 1954's housing credit growth among the District's major cities, ranging from a 14 per cent increase in Detroit and Milwaukee banks to virtually no change in Des Moines.

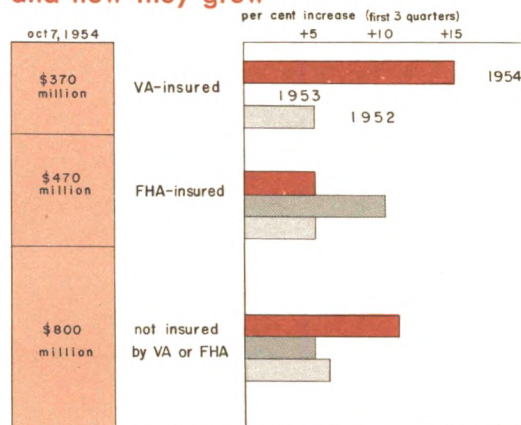
A good part of the impetus in the home-building upsurge during the past year was derived from VA-financed construction, which has responded with vigor to the generous credit terms available. As a matter of fact, VA-guaranteed loans have shown a greater proportionate gain than any other type of housing credit in the past year. Detroit and Milwaukee banks chalked up eye-opening increases of 35

and 21 per cent, respectively, in the third quarter. These increases, of course, do not solely reflect local building activity, inasmuch as mortgage purchases from other holders figured significantly in these bank gains.

Concurrently, there was an accelerating, although smaller, growth in District bank holdings of conventional home mortgages. Contrasting with these upturns has been the diminished popularity of FHA-insured loans. Bank acquisitions of these loans, after proceeding briskly during much of 1953, slowed to a more moderate rate in the past year. However, the easing of FHA terms as provided by the new Housing Act may well act as a stimulus to these loans in 1955.

More modest increases were reported for loans secured by farm and business properties. Trends in these credit sectors will probably continue to be overshadowed by residential

District member bank holdings of residential mortgages . . . and how they grew

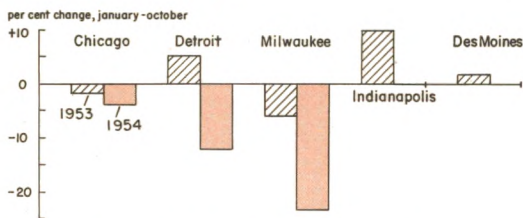


mortgage demands in the coming months as residential construction is expected to continue strong this year.

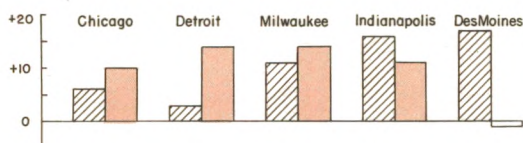
Farm production loans move up

Short-term loans to farmers (excluding loans guaranteed by the Commodity Credit Corporation) picked up in the fall months to a greater extent than had been anticipated. There was a 7 per cent rise in the third quarter, in contrast to a 6 per cent rise in the first six months of 1954 and a 3 per cent drop in the third quarter of 1953.

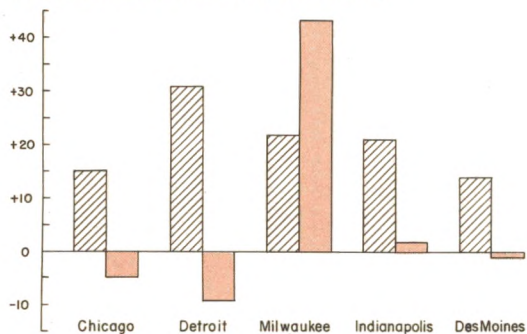
Commercial and industrial loans decline in leading Midwest industrial centers



Residential mortgage loans show substantial gains, except in Des Moines



Milwaukee banks boost investment in consumer instalment loans



An important reason for this unexpected rise is the larger volume of purchases of feeder cattle, and at higher prices, than in the corresponding year-ago period. This is reflected in sharp loan expansions in important cattle-feeding areas. Hog production is being increased also, with the result that more corn is required for feed. The smaller share of the crop going under CCC loan has meant smaller farm cash receipts currently from corn and, in turn, made it necessary for some farmers to cover a larger proportion of their working capital needs through direct loans from local banks.

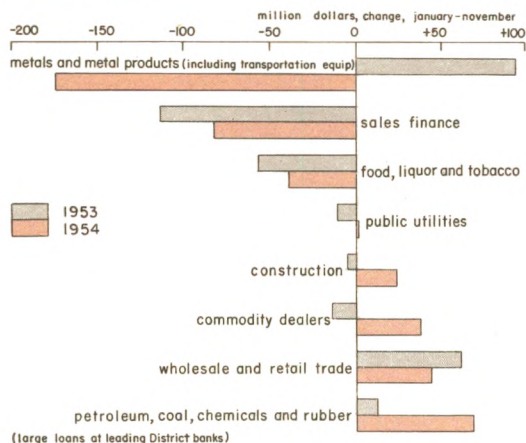
Mixed tendencies in business loans

As opposed to these vigorous developments, total commercial and industrial loans displayed rather sluggish overtones. Business loans of the District's leading banks at the end of November were off 240 million dollars, or 8 per cent, since the beginning of the year; for the nation as a whole, the drop amounted to only 5 per cent. There was a seasonal rallying of borrowing demands by a number of industrial groups in the second half of the year which tended to offset the declines in other groups. The lethargic temper of the over-all loan trend thus stemmed from contractions in a few major lines.

Chief among the latter were producers of *metals and metal products*, whose important position in the Midwest area strongly influences the total business loan trend. Sharp contractions in defense contracts were principally responsible for the cutback in borrowings by these firms earlier in the year. Reductions in nondefense working capital loans, however, have played an increasingly important role in subsequent months partly because of inventory liquidations. The pace of the downturn had tended to slow down in the closing months of 1954, reflecting the diminishing tempo of inventory liquidation.

Loans to *sales finance companies* also showed a sizable shrinkage in the course of the year. In addition, although finance company holdings of consumer retail paper increased, the

Slump in metal firm borrowings dominates District business loan picture



rise was far less than in the previous year and these firms continued to meet a part of their credit needs by resorting to the commercial paper market. In early fall there was some shift back to bank loan financing.

As an offset to these dampening influences, loans to other businesses picked up appreciably during the second half of the year. Large District bank loans to processors of *food, liquor and tobacco* showed a rise of 70 million from midyear through November, or 8 million more than in the comparable period last year. This revival stemmed in large measure from the seasonal resumption of inventory build-up by these processors. On the other hand, the loan rise this fall was appreciably smaller than the amount of seasonal repayments last spring.

Seasonal inventory expansion also boosted the borrowing requirements of *commodity dealers*. The rise in their borrowing from mid-year through November was 2½ times that of the like 1953 period; and for the year as a whole, there was a net gain as compared with a net paydown in the previous year. A larger midyear-to-November gain than in 1953 was also shown in borrowings by public utilities and by the construction and trade industries.

These industry-by-industry changes in bank

loan demand were spread in uneven fashion over the District's major cities. As a result, metropolitan business loan totals varied widely. There was a 1954 decline of 23 per cent in Milwaukee, where finance company repayments were heavy; on the other hand, Indianapolis and Des Moines banks showed no net change.

Instalment credit lags

Borrowings by individuals, which have generally followed a sharply expansionary path in the previous postwar years, leveled off abruptly in the past year. In the first three quarters of 1954, individual instalment debt at District member banks was off 20 million dollars. This drop compares with a 192 million rise in a similar period in 1953. The over-all decline, however, covers up highly contrasting developments in the leading cities. Milwaukee showed a 40 per cent increase, primarily because of sizable bank purchases of instalment paper from other lenders. At the other extreme, total consumer instalment credit at Detroit banks dropped 9 per cent in these same months.

The contraction in automobile instalment credit accounted for virtually all of the District decline during 1954. This was in part an indication of consumer shifts to more aggressive non-bank lenders for financing their automobile purchases. But broadly stated, it also pointed to the general hesitations of consumers in taking on new debts. This was also reflected in the relatively unchanged levels of other types of instalment debt, in contrast to sharp rises in previous years.

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In the pig country

The sale of hogs accounts for just over one-tenth of receipts from farm marketings in the U. S. In the District it accounts for one-third; in the leading hog state, Iowa, almost two-fifths of the farm income is from hogs. Even in the depressed Thirties, hogs were known as "mortgage lifters" throughout the Corn Belt. It is no wonder that Midwest farmers, bankers and businessmen alike follow developments in the hog industry with keen interest.

Beef and pork together make up over 75 per cent of the total meat consumed in the U. S. Pork consumption has generally been above that of beef, but in recent years, due to the low level of hog production and a record cattle slaughter, consumption of beef has surpassed that of pork.

In only four years of the past 24 has beef consumption exceeded that of pork, and two of these were 1953 and 1954. Furthermore, it appears that 1955 will be chalked up to the credit of beef. And several pieces of evidence indicate that in the future more years will be entered in the "win" column of beef.

Supplies of both beef and pork have increased since 1930, but the output of beef at a somewhat greater rate. However, beef prices have increased more than those of pork. In view of the supply situation, the relative increase in beef prices could only come about from a larger increase in the demand for beef than for pork.

Additional evidence which indicates a relative increase in demand for beef is provided by consumption data. Since the early Thirties per capita consumption of beef has increased by 30 per cent while pork showed only a 10 per cent gain.

Income and demand

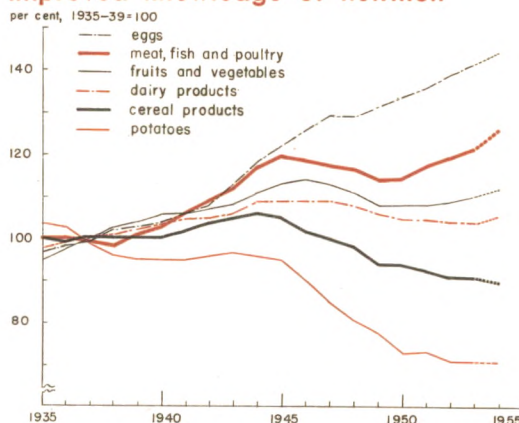
Per capita real income has charted a fairly steady upward trend over the years, and this trend is expected to continue. Also apparent

is the trimming of the extremities of the income distribution curve: the very low income groups, as well as the top brackets, account for smaller proportions of the population than in earlier years.

What effect have the changes in income had on the demand for meat? Studies of consumer purchases by income group show that, as income changes, food consumption also changes. Meats as a group are in a category which increases as family income rises. However, increases are not shared equally by each kind of meat or by all cuts. Particularly important to the producers of meat is what happens to the demand for pork, beef, lamb and chicken as consumer incomes rise.

A widely held position is that a given increase in income will induce a relatively greater gain in beef consumption than in pork. One study, for example, shows that, with a 50 per cent increase in income, consumption of beef and veal increased from 55 to 62 pounds or 13 per cent. However, with the same income in-

Changes in eating habits reflect higher per capita income and improved knowledge of nutrition



crease, consumption of pork increased by only 5 per cent.

Demand for lean pork

When the demand for various pork products is analyzed, it is apparent that the low consumption response of pork and related products to increases in income is due largely to the fat cuts and lard. Lean cuts of pork, although showing a smaller response to income changes than beef, respond substantially more than the fat cuts. Reduced consumption of the fat cuts as income increases reflects both changes in consumer preferences and increased competition from other food fats, butter and vegetable oils.

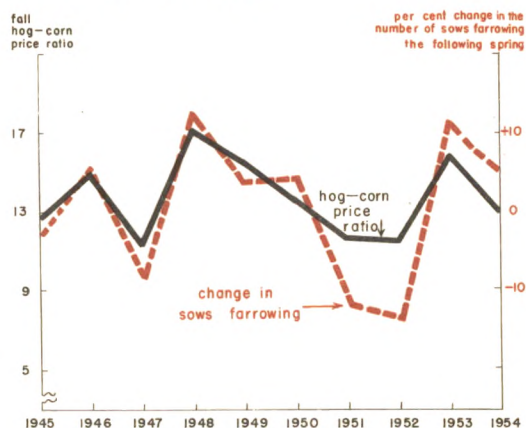
Some economists project the rise in real disposable income per capita during the next 10 years at 30 per cent. If this increase occurs, the demand for beef and selected cuts of pork will rise further. However, the demand for lard could not be expected to match this pace, and lard would continue to be a drag on hog prices.

Associated with the increase in per capita income is the continued mechanization of American industry and agriculture. Workers who perform less strenuous jobs require diets lower in total calories. Less cereals and potatoes and more vegetables, fruits and livestock products are included in typical diets now than in earlier years. It is within this dietary shift that the demand for beef has expanded relative to that for pork.

Other factors which have reduced the energy requirements of modern living and contributed to the changes in diets include improvements in housing and transportation and shorter work weeks. Along with these developments there has been an increased knowledge of nutrition and a growing awareness of the deteriorating effects of obesity.

Lard, of course, will continue to be produced as a "joint product" with the more desired parts of the hog carcass. But hogs carrying large amounts of fat probably will be discounted quite severely most of the time. In response to this price outlook, many farmers are attempting to produce hogs which yield

Hog-corn price ratio near average; 1955 spring pig crop to increase 5 per cent or less



more lean relative to fat. By such action they hope to produce products that will have greater appeal to consumers and thereby strengthen the position of pork in the ever intense competition between products for the consumer's food dollar.

Several factors, in addition to the rise in per capita income and growing preference for lean meats, are important in the competitive struggle between beef and pork. Technological developments which increase the productivity of lands used for grass and hay and the development of improved machinery to handle forage crops permit and encourage expansion in beef cattle. Similar technological developments have occurred in the production and harvesting of corn, the chief raw material used in the production of hogs. Advances in nutrition and breeding have increased and may increase further the efficiency with which feed is converted into beef and pork. Innovations of these types give periodic cost advantages to beef and then to pork. The effects on the beef vs. pork contest is therefore difficult to appraise over the long pull.

Farm programs may also play an important role. Attempts to shrink total agricultural output by restricting the production of certain

grains and cotton and expanding the production of hay and pasture crops favor cattle over hogs.

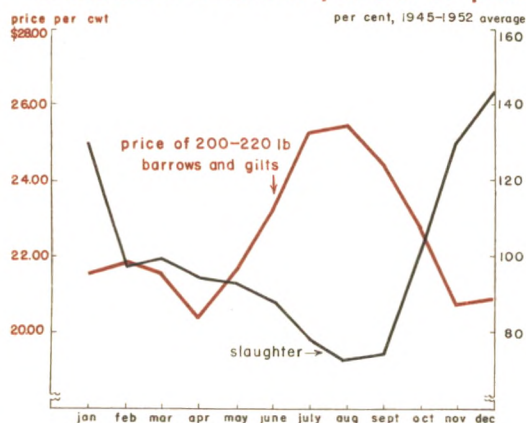
But corn farmers need not fear the consequences of additional grass produced outside the Corn Belt. American consumers like their beef to have had a "grain finish." Insofar as more grass results in the production of more feeder cattle, Corn Belt farmers can purchase replacements for their feedlots on more favorable terms. Since grain is fed to both cattle and hogs, this development would merely cause more of it to go to the mooers, for conversion into beef, and less to the squealers, for conversion into pork and lard. Of much greater concern to corn farmers is the possible substantial expansion of production of feed grains on land withdrawn from other crops while land well adapted to the production of corn is forced into less profitable uses.

The near-term outlook

Forces described so far have a bearing on the long-term position of the hog-pork industry. In the pig country, however, talk more often focuses on the near term.

Hog production, prices and slaughter usually chart cycles of about 3 to 6 years' duration.

Monthly hog slaughter reflects seasonal changes in supply and determines seasonal pattern of prices



And within the year the seasonal nature of production imparts a distinctive pattern to hog prices. About three-fifths of the hogs raised are farrowed in the "spring"—December-May. The "fall" crop, farrowed during the other half of the year, accounts for the remaining 40 per cent of the number raised.

The bulk of the spring farrowings occur during the three months, March, April and May. Most pigs are fed about seven months before being sold for slaughter. Thus, the year's peak in marketings usually comes in the last few months of the year, depressing prices to their seasonal low. Usually, prices recover somewhat during the early months of the year but decline again about April when a large portion of the fall pig crop, farrowed about seven months earlier, is marketed. After the spring low, prices usually increase to the year's peak in August or September.

Farmers responded to the high hog prices of 1953 and early 1954 by boosting production. The 1954 spring pig crop was 13 per cent above the year-earlier figure, and the 1954 fall pig crop was increased by about 12 per cent. A continued large supply of hogs is indicated at least through the first half of 1955. However, with hog prices at lower levels during the current winter breeding period, the hog-corn price ratio on Midwest farms may average below 13. In the past a ratio of this magnitude has not resulted in an increase in the number of sows bred to farrow in succeeding months. To many farmers it indicates that the sale of corn will be as profitable as feeding it to hogs. In view of the large feed supply available, however, farrowings next spring are expected to show some further increase but considerably less than the 13 per cent boost registered a year earlier. If consumer demand holds about steady, the larger slaughter of hogs in prospect for the fall of 1955 would depress prices below those received in the fall of 1954, thus rendering hogs relatively unprofitable and bringing the current expansion in hog slaughter to a halt by mid-1956. A marked change in the level of consumer demand or in the price of corn, of course,

would affect the indicated pattern of hog production and slaughter.

In any one year this seasonal pattern may be modified due to changes in farrowing and marketing dates. The seasonal price rise after the 1954 year-end low is expected to be less than average due to the step-up in last year's early fall farrowings. The usual late summer price rise in 1955 may also be dampened as early farrowings, December-February, are estimated to again be above the year-earlier

number. Some market analysts go so far as to indicate that current farrowings may be increased enough to completely nullify the usual seasonal price rise of late summer. Lower price expectations also carry into the heavy fall marketing season.

This indicates that hog prices in the year ahead would bear about an average relationship to the price of corn and that profits on the hog enterprise will be favorable only for the more efficient operators.

State-local construction prospects

Construction enjoyed a banner year in 1954, helping appreciably to counteract weakening business spending on equipment and inventories and a gradual decline in Federal expenditures. Important in the building total was an unparalleled volume of construction spending by the state and local governments, with record-breaking outlays for highways and community facilities.

Back in 1946 and 1947, one dollar was spent on new government facilities for every four dollars spent on private construction. More recently, the relation has approached one to two. Postwar governmental construction, both Federal and state-local, in dollar amount has risen sharply and uninterruptedly.

State and local construction has climbed somewhat more rapidly than Federal, although the relationship between the two categories was temporarily reversed between 1950 and 1952 under the impact of the Korean defense expansion.

Further gains expected

It is widely thought that non-Federal construction is destined to keep on growing. Indeed the likelihood that it will is one of the bullish factors conditioning the business outlook.

The most obvious reason for the huge volume of state-local capital spending and for its strong uptrend has been the big backlog of needed projects. How much headway has actually been made in working off this backlog cannot be determined. A large growth in population and, perhaps more important, a great deal of moving around and resettlement, coupled with an impressive advance in private standards of living, undoubtedly have built up a demand for more and better public services and facilities. Despite the large outlays of recent years, the backlog of recognized needs may be as great now as at the end of the War or even greater. In any case it is large enough to support the current rate of construction spending during 1955 and probably for some years to come.

Financing no big problem

Another factor that has given a good deal of encouragement to state-local construction has been a generally favorable financial environment. Throughout the postwar period, tax yields have been well sustained. Many of the state governments, moreover, were able to get off to an early start on their public works projects by drawing down balances ac-

cumulated during the War. But far more important than either of these factors, however, has been the favorable market for state and local securities.

Public works and growth

A prosperous, growing economy needs a large and expanding volume of investment if its labor force is to be kept fully employed, if it is to take full advantage of technological innovations and if its mounting population is to be suitably housed and otherwise provided for. Great strides have been made over the years since the War in expanding and modernizing industrial capacity and building additional housing. In the wake of this long period of intensive private construction activity, it has become painfully evident that public investment has failed to keep pace with the expansion of private plant, that our highways and community facilities just do not measure up to the demands that a rapidly changing, increasingly productive economy places upon them. Unless real headway can be made in remedying the shortcomings of existing government investment, it will prove difficult to maintain private construction expenditure at anything like its recent rate. New houses and new factories re-

quire school houses, roads and streets, water mains and sewer lines to serve them.

These considerations doubtless account for the widespread attention being given nowadays to public works plans and programs. The last time so much popular interest focused on public construction was during the mid-Thirties, when the nation was deep in depression. Emphasis then centered on side-effects of the spending connected with construction: jobs for the unemployed and sales for the businessman. This time, however, it is the end products, the facilities themselves, and their bearing on the capacity of the economy to grow and prosper, that command interest. During the 1953-54 dip in business activity, the anti-recessionary effects of public works spending came in for some share of attention, but as the economy shows signs of righting itself, this aspect loses its pertinence.

It seems rather unlikely that the present prospect of better business in the months ahead will lead to postponement or abandonment of public construction proposals. So long as governmental and private investment spending were thought of as essentially competitive in character, so that when private activity faltered, we stepped up public works expenditure to com-

Public construction

- Now 11 ½ billion out of 37 billion yearly for all construction
Since 1946 it has grown from a fifth to nearly a third of the total
- Two-thirds financed from state-local treasuries
Federal share, nearly half in 1946, now about one-third
- Highways and schools each make up about 40 per cent of all non-Federal building
Toll projects account for a third of highway construction
Remaining 20 per cent of state-local construction is on housing projects, sewer and water works, and other community facilities

pensate, and vice versa, an improvement in the economic outlook might have been taken as a signal to defer construction of roads and community facilities. With the realization, however, that private and public building to a considerable extent complement one another, that industrial and residential construction require parallel investment in government ventures, has come a recognition of the importance of public works programs to economic growth. If the economy's performance is to match its development potentialities, high-level activity in the sphere of public construction will be a requisite.

Construction in 1955

Even without new inducements to public works expenditure, capital outlays by the non-Federal governments probably will set another record in 1955. Activity in the year just closed reached an all-time high, with construction paid for from state and local treasuries totaling roughly 7½ billion dollars.

The state governments ought to have little trouble sustaining the rate of highway construction spending they have maintained lately, roughly 2 billion dollars yearly. A good deal of state spending for such facilities is paid for by users—in tolls, gasoline taxes and vehicle licenses—rather than by the general taxpayer. The money required to finance this investment, therefore, becomes available as the need for facilities grows.

Construction of hospitals and educational buildings, commonly paid for out of the states' general tax funds, has been running at a yearly rate of somewhat less than a billion dollars. Since general funds have a prior obligation to support current operating activities, capital outlays from this source are exposed to some risk. If revenues fail to hold up or unexpected increases in expense arise, it is relatively easy to hold back on construction. In the past year and a half, weakness in tax collections and a rise in public assistance costs have strained the general funds of some of the states, but the likelihood is that the principal effects of these tendencies now are behind us. The 1955 out-

look, then, is for general-tax financed state construction at roughly the same rate as last year's. Not to be overlooked, however, is the possibility that increases in the rate of certain taxes and even the imposition of new levies, may be the price of sustained high-level construction spending from the states' general funds. This year's legislative sessions are expected to devote considerable study to tax questions.

The local governments are confronted by construction needs even more urgent than those facing the states. It is the counties, school districts, incorporated municipalities and special-purpose local units that bear the brunt of population shifts and that mirror the effects of the nation's rapid suburbanization and growth. Not uncommonly these units have to grapple with year-to-year increases in workloads or service demands running as high as a quarter or a third, or even more.

Nothing seems to be in the offing to reduce the present rate of local capital outlay. The large volume of local debt marketed last year and the year before practically assures continuation of high-level spending in the immediate future. Since the local units account for nearly 5 billion dollars in yearly construction outlay—60 to 65 per cent of the combined state-local total—their maintenance of a high rate of building activity will go far toward supporting the aggregate of non-Federal public construction.

Altogether, state-local construction outlay this year ought to hit the 8 billion dollar mark, half a billion or so more than last year and 1½ billion more than in 1953. This estimate, which agrees with the most recent advance projection made by the U. S. Departments of Commerce and Labor, does not take into account spending from Federal grants nor does it reflect the possible impact of the highway construction program now under study by the Administration. Total public construction in 1955, according to the two Federal agencies, can be expected to exceed 12 billion dollars, thus accounting for 31 per cent of the estimated total for all construction.

Recession—not for consumers

One of the striking aspects of the mild 1953-54 recession was the maintenance of personal income virtually at record levels. Not all groups fared equally well, however.

Drops in these components

	1953 (billion dollars)	1954	Per cent change
Wages and salaries, Commodity-producing industries	88.1	83.6	-5.1
Farm proprietors	12.2	12.1	-0.8
Business and professional.	26.2	25.8	-1.5

were largely offset by increases elsewhere,

Wages and salaries, Distribution industries ..	51.7	52.4	+1.4
Service industries	24.8	25.4	+2.4
Government	33.6	33.7	+0.3
Non-wage labor income..	6.3	6.6	+4.8
Rental income	10.6	10.9	+2.8
Dividends and interest....	22.9	24.1	+5.2
Transfer payments	13.8	15.7	+13.7

so that the total changed little.

Total personal income..	286.1	285.6	-0.2
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Tax cuts, moreover, permitted a slight increase in aggregate individual spendable income. As a result, consumers increased their spending in the face of sizable reductions in outlays by business and government.

About three-fourths of total personal income in both 1953 and 1954 was in the form of labor income and transfer payments. These amounts represent almost entirely payments to employees for past or present services. The proportion has grown fairly steadily through the years. Twenty-five years ago,

in 1929, it was only 61 per cent. Although direct wage and salary income has grown markedly, transfer payments and non-wage labor income have shown even larger relative gains.

The profit and property income components now amount to only 25 per cent of total personal income, compared with 39 per cent 25 years ago. In dollar terms, however, this portion is two and one-half times the 1929 total. Interest, dividends and rents increased further during 1954. Unincorporated business profits and professional and farm income were only a shade less than record 1953.

Total dollar personal income is 40 per cent higher today than five years ago and amounts to almost three and one half times the 1929 total. In the meantime, prices have risen, population has increased, and the proportion of personal income taken in taxes has grown. Nevertheless, per capita income after taxes and after adjustment for price change is 10 per cent greater than five years ago and almost half again as large as in 1929.

Labor's share of income has grown

