

MONTHLY

Business Review

FEDERAL RESERVE BANK of CLEVELAND

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Business activity was strong during the first half of 1957 but weakened during the second half. Broad measures for the entire year compared this way with 1956 levels:

Gross national product	+5%
Industrial production	no change
Personal income	+5%
Employment	no change
Wholesale prices	+4%
Consumer prices	+3%

Industrial Summary—1957

THE YEAR 1957 will go down in the record books as a year in which a great business boom passed its peak. It was a year of unusual vacillation in business confidence. After opening on a note of mild optimism as to the future, the mood changed swiftly to doubt in the spring and back to confidence again in the summer, only to end on a note of uncertainty and pessimism in the final quarter of the year.

The accompanying scoreboard for the year, while showing gains in most categories over record 1956, fails to indicate the deterioration that took place in the closing months of the year.⁽¹⁾

The five percent rise in Gross National Product to \$435 billion was due in large part to higher prices rather than to a larger volume of goods and services. Moreover, when the final figures are computed, they are likely to show for the fourth quarter a moderate decline from the peak rate of \$439 billion, seasonally adjusted annual rate, which was attained in the third quarter.

Industrial production in 1957 was equal to the previous year's monthly average index of 143, but the year-end trends of the two years were exactly opposite. In 1956, production was moving up to a record rate in December, whereas in 1957, output was falling sharply from the summer plateau of about 144 index points to 139 in November and to a still lower level in the final month.

Personal income established a new record during the year, with an estimated total of \$343 billion, or five percent above 1956. More

(1) The 1957 data appearing in the text, charts, and tables of this article have been partly estimated.

THE SCOREBOARD

	1957	1956	Per-centage Change
Gross National Product (billions).....	\$435	\$415	+ 5%
Industrial Production (1947-49=100) monthly average.....	143	143	—0—
Personal Income (billions)	\$343	\$327	+ 5
Employment (millions, monthly average).....	65.2	65.0	—0—
Unemployment, (millions, monthly average).....	2.9	2.6	+12
Wholesale prices (1947-49 = 100) monthly average	118	114	+ 4
Consumer Prices (1947-49 = 100) monthly average	120	116	+ 3

than half the gain was illusory because of higher consumer prices. Personal income in August reached a peak annual rate of \$346.8 billion, but by November it had dropped about \$1.5 billion or nearly one percent. The turnabout in the upward trend of income was due chiefly to three factors: reduced factory employment, a shorter work week, and the incidence of the Asian flu epidemic.

Total employment in the nation averaged 65.2 million a month for the year, a shade above the 1956 average. Here, too, all of the gain was scored in the first seven months of the year, as employment slipped below year-ago levels in August. By November, total employment was 400,000 below the same month in 1956. Nonagricultural employment did not fall behind year-earlier levels until

November. At that time, the decline in employment was centered chiefly in agriculture and in manufacturing industries and was of sufficient magnitude to more than offset the increase in employment in trade, services, and government.

Unemployment, after holding fairly stable throughout the year, rose in November to 3.2 million, or 4.7 percent of the civilian labor force. A substantial part of the year-to-year increase in joblessness as shown in the table, however, is due to a change in the definition of unemployment that became effective in early 1957.

Although wholesale prices averaged four percent higher in 1957 than in the previous year, the upward trend peaked out in August and prices dipped fractionally in the following months. Raw material prices declined sharply in 1957 but prices for some fabricated materials and finished goods continued to inch forward.

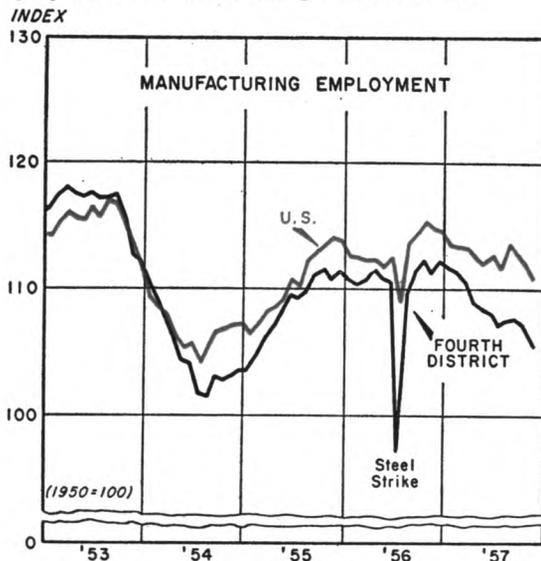
The Consumer Price Index continued to climb during the year. The few interruptions in the rise were attributable mainly to changes in retail food prices. Services and housing costs continued to impart an upward thrust to the index. For the entire year, the Consumer Price Index averaged three percent higher than in 1956.

Manufacturing Employment in the Fourth District

Manufacturing employment in the Fourth Federal Reserve District declined steadily during the first half of the year, turned up slightly between July and September, when factory employment usually rises, and slid again in October and November. In the latter month, such employment was 6 percent below the four-year peak reached in October, 1956, and had slipped to the lowest point in two-and-one-half years. Even at the high mark of October, 1956, employment in District manufacturing industry was still below the postwar peak of March, 1953.

As the accompanying chart shows, changes in manufacturing employment in the District have followed national developments closely, but the downturn from the 1956 peak has

The larger drop in District employment reflects the preponderance of durable-goods industries.



Source of data: Bureau of Labor Statistics; Ohio Bureau of Unemployment Compensation; and Pennsylvania Bureau of Employment Security.

been steeper in the District than in the rest of the nation. Also, factory employment in the District in that peak month was further below the 1953 high than was the case for factory employment in the nation.

These departures from the national average reflect the District's greater-than-average proportion of durable-goods industries. Both 1953 and 1956 were years of exceptional activity in those heavy industries in which the District specializes. During 1957, conversely, employment declined more in the durable goods industries than in those industries producing nondurables.

Certain important industries have been selected for particular attention in the review which follows. These are industries which are of special significance to the Fourth Federal Reserve District.

Steel

Steel ingot production in 1957 is estimated at about 113 million tons, or two million tons less than the output of the previous year.

The trend of production during the year was generally downward, with the rate of

1957 STEEL OPERATING RATES

Producing Area	Percent Capacity	
	Jan. '57	Dec. '57
Cincinnati.....	96	68
Cleveland.....	94	64
Pittsburgh.....	100	63
Wheeling.....	99	58
Youngstown.....	101	58
TOTAL U. S.....	98	67

Monthly averages derived from weekly rates published by *Steel Magazine*.

decline accelerating in the final two months. By December, the steel operating rate had dropped to less than 70 percent of capacity, the lowest rate since mid-1954 except for months of strike interruption.

District steel producing centers, as shown in the table, have not been affected uniformly by the slackened demand for steel. In general, those mills producing plate and structural steel are operating at higher rates than others.

Steel production during the year was heavily influenced by changes in inventory policy on the part of both steel consumers and the mills themselves. During the first five months, steel consumers added substantially to their stocks, thus continuing the trend that followed the settlement of the 1956 strike. By mid-year, however, nearly every category of steel except heavy plate and structural was in ample supply and delivery was available within normal lead-times. At this point, consumers began to reduce stocks—particularly of the lighter kinds of steel such as sheet, strip and wire.

During the third quarter — and even through October—intense competition on the part of mills for new business led most of them to build up their own stocks of semifinished steel so as to provide fast delivery to customers. Buyers shopped the mills and frequently placed orders on the basis of the shortest delivery promises. The speed-up in delivery, of course, was a further inducement for consumers to continue to pare inventory. By November, inventory accumu-

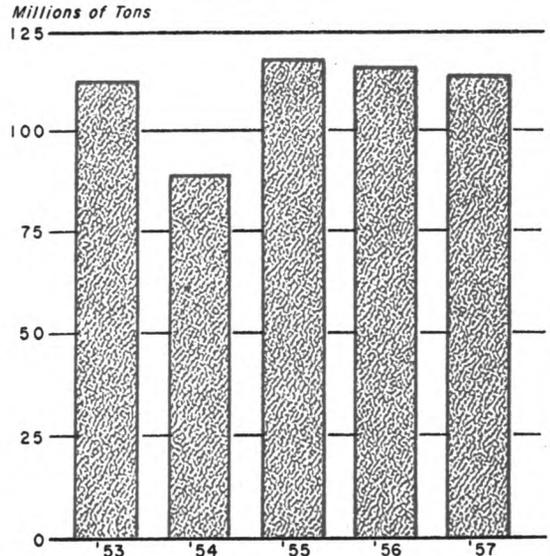
lation of semifinished steel at the mills came to an end and liquidation began, thus re-enforcing the downward spiral of production.

It appeared likely, at year end, that steel inventory liquidation would continue through the first six months of 1958, with the emphasis switching to heavy steel products such as plate and structurals as these have become readily available for the first time in several years.

Blast furnace operation for the first 11 months of 1957 averaged more than 93 percent of capacity in sharp contrast to the 86 percent rate for steelmaking furnaces. Usually the rates are very close together. The divergence was due to an increase in the proportion of pig iron used to make steel at the expense of steel scrap. The effect upon the price of steel scrap has been sharp, with scrap prices in early December at less than half the year-earlier level.

Stocks of Lake Superior iron ore at the close of the shipping season in early December were ample. Shipments totaled 84.6 million gross tons, up 7 million from the strike-shortened 1956 season. Foreign ore receipts also rose sharply.

STEEL PRODUCTION United States



Source of data: American Iron and Steel Institute.

Autos

Although automobile sales and production in 1957 did not equal the high forecasts made early in the year, output was the fourth highest on record. Car production for the year is estimated at about 6,120,000 units, or more than 5 percent above 1956. It was exceeded only in 1955, 1953, and 1950.

New car sales by dealers, through the first ten months of the year, were about on a par with the same months of 1956. It was hoped by the industry that the introduction of the new 1958 models in early November would sharply stimulate sales. This expectation was not realized and it is now estimated that retail sales will approximate the 1956 total. As a consequence, new car inventories in the hands of dealers are high. On December 1, inventories were estimated at 700,000 units; they increased further during the month as production continued to outstrip sales.

It now appears likely that production of new cars in early 1958 will be affected by these large stocks unless there is a marked improvement in sales.

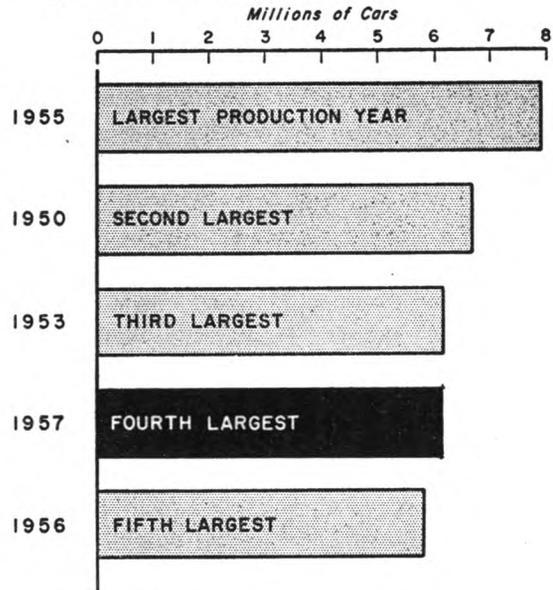
Employment in the automotive industry of the Fourth District averaged somewhat higher than in 1956 as new parts plants were opened, or as older units were expanded, in Twinsburg, Cleveland, Lima, and in the Cincinnati area. One new car and truck assembly plant is under construction near Lorain, Ohio, and will begin production this year.

Rubber

The rubber industry in 1957 enjoyed the second best year of record. New rubber consumption is estimated to have been about 1,475,000 long tons, only 55,000 tons below 1955, the record year. Synthetic rubber production reached a new high, and the consumption of synthetic rubber rose to 63 percent of the total, the largest since the abandonment of war-time controls.

Passenger-car tire shipments advanced more than 6 percent from 1956 to an estimated 90.4 million units in 1957. Original equipment sales were up nearly 7 percent to keep pace with higher auto output, and re-

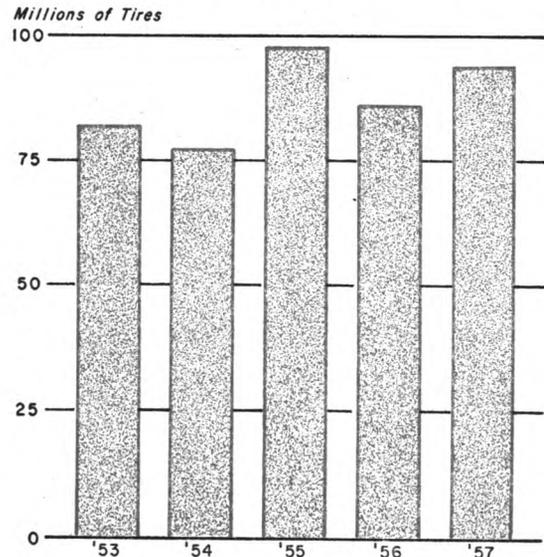
AUTO PRODUCTION in 1957 exceeded the 1956 total by more than 5 percent, but fell fractionally short of the 1953 volume to stand as the fourth largest year on record.



Source of data: Ward's Automotive Reports.

TIRE PRODUCTION

Passenger Car Casings, United States



Source of data: Rubber Manufacturers Association Inc.

placement tire sales advanced 6 percent to an estimated 56.5 million casings. Replacement tire sales were the largest in the post-Korean War period and undoubtedly reflected in large part the aging of the 8 million cars produced in 1955 as well as the record number of cars on the highways. Passenger car tire production for 1957 is estimated at about 93.0 million units; as a consequence, factory inventories at year-end were at record levels, in spite of strong sales during the year.

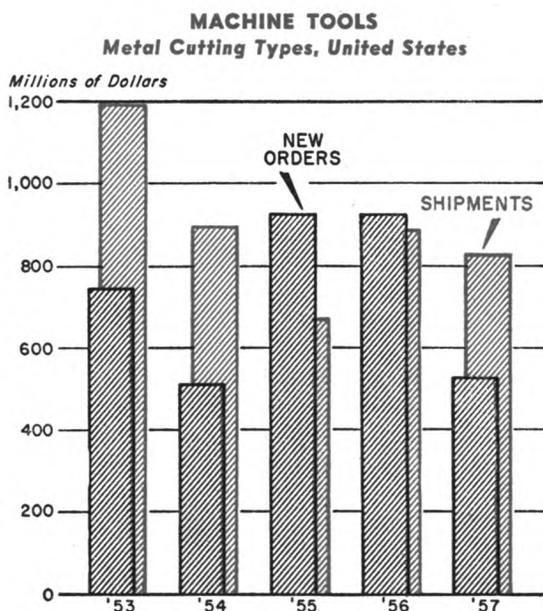
Truck tire shipments last year were disappointing to the industry. Shipments dropped 4 percent from 1956 to an estimated 13.7 million units. Original equipment sales were down 7 percent to 4.2 million casings as truck production slackened. Replacement sales were a bit lower than in 1956 and totaled 8.8 million.

Sales of rubber hose, belting, industrial products, rubber soles, foam rubber and the host of other products turned out by the industry, experienced a record year in 1957. The non-tire part of the rubber industry now accounts for more than half of the industry's dollar volume of sales as compared with only 42 percent in 1939.

Machinery

Machinery production declined irregularly through 1957 from the all-time peak reached in the fourth quarter of 1956. By November, output was 8.6 percent below the year-earlier month. The drop in nonelectrical machinery production was slightly larger than for electrical equipment. The slowdown was general and extended to nearly every kind of machinery. In part it reflected the leveling and eventual turndown of capital expenditures in the fourth quarter for new plant and equipment as well as slack consumer demand for large home appliances. Curtailed defense spending after mid-year also reduced the demand for machinery and led to the cancellation of some existing orders for equipment.

Output of heavy electrical apparatus, used chiefly by electrical utilities, was at record rates in the fourth quarter of 1957 and was still advancing. Shipments, however, were



Source of data: National Machine Tool Builders Association.

in excess of new orders and order backlogs were being slowly reduced.

The machine tool industry was particularly hard hit in 1957. Net new orders, which totaled close to \$925 million in both 1955 and 1956, dropped precipitously to an estimated \$525 millions in 1957, and the decline became progressively steeper through the year. Net new orders for September, October, and November amounted to only \$85,000,000, or an annual rate of \$340 million. Thus the accompanying chart, which is on an annual basis, does not show the full extent of the recent downturn.

Machine tool shipments held up very well through the first half of 1957 and exceeded the year-earlier months as well as the second half of 1956 by ample margins. As backlogs fell, however, the industry was forced to curtail production in the second half of the year to more nearly approach the rate of incoming orders. The average workweek was reduced and employment cut. Estimated backlog of new orders at the end of November was only about three months.

The feeling is general in the machine tool industry that the decline in new orders has

about run its course and that some improvement will be evident this year.

Bituminous Coal

Soft coal production in 1957 fell slightly short of equalling 1956's output of 500 million tons, halting a two-year rise in bituminous coal demand that was considered to be the start of a new growth trend for the industry. Mines in the Fourth District, which supply about one-third of the nation's requirements, experienced their share of the weakening in demand.

Domestic consumption in the first ten months of 1957 fell about $3\frac{1}{2}$ percent short of the similar 1956 period. Exports, however, continued to rise; furthermore, stocks of coal in the hands of consumers were built up moderately during the year, so that production fell only fractionally below the 1956 level. Further weakening in demand occurred in November and total coal production for the January-November months registered a 2 percent drop from the year-ago period.

Portland Cement

The portland cement industry found 1957 a rather disappointing year. The completion

of part of the industry's capital expansion program boosted monthly capacity about 10 percent above 1956 levels through the first nine months of the year. However, a dip in demand, coupled with a labor dispute in July, pulled production and mill shipments about 7 percent below comparable 1956 levels during the January-September months.

Fourth District mills made a relatively strong showing in 1957, however. The labor dispute affected only a few mills of the District. With 50 out of the 94 cement plants east of the Mississippi River shut down by the strike in July, demand at District mills was boosted sharply. For the January-September months, portland cement production in the District was slightly ahead of the comparable year-ago months while the rest of the industry registered an 8 percent year-to-year deficit.

An increase in monthly capacity at Fourth District mills between 1956 and 1957, amounting to about 15 percent, is suggested by the Bureau of Mines reports for the first nine months of 1957, putting annual portland cement capacity of the District in September at about $32\frac{1}{2}$ million barrels.⁽²⁾

(2) These figures include a new mill at Paulding, Ohio, which was inadvertently omitted in a June article appearing on this subject in this publication.

NOTES

Among the articles recently published in the monthly business reviews of other Federal Reserve Banks, the following may be of interest to our readers:

"A Foresight Saga," Federal Reserve Bank of Philadelphia, December 1957.

"What's Happening in the Credit Markets?" Federal Reserve Bank of Kansas City, December 1957.

"Individual Savings—Its Nature and Recent Behavior," Federal Reserve Bank of Richmond, December 1957.

(Copies may be obtained by writing to the Federal Reserve bank named in each case.)

Special note: The recent revision of department store indexes, for the nation and for all twelve Federal Reserve districts, is described in detail in an article in the December 1957 issue of the *Federal Reserve Bulletin*. Reprints are available at the Research Department, Federal Reserve Bank of Cleveland. The Research Department of this bank also has available a tabulation of the revised department store indexes for the major metropolitan areas of the Fourth District.

Department Store Trade During 1957

DEPARTMENT store trade in the Fourth District during 1957 reflected some elements of local weakness as well as the changing trends in the economy of the nation. Although consumer demand generally was well maintained and it is estimated (at press time) that total retail sales in the United States exceeded the record high of 1956 by about 5 percent, sales by Fourth District department stores in 1957 barely matched the year-ago volume.

Considering the rise in prices during the year, there was a net decline of about 2 percent in physical volume of Fourth District

department store sales, despite the fact that the opening of new branch stores last year throughout the District increased the selling area considerably. It should be recognized that population has also grown. Thus, if total sales are measured either on a per capita basis or per square foot of selling space, department stores experienced a decline in physical quantity even greater than 2 percent.

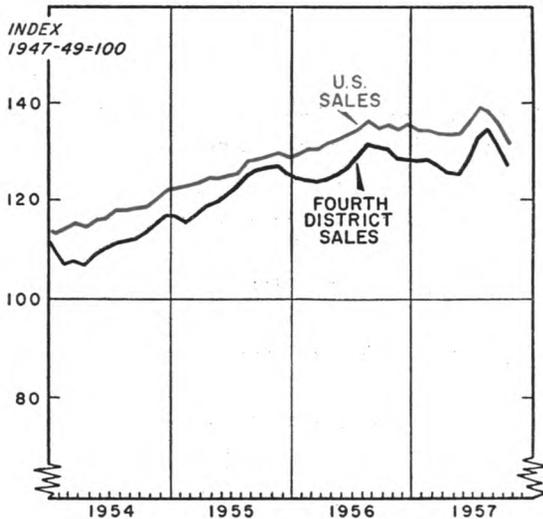
Changes in Sales

Seasonally adjusted sales by Fourth District department stores, as shown by the black line on an accompanying chart, during the first quarter of the year averaged slightly above the preceding quarter. The showing for the first three months was very favorable indeed, insofar as sales during the final quarter of 1956 were already at such a high level.

It was generally believed that the late date of Easter, which fell on the third Sunday in April, would be a favorable factor for spring sales. However, as the sales during the Easter season did not come up to expectations, the adjusted sales index for April declined sharply to the lowest level in the past 22 months. Delayed spring weather throughout the District was one of the factors in the disappointing score of the Easter season. The following two months witnessed some recovery, but total District department store sales for the second quarter, seasonally adjusted, declined by nearly 3 percent from the first quarter's mark.

Sales during the summer months showed a considerable strength for that season. In August, the seasonally adjusted index of sales reached 139 percent of 1947-49 average daily sales, or 3 percent higher than the pre-

Department store sales in the Fourth District have followed the national pattern fairly closely; weakness in the second quarter of 1957 was more pronounced, however.



Seasonally adjusted data, adjusted to Census benchmark. Smoothed by three-months' moving average, centered. Last entry based on November estimates.

vious all-time high peak reached in September 1956. Adjusted sales for the entire third quarter averaged about 8 percent larger than those of the second quarter; they were also 2 percent above a year ago.

By autumn, sales began to show the effects of uncertainty in the business outlook. An unusual complication was the occurrence of the Asian flu epidemic which is believed to have a significant, although not measurable, retarding effect upon store sales. Sales during October by Fourth District department stores, after adjustment for seasonal variation, declined sharply, to the lowest level in the past 28 months. Sales in November showed a slight recovery and incomplete reports for December indicate that adjusted sales during the month were somewhat above those of November. Thus, adjusted sales in the final quarter of the year were apparently about 7 percent below the third quarter and 3 percent below the final quarter of 1956.

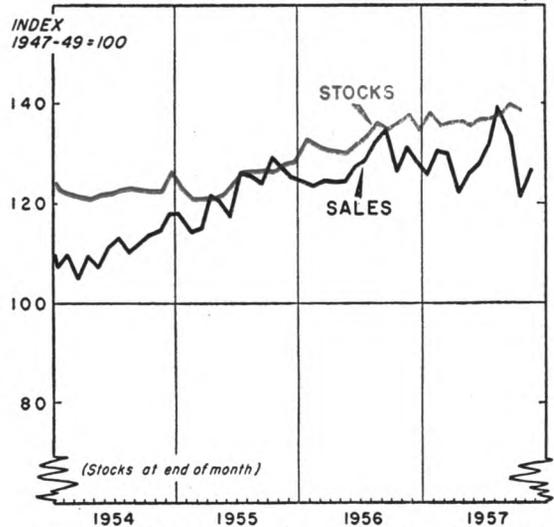
Comparing Fourth District department store sales with national sales, it should be noted that the course of District sales, seasonally adjusted, paralleled fairly closely that of nationwide sales, except during the second quarter when weakness in Fourth District sales was much more pronounced. (See chart.)

The fact that the index of U.S. sales runs consistently at a higher level than the index of Fourth District department store sales simply indicates a difference in the cumulative rates of growth between the 1947-49 base period and the present. Parts of the South and the far West have shown greater gains than this District, in percentage terms.

Inventories

In contrast to sales, end-of-month inventories of Fourth District department stores (shown by the colored line on the chart) were nearly stable for the first eight months of the year, after seasonal adjustment. In September, inventories showed a slight pick-up and held at that level for the rest of the year. The index of department store stocks for the Fourth District, including an estimated December figure, averaged 136 for the

Department store sales in this District registered wide fluctuations during the year; stocks were nearly stable.



Seasonally adjusted data, Fourth District. Adjusted to Census benchmark.

year (based on 1947-49 average end-of-month stocks) and month-to-month changes during the year fluctuated within 3 points of the annual average.

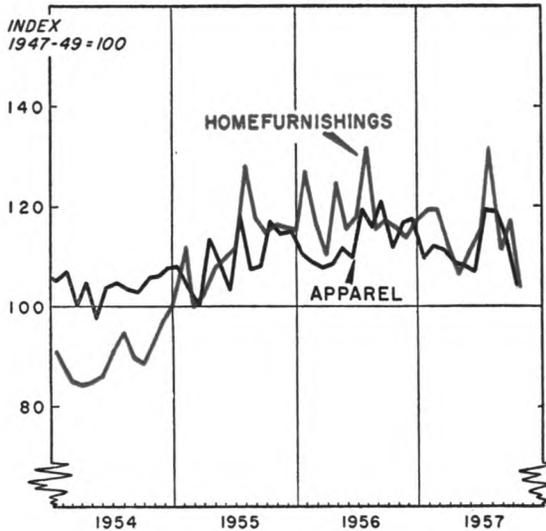
The lowest levels of end-of-month inventories, seasonally adjusted, were registered in February and May, at 135, and the highest in September, at 139. Thus there were no clear tendencies toward accumulation or liquidation during the year.

The entire net expansion of inventories during 1957 amounted to 3 percent. Possibly about one-half of this margin represents price advances at the retail level. (The value of inventories is reported at retail prices rather than at cost.)

Apparel and Homefurnishings

Sales by both major groups of departments have followed the general course of total sales during the year; however, they have differed in the extent of fluctuation. Thus, while the range of fluctuation for the apparel group from the low to the high position for the year amounted to about 14 percent, the range of fluctuation for homefur-

Sales of homefurnishings by Fourth District department stores have fluctuated more than sales of apparel.



Seasonally adjusted data, Fourth District.

nishings was from a high of 131 in July down to 104 in October, in terms of seasonally adjusted index numbers. Homefurnishings include furniture, draperies, china and glassware, major household appliances, and other purchases which are in many instances postponable and therefore more variable over time than is the case with apparel. An accompanying chart traces the course of sales of apparel and homefurnishings by months from 1954 through 1957.

During the year, there were relatively few departments with gains over a year ago and only two departments, *records, sheet music, pianos, instruments, etc.* and *sporting goods and cameras* which scored large year-to-year increases. These two departments account for less than 2 percent of the total store sales. Departments having a large volume of sales in relation to total store sales shared nearly equally in the annual net decline. *Major household appliances*, however, showed a substantial decline from the previous year, amounting to 11 percent.

SALES BY SELECTED DEPARTMENTS, 1957
Percent Increase or Decrease from 1956⁽¹⁾
Fourth District Department Stores

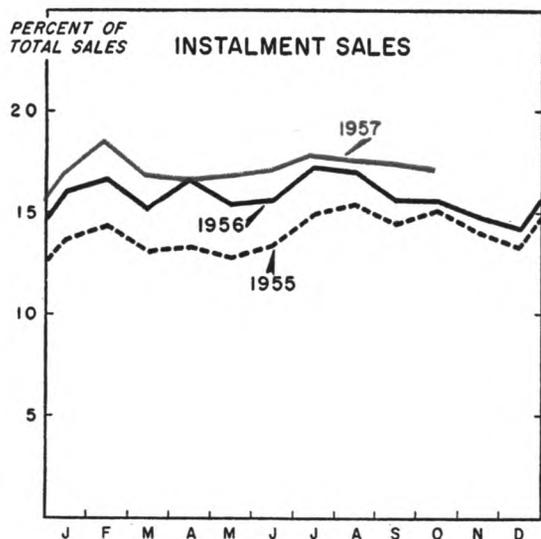
Department	% Change From 1956
Records, Sheet Music, Pianos, Instruments, etc.....	+14
Sporting Goods and Cameras.....	+ 7
Blouses, Skirts, and Sportswear.....	+ 3
Aprons, Housedresses, and Uniforms..	+ 3
Books and Stationery.....	+ 3
Candy.....	+ 3
Girls' Wear.....	+ 2
China and Glassware.....	+ 1
Women's and Misses' Inexpensive Dresses.....	+ 1
.....
Linens.....	-0-
Handbags and Small Leather Goods..	-0-
Juniors' Coats, Suits, and Dresses....	-0-
.....
Toys and Games.....	- 4
Men's Furnishings and Hats.....	- 4
Women's and Misses' Coats and Suits	- 5
Draperies, Curtains, Upholstery, Awnings, and Shades.....	- 7
Cotton Yard Goods.....	- 8
Major Household Appliances.....	-11

(1) Based on figures for January through November.

Credit Sales

Sales on a credit basis expanded further in 1957; the ratio of credit sales to total sales for this District was 66.0 percent as against 65.2 percent in 1956 and 56.1 percent ten years ago. The ratio of instalment sales to total sales, as indicated on the chart, averaged 17.2 percent, representing a gain somewhat smaller than in the previous two years. The increase in the share of total sales represented by instalment sales took place in spite of the over-all decline in sales of homefurnishings, which are typically the instalment-traded items.

The ratio of instalment sales to total sales during 1957 averaged slightly higher than in previous years.



DEPARTMENT STORE SALES BY METROPOLITAN AREAS

Percentage Change from 1956 to 1957⁽¹⁾

Metropolitan Area	Percent Change
FOURTH DISTRICT.....	-0-
Portsmouth.....	+13
Lexington.....	+ 7
Youngstown.....	+ 7
Pittsburgh.....	+ 3
Canton.....	+ 2
Wheeling-Steubenville.....	+ 1
Erie.....	-0-
Cleveland.....	-0-
Columbus.....	- 1
Akron.....	- 3
Cincinnati.....	- 4
Springfield.....	- 5
Toledo.....	n.a.

⁽¹⁾ Figures are for January through November.

Metropolitan Areas

Sales changes from the preceding year varied among individual areas from a 13 percent gain in *Portsmouth* to a 5 percent decline

in *Springfield*. The gains and declines were about evenly distributed among the areas of the District so that total sales for the District came out even with 1956.

FOURTH FEDERAL RESERVE DISTRICT

