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MEMORANDUM

To: The President

From: The Council of Economic Advisers

Subject: Quarterly Report on the Economic Situation

This regular Quarterly Report is transmitted along with the October issue of Economic Indicators.

The third quarter of 1951 was marked by the continuance of the economic "lull" that began in March. The level of business operations was high but, in general, below previous peaks of production, sales, and prices alike.

The continuation of this economic lull for more than 6 months raises the question of whether a basic change has taken place in the economic outlook requiring modifications of major economic policies. In this Report, we conclude that, while a resumption of strong inflationary pressures may not be imminent, there will be rising employment and production, and upward pressure on prices in the near future. We see no reason to change our past recommendations regarding major economic policies.

The central problems of economic policy continue to be (1) the more rapid expansion of defense production, using whatever resources are required and can feasibly be devoted to that purpose, (2) the balanced allocation of remaining resources between immediate consumption and programs designed to increase basic productive capacity, and (3) the strengthening of anti-inflationary measures. Perhaps the most difficult problem of all is to achieve an understanding by the public of these problems and to secure its wholehearted cooperation.

Recent Trends and the Economic Outlook

The economic movements of the third quarter should be viewed in the perspective of the economic growth realized over the period since the Korean attack. The gross national product (annual rate measured in first half of 1951 prices) rose from about 300 billion dollars in the second quarter of 1950 to about 325 billion dollars in the third quarter of 1951. Industrial production in September 1951 was about 11 percent higher than in June 1950, and greater increases have been registered for electric power, machinery, fuel, and chemical products. The increase in over-all production has been accompanied by expansion of capacity at strategic points and by the maintenance of civilian supplies at an over-all level higher than in the boom year 1948. For the most part, however, these gains had been registered by March 1951, since which time the production picture has been spotty with continuing expansion in some sectors, contraction in others, and a general over-all appearance of stability.

The outstanding economic feature of the summer of 1950 was the surge of buying of all kinds. This year, retail sales in July, continuing a downward slide which began last February, reached a level which, after allowance for price changes, represented a volume little greater than retail sales in the same month of the recession year 1949. There was little improvement in August, and the seasonal expansion of buying in September was less than usual.

The price history of the third quarter of 1951 was, in large measure, a continuation of the quarter before. Consumers' prices, after rising more than 8 percent from Korea to March, crept up only 0.5 percent between March and May, and have been almost stationary since. The wholesale price index has receded slightly each month since March. While market prices have continued to press against ceilings in some commodity sectors, they have sagged below ceilings in many others.

Average weekly wages in all manufacturing industries increased almost $5.75 from Korea to March, as a result of a longer workweek and higher hourly wage rates. In real terms, the increase was only 75 cents. From March to August, weekly wages in both current and real terms fluctuated within a narrow range. During this period, the rise in hourly rates was practically offset by a drop in weekly hours, resulting in practically no gain in weekly wages.

Most observers continue to regard the present period as an interlude between two kinds of general inflation. The first was the hectic, speculative, "anticipatory" scare-buying inflation which the general freeze cut short but which, in any case, would sooner or later have devoured itself. The second is expected to be a more classic "income" variety of inflation, resulting from growing defense spending and consequent increases in civilian incomes not matched by comparable gains in the goods and services available to civilians.

Among the explanations for the beginning of this interlude are: the impact of the stabilization program, the subsidence of scare-buying by consumers, the slow progress of mobilization in the early months of 1951, the over-all expansion of production, and the high rate of civilian production which it was possible to maintain during the same period. But the continuance of the calm raises questions which must be further probed at this juncture.

The Defense and Investment Records

The fact that defense spending did not get under way as fast as people expected helps account for the slowdown in demand last spring.

But the "lull's" persistence cannot be adequately explained on this ground. National security expenditures climbed about 45 percent from the first to the third quarter of 1951. The amount of the increase—12 billion dollars, in terms of seasonally adjusted annual rates—was about one-third more than the growth of the gross national product.

Nor does the behavior of private investment provide a satisfactory explanation of the long suspension of general inflationary pressure. Gross private domestic investment rose nearly 4 billion dollars (again, the rates are annual and seasonally adjusted) from the first to the second quarter of this year, and then fell more than 6 billion dollars from the second to the third. In a sense, of course, this latter development does help explain the prolongation of the "lull." Actually, however, it was changes in inventories which accounted for most of the rise in investment from the first to the second quarter, and most of the fall from the second to the third. And these changes mainly reflect variations in consumers spending rather than shifts in business demand. Expenditures for new plant and equipment continued to rise.

Consumer Behavior

It is primarily in the consumer sector that demand has continued sluggish despite rises in personal incomes. The personal saving data for the last two quarters are very striking. Although consumers had about 8 billion dollars (seasonally adjusted annual rates) more disposable personal income in the third quarter than in the first, they spent about 4 billion less. In the second quarter, their spendable income went up, but their spending went down. In the third, their spending increased but somewhat less than their income. Net personal saving jumped from 4.3 percent of disposable income in the first quarter to the very high rate of about 9½ percent in both the second and third quarters.

The maintenance of a high saving rate—which is simply a negative reflection of a low spending rate—would help to reduce inflationary pressures. But whether the current high rate is likely to be continued in the months ahead depends upon whether its causes are transitory or enduring.

Consumers slowed their buying last spring, for one thing, because they had bought so much already. But the dampening effect of advance buying is only temporary. For another thing, many consumers had contracted heavy instalment debts which cut them off from further purchases; these debts are now being paid off. Similarly, many needed once more to rebuild their cash reserves; they are now doing so.

In large measure, the beginning of the "lull" reflected a shift in anticipations, as controls removed the fear of runaway prices and as the apparent abundance of most goods, together with the improved military situation, quieted fears of shortages. Subsequently, price declines led some to postpone buying in the belief that more cuts were to come. This last stimulus to saving, however, probably has run its course; the stimulus provided by the institution of price controls cannot be repeated; and the stimulus provided by abundant production promises to give way before long to actual shortages in some durables.

While the roster of temporary stimuli to high saving and low consumer spending is impressive, one factor of a more lasting sort has a place among the causes of the abnormally low level of consumer spending (relative to income) in the last two quarters. That is the high rate of long-term contractual saving resulting from the purchase of homes. Another factor might be added: the unevenness of the income gains which have occurred and, hence, the failure of many people's income to keep up with rising prices. However, this is only another way of saying that other groups have gained more than the average. There is no reason to expect that automatically, without positive encouragement, these latter people will go on saving at the present abnormally high rate.

The Outlook

Upon analysis, therefore, there is little to build confidence in the staying power of the restraint which consumers have been showing in the last year.

There is one probable specific development in the months ahead, aside from the general course of personal income and civilian production, which may have a double-edged effect on consumer spending. That is the appearance of real shortages of durables. At first, this is very likely to induce some new scare-buying. Once we get used to the shortages, however, they are apt, not to discourage, but to stimulate saving as they did in the last war. Consumers, in other words, probably will not transfer to soft goods and services all of the money that they are unable to spend on hard goods; instead they will save part of it.

But with respect to the basic over-all factors of income and production, the balance of forces is moving toward inflation. Rising Government expenditures for security will lift spendable personal income, even after allowances are made for tax increases this year. The output of consumer goods cannot be expected to keep pace with income, in spite of the fact that many producers of consumer soft goods can increase production without adding to their investment or their labor force. For a time, the growing gap between income and output can be reduced, or even closed, by drawing down inventories. But the anti-inflationary contribution of the inventory cushion will be temporary, and its service in this regard can be exaggerated, since a high percent of total inventories is now held by defense industries.

In sum, then, the basic trends are inflationary. And, while short-run fluctuations are always volatile and hard to predict, many of the short-run factors which have set the economic climate of the last 6 months seem to be spending themselves. No violent wave of inflation appears likely in the next few months—barring, of course, a sudden worsening of the international situation. Much more probable is a gradual firming of prices in one market after another, a gradual pick-up in output, and a gradual tightening of labor markets.

In prices, there is already limited but inconclusive evidence supporting this prognosis. The weekly wholesale price index has remained virtually stable since mid-August, and some of its components have begun to stiffen. The more sensitive daily index of primary market prices, after dropping for 6 months at a monthly rate of about 3 percent, advanced 1.7 percent from August 15 to the end of September. This advance is the more significant because it has been made in the face of continued declines in the import prices which inflated so violently after Korea.

The outlook is clearly for an economy operating at practically full employment of its current resources. Such a situation tends to produce inflationary pressures, especially since a huge and rapidly expanding defense program is being superimposed upon the normal economy. While it is impossible to predict with accuracy in just what month the current situation may be succeeded by an intensification of inflationary pressures, this difficulty should not leave one in the dark as to appropriate policies. The total armory of anti-inflationary weapons now in being should be measured, not against the pressures of the moment, but against dangers which may arise in the near future; and measured in this way, the stock and quality of anti-inflationary weapons in being is inadequate rather than excessive. Prudence would dictate relaxation in improving these weapons only if the economy were confronted by some truly significant threat of recessionary forces gaining at least temporary ascendancy. There is now no such prospect.

Highlights of Economic Policy

The size, make-up, and timing of our security program—a striking force, war reserves, and supporting industries—should be designed with due regard both to the character of the international crisis and to the ability of the economy to support the program.

Our number one economic job is to support that security program, whether it is the program now adopted, or a larger one. We must do whatever the on-schedule accomplishment of the job requires. It requires more effective over-all programming. It may, in the critical case of copper, require heavier cutbacks in non-essential uses. And it may require some early selected conversion of civilian goods factories.

Our number two job—upon which, however, the successful accomplishment of the primary task depends—is to maintain adequate safeguards against inflation. Here we are in a dangerous situation—deceptively dangerous because of the present "lull." This "lull", while easing the immediate inflationary problem, directly threatens the internal morale of the stabilization effort and the external support for it; indirectly, it has weakened the controls law. Meanwhile, we run a grave risk of renewed heavy inflationary pressures.

The months ahead are extremely critical for the stabilization program. The holding power of our controls structure, when another wave of pressure hits, will depend largely on the extent to which it is now tightened, strengthened, and filled out by administrative action. So, in large measure, will the response of the public and the success of further requests for more adequate legislation.

Present legislation leaves much to be desired. The tax bill is inadequate. Under the new legislative limits, little more can be done to tighten selective credit controls. And effective price and wage controls have been made more difficult.

Despite legislative handicaps, it is in the price and wage areas that the stabilization program must gain ground in the new quarter. This is not impossible. The wage board must be prepared for a firm stand in the face of new wage demands--notably in steel in December. And, whether the restrictive amendments are modified or not, the price agency needs to move swiftly in its development of regulations specifically tailored to the situations of specific industries and businesses.

Price and wage efforts are interdependent. But this should not be interpreted to mean that either can rest on its oars until the other does something. The precise opposite is needed; each must press as effectively and quickly as possible in support of the other program.

The following are specific recommendations for administrative action:

1. Programming. Substantial progress has been made in the short-run budgeting of essential defense materials. Without it, the Controlled Materials Plan could not have gotten under way. The vital longer-range programming needed to guide the broad pattern of industrial expansion requires further development, probably at the ODM level. Without the latter, short-run solutions to one emergency may simply produce other emergencies.

2. Breaking bottlenecks. In copper, currently the most serious material bottleneck, further curtailment of civilian use probably is indicated. Some stricter curtailment of nondefense construction and rephasing of basic construction programs may be needed to meet the temporary structural steel shortage. Great efforts to speed machine tool production are in process.

3. Credit and saving. Now that legislative limits have been placed on selective mandatory credit controls, it is all the more important that the voluntary credit program strive to restrain non-essential business expansion and inventory accumulation. The savings bond campaign should be pressed further.

4. Taxes. The tax problem is rapidly becoming more difficult. The heavy loads now placed on the more desirable tax sources appear to be nearing the maximum that the public is willing to accept. An increase in tax revenue sufficient to prevent the large deficits in prospect for the fiscal year 1953 and later years would require raising further the rates of the more desirable taxes and imposing a heavy program of less desirable taxes, such as the general sales tax. The only alternatives appear to be to abandon temporarily an insistence on the pay-as-we-go policy of financing defense expenditures, or to slow down the rate of spending on the defense program. We raise the problem now as one that will require careful consideration over the next few months.

5. Price controls. OPS should extricate itself from the "interim" Capehart dilemma by a rapid and extensive shift to industry-wide tailored regulations, preferably of the dollars-and-cents variety—even at the expense of somewhat cruder "tailoring" than would otherwise be desirable, and of a considerable pile-up of individual relief applications. It is important that a broad battery of tailored regulations be put in place by the end of this year.

Advantage should be taken of the shift to tailored regulations to narrow the present gap between market and ceiling prices in many commodities. The new amendments, the parity provision, and the present pattern of ceilings together mean that we cannot literally "hold the line" when general inflationary pressure reappears. But the action just suggested will minimize the price level increase that we shall have to accept.

6. Wage controls. Most of the important wage policy questions have now been decided, with the exception of how to treat productivity increases not provided in contracts prior to January 26, 1951. The principal effort now must be to administer tightly the policy adopted—particularly with respect to inter-plant inequity adjustments.

The Administration should emphasize the continuing fair protection to labor provided by the policy's central principle—that of real income maintenance. In facing the coming steel negotiations, the wage board's effort should be to prove the effectiveness, not the elasticity, of the policy it has adopted.

Employment

Nonagricultural employment during the third quarter averaged 54.5 million—about 900,000 more than during the previous quarter, and more than a million above the same quarter of last year. During July and August (the latest months for which data are available), factory employment showed little change from the second quarter. Increases in employment were reported in defense-related industries, while reductions occurred in many establishments manufacturing such consumer durable goods as radios, television sets, refrigerators, and other household appliances. The increase in nonagricultural employment in August was exceptionally small and the seasonal decrease in September was exceptionally great. Employment in contract construction reached a new peak of 2.8 million in August. Federal defense employment has continued its steady expansion, increasing by half a million since June 1950, while nondefense activities showed a net decline.

The condition of the nation's labor market areas changed very little between July and September. In September, the six labor market areas, which had shortages or expected to have them soon, were the same as in July.

The long-run decline in agricultural employment continued in the third quarter. About 300,000 fewer people are now harvesting this year's peak farm production than were similarly employed a year ago.

Production

In the third quarter, gross national product rose at an annual rate of a little over 2 billion dollars to a level of 328 billion, but when adjusted for price changes it showed no change from the second quarter. Private output (which excludes compensation of general government employees) declined slightly, as a small upward movement in prices more than accounted for an increase of 1 billion in the current dollar value.

Industrial production dropped about 2¼ percent from the second to the third quarter of this year, in spite of the continued rise in output of military goods. This was due in part to vacations in July, but production during August and September was also below the second quarter average.

The decline of industrial output during the past quarter apparently reflected mainly a drop in the output of household appliances and automobiles. Basic steel production dropped early in the quarter, mainly because of hot weather, but by the last week of September production was scheduled at 102.1 percent of capacity, the highest rate since the end of June but still below any week in the second quarter.

The output of consumer nondurables was also below that of early 1951, with textile production declining to low levels.

Minerals output was only slightly lower than that for the second quarter. Petroleum output continued to rise, reaching a record of over 6.2 million barrels a day by mid-September.

The output of farm products in 1951 will probably set a new record, about 6 percent higher than last year, and slightly above the production guides. Domestic food supplies will allow a small further increase in per capita food consumption this year. A cotton crop of over 17 million bales--7 million more than last year--will relieve a tight supply situation, and should make it possible to rebuild depleted stocks. Supplies of animal feeds may be fairly tight because of low feed carryovers, a drop in the 1951 production, and more animals to feed.

In Western Europe, production declined seasonally in the third quarter, but was 13 percent above the third quarter of the preceding year. The raw materials which Europe normally imports have not proved to be the bottleneck that many European experts expected, in part because U. S. imports have been lower and world supplies larger than expected. The greater availability of imported supplies made the physical problem of expanding production less acute than was expected, although it accentuated the international payments problem. The main obstacle to a more rapid rise of Western European production has been lagging output of coal, which Western Europe does not normally have to import from overseas. Western Europe has been forced to resume importing coal from the United States at high landed costs.

Prices

The price picture in the third quarter, as in the second, was mixed. The "lull" has persisted and in some respects deepened, but its reflection in prices has remained selective.

The following tabulation lists commodity groups in which wholesale market prices are predominantly below ceilings and indicates roughly the percentage ranges in which most below-ceiling prices lay in early September, according to a special survey made at that time.

	Percent below ceiling
Textiles	20-50
Fats and oils	30
Housefurnishings and appliances	5-25
Apparel	5-20
Hides, leather and shoes	5-15
Rubber and rubber products	5-15
Packaged groceries	5-10
Building materials other than metal products	0-5

Conversely, prices are predominantly at ceiling in the following areas which, leaving aside meats, collectively account for about 36 percent of industrial output: ferrous and nonferrous metals; metal products including machinery; coal, petroleum and their products; paper and pulp; tobacco products; and beef and most other meats. Most of them, it will be noted, are closely related to the defense program.

Wholesale prices continued to tend downward well into the third quarter, with farm products accounting for rather more of the decline than in the second quarter and industrial products, relatively less. Food prices, on the average, continued relatively stable.

The daily index for the 28 primary market commodities—the most volatile of the BLS price indexes—which had risen 48 percent from Korea to mid-February and had fallen 13 percent from then to the beginning of July, dropped an additional 3 percent. The much more comprehensive weekly index of wholesale prices had declined only about 2 percent since the beginning of July, to a level less than 4 percent below mid-February and about 13 percent above pre-Korea.

Of the farm, food, and industrial components of the weekly wholesale price index, farm prices rose the most from Korea to mid-February and have fallen the most (6 percent) since then. One-half of this decline occurred in the third quarter, despite a 4 percent rally in grain prices. The Department of Agriculture's parity ratio, which reached 113 in February, averaged 104 in the third quarter.

Wholesale food prices, after irregular, seasonal movements, are still close to their mid-February level. Meat prices, which have risen moderately since February, have advanced 18 percent since Korea.

Wholesale industrial prices, after reaching a peak at the end of March, experienced a slow, steady decline, and late in September were 2 percent below their July 1 level. In the last month, some new signs of market firmness in the fuel and light, chemical, and building materials fields have just about been offset by the continuing sag of textile prices, which have dropped more than 13 percent since the last of March. Textiles, however, rose violently after Korea; their prices still are more than 16 percent above June 1950 levels.

Consumers' prices on August 15 were about 1 percent above their February level, 2 percent above January, and 9 percent above June 1950. In the latest reported 3-month period (May 15-August 15) they have risen less than 0.1 percent. During the same period retail food prices, despite increases in meats, have fallen off 0.2 percent, as have apparel prices. Retail prices of housefurnishings have declined 0.8 percent. Rents, however, have risen a full 1.0 percent since May and fuel, electricity, and refrigeration charges have increased 0.4 percent.

In most Western European countries, wholesale price rises have slowed or stopped, and in France, Italy, Belgium, and Netherlands these prices have declined slightly from the winter or early spring peaks. Retail prices have also leveled off in most of the large Western European countries but their rise continues in the United Kingdom and was renewed in France.

Wages

Total compensation of employees rose at an annual rate of 2 billion dollars from the second to the third quarter, to a level of 180 billion. This was the smallest quarterly increase since the beginning of 1950. Most of the increase was in government wage and salary payments.

In manufacturing industries, average hourly wages during July and August remained at the June level of $1.60. While hourly earnings rose fractionally from June to August in durable goods industries, this was offset by a slight decline in nondurable goods industries. In real terms, there was a small decrease in hourly earnings in manufacturing, all of which took place in the nondurable goods sector. Real hourly earnings in manufacturing are now at about the level of December 1950.

Average weekly earnings in all manufacturing in August, at $64.72, were about 60 cents lower than in June. Weekly earnings fell in both durable and nondurable goods industries. From June to August, real weekly earnings fell almost 1.5 percent in nondurable goods manufacturing, while the decrease in durable goods industries was 0.5 percent. Real weekly earnings in manufacturing have been below the level of December 1950 throughout this year.

Money and Credit

In the third quarter of 1951, business loans of commercial banks resumed the expansion that had been halted in the preceding quarter. Commercial, industrial, and agricultural loans of member banks in larger cities, which had shown no net change from the end of March to the end of June, declined in July, and then began a climb that lifted them by the end of September to 858 million dollars above the June level, or 4.5 percent higher. Loans to manufacturers of metals and metal products and to public utilities accounted for much of the growth, reflecting the rising credit needs of industries related to defense production. During recent weeks there has also been a seasonal rise in loans for the carrying or processing of agricultural commodities.

Total consumer instalment credit outstanding continued in the third quarter the slight monthly variations that have been characteristic of its movement since March. The volume at the end of August was only 84 million higher than at the end of March.

The privately-held money supply jumped more than 2 billion dollars during July and August, largely as a result of the Government cash deficit which has the effect of transferring funds from Treasury to private bank balances. The total expansion since March, when the privately-held money supply was drawn down by the large excess of Treasury cash receipts, has been 4.5 billion dollars, or 2.6 percent.

Personal Income and Consumption Expenditures

Personal income gained about 3 billion dollars at an annual rate between the second and third quarters, which was about half the rise between the first and second quarters. The increase in wages and salaries was largely the result of higher government employment, as private employment did not change much. Farm income rose despite a decline in prices received. The higher volume of marketings this year at a generally higher price level than last year is responsible for quarter-to-quarter gain in farmers' income. Firm estimates of corporate profits before tax are not yet available, but it is probable that there was a significant decline from the second quarter level of 48.5 billion dollars to around 46 billion. Dividends have been well maintained, however, despite higher tax rates and declines in profits from the levels of the last quarter of 1950 and the first part of this year.

Personal income after taxes rose about 3 billion dollars from the second to the third quarter, which was larger than the increase in consumption. Consequently, the very high saving rate of the second quarter (9.5 percent of disposable income) was maintained or slightly increased in the third quarter. This compares with the rate of saving in 1950 of 5.2 percent, in 1949 of 3.4 percent, and in 1948 of 5.6 percent.

Consumer expenditures showed surprisingly little pick-up from the second to the third quarter, although nondurable goods sales improved somewhat after allowance for seasonal factors. Durable goods sales were slightly below those of the second quarter and about 6 billion, or 20 percent, below the first quarter level.

Business Investment

Gross private domestic investment declined sharply in the third quarter to a seasonally adjusted annual rate of 57.0 billion dollars, compared with the all-time peak of 63.5 billion in the second quarter. The third quarter rate was still nearly 30 percent higher than that of the first half of 1950.

The most striking change was in the rate of inventory accumulation, which was 14.4 billion dollars, on a seasonally adjusted annual rate basis, in the second quarter and fell to 8.0 billion in the third. This was equal to the entire decline in total gross private domestic investment.

Divergent trends are evident in the inventory situation. The distributive trades are liquidating inventories, while manufacturers continue to accumulate them, primarily in the durable goods field and mainly in connection with the expansion of security programs.

The effect of metals shortages and Government restrictions on nonpriority construction was clearly evident in the further declines in private residential and commercial construction activity. Housing starts are currently about 40 percent below a year ago. Outlays for producers' durable equipment rose to a record annual rate of 28.0 billion dollars in the third quarter, and industrial and utility construction outlays also were considerably higher than in the second quarter.

The regular quarterly survey of nonfarm plant and equipment outlays, made in July and August by the Department of Commerce and the Securities and Exchange Commission, indicates that the over-all third quarter rate of such outlays was moderately above both the second quarter rate and the earlier anticipations for the third quarter, as reported in the April-May survey. Total anticipated outlays for the fourth quarter, according to the July-August survey, will run close to the third quarter rate. In the commercial, communications, and miscellaneous group, however, a substantial decline is expected.

International Developments

According to preliminary estimates, the export surplus, including both goods and services, increased in the third quarter to an annual rate of 5.7 billion dollars, compared with 1.8 billion in the first quarter and 5.4 billion in the second. Without the seasonal third quarter rise in American travel abroad, the increase in the export surplus would probably have been slightly greater. Both exports and imports declined from second quarter levels but the drop in imports was larger. Gold flowed into the United States for the first quarter in two years.

Exports and imports of goods have both been falling since early spring through July, the latest month for which firm foreign trade data are available, in both cases because of changes in the physical quantity of total trade. The physical quantity of imports appears to be low in relation to present levels of total production. This suggests that the decline of imports may end in the near future. So far as the dollar earnings of foreign countries are concerned, however, this may be at least partly offset by lower average prices for some major imports, which are only now reflecting the fall in their market prices from the peaks of last winter.

In the third quarter, the sterling area's gold and dollar position changed from one of near balance in the second quarter to a deficit of 638 million dollars. This deficit, the largest since devaluation of sterling in 1949, is expected to lead to tighter control by the United Kingdom and other sterling area countries over imports from the United States and other dollar markets. The main effect on U. S. exports is expected to fall on soft goods.

Federal Finance

The Federal deficit, on a conventional budget basis, was 2.6 billion dollars in the September quarter, which marked the opening of the 1952 fiscal year. In the preceding three months, the deficit was 1.6 billion dollars. Since the June quarter, budget receipts have dropped and expenditures have risen. For the most part, the decline in receipts reflects the seasonal pattern of quarterly payments of the corporation income tax. The rise in expenditures is due to the growth in the national security programs. As shown in the following table, this rise more than offset the usual decline from the June to the September quarters in interest payments and certain other items.

(Billions of dollars)

Period	Budget expenditures		Net budget receipts	Budget surplus (+) or deficit(-)
	Total	Security programs		
1951:				
January-March	11.1	6.5	16.8	+5.7
April-June	14.5	8.9	12.9	-1.6
July-September	15.0	9.9	12.4	-2.6

Budget expenditures for the major national security programs rose from an annual rate of 35.6 billion dollars in April-June to 39.6 billion dollars in July-September. The budget estimate for the fiscal year 1952 is 48 billion dollars for these programs, but this estimate is currently being re-examined and may be revised upwards. National security outlays, when adjusted for the number of working days in each month, remained at about the same level from July through September, after rising quite rapidly in the preceding months.

The Federal deficit on a consolidated cash basis was approximately 1.2 billion dollars in the quarter just ended. The difference between this figure and the conventional budget deficit represents, to a large extent, the excess of cash receipts in the trust funds. In terms of seasonally adjusted annual rates, the third quarter cash deficit was 1.8 billion dollars. In the June quarter there was a small cash surplus, after seasonal correction.

Respectfully submitted,

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Roy Blough