

Highlights of Recent Recession

Since late last year the economy has been undergoing downward readjustments in employment, production, prices, and incomes.

Total industrial production, which was 169% of the 1935-39 rate in June, dipped further in July, to a level 17% below the November peak.

Production of durable goods is down 19% from the high point, with iron and steel down 28%, and production of non-durables is off 13%.

Non-agricultural employment in June was 1.9 million persons below the peak of last fall, while unemployment came to 3.8 million persons in contrast to the postwar low of 1.6 million.

Prices of basic commodities have declined 20% since the beginning of the year and are 27% below a year ago.

Wholesale prices of all commodities have declined 10% since their peak of 1948, with prices of commodities other than farm products and foods down 5-1/2%.

Consumer prices, however, have declined only 3% on average since the high point of July 1948, but have shown little change since February.

Gross national production, reflecting lower total output and prices, is estimated to have declined at a seasonally adjusted annual rate of 18 billion dollars or 7% from the record level of the fourth quarter of 1948 to the second quarter of 1949.

Personal income declined by 4.5 billion dollars (annual rate) or 2% over the same period.

Corporate profits before taxes declined substantially from a record annual rate of 36.6 billion dollars in the third quarter of 1948 to an annual rate of 28.4 billion in the first quarter of 1949, and probably declined further in the second quarter. Much of this decline represents inventory losses.

Encouraging Tendencies

Despite these sizable declines the downward correction so far this year has been more moderate and orderly than in most prewar recession periods. Government, the banking system, businessmen and consumers have reacted cautiously and without panic to the situation.

Interest rates continue low and credit is easily available, in part as a result of Federal Reserve actions, and the liquidation of inventories has proceeded without undue pressure from banks. Reduction of excessive inventories is of itself a hopeful development for the future, although it has recently been contributing heavily to the contractive process.

Industry is apparently still going ahead with its earlier plans for investment in plant and equipment. According to the Commerce-SEC Survey conducted in mid-May, planned expenditures for the third quarter do not show any deterioration in comparison with plans expressed in the mid-February Survey, although a decline from recent levels of expenditures is indicated.

While consumers have become increasingly selective in their buying and greater promotional efforts and price concessions must be made to stimulate sales, there is as yet little evidence of large-scale curtailment of consumer purchases, including postponed buying in anticipation of lower prices. In fact, consumers over-all appear to have maintained expenditures

for consumption in the second quarter, despite a reduced level of income. Purchases of automobiles have recently been at record levels. Residential construction and home buying has recently shown an encouraging spurt. Also encouraging is the fact that, since February, the decline in personal income has tended to level off.

In the past month indications of firming have appeared in key industrial markets. Buying has been resumed in the nonferrous metals markets and prices of lead and copper have increased moderately following the very sharp declines of earlier this year. Scheduled steel output advanced somewhat in late July for the first time in several months, although this may in part reflect some hedging against the possibility of a strike in the fall and poorer prospects for price reductions in the near future. Production of non-durables has been fairly stable since April and some recovery has occurred in textile markets. Automobile production is being maintained at a record breaking rate.

Near-Term Outlook

For the current quarter, it is likely that economic activity will be sustained at the mid-year level and may show some rise above it. Government expenditures on goods and services are likely to increase. The large number of new residential units started in May and June has been reflected in an increased volume of construction in July and strongly indicates a rise in construction activity for the third quarter. This rise is likely to offset possible moderate declines for expenditures on producers' durable equipment. If sales of automobiles are maintained at recent rates, consumption expenditures as a whole are likely to show little change.

Longer-Term Outlook

The question may be raised as to whether the readjustments made to date -- primarily in prices and inventories -- have been enough to prevent further declines, or whether recent signs of firming are but a brief lull in a sustained recession which has not yet run its course.

A qualified answer must be given to this question. On the whole, it appears that the process of readjustment is not yet complete and that employment, output, incomes, and prices may continue to drift downwards. The process for the next nine months or so, however, may well be piecemeal, moderate, and somewhat erratic. Overall output may remain relatively constant or increase slightly in some periods.

Essentially, this evaluation is based on the premise that the basic forces still making for a downward readjustment -- such as the downward trend of business investment in plant and equipment, the steady reduction in backlog demands for automobiles, and housing, lagging reduction of prices in areas where demand has softened -- are being cushioned by sustaining factors present in the economy. Hence, further corrective tendencies may be offset from time to time by special circumstances, such as changes in inventory policy and the payment of dividends under the National Service Life Insurance program in the first half of next year.

A flexible and determined attitude on the part of business with respect to merchandising, i.e., improving values through price and cost reductions, will go far toward shortening the period of correction and hastening the day when the economic advance is resumed.