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Agricultural Outlook

for 1959

FARMERS IN THE Tenth Federal Reserve District have just completed one of their most successful years. Weather conditions in many parts of the District during 1958 were nearly ideal. Farm prices averaged about 5 per cent higher than for 1957 and, combined with increased marketings, resulted in a substantial increase in farm income for the District as a whole. These improved conditions have generated considerable optimism about the agricultural outlook for 1959.

Does this optimism need to be tempered in developing farm production and marketing plans for this year? A review of the proceedings at the 36th Annual Agricultural Outlook Conference conducted by the U. S. Department of Agriculture in November 1958 will be useful in interpreting available subject matter. Except for the last section, the material in this article is largely a summary of views expressed by Department of Agriculture specialists who reported at the Conference. In the concluding section, an effort is made to apply the outlook information more specifically to District states.

Assumptions

Since it is impossible to foresee all the events that may influence the outcome of a forecast, it is necessary to base an outlook upon certain assumptions. This point needs emphasis now because some aspects of the

outlook for 1958 proved to be incorrect, largely because conditions did not turn out as assumed. These unforeseen conditions caused farm prices and income to be more favorable than anticipated.

In the outlook analysis prepared for both last year and this year, it was assumed that: (1) weather conditions would be normal; (2) Government programs would remain unchanged; and (3) there would be no major change in international conditions. The first two assumptions did not prove to be valid for the past year. Abnormally wet weather throughout most of the Nation caused delayed harvesting of fall crops in 1957, and many marketings that normally would have been made in 1957 were not made until 1958. Thus, farm income was overestimated in 1957 and underestimated in 1958. Abundant supplies of moisture through the year also were ideal for feed grain, hay, and pasture production—which resulted in somewhat higher meat animal prices than were anticipated. In addition to the abnormally wet weather in the fall of 1957, temperatures were severe through the South during the winter and large quantities of fruits and vegetables were destroyed by freezing weather. Destruction of these crops caused fruit and vegetable prices in 1958 to be much higher than they would have been otherwise, and more than offset the influence of a lower volume of marketings. Government payments to agriculture also proved to be somewhat larger than anticipated in 1958.

In contrast to climatic conditions a year earlier, weather for harvesting this past fall was ideal throughout most of the Nation. Marketings, therefore, probably were somewhat in advance of what normally would be expected and farm income in 1959 is not likely

to benefit from marketings delayed from 1958. Furthermore, unless abnormal conditions should occur again—such as the severe freezes of a year ago and unusually favorable moisture conditions—farm prices are not likely to be stimulated by these factors in 1959. If Government programs are not altered substantially, payments to agriculture are likely to be lower in 1959 because there will be no payments for the acreage reserve phase of the Soil Bank program. Although these assumptions may again prove to be invalid, at the time of the Outlook Conference they appeared to provide a reasonably realistic basis for analytical purposes.

The General Agricultural Situation

Demand Consumer incomes were maintained well during the 1957-58 recession. Domestic demand for farm products remained at high levels during the past year and there are indications that it will strengthen further in 1959. The flow of expenditures from the broad range of categories in the government and private investment sectors is expected to continue to increase, although some investment categories may show only slight increases. Under these conditions, output and employment are expected to continue to improve and wages are likely to rise further. As a result, consumer incomes and expenditures probably will be larger, and increased spending for nondurable goods and services—such as foods and food services—may be roughly proportionate to the rise in consumer income. Expenditures for durables may increase substantially more.

Aggregate export demand for farm products is expected to decline slightly during 1959. During the past year, exports of both cotton and wheat declined. This year, exports of cotton may be reduced further, but exports of grain are likely to increase because of increased shipments under promotional programs such as Public Law 480.

Supplies

Farm output in 1958 set a new record high and surplus stocks increased during the year. Total supplies of farm products will continue to be huge in 1959. Although attempting to forecast crop output for 1959 is hazardous, it is reasonable to assume that with average weather, current technology, and the return of 17 million acres of cropland from the acreage reserve program, crop production this year could be as large as the 1958 record. Furthermore, huge feed supplies and generally favorable feed-price ratios are causing increasing output of livestock products.

Farm Prices, Costs, Income Prices received by farmers in 1959 probably will average a little lower than in 1958. Although demand for farm products likely will be stronger in 1959, the huge supplies are expected to more than offset the influence of improved demand. The most important price change in view for this year is the prospect for a substantially lower yearly average level of hog prices.

The U. S. Department of Agriculture expects prices paid for goods and services used in farm production to continue upward. Wage rates and prices paid for non-farm goods and services, except fertilizer, are continuing to rise and likely will average higher in 1959 than in 1958. Costs per unit of production in 1958 were slightly lower than in 1957 because of the larger output. Since a similar increase in production this year as compared with 1958 is unlikely, costs per unit of production probably will be higher.

Currently, it appears that net farm income in 1959 will be lower than in 1958, but still substantially higher than in 1957. Somewhat lower prices because of difficult surplus problems, increased costs, and a probable drop in Soil Bank payments are the reasons for anticipating the decline in net farm income. The 20 per cent increase in net farm income from 1957 to 1958 was caused partly by a combina-

tion of unusual factors that are not likely to operate in the same direction in 1959.

Commodity Highlights

Substantial variation in the outlook is anticipated among the different commodities. Thus, a brief summary for the major commodities produced in the Tenth District will be included.

Wheat

The wheat supply for the marketing year beginning July 1, 1958, is about 2,350 million bushels. This supply consists of a carryover at the beginning of the marketing year of 880 million bushels, estimated production of 1,460 million bushels, and imports of 10 million bushels.

Domestic demand for the 1958-59 marketing year is expected to be about 610 million bushels and approximately 430 million bushels will be exported. In order to move United States wheat into export, prices must be at the world market level. Because domestic wheat prices exceed world prices, this can be accomplished only by use of export payments. Virtually all U.S. wheat exports require these payments. In addition, exports have been materially increased by special Government programs, including sales for foreign currencies, barter, and various donation programs. Of the total wheat exports in the 1957-58 marketing year, 62 per cent moved under these special programs.

After giving consideration to all factors pertaining to prospective supplies and disappearance, it appears that carryover on July 1, 1959, will total about 1,310 million bushels. A carryover of this size would establish a new record high and would be 430 million bushels above a year earlier.

Looking forward to the 1959-60 marketing year, it appears that about 55 million acres of wheat will be harvested in 1959. If the 1956-58 average yield should be obtained, production in 1959 would be about 1,265 million bushels. A crop of this size would again ex-

ceed estimated domestic requirements and exports by about 200 million bushels, which would result in a carryover of around 1,500 million bushels on July 1, 1960.

The "advance" minimum average support price for the 1959 crop was announced on May 1, 1958, at \$1.81 per bushel. This compares with the \$1.82 per bushel national support level for the 1958 crop. The minimum support for the 1959 crop will not be reduced, but on July 1, 1959, will be increased if necessary to maintain the support rate at 75 per cent of parity.

Cotton

The American cotton farmer produced about 11.6 million bales of cotton in 1958 on the smallest acreage on record. Thus, a relatively large crop was produced despite the fact that 5 million acres of cotton land were placed in the Soil Bank last year. Soil Bank participation and yield trends in recent years have caused the West and Southwest to become relatively more important in cotton production.

The August 1, 1958, carryover of cotton was 8.7 million bales, which was a decrease of 2.6 million bales as compared with a year earlier. Thus, the supply of domestic cotton available for the August 1, 1958, to July 31, 1959, marketing year is 20.3 million bales. With total disappearance for the current marketing year estimated at around 12 $\frac{1}{4}$ million bales, a further small decline in carryover is likely during this marketing year.

This year, production may increase substantially if weather conditions are average or better, since the acreage reserve provision will not be in effect and a total cotton allotment of 16.3 million acres has been established—compared with 12.6 million acres planted in 1958. Furthermore, under provisions of the Agricultural Act of 1958, each farm operator may elect to either comply with his regular farm allotment—in which case a price support of not less than 80 per cent of parity would be available—or plant up to a 40 per cent

larger acreage to cotton and be eligible for price support at a level which is 15 per cent of parity less than the level if the first choice had been made. Some producers will elect to expand their acreage up to 40 per cent, so cotton production could be large and carryover stocks likely will increase again in the marketing year commencing August 1, 1959.

Fats, Oils, Oilseeds, and Peanuts Supplies of edible fats, oils, and oilseeds are at record levels and prices are likely to average near support levels, although less than a year ago. With food fats for the October 1, 1958-September 30, 1959, marketing year being available in quantities well in excess of domestic requirements, a large buildup in soybean stocks is expected despite favorable export movement of food fats and oils, including soybeans. Exports of food fats and oils under provisions of Public Law 480 are likely to exceed last year's 690 million pounds.

The supply of soybeans for the 1958-59 year is estimated at about 106 million bushels more than last year's 490 million bushels, which was the previous record. Farm prices during the 1958 harvesting season averaged a little under the support rate of \$2.09 per bushel.

With supplies of cottonseed oil, lard, linseed oil, tung oil, and peanuts all expected to be larger this year, prices for the fats and oils generally are expected to average below year-earlier levels. Price support programs and large exports should prevent a substantially lower level of prices.

Feed The 1958 growing season was one of the best in years and supplies of feed grains, high-protein feeds, and hay for the October 1, 1958, to September 30, 1959, marketing year are at record levels. Because of these huge supplies, feed prices are likely to average somewhat lower this year than last year.

Supplies of feed concentrates have been increasing for the past 6 years, with sharp in-

creases during the past 2 years because of mounting stocks and increasing production. Although utilization of feed concentrates has been trending upward also, it has failed to keep pace with the growing supplies. During this marketing year, an increase of about 4 or 5 per cent in feed consumed by livestock is in prospect. Exports probably will continue at near last year's record rate of 10 million tons.

Hay production in 1958 was slightly above the record crop of the preceding year, and total supplies for this marketing year are the largest on record because of the relatively large carryover on October 1, 1958. Supplies of the forages are well distributed by areas, being above average in all regions of the country. The 1958 growing season also was favorable for pastures and ranges, which furnished much more than the average quantity of feed for livestock during the past year.

In the longer run, it is of interest to note that in the past 20 years feed grain yields have increased nearly a third, while feed grain acreage has made no net increase. Even though livestock production during this period increased at a rate that exceeded population growth, feed grain production expanded more rapidly than was needed to keep pace with requirements. A projection of these trends indicates that population and per capita consumption of livestock feed products can continue to increase moderately during the next two decades without requiring an increase in feed grain acreage because of the steadily increasing yields per acre.

Meat Animals The superabundance and low cost of feed is encouraging an expansion in production of meat animals. The expansion which began in 1958 is almost certain to continue through 1959. Per capita supplies of meat this year quite likely will be larger than for 1958 with much, if not all, of the increase being accounted for by increased supplies of pork.

If weather conditions are average this year, it is likely that cattle numbers will continue to increase moderately. The cyclical decline in numbers that began in 1956 came to an abrupt halt in 1958 as nearly ideal weather conditions prevailed in the western range areas and huge feed crops added an incentive to retain cattle for restocking. With cattle and calf slaughter in 1958 down about 4½ million head from 1957, it is estimated that cattle numbers during the year increased from 2 to 3 million head.

It appears that from one half to two thirds of the total increase in inventories during 1958 was accounted for by increased numbers of calves. Calf slaughter during the year was much lower as many heifer calves were held for breeding and a sizable number, along with nearly all the steer calves, either have gone or will go into feedlots. The sizable supply of fed cattle that is expected to be available this year will help to hold beef output higher than usual for the withholding stage of the cattle cycle. Per capita consumption of beef dropped from the record high of 85.4 pounds in 1956 to 80.5 pounds in 1958, and probably will be about 80 pounds in 1959. These large per capita supplies are in sharp contrast with the low of 56 pounds attained in 1951 during the last cyclical increase in numbers. With the strong emphasis on cattle feeding, beef output may remain fairly high throughout this period of herd expansion. This is particularly true because the decline in the recent cycle was much shorter and more moderate than for most previous cycles.

If the expansion in beef output proceeds at a more rapid pace than demand increases, future price declines are inevitable. If, however, the rate of expansion can be contained within reasonable limits, future price declines need not be severe. For 1959, prices of cattle are not expected to be greatly different from 1958, inasmuch as cattle slaughter and beef output are not expected to change signifi-

cantly. Unless weather conditions become unfavorable, prices of cows and feeder cattle probably will remain high relative to fed cattle prices.

Hog production is increasing rather sharply and hog prices are expected to average substantially lower than for 1958. Pork production usually increases when feed grain supplies are as large and feeding ratios as favorable as they have been the past year. Current information indicates that pork production in 1959 may increase about 15 per cent.

Sheep production is increasing and probably will continue upward if weather conditions in the range country remain favorable. The price assurance provided by extension of the Wool Act also is a factor encouraging expansion. Prices of sheep and lambs are influenced by the general level of meat animal prices and, thus, some decrease in prices can be expected as output of other meats is increased in the future. For 1959, however, no more than a small drop from the 1958 level of prices seems probable.

Dairy Total civilian milk usage in 1958 was slightly more than 3 billion pounds larger than in 1957 and topped 120 billion pounds for the first time. The increased consumption can be accounted for largely by population growth, a rise in cheese consumption, expanded school milk programs, and distribution of butter and cheese from Commodity Credit Corporation supplies. For 1959, it appears probable that milk consumption will increase further because of population growth.

Milk production in 1958 declined slightly following 5 years of substantial increase. This reduction was caused by a sharper than normal reduction in cow numbers. Milk cow numbers have been declining for almost 15 years, but generally increased output per cow has more than offset the effects of reduced numbers. Milk cow numbers are expected to decline further in 1959, but total milk produc-

tion probably will be somewhat larger because of a continued larger output per cow.

Statistically, the dairy industry improved its position in 1958. This year, the supply of milk products promises to be more nearly in balance with consumption in commercial outlets than in any of the past 6 years. This outlook suggests that supplies will be ample to meet consumer demands at prices approximating 1958 levels.

Poultry

Production of eggs, broilers, and turkeys is likely to be higher in 1959 than for 1958. The increased number of potential layers currently on farms practically assures increased output of eggs at least through midyear. Prospects for larger broiler and turkey production are less certain. However, the large number of breeding birds on hand and in prospect, and the long-time trend toward expansion in poultry meat production suggest that 1959 broiler and turkey production will be larger than in 1958.

Prices for eggs and broilers are likely to be significantly lower during the first half of this year than they were during the first half of 1958. By the end of the year, however, egg prices may exceed comparable 1958 levels. Broiler prices during the latter half of the year are expected to be about the same as for the comparable 1958 period. For 1959 as a whole, both egg and broiler prices are likely to average lower than for 1958. Turkey prices for 1959 are not expected to vary substantially from 1958 levels.

Tenth District Outlook

For most farmers in the Tenth District, 1958 was an exceptional year. Although figures for the final months of the year are not yet available, there is good reason to believe that cash receipts from farm marketings in District states were at record-high levels in 1958. During the first 10 months of the year, cash receipts from farm marketings in District states averaged almost a third higher

than during the same period in 1957. With farm output at record levels, harvesting conditions for fall crops generally ideal, and higher than year-earlier meat animal and grain sorghum prices during the fall months, cash receipts from farm marketings likely remained substantially above 1957 levels during the last two months of 1958. If so, cash receipts either attained or exceeded the previous record highs achieved in 1951 and 1952.

If beef, sheep, and lamb prices remain approximately as favorable in 1959 as in 1958, an expected increase in output of all livestock products in District states should cause income from livestock and livestock products to be above 1958 levels, despite the expected lower level of hog prices. Although it is too early to estimate crop output, it would take another unusual year in 1959 to maintain crop receipts at 1958 levels. This is particularly true, since wheat and grain sorghum production were large in 1958. Furthermore, grain sorghum production in 1957 also was large and because of the delayed harvesting in the fall of that year, a larger than usual percentage of the 1957 crop was marketed in 1958. On top of that, conditions for harvesting the 1958 crop were good and a large part of the marketings of this large crop also were made in 1958.

Assuming normal weather conditions, cash receipts from crop marketings in 1959 are likely to be down more than livestock receipts are up. Thus, currently, it appears most realistic to assume some decline in gross income in District states in 1959. Farm costs quite likely will average higher this year than in 1958. Therefore, net income for farming as a whole may be down somewhat more in District states than for the Nation. However, unless conditions are quite unfavorable in the area this year, net farm income should be substantially better than in 1957. If weather conditions are exceptionally good, net income could approximate the 1958 level.

Economic Recovery

in Retrospect and Prospect

THE NATION'S ECONOMY has been set firmly toward recovery for several months. As the flow of activity quickened after the spring of 1958, most indicators of business performance, after consideration of seasonal factors, moved forward—a few into new ground. The value of goods and services almost certainly attained a record level during the final quarter of the year. Personal income, which reached new highs by summer, continued a more or less steady advance during the last half of the year. At the retail level, consumer purchases moved with the expansion of income, as sales of nondurable goods continued to advance and some types of hard goods, such as appliances, rose above the reduced levels of earlier months in 1958. Auto sales, on the other hand, remained low well into the fourth quarter, probably due to the meagerness of dealers' stocks arising from the industrial disputes which hampered the resumption of production following model changeover. New construction, responding to the lift generated by rising activity in residential building and public construction, also moved to a record level in the autumn.

Yet, the upturn—while vigorous and widespread—is still relatively young. As the new year approached, there were no signs that the revival was developing into an unbridled boom. Industrial production, after rising sharply in the late spring and early summer, increased at a more moderate pace in later months. By November, it had recovered

about four fifths of the recession loss, placing the index about 3 per cent below the rate in the summer of 1957. The complete return to that high volume of activity will be accomplished with much less strain on the productive resources of the economy than was evident at that time. Capacity to produce has continued to grow. Industries producing major industrial materials, for example, reached an estimated operating rate of 80 per cent in October 1958—a year earlier the equivalent output would have required an operating rate of 84 per cent of capacity. With the new year, the recorded estimate of capacity in these industries advanced again, although by a smaller amount than in the previous year. This experience, in varying magnitudes, has been repeated throughout the Nation's industrial structure. Labor markets, too, while recording higher levels of employment since the spring of 1958, continue to display great looseness. Employment has not yet attained the peak levels of 1957 and the labor force has continued to grow. Prices have mirrored the orderliness—and youth—of the recovery by exhibiting over-all stability.

As has been generally noted, the primary impact of the 1957-58 recession was in business spending for inventory and plant and equipment, consumer purchases of autos and other durables, and net foreign investment. Countering these activity-depressing developments was the strength of such important demands as consumer purchases of nondurable

goods and services, government outlays, and residential building. During the period preceding the early spring of 1958, the depressing influences were dominant. Beginning with May, however, the tide was reversed as the factors producing expansion directly and indirectly — by providing a sustaining environment which encouraged a diminution of the drag from weak elements — turned the overall level of activity upward.

Personal Income, Consumption, and Homebuilding

Consumer purchases were well maintained during the recession and — at least in a statistical sense — were largely responsible for establishing the basis for recovery. During the contraction period, consumer expenditures declined by only \$2 billion, or less than 1 per cent, from their peak in the third quarter of 1957 to the first quarter of 1958. By the third quarter, consumer dollar outlays had mounted above the previous high. Price increases inflated the 1958 total, however, and in real terms purchases of goods and services in the third quarter continued to lag somewhat behind those of a year earlier.

Weakness in consumer buying was centered primarily in a large reduction in purchases of hard goods. Outlays for such goods dropped about 12 per cent, but by the third quarter of 1958 a small increase was apparent. Contributing to the improvement was greater strength in sales of household appliances, probably associated in part with the rising pace of residential construction. On the other hand, nondurable goods purchases dipped only slightly and then moved upward again. Real demand remained rather steady as price movements, particularly for food, were responsible for most of the change in expenditures for soft goods. As in other postwar recessions, consumer purchases of services — in contrast to goods — proved insensitive to a small decline in personal income by continu-

ing an uninterrupted rise. Thus, over-all consumer buying presented a strong support to the economy, while major adjustments proceeded elsewhere.

There was a significant exception to this solid performance, however, in the disappointing auto market. The puzzle concerning auto sales in the immediate future continues for the industry, as it does for business analysts. The industry estimates that sales in 1959 will exceed 5 million domestic units, compared with about 4 million in 1958. Many factors in the auto market support the prospect for an increased volume in 1959. Consumer income and confidence have improved, even though the recovery in employment has been somewhat slow. Since scrappage of autos has averaged about 4 million a year recently, the replacement market alone could be as large as 1958 unit sales. Meanwhile, the debt created to finance the record volume of sales in 1955 has been largely liquidated and some of the buyers thus may be encouraged again to purchase new automobiles.

On the other hand, the use of other types of credit continued to advance and the relationship between instalment debt retirement and disposable income remains high. Furthermore, credit terms are unlikely to be liberalized materially, as they were in 1955, and consequently the industry cannot expect a boost through a further extension of the market by this means. In addition, consumer reaction to continued advances in new model prices and the remarkable gain in popularity of foreign autos pose some formidable questions—foremost of which is whether some basic structural change in consumer demand is developing. Major U. S. producers are reacting to the problem with plans for smaller light-weight models, which could instill another measure of hesitation into the market. For the year ahead, consumer reaction to the 1959 models will be revealed more clearly

now that dealers' stocks are being rebuilt. Accordingly, the contribution of the industry to continued growth in economic activity also will become more evident.

The well-maintained rate of aggregate consumer buying during the past year and more is directly related to the sustained flow of personal income. After-tax personal income, with seasonal adjustment, fell just slightly more than 1 per cent from its peak in the third quarter of 1957 and by the third quarter of 1958 had more than recovered its loss.

Several influences helped to sustain personal income during the period of declining activity and employment. Wage rates and salaries in industry continued to advance at a rather steady pace and Federal Government salaries were adjusted upward at midyear. Farm income also improved over the year. For the first 10 months of 1958, an increase of more than 10 per cent was recorded over the same period a year earlier. From business, too, came a significant contribution, as cash dividend payments to individuals were maintained despite the sharp reduction in corporate sales and profits.

Probably most important, however, in bolstering personal income during the months of sliding and low level activity were Government transfer payments. They expanded with the larger flow of unemployment bene-

fits and higher payments under social security programs. Between August 1957—the prerecession peak in income—and the bottom of the recession in April 1958, rising transfer payments offset half of the nearly \$9 billion decline, at seasonally adjusted annual rates, in wage and salary payments. Thus, transfer payments went far in directly sustaining the flow of total personal income during the period of falling activity. Since the spring of 1958, while transfer payments have mounted somewhat, the primary source of expanding income has again been current earnings, which reflect the rising levels of production and employment.

Of at least equal significance to the new highs in personal income recorded during the third quarter of 1958 was the substantial gain in disposable income in real terms. The advance was the largest since 1955. During the 1956-57 boom, it may be noted, the ability of consumers to purchase larger quantities of goods and services was gradually, but severely, circumscribed by rising tax payments and prices. At its high in the third quarter of 1957, seasonally adjusted total personal income was about 9 per cent above the level in the beginning quarter of 1956, whereas the advance in real disposable income was only about 3 per cent. Thus, the margin between the rapidly rising total of current dollar personal income and disposable income measured in constant dollars broadened sharply during the period. Following the contraction in over-all activity, real disposable personal income averaged about the same as the level in early 1956. Subsequently, the third quarter increase brought the level near its peak of mid-1957. Thus, a constriction upon rapidly advancing consumer purchases of goods and services—in real rather than money terms—is being eliminated. As real income moves to new highs, it may be reasonably expected to support a more rapidly advancing level of real personal consumption.

REAL DISPOSABLE PERSONAL INCOME RISES



SOURCE: U. S. Department of Commerce.

In residential construction, activity expanded sharply during the recession. Private non-farm housing starts, seasonally adjusted, spurred upward in the spring of 1958. From annual rates of less than 1 million units, the number of starts rose to 1,260,000 in October, the highest level in 3 years.

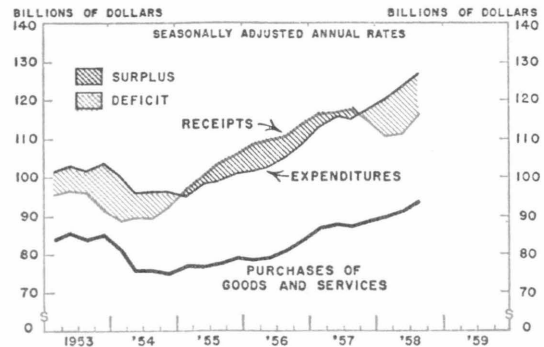
While a favorable income situation was undoubtedly conducive to a rise in housing activity, other influences were probably more immediately responsible for the gains which occurred. The general easing in the mortgage market, beginning late in 1957, and greater assistance to homebuyers through Federal Government programs made available a large supply of money for Government-underwritten mortgages at comparatively low downpayments and interest rates. As a consequence, the volume of Government-backed housing construction rose sharply. At the same time, the volume of conventionally financed homes remained steady.

In 1959, it is likely the seasonally adjusted annual rate of private housing starts will continue at a relatively high level during the early months of the year, according to the forecast issued jointly by the U. S. Departments of Commerce and Labor. Thereafter, the rate is expected to taper off as builders use up the relatively large volume of 1958 commitments for moderate-cost houses with Government-backed mortgages. For the year as a whole, according to the two Government departments, the outlook is for approximately 1,200,000 units, including private and public starts, compared with about 1,170,000 in 1958, with the increase occurring in private starts.

Government Programs

Fiscal actions of the Federal Government were of key importance in shortening the duration and modifying the intensity of the recession. As has been noted, transfer payments contributed substantially to the maintenance of consumer incomes, while changes

THE GOVERNMENT ROLE EXPANDED Federal, State, and Local



NOTE: National income and product account basis.
SOURCE: U. S. Department of Commerce.

in the housing programs aided new home construction. In addition, the rising volume of Government contracts and purchases insured an expanding market for goods and services. The cut in national security programs, which occurred in mid-1957, was reversed and contract awards for military procurement began to rise before the end of the year. By the first quarter of 1958, the reduction had been more than made up and awards continued to rise in the succeeding quarter. Subsequently — about mid-1958 — defense purchases began to rise as production and delivery schedules reflected the increased volume of orders.

The increase in defense spending was not specifically related to the recession. As a part of its anti-recession program, however, the Federal Government did speed up the placement of supply orders and public works construction, which along with other increases contributed to the advance in purchases for civilian functions.

Yet, the major increase in government spending during the recession came at the state and local levels. A rising volume of construction expenditures for highways, which reflected the accelerated activity on interstate Federal-aid roads, and for schools and other community facilities contributed ma-

terially to the gain. Moreover, the number of employees working for state and local government units continued to advance.

The expansion of total government—Federal, state, and local—expenditures during the recession was accompanied by a declining volume of revenues. With a reduced level of employment, income, and profits, tax receipts from individuals receded and corporate profit tax accruals declined sharply. As a consequence of these changes, the government position, in terms of the national income and product accounts, shifted from a surplus in the third quarter of 1957 to a deficit, which became increasingly large through the spring quarter of 1958. With the expansion of activity and tax receipts since then, the magnitude of the deficit has been reduced somewhat. In a sense, the shift to a deficit position is a measure of the net contribution by government to the flow of national income, although it does not take into account the differential effects of changes in the various types of expenditures and revenues.

For the immediate future, the evidence points to a continued rise in government spending programs. Various Federal Government activities are expanding and the defense program seems destined to continue mounting into the next fiscal year. At the same time, the trend in state and local outlays also is upward. For example, increases in highway construction, as well as public nonresidential building, are expected to be even larger in 1959 than in 1958, according to estimates of the Departments of Commerce and Labor.

Business Demand

While consumer and government spending were sources of strength during the past year and more, major adjustments occurred in business investment. Combined business and foreign investment plunged downward by nearly two fifths between the third quarter of 1957 and the first quarter of 1958. Subse-

quently, the total leveled off and improved slightly. The largest share of the reduction was due to inventory changes, although the decline in business fixed outlays also was substantial. In addition, net foreign investment declined sharply in late 1957 and early 1958 and then held steady. The latter development was related largely to the leveling-off of economic activity in foreign industrial countries.

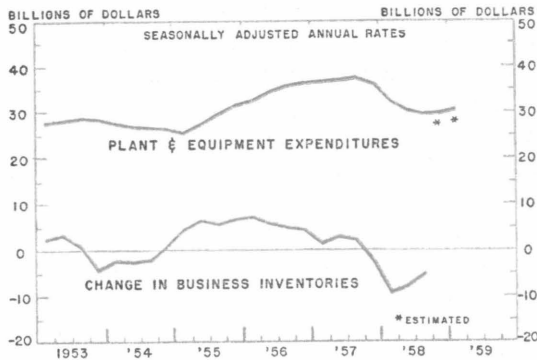
Inventories became burdensome in the autumn of 1957 and, when sales failed to improve, business began to draw down its holdings. Aircraft and machinery manufacturers led in the reduction of inventories in the final quarter of 1957. After the turn of the year, the rate of liquidation increased and extended to trade stocks as well as those of producers. As stocks were reduced and as new orders and sales began to expand again, the need for further liquidation decreased. In the third quarter, the pace of liquidation in many durable goods lines dropped off substantially at both producer and trade levels, except among auto dealers.

These shifts in business inventory policy have had very pronounced effects on the volume of industrial employment and output. The sharp drop in industrial activity in early 1958 was associated with the record rate of stock liquidation. More recently, the reduced rate of liquidation has been an important favorable influence on industrial output.

Prospects for a continuation of this favorable relationship seem good. Manufacturers' new orders have been rising since March and sales turned upward in May. While defense orders initially provided the basis for the order upturn, new civilian business subsequently began to rise despite the continued low volume of production in the auto industry. As a result of this strength in demand, plus the substantial reduction in stocks, the ratio of inventories to sales has declined and thereby paved the way for the rebuilding of stocks.

The course of business fixed investment,

BUSINESS INVESTMENT STRENGTHENS



SOURCE: U. S. Department of Commerce and Securities and Exchange Commission.

following the 1957 high, has been generally in line with that of the 1948-49 recession. As a matter of fact, the similarity between the two reductions in intensity and duration is striking. During the latest decline, expenditures for new plant and equipment fell by more than one fifth over the year ended in the third quarter of 1958. The pattern of reduction also has conformed, for the most part, to the historical experience. Manufacturing, mining, and transportation shared the major adjustments, with the largest portion of the decline in manufacturing outlays. The cut-back among hard goods producers, however, was more severe in the latest cycle than in other postwar downturns.

Plant and equipment outlays apparently began to slant upward in the final quarter of 1958. The most recent survey of the Securities and Exchange Commission and U. S. Department of Commerce reported that business plans called for a slight increase from the third quarter rate, followed by a continuation of the upturn in the first quarter of 1959. Thus, while the upturn in business fixed investment is lagging behind the overall upward trend of activity, a similar situation existed in 1949 and 1954. The delay in recovery of fixed capital investment is related to the durability of the capital goods. Re-

duced production does not consume capital — except as obsolete or inefficient equipment is retired — as it does commodity inventories. Thus, at the beginning of recovery, the need for increased investment is minimal. As demand continues to expand from other factors, the surplus of existing capacity is reduced and the way is cleared for a resumption of higher capital outlays. The financing of increased investment outlays at that time is aided by the growing volume of internal business funds resulting from rising profits.

Employment and Price Developments

Nonfarm employment, after taking account of seasonal variations, has been rising since the spring, although not as rapidly as other major measures of activity. Industrial production, for example, advanced nearly 12 per cent between April and November, while employment rose only about 1.5 per cent. In November, furthermore, the number employed was still about 1.7 million below the high of 1957. The deficit was centered primarily in manufacturing employment, particularly among durable goods producers. While unsettled labor disputes were responsible for a part of the poor recovery in the autumn, the demand for labor nevertheless has not responded in accordance with the advance in activity generally.

The failure of employment to rise rapidly, together with the persistently high level of unemployment, has raised many questions concerning the health of the economy. Yet, it must be remembered that the relationship between output and employment is not fixed. Several variables, including the average length of the workweek, productivity, and the pattern of production and employment, may modify the amount of employment consistent with a given volume of real production of goods and services.

With an upturn in demand, business firms customarily return their existing work force

to a full workweek before rehiring. During the current recovery, the average length of the workweek in manufacturing increased by about 1½ hours between April and November of 1958 — about 4 per cent — while the corresponding gain in output was nearly one eighth. Furthermore, as is characteristic of the early stages of recovery, output per man-hour has advanced sharply. Indeed, the gain in manufacturing productivity during the current recovery has apparently exceeded that in the recoveries of 1949-50 and 1954-55.

Another problem involved in the return of employment to previous peaks is related to the longer-term shifts in the demand for labor within the economy. Reflecting changes in final demand, a rising proportion of nonfarm employment has occurred in government, services, and some other nonmanufacturing activities. Within manufacturing, the shift is away from semi-skilled into skilled and professional employment. Illustrative of the latter shift is the decline — nearly 8 per cent — in the number of factory production workers between the peaks of activity in 1953 and 1957 which accompanied an output expansion of about 6 per cent. Thus, while manufacturing employment may rise somewhat more rapidly now that the workweek of those employed has been extended considerably, the attainment of previous highs in total nonfarm employment — and growth beyond those levels — would seem highly dependent upon increases originating in noncommodity-producing sectors of the economy.

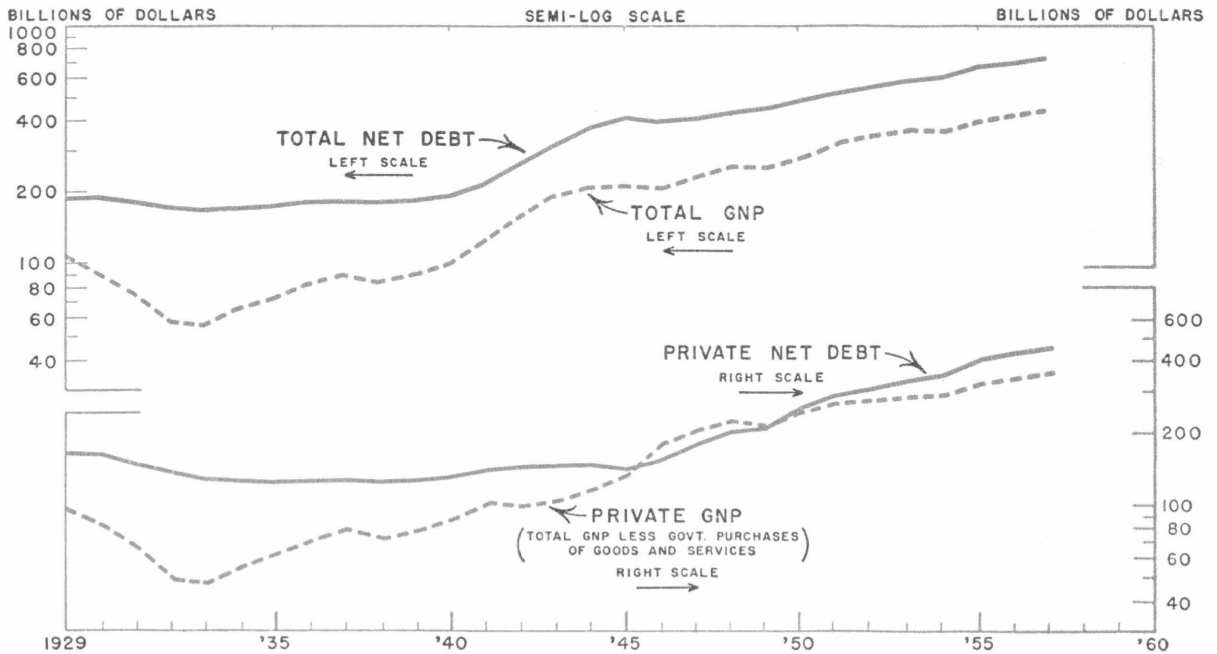
The persistence of high unemployment is related not only to these developments in the demand for labor but also to the continued growth of the labor force. Apparently the recession had little effect on the growth of the labor force during early 1958, although more recently over-the-year gains have been somewhat smaller than expected on the basis of postwar trends.

Prices during recent months have leveled off after displaying great firmness during the recent recession. Consumer prices in the autumn were about 2 per cent higher than a year earlier, with approximately half of the advance due to a nearly 3 per cent increase in food prices. More recently, after the rise in food prices was interrupted, the total index has shown little change. Prices for non-durable goods other than food were relatively unchanged over the period. For durable goods, prices in October 1958 were about 2.5 per cent higher than a year earlier, with most of the increase occurring in the prices of new and used autos. The advance in service prices was nearly 3 per cent, which was about in line with the increase of recent years.

Wholesale prices for the past several months have been quite stable. Industrial prices have increased slightly, however, following a year or more of marked stability. Declining farm prices have offset these recent rises in the industrial sector, however. Among industrial prices, the larger increases have been reported for industrial materials rather than for finished goods. This development is probably related to an increased firmness in the demands for materials as the rate of inventory liquidation has slowed materially.

Thus, although the talk of inflation has been strong for some time, the over-all level of prices has remained steady. As the recovery proceeds, the inflationary potential will also grow. There are several moderating influences, however, which need to be taken into account. Productivity is rising rapidly, industrial capacity is much larger than it was some time ago, unemployed manpower continues at a high level, and the supplies of non-ferrous metals and other materials seem plentiful relative to potential consumption. During coming months of recovery, these factors should serve to temper those pressures tending to advance the general price level.

GROWTH OF DEBT AND GROSS NATIONAL PRODUCT



NOTE: On a semi-logarithmic scale, equal slopes indicate equal rates of change.

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 1958 Percentage Change From							
	Oct. 1958	Nov. 1957	Oct. 1958	Nov. 1957	Oct. 1958	Nov. 1957	Oct. 1958	Nov. 1957
Tenth F.R. Dist.	+2	+8	+2	+19	+2	+12	+2	+13
Colorado	+6	+17	-1	+18	+4	+15	+3	+13
Kansas	+2	+10	+1	+24	+2	+12	+1	+13
Missouri*	+3	+5	+2	+8	+1	+10	+1	+13
Nebraska	+1	+11	+1	+20	+4	+12	+2	+14
New Mexico*	**	**	+6	+17	**	**	+3	+13
Oklahoma*	-1	+2	+4	+19	-1	+13	+2	+13
Wyoming	**	**	†	+15	**	**	+2	+11

*Tenth District portion only.

**No reserve cities in this state.

†Less than 0.5 per cent.

PRICE INDEXES, UNITED STATES

Index	Nov. 1958	Oct. 1958	Nov. 1957
Consumer Price Index (1947-49=100)	123.9	123.7	121.6
Wholesale Price Index (1947-49=100)	119.2	119.0	118.1
Prices Rec'd by Farmers (1910-14=100)	251	252	242
Prices Paid by Farmers (1910-14=100)	308	307	298

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—1958 from 1957					
	Nov.	Year to date	Nov.	Year to date	Nov.	Year to date
Tenth F.R. Dist.	+5	+4	+3	+2	+103	+40
Denver	+8	+7	+1	+4	-13	-2
Wichita	-1	+5	-2	-4	-10	-5
Kansas City	+7	+5	+2	0	+467†	+147†
Omaha	+6	+7	+6	+3	+90	+28
Okla. City	+2	-3	+5	0	+117	+28
Tulsa	-2	-5	+14	+12	+71	+67

*City only.

†Kansas City, Mo., and Kans.