

MONTHLY REVIEW



Growing coal exports help to balance our international payments.



Again the business prophets have been prophesying, predicting, prognosticating, and projecting. It is now time to survey their work and see what they think 1962 has in store for us. This annual survey attempts to present a brief summary of the forecasts made by prominent financial writers, economists, business leaders, and public officials.

All available forecasts have been studied for this survey, but the discussion which follows is based on those which provide a comprehensive coverage of the economy in fairly specific terms or which cover one or more major sectors in depth. Several of the forecasts were group efforts, one of them being based on a survey of over 300 people. The total number of persons whose opinions are reflected in these estimates is over 400.

In passing, it may be noted that the forecasts for 1961, summarized a year ago in this *Review*, proved to be quite accurate on the whole. Most of them correctly foretold the reversal of the trend of activity early in the year and gave quantitative measures of activity in major segments of the economy which were often quite close to the actual results.

The views and opinions set forth here are those of the forecasters. No agreement or endorsement by this Bank is implied.

THE CONSENSUS

Like last year, there is a remarkable agreement among the forecasters as to the general direction of business activity for the coming year. In a nutshell, the consensus is that 1962 will be a good year despite many problems which overhang the economy.

One typical commentator expresses this view: "1962 promises to be a 'good' year and it stands an excellent chance of being a 'very good' one." Nearly all forecasters expect that 1962 will be substantially better than 1961, and only a very few see any danger of a super boom or speculative excesses. They all agree that new high levels of activity will be reached in nearly all areas. They agree also that the advance will be broad and general, with no major sector of the domestic economy forging ahead enough to be a pacemaker nor lagging so far behind as to constitute a serious problem.

Two observers express uneasiness about the transportation industry, which is experiencing some "financial and replacement difficulties." One of them terms this a "real financial crisis" affecting railroads, airlines, and intercity truck lines. He thinks it has been caused by excess capacity and high-cost operation induced by excessive competition.

Doubts About Second Half Contrary to the situation last year, when the second half of the year was expected to show a definite improvement, many writers see the possibility of a decline in the rate of expansion in the second half of 1962. They reason that in 1961 the switch from liquidation to accumulation of inventories and a large increase in government expenditures were major factors in reversing the trend of business activity and in stimulating expansion in the latter part of the year. Those factors will not be as influential this year, particularly in the second half, and, if business expansion is to continue, other forces must come forward to provide the

impetus. Such forces would have to be construction, consumer buying, and business investment in plant and equipment, in some combination. A number of people are doubtful that these will provide a sufficient impetus to keep the expansion rolling at the rate expected to prevail in the first half of the year.

Credit There seems to be quite general agreement that business expansion in 1962 will not be restrained by tight credit or high interest rates. Despite the fact that relatively easy credit conditions have already continued much longer than has been customary in recent recovery periods, it is generally agreed that in 1962 there will be adequate supplies of credit at only moderately higher interest rates. Specifically, the forecasters do not expect a sharp rise in interest rates and a reduction in the availability of credit such as marked the last half of 1958.

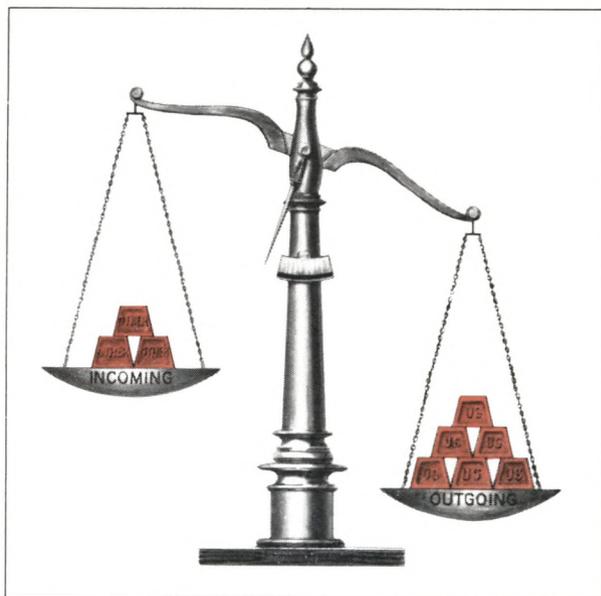
Prices and Problems There is a general consensus among forecasters on two other points. First, prices will be fairly stable, with perhaps a slight rise in wholesale prices and a continuation of the slow rise in consumer prices. Second, the economy faces several serious problems which will tend to restrain the expansion and could cause major difficulties. These, to be discussed below, include stronger foreign competition, the deficit in the balance of payments, rising costs which are likely to squeeze profit margins and hold down corporate profits, continuing high unemployment, and a possible steel strike.

THE GENERAL ENVIRONMENT

Most of the forecasts were made in the closing weeks of 1961 when, in sharp contrast with the previous year, the economy was advancing with considerable vigor. Many forecasters see a considerable accumulation of consumer purchasing power in the fact that personal income rose steadily and fairly rapidly during 1961 while retail sales lagged and consumer credit increased very little.

The year 1961 ended after about ten months of substantial advances. This is far less than half the average duration of recent recovery and expansion periods. Many writers count on this fact plus the momentum attained by the present recovery to carry the present upswing to or beyond the end of 1962.

One forecaster propounds the interesting proposition that the milder a recession, the further beyond prerecession peaks is the ensuing expansion likely to go. Apparently not many of his fellow forecasters subscribe to this proposition, which would call for a very large expansion in 1962 and 1963. The recession of 1960-61 was the third mildest since World



War I according to standards established by the National Bureau of Economic Research. The consensus of the forecasters does not indicate that the current expansion movement will be the third greatest in 40 years.

Last year this survey described some elements of a "new economic environment" which many forecasters pointed to as making prediction of the future more difficult. Those elements were the absence of an inflationary psychology, a high level of unemployment, a changed demand for housing, and the existence of a large amount of excess producing capacity. These factors still prevail, but now unemployment is generally expected to decline a little during the year rather than to rise as was expected a year ago. In addition, however, new factors have been added to the "new economic environment" and some old ones have increased in importance. All of them add to the hazards of forecasting.

Balance of Payments The theme most often repeated in this year's forecasts is that the balance-of-payments deficit is the most serious problem clouding the economic horizon. Very few forecasters attempt any extended analysis of the problem, or offer any solution. Most of them reason that there is little chance of any substantial increase in exports, that imports will rise as business activity expands, and that Government loans and grants abroad are not likely to decline. One analyst lists several reasons why the United States is more vulnerable to a dollar crisis now than it was during the worst of the troubles of 1960. In his opinion: (1) the economy is in an upswing instead of a downswing, which tends to raise imports; (2) our gold stock is now

10% lower than it was in the Fall of 1960; (3) the total of short-term liabilities to foreigners has increased; (4) costs here continue upward; and (5) the U. S. Treasury's budget position and prospects are less favorable, and its reliance on short-term financing has increased the liquidity in the economy.

The conclusion usually drawn from these considerations is that the deficit is not likely to decline and may rise. This could precipitate a dollar crisis which might require a drastic tightening of credit to the detriment of the domestic economy. Only an occasional forecaster mentions the steps taken thus far by the Government to reduce the deficit in the balance of payments, and none seems to draw any hope from them. One states that "Gimmicks will not solve the problem—and gimmicks are about all we have been able to devise"

Foreign competition has forged to the front as a major factor in the economy. Many observers see sharply increased competition because of expanded producing capacity, convertible currencies, and lower costs abroad. This is expected to hold down prices and to squeeze profit margins.

Another part of the new environment is what some have termed the "garrison state economy" forced on us by the world situation. This requires larger expenditures for defense and may at any time develop into a crisis which would seriously disrupt the economy. The high level of prosperity expected this year assumes continued large defense expenditures but no shooting war.

Other Problems In addition, there is a special and temporary element in the economic environment this year—the possibility of a steel strike after June

30. It appears to many that the mere possibility of a strike is almost sure to cause a considerable disruption in business activity through a heavy accumulation of steel inventories during the first half of the year followed by a sharp reduction in steel production in the second half as inventories are reduced. The steel wage negotiations and possible strike are seen as likely causes of disturbance in three other ways. First, if there is a prolonged strike, there would be far-reaching effects from the interruption in the flow of purchasing power and materials. Second, if there is a substantial wage increase it would probably be followed by an increase in steel prices. This would raise costs to steel users and probably intensify the squeeze on profits. Third, the wage increase would probably become a pattern for increases in many other industries.

While most commentators fear a continuing rise in wages, some point to factors which may hold increases down to moderate amounts. These include the excess labor supply, the greater concern of the Government in restraining wage and price increases, the willingness of labor unions in some cases to accept less costly fringe benefits in place of increases in wages, and the trend of wage settlements over the past ten years or so. One observer stated that "the rate of increase in labor costs has been declining very markedly so that the magnitude of wage or labor-cost inflation has been getting less and less." He cited the steel settlement of 1959 which produced a wage increase of 3.5% or 3.75% in contrast with increases of as much as 8% in earlier years.

Finally, some forecasters are concerned about the stock market. One of them says, "We are coming to the end of the road in this fantastic ten-year trend of constantly paying more and more for earnings and dividends." Several point out that for some time the return on stocks has been well below the return on high-grade bonds and imply that this cannot continue indefinitely. Almost no one is strongly bullish, and several express guarded fears of a substantial fall in prices. One well-known economist suggests that we should "approach the stock market in 1962 with a very respectful caution."

Despite these potentially troublesome factors, nearly all forecasters are relatively optimistic about the outlook for the year. However, they express some uneasiness about the strength of the expansion in the second half. One of the more cautious prognosticators states that, while not taking an alarmist view, he is unable to agree with many who complacently take the view "that everything will be fine with our economy in 1962, except that we may face a large and mounting balance of payments deficit, a nation-



1961 RESULTS AND 1962 EXPECTATIONS

	1961*		1962**
Gross National Product	\$ 521 billion	\$ 560 to	\$ 565 billion
Personal Consumption Expenditures	\$ 339 billion		\$ 362 billion
Government Purchases of Goods and Services	\$ 108 billion		\$ 119 billion
Gross Private Domestic Investment	\$ 70 billion	\$ 78 to	\$ 83 billion
Net Exports of Goods and Services	\$ 3.6 billion		\$ 2 billion
Plant and Equipment Expenditures	\$34.5 billion	\$ 37 to	\$ 40 billion
Change in Business Inventories	\$ 2.2 billion		\$ 5 billion
Corporate Profits Before Taxes	\$ 46 billion	\$ 50 to	\$ 53 billion
Total Construction Expenditures	\$57.5 billion		\$ 60 billion
Balance of Payments	-\$ 2.6 billion	-\$ 2.0 to	-\$ 3.0 billion
Private Nonfarm Housing Starts	1.30 million		1.35 million
Sales of Domestic Automobiles	5.6 million		6.7 million
% of Civilian Labor Force Unemployed	6.7%	5.0% to	5.5%
Industrial Production Index (1957=100)	109		121
Wholesale Price Index (1947-49=100)	119		121
Consumer Price Index (1947-49=100)	128		130

* Preliminary or estimated figures.

** Figures are rough approximations of the typical forecast for 1962.

wide steel strike, a drop in the stock market, and a large deficit in the Federal Budget.”

Another observer sums up the outlook in these words: “This then is a recovery in which we won’t lack for problems and for causes for increasing concern as the year runs its course. As we look at it now, however, we have built perhaps less excesses into this recovery than in the comparable stage of any other recovery. We have a greater capacity to enlarge our output in the months ahead than we had in any earlier recovery.”

SPECIFIC FORECASTS

General Indicators Gross National Product, the broadest measure of economic activity, is the statistic which receives most attention in the forecasts. There is universal agreement that it will be substantially higher than the figure for 1961, which was near \$520 billion. There is a heavy concentration of the estimates in the area of \$558 to \$565 billion, which would represent an increase of about 8% over 1961. A range from \$550 to \$575 billion includes nearly all estimates. Most of those who make predictions by quarters show a declining rate of growth during the year, and a few expect an absolute downturn before the end of the year. On the other hand, quite a few foresee that by the fourth quarter of 1962 GNP will be at or above an annual rate of \$575 billion.

Employment presents one of the less optimistic aspects of the outlook for 1962. Most forecasters predict a rise in total employment but little, if any, increase in the labor force, leaving

unemployment at an uncomfortably high level throughout the year. Unemployment is usually regarded as the second most difficult problem facing the economy, following the balance of payments. The more optimistic observers think that employment may increase more in proportion to production now that the average workweek in manufacturing has passed 40 hours; employers will prefer to employ additional workers rather than make large overtime payments. But the pessimists point out that much of current investment is for modernization and cost reduction which will permit greater production without a corresponding increase in employment. Most predictions foresee an average rate of unemployment for the year not far from 5% of the labor force.

There is quite general agreement that industrial production will be up moderately over 1961. Most estimates are that the Federal Reserve Index of Industrial Production will average between 118 and 122 for the year—an increase of about 10%. Again, some slowing during the year is expected, and a small minority of the predictions indicate that the index will dip before the end of the year. Reasons given for the expected higher level include the defense build-up, higher automobile and steel production, and greater production of durable goods generally.

Expenditures for new construction are expected to set a new high record at about \$60 to \$61 billion in 1962, partly because of an unusually large carry-over from 1961. This would be an increase of about

(Continued on page 8)

Keys for Forecasting

Gross National Product

Our economic system may be compared to a highly complex piece of machinery with many separate but interlocking parts. This "economic machine" produces goods and services and generates income which, in turn, is used to purchase the current output. Over the years, economists and statisticians have devised methods of measuring levels of current production, both by measuring incomes produced and by measuring expenditures for physical output. These national income and product accounts, published by the U. S. Department of Commerce, fit the bill—not only for a measure of total business activity but also for measures of many interrelated types of economic activity.

Gross National Product, usually referred to as GNP, is probably the most widely used measure of total economic activity and is the statistic which most business analysts use to express their predictions of the business cycle. GNP measures the market value of the nation's output of final goods and services. It is the sum of expenditures by four broad groups of purchasers—consumers, business firms, foreigners, and government.

Seasonally adjusted quarterly estimates at annual rates are available from 1939 and annual estimates, from 1929. The series is also published in constant (1954) dollars which makes available a measure of "real" GNP—after correction for price change.

GROSS NATIONAL PRODUCT BY TYPE OF EXPENDITURE

(In billions of current dollars)

Item	1929	1933	1939	1950	1955	1960
GROSS NATIONAL PRODUCT	104.4	56.0	91.1	284.6	397.5	504.4
PERSONAL CONSUMPTION EXPENDITURES	79.0	46.4	67.6	151.1	248.6	328.9
Durable goods	9.2	3.5	6.7	30.4	39.6	44.3
Nondurable goods	37.7	22.3	35.1	99.8	124.8	152.4
Services	32.1	20.7	25.8	64.9	92.5	132.2
GROSS PRIVATE DOMESTIC INVESTMENT	16.2	1.4	9.3	33.2	36.0	72.4
New construction	8.7	1.4	4.8	24.2	34.9	40.7
Producers' durable equipment	5.9	1.6	4.2	18.9	23.1	27.5
Change in business inventories	1.7	-1.6	.4	6.8	5.8	4.2
NET EXPORTS OF GOODS AND SERVICES	.8	.2	.9	.6	1.1	3.0
GOVERNMENT PURCHASES OF GOODS AND SERVICES	8.5	8.0	13.3	39.0	75.6	100.1
Federal	1.3	2.0	5.2	19.3	45.3	52.9
State and local	7.2	6.0	8.2	19.7	30.3	47.2

Source: Office of Business Economics, U. S. Department of Commerce.

Often a forecast of total GNP is derived by estimating expenditures on final output made by each of these four broad purchaser groups . . .

CONSUMERS "Personal consumption expenditures" includes consumer purchases of durable goods, primarily household equipment and autos; their expenditures on nondurable goods, chiefly clothing and food; and their outlays for services, such as rent, domestic help, and medical care. These expenditures represent by far the biggest part of GNP, accounting for around two-thirds of the total in recent years and about three-fourths prior to World War II.

In turn, the largest part of consumer spending goes for nondurable goods. Over the past decade, however, the proportion of these purchases to total consumer expenditures has declined from 51% to 46%. In contrast, the proportion of consumer spending for services has increased from 33% in 1950 to 40% in 1960. Both types of expenditures have shown a dollar rise each year. Consumer expenditures for durable goods, however, have followed a zig-zag path upward.



BUSINESS "Gross private domestic investment" represents the change in business inventories and expenditures for new business durable equipment and private construction. It currently comprises about 15% of Gross National Product; in the later years of World War II and in the low years of the Depression, this proportion was below 5%.

New construction has been greater than business purchases of machinery and equipment each year since 1947. Usually the year-to-year changes move in the same direction, and both fluctuate widely. In the 1950's the year-to-year per cent changes ranged from -2% to +18% for new construction and from -19% to +18% for equipment investment.

The most volatile component of GNP's business sector is the change in business inventories. In the past decade the change from the previous year has ranged from a decrease of \$2.0 billion in 1958 to an increase of \$10.2 billion in 1951. In 1960, businessmen switched from accumulation at an annual rate of \$10.9 billion in the first quarter to reduction at a rate of \$1.9 billion in the fourth quarter.



FOREIGNERS "Net exports of goods and services" measures the excess of United States sales abroad over United States purchases from abroad; gross exports and imports are shown separately. Exports include domestic output sold abroad and production abroad credited to United States owned resources. These sales clearly are a part of GNP. Foreign goods and services bought by Americans, however, are not part of this nation's output. Since these purchases are included in the estimates of spending by the other three sectors, they are deducted here to avoid overstatement of GNP.

The net export figures, along with the measures of gross exports and imports, are often used in evaluating the relative importance of foreign trade to the United States economy. Net exports of goods and services reached a peak of \$9.0 billion in 1947. During the war years and in 1953 and 1959, United States purchases of foreign goods were greater than its exports.

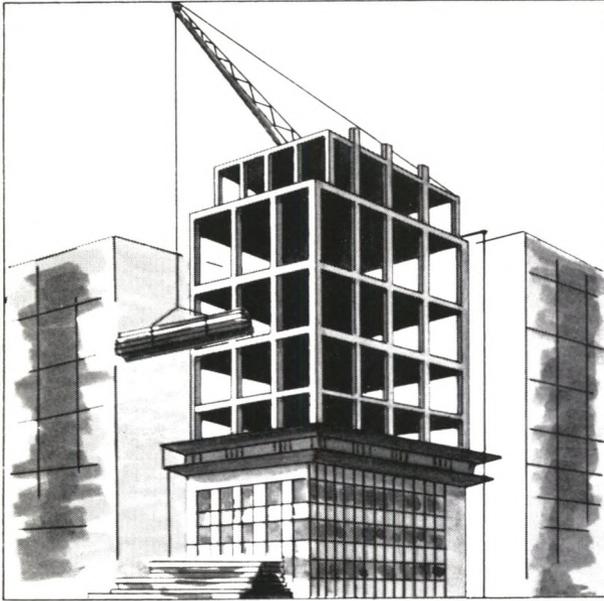


GOVERNMENT "Government purchases of goods and services" includes both Federal Government and State and local government expenditures. Federal Government expenditures are further subdivided into those for national defense and those for other purposes. Federal Government sales, shown separately, are deducted. Since only spending for goods and services is counted in the GNP series, the figures are lower than the familiar Federal Budget totals.

In recent years expenditures by government have taken a greater bite of the nation's output. In 1960, the government sector amounted to \$100 billion or 20% of total GNP; prior to 1941 and in the immediate postwar years the proportion was 15% or less. State and local government expenditures for final goods and services are rising at a faster rate than those by the Federal Government. In fact, from 1959 to 1960 Federal Government expenditures declined by 1% in contrast to an 8% increase in expenditures by other governmental bodies.



This is the first of a series on selected statistical series and techniques used in forecasting business activity.



1962: Moderate Prosperity but No Boom

(Continued from page 5)

6% over the 1961 figure of \$57.5 billion. Only moderate gains are expected for industrial, commercial, and public utility construction, but larger increases are indicated for hospitals and educational and religious structures. Predictions for private nonfarm housing starts range from 1,300,000 to 1,450,000, with perhaps 1,350,000 as a rough average. Several commentators also call attention to the prospect of large expenditures for repairs and modernization, which may amount to \$20 billion or more. Construction is not expected to be held back by lack of funds unless interest rates should rise sharply in the latter part of the year. Some notes of caution and pessimism are sounded by a few observers, however, who point to high vacancy rates, a low but rising rate of foreclosures, a low rate of family formation, and the large number of contractors who are experiencing financial difficulties.

Consumer Income and Expenditures Personal income is expected to continue its moderate and steady rise to reach a level of \$445 to \$450 billion in 1962—an increase of 6% or 7%. Thanks to wage increases and higher employment, the greater part of the increase is expected to be in wages and salaries. Total income in the form of transfer payments is considered unlikely to change greatly, since reductions in unemployment compensation will be offset by increases in old-age annuities and other social security payments. Estimates of total consumer expenditures fall between \$360 and \$365 billion—an increase of about 6% or 7%. The later the predictions were

made the more optimistic they tend to be, probably reflecting the rise in consumer expenditures late in 1961. Expenditures for durable goods are expected to rise most, led by booming sales of automobiles which some observers expect to reach 7 million or more, including 350,000 or 400,000 imported cars. The steady drift toward services is indicated by predictions of increases of from 7% to 8%.

Many forecasters express considerable doubt about consumers' buying habits. Most of them, however, think that consumers will buy more freely in 1962. The range of thinking is indicated by two brief quotations. The first: ". . . the American consumer is well stocked and bored, to boot, with the unimaginative goods being offered." The second: "If they have it, they will spend it. They will have it." Regardless of the position on this point, though, and despite a considerable increase in personal liquid assets, no fears are voiced that consumers are likely to start an inflationary buying spree.

Business Income and Investment The general opinion about corporate profits is one of uneasiness. Many observers think rising wages and stiffer competition at home and abroad will reduce profit margins as business expansion progresses. One comments: "Many manufacturers continue to find their margins of profit far thinner than they were in other prosperous periods." Another thinks that wage inflation may reduce profits rather than raise prices. Some point out that profit margins have been falling for ten years and that total corporate

profits have shown little increase in five years despite large new investments. Such considerations lead one writer to the conclusion that "Corporate profits are the weakest link in our economic relationships." Yet almost without exception the estimates are for a record level of corporate profits before taxes. Few estimates are below \$50 billion and some mention a figure as high as \$55 billion. This would be a substantial increase over the approximate \$45 billion for 1961 and the record high of \$46.8 billion in 1959. There seems to be a definite feeling that the increased profits will be due largely to increased volume and that they will be whittled down as activity levels off and costs continue to creep up. Several forecasters look with some hope for more liberal depreciation allowances and other favorable tax revisions.

It is universally agreed that business expenditures for new plant and equipment will be up in 1962, but in most cases the expected increases are moderate. This is one series which, as the year started, had not reached the previous high of nearly \$37 billion set in 1957. A great majority of the estimates for 1962 fall between \$37 and \$40 billion, compared with the actual level of \$34.5 billion in 1961. Most forecasters note that these expenditures will be adjusted as the year progresses, depending on the rate at which plant capacity is being utilized, the level of corporate profits, and other factors.

One very cautious appraisal of the part to be played by corporate profits refers to "The rising amount of profits, inadequate in comparison with past profit margins, difficult to earn even in this rapid recovery, but nevertheless higher than they were at the beginning of the year, and thereby influencing capital investment favorably."

Larger capital expenditures are encouraged by the steady and fairly rapid accumulation of depreciation funds and may be stimulated further by favorable tax changes. On the other hand, a large amount of unused capacity, an uncertain political climate, and attractive investment opportunities abroad are cited by several writers as reasons for expecting only a moderate increase this year.

Predictions about inventory changes for the year are cautious and vary widely. The consensus seems to be that during the first half of the year, while steel inventories are being accumulated at a rapid rate, the total will rise strongly—some mention annual rates as high as \$8 to \$10 billion. It is also agreed generally that the rate will fall substantially in the second half, and a few forecasters believe there may even be an absolute decline. For the year as a whole, increases ranging from \$4 to \$6 billion are frequently

Government Expenditures All forecasts call for an increase in government expenditures for goods and services, and there is quite general agreement that the increase will be about 9% or 10%, which would put the total near \$118 or \$120 billion. (It should be noted that these estimates are for expenditures for goods and services only. Total governmental expenditures will probably exceed \$170 billion.) The usual allocation of the increase is about \$4 billion to State and local governments and the remainder of \$6 billion or more to the Federal Government. A number of prognosticators foresee sharp conflict in the Federal fiscal area. On the one hand, they expect a strong demand for more spending for defense and for key domestic programs, the latter intensified by the forthcoming Congressional elections. On the other hand, need is seen for the balanced 1963 budget which has been promised, both to ease the balance-of-payments problem and to avoid domestic inflation. Most forecasters appear to be more confident about the increase in expenditures than they are about the balanced budget.

Agriculture Reflecting the declining relative importance of farming in the economy, most forecasters do not even mention the farm outlook. Those who do, however, expect that cash receipts and net income from farming will show little change from the improved levels of 1961 which were, respectively, about \$35 billion and \$13 billion. Total production is estimated to be about the same, with somewhat lower crop production being offset by a further rise in livestock marketings. The outlook for beef and hog prices is generally considered favorable despite greater production, but prospects for poultry producers are rather bleak. As business expansion progresses, there may be an increase in the prices farmers pay, leaving little, if any, improvement in net farm income—certainly nothing to compare with the billion-dollar increase in 1961.

Prices With remarkable uniformity, the forecasters predict fairly stable prices. The general expectation is that wholesale prices will rise by not more than 2%. Defense spending and cost increases as business expansion progresses are cited as causes of the increase, while large excess producing capacity and stiff foreign competition are seen as the principal factors holding the increase to a modest amount. Consumer prices are expected to continue their slow rise, amounting perhaps to as much as 1.5%.

A compilation of more than 60 forecasts with names of forecasters and details of estimates may be obtained from the Federal Reserve Bank of Richmond.

THE FIFTH DISTRICT



Recent trends in Fifth District business provide a good basis for generally optimistic expectations substantially similar to those reflected in composite national opinion as summarized in the main article of this issue. The District's broad statistical indicators have been consistently favorable for several months. Bank debits finished the year at record levels. Retail trade, noncommittal during much of 1961, increased markedly in October, and shoppers kept the registers busy for the rest of the year, finally ringing up record levels of Christmas sales. Seasonally adjusted nonagricultural employment rose gradually to new highs last September, October, and November, and although the unadjusted gain from November to December was slightly below normal, more Fifth District inhabitants had jobs during the final month of 1961 than ever before.

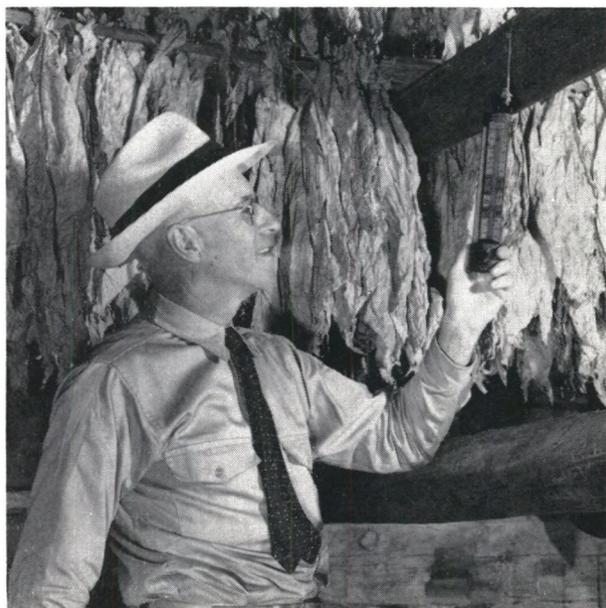
Highlights of recent increases in nonfarm employment, most of which occurred outside the manufacturing sector, included the following items. Financial and service enterprises expanded their work forces more than seasonally throughout the second half of 1961. Government agencies also took on new help with considerable regularity. Construction employment, a source of strength for more than a year and recently stable at a high level, gained additional staying power when a good volume of new contract awards came along late last year. Recent events also brought slightly improved employment at the District's bituminous coal mines. Mine operators generally expect the new stability to last for a while, thanks to domestic markets stabilized by lower costs and overseas markets believed to be poised for a period of rapid growth. These and other components of nonmanufacturing employment have moved into 1962 on a wave of general expansion.

MANUFACTURING The extent of manufacturing's participation in the current cycle of economic growth is not as easily documented. Seasonally adjusted factory man-hours displayed a series of little ups and downs toward the end of last year, ending on the upbeat. Factory employment behaved in a similar manner. Within this generally neutral picture, however, four industries in particular stood out: lumber,

consistently good record; textiles, because of prolonged uncertainty; and furniture, which emerged from the recession slowly but now displays just about the brightest 1962 outlook in District manufacturing.

The lumber business, after suffering from slack demand and soft prices during virtually all of 1961, received mild encouragement from the best fourth-quarter volume of residential contract awards in several years. As a result, lumber market conditions did show some improvement in a few localities before the Christmas holidays ushered in the regular winter lull. Cold, wet weather has helped to keep production and inventories lower than they might have been otherwise, and prices, though weak, have remained fairly stable. The lumber business in 1962 could look good by comparison with 1961 without actually rising above mediocrity. It will take a strong spring recovery to swing lumbering into line with rates of progress being visualized for most industries.

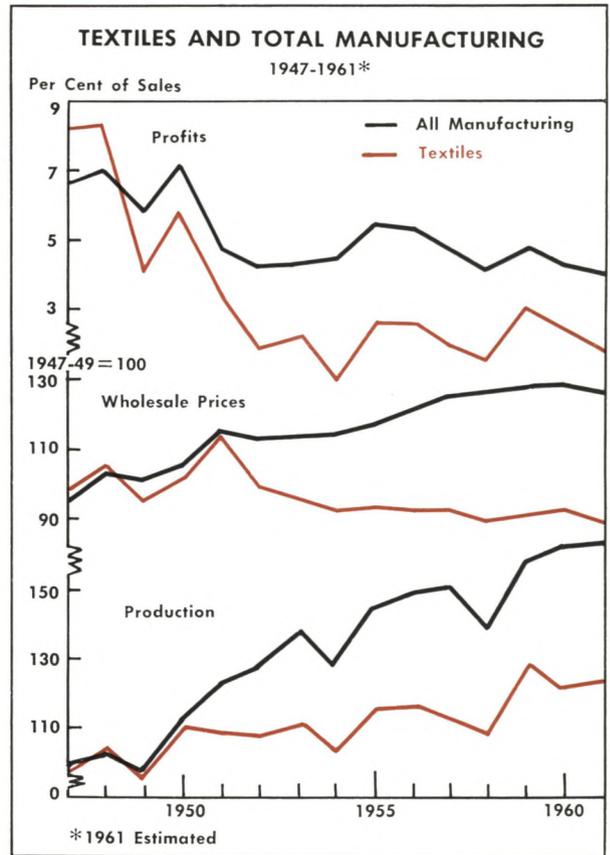
RECORDS GO UP IN SMOKE The nation's tobacco industry, of which the Fifth District's share includes 60% of farm acreage and 50% of factory workers, had one of its biggest years in 1961. Last year's



Nearly nine-tenths of United States flue-cured tobacco—the principal cigarette type—is produced by Fifth District farmers.

tobacco production, all types, was up 4% from the year before. Consumption of cigarettes, cigars, and pipe tobacco increased both in total volume and on a per capita basis. Exports of tobacco products were at the highest levels in more than ten years, and unprocessed tobacco went to overseas markets in near-record amounts. According to Department of Agriculture estimates, cigarette production in 1961 reached 528 billion, a 4% increase over the previous year. As the accompanying chart shows, 1961 thus became the fifth year in a row to establish a new output record. Cigarette sales suffered a setback in the first half of the 1950's but have been "coming back strong" ever since. The cigarette industry's sharp uptrend is visible in all three series plotted on the chart. Experts in the Department of Agriculture and elsewhere expect the current cigarette consumption growth rate of about 4% annually to carry right on through the year.

TEXTILES' WEB OF CIRCUMSTANCE The District's big, diverse textile industry has an unusually long list of items to evaluate in any appraisal of its condition and outlook. In January, for instance, the Internal Revenue Service followed up last fall's revisions of allowable depreciation on new textile machinery with similar good news for apparel manufacturers. Further announcements from the President's office and the Treasury indicated that liberalized depreciation schedules for virtually all industries would soon be forthcoming, including the faster write-offs of older equipment that textilemen have been hoping for. The above involve changes in reg-

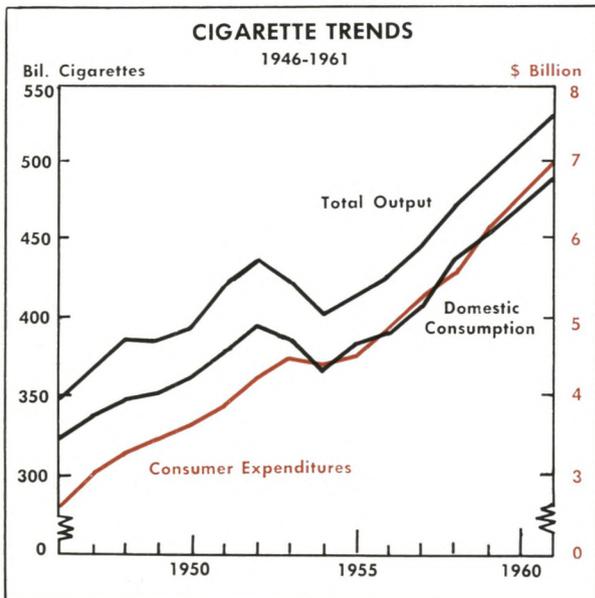


Over the past decade textiles failed to keep pace with other manufacturing industries in production, prices, and profits.

ulations only. An additional tax credit being considered as an extra incentive to modernize would require new legislation. This measure would permit reduction of a company's computed tax by an amount equaling, perhaps, 8% of the year's investment in new machinery. One effect of these changes would be to enable American industry to compete more effectively with producers in other countries where more new equipment is in use and depreciation schedules are far more generous.

A substantial number of regular and special units of Government are working on other aspects of the President's seven-point textile aid program. Such units in the executive branch alone involve representatives of the State, Commerce, Treasury, and Agriculture Departments, the Small Business Administration, and the Office of Civil and Defense Mobilization. These are coordinated through an "interagency" committee and are under the supervision of a Cabinet committee. With Congress in session, committees of both the Senate and the House have also begun investigation of textile problems.

TEXTILE MARKETS ADVANCE SLOWLY While special committees ponder the textile industry's status,



Fifth District factories account for more than 80% of the nation's cigarette output, currently growing at a rate of 4% per year. Federal Reserve Bank of St. Louis

the public has decided to assist, as only the public can, by increasing its use of textile products. As a result, the mills have experienced improved demand, particularly for synthetic fabrics, fine cottons, and industrial cloth. Markets for yarn and knitted goods have been fairly strong for several months. Although many cotton print cloths gained little in volume and nothing in price through most of 1961, the latest market reports are a bit brighter. Converters have detected increased demand for finished cloth and are taking for processing some stocks that had accumulated at the mills as a result of requests to defer delivery. Recent interest in second quarter deliveries has made the outlook even more favorable.

As the accompanying chart shows, production of textile mill products rose between 1960 and 1961, while prices and profits declined. It is apparent, moreover, that these changes are generally consistent with trends of the past decade. Because of increased costs of both materials and labor, profits recently declined more sharply than prices. (Other manufacturing industries, also plotted on the chart, fared better than textiles. Production rose at a faster rate, profits declined more slowly, and prices were moving upward until last year.) With demand strengthening, textilemen fully expect production to continue the rising trend that began in 1961. But the rest of the picture is most uncertain. The temporary international understanding currently holding down textile imports will end with the third quarter of 1962. The industry hopes that more permanent agreements and other helpful measures will be in effect by that time.

The picture that the chart presents for 1961 is based on incomplete statistical reports. Some textile firms are already reporting a better trend in profits, but these seem to be the exception rather than the rule. Improving demand, advancing technology, and governmental inquiries point to an even more interesting year than usual in the textile business.

BUSY SEASON FOR FURNITURE Furniture folks are having a busy winter. Final demand began to strengthen about midsummer and improved fairly steadily from then on with corresponding increases in production. The successful fall market in furniture centers of the Fifth District provided an added lift. Then, in late November and December, the rising trend in orders, production, and shipments leveled out on a high plateau. Furniture industry man-hours at their last checkpoint were about even with the all-time record set in May 1960.

In the second week of January, good news reports began to come in from the winter furniture markets.

The FRASER Chicago market opened on a strong note.

Attendance was greater than a year earlier, and orders flowed in considerably larger volume. The price increases that began last fall continued with some items tagged from 1% to 5% higher.

To keep manufacturers' representatives and retail store buyers really busy, the third week of January brought furniture show openings in other centers from one end of the country to the other. Weather conditions provided the principal differences in the atmosphere surrounding these markets. In Chicago, sub-zero weather greeted the furniture marketeers during the first week, and blizzard conditions further hampered activity during part of the second. By way of contrast, visitors to Los Angeles were "drenched in sunlight." At High Point, New York, Dallas, and Seattle, the weather was occasionally disagreeable, but not extreme.

The business climate, however, was uniformly favorable. As has happened before, though not recently, rising retail trade figures toward the end of the previous year cleared the decks for good buying at the winter furniture markets. Furniture retailers came to the markets a little concerned about low inventories, distinctly optimistic on the spring sales outlook, and aware of possible additional price increases. Thus, in virtually all market areas, attendance and the volume of orders were of record proportions. As manufacturers' backlogs increased, delivery dates moved out to 60 and, in some cases, 90 days. Most manufacturers freely expressed satisfaction with the results of the winter shows and now expect high volume production and increased prices to bring them greater profits this year.

New trends were evident. For one, furniture retailing is moving in two directions: toward discount selling at minimum prices and minimum service in some cases; toward improved services and closer customer relations in others. For another, displays included new and artistic combinations such as a coffee table containing a stereophonic record changer and an Early American bedroom wall cabinet with a TV set. The Southern market has also advanced its reputation for special services to retailers—a panel discussion designed to show visiting furniture buyers how to cover their areas of interest efficiently and a series of display clinics. Largely because of such features the Southern market is generally regarded as the nation's fastest growing furniture mart.

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