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BUSINESS 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	101	
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		+ 6
regularly since end of war		
2. State and local government	34	
a. Up \$2-3 billion a year since		
end of war		+ 3
When will it stop?		
Schools - Highways - Sewers		
	<hr/>	<hr/>
	135	+ 9
3. Conclusion		

D. Probables

1. Non-durables	135	
a. Nature		
Food - clothing		
Non-postponable if income holds up		
Seldom <u>start</u> decline		
Rarely accelerate much		
Exceptions::		
Korea and QII 1951		
Some decline 1949		
b. Up \$4-5 billion a year		+ 5
2. Federal Government	48	
a. Nature		
Big changes over time		
<u>But</u> usually with clear-cut change		
in circumstances or policy		
Korea		+ 2
<u>And inertia</u> in short run		
b. Some increase probable	+ 3	
Highways		
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	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
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	318	+16

E. Possibles

1. Private fixed investment 64

a. Construction

(1) Housing

QIII 1955 17.2)

QII 1956 15.1)

Now looks like 1.1 million higher priced

Repairs - long run 1965 on

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F. The Great Unknowns

1. Consumer durables 35

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 QIV 1956

a. Nature 4

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

QIII 1954 to QII 1955

e. Conclusion

1957 by Q's

2 0.0 1.0 2.0

Ave. 1 -3

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		
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	424	+15	439

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