FOR PRESS RELEASE AFTER 9:15 A. M.

SATURDAY, JUNE 25, 1949

Fourth Federal Reserve District

Business Trends

Prepared by the Research Department of the

FEDERAL RESERVE BANK OF CLEVELAND

Serving the Fourth Federal Reserve District

THE INCOME TREND

The total of all money incomes received by individuals in the United States is still at a remarkably high level judged by almost any standard, but the volume of this income total is definitely diminishing. Both facts are important for any appraisal of current and prospective business trends.

We are talking here of total "personal income," which includes among other items wages and salaries received by individuals, as well as profits of business men, professional people and farmers who work on their own. This total of personal income does not include profits which go to corporations as such, but it does include dividends and interest which are drawn from corporations by private individuals, as well as interest received by people from the government, and insurance payments. The grand total makes up the pool of personal buying power which Americans can use to buy goods and services, and to pay taxes. Wages and salaries are the largest part of this total.

Personal income was rising during last year as a whole, but has been falling so far this year. The most recent figures are for April of this year, when total personal income as computed by the U. S. Department of Commerce was a little more than 3 percent below the all-time peak reached last December (allowing for seasonal variations) but was still 2½ percent higher than in April a year ago.

Judging by what is now known about employment and production trends in May, it seems probable that the May figures on personal income, as soon as they are announced, will show a decline for the fifth consecutive month, and will place the level somewhere about 4 percent under last December's peak, allowing for seasonal variations. This decline, as well as the decline in the wages-and-salaries part of total income, is about half to two-thirds as steep as the drop which took place during the first five months of the 1937-38 recession.

The fall in total personal income so far this year has been less severe than that of industrial production, where the seasonally adjusted index has probably declined at least 10 percent between December and May. This fact may appear surprising at first, since the income figures reflect changes in production and in prices, both of which have been declining this year. However, within short periods of time, income totals usual-

Broadcast by Addison T. Cutler, Trade Economist, Federal Reserve Bank of Cleveland, over WGAR, Cleveland, with Jim Martin, Morning News Editor, WGAR, Saturday, June 25, at 9:15 a.m.

ly change more moderately than measures of industrial production, since income totals are more comprehensive in scope and reflect a number of elements in the economy which shift less rapidly than industrial production. Thus, from the middle of 1937 to the middle of 1938, industrial production dropped 33% while total personal income fell only 12%.

During most periods of business recession in the past, total income has probably changed less sharply than industrial production, although the contrast has not always been as great as it was in 1937 to 1938. On the other hand, over longer periods of time, especially during protracted periods of inflation, the income total has frequently changed more radically than has production. For example, total personal income at its recent peak in December of last year was more than three times as high as its prewar level as measured by the average of the years 1935 to 1939, while industrial production, measured in physical volume, was slightly less than twice as high as in the immediate prewar years.

While total income data are not computed regularly on a local or regional basis, it is possible to get at least part of the picture for the city of Cleveland, in comparison with national trends, by looking at figures on manufacturing payrolls. Thus, factory payrolls in Cleveland dropped about 13 percent between December and April, while the United States average was dropping only about 10 percent. The peak in factory payrolls in Cleveland was in October and November, and the drop from that point to April has been as much as 17%. (These figures do not make allowance for seasonal changes.)

Some observers have said recently that the still high level of total personal income means that business could easily be a lot better than it is now. Sometimes they state it this way: the fact that personal income is actually higher than a year ago and has not declined very much from the peak reached last December means that no serious recession in business is likely to develop in the immediate future. The argument has some partial truth in it, because current levels of income would indeed permit more buying than is actually being done right now by consumers, some of whom are waiting for lower prices, and some of whom are just cautious or nervous.

But the theory that the present high level of total income is a bulwark against recession is less tenable now than it was a year or two ago, when the strong trend of national income could be relied upon pretty well to overcome any sporadic dip in the monthly showing of retail sales, or in some other indicator of business activity which showed a momentary faltering. The change in the situation has come about because the total of personal income has declined for a sufficient number of months to establish a new direction. The change also lies in the fact that this downward movement, although slight so far, is part and parcel of a cumulative process which is characteristic of the secondary phases of any general business downturn, just as cumulation occurs in the opposite way on the upgrade of business.

Thus there comes a time on the industrial front when a slackening of demand which has hit one industry gets transmitted to the industries selling supplies or materials to the first one. In a similar way, a declining trend in income makes for a reduction in consumer purchases and, until the process is checked, this leads to reduced activity and to some increase in unemployment, followed again by a reduction in income totals. There seems to be growing evidence that we are at the moment in this secondary or cumulative phase of a recession period.

As has been pointed out in more detail in previous broadcasts of this series, there are a number of important factors in the present situation which may be expected to limit the extent of the business drop and, in the course of time, to bring an upturn in total incomes as well as in the tempo of business. Some of these favorable underlying forces are inherent in the structure of the economy and have always been there. Others are in the nature of safeguards which have been built into the economic mechanism as a result of experience gathered in earlier times of downturn. Still others may be in the making today. In view of the present momentum of the downturn, however, the decline in income may be expected to continue over the near term.

Additional copies of "Business Trends" are available upon request.