

BUSINESS AND BANKING PROSPECTS FOR 1949

address by
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before the
FINANCIAL ANALYSTS
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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

Consumer prices	/ 75%
Wholesale "	/ 120
Weekly factory earnings	/ 126
Corporate profits (after tax)	/ 300
Net income of farm propr.	/ 320

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

(FRB Chicago -
jewelry
entertainment rest.
drugs
shoes
men's clothing
radios
auto accessories dept.)
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

DISTRIBUTION OF GROSS NATIONAL PRODUCT FOR SELECTED PERIODS

(Percentage of total by types of expenditures)

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

Annual Rates
Billions \$

GROSS NATIONAL PRODUCT

Annual Rates
Billions \$

