PRESS RELEASE

FROM

FEDERAL RESERVE BANK OF CLEVELAND

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Attached is a talk entitled "Economic Roundup" by President W. Braddock Hickman of the Federal Reserve Bank of Cleveland before 150 bankers, businessmen and industrialists at a dinner meeting at Wilson Lodge, Oglebay Park, Wheeling, W. Va., on Wednesday, May 13, 1964.

Compared with the team of top industrialists that we have on our program tonight, I feel somewhat like the bat boy with the New York Yankees. The directors of my bank let me travel around with them to joint board meetings such as this, but I'm always amazed when they let me get into the game. Tonight, I'm not only in the game, I'm the lead off man as well. I suppose the reason for this is that the lineup is so strong that our program will come out all right even if I strike out.

Now what about the general state of the economy? The figures are almost too good to be true. The economy is strong -- in fact, stronger than I would have thought possible if I had been making a forecast six months or even three months ago. The remarkable thing is that the economy is now in its fourth year of expansion -- the longest peacetime expansion on record except for the one following the Great Depression of 1929-33. As expansions grow older, all of us look around for omens to tell us just how much longer the good times will last. In this case, I am happy to report that all signs seem to show that we have many months of good business still ahead of us, for the growth in production has been orderly, balanced, and steady. Prices generally are stable, and as yet there have not been any signs of speculative excesses that might lead to a boom and a bust.

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Gross National Product (that is, the total volume of all goods and services produced) hit a new high of $608.5 billion in the first quarter of 1964. The increase of $8.5 billion from the preceding quarter was actually fairly modest as such things go, suggesting a sustainable but not a feverish rise. The figures become even better the closer one looks at them. Almost all of the $8.5 billion increase in GNP in the first quarter of 1964, or $8.1 billion, represented increased consumer demand, a force which can be expected to become stronger after the tax cut begins to show its full effect. In contrast, production going into inventories actually declined to $3 billion, as compared with $5.4 billion in the fourth quarter of 1963. This indicates that recent production increases have not kept up with the advance in consumer spending, which in turn implies that production and employment should both rise in the future.

The FRB's index of industrial production tells the same story. The total gain in the first four months of this year has been a modest two and one-half points, as compared with four points during the same period a year ago. This year, with a more modest growth behind us, we can look for a steadier rise in output throughout the year, in the absence of a speculative rise in inventories.

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So far as employment is concerned a great deal is made of the fact that total unemployment is still 5.4% of the labor force, and that the percentage has remained at about this level for the last two years. Of greater significance, I think, is the declining percentage of married men out of work, now only 2.9%, the lowest since 1957. Furthermore, more than half of the unemployed are women and teenage boys, and many of these find work within a very few months. We know that there are pockets of unemployment, such as in the Appalachian region. The unemployed clearly need help and training if they are to find useful work. But few people realize that the help and training are being obtained and utilized. Month after month, the total amount of employment rises to new highs.

On the price front, there is as yet little real evidence of inflation, although we are studying this matter closely and continuously at the Federal Reserve. Industrial prices in the wholesale price index stood at 101.1% in March, up just one-half index point in a year, and below the average level of industrial prices in the period of 1959-60. In most business expansions, prices begin to rise after productivity turns down and labor costs turn up. At the present time productivity is still rising and labor costs are still steady. This suggests that the current business expansion is still young in spirit, despite its chronological age. Also, the fact that we have 5.4% of the labor force unemployed and that output now averages 88% of capacity (as compared with "desired" capacity of 92%)

shows that we still have some way to go before demand overtakes our ability to produce.

So far as the balance of payments is concerned, the situation is also comparatively favorable, although it is still far from satisfactory. The United States had a small balance of payments surplus in the first quarter of 1964, the first time this has occurred in 2 1/2 years. Price inflation abroad and steady prices here have helped our competitive position and have contributed to an improved trade balance. Also, long-term borrowing by foreigners in our capital markets has declined since the interest equalization tax was proposed, and short-term investments abroad have also declined since our directors raised the discount rate from 3% to 3 1/2% about a year ago. On the less favorable side, U. S. investments abroad are still large, as are U. S. Government grants to foreigners.

Now what about the Fed? What have we tried to do, and what will be our guides for action in the future? The Fed has tried to expand the money supply and bank credit at an orderly rate, and thus to promote sustained growth in the economy. And although no one seems to give us much credit, the evidence seems to show that we have achieved at least some small degree of success. We have also tried to keep interest rates here and abroad in rough alignment without tightening up on credit. Here too we have had some success, although the money market was a little too easy for my taste in April, and the U. S. balance of payments again turned sharply adverse.

A reporter from a national magazine called me last week and asked: "Is the Federal Open Market Committee planning to do anything that will upset the apple cart -- that will check the business expansion?" I felt like telling him that the Fed should be given some credit for the fact that the apple cart is so full of apples. Instead, I explained that we are trying to help, not hurt the economy. President Johnson late last month said that "tight competitive pricing" by businessmen was the first line of defense against inflation, but he added: "If the balance of payments turns sour, or if inflation starts rolling, I would look to the independent Federal Reserve as our second line of defense." I hope that the American people will remember this in the future. The Federal Reserve will only be doing what it was set up to do if we again use monetary policy as our second line of defense.

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