CURRENT ECONOMIC DEVELOPMENTS

by

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before the

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Introduction

It is not difficult to be dramatic.
Colin Clark, Australian's forecast of a year ago
dramatic, forceful - and WRONG
- or to speak with a tone of certainty.

But human beings have a great knack for confounding those
who would make them mere ciphers in a formula

Why try to look ahead? Inevitable. To live is to forecast.

You, as lawyers, forecast your judgment of the decision -
even though, in the nature of the case you must be wrong often.
- Not as often as economists, but still often.

How can we reduce the error?

Sources of dangers in forecasting

Double counting and
Omissions (over-emphasis on one or a few factors)

There are times when a single factor is of critical importance

The G.N.P. approach - what do we use our products for?
What do we consume? Invest?
buy collectively?
Government
foreigners

1) Nature - Consumers
Investment (Business)
Government (foreign)

2) The problem of transfer payments, e.g. Soc. Sec.
Gross, i.e., do not subtract depreciation
Interested in level of activity
I. What has happened since invasion of South Korea?
   The post-Korean invasion build-up

   A. In 1953II we reached all-time peak $371 billion
      1. An increase of $100 billion in three years!
         a. Substantial price rise but 2/3-1/2
         b. Substantial part was real 1/3-1/2

   B. The initial impact was not defense
      1. Actually Government expenditures less in 1950III than in 1950II (Lags inherent in Government operations)
      2. Individuals and business "beat the shortages and price rise!"
         a. Durable cons. + 6 1/2 bill (25%) \rightarrow 34
         b. Equipment + 4 1/2 (20%) \rightarrow 26.3
         Consumers beat business on inventories (from +4.4 \rightarrow -1.5)
         (Didn't hoard but prevented their neighbor from doing so.
         Incidentally the failure of shortages to develop has had
         a dampening effect ever since.)

   C. But for remainder of three years % of that
      G.N.P. ↑ $88 billion 100
      Gov't 45 50
      Cons.
        non-dur 18 20
        Services 17 20
      Invent. 8 (from -1.5 \rightarrow +6.3) 10

II. The American economy at its peak 1953II

   A. The over-all magnitude G.N.P. $371

   B. Major segments
      1. Consumers 62% 230
      2. Private invest. 16% 58
      3. Government 23% 85
      (foreign - 2.5)

III. The current recession
      [Rolling readjustment when UnE.↑
      Recession when friend loses job
      Depression when you lose yours - or I lose mine]

   A. Size of the over-all decline
      1. In G.N.P. ↓ 15 bill or 4-5%
      2. Seems to have reached its low point early in
         2nd quarter of 1954 - level since
B. Where has it taken place?

1. 2/3 business purchases of equipment and inventories
2. 1/3 Government
3. What? Not consumers?

C. More detailed analysis
With comments on predictability

1. Consumers 230 → 233
   Depends on inc.
   and prices
   steady rise
   postponable or accelerate

   a. Non-durables (52%) 122 → 120 -1%
   b. Services (36%) 78 → 84 +8%
   c. Durables (12%) 31 → 29 -8%

   Relation to employment
   ↓ in D = ↘ in E
   ↑ in S  ↑ in E

2. Private investment 58.5 → 45.6
   a. New construction 25 → 27
   b. Equipment 27 → 22
   c. Inventories + 6 → -4

   Inadequacy of data

3. Government 85 → 78
   a. State and Local 25 → 27
   b. Federal 61 → 51

   National security
   54 → 45

IV. Where do we go from here?

Reorganize the items in terms of our knowledge
- Incidentally, your judgment may be better than mine.
- How to be your own forecaster!

Imp. in G.N.P. Ave. since
20-23% 1947
34% 2. Cons. services $84 + + 5
8% 2. Non-durables 120 + + 4 (1949 dip)
    3. State & local 27 + + 2

   a. School
       6-17 year olds
       1946 + 30% = today + 30% = 1960
       These kids are already here!
       - not like forecasting population

Incidentally taxes on new areas!
b. Highways

Eisenhower $50 bil. program
Debt ceilings plus ingenuity

60-65% of total certainly ↑

4. Private investment

a. Construction

(1) Housing - strong in short run
30-year no down payment
some weakness before 1960
but very strong by middle 1960's!

Com/S.E.C.

<table>
<thead>
<tr>
<th>Year</th>
<th>II</th>
<th>III</th>
<th>IV expected</th>
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<tbody>
<tr>
<td>1952</td>
<td>27.5</td>
<td>27.2</td>
<td>26.8</td>
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(2) Bus. plant
spotty but probably ↓
still estimates are not down much
utilities still strong
commercial (shop.centers!) strong

(3) Bus. equipment
very spotty
RRds ↓
mtype mfg. ind. ↓
corp. funds from deprec. - large
retained earnings

3/4 - 4/5 of total G.N.P. some spottiness but over-all ↑ somewhat

This leaves 3 big, critical items

Consumer durables
Inventories
Federal Government

Consumer Durables

Can accelerate
postpone
Hinges pretty largely on how new model cars go

Inventories

(This hinges in part on how consumer durables go!)
Business has been liquidating for a year
- down $4 billion from last September
- still $78 billion

Production → Inventories → Consumption

Inventories have been a drag for ages
- If we stop liquidating while keeping consumption up,
  shall increase production.

My guess - specially if new cars go well, is that inventories
will be less of a drag and may become an upward force.
Federal Government

New Estimates - Fiscal Years

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>1954</th>
<th>Revised</th>
<th>Differ.</th>
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</thead>
<tbody>
<tr>
<td>National Secur.</td>
<td>46.2</td>
<td>44.9</td>
<td>41.9</td>
<td>- 4.3</td>
</tr>
<tr>
<td>Total</td>
<td>67.6</td>
<td>65.6</td>
<td>64.0</td>
<td>- 3.6</td>
</tr>
<tr>
<td>.-. Other</td>
<td>21.4</td>
<td>20.7</td>
<td>22.1</td>
<td>+ 0.7</td>
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</tbody>
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Housing + 816 million
Ag. & Ag. resources + 273 "
Gen. Gov't + 176 "

Financial aspects - the cash position
In Jan. cash estimate about
Mid-year budget review est. cash 1.8 billion

The American tax system and its implications
National City analysis of corp. profits and taxes
ind. inc. taxes
Social Security receipts
payments

Debt Management
Recent short issues for banks

Monetary and Credit Policy
While on the buildup
Restraint until May 1953
Since then ease
and more recently active ease which is continuing

A word about international aspects
We are living in a tense world
My assumption is that tenseness will continue but
no major hot shooting war
But idea that every time U.S. economy Sneezes, Western Europe
and especially U.K. gets pneumonia is not accurate
One important reason for present stability is continued gains in Western Europe - most phenomenally in W. Germany.

A few weak spots continued inflation in Brazil will new regime succeed weakness of Japan's balance of payments

But on the whole favorable rather than the reverse in better balance of payments position better gold and $ holdings talk of convertibility

Where do I finally come out?

1. I look for a moderate upturn this fall - if it occurs I expect it to continue

   BUT that is widely expected

2. If it doesn't occur, we are more likely to break out on the downside watch consumer durables, especially autos, and inventories

As to the next decade, I have the greatest faith.