

MONTHLY REVIEW

Miss Gammeter



1959 forecasts look for continued rise in consumer spending.

FEDERAL RESERVE BANK OF RICHMOND

FEBRUARY 1959



The ending of the old year and the approach of the new are marked by the wide and free distribution of two items: calendars and forecasts. The latter are seldom as uniform and as reliable as the former and never as decorative as some calendars. But if forecasts are not the tested output of an exact science, they nevertheless furnish the business and financial community with valuable estimates of impending changes in economic trends.

This summary of the 1959 batch of estimates represents the gist of about 70 forecasts. No views or opinions of this bank are implied or expressed.

OF ONE ACCORD One of the more interesting statements run across in the forecasts is the contention that "1959 is one of the easiest years to predict." Whether this is so is a moot point, but it is a fact that there is a unique unanimity of opinion on the major aspects of the 1959 picture. There is not a pessimist in the lot. Not a single forecast estimates a level of economic activity for 1959 below that of 1958 or a fourth quarter rate lower than that of the final quarter of 1958. All of them estimate that the prevailing economic winds will blow steadily during this year in the direction of expansion. Just as none of the forecasts looks for a calm, none predicts economic winds of gale force.

There are, of course, differences of opinion about the details of the over-all picture for 1959. Naturally, some forecasters estimate a greater rate of growth than do others. Similarly, some see the year's gain distributed fairly evenly through the four quarters; others estimate a slowing down in the rate of increase during the second half. While the range of estimates for Gross National Pro-

duct—\$459 to \$480 billion—is fairly wide, estimates are clustered around the \$470 billion mark. The divergencies of views are neither as pronounced nor as important as they usually are. A year ago, for example, forecasts were marked by strongly dissenting opinions.

1959: THE MODERATE YEAR Most of the forecasts anticipate moderate economic growth this year. The \$470 billion estimate for the nation's output of goods and services represents an increase of less than 4% from the rate prevailing in the final quarter of 1958. This is a small increase, but measured from the average for all 1958, \$470 billion would be a gain of almost 8%. Such a gain would be the median in the series of annual increases achieved since 1947.

Some of the forecasts indicate that the growth of the economy to the \$470 billion mark for the year would be fairly evenly distributed among the four quarters. This would result in a fourth quarter output of goods and services at an annual rate of around \$480 billion. Such a growth, about \$7 billion a quarter, would be considerably slower than the \$12 billion average of the last half of 1958.

A fair number of forecasters, however, indicate that they anticipate a slowing down of business activity during the second half of the year from the first half rate. This is in keeping with what many forecasters term "second-halfitis," a bias that annually results in forecasts of lower rates of activity or declining trends in the last six months of the year.

A KEY AREA The rationale of the estimates for personal consumption expenditures highlights the



Uncle Sam's outlays for defense are expected to rise to record heights, despite the President's proposed budget cuts.

importance generally assigned to such spending this year. Consumer outlays rather than business investment outlays are expected to be the dominant spending force in the 1959 economy. "Whether we have a complete or partial return to normal capacity output in 1959 depends on the rate at which consumers expand their purchases in the next few months."

The most frequently cited figure for consumer spending is \$306 billion. This would represent a rise of \$15 billion, more than double the 1958 gain. It would account for almost half the estimated increase in total expenditures for the 1959 output of final goods and services.

In emphasizing the key position of consumer spending, a number of forecasters spell out its pervasive influence. "...the rate of consumer spending is probably the strategic factor which will determine what income itself will be in 1959." Also, "...increased outlays for durables are going to be a dynamic force reacting on spending decisions by business." Some restrictions and exceptions were also noted, "...retail trade—that is, retail trade primarily in the nondurables—is not a very important causal factor...such retail sales will remain

quite closely linked to disposable income...this particular sector of the consumer goods business is one that will follow rather than lead, and I cannot see that it is likely to be of particular significance in its effect on the general recovery."

"BETTER THAN LAST YEAR" In discussing the "return of the consumer to the durable goods market," there is practically unanimous agreement that sales of new automobiles will increase this year. The generally conservative nature of the forecasts leads to the position that "it is still too early to predict a full return to the 6 million normal market in the year 1959 as a whole." However, most estimates of new car sales represent fairly substantial gains from the total of about 4.6 million foreign and domestic cars sold last year. The figure probably most often given for 1959 is 5.5 million units. The degree of confidence in an improvement in this field this year is suggested by the fact that only two forecasts indicate that sales of new cars are not regarded as an expansionary factor in the 1959 economy.

STRONG FOR AWHILE, BUT . . . Estimated declines in economic activity this year may be few

Forecasts of increased state and local outlays rest partly on such inadequacies of facilities as caused this traffic jam.



and far between in the forecasts, but there are, of course, some question marks and areas of doubt. One of the latter is residential building. Most forecasts agree with the joint estimate of the U. S. Department of Commerce and the U. S. Department of Labor that total new residential expenditures will increase 11% to \$20.6 billion and new housing starts will increase 3%. But underlying assumptions are not confidently advanced and doubts arise from the expectation that private housing starts will decline from the relatively high rates prevailing in the latter months of 1958. How soon this drop will occur and how far it will go are the big question marks.

In fact, the rise in expenditures for private housing is expected to stem mainly from continuation of work on the unusually large number of units started during the final four months of 1958. The continuation of starts at relatively high rates for a while this year will also contribute to the estimated increase. After recognizing these points, many forecasts then express fears that enough allowance may not have been made for the less favorable mortgage terms anticipated for 1959.

NO BOOM HERE Estimates of business investment in new plant and equipment are influenced

by opposing forces. On the one hand it is recognized that pressure for increased outlays this year will be exerted by modernization requirements for cutting costs or keeping them in line with competitive levels. A permissive factor frequently cited is the substantial rise in profits during the past six months and the further rise in prospect. On the other hand, estimates of outlays for new plant and equipment are tempered by recognition of the existence of excessive productive capacity in a number of industries.

The outcome in general is forecasts of modest increases in 1959. Compared to an estimated total of \$30.5 billion in 1958, investment in new plant and equipment this year is generally expected to rise to about \$33 billion. A number of forecasts discuss the possibility that this figure may be too low. Experience has shown, they point out, that as economic recovery continues business begins to revise upward its capital investment plans.

AREAS OF STIMULUS The forecasts are virtually unanimous in holding that inventory liquidation has run its course. They are unanimous in estimating inventory accumulation this year instead of the severe liquidation of stocks that was a drag on the economy during most of 1958. It is stated

Residential building is expected to flourish in the first half of 1959 before slowing down because of less favorable mortgage terms.





Instead of living off its stocks as it did last year, most forecasts expect business this year to build up its inventories.

that accumulation can be reasonably anticipated on the bases of the relatively low levels of stocks in a number of areas and on the higher aggregate volume of business activity estimated for 1959. This is another respect in which 1959 is viewed as a moderate year. Estimates of the amount of inventory buildup range from \$2 billion to \$6 billion, with a very heavy concentration in the \$2½ to \$3 billion area.

Like Old Man River, government spending is expected to keep on rolling along—and expanding in the process. The forecasts look for increases all along the line: Federal, state, and local. The estimate most frequently made for total government outlays is \$99 billion—more than 7% above the 1958 total. Federal purchases of currently produced goods and services—as contrasted with the more inclusive total shown in the Budget—are estimated at about \$56.5 billion. State and local spending is seen rising to \$42.5 billion.



Small cars will not crowd our streets in 1959 as they do here on the Champs Elysees, but further rapid growth is forecast.

The more recent forecasts are not fazed by the budget-trimming program of the Administration. They assume that the upward trend of Federal spending cannot be halted this year and, in fact, many hold that it may rise at a faster clip than it did last year.

PRICES The estimates set forth in the preceding paragraphs assume increases of less than 2% in consumer and wholesale prices. Almost without exception, the forecasts anticipate but small or moderate price rises.

SUSPECT UNANIMITY The prevalent agreement on the course of economic developments in 1959 has drawn many cynical comments. One commentator recently pointed out that the last time there was such unanimity of opinion was in 1945 when heavy postwar unemployment was forecast. Still another wary observer expresses the view that the majority opinion is probably wrong more often than it is right. He concludes that in view of the widespread agreement that there will be a moderate rise in business activity this year, the most correct position will likely turn out to be one that was away out on one end or the other of the range of estimates.

A compilation of 51 forecasts with names of forecasters and details of estimates may be obtained from the Federal Reserve Bank of Richmond.

FINISHING CO

Did you ever meander through the fabric center of a large department store and wonder at the vast number of bolts of cotton cloth, each one different from the other? Many of these differences come about as the result of the various finishing processes used. Finishing procedures are not standardized, and the combination of steps through which the cloth passes, together with the construction of the fabric, fit it to the use for which it is intended.

PREPARING THE FABRIC Cotton cloth from the loom—"gray goods"—literally as well as in trade jargon—is in a rough state, harsh to the touch. In most instances, the first step toward the desired appearance and feel is singeing—passing the fabric rapidly over or under a series of gas jets or white-hot plates to burn off loose or straggly fibers. Immediately the cloth is doused in a quench box to prevent ignition. This box may also hold a chemical for dissolving the starch with which the warp yarn was coated to prevent its chafing in the loom. Then the fabric passes into steep bins and remains there until the starch has dissolved.

Next the cloth is pressure boiled in cylindrical tanks known as "kiers" (rhymes with "cheers"). This completes the dissolving of the starch and small bits of foreign matter that were woven into the fabric, and it emulsifies any grease that may be in the cloth. The cotton becomes considerably more absorbent. In a modern finishing plant this boil-out is usually combined with or is replaced by bleaching in a continuous operation that runs the cloth through large stainless steel boxes at a rate of 200 yards a minute.

The familiar term "mercerizing" designates cotton cloth which has been treated at this stage with caustic soda for added strength and luster, as well as a greater affinity for dyes.



singeing



dyeing

TON FABRICS

At intervals during these operations it is necessary to dry the cloth—perhaps as many as four times. As a result of handling, wetting, and drying, the fabric becomes irregular in width and the weave crooked. Consequently, it is sometimes necessary to “tenter” the cloth—stretch it to its finished width—before other steps can be completed.

The cloth may also be passed over a series of rotating blades to “shear” or level off any protruding fibers on the face of the fabric and give it an even surface for dyeing or printing.

COLORING THE CLOTH The process of dyeing woven fabric is known as “piece goods dyeing.” It is the most popular way of coloring cotton, mostly because of the inherent flexibility of the method. The vat dyes are the most important dyes for cotton, as they have an excellent fastness to washing and many have a very good fastness to light as well.

A colored design on woven fabric is obtained by printing. There are several processes but roller printing is most important commercially. The dye—mixed with a thickener—is applied to the cloth from copper rollers on which the designer’s pattern has been engraved. After printing, the fabric is dried, the dye set, and the paste washed out.

FINISHING THE CLOTH A final starching operation gives the basic finish to the fabric. Cotton cloths have varying degrees of pliability, stretchiness, smoothness, sheen, or body brought about largely by the starch that is used—thick, thin, or medium.

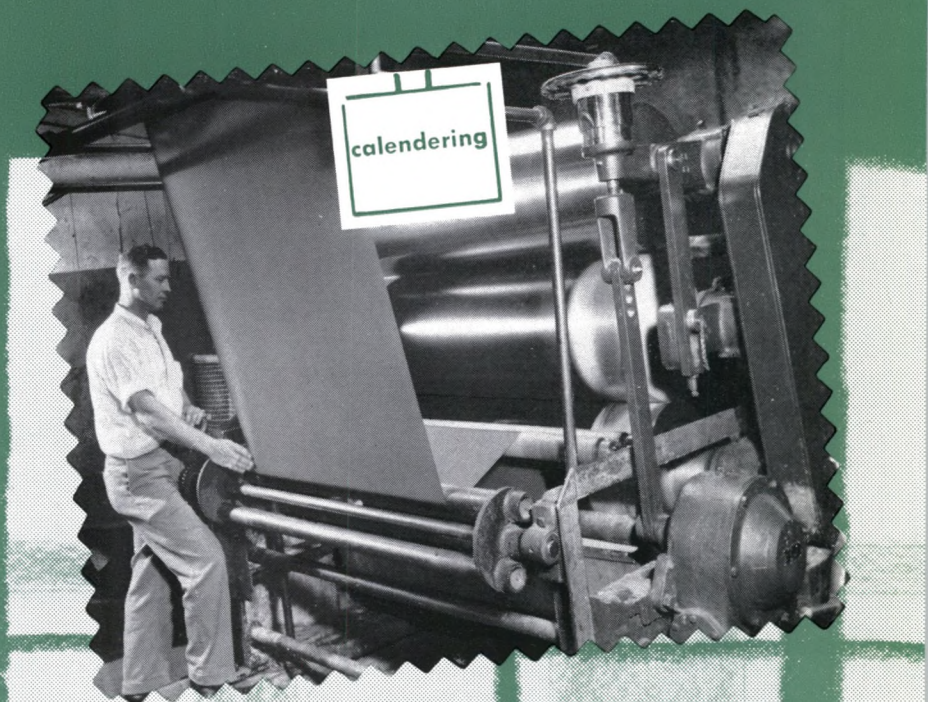
Calendering—the factory method of ironing—gives the material the clean, lovely-to-look-at appearance usually seen by the consumer as well as giving an embossed or moired effect should it be desired. In addition, there are many finishes that give special properties to cotton—water-repellency or mildew resistance—but that is another chapter of

the cotton story

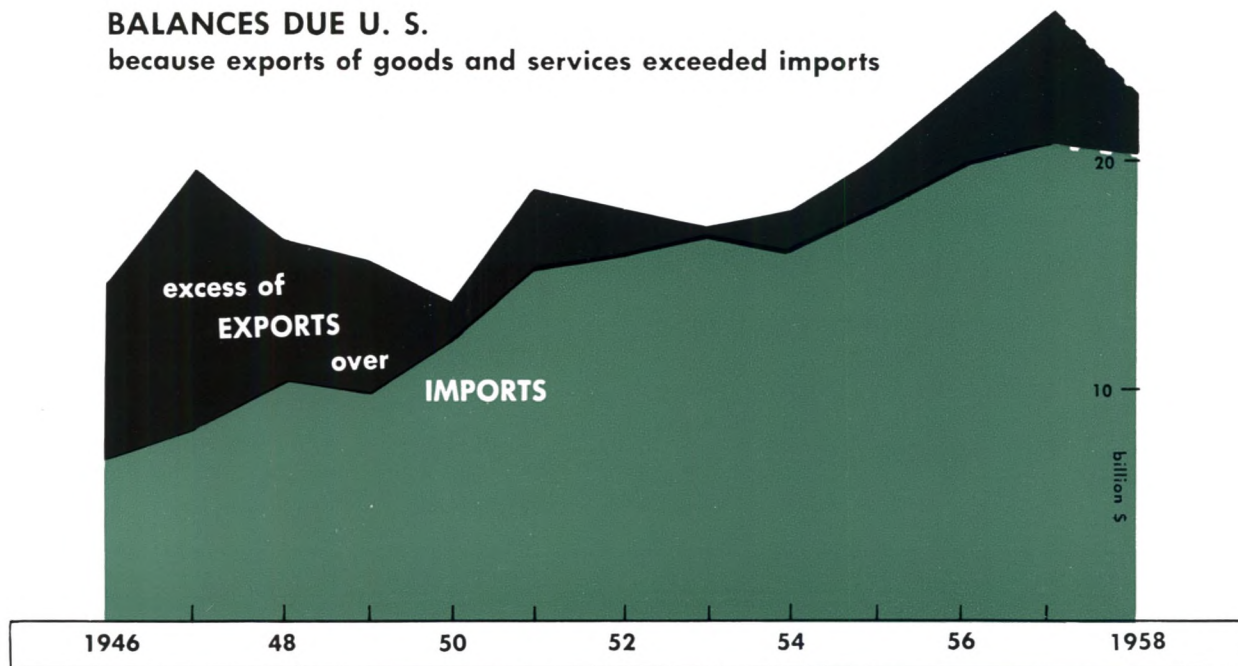
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Federal Reserve Bank of St. Louis



BALANCES DUE U. S.
because exports of goods and services exceeded imports



Gold Is For Trade

Everybody likes gold, including foreigners. As a matter of fact, they liked it enough in 1958 to relieve the U. S. of \$2.3 billion worth. However, just liking it is not enough. Gold has to be paid for, and when obtained from the Treasury the payment must be in U. S. dollars.

Question: How do foreigners get dollars? Perhaps the most important way is by selling us things. But the impression has been that during and since World War II foreigners have needed to buy more things from us than they have been able to sell to us. This emphasized the lack of dollar buying power and, coupled with the vital necessity for speedily restoring the war-shattered economies of western Europe, was the basis for the multi-billion-dollar Marshall Plan aid. It remained as the basis for further grants to support subsequent foreign aid and development programs.

Nevertheless, in 1958 foreigners were able to acquire sufficient dollars not only to support the purchase of \$2.3 billion in gold from the U. S. Treasury but also to add almost \$1 billion to their bank deposits in this country.

GOLD, THE INTERNATIONAL CURRENCY Whatever the reason—beauty, utility, scarcity—gold is and has been for many centuries the most widely accepted measure of value. If “money speaks,” then gold is truly the international language. Most of the countries of the world today base their

national currencies either directly on gold or on another country's currency which is in turn based directly on gold.

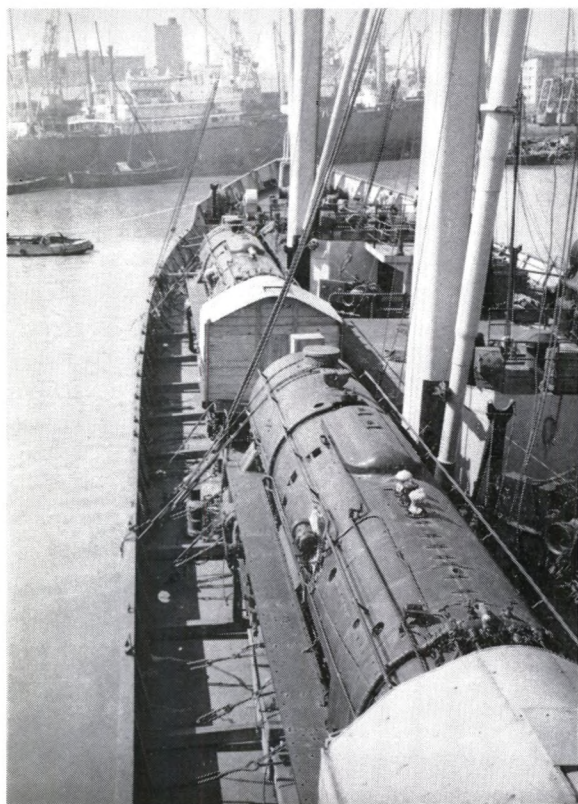
The necessity for such an international medium of exchange stems from the complexities of specialized production and the greatly varying import needs of the different nations. For example, the supply of francs held by non-French residents or governments may at times be in excess of that needed to carry out their various expenditure and investment programs in France or its possessions. When such a situation exists, one alternative is to use francs to purchase currencies of other countries. But if the franc is not tied to some internationally acceptable medium of exchange, such as gold, its rate of exchange into other currencies may fluctuate widely and unpredictably. If convertible into gold, the rates of exchange between currencies will be much more stable. Gold serves to tie the currencies of the world together, not only in terms of a common denominator, but also in stabilizing the rates at which each can be exchanged for the others.

In actual practice in the post-World-War-II period many important countries of the world have suffered from inadequate gold reserve balances coupled with a strong tendency for imports to greatly exceed exports. The latter situation would have resulted in foreigners obtaining large

amounts of these countries' currencies, and the former would have caused a disruption of the countries' monetary structures when foreigners attempted to convert these currencies into gold. For these reasons, many countries of the world have maintained very rigid restrictions on the exchange of their currencies into gold as well as on the amount of imports that their nationals were permitted to purchase.

Following such an extended period of exchange and import restrictions, the announcement of free "external" convertibility of their currencies by ten western European countries toward the end of December was highly dramatic. Its significance was intensified by a narrower gap between U. S. exports and imports of goods and services in 1958 accompanied by foreign purchases of gold from the U. S. Treasury to the tune of \$2.3 billion. Clearly the governments of the European countries involved feel that their local economies are now strong enough, together with the restrictions still remaining on the international dealings of their respective citizens, to obtain a closer balance than formerly between their exports and imports so that this partial convertibility will not result in any substantial payments deficits.

Uncle Sam's assistance programs since 1945 have made substantial contributions to the growing strength of the free world.



U. S. EXPORTS STILL EXCEED IMPORTS In the immediate post-World-War-II years, the grave international problem was how Europe could acquire the tools, the machinery, and the raw materials to rebuild her shattered industry and at the same time feed, clothe, and house her people. It was immediately clear that the United States was the only nation maintaining a going industrial plant capable of meeting these vital needs. But it was also painfully apparent that the countries in greatest need were least able to make payment other than in their local currencies. "Dollar shortage" made the headlines. From this potential crisis ensued the most far-reaching programs of international cooperation and assistance ever witnessed by man in peacetime.

In the first two years after the war, America exported goods and services valued at \$19.4 billion more than her imports. Of this, \$11.4 billion was paid for by credits extended to the purchasers by the Government and by private sources and by private direct investments abroad; \$4.3 billion was covered by Government grants; and the remainder was met by belt-tightening actions on the part of the European countries including the net liquidation of \$700 million of American assets and the payment to this country of \$2.8 billion in gold.

In the succeeding years the Marshall Plan, beginning in 1948, and other foreign aid programs later provided billions of dollars on an outright grant basis to enable American producers to supply the machinery, the machine tools and the many commodities needed to get Europe back on its eco-

Expenditures by Americans abroad, amounting to almost \$1.5 billion in 1958, have been increasing steadily in recent years.



conomic feet. From 1946 through the third quarter of 1958, the surplus of American exports of goods and services, including military supplies and services, totaled a gigantic \$77.2 billion. Government grants to foreign countries covered \$53.4 billion of the export excess. Net governmental and private credits to and investments in foreign countries provided \$22.2 billion.

With the exception of the military assistance grants, which in each year since 1952 have accounted for over half of Uncle Sam's gift dollars, the purpose of the aid programs was to strengthen the economies of the countries involved. Is there any reason, then, to be surprised at the strength currently being shown by these countries?

A reflection of this growing strength of the European economies is found in American export and import figures. U. S. exports of goods and services in 1957 were nearly double the total in 1946, the first full postwar year. American imports, however, at \$20.7 billion in 1957 were approximately three times the 1946 total. Since our imports from abroad provide the principal source of dollars needed by foreigners to pay us for our exports to them, this reflects an increasing capability of other countries to balance their international accounts.

Despite this strong growth in imports of goods and services, America's exports, including the military supplies and services provided other countries under grants in aid, exceeded imports by an estimated \$4.9 billion in 1958. This gap between exports and imports resulted in the face of a drop of approximately \$3.8 billion in American exporters' sales abroad and a much smaller drop, only \$0.2 billion, in imports.

On the surface, this seems to indicate the continuance of a still very wide gap between our exports and our imports. The "gap" narrows considerably, however, when exports financed by grants are removed from the picture. Such exports amounted to a little over \$4 billion for the year, leaving only about \$0.8 billion to be settled through the more usual international trade and financial transactions. With this much narrower "gap," net American credits and investments abroad of over \$3 billion during the year were more than sufficient to provide foreigners with the dollars needed to purchase the \$2.3 billion of gold mentioned at the beginning of the article.

GREATER EUROPEAN STRENGTH AHEAD The rebuilding of the European economies, while a logical and highly desirable product of the co-

operation and aid programs of the past decade, confronts American exporters with a vitally changed international environment in which to do business. Not only is Europe becoming better able to supply her own economic needs, she is also becoming a much more active competitor for markets in other countries of the world.

In addition to recovery from the devastations of World War II, increasing cooperation among the leading European nations will also contribute to heightened competition for the American exporter. Last month, the first internal tariff reductions within the Common Market led the way toward the eventual elimination of tariffs between the six nations involved: France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg. The Common Market Agreement envisages ultimately complete freedom in the movement of goods between these countries. All six countries will also adopt a uniform set of tariffs applicable to the outside world. In addition, negotiations are under way for a much wider European "free trade area." Such cooperative arrangements, while highly favorable to the economic development of the countries involved, put outside producers at a distinct disadvantage in the local markets. Also, by fostering more efficient large-scale production, they increase the competitive strength of their exporters in other world markets.

THE DOLLAR: STILL GOOD AS GOLD The dollar remains in high demand throughout most of the free world in spite of the spectacular recovery and growth achieved in Europe over the past 13 years. Its attractiveness, however, is not an inherent characteristic. It will remain attractive only so long as foreigners find American products and services more desirable at their going prices than those available in other countries and so long as they have confidence that the dollar will retain its value both at home and abroad.

The necessity for curbing any inflationary developments which may appear in this economy is doubly emphasized by their impact on America's international relations. Any upward pressure on the cost and price structure in this country, if sustained, must eventually make the output of its mines and factories less desirable to foreigners than similar products produced in other countries. A steady erosion of the value of the dollar will also reduce the attractiveness of holding dollar assets. This could lead to a further draining away of our monetary gold stock, and—eventually perhaps—to restrictions on international trade.

The Fifth District

Recent business activity in the District presented a mixed picture of further advance in some lines, signs of hesitation in others, and some declines. Nonagricultural employment, seasonally adjusted, declined slightly in December from the preceding month and was about 1% less than it was a year ago. Undoubtedly, unusually adverse weather conditions caused employment declines during December in construction. This may have been a factor also, but to a lesser extent, in declines in manufacturing employment in Virginia and the Carolinas.

Department store sales in January are estimated to have held at the near-record level of December. Preliminary reports indicate a pickup in orders received by the District's furniture industry during January. The optimistic prospect for furniture makers based on the successful Chicago furniture market early in January was indicated again by favorable reports received from subsequent furniture markets in New York, Dallas, and High Point.

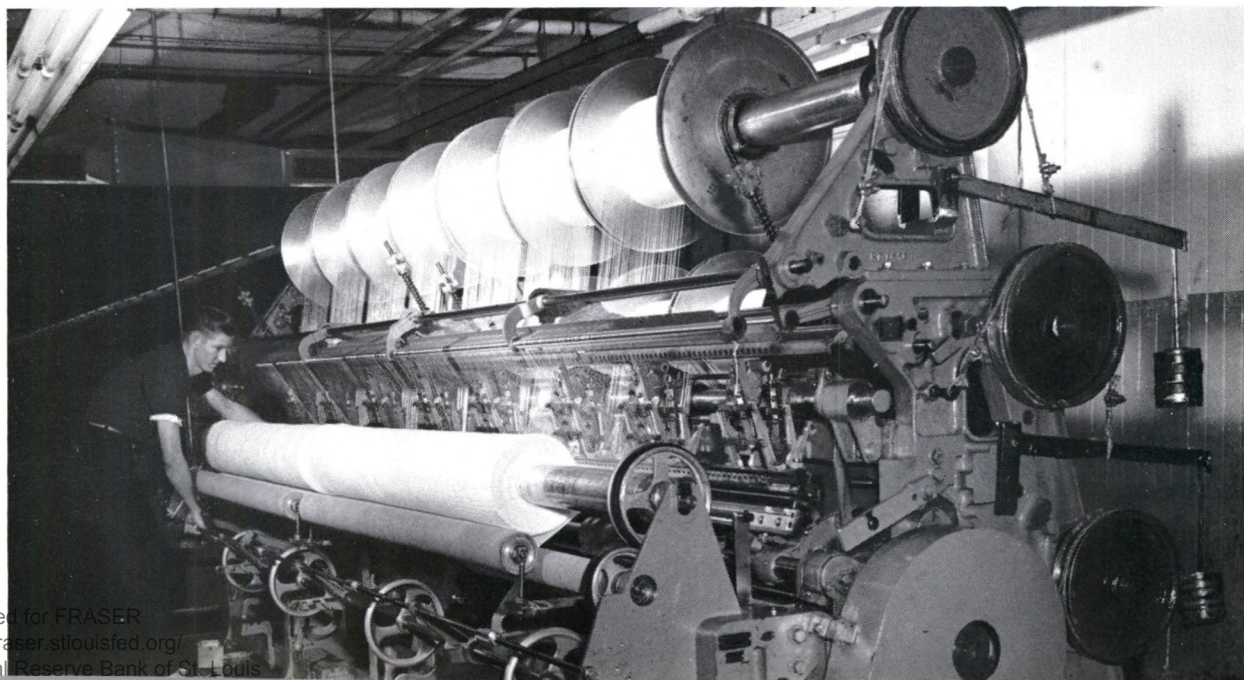
TEXTILES The District's giant textile industry, encouraged by the substantial advance in sales and production during the final quarter of 1958, started off this new year with optimism and sights set much higher than they had been in many years. It is, however, an uneasy optimism. As pointed out in these pages last month, a number of problems—adherence to the five-day production week, cost increases, very slow buying beyond immediate and nearby needs—will need to be answered shortly.

As this is written, substantial cost increases in the form of wage rate raises are spreading through the District's textile industry. Although anticipated for some time, mills had not expected to make wage adjustments until the second quarter. Despite some "waiting to see what happens," the initial announcement by one of the District's largest mills set off a chain reaction of raises that appears to be District-wide.

As yet, no general pattern has emerged with respect to the amount of increase being granted. A number of mills have raised their minimum hourly rate to \$1.25 while others have given raises reported to be ranging around ten cents an hour. Similarly, it is not clear yet what the effect will be, if any, on prices of cloth. Some mills are apparently testing the market with asking prices one-quarter cent higher per yard than current prices on second quarter deliveries. Many buyers are reported to have withdrawn from the market temporarily, while others renewed offers at current prices in anticipation of a stiffened attitude on the part of sellers against making price concessions.

The cotton gray goods business was limited by the lull that generally occurs in the first half of January. Orders for second quarter deliveries of apparel fabrics, however, have continued rather slow. Buyers have pressed for prices lower than first quarter levels, while mills have been reluctant to put business on their books on such price conditions. The result during most of January was a

Man-hours fell slightly in December in District knitting mills, but production was resumed in January at pre-holiday high rates.



standoff and a consequent slow and uncertain market.

January was not devoid, however, of bright spots in the textile industry. There was a steady improvement in the market for heavy wide industrial fabrics during the first 20 days of the month. Some price increases resulted, and mills accumulated fair-sized backlogs of orders for second quarter shipment.

Another favorable development has been the pickup in demand for synthetic fabrics. The increase in orders has been moderate, but it has been for acetate, rayon, and nylon fabrics for which demand has lagged since last fall.

The District's knitting industry in general operated at high levels during January and holds relatively small inventories. Most hosiery mills are producing for the spring season. Substantial backlogs of orders are held for seamless nylon hosiery.

MANUFACTURING Seasonally adjusted data on manufacturing man-hours show a decline of about 1.8% in all manufacturing industries of the District in December. Similar decreases occurred in this significant economic indicator in the durable and nondurable groups. Preliminary reports for January, however, indicate a pickup in operations of a number of industries.

CONSTRUCTION Awards for contract construction in December declined 30% from the preceding month. Awards have declined steadily from the very high peak last July, the December total being only one-half the July amount. Construction employment also fell in December and was 6.5% less than it was a year earlier. These are all seasonally adjusted figures.

BITUMINOUS COAL The daily average output of District mines in the four weeks ended January 17 declined a counterseasonal 15% from the preceding four-week period. This was a consequence in large part of extended holidays at Christmas and New Years. Mining employment, adjusted for seasonal influences, is estimated to have held even in December with the November figure.

The optimism with which most industries view 1959 is shared by the coal industry. The National Coal Association estimates that production this year will exceed by 14% the 1958 output of 400 million tons. Increased consumption is forecast for the two largest users of coal—the steel industry and electric utilities which together account

for nearly 60% of the demand for coal. The steel industry is being counted upon to increase its consumption of coking coal by a very substantial 36%. A more modest increase of 7% is estimated for utility consumption of bituminous coal. The overseas export market, which in 1958 absorbed about 9% of total production, is expected to decline by 20%. Since this estimate was made the West German cabinet has advocated a custom's duty of 20 marks (\$4.79) a ton on coal imported from countries outside the six-nation coal and steel pool. If approved, the levy will become effective February 16. More recent information states that five million tons have been given duty-free status. Of this total, the United States has been allocated 4,420,000 tons. Meanwhile, negotiations continue on cancellations by West German industry of about 35 million tons of coal scheduled for delivery over the next 18 months.

BANKING Business loan demand—one of the District's strong spots throughout most of the last five months of 1958—has been softer than normal thus far this year. Loans of weekly reporting member banks slipped nearly 5% during the first four weeks of January—quite a bit more than the average percentage drop the previous four years. About half the banks reported loan declines, and loans to almost every kind of business borrower fell.

Other categories of loans have shown more than seasonal strength, however, holding the decline in gross loans of weekly reporting banks to less than the normal seasonal drop. Real estate loans continued their rapid upward march that dates back to last spring. Consumer loans moved out of the doldrums, falling quite a bit less than they ordinarily do during the opening weeks of the year.

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