

CURRENT ECONOMIC DEVELOPMENTS

by

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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 1953<sup>II</sup> 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 1950<sup>III</sup> than in 1950<sup>II</sup> (Lags inherent in Government operations)

2. Individuals and business "beat the shortages and price rise!"

- a. Durable cons. + 6 1/2 bill (25%) → 34
- b. Equipment + 4 1/2 (20%) → 26.3

Consumers beat business on inventories (from +4.4 → -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 → +6.3)	10

II. The American economy at its peak 1953<sup>II</sup>

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

Depends on inc.  
and prices  
steady rise  
postponable or  
accelerate

↳ 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
  - The great variable → 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 1947
20-23%	1. Cons. services    \$84 +	+ 5
34%	2. Non-durables    120 +	+ 4 (1949 dip)
8%	3. State & local    27 +	+ 2 <sup>+</sup>

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.

1952	1953	1954
26.5	28.4	26.7

(2) Bus. plant  
spotty but probably ↓  
still estimates are not down much  
utilities still strong  
commercial (shop centers!) strong

I	II	III	IV expected
27.5	27.2	26.8	26.0

(3) Bus. equipment  
very spotty  
RRds ↓  
many 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

	1954 Actual	1955 Jan. Est.	Revised Est.	Differ. 1954 Act.
National Secur.	46.2	44.9	41.9	- 4.3
Total	67.6	65.6	64.0	- 3.6
.. Other	21.4	20.7	22.1	+ .7

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  
phenominally 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.