

January 1957



In This Issue

Agricultural Outlook—1957 page 3

Stretching Resources to
Fit Demand page 10

Current Statistics page 16

FEDERAL RESERVE BANK
OF KANSAS CITY

Subscriptions to the MONTHLY REVIEW are available to the public without charge. Additional copies of any issue may be obtained from the Research Department, Federal Reserve Bank of Kansas City, Kansas City 6, Missouri. Permission is granted to reproduce any material in this publication.

Agricultural Outlook— 1957



PLANNING AND DECISION-MAKING in farming are required throughout the year, but special emphasis toward outlook seems to come at the beginning of a new calendar year. Projections of business and agriculture for the new year often are based upon the plans already made by businessmen and farmers, and a review of the outlook serves to integrate individual plans with those of others. The 34th Annual Agricultural Outlook Conference held by the U. S. Department of Agriculture has taken a look at agriculture for the year 1957 and, for some farm products, for several years ahead. This article is based upon the views expressed by specialists of the Department of Agriculture and others reporting at the conference. Special emphasis is placed upon those aspects of the outlook which are important to farmers and businessmen in the Tenth Federal Reserve District.

The outlook for agriculture for 1957 is neither overly optimistic nor pessimistic, but it contains many favorable aspects. Unlike other recent years, the favorable aspects of the outlook are related to developments in the supply and demand for agricultural commodities. Carryovers of some commodities, which have been pressing heavily upon markets in recent years, are expected to decline during 1957. Exports of farm commodities have increased substantially and have

been a major factor in reducing stocks. The domestic market is likely to continue strong, as a result of the high level of consumer income and a further increase in population. The level of prices received by farmers is expected to continue to rise and income is expected to improve over 1956.

There are, however, a few aspects of the outlook which modify the favorable side. New, abnormally high levels of carryover of some commodities—particularly in feed grains—have created new problems for these commodities. The rising level of costs continues to sustain the price-cost squeeze. Larger exports could not be sustained without the added emphasis on Government disposal of surpluses which came in 1956, and there is no immediate need to increase output to maintain the increased flow of agricultural commodities into foreign markets. More likely, it will mean an eventual curtailing of Government action and a subsequent reduction in the flow as surpluses begin to diminish.

There is a new note of uncertainty in the projections for 1957 because of present international conditions. Those aspects of the agricultural outlook which point toward strength and improvement may become less favorable, while those aspects which are lagging may become more favorable with changes in the international situation.

Demand

Consumer demand for farm products is related to population, size of the labor force, labor productivity, total output of the economy, income, and the general price level. Of all the conditions influencing the long-run demand for farm products, population growth appears to be the major factor. For projection purposes, it was assumed that population would reach 210-220 million by 1975. If appropriate weight is given to all factors, including the highest estimate of population, the demand for food products by 1975 would be 40 per cent higher than the 1956 level. Non-food use of farm products also is expected to show an increase over present levels by 1975. Not all farm commodities will share equally in the aggregate increase in food consumption. Some commodities may even experience a decline in demand because of changes in consumer tastes and a rise in the standard of living.

Changes in demand for food products over the next 20 years will be gradual and variations will occur from year to year. For 1957, the demand for food products is likely to continue strong and further increases in the expenditures for food are expected. Consumers' disposable income is expected to rise again, with the result that the amount spent for food will be higher than in 1956. Consumers spent about 6 per cent more for food in 1956 than in 1955, and in recent years they have been spending about 25 per cent of their total disposable income for food. Thus, the levels of business activity, employment, and consumer income are of special importance, because these variables are subject to changes over short periods of time. Indications are that all three are likely to continue at high levels and even show further increases through 1957.

Export demand for agricultural products has not been as steady as domestic demand.

The prospects for 1957 are encouraging because of stronger foreign demand and greater Government assistance. Both the value and volume of U. S. agricultural exports have been increasing since the fiscal year ended June 30, 1953. It now appears that the volume of agricultural exports for fiscal 1956-57 will be more than 25 per cent above the previous year. This would mark the highest level of export volume for any year in U. S. export history. Not all exported commodities are expected to benefit from increased foreign demand. Exports of food grains, cotton, fats and oils, livestock and meat products, poultry, and fruits and vegetables are expected to show increases, but exports of feed grains, tobacco, and dairy products will be lower.

World tensions and the current international situation are expected to play an important part in maintaining U. S. agricultural exports. The interruption of commerce through the Suez Canal may lead to moving more U. S. farm commodities into foreign markets, but restoration of the regular flows of commerce and cessation of stockpiling for security purposes may bring an equal reduction in the future.

In the fiscal year ended June 30, 1956, Government programs accounted for about 40 per cent of our agricultural exports. A considerable portion is now exported under Public Law 480, and no new programs may be undertaken under this law after June 30. Continuation of Government assistance to move farm commodities into export in the immediate future will depend upon legislative action by the coming session of Congress.

Supply

In order to meet the increased demand for food products in future years, agriculture probably will undergo numerous changes. If technology progresses at prevailing rates, excess production may be a continuing problem for several years while further adjustments

are made in the use of resources. Any needs for additional output of agricultural products in the foreseeable future will be met through expanded production from technological improvements in agriculture rather than from the use of more land and labor. If anticipated yields based on known methods can be achieved, harvested acreage of corn, feed grains, and soybeans could be reduced substantially by 1975. Present wheat and cotton acreage under the allotment programs would suffice. Hay and pasture production would need to be expanded. These estimates are subject to qualification, since it is reasonable to expect that some increase in efficiency in the use of feed for livestock also will occur even though progress has been slow in this area. Success of long-range adjustments in agriculture is dependent upon eliminating the current surplus problems and establishing a more reasonable balance between supply and market requirements.

Supplies of agricultural products for 1957 depend on production and carryover from previous years, as well as on the level of production in 1957. Total agricultural output for 1956 set a new record level in spite of reduced production in areas of severe drought and reduced acreage under Government programs. The production index of output of livestock and livestock products increased, and the production index of output of crops was unchanged. Except for meat production, further increases in output of livestock and livestock products are expected. A successful soil bank program may result in a sufficient decrease in crop production to cause the first decline in total agricultural output since 1950.

Carryover of total agricultural products set a new record in 1956. At the end of the crop marketing periods in 1956, carryover stocks were at higher levels than a year earlier for cotton and all feed grains except barley. The carryover of total agricultural products may not be lower for 1957, but reduction

in carryover of cotton, wheat, and rice is expected if a continued high level of exports can be maintained and if the soil bank program is successful.

Prices

Since mid-1956, prices received by farmers have been about 2 to 3 per cent above the level of a year earlier. Prices paid by farmers, likewise, have been up about the same percentage. A slight increase in the index of prices received is again anticipated in 1957. Prices paid also are expected to rise, so the parity ratio will tend to remain the same.

Costs

It is anticipated that total farm production expenses will continue to rise. Agricultural production expenses have increased almost 1 per cent each year since 1953. The rise during this period is the net result of a higher level of prices paid by farmers and changes in the cost structure of agriculture. The index of prices paid for goods and services used in production has increased, causing the aggregate dollar outlay to be larger. Also, farmers continue to use large amounts of some purchased items in farm production.

The amount of fertilizer, tractors, trucks, and purchased feed per unit of output has been increased. On the other hand, the amount of cropland, man-hours of labor, and work animals used per unit of output has been curtailed. It is likely that current changes taking place in agriculture have not run their course and technology will continue to bring about further changes which will perpetuate the shift in the structure of farm expenses. Technical changes in production which cause an increase in farm expenses also increase output. To the extent that the value of the increase in output is greater than the increase in expenses, individual farm income is improved. The Department of Agriculture points out that ratios of farm to nonfarm income in

1950 were highest where technological improvements were most effectively adopted by farmers, where farm investment per worker was greatest, and where resources per farm family were largest.

Power and machinery costs are expected to be higher in 1957. Wage rates also may be higher, but the number of hired workers on farms probably will be smaller. Costs of feed and replacement livestock probably will increase as a result of higher farm prices. Fertilizer prices have not increased in recent years and should continue to reflect general stability through 1957.

Marketing costs have increased with higher labor costs, and consumers are demanding that marketing agencies perform more services. The trend toward higher marketing costs is likely to continue. The quantity of services performed by the marketing system most likely will continue to increase relative to services performed by farmers. Thus, marketing costs will tend to account for a larger share of the consumer's dollar.

Farm Income

Although prices received by farmers were up about the same amount as prices paid by farmers during the first nine months of 1956, net realized farm income was up about 4 per cent because of an increase in the volume of farm marketings and an increase in payments under the soil bank and wool programs. With some reduction in supplies of commodities now in surplus, lower levels of crop output in 1957, and a smaller hog crop, total farm marketings may be smaller this year than in 1956. However, assuming continued strong demand, higher prices, and an increase in Government payments, net realized farm income may increase as much as 5 per cent in 1957.

Wheat

The outlook for wheat in 1957 is influenced primarily by three factors: (1) a smaller crop,

(2) a possible reduction in the carryover on July 1, and (3) an increase in exports.

A large reduction in production is expected in 1957. Approximately 10.6 million acres of the 1957 winter wheat allotment had been committed to the acreage reserve program through November 1956. Some of these commitments could be withdrawn, but no great change is anticipated. Drought conditions have continued in the winter wheat belt and wheat acreage abandonment probably will be above normal. In these areas, commitments to the acreage reserve probably will be fulfilled. The first preliminary estimate of the total wheat crop is 740 million bushels—a decrease of 225 million bushels from the 1956 crop. The estimate is based upon a 3 million acre reduction in spring wheat which may not materialize.

In spite of a total wheat supply of 2,015 million bushels during the 1956-57 marketing year, smaller production and larger disappearance may cause a significant reduction in the carryover for the first time since July 1, 1952. It now appears that exports of wheat will reach 415 million bushels in the current marketing year. If domestic disappearance continues at 600 million bushels, the carryover on July 1, 1957, would be 30 million bushels below a year earlier.

Cash wheat prices have advanced in recent months and, for some kinds of wheat, have moved above support prices. The Government export program now requires exporters to buy wheat from free market supplies. Higher free market prices have retarded the movement of wheat into Government stocks. Wheat prices probably will average above support levels during the 1956-57 marketing year.

Cotton

The cotton outlook for next year has changed substantially from previous years because of the Government's policy regarding cotton exports. On February 28, 1956, the

Commodity Credit Corporation announced that CCC cotton stocks would be sold in the world market at competitive world prices in the 1956-57 season. Foreign stocks of cotton were curtailed in anticipation of the new program which began after July 31, 1956. Exports of cotton during the current marketing year are estimated at 6.5 million bales, as compared to 2.2 million bales exported in the 1955-56 season. Consumption of cotton abroad is increasing, but domestic mill consumption is expected to decline again in the current year. Total disappearance during the 1956-57 season, because of the large exports, will be near 15.5 million bales and probably will exceed production by 19 per cent.

The national acreage allotment for the 1957 crop of extra-long-staple cotton has been increased from 45,000 acres in 1956 to 89,000 acres for 1957 because of declining supply and increased disappearance of American Egyptian cotton. The national acreage allotment of upland cotton for the 1957 crop is about the same as for the 1956 crop—approximately 17.6 million acres. Average yield of cotton per harvested acre in 1956 was second only to the record level of 1955, and is likely to continue the upward trend of recent years. Influence of the acreage reserve program on 1957 cotton production cannot be assessed at the present time.

Prices of cotton for domestic mills during the February-July 1956 period were higher than for the same period in 1955, but prices in the first four months of the new marketing year were lower than in the last half of the 1955-56 marketing year. Supplies of cotton in the United States are at record levels and prices are not likely to exceed support prices until these large stocks have been reduced.

Fats, Oils, and Oilseeds

This Nation's exports of fats, oils, and oilseeds in 1956 are expected to reach a new

high, and will represent a larger share of the total world trade than in any previous year. The United States continues to be the major exporting country for fats and oils, protein meals, and oilseeds.

The total supply of food fats and oils will be about as large as the record level in the 1955-56 marketing year. A smaller carryover is expected to be offset by increased production, largely as a result of a 22 per cent larger soybean crop and an 18 per cent larger flaxseed crop. Output of cottonseed oil, lard, butter, and peanuts is less than for the 1955-56 marketing year. Production of peanuts was 1 per cent lower, but supplies continue to exceed domestic requirements. Prices of most oil-bearing crops are expected to average near support program loan values through the remainder of the 1956-57 marketing year.

Feeds

A new high of almost 200 million tons of feed concentrates will be available for the 1956-57 season. The large increase in supply of feed concentrates has accounted for the larger carryover of total farm commodities. Supplies are adequate to meet all domestic and export requirements and increase the carryover by about 10 per cent at the close of the 1956-57 season. Acreages of each of the four feed grains were lower in 1956 than in 1955, but higher yields per acre caused a relatively smaller decline in total production.

Corn acreage was below 80 million acres for the first time in more than 60 years, but a new record average yield resulted in the second largest corn crop on record. Supplies of oats, barley, and grain sorghum are smaller this season than for the 1955-56 season. Production of these grains was lower because of smaller acreages and poorer yields due to drought in 1956. As a result, carryover stocks of feed grains, other than corn, will likely be smaller at the end of the 1956-57 season, even though total feed concentrates are larger.

Compared with the last half of 1955, feed grain prices advanced sharply through the first half of 1956, but declines in the last half of 1956 brought average feed grain prices to slightly above a year earlier. Feed grain prices probably will average higher than in 1956 through the winter and early spring of 1957 because of smaller production of some feed grains, higher support prices for oats, barley, and grain sorghums, and extension of support prices to all corn grown in the commercial corn area. With a favorable growing season in 1957, feed prices may average lower next summer than in the same period in 1956.

The total supply of high protein feeds is expected to be 5 to 10 per cent larger this year than last year. Consequently, prices of these feeds probably will be below a year earlier.

Supplies of hay for this year are again near the record level of a year earlier. Supplies will be adequate to meet all the requirements of forage-consuming livestock, but the distribution of supplies is below what generally exists in normal years. Pasture conditions in the central part of the country are poor and hay supplies are not adequate. More hay and forage will need to be shipped into these areas if herds are to be maintained through the winter season.

Meat Animals

Red meat production in 1956 rose to a new high of nearly 28 billion pounds. Total meat consumption per person was about 163.5 pounds, which is an all-time high and exceeds the record set in 1908. The major increase in per capita consumption occurred in beef, with 83.5 pounds being consumed per person. Pork consumption remained about the same at 66.3 pounds. Veal accounted for 9.3 pounds and lamb and mutton accounted for 4.4 pounds of the total per capita consumption of red meats.

Both beef and pork production probably will be smaller in 1957 than in 1956. Total meat production will remain relatively high again but per capita consumption is expected to fall to about 157 pounds. The per capita consumption of meats in 1957 is estimated as follows: 80.5 pounds for beef; 63 pounds for pork; 9 pounds for veal; and 4.2 pounds for lamb and mutton.

Meat supplies will be influenced most by the decrease in hog numbers. Producers indicated they intended to reduce the 1956 spring pig crop by 8 per cent, with most of the reduction occurring in late farrowings. Farmers also indicated a 7 per cent reduction in fall farrowings, but substantial strength in the price of hogs may have caused a smaller reduction. Reduced supplies of pork probably will cause hog prices to average above a year earlier throughout 1957. Some increase in hog production could occur in the 1957 spring farrowings, but higher feed prices in the first half of the year will act as a moderating influence.

The expansion of beef production has virtually stopped, but any reduction in total beef output will be small. Cattle numbers and slaughter are at record levels. Approximately 1 million more cattle and calves were slaughtered in 1956 than in 1955, but the calf crop was larger. The cow herd has remained quite stable and fewer cows were slaughtered in 1956. With fewer heifers available for replacement, it appears that the production herd remains about the same. No major change is expected in the 1957 cattle inventory.

With cattle slaughter no larger in 1957 than in 1956 and weights of slaughter cattle expected to average slightly lower, total beef production probably will be smaller. However, beef consumption at 80 pounds per person remains near record levels. If meat production is at a lower level in 1957, cattle prices in general may remain above the levels of the first half of 1956 through the first half of 1957.

In the last half of the year, cattle prices may be about the same level as in the last half of 1956.

The shift in sheep production from the West to the East continued in 1956. Some increase in production of sheep and lambs has been expected for some time, after several years of almost constant levels. Lamb prices are expected to strengthen in the first half of 1957 as a result of higher beef prices. An increase in production of lamb and mutton could occur in response to higher prices and higher returns obtained from the 1956 lamb crop.

Dairy

Milk production will reach a new high again in 1957 as no change in the past trend is anticipated. Production of milk is expected to be about 130 billion pounds and further contraction in the number of dairy cows probably will take place. The increase in milk production is occurring primarily as a result of new techniques and enlargement of dairy farms.

Larger sales and slightly higher prices for dairy products caused cash receipts from dairy products to be slightly higher in 1956 than in 1955. Demand for dairy products should continue as strong in 1957 as in 1956 and, with an increase in production, cash receipts should be higher again in 1957. A larger population and no anticipated change in per capita consumption will just about absorb the anticipated increase in milk production in 1957.

Prices received by farmers for milk have shown smaller net declines since 1952 than other farm prices. Prices received advanced slightly in 1956 and, with retail prices of several dairy products averaging higher in 1957 than in 1956, farm prices could continue to strengthen in 1957.

Poultry

Production of poultry products has increased substantially. Production of broilers and turkeys is at record levels and egg production is at a relatively high level. Output of all poultry products in 1957 will likely exceed that of 1956 and, with the exception of broilers, prices of these products probably will average a little lower. Broiler production in 1957 is expected to exceed the 1.3 million broilers produced in 1956, but prices may average higher because of a slight reduction in red meat production. Turkey prices are expected to be below the 1956 levels during the first half of 1957, but could be almost equal to the corresponding monthly prices of 1956 in the fall of 1957. The number of chickens raised next spring will be about the same as the 472 million in 1956. Egg supplies will be larger and prices of eggs are expected to average slightly below the 1956 average.

Fruits and Vegetables

Supplies of fresh vegetables for market through mid-1957 are likely to be the same as for the corresponding period of 1956. Fruit supplies will be as large as a year earlier with a somewhat larger quantity of processed fruits and a smaller quantity of fresh fruits. The amount of canned and frozen vegetables available for distribution will be substantially larger than in the 1955-56 season. Potato supplies this spring are likely to be larger than for the same period in 1956.

Consumer demand for fruits and vegetables is expected to continue as strong in 1957 as in 1956. Per capita consumption will also remain about the same. Current production, which cannot be anticipated early in the season, strongly influences prices of fruits and vegetables.

Stretching Resources to Fit Demand

WITH THE END OF 1956, this Nation wrote *finis* to the most prosperous year in history. Measured by such indicators of overall performance as employment, production, and income, 1956 goes into the record book as a new benchmark of general economic prosperity. Not all activities and not all areas, to be sure, shared equally in the expansion. Agriculture continued to be plagued by low farm prices and broad areas of drought. As a consequence, the farm machinery industry remained in a slump. New home construction was off substantially from 1955 in most areas of the country. Auto production centers and dealers felt the sharp impact of reduced sales of 1956 models.

Many of the new records—those measured in dollars—reflected the additional boost of rising price levels. Wholesale prices continued a rise which began in the summer of 1955 and the level of consumer prices started upward in the spring of 1956.

As the current economic expansion, which originated in the summer of 1954, has progressed, it has become increasingly necessary to recognize the role of aggregate supply—resource availability and utilization—as well as aggregate demand in analyzing the course of business activity. An increase in the demand for a single product will lead to increased output if the supply curve possesses some elasticity. Similarly, an increase in aggregate demand—in total demand for goods

and services—will lead to a general increase in production and to expanded economic activity if there are unused resources capable of expanding production in response to increased demand. If the resources are not available, increased demand results only in higher prices for the same output. Maximum output is that produced with the full employment of resources. At that level, if society wishes to consume and invest more than it is producing, prices rise in order to ration effectively the relatively scarce goods, or public policy is adjusted to check the growth in total demand.

Recent economic developments have been characterized by both of these features. Prices, particularly for industrial commodities, have been mounting since mid-1955, while public policy, largely through general credit controls and a cash surplus in the U. S. Treasury, has been operating to limit effective purchasing power.

Measures of Resource Employment

It is recognized, of course, that the precise point at which the economy reaches full employment cannot be identified. The concept of maximum production is necessarily a flexible one. Wartime experience, for example, has made it abundantly clear that under pressure many industries may operate for some time at levels beyond rated full capacity. In a way, maximum production is similar con-

ceptually to the shortest runway needed to get a jet airliner airborne. Both have definite meanings but no fixed values. The runway length varies with the altitude of the airfield, temperature of the air, and other conditions. Tests for full employment or full capacity also must reflect the conditions of a particular environment. The facility with which adjustments are made to shifts in demand, model changes, plant maintenance, etc., may establish different minimum levels of unemployment in different environments. Similarly, the general environment is important in determining the size of the labor force through its influence on the proportion of the population participating in the labor force. Nor should it be overlooked that pockets of unemployed resources, both labor and machinery, may exist under conditions of substantially full employment. The combination of resources existing in a given period may be more favorably geared to satisfying one mix of aggregate demand than another.

Although difficult to measure, the degree to which the Nation's resources have been employed requires careful attention. Probably the most revealing tests relate to labor force and employment developments, to the relationship between capacity and output, and to price movements. It is necessary, of course, to judge the recent economic situation in terms of its own time. On occasion, however, it is quite meaningful to compare recent events with those in other years, particularly 1953, since that year marked the previous high points of economic activity.

The Nation's total labor force in October 1956 was about 3.3 million larger than it had been in the same month of 1953. Since the armed forces had been reduced substantially, the increase in the civilian labor force was even greater—about 4 million over the 3-year period. The growth of the labor force beginning in the summer of 1955 and continuing through the summer of 1956 sharply exceeded

what might be expected in prosperous peacetime years. Over-the-year gains averaged about 2 million persons, in contrast to an increase of only about 800,000 expected on the basis of long-term growth. More recently, gains have been smaller and more in line with the long-term rate.

Mainly responsible for this striking rate of growth was the increased labor force participation of working wives and youths of high-school age. During the first half of 1956, for example, women 35 years of age and over and teen-age boys and girls accounted for two thirds of the total increase over the comparable period of 1955, while men 20 years old and over provided the remainder. The tendency for middle-aged women to take jobs outside the home has been growing for several years. About 42 per cent of all women 45 to 64 years old were in the labor force in October, compared with about 36 per cent in the autumn of 1953 and 29 per cent a decade ago. Students came into the labor force in unusually large numbers during the early summer of 1956. By June, 7.3 million, or 53 per cent of all teen-agers were in the labor force. This rate was far higher than during the two previous years and was even above the June rates for the Korean War period.

Over-all labor force participation rates averaged higher in 1956 than in 1953. These rates represent labor force as a per cent of the total noninstitutional population 14 years old and over. The June and July rates of 61 per cent were the highest for any month since the end of World War II. For men, recent participation rates have averaged about the same as in 1953, while for women the rates have run higher.

This extraordinary expansion in the labor force was made, of course, in response to the surging demands for goods and services. By and large, new workers quickly took their places among the employed. During the 14 months prior to June 1956, employment (sea-

sonally adjusted) had mounted steadily and the total increased by about 3.5 million workers. From June through October, on the other hand, changes in employment totals were more or less in line with seasonal expectations.

Unemployment averaged about 2.6 million persons, or about 3.8 per cent of the civilian labor force, during the first 10 months of 1956. By October, however, unemployment was reduced to 1.9 million, or 2.8 per cent of the labor force, establishing one of the lowest rates since late in 1953. Although less than that of the comparable 1955 period, the 1956 rate was higher than the 2.5 per cent average of the 1953 period.

Perhaps the most important factors underlying the relatively high levels of unemployment during early 1956 were the automobile situation and the exceptionally large influx of student jobseekers into the summer labor market. In manufacturing, the unemployment rate in July 1955 stood at 3 per cent of the factory labor force—its lowest level since the fall of 1953. Contrary to the usual seasonal pattern, the rate continued upward after January 1956, reaching 5 per cent during the summer months, mainly as a result of reduced auto production. By October the rate fell to 2.8 per cent as employment expanded in durable goods industries.

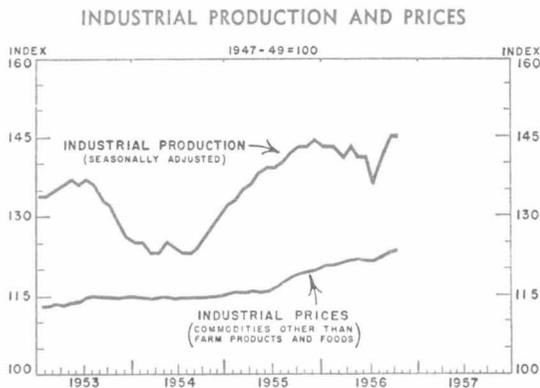
Thus, with over-all labor force participation rates pushing up toward World War II levels, with the gains in the labor force since mid-summer near the long-term average, with employment (seasonally adjusted) relatively stable since June, and with unemployment rates low, it would seem that the Nation's human resources were at substantially full employment levels.

Turning to the relationship between output and capacity, it may be noted that industrial output recovered rapidly during the last half of 1954 from the low summer levels. By April and May of 1955, total industrial production matched the previous peaks attained in the

summer of 1953. This was followed by a further expansion of about 4 per cent during the 1955 summer months. Subsequently, production leveled out. From September 1955 through August 1956, excluding July 1956 when the steel strike occurred, the index of industrial output averaged 142 (1947-49=100). The range was from 141 to 144, with the latter value attained in December 1955 only. During the autumn of 1956, the advance in production was renewed.

The maintenance of this peak volume of production over a period of months, in the face of a high and expanding volume of total demand, suggests the near capacity operation of the Nation's industrial facilities. It should be noted, however, that important shifts in the composition of demand have occurred, most notably in auto production and parts, and that not all industries are operating at capacity levels.

Several observations reinforce the view that recent output levels represent the generally full utilization of the Nation's industrial plant. Compared with its peak level in mid-1953, factory output advanced to a new plateau extending from late 1955 through most of 1956. The gain amounted to about 4 per cent, which closely matches the rate of real net capital formation in manufacturing since



SOURCE: Board of Governors of the Federal Reserve System and U. S. Bureau of Labor Statistics.

1953, according to recent U. S. Department of Commerce estimates. Assuming that the manufacturing plant was running at capacity in 1953, it must have been operating at close to capacity in late 1955 and 1956.

In major industries for which physical output and capacity measurements are available, rates of capacity utilization have been high. Pig iron and steel production has been at capacity since late 1955, except for the strike period. In other basic industries—such as aluminum, cement, and paper—the ratio of output to capacity also has been high. For these and several other basic industries, recent near-capacity operations match those in 1953 and other prosperous postwar years.

Full capacity utilization of the Nation's manufacturing facilities is suggested also by recent trends in labor productivity. As manufacturing output expanded from mid-1954 to early 1955 and the rate of utilization rose, output per man-hour increased. Subsequently, the increase in productivity leveled off as many plants pushed total output beyond optimum rates. Since about mid-1956, there have been indications that output per man-hour for factory production workers has resumed its upward course. In some measure, this is probably due to the large volume of new plant and equipment coming into operation.

Finally, the test of price developments also adds to the weight of evidence which identifies the economy as being fully employed. A condition of strongly rising demands in the face of fully employed resources produces upward pressure on prices. This is true because the volume of effective demand relative to the deficiency of goods will induce higher prices in order to ration relatively scarce goods. As industrial output regained 1953 peak levels by the early summer of 1955, selective prices rose, primarily for some basic materials. Subsequently, with total demand continuing to grow and with output approach-

ing new and higher ceilings, the general level of industrial prices began to rise in mid-1955. Since then, the advance has encompassed a broad group of industrial commodities—steel products, building materials, fuels, paper, and a variety of finished products, such as machinery and automotive parts. By October 1956, the increase, which accumulated every month except during June and July, resulted in a level of industrial prices 7 per cent higher than in mid-1955.

The Strength of Demand

During the past year and a half—the period of capacity operations and rising prices—demands of all major sectors have been expanding. Record volumes of consumer spending based on rising incomes, and expanding business investment programs, which were a fundamental factor in the income rise, provided the major push in total demand. To their gains must be added, however, substantial increments of demand from the government sector and foreign trade.

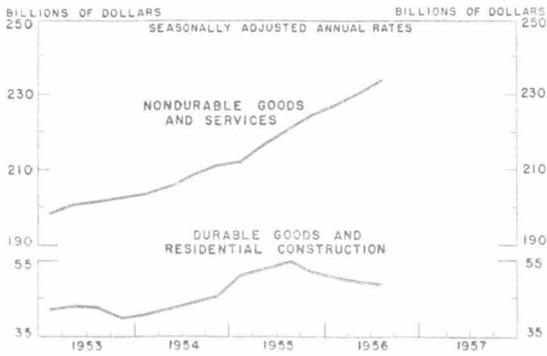
Late in 1955, two soft spots developed in the total demand picture. Automobile sales and residential building, which supplied the original impetus in the 1954 recovery, weakened and fell off. Thus, a decline in consumer durable goods spending and in residential building outlays was initiated in the final quarter of 1955 and continued through the third quarter of 1956. More than offsetting the decline in this component, which may be identified as consumer investment, was the sharp growth in consumer spending for non-durable goods and services.

Business demands for goods and services have been increasing since late 1954, when inventories became an expansive influence. The expansion of fixed investment demands really got under way in the spring quarter of 1955 and has been exceptionally strong since then. The average rate of increase in the six quarters ending with September 1956 was

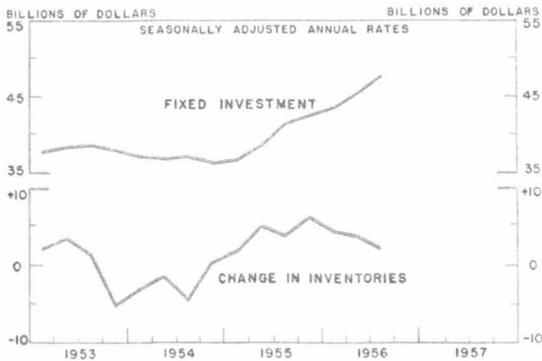
Stretching Resources

MAJOR DEMANDS

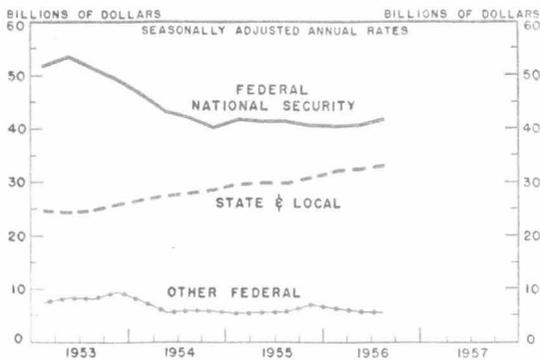
CONSUMER



BUSINESS



GOVERNMENT



SOURCE: U. S. Department of Commerce.

\$1.8 billion, at annual rates after seasonal adjustment. In 1956, the total of new business fixed investment through September was up one sixth from the same period in 1955. Inventory investment slowed down, however, from the peak rate of the final quarter in 1955. In that quarter, growth in inventories absorbed a share of the national output amounting to about \$6 billion at annual rates. By the third quarter of 1956, such investment dropped to around a \$2 billion rate.

Government purchases of goods and services have been expanding over the past year and a half, due largely to rather steady growth in state and local government outlays. Expansion in this area of demand has been much more restrained than that in the consumer nondurable goods and services sectors and in business fixed investment.

Factors in the Outlook

During the past two years the economy has operated at levels above the long-run growth trend of past full employment years. This was accomplished by taking up the unemployment slack existing during 1954 and by pushing the rates of resource utilization higher. Entering 1957, the Nation's resource position is tight and aggregate supply thus will continue to occupy a prominent position in setting the course of economic developments. The labor force cannot continue to expand at its rate of the recent past. The long-run average annual increase of 800,000 to 900,000—perhaps even less—seems more reasonable. Assuming a moderate decline in average hours of work and a gain in output per man-hour, both in line with long-term trends, the potential gain in total real output may be in the neighborhood of 3 per cent.

If aggregate consumption and investment demands develop pressure to drive the economy beyond this pace, the excess demand can be satisfied only to the extent that the economy can continue to operate above long-term

growth trends—a condition which will become increasingly difficult to maintain as time passes. Such levels of operation would naturally entail continued pressure on prices.

What, then, is likely to be the nature of demand in the months coming up? The answer is necessarily characterized by varying degrees of uncertainty. Defining the probable future course of economic variables is a big order in itself. This year, however, the situation is complicated by the fact that the assumption of “other things being equal” cannot be made in any matter-of-fact manner. The international picture is such that possible increases in military and foreign aid spending—as well as the reactions in other sectors of the economy—are not easily assessed.

Federal government spending is already scheduled to be somewhat higher in the current fiscal year than in fiscal 1955-56, according to the midyear budget review, and the budget surplus is not estimated to be as large as in the last fiscal period. It now seems likely that Federal spending in calendar 1957 will climb more steeply than was expected, due to recent foreign developments. In addition, nondefense programs are growing and increased expenditures will be required to carry them out. Federal aid to highways, although treated as a special trust fund outside the administrative budget, also is scheduled to increase.

State and local expenditures appear destined to grow further. Many observers expect the \$2 - \$3 billion rise per year to continue, or even accelerate. A substantial backlog of schools and other facilities remains to be built and voters in the November election approved nearly all of the proposed bond issues.

Thus, although the major decisions relative to the Federal budget are yet to be made, it is reasonable to expect government demand to expand substantially more than in recent years. This could become the major force of demand expansion in 1957.

Business plant and equipment outlays are expected to continue to advance in the first quarter of 1957, according to the latest Department of Commerce-Securities and Exchange Commission survey. Reporting in late October and November, businessmen anticipated expansion programs which would result in total expenditures of about \$38 billion (seasonally adjusted annual rates) in the opening quarter of 1957, compared with an expected rate of \$37.3 billion in the final quarter of 1956. This planned first quarter rate would exceed the average for 1956 by 8 per cent.

Although continuing upward, business fixed outlays may be leveling out. The projected increase in spending from the fourth quarter of 1956 to the first quarter of 1957 is approximately half of the average quarterly increase in 1956. The joint construction forecast of the U. S. Departments of Labor and Commerce also points to a tapering in business fixed outlays. Expenditures for industrial, commercial, and public utility construction are expected to increase only about one half as much as the 1955-56 rate of increase.

Although business inventories have been building up rather rapidly, they do not seem to be out of line with sales. In manufacturing, where most of the inventory build-up has occurred, the backlog of unfilled orders has continued to grow. Much of the increase has been in those sectors undergoing the greatest expansion, such as machinery and metal industries.

Turning to consumers, it would seem that they are in a position to further expand their total demands. With prospective government and business expenditures rising, individual incomes, primarily wage and salary payments, probably will receive further boosts. The question then becomes: Are consumers likely to initiate a decline in income and employment through reducing their own spending? The summer increase in total consumer spend-

Stretching Resources to Fit Demand

ing was about equal to that in disposable personal income, indicating no significant change in the rate of personal savings from the second quarter. With that rate approaching the higher rates of recent years, there is reason to believe that consumers may spend a large proportion of future additions to income. Producers of consumer durable goods are naturally seeking to encourage such spending by increasing the attractiveness of their products. The auto industry is shooting for at least a 10 per cent increase in unit sales during 1957 in an environment conditioned by many substantially changed models, a good year-end model cleanup, a strong used-car market, and substantial repayments on auto debt during the past year. The appliance industry also is forecasting a gain of about 10 per cent in dollar sales. At this point it must

be recognized that consumer reaction to the new models and higher prices is not clear. With respect to nondurable goods and services, continued population growth and rising standards of living argue strongly for outlays to rise with income. Housing starts are expected to continue at about the 1 million unit annual rate which has prevailed recently, according to joint estimates of the Departments of Commerce and Labor, as well as many others.

If these demands should develop in early 1957 in approximately the magnitudes mentioned above, it would seem possible that elasticity of aggregate supply would continue to be a major question. It cannot be forgotten, however, that an economy operating at such high rates is vulnerable to downward adjustments.

BANKING IN THE TENTH DISTRICT

District and States	Loans				Deposits			
	Reserve City Member Banks		Country Member Banks		Reserve City Member Banks		Country Member Banks	
	November 1956 Percentage Change From							
	Oct. 1956	Nov. 1955	Oct. 1956	Nov. 1955	Oct. 1956	Nov. 1955	Oct. 1956	Nov. 1955
Tenth F. R. Dist.	+1	+4	-1	+5	+1	+3	+1	+3
Colorado	+3	+10	-3	-1	+3	+3	+1	+1
Kansas	0	+1	+1	+9	0	-1	+1	+4
Missouri*	+2	+3	+1	+7	+2	+2	+1	+5
Nebraska	-3	-1	-1	-1	0	0	+2	0
New Mexico*	**	**	+1	+7	**	**	-1	+4
Oklahoma*	+1	+6	-2	+8	0	+10	-1	+4
Wyoming	**	**	-1	+9	**	**	+3	+4

*Tenth District portion only.

**No reserve cities in this state.

PRICE INDEXES, UNITED STATES

Index	Nov. 1956	Oct. 1956	Nov. 1955
Consumer Price Index (1947-49=100)	117.8	117.7	115.0
Wholesale Price Index (1947-49=100)	115.9	115.6r	111.2
Prices Rec'd by Farmers (1910-14=100)	234	234	224r
Prices Paid by Farmers (1910-14=100)	289	287	279

r Revised.

TENTH DISTRICT BUSINESS INDICATORS

District and Principal Metropolitan Areas	Value of Check Payments		Value of Department Store Sales		*Value of Residential Building Permits	
	Percentage change—1956 from 1955					
	Nov.	Year to date	Nov.	Year to date	Nov.	Year to date
Tenth F. R. Dist.	+4	+6	+6	+3	-11	-26
Denver	+9	+9	+1	+5	-5	-31
Wichita	+2	0	+10	+3	+67	-33
Kansas City	+3	+4	+3†	-2†	-37‡	-12‡
Omaha	-1	+1	+2	-3	+7	+46
Okla. City	+1	+7	+7	+5	+6	-34
Tulsa	+2	+9	+10	+5	-39	-22

*City only.

†Kansas City, Mo., only.

‡Kansas City, Mo., and Kans.