

Missouri
Great Falls

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Mr. Davis

ECONOMIC SITUATION

One of the difficulties facing anyone who attempts to talk about the economic scene is the matter of perspective. I suppose that everyone in this room knows that 1960 was a recession year and 1961 a recovery year. And yet the most comprehensive measure of economic activity, the Gross National Product, increased \$21 billion, or 4.3 per cent, from 1959 to 1960, while it rose only \$17 billion, or 3.4 per cent, from 1960 to 1961. And the Federal Reserve index of industrial production, a very highly regarded economic indicator, averaged 105 per cent of the 1957 base year in 1959, averaged three points higher in 1960, and just one more point higher in 1961. And the wholesale price level in 1960 was almost exactly the same as in 1959 and today is about a point lower than it was a year ago. And the percentage of unemployment was about the same on the average in 1960 as in 1959, but has run substantially higher in 1961.

Now I haven't made these figures up; these are the actual statistics. We have the best economic statistics in the world in this country, and these I have cited are the key economic measures; they are comprehensive and accurate. That being so, how can they possibly tell the story I have given you. Well, one explanation will leap to mind immediately; they are annual figures or averages and in a period such as 1960-1961 such data tend to obscure what actually was happening. When we look at quarterly or monthly figures, we get a somewhat different kind of picture.

The production index opened 1960 at 111 per cent of the 1957 base period. From January through July it was virtually unchanged, varying between 109 and 110 per cent, but then began to fall and in February, 1961, reached a low of 102 per cent. Since February it has climbed rather rapidly and in December, 1961, was 116 per cent, 14 points above the low and 5 points above the previous high. The monthly unemployment figures tell roughly the same story; they showed little change for the first seven months of 1960, then rose

fairly sharply to February, 1961, when there were about 1.8 million more unemployed than a year earlier. Since February unemployment has dropped back and now is about at year ago levels. As a per cent of the labor force, however, it is still higher than it was in early 1960.

On the other hand, the very comprehensive Gross National Product figures show 1960 to be about the same in each quarter. The only significant decline in GNP came from the last quarter of 1960 to the first quarter of 1961, when it dropped 1 per cent. Since then GNP has risen very rapidly; at the close of 1961 it was running \$42 billion or 8 per cent higher than at the beginning of the year.

Prices really have stayed about even; monthly figures and yearly averages tell about the same story although at present wholesale prices are slightly lower than a year ago and retail prices slightly higher.

Now which of these pictures is correct; the one given by the annual averages or the one given by the monthly figures? The answer, of course, is that they both are or perhaps it would be better to say that they represent two perspectives of the same picture. Modern economic statistics are a little like modern abstract art; the picture is what the observer thinks it is.

My purpose in giving this somewhat detailed picture of the economy in the two-year period is really a double one. First, I wanted to show as clearly as I could what had happened. Thus the monthly figures show an economy operating on a high level plateau in the first half of 1960, neither growing nor declining. In the following three quarters economic activity trailed off, not a lot but some. Essentially it was an inventory and capital goods recession with its principal effects seen in industrial output and unemployment, with total activity affected very little. Since early 1961 there has been a very strong recovery movement running. And because most of 1960 was characterized by high level activity, even with little growth, the year's totals turned out to be quite a lot better than those of 1959 when activity was climbing. And finally the weak first quarter of 1961 cut enough into the year's average so that even the strong

thrust of the past nine months could not push the 1961 totals much higher than those of 1960.

This is the reason some observers characterize the 1961 recovery as modest. They tend to concentrate on the facts that the GNP gain for the year was smaller in both absolute and percentage terms than that of 1960, that unemployment has averaged persistently higher even though it has shown some decline from its peak, and that there is still a lot of unused capacity in the economy. There certainly can be no argument about the fact that the economic potential of this nation is significantly greater than its actual performance.

But other observers point to the very rapid current thrust of the economy and note that GNP is 8 per cent higher now than nine months ago, that production has risen 14 per cent in the same time, and that unemployment has dropped by 1 3/4 million. They recognize that the potential is much higher than even current performance, but say that the current thrust is driving toward the potential rather rapidly.

Thus my second purpose is to underline the fact that economic policy makers, and I should emphasize particularly fiscal and monetary policy makers, have to view the economic picture from several vantage points. Usually, not always but usually, there are different perspectives. The course of policy, if it is to be wise, is not indicated solely by one perspective.

Now a word about the Ninth Federal Reserve District and Montana where, in a sense, the same problem of perspective occurs. The economic structures of this district and Montana differ appreciably from that of the nation, and it would be logical to expect some differences between them and national economic trends. We have a lot of space and not many people. As an income producer agriculture is roughly four times as important to the district and to Montana as it is to the nation; we get 12 to 13 per cent of our net income from farm activity (Montana and the district show virtually the same percentages) as against 3 per cent for the United States. With a bit more than 3 per cent of

the national population we produce about 10 per cent of the nation's food and fiber. We also are heavy producers of metal ores and timber, as you know.

Now generally speaking, unless there is a great farm depression, the district shows somewhat smaller fluctuations in levels of economic activity than does the nation. Normally we do not go up or down so far or as fast as does the nation. Thus in 1960 and through the first half of 1961 this district was in relatively better economic shape than was the United States as a whole. Perhaps I can illustrate this fact best with a few statistics on income, a very comprehensive measure. In the last half of 1960 district income flow was about 4 per cent better than in the first half, in contrast to a gain of only 1.5 per cent for the nation. In the first half of 1961 district income was up 1.5 per cent from the last half of 1960, in contrast to a gain of less than 1 per cent for the nation.

Since mid-1961, however, our growth has been less than that for the nation. This has been due almost entirely to the severe farm drouth of last summer which cut our output and our income significantly in the farm sector. Despite weakness in iron ore mining activity, the nonfarm sector in the district has continued to grow more rapidly than the national average. But the importance of agriculture in this district is indicated by the fact that total district income, affected by the drouth, rose just a bit more than 2 per cent in the last half of 1961 from the first half, while the national gain was about 3.5 per cent.

Before we feel too sorry for ourselves, however, I should hasten to point out that the earlier gains in the district were big enough to offset the smaller gains of late 1961 so that district income for all of 1961 turned out to be 4.5 per cent higher than in 1960, as against a 3 per cent gain for the nation. Thus despite the drouth we are still doing fairly well. In Montana, however, where the drouth effects were more pronounced, 1961 income was just a bit more than 2 per cent ahead of 1960, a smaller gain than in the district as a whole or in the nation.