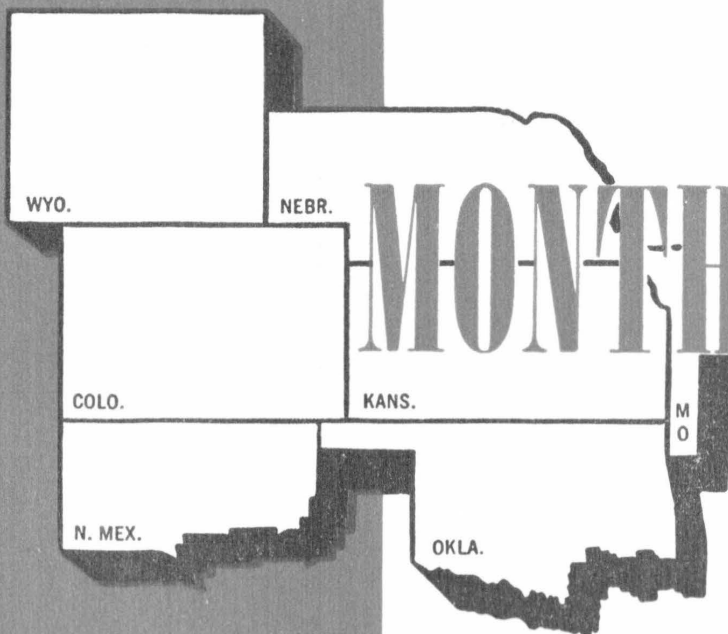


February 1956



MONTHLY REVIEW

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TEXTILE Production

and

Consumption



NEW TECHNIQUES of production and use of modern research methods have resulted in the discovery of many different textile fibers. These discoveries, along with increased production of textiles in other nations, have resulted in intense competition among the various fibers. Such developments are of considerable interest to the agricultural industry, since cotton and wool producers find themselves faced with a number of problems concerning production and consumption of their products. There are two general types of fiber—the nonagricultural or synthetically produced, and the agriculturally produced. Because of the effects that increased competition among the various types of fibers have upon farmers, the subject of textile production and consumption should be significant to agricultural interests in the United States and Tenth Federal Reserve District.

Production and Consumption

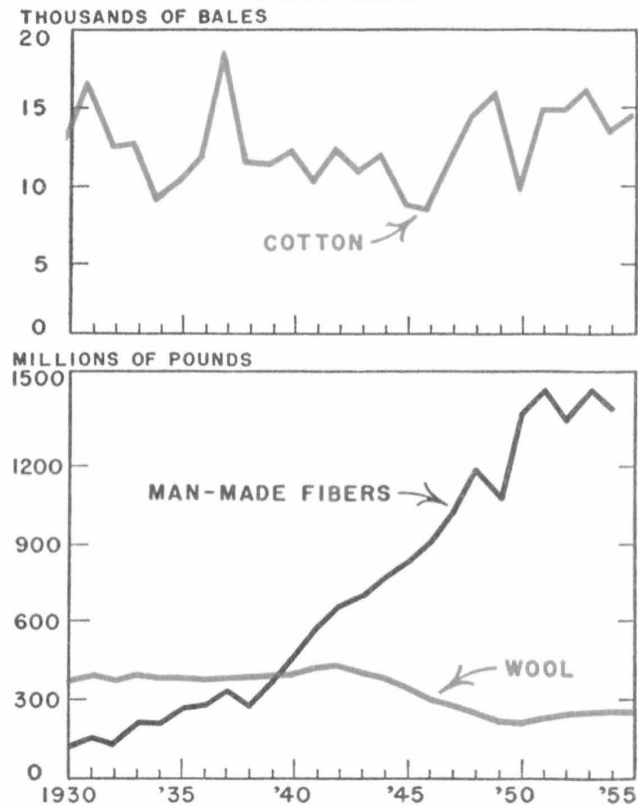
Although total production of fibers for use by the textile industry in the United States has been increasing, this increase has been largely in the synthetic or man-made fibers. Man-made fiber production in the Nation increased from 128 million pounds in 1930 to 1,432 million pounds in 1954, or more than 11 times.

Over the same period, the Nation's wool production declined gradually from 414 million to about 276 million pounds, or about 33 per cent. Although annual cotton production fluctuated widely from a high of around 19 million bales in 1937 to a low of about 8.6 million in 1946, there was no specific trend in production during the 1930-54 period. The fluctuation from year to year probably was caused largely by casual factors and, therefore, no specific trend is evident.

Especially since 1940 has synthetic fiber production tended to show substantial increases relative to the production of agricultural fibers. This fact can be attributed largely to technological advancements within the synthetic textile industry which have resulted in more favorable price relationships for the synthetic fibers. The development of better synthetics at lower prices has enabled these fibers to capture most of the increased market for fiber created by a growing population and larger consumer incomes.

The trend in per capita consumption of the synthetic fibers has continued upward since the World War II years, while that of the agricultural fibers has been downward. Per capita consumption of both cotton and wool increased sharply from the late 1930's into the World War II period, but has declined fairly consistently since that time. Per

PRODUCTION OF FIBERS
United States



SOURCE: U. S. Department of Agriculture.

capita cotton consumption reached a peak of almost 42 pounds in 1942. High military requirements probably accounted for this peak. Wool consumption per person has fluctuated between a low of slightly less than 2 pounds in 1934 and a high of slightly more than 5 pounds in 1946. In recent years, per capita consumption has been from 2 to 3 pounds. Again, the years of highest consumption came during the war periods when both military and domestic requirements were strong. Per capita consumption of man-made fibers remained low until the early 1930's but has increased quite steadily since and attained an estimated record high of 11.2 pounds in 1955.

Changes in Fiber Consumption

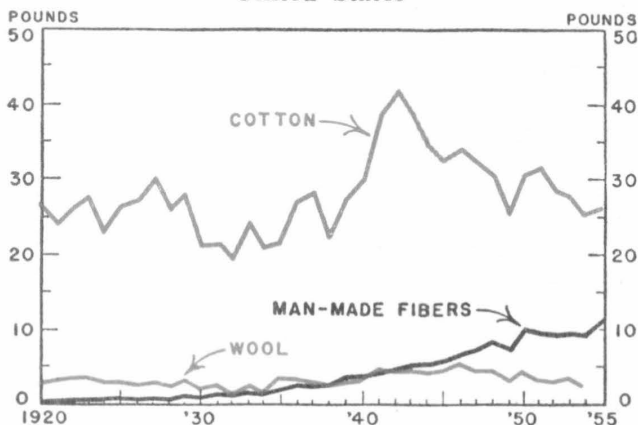
Competition among the different types of fibers is keen. Some of the factors which in-

fluence fiber consumption are the trend toward lighter weight apparel in nearly all categories, the growing importance of style, adaptation of synthetic fibers for many industrial uses, and a favorable price for man-made fibers compared to agricultural fibers. More frequent use of casual types of business clothes and the increasing demand for multiple use garments also affect the use of fibers.

The above factors exert varied influences upon consumption of the different individual fibers. They may result in increased consumption of one fiber or a combination of them. On the other hand, these factors may result in substitution of one fiber for another—wool for one of the synthetic fibers, or synthetics for wool.

Each fiber has advantages and limitations. Experiments in the laboratory and limited use by consumers have shown that for some uses blends of fibers result in a material which is superior in quality and durability to an individual fiber. Much work being done in the area of blending fibers may result in increased consumption of cotton and wool. On the other hand, there also is a possibility that research may result in

PER CAPITA CONSUMPTION OF FIBERS
United States



SOURCE: U. S. Department of Agriculture.

the development of synthetics which will be more competitive with cotton and wool than are the present synthetics.

Man-made Fibers

Production of synthetic fibers in the United States declined from a little over 1,499 million pounds in 1953 to about 1,432 million pounds in 1954. This decline can be attributed largely to a decrease of 9 per cent in rayon and acetate production and a 25 per cent decline in the production of high-tenacity rayon among the filament yarns. Non-cellulose fiber production increased about 14 per cent from 1953 to 1954. Preliminary reports for the first 10 months of 1955 show a 17 per cent increase in rayon and acetate production over the comparable period in 1954. World production of the synthetics, on the average, showed a substantial increase in 1954 over 1953, and tentative estimates indicate that 1955 production was still higher.

Total domestic consumption of man-made fibers in 1955 was about 25 per cent above the 1954 consumption, which compared with about a 6 per cent increase in cotton consumption. Preliminary reports indicate a further increase of about 10 per cent in man-made fiber consumption this year, compared with an estimated 4.5 per cent increase in the consumption of cotton. The largest increase is expected in rayon staple fiber, which is not as expensive as wool. The next largest expansion is anticipated in high-tenacity rayon, which is used in the production of such items as tires and belting. Since 1946, this type of fiber has almost completely replaced the use of cotton fiber in the manufacture of tires. The main reason for this is that rayon fiber is cheaper and the amounts needed are less than if cotton is used to perform the same job.

The noncellulose fibers appear to be quite competitive with cotton. Although the cost

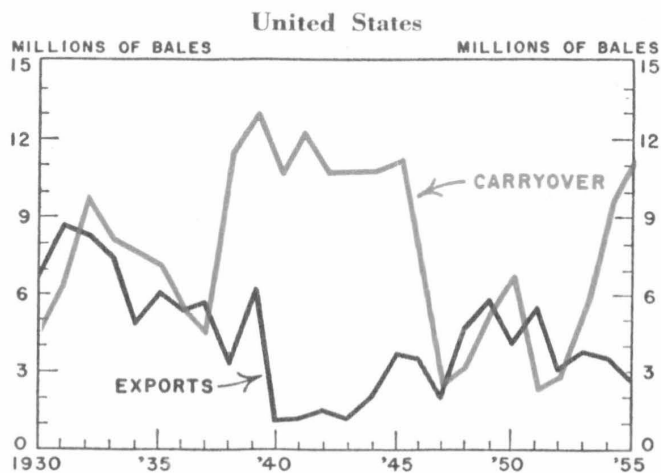
per pound of noncellulose fibers is higher than cotton, less than one pound of this kind of fiber is needed to replace two pounds of cotton yarn for many uses. In addition, there is relatively little waste in the use of noncellulose fibers. If prices of this type of fiber decline as did rayon fiber prices, it is possible that these fibers may become even more competitive in a few years.

Cotton

Supplies of cotton for this marketing year (August 1, 1955, to July 31, 1956) are very large. United States production in 1955 is estimated at about 14.5 million running bales (14.66 million of 500 pounds each) or an increase of approximately 7 per cent above 1954. This production estimate is much higher than the probable disappearance. Thus, it is probable that the carryover of cotton at the end of the marketing year will be at a record high of about 14 million bales—almost 3 million bales more than for a year earlier.

In 1930, the carryover of cotton in the United States was 4.5 million running bales. Since that time, it has fluctuated from a high of 12.2 million running bales in 1941 to a low of 2.3 million in 1951. At the beginning of this

EXPORTS AND CARRYOVER OF COTTON



SOURCE: U. S. Department of Agriculture.

marketing year, the carryover was 11.1 million bales. Low production and large export requirements in 1945, 1946, and 1950 accounted for the sharp decline in carryover during those years.

Disappearance of cotton in the United States in the 1955-56 marketing year likely will be around 12 million bales, compared with 12.4 million in 1953-54 and 12.3 million in 1954-55. Although domestic mill consumption may be about 9.2 million bales, exports are anticipated to be about 2.7 million bales, the lowest since 1947-48. During most of 1955, foreign importers and mill operators bought only for minimum current needs in anticipation of lower prices. The record 1955 foreign crop is now moving into the export market at prices below those for comparable U. S. qualities. Sharply reduced foreign prices reflect, in part, the efforts of other exporters to hasten liquidation of their holdings in anticipation of possibly lower U. S. prices. Foreign production of cotton increased about 8 per cent in 1954-55, and a further increase of about 5 per cent is forecast for this marketing year. Increased domestic and world production is at least partly responsible for decreased U. S. exports and prices.

World production of cotton reached a high of slightly over 37 million bales in the 1954-55 marketing year and may reach even higher levels in this marketing year. Foreign production has been increasing each year and accounted for 23.5 million bales, or approximately 64 per cent of total world production last year. The 1930-35 yearly average of 12.35 million bales increased to an average of 19.5 million in the 6-year period 1949-54, an increase of about 58 per cent. Although world consumption also has been increasing during this period, production has been growing more rapidly. As a result, world stocks have also been increasing and indications point to a record high this year.

Wool

Wool production in the United States has shown a downward trend since 1930 when production was around 414 million pounds. The production in 1954 of just over 276 million pounds was about 1 per cent larger than in 1953 and the largest since 1948. Estimates for 1955 production are about the same as for 1954. Production of wool in the United States has not been adequate to meet the requirements of the domestic market. Consequently, much of the wool consumed domestically must be imported. Approximately one third of the apparel wool consumed in the United States before World War II and nearly two thirds of that used since World War II was imported.

Although wool consumption in the United States is not expected to differ significantly from last year's levels, world consumption may increase. Five factors that may contribute to increased worldwide use of wool are: 1. expanding economies accompanied by rising consumer incomes in Europe and North America; 2. recent improvement in the relative price of wool as compared with competitive fibers; 3. price support policies adopted for wool in the United States and a modification of South American export control regulation which should expand supplies available at competitive prices; 4. an expected increase in inventory buying of wool in the Nation. 5. monetary allocations for wool purchases by some foreign countries to enable larger quantities to be purchased at lower prices.

Although the price of wool has been lower on a per-pound basis than that of many man-made fibers, synthetics quite often have a substitution advantage either because of specific characteristics or because a pound of the synthetics will do more than a pound of wool. Even if wool prices rise, it is unlikely

that they will move out of competitive range of the synthetics during peacetime.

Largely as a result of the dependence of the United States on foreign sources of supply for a large portion of its apparel wool requirements, the Government embarked upon a stockpiling program after the outbreak of the Korean War. This stockpiling, combined with the scare-buying wave, resulted in an upsurge of wool prices in 1950 and 1951. However, about the time the program was completed, military requirements for wool also declined, and decreased Government purchases were a strong influence in the wool market.

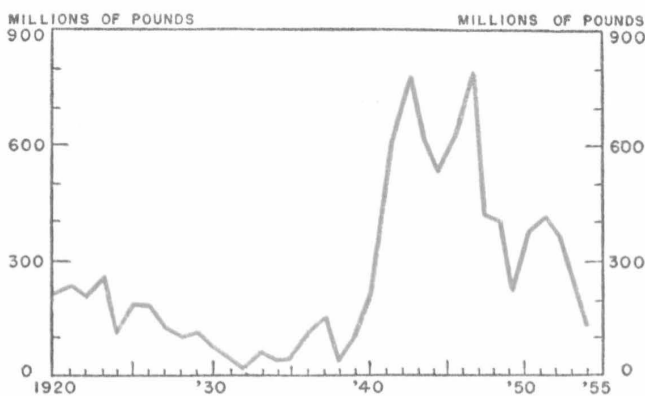
Imports of apparel wool have been falling generally since 1946, although a sharp increase occurred at the time of the stockpiling effort during the Korean War. Apparel wool imports have fluctuated widely over the years. In 1920, apparel wool imports were nearly 200 million pounds, but dropped off to about 13.5 million pounds during the depression. Imports were high again during the World War II era, with a peak of about 810 million pounds being imported in 1946. Since that time, imports have fallen substantially and were estimated at 156 million pounds in

1954. It appears that imports were about the same in 1955. These reduced imports can be attributed to a decline in mill demand for apparel wool due to present large inventories of woollen goods, increased substitution of synthetic fibers, and a decreased demand from military establishments.

Because of higher production costs, especially labor costs, U. S. sheep ranchers have been at a comparative disadvantage in wool and mutton production. High costs have resulted in decreasing sheep production and in the substitution of other enterprises for the sheep enterprise. This trend has been particularly noticeable on the large sheep ranches in Texas and the mountain states. However, sheep producers will receive around 15 per cent more for their 1956 wool crop, as a result of the new wool incentive payment program which went into effect in April 1955, but on which payments will not be made until later in 1956. This program will tend to slow the movement away from sheep production on the large ranches.

Wool prices received by farmers declined to a low of about 40 cents per pound in September 1955, as compared to nearly 53 cents in September 1954. The 1954 average price received by farmers was almost 54 cents as compared to nearly 55 cents in 1953. Cash receipts to growers were slightly less in 1954 than in 1953. Although final 1955 data are not available, it is evident that a further decrease occurred in both average per-pound prices and in cash receipts from the sale of wool. Under the new price incentive program, the Government will give the grower a direct payment based on the percentage difference between the average yearly price received by farmers and 62 cents per pound, the figure designated for the 1956 support level. This support level also applies to the 1955 crop. However, this subsidy can not be paid on 1955 production until the average

APPAREL WOOL IMPORTS
United States



SOURCE: U. S. Department of Agriculture.

yearly price has been determined. The funds for these payments are to come from tariff collections on imports of foreign wool and wool manufactures. Such funds may be less than the amount required to provide full support payments.

Although many of the problems faced by wool growers are similar to those faced by cotton growers, others are dissimilar. Whereas cotton growers have been heavily dependent on the export market as an outlet for their product, domestic wool producers do not produce enough wool at present prices to supply domestic needs. Thus, in addition to the mutual competition from other fabrics with world prices of wool being relatively low, producers also have been confronted with the problem of competition from imports of wool. A tariff is levied against most imported wool and U. S. wool is now under a pricing program which allows it to be marketed competitively with all wool. In view of this situation, the present price support program for wool has been drafted in such a way that it depends upon a direct subsidy rather than upon nonrecourse loans or other forms of indirect subsidy.

Outlook for the Future

There is little doubt but that man-made fibers will continue to increase in relative importance insofar as both production and consumption of fibers are concerned. The rapidity with which technological changes have occurred in the textile industry virtually assures the development of better and less costly synthetics. Cotton production and consumption, however, remain substantially larger than that of the synthetic fibers in spite of the phenomenal growth of the synthetic industry.

In recent years, increasing population and larger consumer incomes have caused a larger consumer demand for fabrics. However, the demand for both cotton and wool has remained relatively stable, after making allowance for unusual demands during the war years. Many problems continue to face cotton and wool growers, as indicated by the trends in fiber consumption. However, attempts are being made both by public and private enterprise to develop larger foreign and domestic markets. The long range outlook for both cotton and wool will be influenced by the success or failure of these efforts.



Business Outlook:

TWO POINTS OF VIEW

YEAR-END 1955 BROUGHT with it the customary spate of business outlook statements for the year now unfolding. As is usual, these forecasts differed widely with respect to both point of emphasis and substantive conclusion. As the forecasting season draws to a close, it is appropriate to present a summary analysis of these contrasting viewpoints as they have been expressed in published forecast statements. This article is based on the belief that divergent opinions represent conclusions of informed, intelligent, and responsible individuals, and therefore deserve the careful attention of everyone concerned with business and financial conditions in 1956. The discussion which follows does not concentrate on extreme positions at either end of the range between optimism and pessimism. Rather, the major points of emphasis of those on either side of the argument are elaborated.

The Optimistic View--

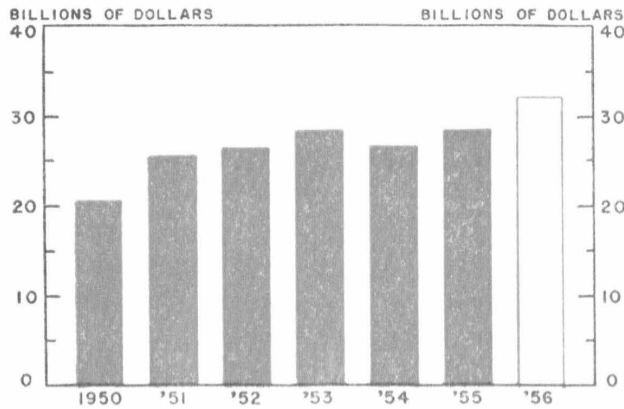
The more optimistic forecasts of economic developments in the current year see a rise in gross national product from the 1955 total of about \$387 billion to approximately \$405 billion for 1956 as a whole. Such an increase would represent a gain of about \$18 billion, or 4 per cent, compared with a gain of \$27 billion, or 7 per cent, from 1954 to 1955. A consensus of bullish forecasts estimates that GNP will rise fairly steadily throughout the year, moving from the estimated rate of \$397 billion per year in the fourth quarter of 1955

to a rate of about \$410 billion in the fourth quarter of 1956. Prices are expected to be stable or to rise slightly. Thus changes in output in 1956 may be properly measured in 1955 prices for most purposes.

In examining the factors making for a potentially strong economic picture in 1956, it is well to consider the position of the economy at the threshold of the year. In contrast to conditions at the beginning of 1955, when unemployment was approximately 3 $\frac{1}{3}$ million and many industries were operating well below capacity, production in recent months has run at record levels and approached ceiling rates in many sectors. Unemployment is well below levels of a year ago and, in important areas, the economy has returned to an overtime basis. Expansion in many industries during the current year will depend on the availability of additional manpower and capital equipment. Consequently, an increase in real GNP this year of the magnitude achieved in 1955 appears impossible, even in the most optimistic forecasts.

• **Capital Investment - Plant and Equipment Outlays.** One of the most important pegs supporting optimistic forecasts for 1956 is business plans for plant and equipment spending. According to the McGraw-Hill preliminary survey of corporate capital budgets made in late October and November of 1955, business intends to spend more on plant and equipment in 1956 than in any previous year. These conclusions are paralleled by the results of the Department of Commerce and Securities and Exchange Commission survey

NEW PLANT AND EQUIPMENT EXPENDITURES



SOURCE: U. S. Department of Commerce and Securities and Exchange Commission and McGraw-Hill Department of Economics.

of plans covering the first quarter of 1956. Applying the increase in capital outlays forecast by the McGraw-Hill survey to the Commerce-SEC series, plant and equipment expenditures are expected to increase from the 1955 level of \$28.25 billion to \$32 billion in the current year. Because outlays were running at an annual rate close to \$31 billion in the last quarter of 1955, this increase implies an average growth of \$400 million per quarter at annual rates in 1956, compared with the average increase of \$1.2 billion per quarter at annual rates last year.

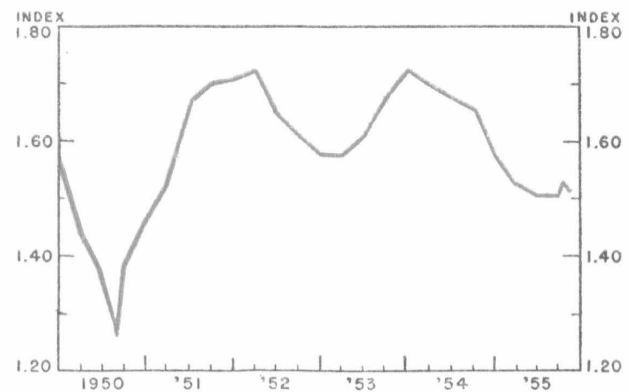
The rise in demand during 1955 resulted in the accumulation of a substantial backlog of orders in many industries, suggesting to optimistic forecasters that the market for U. S. output has expanded fully as much as capacity. Despite the enormous postwar gain in durable capital goods, many firms evidently found themselves unable to meet the rush of incoming orders in 1955. Unfilled orders of manufacturers climbed above \$53 billion late in 1955, an increase of more than 10 per cent from a year earlier.

Current construction and equipment purchases are not expected to contribute greatly to 1956 production, for much of it will not be in operation during the year. Corporate planners, therefore, are assumed to be looking beyond 1956 markets. This assumption is strengthened, some forecasters hold, by the fact that a number of the industries planning large increases over last year's capital outlays anticipate relatively small increases in 1956 sales. This, it is felt, carries great significance for the firmness of these capital budgets.

The breadth of the advance in spending plans has also been emphasized as an indicator of widespread business confidence. Only 2 out of 21 industry groups—mining and electric and gas utilities—did not plan higher investment in 1956, according to the McGraw-Hill survey. The biggest gains were reported in primary metals, chemicals, and automobiles, but manufacturing firms as a whole expected to increase outlays by 30 per cent.

● **Inventories.** One of the factors frequently mentioned in connection with the 1953-54 recession is the sharp change which occurred in inventory policy. A \$4-\$5 billion annual rate of accumulation in the second quarter of 1953 changed to a \$4 billion annual rate of liquidation in the fourth quarter, producing an \$8-\$9

BUSINESS INVENTORIES-SALES RATIOS
Seasonally Adjusted



SOURCE: U. S. Department of Commerce.

billion change in demand for goods. This process was reversed between the third quarter of 1954 and the third quarter of 1955, when inventory investment changed from a negative \$4-\$5 billion annual rate to a positive \$2-\$3 billion annual rate.

Favorable projections of possible inventory adjustment in the current year stress the fact that inventory increases in 1955 were largely in the durables sector, and that manufacturers' accumulation was in the form of raw materials and goods in process. Increased business holdings of nondurables were small in 1955. With regard to the increased stocks of durables, it is noted that the growth has been of moderate proportions compared with other periods of advancing activity. Total inventory-sales ratios declined over the past year, and in the last half of the year were lower than at any time since 1950. Recent increases in the dollar volume of inventories are regarded as necessary to accommodation of the larger volume of business activity.

The build-up of working stocks is taken as evidence that the accumulation was voluntary and did not represent a backing-up of finished product. In support of this, it is noted that producers have more precise control over working stocks than over finished goods inventories, because the latter depend heavily on sales, the least controllable factor for the producer. Trends in manufacturers' inventories in recent years reveal a relatively longer lag in the response of finished goods stocks than of working stocks to a change in sales.

● **Government Spending.** Federal Government expenditures have been a declining element in total spending over the past three fiscal years, chiefly because of reductions in national security outlays. As the pace of Federal spending was reduced moderately in 1955, such public spending did not offer a stimulus to the level of economic activity. However, in the budget for fiscal 1957, just placed

before Congress by the President, Treasury outlays are scheduled to reverse a 3-year downtrend and increase by something like \$1.5-\$2 billion. At a time when automobile production and housing starts are falling off, the contribution of increased Government spending on military hard goods, such as ships and guided missiles, and on public works is emphasized in the optimistic forecasts.

Most of this increase is intended for defense purposes and will go primarily for new and advanced weapons. In addition to the increase in defense spending, expected trends toward rising Government spending in the civilian area were confirmed by the new budget statement. State and local governments, which have been increasing outlays annually by \$1 billion to \$2 billion in the postwar period, are expected to continue this trend in the current year. These increases will largely take the form of construction—sewer and water systems, roads, schools, and other public buildings.

● **Consumer Spending.** On the basis of a survey of consumer attitudes and intentions by the Survey Research Center of the University of Michigan, plans to purchase houses and automobiles as late as last October were at the same high level as in June 1955. Plans to purchase household durables—such as refrigerators and washing machines—and plans to make major home improvements and repairs showed a small increase from June. Furthermore, the fear that present record indebtedness of consumers would decrease future major purchases is not supported by responses to the survey. Among respondents who had instalment debt, most replied that indebtedness did not lead to postponement of purchases.

Admittedly, buying intentions may be altered by subsequent events affecting consumers' financial status, including the terms on which credit is available, but confidence

and favorable consumer expectations appear to have remained high into the last quarter of 1955. Using this survey, bullish-minded forecasters have concluded that in 1956 consumers will expand purchases substantially out of increased personal income, and that consumers will incur debt at a rate as high or nearly as high as in 1955.

With regard to housing, forecasters maintain that basic demand, revolving around household formation, disappearance rates, upgrading in quality, and population movements, amounts to at least 1.2 million units per year. Even though there may be some decline, perhaps 10 per cent, in housing starts in 1956, the dollar volume of housing construction is expected to decline by much less and could show an increase. Recent trends in size of the average new 1-family home show an increase from 1,140 square feet in 1954 to 1,170 square feet in 1955. This is expected to limit the reduction in terms of floor area to about 5 per cent. There also has been a trend toward inclusion of more appliances, such as automatic dish and clothes washers and air conditioners. These factors, together with increased wage and material costs, are responsible for an increase of \$1,400 in the median price of new homes. If this trend continues in 1956, it is expected that dollar outlays on housing will increase by about 2 per cent from 1955.

The Pessimistic View--

Among the pessimistic forecasts are some which envisage a gross national product in 1956 not too different from that achieved in the past year. This seeming anomaly results from the fact that by the fourth quarter of 1955 the level of output at an annual rate was substantially above the average level for the entire year. If output in each quarter of 1956 merely attained the level existing at year-end 1955, a comparison of year-to-year figures

would show an increase in GNP of about 3 per cent. And, if expansion continues into the first half of 1956, a recession beginning in the remaining months may be consistent with a yearly output near that for 1955. The unfavorable outlook statement is therefore inadequately characterized by the predicted level of output in the coming year. The time path which quarter-to-quarter levels of economic activity are expected to follow must be considered.

A consensus among bearish prognosticators is that economic activity will be stable to moderately rising in the first half of the year, that a crest will be reached about midyear and be followed by a subsequent downturn. Some of these forecasters expect a relatively mild contraction, such as occurred in the 1948-49 or the 1953-54 periods. Others anticipate a sharper reduction in output, approaching the severity of the decline from mid-1937 through the first half of 1938, when industrial production fell about 35 per cent in a period of 12 months. A recession initiated in mid-1956 would scarcely have its maximum effect on employment and output until the following year, but pessimistic predictions imply that the problems of unemployment, declining income, falling sales, and so on, will be in evidence during the last six months of the year.

The principal sources of weakness leading to cyclical contraction have been associated with the behavior of inventory investment, automobile production and sales, the growth of consumer and mortgage debt, residential construction, and the farm income situation.

- **Inventory Investment.** Emphasis is placed on the behavior of inventory investment as a source of disturbance. Inventory accumulation, which has contributed positively to the growth in output since the beginning of 1955, is expected to cease around midyear and be followed by liquidation of existing stocks.

Forecasts of a change in inventory policy seem to be based principally on the belief that the rate of increase in consumer outlays over the past year will not be sustained. Current rates of production into inventory, which are geared to an expanding level of sales, may not be reduced in time to prevent an undesired accumulation of stocks as consumer expenditures begin to level off, and attempts to reduce excessive inventories are expected to follow.

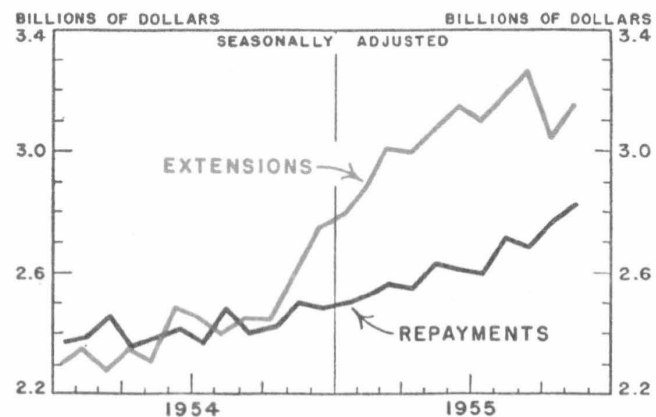
The anticipated crest in the volume of consumption expenditures has been related to several factors. The rate of growth in real disposable income is expected to fall, since the economy is currently operating at nearly full capacity levels of output. Rising tax revenues, moreover, absorb a larger share of personal income at higher levels of economic activity, which is reflected in forecasts of a surplus in the Federal budget. The growth of repayments on debt obligations incurred in 1955, it is contended, will tend to reduce the future growth of consumer purchasing power. Reference has also been made to the recent report by the Survey Research Center of the University of Michigan which indicates that on the basis of consumer confidence, expectations, and anticipated spending plans, consumer outlays for goods and services may remain at high levels during 1956, but can not be relied upon to provide further stimulus to the economy.

● **Automobile Sales and Production.** Preliminary forecasts for sales of passenger cars during 1955 called for 5.5-6 million units, underestimating the domestic market potential by 1.5-2 million automobiles. It is generally agreed that the astounding sales records of the past year must be explained largely on the basis of upgrading in the automobile market. One-car families purchased an additional automobile; individuals traded in their used cars a year earlier than usual; persons not

owning a passenger car entered the market. A predicted diminution in the automobile production and sales rate is based on the assumption that this upgrading did not permanently elevate the trend of passenger car output. One analyst suggests a 1956 domestic market potential of 6 million units, based on estimated changes in disposable income and in the adult population. Upgrading in 1956, some contend, offers less hopeful prospects for expanding the market, since this year's models are not radical departures from their predecessors. A more dismal suggestion is that 1 million units were "borrowed" from the 1956 market to achieve the record sales of 7.5 million automobiles in 1955, and estimates for the coming year should not envisage sales of more than 5.5 million cars.

● **Consumer and Mortgage Debt.** Extensions of credit have made an important contribution to the growth of consumer expenditures and to individual investment in housing during the past year, and business analysts have expressed concern over the mounting volume of personal indebtedness. Financing expenditures by the incurrence of debt obligations borrows purchasing power from the future, since repayments on instalment and mortgage loans represent automatic deductions from

CONSUMER INSTALMENT CREDIT
Monthly Extensions and Repayments



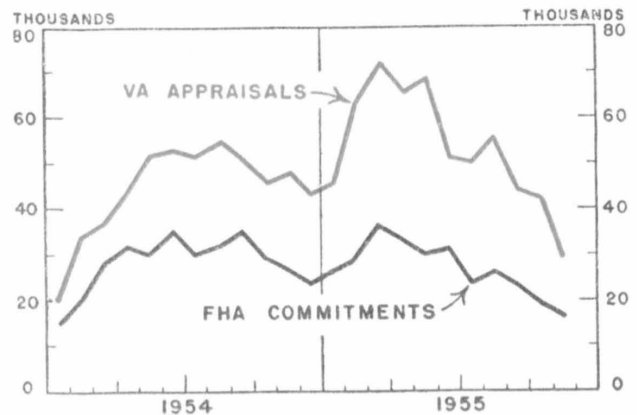
SOURCE: Board of Governors of the Federal Reserve System.

tomorrow's disposable income. Since personal debt has been expanding more rapidly than consumer income, repayments in 1956 are expected to absorb a larger share of consumer purchasing power, contributing to anticipated declines in automobile sales and residential construction and increasing the likelihood that personal consumption expenditures will fall as a percentage of disposable income. How much of the expansion in personal debt can be attributed to relaxed credit standards in 1955 is open to question, but doubt has been expressed that additional stimulus will be provided by further reduction of down payments and lengthening of maturities on loan contracts.

● **Residential Construction.** Although over 1.3 million new nonfarm dwellings were constructed in the year just closed, the seasonally adjusted annual rate of new housing starts had declined to less than 1.2 million by December. Applications for VA loan appraisals and FHA loan insurance commitments have fallen sharply from their peaks in March 1955 and were lower in November and December than in any month since January 1954. The value of residential construction contract awards, on a seasonally adjusted basis, had fallen 15 per cent by November from its peak in July 1955. Since the latter three series are indicative of future changes in the volume of residential construction, it may be expected that data covering the early months of 1956 will reveal further declines in the annual rate of housing starts.

While it is true that housing starts in 1956 may stabilize near the present level, pessimistic forecasts express concern that recent developments in the market may be related to an overdose of stimulants in the form of low down payments and long maturities on loan contracts. It is also pointed out that vigorous activity in the housing market in recent years has been fostered significantly

APPLICATIONS FOR VA APPRAISALS AND
FHA LOAN INSURANCE COMMITMENTS



SOURCE: Council of Economic Advisers.

by undoubling, and this source of demand, particularly, may be reduced by the prospects for declining income in the future.

● **Farm Income.** The continuing decline of farm income in recent years is well recognized. Further reductions have been predicted for the coming year with net income expected to fall perhaps 5 per cent from the 1955 level. Despite the fact that decreasing farm income did not prevent a rapid increase in national output in the previous year, some analysts expect the cumulation of past and present declines in farm income to exercise a drag upon total demand in 1956, especially affecting outlays on agricultural implements and farmers' expenditures on consumer goods.

● **Magnitude of Depressing Influences.** The discussion of individual points of weakness encountered in the typical pessimistic forecast is frequently qualitative in nature, and it is difficult to attach quantitative significance to each factor. It may be useful, however, to place hypothetical estimates upon the deflationary potential arising in the areas mentioned. A decline in automobile sales and production to 6 million units would have a direct impact on GNP of approximately \$5 billion. If farmers' expenditures on farm imple-

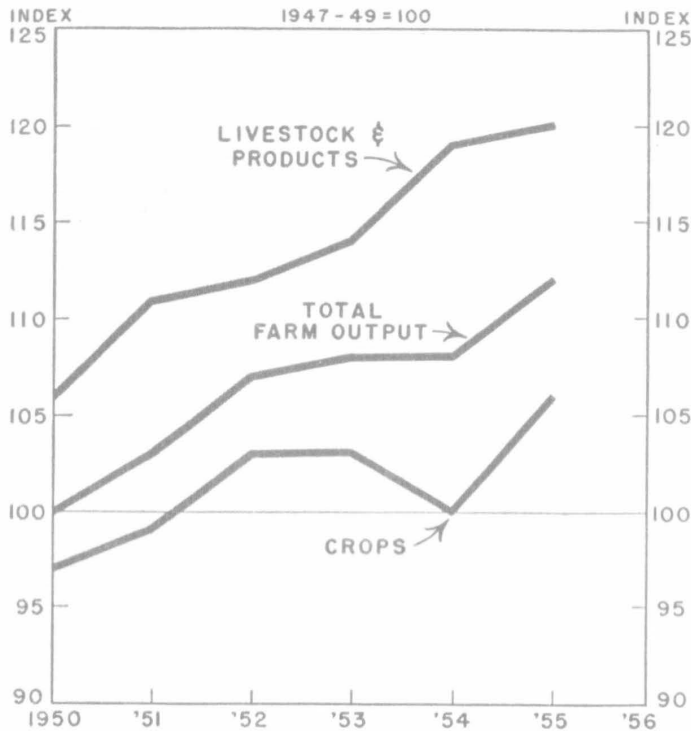
ments and consumer goods fell by the full amount of the anticipated reduction in their net income, these outlays would decrease \$500 million. A 25 per cent decline in private nonfarm housing starts—in line with the more bearish estimates—is equivalent to an approximate \$3.5 billion reduction, and a corollary fall in the purchase of major household durables might be expected. The \$3 billion annual rate of inventory accumulation during 1955 might be replaced by an equal rate, or an even larger rate, of inventory decumulation in the last half of 1956.

These magnitudes, of course, merely suggest the possible contractionary influences arising in these areas. Such deflationary pressures may tend to be offset by attempts to

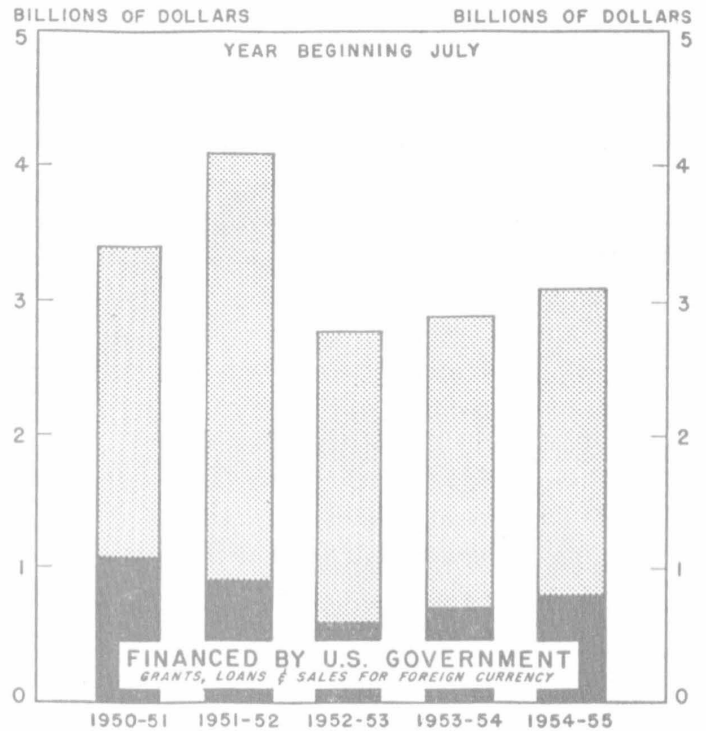
expand outlays in other sectors of the economy, but pessimists suggest that high level employment reduces the ability of the economy to adjust to an altered pattern of output. Increased demands in some sectors of the economy may not expand output if the necessary resources are unavailable, and thus decreased demands in other sectors would exert an adverse impact on total output. These initiating influences, moreover, do not indicate the full deflationary potential of the disturbances. Ultimately, the seriousness of the decline predicted by bearish forecasters depends on the extent to which these initial disturbances react upon consumer and business spending decisions in the rest of the economy.



FARM OUTPUT, UNITED STATES



FARM EXPORTS, UNITED STATES



BANKING IN THE TENTH DISTRICT

District and States	Loans				Deposits			
	Reserve City Member Banks		Country Member Banks		Reserve City Member Banks		Country Member Banks	
	Nov. 1955	Dec. 1954	Nov. 1955	Dec. 1954	Nov. 1955	Dec. 1954	Nov. 1955	Dec. 1954
December 1955 Percentage Change From								
Tenth F. R. Dist.	+3	+17	+2	+5	+7	-3	+2	-1
Colorado	+2	+22	+1	+15	0	0	-1	0
Kansas	+4	+15	+4	-7	+7	-5	+4	-3
Missouri*	+5	+16	+1	+14	+6	-5	+3	-2
Nebraska	-1	+13	+1	+3	+2	-3	+1	-6
New Mexico*	**	**	0	+32	**	**	0	+9
Oklahoma*	+3	+16	+1	-2	+18	-3	+4	+2
Wyoming	**	**	+1	+9	**	**	-1	-1

*Tenth District portion only.

**No reserve cities in this state.

PRICE INDEXES, UNITED STATES

Index	Dec. 1955	Nov. 1955	Dec. 1954
Consumer Price Index (1947-49=100)	114.7	115.0	114.3
Wholesale Price Index (1947-49=100)	111.3	111.2	109.5
Prices Rec'd by Farmers (1910-14=100)	223	225	239
Prices Paid by Farmers (1910-14=100)	279	279	279

TENTH DISTRICT BUSINESS INDICATORS

District and Principal Metropolitan Areas	Value of Check Payments		Value of Department Store Sales		*Value of Residential Building Permits	
	Dec.	Year	Dec.	Year	Dec.	Year
Percentage change—1955 from 1954						
Tenth F. R. Dist.	+2	+9	+4	+7	-36	+5
Denver	+5	+12	+11	+14	-41	+11
Wichita	-12	+7	+3	+12	-74	-15
Kansas City	0	+9	-1†	+3‡	-52‡	+1‡
Omaha	-4	+1	-2	+2	+6	+7
Okla. City	+9	+13	+10	+12	-50	-5
Tulsa	+9	+9	+7	+3	-37	+22

*City only.

†Kansas City, Mo., only.

‡Kansas City, Mo., and Kans.