BUSINESS AND BANKING PROSPECTS FOR 1949

address by
KARL R. BOPP
Vice President, Federal Reserve Bank of Philadelphia
before the
FINANCIAL ANALYSTS
Homestead Restaurant, Phila., Pa. - January 6, 1949

Introduction

1. Have no communion with burning bush.

2. Beginning of year statement:

"Business is just as changeable and unpredictable as the weather. No sooner are the skies clearing and the winds stilled when we read the morning weather forecast - increasing cloudiness today, with snow beginning late tonight; cloudy and colder tomorrow.

"By tomorrow the snowstorm blowing in from the northwest may be joined by another blowing in from the Atlantic. Or both may be precipitated into rain by unexpected southerly winds.

"In like manner the elements that make up our business climate are always changing. About the only thing we can be sure of is that tomorrow will be different. How much different we do not know, nor whether it will be better or worse."

3. Text: "I have been faithful to thee, Cynara, in my fashion."  - Ernest Dowson

Meaning depends on emphasis.

I. Is the boom running out?

A. How near is closer? - year 2000

B. Postwar adjustments

1. Demobilization - reconversion
   reduced Governmental expenditures

2. The fall of 1946 - sharp break in stock prices
   - implication for business expansion
3. The first half of 1947 - weakness in non-durables
   Inventories appeared excessive - sharp break in
   Consumer resistance said to be high
4. First quarter 1948 - February break in farm prices
   Large Treasury cash surplus
5. Summer 1948 - bumper crops
6. November-December - slump in retail sales

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) End of 1945 - business inventories
   (b) All of 1946 - rapid increase in equipment and construction.
      Rapid increase in consumer durable goods.
   (c) Spring of 1947 - net exports
   (d) Summer of 1947 - strategic coal wage increase
   (e) Fall of 1947 - short corn crop
      Cashing Veterans' leave bonds
   (f) 1948 - ERP
      Larger defense
      Reduction in personal taxes

D. At any rate we have had inflation

1939 - October 1948

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer prices</td>
<td>/ 75%</td>
</tr>
<tr>
<td>Wholesale</td>
<td>/ 120</td>
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<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
   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

   6. Increase in saving - residual item

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 banks

Over-all versus shifts
<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>
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<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>
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<tr>
<td>Federal</td>
<td>8.7</td>
<td>13.4</td>
<td>41.9</td>
<td>5.7</td>
<td>1.3</td>
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<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>
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<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>
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<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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<td>Change in farm and nonfarm inventories</td>
<td>1.1</td>
<td>2.7</td>
<td>-0.6</td>
<td>0.5</td>
<td>1.5</td>
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<td>Net foreign investment</td>
<td>0.3</td>
<td>1.5</td>
<td>-1.0</td>
<td>1.0</td>
<td>0.7</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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<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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<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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<tr>
<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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