

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

# Business Conditions

**1958 September**



## **Contents**

Food supplies larger, prices lower	5
Credit for car buyers—terms longer, repayment slows	8
Weather and retail trade	10
Births, marriages decline— population prospects unaffected	13
<b>The Trend of Business</b>	<b>2-5</b>

# THE Trend OF BUSINESS

During the summer months interest has shifted from the question of whether a business upturn was under way to consideration of the extent of the inflationary pressures which may be generating. Perhaps never before has the inflation issue been raised so early in a business recovery.

The concern about rising prices is somewhat surprising in view of the recent stability of the general price indexes. Moreover, it would appear that the existence of substantial unused capacity in virtually all lines of business, together with evidence of impressive gains in output per worker since the start of the year, would militate against a substantial upward movement in the price level in the near future.

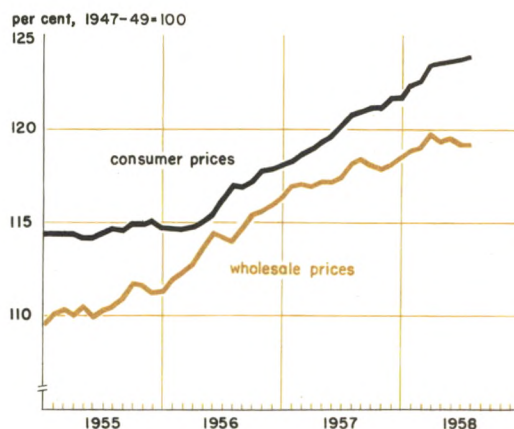
In part, inflationary fears arise as a natural concomitant of renewed confidence in prosperity. Recovery from recessions after relatively short and mild declines has become "old hat" during the postwar period. Three times downturns have halted and reversed before a cumulative deterioration could develop. Each such experience has brought additional adherents to the view that the old-fashioned "business cycle" has been tamed. In view of the apparent vigor of the early stages of the current recovery, it is understandable that attention should focus on possible price changes. But there are other reasons for renewed concern over future trends in the purchasing power of money.

Recent disturbances in the Middle East have reminded Americans that the cold war

is still being waged and that flare-ups anywhere in the globe pose a threat to our domestic tranquility. The decisions of steel and aluminum firms to raise their prices despite the fact that these industries expect to continue operating well below capacity for the foreseeable future have stimulated further discussion of the new model "cost-push" inflation.

Doubtless the fact that the 1955-58 surge in the consumer and wholesale price indexes took place without any outburst of armed conflict also has helped to promote the "inflation psychology." There is, however, one great difference between the current situation and the conditions four years ago. While

## Price indexes showed leveling tendencies in spring and summer



opinions vary on the rapidity of the rise in activity which may take place in coming months, no one expects that a vast expansion of capital spending — a principal cause of the 1955-57 upsurge — is likely to occur in the next year or so.

Under conditions of full utilization of resources, plant and equipment programs can be expanded vigorously only by bidding men and materials away from alternative uses. Now that capacity has been pushed beyond immediate needs, rising demand for business capital goods can hardly place the same type of pressure upon the price level as in the years just past.

### **The arithmetic of inventories**

According to official estimates, U. S. business firms were reducing their inventories at a yearly rate of about 9 billion dollars in the first half of 1958. Supplying that amount of current demand from goods produced in earlier periods provided a heavy drag on current production, especially as compared with the third quarter of last year when inventories were still rising. The shift from inventory accumulation to liquidation accounted for a decline of about 10 billion dollars in the annual rate of total spending.

Another way of looking at inventories involves the use of book value figures showing the total value of stocks on hand. Compared with the current volume of sales, these data give some indication of changes in the "adequacy" of stocks. From March on, the ratio of total business inventories to sales has been falling. Stocks were equal to 1.72 months' sales in March and had declined to 1.62 months at the end of June. The latter ratio is just about the same as it was a year ago and four years ago. June 1954 was near the low point of the downturn preceding the 1955-57 boom.

Of course, aggregate ratios are of limited usefulness in assessing the contribution that business inventory buying policies will make to a rise in general activity. When sales are rising after a period of inventory liquidation, shortages in particular lines often develop rapidly, with the result that hurried reordering is necessary.

Inadequate stocks obviously cause some sales to be lost. Current hand-to-mouth buying is possible because extremely rapid delivery can be obtained out of stocks of finished goods in the hands of suppliers. Any appreciable trend toward stepping up the pace of orders in the months ahead could cause order lead time to stretch out markedly.

The market for many goods already has begun to tighten as use has increased and "living-off-the-shelf" has come to an end. Examples include galvanized sheet steel and other materials used principally in construction, welded steel line pipe and oilwell casing, carbide cutting tools and welding equipment.

Steel firms report that recent price increases have not deterred an acceleration in orders. This indicates that user inventories are no longer being liquidated at a rate which will accommodate the rise in steel utilization as industrial output advances.

Surveys of business firms and analysis of the pertinent data suggest to some observers that over-all inventory liquidation may come to an end before the turn of the year. If this evaluation is correct, the rate of output would rise by 9 billion dollars from first-half rates from this factor alone, unless offset by a decline in final demand.

### **Housing on the uptrend**

Construction activity was picking up vigorously in the spring and summer. For the U. S. as a whole, June saw contract awards increase 18 per cent to a record level. Public

works, public utilities and residential building were the strongest sectors. Awards in May also were very large. As a result, the six-month total was approximately equal to the same period of 1957 despite severe reductions in the early months of the year.

In the Midwest, June construction contract awards only equaled those of the same month of 1957. But this was a pronounced improvement over earlier months. The six-month total was still off 12 per cent.

Three large Midwest centers are beginning to show the improvement in home building which has been noted nationally. In May, new housing starts moved above last year in the nation and the margin of the year-to-year increase has expanded since that month. In June and July, housing permits were higher than last year in Chicago, Detroit and Milwaukee. In all three cities permits had run below year-ago levels almost continuously since 1956.

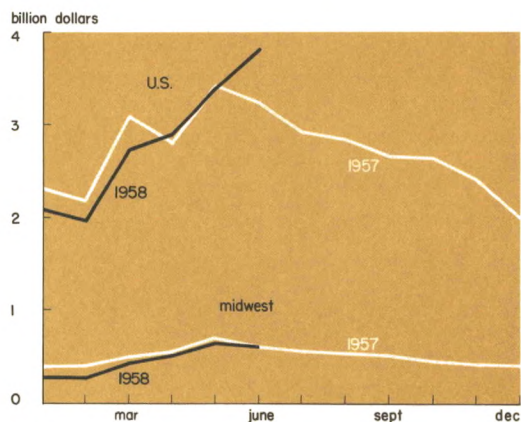
#### Income rise slower here

Nonfarm employment rose moderately on a seasonally adjusted basis in May, June and July. For the most part, improvement in the employment situation has been less marked in the Midwest.

As of June, total nonagricultural employment was 4.1 per cent below last year for the nation and 6.8 per cent for the five District states. In Michigan, Indiana and Illinois the declines were 10.9, 7.0 and 6.2 per cent respectively.

In Iowa employment declines have been relatively minor, and in Wisconsin the situation through June does not compare unfavorably with the national average. However, that state is still being affected by cutbacks in the capital goods industries which are particularly important in the Milwaukee-Waukesha area.

### Construction contract awards rise sharply in United States



SOURCE: F. W. Dodge

In the five weeks ending August 3, new claims for unemployment compensation in all District states other than Iowa were up from last year by substantially larger margins than for the U. S. as a whole. The increases ranged between 55 and 75 per cent, compared with 37 per cent for the nation.

The new labor market classifications released for July showed deterioration in current and prospective employment in ten major centers in the U. S. Three of these were in Connecticut, and *four*, including Milwaukee, Fort Wayne, Grand Rapids and Muskegon, were in the Seventh District. All of these cities are considered to have substantial labor surpluses with at least 6 per cent unemployed. In Flint and Detroit unemployment is over 18 per cent. For the state of Michigan, unemployment was estimated at 16 per cent in July.

After experiencing the most severe adjustment in the postwar period, the automobile cities and Michigan as a whole are now looking forward to clearer, but not

cloudless, skies as the 1959 models go into production. Some rehiring in the auto industry were occurring in August. In the third quarter, car assemblies are expected to number approximately 700,000. This is 46 per cent less than the same period in 1957, re-

flecting in part the earlier dates of change-over to new models. Fourth-quarter output is expected to rise to within hailing distance of the total for the fourth quarter of 1957 barring labor-contract difficulties which remain unresolved.

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## Food supplies larger, prices lower

**D**uring the second quarter of 1958, prices paid by consumers for food averaged almost 6 per cent higher than in the same period of last year. Prices of most major groups of goods and services—apparel and used houses being notable exceptions—had advanced in the interval, and consumer prices, over-all, averaged about 3 per cent higher. But it was the advance in food costs which played the largest role in raising the “cost of living” to a new high in 1958.

Reduced supplies of several important foods were primarily responsible for the rise in food prices in the first half of 1958. Fresh vegetables and citrus fruits were less available during this period mainly because of the unusually severe weather in important producing areas last winter and spring. The frost damage suffered by citrus fruit trees in Florida and California will not be repaired for another year or more. Even more important in raising average food prices was the reduced supply of meat. This situation is traceable to low prices in an earlier period.

In 1955 and 1956, large marketings of meat animals depressed livestock prices to unprofitable levels and caused farmers to reduce production plans. The situation has been intensified also by the fact that farmers

responded to recent high prices by withholding from the market the animals they need to expand output.

### **Supplies of food improve**

Recently, the volume of meat animals coming to market has been on the increase. Also, the total output of crops in 1958 is now estimated to exceed that of any preceding year, and the harvest of several important crops will exceed last year by a wide margin.

Because of these changes in the supply picture, food prices began to weaken in July and August. The U. S. Department of Agriculture expects that food prices will average a little lower during the second half of the year than in the first. However, these prices may not average below year-ago levels.

Bumper crops of some major commodities will not contribute much to lowering food prices at retail in the current year. Examples include the crops which are not sold directly to consumers in significant amounts, such as corn, barley, oats and soybeans, and those which had been in ample supply all year such as wheat and potatoes.

### **Eating standards remain high**

Despite the reduced supply of several im-

portant food commodities, American consumers continued to eat well in 1958, although not quite so well as in the two previous years. When the record for 1958 is complete, it probably will show average per capita consumption of food was close to the 1,500 pound mark which is typical of many recent years. But taking into account the changes in the kinds of foods, diets were downgraded somewhat as compared with 1956 and 1957.

Despite the decline in employment, personal income has been somewhat higher than during the first half of last year. The downward adjustment in consumer spending has centered in durables, off 10 per cent in the second quarter of 1958 relative to second quarter 1957. Consumer outlays for services and "soft" goods were above the year-earlier rate. Expenditures for food, as indicated by sales of retail food stores, rang up a new

record in the second quarter of 1958. The dollar volume of sales topped the year-earlier figure by about 7 per cent.

Consumer adjustments to changes in supply and prices of foods are of several types. The current consumption of "perishable" foods, or those normally consumed in a highly "perishable" form, is determined largely by the current output. Prices of these foods typically show large changes in response to fluctuations in supply—both seasonally and year to year. Although most of these foods can be converted into less perishable forms by canning, freezing, dehydrating or fermenting, these uses typically are important only for certain qualities or grades and during seasons of peak output. Prices of the less perishable foods, on the other hand, tend to be more stable. Producers, processors and distributors hold larger inventories and short-term fluctuations in output have smaller

### You consumed in 1957 . . . if you were an average consumer

What . . . . . how much . . . and what it provided

What . . . . .	how much . . . (pounds)	and what it provided			
		energy	protein	fat	carbohydrate
		(per cent of total)			
Dairy products, other than butter . . . . .	421*	14	25	17	8
Eggs . . . . .	46	3	7	4	—
Meats, fish and poultry . . . . .	174	14	33	24	—
Fats and oils, including fat cuts and butter . . . . .	65	20	2	48	—
Dry beans and peas, nuts, soya products and cocoa . . . . .	20	3	6	4	3
Potatoes and sweetpotatoes . . . . .	113	3	3	—	6
Citrus fruit and tomatoes . . . . .	108	1	1	—	3
Leafy, green, and yellow vegetables . . . . .	83	1	2	—	2
Other vegetables and fruit . . . . .	205	4	2	1	8
Flour and cereal products . . . . .	147	21	20	2	37
Sugars and sirups . . . . .	106	16	—	—	33
Coffee and tea . . . . .	14	—	—	—	—
<b>Total . . . . .</b>	<b>1,502</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

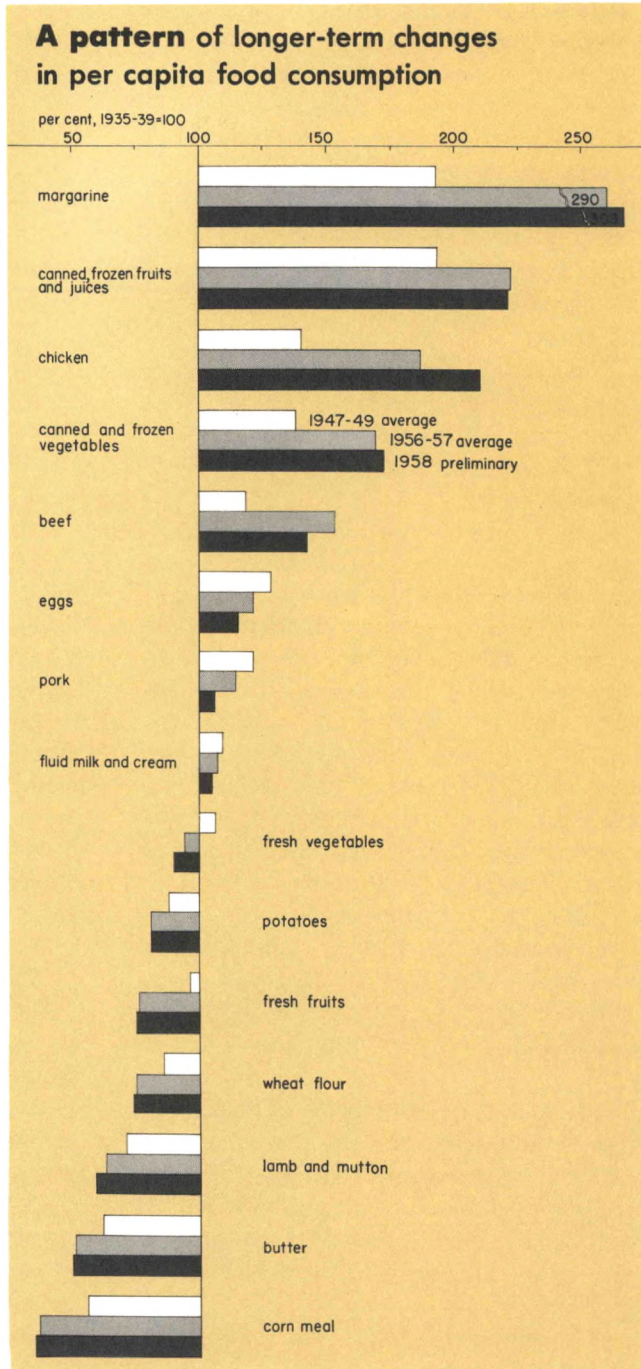
\*Equal to 248 quarts of milk.

effects on available supplies and current prices.

Consumers can and do make adjustments in their consumption of individual foods, seasonally and over a period of years. These adjustments are made in response to shifts in relative prices, the introduction of new products, changes in income and changes in food preferences. Some of the shifts taking place in recent years are indicated in the accompanying chart.

The current decline in per capita meat consumption, for example, appears to be a short-term adjustment within a longer-term upward trend. Consumption of wheat flour, potatoes, corn meal and lamb and mutton, however, shows long-term declines.

Nevertheless, by and large, the food picture is one of stability. In part this is because of the high income of American consumers and the abundance of the nation's agricultural resources. It also reflects the fact that changes in the pattern of consumer likes and dislikes evolve slowly. Consumer expenditures for food maintain a fairly stable ratio to personal disposable income. This reflects the tendency for affluent consumers to step up their expenditures for the relatively expensive kinds of foods, and, in particular, the services associated with food, as their incomes rise even though the physical amount of food consumed per capita shows little change.



In coming months, the indicated larger supply of food probably will permit consumers to upgrade their menus without increasing the proportion of income spent on food. Such a development means more luxurious meals and perhaps the release of income for purchase of other goods.

A downward movement in food prices may cause a decline in the average of all consumer prices during the next several months. If this occurs, the nation will have witnessed the phenomenon of rising consumer prices during recession and falling prices during recovery.

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## Credit for car buyers—terms longer, repayment slows

Automobile loans that have been made in recent months by commercial banks in the Midwest's two leading car markets have shown a growing proportion of over 30-month (typically, 36-month) contract maturities. In Chicago and its environs, the emergence of a sizable volume of financing on a 3-year basis is something new. In prior experience, that center had remained one of the principal holdouts against the trend to such terms in automobile lending.

Car buyers in the Chicago market today appear to have ready access to 3-year automobile credit. As recently as last fall, such accommodation was not at all easy to come by.

A group of banks serving the Chicago area reports that during the first quarter of this year about one new car loan in ten originated directly or purchased from dealers ran over the 30-month mark at maturity. In the second quarter, however, the ratio was up to one in six.

In southeastern Michigan, where extended-term financing had gained a foothold earlier,

the proportion of 3-year contracts appears to have climbed sharply since late last summer. About one in every six new car loans acquired between last October and this March by reporting banks in Detroit and the area around it carried a maturity of more than 30 months. And in that market, also, the proportions for April through June set a new high for recent experience, with one-third of the banks' new loans in that period due to run more than 2½ years.

### **Maturity standards intact**

Chicago's unique experience aside, it is evident that lenders' standards concerning auto loan maturities have held firm, in the sense that reports are few and far between of loans carrying 42-month and longer terms. The pattern of standard maturities that took shape in the course of the record 1955 auto credit expansion has remained unchanged.

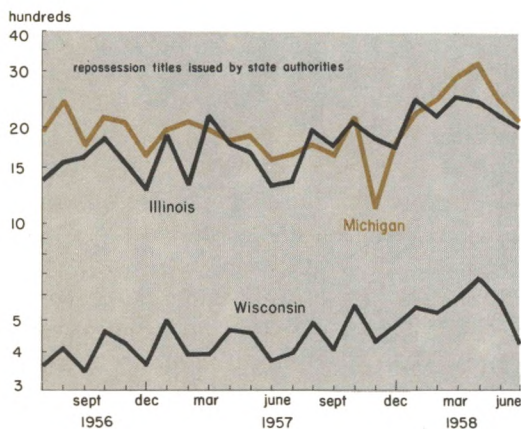
Nor is this surprising. From the borrower's standpoint, the advantage of term extension fades out quickly after the first few multiples of 6 months. Take the case of \$2,000 re-



maining due on a new car bought with a trade-in. Financing the \$2,000 balance for a year, at 6 per cent on the initial amount, means a monthly principal and interest payment of \$177 (rounded). For an 18-month term, the payment drops to \$121 or 30 per cent less. Extending the term out another 6 months, to 2 years, brings the payment down still further to \$93, but this is a reduction of only 23 per cent. Similarly, a 3-year loan would call for monthly payments of \$66, which in turn would be reduced by a mere 12 per cent or to \$58, if the term were stretched out another 6 months.

Naturally, the borrower likes to minimize his monthly payment, but he is not oblivious to the *number* of payments he becomes obliged to make and to the impact that finance charges have on the total price he has to pay. Carrying costs, in the example, add only 6 per cent to the balance due if the contract term is a single year, but a full 18 per cent for 3 years. This is nearly one-seventh of the retail price of a car financed at a quarter down.

### Auto repossessions in Midwest up since mid-1957



A further disadvantage of long maturities, in the view of the borrower—as well as that of the automobile industry—is that the slow build-up of equity in the vehicle may keep him out of the new car market through two or three model years in the future.

Lenders, too, take a jaundiced view of long-extended contract maturities. A slow pay-down on loan principal, coupled with the inevitably rapid shrinkage in the vehicle's resale value, exposes the lender to the risk of loss if the borrower defaults and the lender resorts to repossession.

### Recession's Impact

The *proportion* of long-term loans is up in part because the *number* of shorter-term loans is down disproportionately. Frequently, short terms in new car lending go to borrowers who have small balances to finance. Typically, these are the buyers who are in the new car market every year or two and therefore have substantial trade-ins to offer. Such car owners at the same time are in a good position to hold off buying when things look uncertain.

The swelling proportion of relatively long loans in the portfolios of banks serving the Chicago and Detroit areas no doubt also reflects the intensified need many buyers in those comparatively hard-hit, durables-oriented centers feel to hold the line on their monthly car payments. New car prices are up, overtime pay is off, ordinary living expenses remain high and, perhaps, the household now depends wholly on the earnings of a single breadwinner. When job prospects remain good, he has no trouble getting credit. It is simply that he needs a somewhat longer repayment term today than he might have required a year or two ago.

The economic downturn that got under way in 1957 gave rise to some concern over

the ability of borrowers to discharge the instalment obligations on which they were committed. This concern was wholly apart from the implications which reduced activity may have had for maintenance of the level of consumer borrowing. The record appears to offer no solid evidence that borrowers encountered any difficulty of serious proportions. Delinquency ratios, it is true, rose somewhat and lender repossessions on sales contracts moved upward. Percentagewise, the changes seem sizable. Numerically and in dollar terms, though, the amounts involved remained quite small.

#### More autos repossessed

Repossession automobile titles issued in the first six months of 1958 by three of the

states in this area were up by about a third from the same period of last year:

Illinois . . . . .	+35%
Michigan . . . . .	+35
Wisconsin . . . . .	+29

These are big increases. Yet the early 1958 repossessions in all three states were at monthly rates of less than one to every thousand cars registered.

Lenders report that they have been watching their instalment accounts rather more closely than earlier and moving promptly to remind their tardy borrowers of payment due dates they overlook. This factor may be accountable in good measure for holding the upturn in reported contract delinquencies and vehicle repossessions to recent levels.

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## Weather and retail trade

In September, Midwest merchants once again are looking forward to crisp, cool temperatures in early autumn. They know from past experience that thermometer readings at normal or below normal will be an important aid in bringing customers into their stores for winter merchandise, particularly clothing. "Shirt-sleeve" weather through the autumn would cause many prospective sales to be postponed — until next year, or even indefinitely.

Analyses of sales experience which consider only temperature or precipitation omit the most vital factors that determine the desire and ability of consumers to buy. Basically, these are holdings of cash and other liquid assets, anticipated future income, price ex-

pectations and present ownership of goods. Nevertheless, within limits, the state of the weather can explain, in considerable degree, a good or poor spring or fall for seasonal goods. Clothing, sporting goods and such items as fans and air conditioners, of course, are most affected by temperature. But it is also true that the quest of these goods brings customers to shopping areas and creates traffic through stores. Shoppers who come seeking seasonal merchandise often see and purchase other goods, ranging from small "impulse" items such as candy and novelties to big-ticket goods such as furniture and appliances.

Department store sales, tabulated weekly by the Federal Reserve System for many

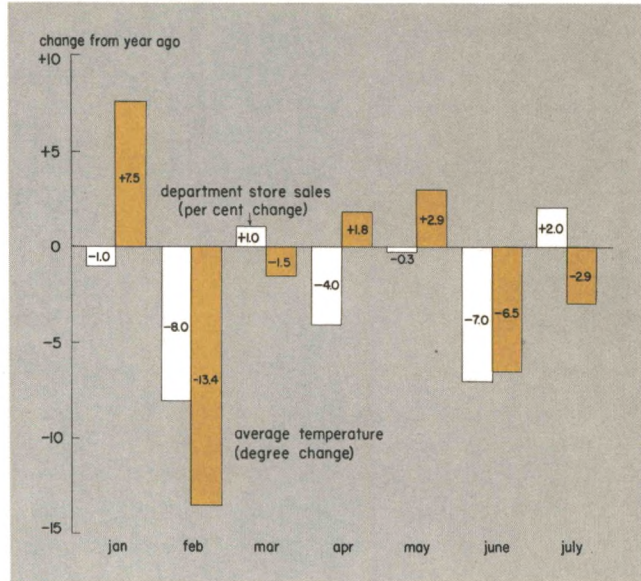
cities, are an important clue to local trade volume. But in using these data it must be borne in mind that department store sales do not account for a significant proportion of the automobiles, food and certain other items which make up a large part of total retail trade. Furthermore, sales in individual weeks often are influenced by one or more of a variety of factors such as the occurrence of holidays or adverse weather, either in the most recent week or in the comparable year-ago period with which the current results usually are compared.

Blizzards obviously can have a catastrophic, if temporary, effect on sales. Several days may elapse during which many persons cannot or will not venture out to purchase any goods other than current necessities. Heavy rains during a given week also can produce a violent shift in year-to-year sales comparisons, especially "if Saturday is rained out."

But the effect of precipitation in holding shoppers at home can hardly account for low sales over any length of time. When the skies clear, pent-up purchasers usually make up for lost time. Moreover, the automobile and the enclosed shopping center moderate the influence of rain and snow. Unfavorable temperatures, however, present another problem.

What the retailer wants is not normal but supernormal temperatures. Ideal sales weather is *warmer than usual* in late spring and *cooler than usual* in early fall. What is feared is a dragging on of winter-like days into the spring and summery weather into the fall. If distinctly seasonable temperatures do not

### Low temperatures in February and June helped depress Chicago department store sales this year

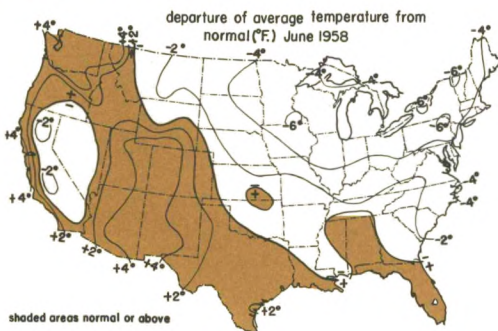


arrive on schedule, sales of seasonal merchandise are slowed and inventory problems are multiplied. Sales delayed by these conditions may not take place in the current season at all.

Not all sections of the country are affected alike by temperature changes. In the U. S., the greatest spread between high and low months is found in the region north of the Ohio River and east of the Rocky Mountains. However, this area accounts for the largest share of retail sales since it includes the nation's most populous centers.

In the major Midwest centers, the average temperature range from low month to high is substantial. In Chicago, for example, the normal January average is 25 degrees, which compares with 75 degrees in July — a difference of 50 degrees. In Los Angeles, San

## June temperatures below normal in the Midwest and East



SOURCE: U. S. Weather Bureau

Francisco and Miami this spread between the coldest and the hottest month is 15 degrees or less. Seasonal temperature conditions in these cities, therefore, have a less pronounced impact on sales trends. Officially, “normal” temperatures are determined by the average recordings over the period 1921-50. Of course, the “normal” weather year like the “average” individual is a rare phenomenon. Every year brings many substantial deviations from past averages.

The first half of 1958 included two months in which unfavorable temperatures adversely influenced sales. In February, average temperatures in Chicago, Detroit, Indianapolis and Milwaukee were 8 to 13 degrees below the same month last year. Also, heavy snows blanketed many cities in that month. Department store sales in these cities were 8 to 14 per cent lower than in the previous year. In June, temperatures were 5 to 7 degrees below 1957 in these cities, and sales were off 7 to 13 per cent. In part, the decline in sales was related to the business recession, which has involved a loss in jobs and income, but, except for Detroit, the year-to-year decline in department store sales was consider-

ably greater in February and June than the average drop for the first half of the year.

### Doing something about it

In the postwar period, businessmen have been turning more and more to private meteorologists in an attempt to adapt selling programs to the weather and thus bolster profits. Gas companies have long used detailed temperature forecasts in anticipating heating demand. Retailers have been following, at a slower pace, the example of distributors of perishable foods, lumber companies, movie makers — to name a few — who have begun to utilize specially-tailored reports provided by private weathermen. This has resulted in a marked growth in the number of nongovernmental weather prophets. According to a trade paper there were only six private forecasting firms in the country in 1948, whereas today there are over two dozen.

Retailers use weather forecasts to adjust displays, juggle sales personnel and, most frequently, to set up advertising schedules on weather-sensitive products. Merchants who use weather forecasting to schedule their ads are hoping for increased sales per ad dollar by advertising at a time when the “climate” will be favorable to the sale of the advertised product and the generation of traffic through their stores.

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Gas utilities can forecast demand for residential heating fuel readily if prevailing temperatures can be foretold accurately. But the problem of relating variations in weather to retail trade is very complicated. In addition to mean monthly temperatures and the

amount of sunshine, hourly temperature, precipitation, wind velocity and humidity all may have an impact on results. All of this must be viewed in the framework of the sales forecaster's evaluation of the basic economic environment.

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## Births, marriages decline— population prospects unaffected

**I**n each of the first five months of 1958, as well as in August, September and November of last year, the number of births fell short of the same month of the year before. The number of marriages, too, has been off. The total for 1957 was down slightly from the year preceding, and the scant half million in the first five months of 1958 is the smallest number for such a period in the thirteen years since World War II. What meaning do these developments have, if any, for the longer-term U. S. population outlook?

### Dips in earlier postwar, too

While the downturns in births and marriages have occurred more or less coincident with the recession in business activity, this does not necessarily establish a direct cause and effect relationship. Nevertheless, both of the prior postwar recessions—those of 1948-49 and 1953-54—appear also to have been accompanied by some falling off in births and marriages. The evidence is possibly the least conclusive with respect to the 1948-49 experience, particularly in the case of marriages.

A tremendous increase, of course, occurred in the wake of the War, and not until 1949 had the “backlog” of deferred marriages been dissipated. While the decline registered in 1949 probably was accentuated by that year's recession, a substantial downturn doubtless would have taken place even if the business setback had never occurred. In all but two months of 1954, however, marriages fell below their year-earlier levels and the total for the year — at just under 1½ million — was the lowest in the postwar period.

Births had climbed from 3.3 to 3.7 million between 1946 and 1947, falling back then to 3.5 million in 1948. Since that time there has been a strong advance, to last year's record 4.3 million. Still, the two recessions registered their effects — the earlier one in a fractional decline that showed up in 1950, and the 1953-54 setback in the very small increase that occurred in 1955.

Recent experience, on balance, seems to have been no more than a repetition of a familiar pattern. There are grounds, however, for supposing that a continued decline in

marriages is in the cards for the near-term.

### Smaller potential to draw on

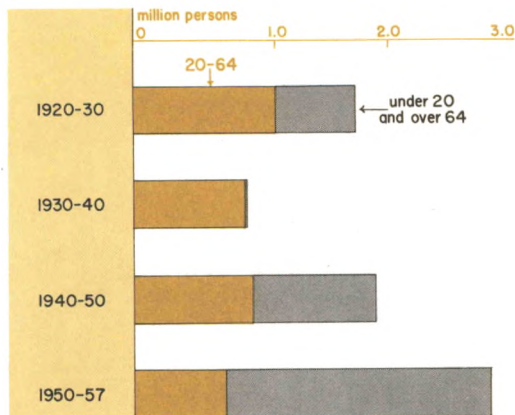
For one thing, the number crossing the threshold into marriageable age is comparatively small. Births were at a low level in the depression trough 20 to 25 years ago.

Another important factor is that up until recently the marriage rate had been inflated by a pronounced decline in the average age at first marriage (see chart). This sort of phenomenon has limits. Age at marriage could decline some further, of course, but not for long could it drop at the rate it did in the Forties; indeed, the negligible reduction between 1950 and 1955 suggests that a floor already has been reached. The persistence of "good times" and the discovery that marriage and parenthood are not necessarily incompatible with the pursuit of higher education undoubtedly have been crucial factors in this structural change in popular attitudes. In any event, the major stimulus to the marriage rate afforded by the reduction in average age at first marriage is well behind us.

### Upturn looms for Sixties

But, does all this mean that the Sixties may not see a big population upsurge? Hardly, since the reasons behind the expected increase in births are just as valid now as ever. Before long, the big crop of today's teenagers, dominated by the numerous young people born in 1942 and 1943, will be old enough to marry and have families of their own. And after a short respite, the postwar classes will enter their twenties. In short, a big increase in births during the early and later Sixties still is all but a foregone conclusion. Scarcely anything short of a strong reversal in the economic trend lines or a drastic change in the marriage-births pattern could forestall it.

## Yearly gains in U.S. population of working age much smaller than increases in the young and the old



Population developments in store for the years ahead are expected to register in a number of ways, not solely in terms of the impact of a growth in sheer numbers. A big increase in family formations is expected to swell the market for housing and the things that go along with it, like automobiles, appliances and furniture. Meantime, the record numbers born in recent years will sustain pressure on school facilities and stimulate a desire on the part of today's families to upgrade their housing accommodations by acquiring more spacious units than they now have. And the expansion in numbers alone presumably will contribute to a sizable expansion in markets for foods, clothing, services and the myriads of other things entering into current consumption.

### Easing labor market?

A significant feature of recent population history has been that growth has been concentrated at the extremes of the age distribution. The young and the aged alike have

increased numerically far more rapidly than the people in the wide middle range. A consequence has been that the labor demands of a growing economy have been met to a large extent by the employment of women and older people.

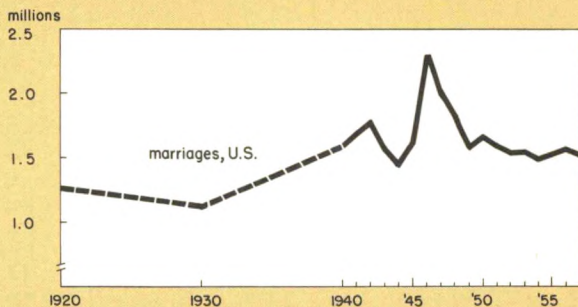
However, a huge outpouring of high school and college graduates lies not far ahead. Employment opportunities for these young people may require — and provide — a rate of economic growth considerably beyond anything seen up until now. The impact will be smaller, of course, if women and elderly workers nearing retirement age elect to withdraw from the labor market, or if the work week is shortened at an accelerated rate.

**Hands versus mouths**

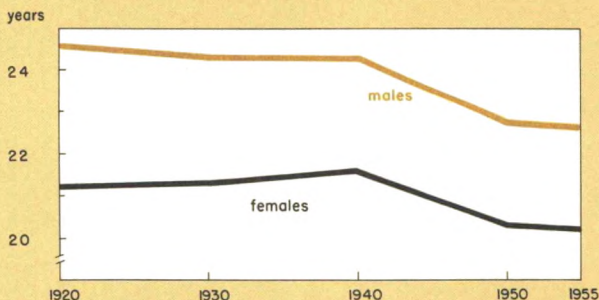
Population growth means more people to feed, to clothe and to house. It means more claimants on the goods and services the nation's farms, factories, mines and stores turn out. It may or may not mean more hands to do the work. A lot depends on how the growth occurs.

Over-all growth, caused by a decline in mortality among people of working age, adds not only to the mouths to be fed but also to the hands available to work. But growing numbers at the ends of the age distribution are something else again. Swelling in the ranks of children, or of elderly retired people spells a growing claim on output unmatched by any addi-

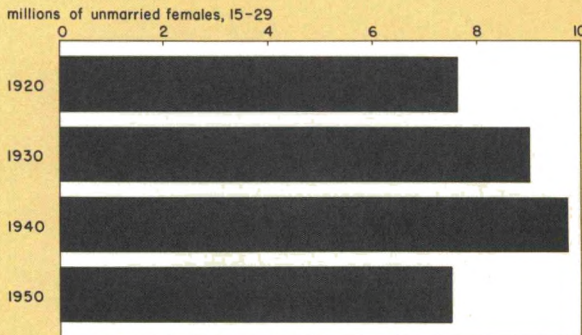
**Marriages level after postwar upsurge**



record numbers in 1946-48  
reflect sharp reduction  
in age in first marriage



... and make inroads into  
the marriage "potential"



tion to the community's effective supply of labor. Taken by itself, growth of population tends to lower production or income per capita.

But, population developments do not occur in a vacuum. Other things must be taken into account at the same time. Thus, despite the rapid postwar growth in U. S. population — the bulk of it among the very young and the elderly, moreover — income or production per head has also risen, which means that *total* income or output has risen even faster than population. Since the size of the work force has grown less rapidly than total population, the increase in output per head is largely attributable to the expansion in the community's stock of capital and to strides that have been made in enhancing the productivity of the economic process.

In the absence of population growth, the expansion of total production that has taken place since the War would have given rise to an increase in disposable real income per capita nearly three times as great as that actually experienced. But, is it clear that growth of total output could have occurred at that rate in the absence of population growth? This leads to the question, "Just what is the relationship between population developments and the level and direction of economic activity?"

#### **Population growth: help or hindrance?**

To many, it is self-evidently clear that growth in population can be equated with prosperity and expansion. A falling population, or even a stable one, conversely, spells economic contraction or stagnation. The so-called "stagnation thesis" which won many adherents during the Thirties and still commands support, makes much of the role of population growth as a stimulant to aggregate expenditure and income. At that time

it was generally believed that the era of population expansion in the United States was drawing to a close. It followed, so the argument went, that if some new catalyst to private spending failed to appear, such measures as tax cuts and rising public expenditures would be needed to restore the economy to health and to keep it from lapsing into a state of chronic depression.

There can be little question that an increase in aggregate population, whatever the age composition, creates a "physical need" for more goods of all kinds. It *tends* to elicit an increase in production and income. Whether an increase in fact occurs depends, of course, on whether people step up their total spending to accommodate the new needs or simply reallocate expenditures at the initial rate and whether there are productive resources that can be pressed into use over and above those employed at the outset. To the degree that there is slack in the economy's supply of productive assets and that the rate of money spending can be accelerated, population growth appears indeed to be a factor conducive to economic expansion. But the relationship is not a simple and straightforward one or we should expect to see extremely rapid economic expansion in such countries as India and China, which display a remarkably high rate of growth in sheer numbers.

It is apparent, of course, that if output per head is to advance over the course of time, production must grow more rapidly than population. Growth in numbers may provide some stimulus to the expansion of production, but far more crucial are continuing enlargement of the community's stock of productive equipment and the fullest possible exploitation of improved techniques, sharpened human skills and new ways of organizing and managing productive activity.