

STATEMENT FOR THE PRESS

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THE BUSINESS OUTLOOK FOR 1959

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January is an appropriate time to appraise the business outlook. The month is named after the Roman god of gates and doors, of beginnings and endings, of looking forward and looking backward. Perhaps our task of looking ahead should begin by looking over our shoulders; it is easier to see than to foresee.

Business activity thrives on spending - the buying and selling of goods and services. Most of the spending is done by three great groups of people - consumers, businessmen, and government. The past and prospective behavior of these groups is the key to the business outlook.

Government spending is on the increase and is almost sure to rise beyond current levels. Federal Government purchases of goods and services have been advancing as a result of larger defense outlays, pay increases to civilian and military personnel, and heavier outlays for farm price supports. Business activity is stimulated also by Federal Government payments for purposes other than goods and services. Among these are old age and survivors' insurance benefits, grants-in-aid to state and local governments, special housing assistance, and interest payments on the public debt. The excess of expenditures over receipts, according to latest estimates available, is expected to produce a deficit for fiscal 1959 of approximately \$12 billion.

It is also a reasonably safe prediction to say that state and local government expenditures for goods and services will continue to rise. Unabated pressure continues for new hospitals, highways, schools, and other facilities as a result of population growth, high and rising incomes, large-scale shifts to suburban areas, and the increasing importance of younger age groups in the population.

The business outlook is always influenced by attitudes and actions of businessmen themselves. Business is naturally responsive to long-term investment policies and highly sensitive to inventory policies.

Throughout most, if not all, of 1958 inventories were being reduced but the important thing to observe is that the rate of liquidation was sharply curtailed as the year progressed. Between the first and the third quarters, inventory liquidation was cut in half, which reduced the depressing effect from this sector by \$5 billion. Strength is expected from this source as liquidation gives way to accumulation - a development that seems imminent if, in fact, it has not occurred already.

At this juncture, business investment in plant and equipment takes on a somewhat neutral aspect in the business outlook. Capital expenditures changed very little since mid-1958 and total outlays in 1959 are expected to change very little from the 1958 expenditures, according to the latest McGraw-Hill survey. Our own local survey, which points downward for 1959, lends no support to the belief held by some that capital outlays may give us a pleasant surprise.

Residential construction was an expansive force last year with the help of Federally underwritten programs and easier credit. Experts in the housing field are only moderately optimistic about residential construction in the new year. Housing starts may equal or perhaps slightly exceed those of last year, but dollar volume of residential construction could go a bit higher owing in part to rising costs.

The biggest unknown quantity in the business outlook is the consumer, and he also throws the greatest weight. Dollar-wise, consumer spending is twice as large as the spending by business and all branches of government combined. What are the prospects in this all-important sector?

Since last spring, consumer spending has been on the increase but con-

sumers have been selective in their increased spending. Consumer purchases of nondurables have been rising fairly steadily, and outlays for services have maintained a persistently strong upward trend partly because of rising rentals, utility rates, and medical costs.

Spending for durables, especially new automobiles, has not been up to expectations. Automobiles seem to have lost their charm, and it is still too early to tell whether the newly designed 1959 models have what it takes to bring sales up to the 1956 and 1957 levels, not to mention the 1955 all-time record.

Some inkling of prospective consumer behavior is revealed in last fall's survey of consumer attitudes. Compared with a year earlier, more consumers said they were better off financially, showed somewhat greater disposition to spend, and looked forward to better times.

The consumer has been the "hero" of past recessions. In 1949, in 1953, and again in 1957, the decline in consumer spending was significantly shorter and shallower than the decline in over-all business activity. In each instance, consumer spending bounced back fast with salutary effects upon the economy. If the same pattern repeats in the current revival, we shall do well but we can't be sure because the behavior of consumers is not predictable.

While the sum of the parts looks like strength of the whole, it should be recognized that no one sector of the economy is independent of the others. Inasmuch as 1959 is making its appearance in the ascending phase of the business cycle, it is easy to tint the outlook too heavily with optimism. Let the preview be tinged with moderation.

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