THE NEAR-TERM OUTLOOK
address by KARL R. BOPP
Vice President, Federal Reserve Bank of Philadelphia
before the
The Credit Men's Association of Eastern Pennsylvania
Kugler's, Philadelphia, Pa. - November 18, 1948, 12 noon

INTRODUCTION

1. Brass hat versus worker
   Some of ladies heard Bob Ferguson

2. Have no communion with burning bush

3. Text: "I have been faithful to thee, Cynara, in my fashion."
   - Ernest Dowson
   The impression you get depends on where you place
   the emphasis

I. Is the boom running out?

   A. Trees don't grow to the sky, but how close
      is closer? - year 2000

   B. Earlier adjustments

      1. Demobilization, reconversion, reduced
         Government expenditures

      2. Sharp break in stock prices - fall 1946
         presumed implication for business expansion

      3. Weakness in non-durables first half 1947:
         many inventories appeared excessive
         consumer resistance said to be high

      4. Break in prices of farm products in February

      5. Large Treasury cash surplus first quarter of 1948

      6. Bumper crops this summer
C. Interpretations of why we rode through these readjustments

1. Extraordinary strength of inflationary forces
   (a) Large backlog demands and liquid assets
   (b) Ready availability of credit at low rates
   (c) Non-resistant wage policies
   (d) Government spending
   (e) Foreign demand

2. Readjustments reflect basic weakness – we have been saved only by fortuitous shots in the arm
   (a) Strategic coal wage increase in summer of 1947
   (b) Short corn crop last fall
   (c) Exceptionally large exports in spring of 1947
   (d) Cashing veterans’ leave bonds
   (e) E.R.P.
   (f) Larger defense program
   (g) Reduction in personal taxes

D. At any rate we have had inflation

1939 - October 1943

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Consumer prices</td>
<td>75%</td>
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<tr>
<td>Wholesale &quot;</td>
<td>120</td>
</tr>
<tr>
<td>Weekly factory earnings</td>
<td>126</td>
</tr>
<tr>
<td>Corporate profits (after tax)</td>
<td>300</td>
</tr>
<tr>
<td>Net income of farm propr.</td>
<td>320</td>
</tr>
</tbody>
</table>

E. Why hasn’t more been done about inflation?

1. Great increase in standard of living
   Since 1939
   Since 1944
   Since 1939 because we are fully employed
   Since 1944 because we are producing civilian goods

2. Increases widely distributed
   Not equally – some ↓ proportion
   of total but ↑ absolutely
   Very few, not politically powerful,
   have had decreases in real income

3. Fear of deflation
II. *Indications of weakness - the case for early recession*

A. Raymond Rodgers' "Why Slump?"

1. Record harvest

2. Retail sales have stopped climbing - "real" volume
   (a) Household appliances
      washing machines
   (b) Men's suits
   (c) Women's wear
   (d) Shoes
   (e) Used cars

3. Inventories can't go much higher
   (a) Cotton
   (b) Stainless steel
   (c) Hardwood lumber
   (d) Secondary brass and aluminum
   (e) Some vegetable oils

4. Export boom off

5. Housing boom weakening

B. Impressive list - reason for pause
   Before we are convinced, let us take a systematic look at expenditure and production prospects

III. *Expenditure and production prospects*

(Memo)

IV. *Wherein does post-War II differ from I?*

A. Public versus private debt
   Availability of funds for expansion

B. Preparedness and armament
   Boom superimposed upon restocking boom

C. Greater concern for full employment

V. *Implications for credit men*

Over-all versus shifts
### DISTRIBUTION OF GROSS NATIONAL PRODUCT FOR SELECTED PERIODS

(Percentage of total by types of expenditures)

<table>
<thead>
<tr>
<th>Type of expenditure</th>
<th>1948, third quarter</th>
<th>1946, first quarter</th>
<th>1944</th>
<th>1939</th>
<th>1929</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government purchases of goods and services</td>
<td>14.7</td>
<td>17.9</td>
<td>45.5</td>
<td>14.4</td>
<td>8.2</td>
</tr>
<tr>
<td>Federal</td>
<td>8.7</td>
<td>13.4</td>
<td>41.9</td>
<td>5.7</td>
<td>1.3</td>
</tr>
<tr>
<td>State and local</td>
<td>6.1</td>
<td>4.6</td>
<td>3.5</td>
<td>8.7</td>
<td>6.9</td>
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<tr>
<td>Gross private domestic investment</td>
<td>15.2</td>
<td>10.9</td>
<td>3.0</td>
<td>10.0</td>
<td>15.2</td>
</tr>
<tr>
<td>New construction</td>
<td>5.8</td>
<td>3.7</td>
<td>1.1</td>
<td>4.4</td>
<td>7.5</td>
</tr>
<tr>
<td>Producers' durable equipment</td>
<td>8.4</td>
<td>4.5</td>
<td>2.5</td>
<td>5.1</td>
<td>6.2</td>
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<tr>
<td>Change in farm and nonfarm inventories</td>
<td>1.1</td>
<td>2.7</td>
<td>- .6</td>
<td>.5</td>
<td>1.5</td>
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<tr>
<td>Net foreign investment</td>
<td>.3</td>
<td>1.5</td>
<td>- 1.0</td>
<td>1.0</td>
<td>.7</td>
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<td>Personal consumption expenditures</td>
<td>69.8</td>
<td>69.8</td>
<td>52.5</td>
<td>74.6</td>
<td>75.9</td>
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<tr>
<td>Durable goods</td>
<td>9.2</td>
<td>6.2</td>
<td>3.2</td>
<td>7.4</td>
<td>9.0</td>
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<tr>
<td>Nondurable goods</td>
<td>40.2</td>
<td>42.2</td>
<td>31.8</td>
<td>39.0</td>
<td>36.4</td>
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<tr>
<td>Services</td>
<td>20.3</td>
<td>21.3</td>
<td>17.5</td>
<td>28.2</td>
<td>30.5</td>
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<tr>
<td>Gross national product, total:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Per cent</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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<td>Billions of dollars</td>
<td>255.9</td>
<td>196.1</td>
<td>212.2</td>
<td>90.4</td>
<td>103.8</td>
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