BUSBNESS DEVELOPMENTS AND PROSPECTS

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before Group V, Pennsylvania Bankers Association

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Introduction

Pleasure to be here - Paul Swab, Secretary, Group V

Two weeks at trading desk in New York - preparation for defense
Manager executes directives of Federal Open Market Committee.

Federal Reserve System interested in stable economic growth.

Involves judgment as to state of the economy

I. 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
II. Methods of analyzing economic conditions

Inevitability of forecasting

A. Assumption: General level dependent on activity in "key" lines

1. Illustration:
   a. Recovery from 1954 recession spearheaded by
      great expansion in
      (1) Construction - especially housing
      (2) Consumer durables - especially autos
      (3) Business inventories
   b. A year ago "steam" out of these -
      Depression? Many said yes!
   c. Actually G.N.P. was $21.5 billion or 5%
      greater in 1956 than in 1955
   d. What happened?
      Other factors acquired steam
      especially business investment -
      especially equipment and plant

2. Errors of the "key" area approach
   a. The "key" areas change!
      Ignores dynamic character of economy
      (1) Some illustrations:
         (a) Res. construction down $2 QIII ’55 - QII ’56
            But
            com. construction up $1.0
            dur. equip. up 2.5
            inventories up 1.0
            So - investment rose
         (b) Cons. Dur. (autos) - 4.0
            But
            non-durables up more
      (2) You remember clamor year ago for easier credit -
          for autos - housing
          Where would we have been had that been done?
          People have choice in spending - don't have
          to spend for autos
   b. "Double counts" some things
      Doesn't count others at all

B. Arrange accounts in order in which we know
   something about their probable behavior
   Common sense: The ideally distributed economic good!
   Look at charts (Board pp. 46-47)
   Remember the general total 425 Q IV ’56
C. Highly probables

1. Personal services
   a. Nature of item
      Rents and imputed rents tend to make more stable utilities
      Financial services
   b. Up $4 1/2 - $5 billion a year regularly since end of war + 6

2. State and local government
   a. Up $2-3 billion a year since end of war + 3
      When will it stop?
      Schools - Highways - Sewers
      135 + 9

3. Conclusion

D. Probables

1. Non-durables
   a. Nature
      Food - clothing
      Non-postponable if income holds up
      Seldom start decline
      Rarely accelerate much
      Exceptions:
      Korea and QII 1951
      Some decline 1949
   b. Up $4-5 billion a year + 5

2. Federal Government
   a. Nature
      Big changes over time
      But usually with clear-cut change in circumstances or policy
      Korea + 2
      And inertia in short run
   b. Some increase probable + 3
      Highways
      183 + 7

3. Conclusion on highly probables and probables

   Personal services  101 + 6
   State and local    34 + 3
   Non durables      135 + 5
   Fed. Gov't        48 + 2
   Total             318 +16
E. Possibles

1. Private fixed investment
   a. Construction
      (1) Housing
      QII 1955 17.2
      QII 1956 15.1
      Now looks like 1.1 million
      higher priced
      Repairs - long run 1965 on

F. The Great Unknowns

1. Consumer durables
   a. Nature
      Can accelerate or postpone
e.g. Korea 1950
      QI 26.5
      QII 34.0
      QIII 30.0
   e.g. 1955-56
      QI 1955 34.7
      QIII 37.2
      QII 1956 33.4
   b. The automobile (6.3 - Edsel, New G.M.'s, esp. Chev.) -
      white goods - household
   c. No steel strike
   d. Conclusion
      Stable till QIV - then up 2

2. Inventories
   a. Nature
      Role in the business cycle
   b. Inadequacies of the data
      voluntary vs. forced
   c. Turn around in a year
      QIV 1949 (+6) to QIV 1950 (+11)
   d. $8 billion -4 to +5
      QII 1954 to QII 1955
   e. Conclusion
      1957 by Q's
      Ave. 1 -3
      2 0.0 1.0 2.0
G. General conclusions 4th Q

1. Highly probables 135 +9
2. Probables 183 +7
3. Possibles 64 -1
4. Great unknowns 39
5. Foreign inv. 3 

Year 1957 G.N.P. of 430-432 vs. 412 in '56
4th Q 1957 439 vs. 424 in '56 (Q4)

Sentiment vs. Analysis
Feelings vs. Mind
Heart vs. Head

Can't go up forever without setbacks
- never have!

Flexible Federal Reserve policy