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ECONOMIC TRENDS

Notes of Lecture by

KARL R. BOPP

Vice President, Federal Reserve Bank of Philadelphia

before the

1955 Executive Program in Business Administration  
Graduate School of Business, Columbia University

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Economic forecasting - more an art than a science and we have no  
great artists!

Introduction

- A. Function: to promote thought and provide basis for discussion rather than make precise prediction for 1955 - though I shall do that incidentally.
- B. Why I am a central banker
  - 1. Inherently an observer and analyst
  - 2. Less need to predict than others
  - 3. Conviction I owe society something for being part of it

I. The Inevitability of Forecasting

To live is to forecast

- A. Implicit in every action taken
  - 1. Crossing the street
  - 2. Stocking up on inventory
    - a. To avoid shortage
    - b. To beat a price rise
  - 3. Building a plant
- B. Advantages of explicit, systematic forecasting, particularly knowing our assumptions

II. Aspects of Economic Forecasting

- A. Even the strongest demand for an accurate forecast does not mean that it will - or can - be supplied

B. Forecasting in the physical sciences and in human affairs

1. In the physical sciences, the results often are independent of the forecaster

2. In human affairs, they may not be

a. Hypothetical illustration:

Suppose a forecaster had a perfect record but nobody believed him

Then everybody discovers his wizardry and bases their action on his forecast

He predicts "next summer will be a good time to build because costs will be low"

(Walter Winchell broadcast)

C. The role of uncertainty in life

III. Requirements for Economic Forecasting

A. An understanding of how the particular economic system works  
e.g. U.S.S.R. vs. U.S.A.

1. We have a money and credit economy operating through markets

Each \$1 spent is a vote or directive to use \$1 of our resources for that purpose

Not wholly free - and Government spends too!

A profit and loss economy

B. A framework

A systematic, internally consistent, whole into which all the parts fit - with none left out and none counted more than once.

The theory of G.N.P.

This doesn't solve anything. It is a method not a result - for the future.

C. A judgment as to public policy

1. Fiscal policy

a. Earlier idea as to role of Government

(1) Decided what specific things we wanted done

(2) Then raised the money to pay for

b. Current idea

(1) Government has a responsibility for total demand

(a) Direct demands - expenditures

(b) To affect private demand - taxation

- Roosevelt & recovery vs. reform

(c) Surplus & Deficit

2. Monetary policy

- a. Part of public policy yet not operated directly by Government. Why?
- b. Influences expenditures by making money cheaper and easier to get or dearer and harder to get

D. A method of relating A, B, and C to the current (or recent past!) situation

1. The method of past relationships

- a. In general the method of the physical sciences
- b. Population forecasts

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

Method - 3<sup>o</sup> 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."

Census actual:	1920	105.7	
	1930	122.8	+ 17 <sup>+</sup>
	1940	131.7	+ 9 <sup>-</sup>
	1950	150.7	+ 19

Highest estimates for 1952

1937 projection	146.8
1943 "	147.3
1947 "	149.3

Actual July 1, 1952

Bureau of Census	157.0
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1947 projection gave "probable" of 160.6  
in 1975 - reached in September 1953

Extrapolated decline in natality in

1930's is permanent

Didn't anticipate the courage - foolhardiness  
of the G.I.

- c. The Harvard Economic Service - Bullock-Persons started with 50 series to get consistency of cycle behavior

The A, B and C curves

- A. Speculation - preceded B by 4-10 months
  - New York bank clearings
  - Shares traded
  - Industrial stock prices
- B. Business - preceded C by 2-8 months
  - Outside N.Y. bank clearings
  - Bradstreet's index commodity prices
- C. Banking
  - Rate on 4-6 month paper
  - Rate on 60-90 day paper

- 2. The method of current behavior

- a. That it will continue unchanged
- b. That recent trend will continue
- c. But the only "constant" in life is change
  - will always be after the event

- 3. The method of securing expressions of current opinion
  - of informed observers
  - e.g. builders, car dealers, purchasing agents
- 4. The method of expressions of current intentions
  - e.g. capital expenditures surveys,
  - survey of consumer finances

- E. Assumptions - implicit or explicit

No rabbits in the hat

You cannot get more out of your projections than the assumptions you put into it

- 1. As a whole
- 2. In detail

- F. The element of "judgment"

#### IV. The National Product Accounts

- A. A quick look at the breakdown
  - 1. G.N.P.
  - 2. Personal consumption expenditures
    - a. Non-durables
    - b. Services
    - c. Durables

3. Gross private domestic investment
  - a. Construction
    - (1) Housing
    - (2) Other
  - b. Equipment
  - c. Inventories
4. Net foreign investment
5. Government expenditures for G. + S.  
(Exclude transfer payments, O.A.S.I., interest, etc.)
  - a. Federal
    - (1) Defense
    - (2) Other
  - b. State and local

B. What has happened recently?

1. The Korean build-up
  - a. From QII 1950 to QII 1953
  - b. Major changes

(1) G.N.P. from	275 to 370	+95	35%
(2) Government	40 to 85	+45	
(a) Federal	21 to 61	+40	200%
(b) Local	19 to 24	+ 5	25%
(3) Consumption	189 to 231	+42	
(a) Non-dur.	100 to 120	+20	20%
(b) Services	62 to 81	+19	30%
(c) Durables	27 to 31	+ 4	15%
(4) Private investment	48 to 55	+ 7	15%
2. The breathing spell
  - a. From QII 1953 to QII 1954
  - b. Major changes  $3\frac{1}{2}\%$ 

(1) G.N.P.	370 to 358	-12	
(2) Government	85 to 76		
(a) Federal	61 to 49	-12	
(b) State	24 to 27	+ 3	
(3) Consumption	231 to 235	+ 4	
(4) Private invest.	55 to 47	- 8	

You mentioned yesterday) c. Why the big hullabaloo over a 3% drop? ( Political  
 ignorance it was ) ( Fear of cumulation  
 happening. )  
 Sen. Douglas! )

- (1) Essentially, because we made a concurrent shift in what we bought
  - (a) Consumers shifted from durables -2  
to services & non-durables
  - (b) Business cut down on equipment -2  
 on inventories  
 4.5 to -2.7 -7
  - (c) Government cut down on hard goods  
 except planes
- (2) This hit the output of DURABLES & Mining  
 and Employment

3. The past year

a. From QII 1954 to now

b. Major changes 6.6%

- (1) G.N.P. 358 to 382 +24
- (2) Government 76 to 76 -
  - (a) Federal -2
  - (b) State +2
- (3) Consumption 235 to 249 +14
  - (a) Durables 29 to 35 + 6
  - (b) Non-Dur. 120 to 124 + 4
  - (c) Services 86 to 90 + 4
- (4) Investment +11
  - (a) Construc. 27 to 32 + 5
  - (b) Equipment 22 to 23 + 1
  - (c) Inv. - 3 to + 3 + 6

C. Where do we go from here?

Recent past shows amazing flexibility Total 382

1. Arrange accounts in the order in which we know about their behavior (suggest they look at charts)

2. Highly probables

- a. Personal services \$90
  - (1) Nature of item  
 rents and imputed rents  
 utilities  
 financial services  
 up 4½ to 5 a year since end of war
- b. State and local government \$30  
 up 2 a year since end of war  
 when will it stop?  
schools, highways, sewers, etc.
- c. Conclusion + 6 a year \$120

3. Probables

- a. Non-durables \$124  
 up about 5 a year  
 food, clothing  
 seldom start the decline  
 rarely accelerate much  
 or postpone long  
 - exceptions: Korea and QII 1951  
 some decline in 1949
- b. Federal government 47  
 big changes over time  
but usually with clear-cut change  
 in circumstances; e.g. war, Korea  
and inertia in short run  
 no large change expected
- c. Conclusion +5 ) \$171  
 Plus item 2 +6 ) per year! 120  
\$291

4. Possibles

- a. Private construction and equipment \$ 55
  - (1) Why put together?  
 surveys of intentions  
 Dept. of Commerce (May)  
 McGraw-Hill-early in year + 5%
  - (2) Construction - Housing  
 looks like continuation of boom  
 for immediate future  
 another boom 1965 on interval?
  - (3) Plant and equipment
- b. Consumer durables \$ 35
  - (1) The automobile
  - (2) White goods - household durables  
 Postponable - can accelerate
- c. Conclusion about even \$90

5. The Great Unknown

- a. Inventories \$3
  - (1) Nature of its contribution to GNP cycles
  - (2) Inadequacies of data - voluntary vs. forced
  - (3) Turnaround of \$20 bill. in a year  
 QIV 1949 to QIV 1950  
 The method of first differences
  - (4) Turnaround of \$8 bill. in last 9 months
  - (5) 15 months of decline to end 1954
- b. Conclusion: some build up

V. Public Policy

- A. Fiscal policy may not contribute positively  
but not create serious problem
- B. Debt management
- C. Monetary policy

VI. Some gratuitous comments on the economic possibilities of our grandchildren

1956

1. Probable tax reduction - election year  
High income will balance budget
2. Initiate some highway program
3. Further up in State and local
4. McGraw Hill survey on capital expenditures
5. Economic expansion in Europe