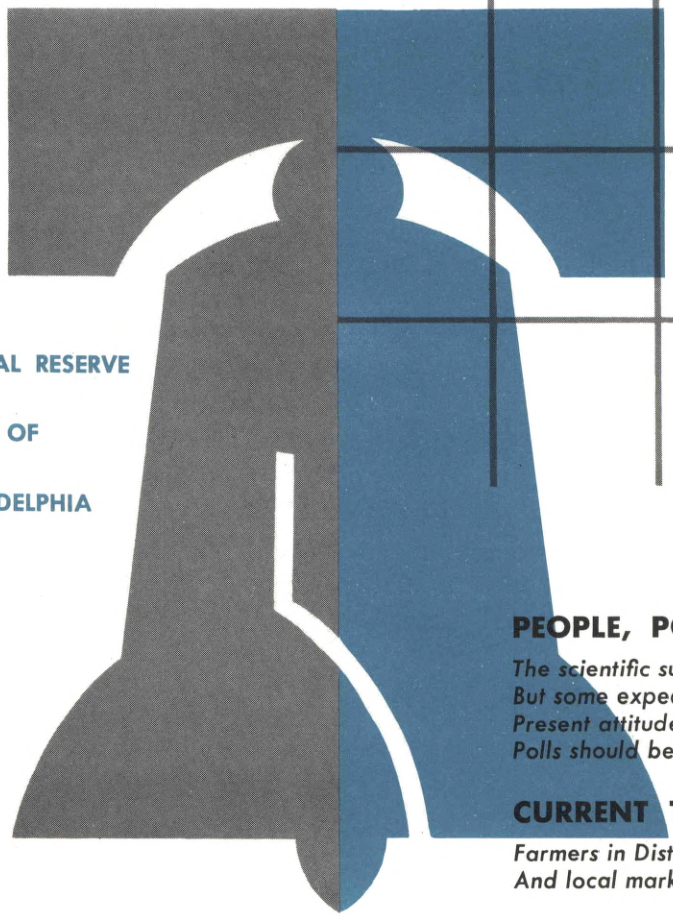
SEPTEMBER 1956

business review



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PEOPLE, POLLS AND PREDICTIONS

The scientific survey is an important new tool for the forecaster. But some expect too much of it. Plans are not always fulfilled. Present attitudes do not always portend future actions. Polls should be supplemented with additional observations.

CURRENT TRENDS

Farmers in District states have had a good growing season. And local markets are more orderly than last year.

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PEOPLE POLLS AND PREDICTIONS

Not too long ago, hunches, "guesstimates," and extensions of past trends were the tools of the business forecaster. While these older methods have not been completely shelved, today the forecaster has some new tools. One important new tool is the scientific survey. As with everything new, there is a tendency on the part of some to expect too much of it. Plans are not always fulfilled. Present attitudes do not always portend future actions. But there is one thing sure; that is, that the scientific survey is a guide to future actions. It provides a better understanding of human motivations and behavior. Used by itself, it can be misleading; but the forecaster who ignores it is not completely equipped.

Polls and pollsters are very much in the news these days. The "pollsters world series" is being waged right at this moment to see which can come closest to predicting the results of our Presidential election. Acclamation will go to the winning pollster. Explanation will come from the losers. Possibly an unanticipated shift of 1 per cent of the voters of German-American extraction in Wisconsin will have upset their delicately balanced predictions; or even a heavy rainstorm at the peak voting hour in a few key cities may conspire against them. In any event, there will be opportunity to judge the accuracy of the various polls forecasting the election.

But there are questions other than "How are you going to vote next November 6th?" in which pollsters are interested. In fact, they seem to have

radar receivers perpetually strapped to their backs—tuned to catch any stray opinion or attitude. Trying to predict people's behavior is their business.

In the post-war period, pollsters have become increasingly interested in spending behavior. Do businessmen plan to spend more or less on plant and equipment than they did last year? How do consumers feel about the upcoming year? Are they optimistic or pessimistic? Are more people going to buy cars or houses or television sets than a year ago? Pollsters say, "If you want the answers to these questions ask the people involved." Of course, you can't ask all of them. But after you stratify, rarefy, and then magnify, maybe you know what everyone would tell you if you did ask them.

PREDICTING CAPITAL SPENDING

There are many comprehensive surveys or polls conducted to reveal businessmen's spending anticipations. Businessmen's sales, profit and price expectations are probed; their prospective inventory policies are the subject for surveys; and purchasing agents are asked about backlogs and new orders. Obviously, these surveys can't all be looked at even briefly in this article. Possibly the surveys that get most attention relate to spending on plant and equipment.

The interest in these surveys arises because of the fundamental importance to the economy of business spending on plant and equipment. Changes in this kind of spending sometimes seem to lead changes in overall spending and employment.

There is another reason for the close attention to capital spending plans. They seem to be the kind of spending that would be predictable from surveys of anticipations. Business spending for plant and equipment involves some forward commitments and orders for future delivery. This sort of firms up the anticipations surveys.

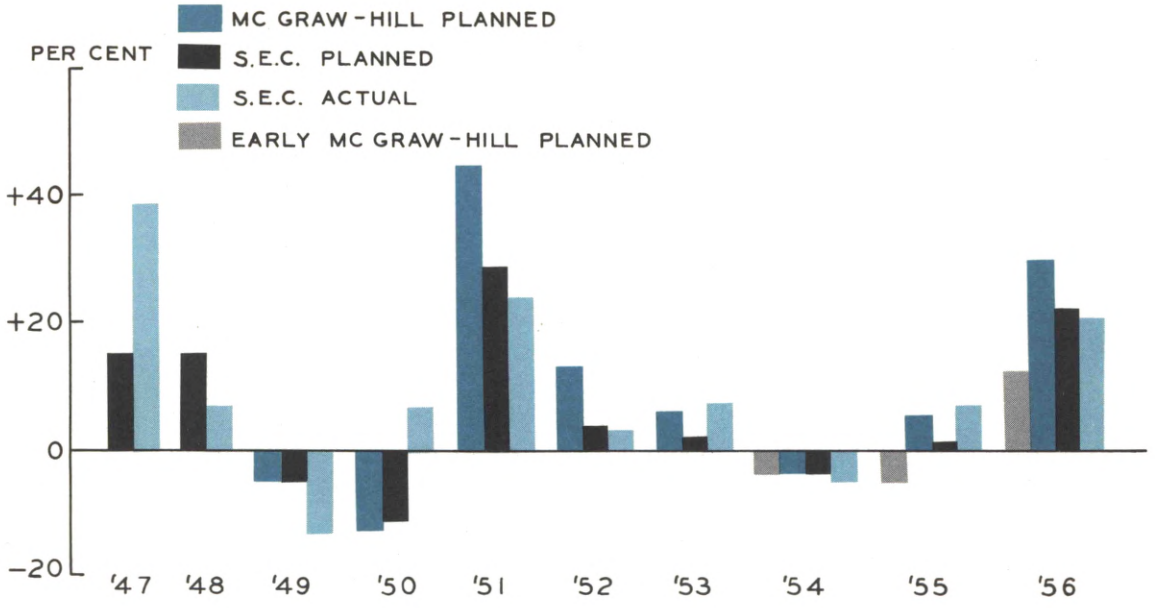
In the main, the two principal surveys conducted on capital spending are quite similar, although there are fairly minor conceptual differences. Both surveys are usually taken in the first part of the year. The projections are generally available sometime in March, April, or May. For the past three years one has also made a preliminary survey in October or November of the preceding year. This early forecast is very timely in that it gives a projection before any kind of trend is established.

While the size of the figures projected by these two surveys is important, more interest centers on the direction of change predicted. The chart shows the changes projected since 1946 and the actual change in plant and equipment spending.

As can be seen, both surveys missed the direction of actual change only in 1950. This was the year of the Korean outbreak. It is frequently said that the Korean incident and the "scare buying" and rising prices thus precipitated caused capital spending plans to be revised sharply upward. Undoubtedly this is true. What no one knows is whether the forecast for 1950 would have been essentially right had it not been for Korea. The Korean fighting did not begin until the end of the second quarter in 1950. By that time the upturn in capital spending was already well under way. Capital spending in the first and second quarters of 1950 was up 3 and 8 per cent, respectively, from the fourth quarter 1949. Capital spending in 1950, it appears, was destined to be different from the forecast with or without the Korean incident.

Except for 1950, the surveys conducted in the first quarter of the year were able to anticipate the direction of change in capital spending. The survey conducted in the fall of 1953 was very

ACTUAL AND PLANNED SPENDING MOVE TOGETHER—EXCEPT IN 1950



close to the actual mark in 1954—in fact, it was just as accurate as the later surveys. In 1955, however, the early survey missed the direction of change in capital spending.

One thing sure, the surveys correctly anticipated the downturns in capital spending in 1949 and 1954. These declines coincided with mild recessions. The surveys, therefore, gave warning of these turns in the business cycle.

Without detracting from this performance, it is interesting that both recessions were under way when the surveys were conducted. In other words, businessmen had experienced a few months of declining activity by the time they were asked about their anticipations.

CONSUMER SPENDING EXPECTATIONS

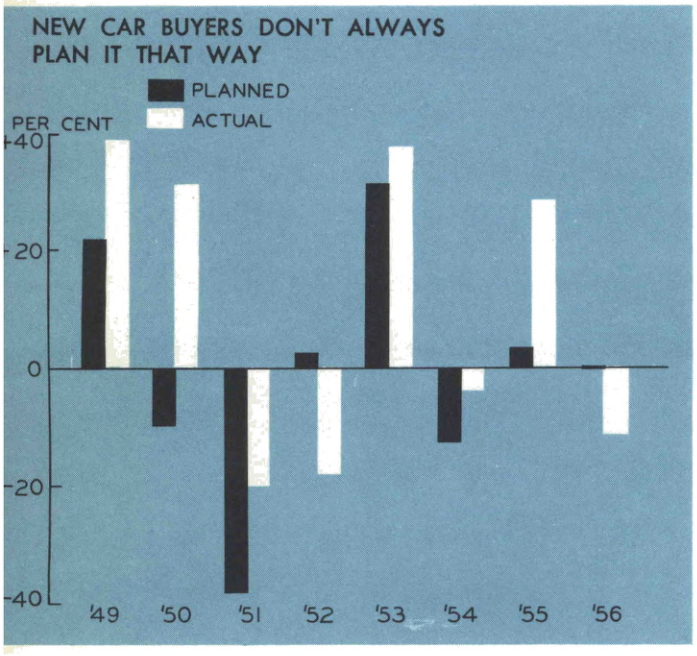
Time was when no one would have bothered with consumer spending anticipations. Before World War II, consumer spending was thought to be tied inextricably to consumer income and spending was the dependent variable.

Since the war, earnings have been high and the consumer seems to have more choice about how he will use his so-called discretionary income. There is less emphasis placed on the relationship between income and spending. At least "discretionary" spending (spending for durable goods) is no longer viewed as a sort of conditioned response to changes in income.

As a result of this newly recognized independence, consumer spending behavior is the subject of any number of pulse takings. By now nearly everyone must have read about the activities of market research. In the main, this kind of research is concerned with relations of consumers to particular products and statistics are not published. There is only one survey that regularly checks the consumer's pulse for potential changes in aggregate spending behavior.

The kinds of questions used to determine future consumer spending may be divided into two parts: specific questions to determine plans to buy, and general questions to discern changes in mood or attitude. "Do you plan to buy a new car this year?" is an example of a specific question. The general questions are like the following: "Do you expect good times?" "Do you think you'll be making more money a year from now?" Answers to both kinds of questions are expressed as percentages. For example, in 1956, 9.6 per cent of all spending units plan to purchase a house.

It would be interesting to measure the percentage of families who actually bought new cars and other items, against the percentage who said they would or might buy. But most of the interest in these projections is in the direction in which they point. In other words, do more people plan to buy cars this year than last year? Did more people buy cars this year? This is the basis on which the charts were drawn.



Automobiles

The first chart relates to plans to buy and actual purchases of new cars. The black bar represents the percentage increase or decrease in the percentage of families either planning to or indicating a possibility of buying a new car. The white bar is the percentage increase or decrease as compared with a year ago in actual car registration.

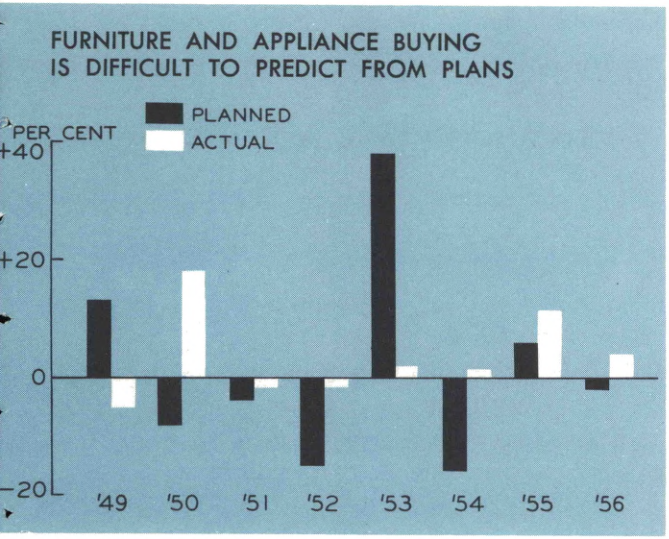
As can be seen, plans to purchase have accurately predicted the direction of changes in car demand most of the time. In 1950, however, fewer people than in 1949 said they would buy an automobile, yet car sales were higher. One explanation for this miss could be the Korean crisis, which certainly caused some "scare buying" of cars. This does not seem to be a complete explanation, however, because even over the first six months of the year—before the fighting started in Korea—car sales were running above year-ago levels.

In 1952 more people planned to buy cars than in 1951, but fewer actually did. In this instance, the steel strike is offered by some as an explanation. But car sales were running below year-ago levels even before the strike. Again in 1956, it looks as though consumer plans fail to point in the right direction. It seems a safe bet that automobile sales won't reach year-ago levels in spite of the fact that as many people said they planned to or might buy.

Furniture and household equipment

Consumer intentions to buy furniture and other large household items are also measured. The change in consumer intentions is plotted against the actual change in spending on these goods in the chart.

The boxscore may not be exactly as it appears in the chart. The decline in intentions in 1956 is so small as to be possibly offset by an increase in



the number of spending units. In other words, what appears to be a decrease in intentions in 1956 may not be. On the other hand, there are three other years in which spending intentions did not correctly anticipate the direction of change.

In 1949, more consumers indicated they would buy furniture and other large household items than in 1948. Actually, however, spending on these items declined. In 1950, intentions failed to anticipate the increase in spending that took place. Again in 1954, consumers were somewhat pessimistic in this category, but spending inched upward.

Consumer attitudes

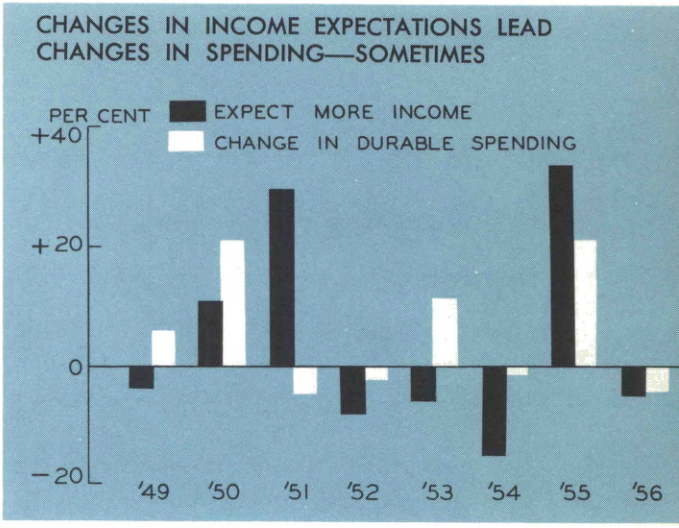
The questions to determine consumer attitudes change somewhat from year to year. They require some skill in their interpretation. By combining the knowledge from specific questions with the general "feel" from these attitudes, the forecaster has a guide to general developments.

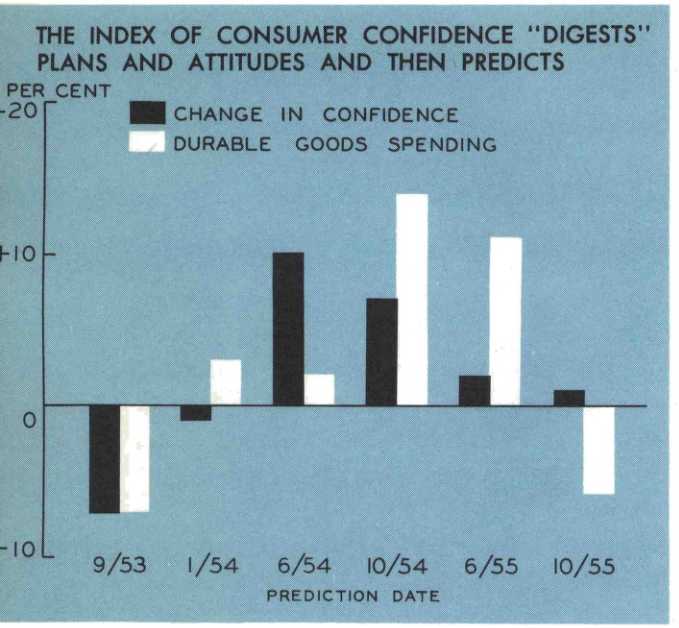
The chart takes just one of these "attitudinal" questions and attempts to correlate changes in it with changes in consumers' "discretionary" spending. In most years, the changes in the percentage of people who expected their incomes to increase correctly forecast the change in durable goods spending. This was not the case, however, in 1949, 1951, or 1953.

Periodic surveys

The consumer survey discussed is conducted annually. In addition, surveys are made periodically during the year. The questions generally are the same or similar. The results are also similar. Changes in plans and attitudes seem to lead actual changes in spending most but by no means all of the time.

Recently, an over-all measure of attitude changes, called the "Index of Consumer Confidence," has become part of these periodic reports. The index is designed to digest the digressions in the answers to the various questions concerning plans and attitudes and come out with a composite direction of change in consumer confidence. This summary measure simplifies the use of survey findings for business analysts and fore-





casters. The chart compares the direction of change in spending predicted by the index with the actual change in spending for durable goods. The index anticipated the turndown in spending in the fourth quarter of 1953. In January 1954, consumers were still pessimistic, but spending was stronger over the following six months. From there on through October 1955, the index registered optimism, and actual consumer spending reflected it. In October, however, the index still registered optimism. The actual spending figures reveal a down-turn that was not forecast.

A QUESTION

This brief look at surveys of business and consumer expectations raises some questions and suggests some conclusions. One question is, How important are predictions in influencing results?

In one sense, the prediction and acceptance of the prediction seem to set in motion forces that tend to prevent fulfillment. To illustrate this point, take a baseball game. The situation calls for a bunt. The batter shows by his stance at the plate that he intends to bunt. The first and third basemen play close on the infield grass. The second baseman comes over to cover first. The pitcher throws high. All of these actions make it difficult for the batter to bunt successfully. His intentions are nullified.

The relationship of this baseball situation to surveys of anticipations is just this: suppose the survey indicates a lower level of spending in the offing. This might prompt businessmen to make efforts to change their products—give them more style. They might lower prices, extend easier credit terms, and advertise more. All of these things make it more favorable for the consumer to buy. His intentions are nullified.

What this means is that surveys may accurately reflect intentions, but may not correctly project results. Outside pressures may be far different when the businessman or consumer is questioned than when he is faced with taking action.

Conversely, it is possible that the prediction and the acceptance of the prediction will set in motion forces that tend to make for fulfillment. For instance, suppose a survey of businessmen reveals a sharp increase in spending on plant and equipment is upcoming. This may actually speed business spending. Businessmen may fear that the projected increase in spending will strain resources. They foresee material shortages, rising prices, and higher interest rates. So what do they do? They rush their plans. They try to get theirs while the getting's good. As result, they may spend even more than the increase they planned.

SOME CONCLUSIONS

The conclusions this article suggests are: (1) That certain kinds of spending are more amenable to prediction from survey results than

others. (2) That it is wiser to use the total "feel" derived from a number of questions put to the consumer than to pinpoint consumer spending on particular products. (3) That surveys should probably not be used as the "final answer" but rather as a factor influencing the business forecast.

The surveys do seem to suggest that business spending on plant and equipment is somewhat more predictable from anticipations than consumer spending. Expenditures by businessmen require forward planning and frequently involve commitments. They are less subject to last-minute impulses.

Consumer spending anticipations seem more satisfactory if used in the composite rather than individually. The consumer is capricious. He is asked, "Are you going to buy a car this year?" Maybe he hadn't thought too much about it and that is reason enough for him to say, "No." Then the new models catch his eye. He likes their looks. The fellow two houses down buys a station wagon. His car begins to stall in damp weather. He's hooked—why fight it? He buys a new car. The point: people often behave on impulse, and it's difficult to predict impulses. But it may be possible to get a "feel" of how susceptible people might be to impulses in a given year.

Everyone likes to do things the easy way. The business forecaster is no exception. It is tempting to use anticipation surveys as a forecast of business and consumer behavior and pretty much forget additional analysis. This does not seem justified. Anticipation surveys may be helpful to the forecaster, but they should be supplemented with further observations.

SOURCES FOR CHARTS

The sources for the chart on spending for plant and equipment are the Department of Commerce, Securities Exchange Commission and the McGraw-Hill Publishing Company. The intentions data for the other charts are developed by Survey Research Center of the University of Michigan. Actual automobile registration figures are from **Automotive News.** Actual consumer spending for durable goods is from the Department of Commerce.

CURRENT TRENDS

Third District Farmers Harvest Larger Crops Of Higher Quality

Productionwise, 1956 looks like a good year for farmers in the tri-state area of Pennsylvania, New Jersey, and Delaware. The growing season to early September displayed none of the weather extremes encountered last year. One of the coolest summers on record kept crops growing slowly, while frequent rains maintained soil moisture to insure high yields and excellent quality.

Marketwise, however, the current season leaves something to be desired. Prices in Third District markets have shown signs of stabilizing only recently and in but a few instances have there been significant advances from earlier low levels. Perhaps the most to be said for local markets is the

fact that they are more orderly than last season, when freakish weather resulted in a flood of farm produce in too-short a time for ready absorption. With marketing periods for individual crops tending to lengthen, the pressure on prices that inevitably accompanies heavy receipts is expected to lessen.

Corn is the most promising field crop

County farm agents in nearly all parts of our district speak of this season's corn crop in the most optimistic terms. Some call it one of the best ever produced. From the growth standpoint. the crop is said to be "made." But fingers must remain crossed until harvest time, because a hard blow would mean heavy losses in fields where corn stalks are eight feet tall. Yields of hay have been better than average, although curing losses ran high from the first cutting. Soybeans in southeastern counties are labeled an unusually promising crop. Winter wheat and potatoes are among the few crops that will be smaller this year than last. Yields per acre are considerably higher than in 1955 but the planted acreage was cut back sharply in both cases.

Vegetable growers are faring much better this year

Farmers in the vegetable growing areas of southeastern Pennsylvania and southern New Jersey report increased yields of higher quality crops than were harvested in the July-August period of 1955. Tomatoes seem to be an outstanding example. The bulk of the crop matured slowly, consequently early season supplies were light enough to command higher prices than were paid in the fresh market last year. Tomatoes for processing also brought more satisfactory contract prices, as they were high in quality and receipts at canneries continued below the level where facilities became swamped. Peas, onions, beans, and sweet corn are other vegetable crops of excellent quality giving better than average yields per acre. The asparagus season was a short one, but loss in volume was not too serious and prices held fairly well.

Tobacco prospects are excellent

Lancaster County farmers are growing a tobacco crop that rates well above average. Planting was finished later than usual this spring, but the good growing weather of recent weeks has overcome the delay. Thus far, quality promises to be much higher than last year and yields per acre are expected to show a substantial increase. The 1955 crop was below average in both yield and quality. It was marketed late because growers held out for higher prices that did not materialize. This tobacco sold for around 24½ cents per pound, against an average of nearly 27½ cents for the previous season's crop. Favorable growing conditions right up to harvest time, therefore, are a "must" if farmers are to recoup losses on the 1955 crop.

Some fruits were hard hit by frost

Pennsylvania orchards in particular suffered considerable damage when killing frosts struck in late May. Cherries were injured most, with the yield cut about in half. The commercial apple crop will be smaller than a year ago and below the ten-year average, according to latest predictions. Losses in peaches generally were less extensive, with some orchards in Delaware and parts of southern New Jersey escaping altogether.

On the brighter side, both apples and peaches are sizing rapidly due partly to a lighter set of fruit. Moreover, quality is high, all fruit seems to be coloring well, and local market prospects are said to be favorable. In packaged fruits espe-

cially, size, quality, and color have a lot to do with establishing prices. So, despite these smaller crops, fruit growers generally remain optimistic. Producers whose apples go mainly to processors also have reason for encouragement, because the carryover of sauce, butter, and other products is expected to be small again this year.

Poultrymen are plagued by overproduction

Poultry and egg markets have been oversupplied for some months, chiefly because of expansion induced by a good year in 1955. In Delaware—our broiler state—successive heavy marketings pushed prices below 19 cents a pound from a 27 cent level reached last year. And much the same thing has happened elsewhere in this district, where broilers are being produced in an ever-increasing volume. Prices of eggs also have skidded—some say for want of organized marketing, but mostly because there are just too many eggs.

Down in Sussex County, Delaware, where feed companies own most of the birds and supply all of the feed, farmers are guaranteed a base price plus half the profits for the flocks they house and care for. But at this year's market prices the profits have hovered near the vanishing point and even now are mighty slim at best. Last year, poultry and eggs "saved the day" for many a farmer whose crops turned out near-failures in the freakish weather. This year, it's the crops that are counted on to offset a poor season in poultry, or eggs, or both.

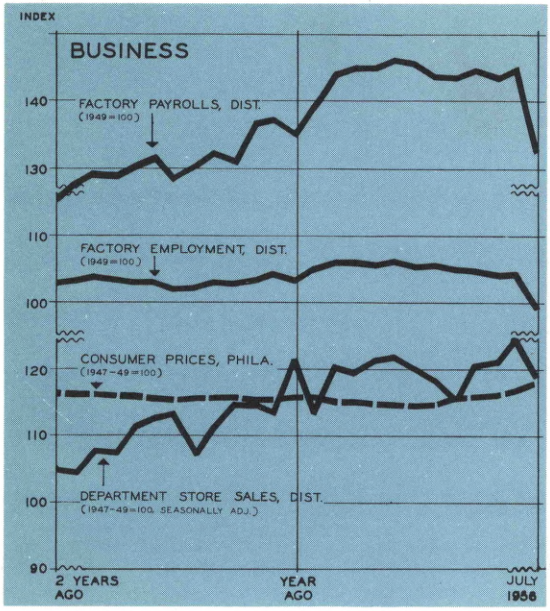
It's a better year for dairymen

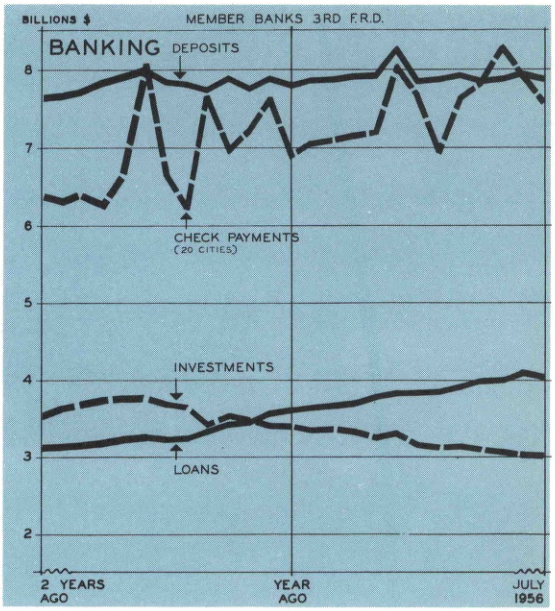
Milk production in all parts of our district has continued near record levels this summer. And, fortunately for the dairy farmer, volume has been maintained without the expense of feeding the large quantities of winter rations that were so necessary when pastures failed last year. The market for fluid milk is said to be generally satisfactory and surplus seems to be less of a problem than at this time last year. As things are shaping up, the all-important milk check should go a little further this year. For one thing, the feed bill will be smaller because pastures have held up all season, thus conserving the supply of winter rations; also, corn for silage looks like an excellent crop. The slow, costly process of building up dairy herds seems to be continuing and more dairy farmers are installing cold-wall tanks and other handling equipment with which to increase operating efficiency.

Farm cash income has declined

Receipts from crops and livestock products marketed by Third District farmers were about 2 per cent smaller in the first six months this year than last. However, this was to be expected while prices remained under severe pressure in local markets. But since mid-year, some prices have stabilized and a few have risen above year-ago levels. This suggests that second-half returns to farmers in this area may result in more favorable comparisons with 1955. Such a prospect is brightened by above-average yields and increased quality of so many early and mid-season crops important to the agricultural economy of this district.

FOR THE RECORD...





SUMMARY

	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	July 1956 from		7 mos. 1956 from year ago	July 1956 from		7 mos. 1956 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production	− 7	− 6	+ 1	− 8	− 2	+ 3
Construction contracts*	0	− 4	+ 2	− 8	− 2	+ 8
Coal mining	−41	−33	+ 6	−26	−19	+10
EMPLOYMENT AND INCOME						
Factory employment (Total)	− 5	− 4	+ 1	− 3	− 1	+ 3
Factory wage income	− 8	− 2	+ 7	.....	.....	.....
TRADE**						
Department store sales	−25	− 2	+ 6	+ 3	+ 2	+ 5
Department store stocks	− 4	+ 6	.....	+ 1	+ 9	.....
BANKING (All member banks)						
Deposits	− 2	0	+ 1	− 1	0	+ 2
Loans	− 1	+12	+16	− 1	+14	+17
Investments	− 1	−11	−12	− 1	−12	−12
U.S. Govt. securities	− 1	−12	−12	− 1	−13	−13
Other	0	− 8	−12	− 1	− 5	− 3
Check payments	− 5†	+ 9†	+ 9†	− 3	+12	+10
PRICES						
Wholesale	.....	.....	.....	0	+ 3	+ 3
Consumer	+ 1‡	+ 2‡	0‡	+ 1	+ 2	+ 1

*Based on 3-month moving averages.
**Adjusted for seasonal variation.
†20 Cities
‡Philadelphia

LOCAL CHANGES

	Factory*				Department Store				Check Payments	
	Employment		Payrolls		Sales		Stocks			
	Per cent change July 1956 from		Per cent change July 1956 from		Per cent change July 1956 from		Per cent change July 1956 from		Per cent change July 1956 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown	−18	−14	−21	−12	.....	.....	.....	.....	− 3	+14
Harrisburg	−13	− 9	−17	− 3	.....	.....	.....	.....	+ 4	+18
Lancaster	+ 1	0	− 1	+ 3	−13	−11	−4	+ 8	− 5	+14
Philadelphia	− 3	− 3	− 4	+ 3	−29	− 1	−5	+ 6	− 6	+ 9
Reading	− 3	− 1	+ 1	+ 9	−25	− 9	−7	+ 4	− 3	+10
Scranton	− 1	+ 6	− 3	+15	−26	+ 3	−1	+11	− 1	+17
Trenton	− 9	− 6	− 8	− 4	−26	− 3	−7	− 6	+11	+ 3
Wilkes-Barre	− 3	− 6	− 1	+ 3	−20	− 5	−1	+ 2	+ 3	+15
Wilmington	− 3	− 7	− 4	− 4	−28	− 2	−1	+ 3	−14	+ 4
York	0	+ 1	− 3	+ 7	−19	− 4	−3	+11	−11	+ 4

*Not restricted to corporate limits of cities but covers areas of one or more counties.