

April 2, 1954

CURRENT ECONOMIC PICTURE

by Karl R. Bopp

INTRODUCTION

1. Necessity for looking ahead
2. Impossibility of accurate prediction in human affairs

a. Population

- (1) N.S. Pritchett - Washington University mathematician and astronomer

Method - 3^o parabola to census data 1790-1890 - excellent fit

Forecast - by 2900 U.S. population would = 41 billion

Three errors -

- (a) Population growth can be expressed in mathematical formula
- (b) Population function of time only
- (c) That shape of formula revealed by experience 1790-1890

- (2) Population projections of 1930's and 1940's

Woytinsky's judgment: "Their projections deserve a place of honor in the history of statistical methodology as specimens of unsurpassed skill and patience. Their only weak point is that they proved to be false."

Highest estimates for 1952

1937 projection	146.8
1943 "	147.3
1947 "	149.3

Actual July 1, 1952 Bur. of Census. 157.0

1947 projection gave "probable" of 160.6 in 1975. Reached in Sept. 1953

Extrapolated decline in natality in 1920's and 1930's is permanent.

b. Business prospects

I. Some rough relationships

G.N.P. - all time high of 2nd quar. 1953	\$371.4 billion
Consumed (roughly 60%)	230.4
Gov't (60% of remaining 40% = 23%)	85.0
Private investment remainder (17%)	58.5
Net foreign investment	- 2.5

II. What has happened in the past year?

A. Method of approach: Systematic

Go from the over-all to the components

B. G.N.P. has declined not over 5%

C. Which major sectors?

1. Last three quarters of 1953 in Private Investment

2. First quarter 1954 in Government Purchases

This may surprise you: You may ask what about the consumer?

D. Personal consumption expenditures

1. Three-fold division

Durables	Non-durables	Services-Jokers
\$30 bil.	\$120 bil.	\$80 bil.

2. What has happened to each

Durables down 7-8 % but it is relatively small

Non-durables down 1-2% but it is large

Services up ~~2%~~ *5-6%*

3. Total has not changed much - yet.

E. Gross private investment - the big decline in last three quarters of 1953

1. Three-fold division

New construction	Equipment	Inventories
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2. What has happened to each?

New construction - holding up *+3%* remarkably well

New durable equipment - also holding up remarkably well *-3%*

INVENTORIES! from +6.7 to -3.4. A turnaround of \$9-10 billion with G.N.P. down \$8 billion! in last three quarters of 1953

That is why it has been called an inventory adjustment. *-4.5 - 100 Int. inv. '54*

II. F. Government purchases of goods and services

1. Two-fold breakdown

Federal State and local

2. Federal gradually getting reductions in military expenditures

At first offset by other expenditures

In first quarter of 1954 a \$4.5 billion reduction in total

3. State and local have been increasing at a rate of \$2 billion a year since end of the war

G. Conclusions on where we have come

1. Roughly one ^{4-5%} can say we have had a decline of roughly 5% in over-all level of activity. Quantitatively one can say this decline is equal roughly to the turnaround in inventories and to the decline in defense spending

2. Actually, the picture is more complicated

We have had declines especially in durable consumers goods, but also in non-durables, though this has been almost offset by the increase in services

Declines in employment and in output have been widespread through industry

III. Where do we go from here?

Everyone looking for something

DECISIVE one way or the other

e.g. Pres. Eisenhower said March is the critical month
March is now over - and the evidence is still inconclusive

Industrial production probably down a bit but rate of decline
less than February down 1 pt.

Non-durables picked up (largely seasonal)
Durables down

especially steel (this week 68%) but probably overdid earlier;
e.g. steel companies lessened inventories but no definite
signs of pick-up in orders

producers' goods
military equipment

New construction

1st two months 1954 highest ever recorded

Inventories

Purchasing agents report substantially larger number of
firms have completed their adjustments and 44% are down

Exceptions

Autos - in anticipation of spring pick-up in sales

Unemployment

No labor market now has a shortage
23% of areas have substantial surplus

old estimate up 1.0 to 3.4
new estimate up 0.6 to 3.7

Spending intentions

Plant and equipment (Feb.-Mar. estimate) 27.2
only 4% less than '53

Manufacturers (Durable goods expect. down 8% from 1953
Expectations (= to present rate
(Non-durables expect. somewhat higher than
present rate

Consumers Intentions

III. Where do we go from here? (continued)

- A. No crystal ball
- B. How can we ascertain probable behavior of consumers, businessmen, and Government?
- C. Consumer Finances Survey
 - 1. Plans versus behavior
 - 2. Plans for 1954
 - 3. Plans for 1954-1955
- D. Capital Investment Survey
 - D. of C. and S.E.C.
Plant and equipment in 1954 within 4% of last year -
and most recent more optimistic than earlier
 - Inventories

III. E. Government - have left till last -
shift from Product to Finance

Eisenhower consolidated cash budget

Fiscal years	1953	Estimated	
	Actual	1954	1955
Receipts	71.3	74.9	70.8
Expenditures	76.6	75.2	70.7
	- 5.2	- .2	+ .1
Conventional	- 9.4	- 3.3	- 2.9

Based on assumption that level of economic activity will continue as in 1953

Effects of reduced level of activity

1. On income
2. On expenditures

		Fiscal 1953	
Federal Revenue structure		Income taxes	
		Indiv. income . 33.4)	55.0
		Corp. 21.6)	
		Excise 10.0	
		S.S. & other... 9.5	
			71

Reduction of, say, \$15 in G.N.P.

$\frac{1}{2}$ in corp. profits = 7.5	$\frac{1}{2}$ of that in corp. tax	3.75
Personal income tax liability		1.50
S.S. Receipts down - payments up	over-all	1.50
Other factors: other Fed. + State taxes down	expenses: support up	<u>1.50</u>
Total		8.25
Also Jan. 1 tax reductions		4.50
New excise bill		1.00

F. Conclusions:

1. It doesn't seem to me we have yet reached the low point
2. We shall not establish any over-all records in 1954
3. Still 1954 is likely to be our second best year
- somewhere between '52 and '53
4. Some underlying longer-term strength