



# MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

DECEMBER 1955

FEDERAL RESERVE BANK OF SAN FRANCISCO

## REVIEW OF BUSINESS CONDITIONS

**A**N active and buoyant demand for goods and services on the part of consumers and business firms was instrumental in raising the general level of national economic activity to new highs during the year just ended. Expansion was recorded in nearly every segment of the economy as the higher level of demand was directed at a wide range of physical products and a broad group of personal and business services. Increases in the level of output and employment occurred throughout the year, although there was some moderation in the rate of rise in the last half. This resulted principally from the approach to full capacity operations in numerous industrial lines and some decline in residential construction. Nevertheless, the economy closed the year on a strong note with a predominantly favorable outlook for continued gains during at least the first half of 1956.

Significantly, the stimulus to rising levels of economic activity came from enlarged private demands, with government playing a generally neutral role in the past year. The neutrality of government is measured in this context by the absence of significant fluctuation in total purchases of goods and services by all types of governmental units and a virtual balance between the receipts and disbursements from and to the public by the Federal Government for the calendar year. Consumers provided the largest proportion of increased total demand as reflected in the sharp rise in purchases of durable goods (especially new automobiles), in expenditures on new housing, and to some extent expanded expenditures on nondurable goods and services. Business outlays for new plant and equipment rose in the second quarter, reversing a downtrend that had continued since mid-1953. The rise in these expenditures has apparently continued and, according to the latest SEC-Commerce survey of business investment intentions, such expenditures probably reached a new high in the last quarter of the year. A shift from inventory liquidation, which characterized all of 1954, to a net accumulation of stocks in 1955 also added to overall levels of business demand for goods.

The rise in the total value of product from 1954 to 1955—a rise which preliminary estimates put at more than \$26 billion—represented almost entirely a gain in actual physical output of goods and services. However,

some prices rose substantially in the latter half of the year, particularly wholesale prices of industrial commodities. Strain on the supply of goods and services, evidenced in part by rising wholesale prices, combined with signs of continued strong expansion occasioned the imposition of additional monetary restraints in the closing months of the year. These restraints took the form of higher discount rates at the Federal Reserve banks and an open market policy that permitted interest rates to rise as increased credit demands placed pressure on bank reserve positions.

The developments discussed above, while national in scope, were also clearly in evidence in the District economy during 1955. The extensive and intimate relationship of District production and consumption to other areas of the country normally leads to a fair degree of parallelism in economic fluctuations between the District and nation. There are differences, however, which spring from the impact of particular local developments, from different industrial patterns, and from different long-term rates of growth.

### *District employment rises significantly and growth outpaces nation*

The level of total employment in the Twelfth District rose significantly from 1954 levels, reflecting the impact of enlarged consumer and business demand for goods and services. Based upon estimates of total employment—including wage and salary industrial workers, self-employed agricultural laborers, and unpaid family workers—for the Pacific Coast states, the increase in the monthly average of gainfully employed was more than 3 percent during 1955. In the nation the comparable gain was about

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2.8 percent. The expansion in District employment, moreover, exceeded by a substantial margin the estimated growth in the labor force with the result that unemployment was reduced by nearly 21 percent. As a percentage of labor force, unemployment declined throughout the year, reaching a point just short of 2 percent.

The principal expansions in employment have occurred in those industries producing the items that have received the major share of enlarged consumer and business demand. Outstanding gains during 1955 were recorded in construction, manufacturing, and finance and service. Employment advanced in all other nonagricultural industry classifications, although the percentage increases were moderate in relation to those industries just mentioned.

#### ***Rise in manufacturing activity pronounced***

In the manufacturing sector of the District economy the rise in activity was pronounced. Employment of wage and salary workers rose by more than 5 percent and man-hours of production workers increased even more. Durable goods producers led the expansion with a man-hour gain of nearly 7 percent over 1954, while manufacturers of nondurables increased their use of man-hours by a little more than 2 percent. Among the durable goods industries the sharpest gains in man-hour utilization took place in furniture, lumber, and in primary and fabricated metals where the percentage increases ranged from more than 6 percent to nearly 14 percent. The extremely large volume of residential construction and the high volume of durable goods sales to equip newly acquired homes were dominant factors in this year-period increase in productive activity. Strikes during 1954 in lumber and during 1954 and 1955 in the metals industry affect the year-to-year comparisons to some extent. Activity showed a significant rise in the transportation equipment industry, particularly in automobile assembly, and in other durables with the exception of machinery. In machinery a slack first half year was largely responsible for a poor showing in terms of the monthly average for the year. Operations picked up sharply in the second half of the year, reflecting the upturn in business investment outlays a little earlier in the year.

Increases in apparel and paper production were the most substantial of the gains registered among the non-durable goods industries. Expansion in paper output and employment has been more or less continuous throughout the past several years and the industry is currently facing an extremely strong demand for its products. In apparel, however, fluctuations in the level of operations during recent years have been marked and the recovery in the industry during 1955 has raised output to near record proportions. The food products industry, which experienced a low summer level of activity due to a late harvest of major canning crops, showed only a modest gain in total levels of activity from 1954.

#### ***A record year in construction***

New construction activity, based upon the value of building authorizations granted by permit issuing agencies throughout the District, rose to a new high level in 1955. The total volume of work underway remained high throughout the year relative to 1954, although a moderate tapering off became noticeable in the late months of the year. For the year as a whole, however, total permit volume was approximately 18 percent above the total for 1954. Most of this gain was accounted for by a more than 20 percent gain in the value of new dwelling units for which permits were issued in 1955. Compared with the previous year the gain in number of dwelling units was only about half the rise in permit valuation, reflecting the recent trend toward larger and better quality housing. Nonresidential construction activity was 15 percent above 1954 and offset, to a considerable extent, the decline in residential building since June of this year.

The marked increase in total new construction expenditures was a prominent factor in the rise in general business activity during the year in both the District and the nation. A wide variety of forces contributed to the record volume of construction work. The very large volume of mortgage commitments available in late 1954 and a considerable part of 1955 on a long-term amortization and low down payment basis, combined with high and rising levels of employment and personal disposable incomes, are the factors of prime importance in the large rise in residential building. Beginning in the spring, however, demand for business and short-term consumer credit began to rise sharply, and the competition resulted in a decline in mortgage commitments having the more favorable terms available previously. An upturn in the demand for new industrial plants and a continued backlog of need for commercial and other types of business and community structures to keep pace with population growth and the large suburban population movement accounted for a large share of the strength in nonresidential construction.

#### ***Retail sales reflect employment and income gains***

Consumer spending at retail establishments in the District (based upon data for stores operating from 1 to 10 outlets in the eleven western states) rose sharply in 1955 from relatively depressed 1954 levels. In the first nine months of the year the sales gain indicated by the 1 to 10 outlet store series was nearly 12 percent. Active retail markets were stimulated by expanded levels of employment and incomes and a marked willingness of consumers to increase their short-term debt. Preliminary indications are that sales during the fourth quarter maintained a healthy margin over the same quarter of 1954. At District department stores, cumulative sales for the year to date through the first week in December exceeded sales in the comparable period a year earlier by 6 percent.

Sharply expanded sales of durable goods, especially of new passenger automobiles, accounted for the largest pro-

portion of the gain in total retail sales. Nondurables, especially apparel and food, also rose significantly, although the percentage increases were generally smaller than for consumer durable items.

#### **Bank credit expands sharply as business activity advances**

Demands for bank credit in line with the rise of general business levels to a new high expanded markedly during 1955. At weekly reporting member banks in the leading cities of the District, total loans (except interbank) rose by nearly \$1.3 billion in the twelve-month period ended December 1, 1955. In the same period a year earlier outstanding loans declined slightly.

Expanded demands for credit were widespread and nearly all categories of loans rose during the year. Largest gains in outstandings were recorded in loans to business, which accounted for more than 40 percent of the rise in

total loans. This gain may be traced to the marked increase in extensions of credit to retail and wholesale merchants, sales finance companies, construction contractors, and a broad range of manufacturers.

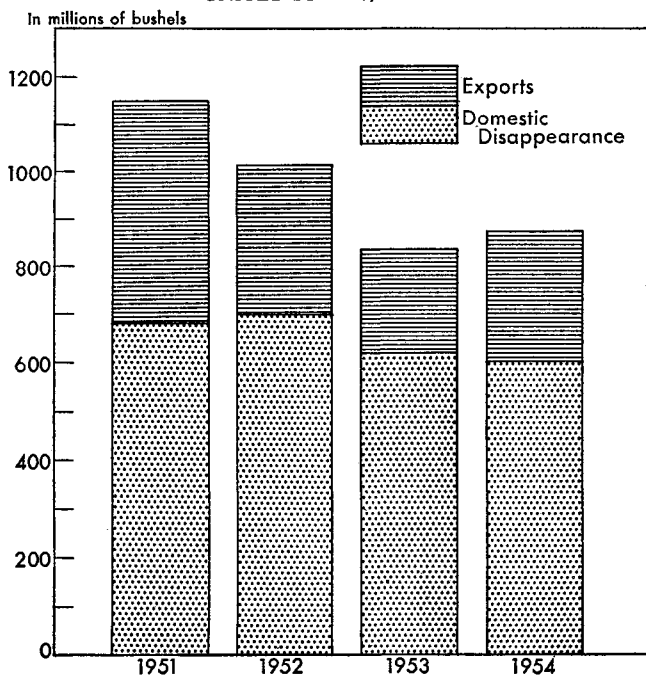
Real estate loans, reflecting the record volume of new construction activity—especially residential—expanded more sharply than during any similar past period. Consumer loans showed a similar substantial rise owing principally to the extremely large volume of new car sales, a high percentage of which were financed on instalment loan contracts. Loans for the purchase or carrying of securities expanded only moderately despite the large volume of stock exchange transactions and the rise of stock prices to a new high. The total of such loans constitutes only a very small proportion of bank loan portfolios in the District.

### **WHEAT PRICE SUPPORTS IN IMPORTING COUNTRIES AND UNITED STATES PRODUCTION CONTROLS**

**T**HE use of production controls on wheat beginning in 1954 focused public attention on the production aspects of the domestic wheat situation. However, the use of wheat marketing quotas was prompted not only by a high level of production but also by a decline in the demand for wheat. Although this decline stems in part from the progressively smaller movement of wheat into domestic market channels, the major changes in disappearance are related to the variable movement of wheat into export outlets (Chart 1).

CHART 1

#### **DOMESTIC DISAPPEARANCE AND EXPORTS OF WHEAT UNITED STATES, 1944-1954**



Source: United States Department of Agriculture, *Grain and Feed Statistics Through 1954*, Statistical Bulletin No. 159, pp. 51 and 53.

The export outlet has been of great importance to the major wheat producing region of the District located in the Pacific Northwest—Washington, Oregon, and northern Idaho. During the period 1951-1953, production in this area accounted for about 11 percent of the national output while, in the same period, 26 percent of the country's total of wheat and flour exports moved through the seaports of this region. Most of these exports were derived from wheat produced in the Pacific Northwest.

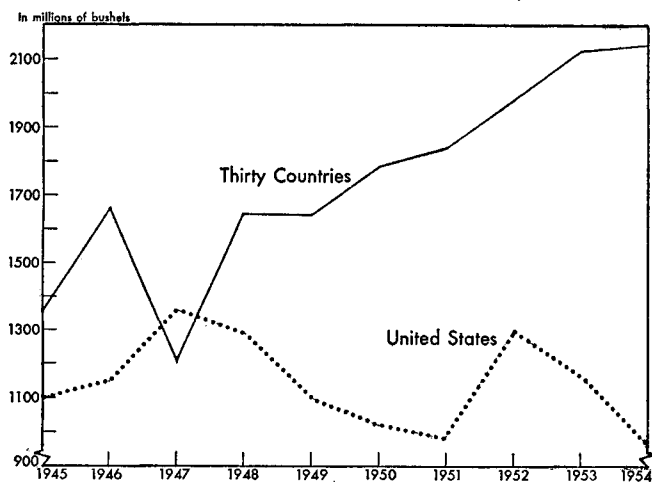
Although national exports of wheat were still at a fairly high level in 1954, when judged by prewar standards, annual disappearance of the nation's wheat into export outlets has declined drastically from the peak exports in 1951. Exports of wheat in 1954 were about 40 percent less than in 1951. One probable cause of this fall in exports has been the operation of production incentive programs abroad. These programs stimulate home production and thus reduce the demand for imports. Output in importing countries utilizing production incentive programs in 1954 increased 16 percent from the 1951 level (Chart 2). Moreover, further successful use of these incentive programs will increase even more the difficulty of moving the nation's wheat supplies into these potential export markets. It also will exert increasing pressure for more restrictive production controls on United States wheat output and for more liberal programs for moving our wheat into secondary outlets such as livestock feed and (in most cases) export markets.

#### **Variable export market for United States wheat**

Historically, wheat exports from the United States have been highly variable. During the last twenty years they have ranged from 4 million bushels in 1935 to 470 million bushels in 1951. The 1935 volume accounted for 1 percent and the 1951 volume for 41 percent of the total disappearance during each of those years.

CHART 2

## WHEAT PRODUCTION IN THE UNITED STATES AND THIRTY SELECTED WHEAT IMPORTING COUNTRIES, 1945-1954



Sources: United States Department of Agriculture, *Grain and Feed Statistics Through 1954*, Statistical Bulletin No. 159, pp. 51 and 53 and *Wheat Situation*, July 19, 1955.

There have been several reasons for the changing volume of exports during the past two decades. Throughout most of this period the United States did not follow a policy of attempting to establish export markets for wheat. During the mid-1930's, exports were low principally as the result of an unusually small domestic output. Drought held production down during this period. In fact, more wheat was imported into the country than was exported in 1934, 1935, and 1936. With the increase of domestic production in the late 1930's, exports picked up, but not enough to absorb the increased output. During World War II, the disruption of world trade depressed wheat exports. At the close of the war, however, large shipments of wheat were sent to countries in Europe and Asia, principally for relief purposes. But exports soon began to decline until revived by the outbreak of the Korean war and the reduced availability of supplies in other exporting countries. In 1951 United States wheat exports reached their peak as the result of unusually large shipments to European countries, Japan, India, and Brazil but declined again in 1952 and 1953 due in part to a shift by importing countries to nondollar suppliers of wheat. Partly as a result of the drop in exports, production controls were placed on the domestic production of wheat in 1954.

#### Wheat production out of gear

Production controls for wheat in the United States arise from the imbalance between the volume of wheat produced in the country and its use. Reflecting this imbalance has been the accumulation of extremely large carry-over stocks, with production controls being used in an attempt to bring supplies in balance with disappearance.

Domestic production was stimulated in part by the assurance of a minimum level of prices under the price support program which began in 1933. Production

reached the billion bushel mark in 1944, and it has been above this level in each year since 1944 except for the 1951, 1954, and 1955 crops. Along with this increase in production since the prewar years has come a decline in the domestic use of wheat. Only the export outlet now takes a larger volume of wheat than before the war and the export outlet has also been contracting since 1951. In this situation production controls in the form of marketing quotas were placed in effect for the 1954 crop. These controls reduced wheat acreage within the United States to prewar levels—54 million acres in 1954 compared with 57 million acres in the period 1935-39, but production was 28 percent, or 211 million bushels, larger as the result of higher yields.

Although production controls for wheat are authorized by national legislation, there is a reluctance to use them and even when used they have not been wholly effective. These controls are subject to political action and evidently Congress would rather use other means, if possible, to cope with the supply situation. Major attempts have been directed toward increasing the movement of wheat into various outlets. In the absence of effective production controls and with a comparatively high support level, increased movement of wheat has been accomplished through the use of subsidies. As an example, when carry-over stocks were large during the second World War a subsidy was used to divert large quantities of wheat to livestock feed uses, which helped to meet the feed shortage at that time. Since the War, the export outlet has received a great deal of attention.

#### Attempts to maintain exports since World War II

For several years following the close of World War II the financial and political role played by the United States in international affairs was very important to wheat exports. The movement of wheat into export markets was accomplished largely as the result of shipments for relief and rehabilitation and through special sale arrangements.

Soon after the close of World War II the advantage to both importing and exporting countries of an agreement covering the international movement of wheat became apparent. Under such an agreement, importing countries would be assured of adequate supplies of wheat, and exporting countries could count on a stable market for at least a portion of their excess wheat production. An arrangement of this kind at reasonable prices would be particularly advantageous to the United States and other exporting countries in that it would tend to discourage a large expansion of wheat production in importing countries. Such a program, the International Wheat Agreement, was ratified by the United States on October 27, 1949, and, although modified to some extent, it is still in effect. The Agreement contains a minimum and maximum price within which shipments under the Agreement may take place. Importers are obligated to buy the full amount of their agreed quotas if it is offered at the minimum Agreement price, and exporters are obligated to

sell the full amount of their agreed quotas if offered the maximum Agreement price. However, the price of wheat is free to move on each transaction under the Agreement within the minimum and maximum price limits on terms agreed to by the buyer and the seller. Under this arrangement, the practice of the United States in using subsidies to facilitate the movement of wheat into export markets has not been discontinued as the maximum Agreement price has been lower than our domestic price. To make United States shipments under the Agreement possible, therefore, it has been necessary for the government to make up the difference between the domestic price and the price received for wheat shipped under this program.

The International Wheat Agreement was renewed for a period of three years beginning August 1, 1953. Because the United Kingdom considered the maximum import price stipulated in the revised version of the Agreement to be too high, she withdrew from the program. As she was the largest importing country in the original program, her withdrawal dealt a considerable blow to the Agreement. The withdrawal of the United Kingdom reduced the export quota of the United States under the Agreement from 255 million bushels to 194 million bushels. Moreover, the United States could find a market for only a portion of this quota at the price offered, shipping 107 million bushels of wheat under the program during the 1953-54 marketing season.

In an attempt to offset partially the effects of the quota reduction under the revised International Wheat Agreement, a program was devised by the United States to permit exports to nonparticipating countries at prices not lower than those received for shipment under the Agreement. In addition, liberal relief shipments and special sale arrangements to countries temporarily short of wheat supplies or of suitable exchange, such as the arrangements with India in 1951 and Pakistan in 1953, have bolstered United States exports since World War II. Other programs such as the foreign currency sales provision of the Mutual Security Act of 1954 and the provisions of the Agricultural Trade and Development Act of 1954 concerning foreign currency sales, barter transactions, and relief shipments are attempts to expand the markets for various surplus agricultural products abroad including wheat.

#### **Wheat production expands outside major exporting countries**

Throughout the period of these varied postwar attempts by the United States to maintain a sizable movement of wheat into foreign countries, supply and demand changes were taking place in both importing and exporting countries. In general, these changes had the effect of stimulating world exports of wheat to a higher level than prewar. Since 1951, however, these changes have tended to depress world wheat exports.

It is understandable that deficit wheat-producing countries whose production of wheat was disrupted by World

War II would increase their production in the years immediately following the War. By 1950 a large number of these countries were able to reach prewar production levels; some even surpassed their prewar output. Production data for the 1952-53 production season indicate that the output of thirty countries which are normally net importers of wheat increased by 36 percent from the 1935-39 period. Despite this increased wheat production outside the major exporting countries, there was a greater volume of wheat entering world trade than during the prewar 1935-39 period. During the 1952-53 importing season, wheat and flour exports totaled 987 million bushels compared to the prewar average of 710 million bushels. Evidently the demand for wheat in these countries increased more than their production. This is indicated by estimates of the Food and Agricultural Organization of the United Nations for twenty deficit wheat producing countries. According to these estimates the twenty importing countries were less self-sufficient after the War than before. Of their total wheat supply<sup>1</sup>, domestic production accounted for 5 percent less in the postwar crop season of 1952-53<sup>2</sup> than in the prewar period of 1934-38.<sup>2</sup>

Further production changes, however, have taken place since 1952. World wheat production in 1954, excluding Russia, was estimated to be 500 million bushels less than in 1952. Production in the four principal exporting countries, Argentina, Australia, Canada, and the United States, declined even more, dropping 750 million bushels. Hence, the output of wheat in importing countries increased 250 million bushels between 1952 and 1954. This was accomplished by devoting 20 million additional acres to wheat production. Such an increase in output could normally be expected to exert a depressing effect upon wheat exports from the United States and other exporting countries. In 1954, however, much of the wheat produced in European countries was not suitable for milling. Hence, with increased European demand for good quality milling wheat and the tendency of importing countries to build up reserve stocks, world exports during the 1954 marketing season showed a moderate but perhaps temporary gain in volume.

#### **Many countries have incentive wheat production programs**

Many deficit wheat-producing countries have used incentive programs since the war to stimulate domestic production. Use of these programs was prompted for several reasons. In view of the unsettled world situation, the desire for greater self-sufficiency in the event of an outbreak of hostilities was probably one important reason. Another reason was the wish to conserve foreign exchange.

A large number of these incentive programs incorporates some form of price support for domestically produced wheat. Although Government support of wheat prices in the United States has become a generally recognized practice, it is not widely known that many other

<sup>1</sup> Rye supplies are included with wheat supplies.

<sup>2</sup> Data for most of the countries are on this basis. Data for other countries are for nearly comparable periods. See United Nations, *Statistical Yearbook, 1954*, Table 124.

countries also have similar programs. The Foreign Agricultural Service of the United States Department of Agriculture estimated that over 96 percent of the world's 1954 wheat crop was produced and marketed under incentive programs.

Various methods of supporting domestic wheat prices were used in 1954. Among them were fixed prices, Government purchases, guaranteed minimum prices, deficiency payments, guaranteed price ranges, indirect price supports, and precontracting.

Thirty-six countries, not including Communist countries, were listed by the Foreign Agricultural Service as having some form of incentive wheat production program in 1954 (Table 1). Four of these were the major wheat exporting countries. Of the remaining countries, thirty had specified levels of support. Wheat output in these countries was 30 percent greater in 1954 than in the prewar 1935-39 period. This increase seems larger than would have resulted from technological advances and other output increasing factors not related to support programs. It was largely the result of a 23 percent greater acreage, but yields also increased somewhat.

DOMESTIC PRICE SUPPORT OF WHEAT 1954-55 SEASON WITH PRODUCTION AND ACREAGE CHANGES IN DESIGNATED COUNTRIES

	1954-55 Support price per bushel (in terms of U. S. dollars)	Percent change 1954 from 1935-39 <sup>1</sup>	
		Production	Acreage
Chile .....	4.50	21	1
Switzerland .....	4.19	55	21
Finland .....	3.95	64	74
Norway .....	3.43	—38	—41
Italy .....	3.05	—5	—4
Luxembourg .....	3.02	23	2
Uruguay .....	2.96	98	49
Portugal .....	2.85	49	11
West Germany .....	2.72-2.83	14	—3
Spain .....	2.73	14	—5
Algeria .....	2.64	27	7
France .....	2.64	35	—7
Morocco .....	2.64	97	17
Tunisia .....	2.64	50	58
Austria .....	2.63	5	—8
Japan .....	2.61	12	—4
Belgium .....	2.56	31	13
Turkey .....	2.49	33	77
Greece .....	2.40	48	17
Ireland .....	2.39	107	69
Sweden .....	2.35	44	45
United Kingdom .....	2.30	55	33
Union of South Africa ..	2.25	23	48
Egypt .....	2.18	31	27
Mexico .....	1.99	112	45
Netherlands .....	1.86	—4	—18
Peru .....	1.83	86	47
New Zealand .....	1.59	—35	—50
India .....	1.52	18	3
Iran .....	0.97	7	1
Total .....	...	30	23
Major exporting countries			
Argentina .....	2.72	24	—22 <sup>2</sup>
United States .....	2.24	28	—6
Australia .....	1.41	—2	—20
Canada .....	1.40	—4	—5
Total .....	...	17	—22

<sup>1</sup> Not available.

<sup>2</sup> 1953 acreage change.

Source: United States Department of Agriculture, *Foreign Agricultural Circular*, F. G. 13-55, April 2, 1955 and F. G. 11-55, March 14, 1955.

#### Production changes vary among importing countries

The general increase of wheat production in the thirty importing countries which utilized price supports in 1954 conceals a good deal of variation among individual coun-

tries. This variation is due in part to the level and form of support and to the quantity of land resources adapted to wheat production in each country.

The incentive effect of the level of price support on production has been tempered by the volume and quality of land used for the production of wheat. This is illustrated by the manner in which production increases were obtained in Finland, Switzerland, and Chile—the countries with the highest levels of price support for the 1954 crop. Increased output in Switzerland and Chile was obtained largely through higher yields. On the other hand, the increase in Finland was obtained by bringing additional, but less productive, acreage into wheat production.

Support prices for the 1954 crop, in terms of American dollars, varied from \$0.97 per bushel in Iran to \$4.50 per bushel in Chile (Table 1). But a high level of support did not necessarily assure an increase in production. Norway, for example, produced 38 percent less wheat and devoted 41 percent less acreage to the production of wheat in 1954 than in the prewar period despite a comparatively high support price of \$3.43 per bushel. The largest percentage increase in production since prewar occurred in four countries which had about average levels of support in 1954, ranging roughly between \$2.00 and \$3.00 per bushel. These countries, Mexico, Ireland, Morocco, and Uruguay, had production increases which varied from 98 percent to 112 percent higher than in the prewar period. Although yields were improved in these countries, increased acreage contributed materially to the larger output.

#### Potential export market for United States wheat

The fact that numerous importing countries are supporting the domestic price of wheat at levels that are obviously above the world price indicates that they are a potential market for additional United States wheat exports. To change these countries from a potential to an active market for additional supplies of imported wheat, the forces fostering the use of domestic price supports and the concurrent use of such practices as import controls on wheat would need to be neutralized or removed. Perhaps with a reduction in world tension and a freer flow of goods between countries, important forces prompting such programs would be removed.

This potential export market is probably quite large. If it became an actual market, however, it undoubtedly would be shared by the United States with other wheat exporting countries. In view of this division of the market among several exporting nations, it appears doubtful that the increased volume of exports to these countries in the near future could completely solve the wheat surplus problem in the United States. Therefore, solution of the surplus problem will not come about merely by focusing attention on attempts to expand export markets but will involve broader consideration of all pertinent aspects of demand and supply.

**POSTWAR DEVELOPMENTS IN CONSUMER SPENDING**

**P**OSTWAR economic developments have marked total consumer spending as a major—and somewhat unpredictable—source of strength during two periods of recession and recovery and during the current all-time high in general business activity. Seasonally adjusted data indicate that consumption expenditures, which comprise about two-thirds of gross national product, accounted for approximately 80 percent of a \$24.4 billion increase in gross national product from the fourth quarter of 1954 to the third quarter of 1955. In the third quarter of 1955, total consumer spending after seasonal adjustment was running at an annual rate of \$256 billion. This upward surge in buying during the first three quarters of the year was distributed among durables, nondurables, and services, with spending on durables accounting for the largest part of the dollar rise.

This rise in consumer spending reflects an increase in personal income after taxes, together with a willingness of consumers to spend a larger fraction of their higher incomes. From the fourth quarter of 1954 to the third quarter of 1955, seasonally adjusted data show a 5 percent rise in disposable income compared with a 6 percent increase in consumption expenditures. The consequent decline in the proportion of income saved was associated with an accelerated increase in consumer credit. During the first three quarters of 1955, total consumer instalment credit outstanding rose by about \$4.3 billion (seasonally adjusted). This large increase in instalment credit outstanding was primarily accounted for by a rise in automobile paper.

Retail sales estimates available for the region suggest that the Twelfth District trend in consumer spending on goods during the recent upsurge closely paralleled the national movement. Estimates for the first 9 months of 1955 published by the Department of Commerce show that total retail sales by large stores in the West (Mountain and Pacific Coast states) were substantially above the corresponding period of the previous year. Sales by large retail organizations in the major metropolitan areas of the District—Los Angeles, San Francisco-Oakland, and Seattle—during the first nine months of 1955 showed strong increases compared with the same period a year ago. Within this group sales by motor vehicle dealers—the most dynamic sector among all major retail outlets in both the nation and the District during the first three quarters of this year—were up 41 percent in the Los Angeles metropolitan area, 37 percent in San Francisco County, and 29 percent in the Seattle metropolitan area during the first 9 months of 1955 compared with the same period a year ago. A similar time comparison for the nation shows motor vehicle dealers' sales up 22 percent.

This recent strength in consumer purchases points to the continued significance of this sector during the periods of prosperity and recession of the postwar years. During both the 1948-49 recession (fourth quarter of 1948

to fourth quarter of 1949) and the 1953-54 recession (third quarter of 1953 to second quarter of 1954), changes in total consumer expenditures—though arising from different sources—were a major factor in reducing the severity of the recessions and giving buoyancy to the subsequent recoveries. The latter part of this article reviews and compares some of the principal developments in consumer spending during these two postwar periods of economic fluctuations.

***Durable goods the most dynamic sector of consumer buying in first three quarters of 1955***

Consumer purchases of durable goods accounted for about 45 percent of the \$15 billion rise (seasonally adjusted at annual rates) in total consumption expenditures during the first three quarters of 1955 compared with 30 percent for nondurables and 25 percent for services. Spending on durables, seasonally adjusted, showed an accelerated increase from the fourth quarter of 1954 to the first quarter of 1955, increased at a slower rate in the second quarter, and regained momentum in the third quarter. Automotive purchases accounted for the largest proportion of the rise in durable goods spending. The strength of automobile sales in the summer quarter reflects the selling efforts on the part of dealers to clear the way for 1956 models. Consumer buying of furniture, household equipment, and appliances also moved ahead rapidly in the first and third quarters. Furniture and household equipment during the third quarter was selling at a rate almost 15 percent above the third quarter of 1954.

Somewhat in contrast to the pattern of durable goods purchases, consumer spending on nondurables (seasonally adjusted) was unchanged from the fourth quarter of 1954 to the first quarter of 1955, rose at a rapid rate in the succeeding second quarter, and increased though at a somewhat slower rate in the third quarter. The leveling off during the first quarter resulted from a small decline in expenditures for food and for clothing and shoes. However, on a year-to-year basis, purchases of clothing and shoes in the first quarter of 1955 were well above the comparable period figure during the previous year. Following the leveling off early in the year, the second quarter strength in nondurable goods buying largely resulted from increased expenditures for food and for clothing and shoes. Other nondurables registered smaller gains in the spring quarter. The continued rise in spending for nondurables in the summer quarter was largely accounted for by increased purchases for food and beverages. Clothing expenditures showed no changes from the previous quarter while other nondurable goods expenditures showed moderate increases.

The upward trend in expenditures for services during the first three quarters of 1955—continuing the previous postwar trend—was fairly constantly continued through each quarter. A considerable part of the rise in this sector resulted from increases in the number of dwelling units,

in average rents, and in closely related utility expenditures. Spending on most other types of services also edged upward.

**Spending for durables shows largest fluctuations in two postwar recessions**

Comparisons of relative movements in gross national product, total consumption expenditures, and the major types of consumer spending during the 1948-49 and 1953-54 periods of recession and subsequent recoveries are shown in Chart 1. Postwar movements in total consumption expenditures, shown in the chart, indicate that this sector, considered as a whole, was an important factor in tempering the postwar recessions and in stimulating the recoveries. This consistent strength in the total figure was, however, only paralleled by strength in consumer spending for services, while purchases of durables and nondurables showed somewhat more erratic movements.

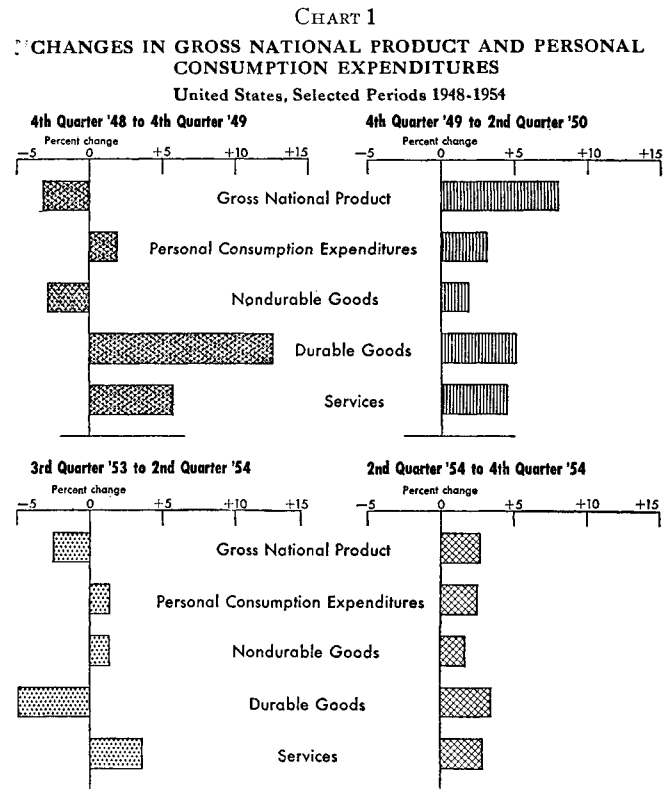
Consumer spending on durable goods showed the largest degree of volatility during both postwar recessions. Consumer spending on durables (seasonally adjusted) declined slightly from the third to the fourth quarter of 1948—leading by one quarter the downturn in gross national product—continued to show a small decrease in the first quarter of 1949, and then gained strength during the succeeding three quarters of 1949 and the first two quarters of 1950. Although the countercyclical movements in durable goods purchases may have cushioned the recession and given impetus to the recovery, the fact that these purchases turned down first—though very slightly—may have been a contributing factor in the 1948-49 “inventory” recession. This early decline in total spending on durable goods was concentrated primarily in consumer purchases of furniture and household equipment. On the other hand, automobile and parts buying showed slow but steady increases during the recession and into the recovery. After the first quarter of 1949, consumer spending for furniture and household equipment also showed a slow but steady rise.

In contrast to the over-all strength in consumer durable goods purchases during the 1948-49 recession, the decline in durable goods buying during 1953 was a significant factor contributing to the business downturn that year, but more important were the decreases in business investment (particularly in new business inventories) and Federal Government expenditures. Spending on durables (seasonally adjusted) leveled off from the second to the third quarter of 1953. Durable sales fell in the fourth quarter of 1953 and began to turn up in the first and second quarters of 1954. This first quarter upturn in durables was the first reversal of the declines among the three major sectors contributing to the most recent business recession. Unlike the 1948-49 recession, the downturn and revival in durables was accounted for primarily by changes in consumer demands for automobiles and parts. Except for a little weakening in the third quarter of 1953, furniture and household equipment purchases remained fairly constant.

**Spending for nondurables declines in early postwar recession**

Consumer spending on nondurables, as shown in Chart 1, moved in the opposite direction to that of durables during the two postwar recessions. Consumption expenditures on nondurables—like gross national product—began to decline from a fourth quarter 1948 peak and continued to decline during the first, second, and third quarters of 1949. Unlike gross national product, which did not begin to turn up until the first quarter of 1950, consumer spending on nondurables recovered in the fourth quarter of 1949 and continued to lend support to the recovery in general business conditions during the first two quarters of 1950. Most of the weakness during the downturn in nondurables was accounted for by a decrease in spending for clothing and shoes whereas the revival was largely due to an increase in expenditures for food and alcoholic beverages and, to a lesser extent, to a revival in purchases of clothing and shoes.

During the 1953-54 recession, consumer spending on nondurables declined somewhat from the second to the third quarter of 1953—preceding by one quarter the decline in gross national product—decreased again slightly in the fourth quarter, turned up in the first quarter, and gained strength in the second quarter of 1954. However, despite these minor fluctuations consumer spending was fairly well sustained during the period of decline in gross national product. These fluctuations were accounted for by minor underlying fluctuations in consumer spending for clothing and shoes and for food and alcoholic beverages.



Source: United States Department of Commerce, *Survey of Current Business*.



ages as well as for other types of nondurable goods expenditures.

### Spending for services moves countercyclically during postwar recessions

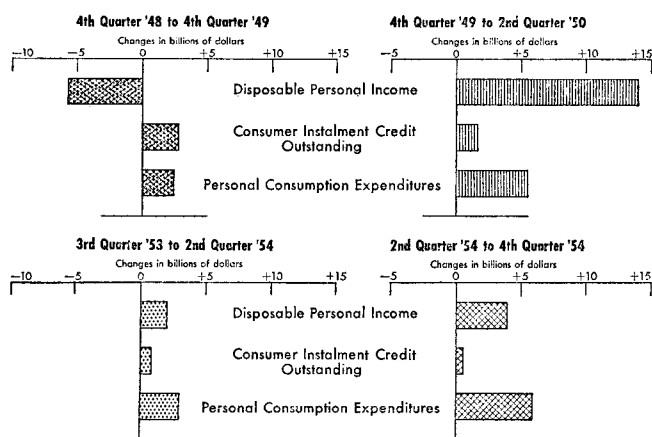
Consumer spending for services was the only major sector in total consumption expenditures to increase countercyclically during both the 1948-49 and 1953-54 recessions. During both postwar recessions, consumer spending on services (seasonally adjusted) showed continued and steady quarter-to-quarter growth. In fact, this stable upward trend in spending for services typifies the pattern of this sector over the entire postwar years. Though a rising demand for housing services accounts for a considerable proportion of the increase in total spending for services, most of the other major components in this sector (household operations and personal services, etc.) have also generally been undergoing a period of fairly stable growth.

### Changes in spending not consistently related to changes in income

Chart 2 indicates that changes in consumption expenditures were not consistently associated with changes in disposable income during the 1948-49 recession. During the second and fourth quarters of 1949 consumer expenditures increased despite simultaneous declines in disposable income. However, during each of the first two quarters of 1950, the continuing increases in total buying were accompanied by rises in income. Somewhat in contrast to the situation in the 1948-49 recession, total consumer spending followed the dip in income from the third to the fourth quarter of 1953 and then continued to increase along with the continuing increase in income from the fourth quarter of 1953 to the second quarter of 1954.

CHART 2

#### CHANGES IN DISPOSABLE PERSONAL INCOME, CONSUMER INSTALMENT CREDIT OUTSTANDING, AND PERSONAL CONSUMPTION EXPENDITURES United States, Selected Periods 1948-1954



Sources: Board of Governors of the Federal Reserve System and United States Department of Commerce, *Survey of Current Business*.

From all apparent indications the strength in consumer spending in the face of a decline in income during the 1948-49 recession is probably largely explained by a continued backlog in demand for durables and housing created by wartime shortages, supplemented by strong liquid asset positions. The increase in total spending resulted from continued increases in consumer demand for durables (especially automobiles, furniture, and household equipment) and for services (especially housing). The optimistic attitude of consumers is perhaps also reflected in an increase in consumer instalment credit outstanding (Chart 2) during the early postwar recession indicating that consumers were willing to commit a larger amount of their future incomes. The strength of consumer buying intentions in early 1949 is also revealed in the findings of the Consumer Finances Survey prepared by the Board of Governors of the Federal Reserve System. The following quotation fairly summarizes the strength of buying intentions at that time: ". . . unless consumer attitudes and incomes have changed materially since the beginning of the year, or should change significantly in the coming months, the year's prospects for consumer purchases of durable goods and houses are by no means discouraging." Apparently the decline in total income was not significant enough to discourage consumers' buying intentions for durables. The weakness in consumer buying of nondurables—showing a sensitivity of this sector to the decline in income in the 1948-49 recession—probably reflects in part the lack of a backlog in the demand for soft goods at that time. In addition, prices of selected nondurables were declining during the 1948-49 recession. To some degree, these declines reflected weaker consumer demands. However, to the extent that consumers anticipated further price declines, these decreases may have caused buyers to postpone their purchases.

The sources of strength, and especially of weakness, in total consumption expenditures during the 1953-54 recession suggest that consumers may have become more sensitive to income changes in contrast to the situation in the 1948-49 recession. Changes in consumer spending on durables, reflecting movements in purchases of automobiles and parts and of furniture and household equipment, followed the pattern of quarterly changes in disposable income during the period of downturn in gross national product from the third quarter of 1953 to the second quarter of 1954. The Survey of Consumer Finances made early in 1954 found that consumers interviewed were "somewhat less confident about their personal financial prospects than they were a year ago." The Survey also showed a decline in the prospective number of purchasers of new cars as a percentage of all spending units interviewed. Further evidence of change in the automobile market between the two periods of recession suggests that the wartime accumulated backlog had virtually been met. During 1953 the average age of cars on the road was markedly less than in 1948. Also, the percentage of new car purchasers trading in or selling cars was significantly larger in 1953 than in 1948, indicating an in-

creased importance of replacement demand. The smaller amount of increase in consumer instalment credit outstanding (seasonally adjusted) during the 1953-54 recession compared with the 1948-49 recession also indicates, in part, the change in consumer attitudes toward their financing of durable goods purchases.

As in the case of the 1948-49 recession, quarterly changes in consumer spending for nondurables followed roughly the pattern of changes in disposable income during the 1953-54 recession.

A decrease in personal income taxes starting in January 1954 was a major factor in the upturn in disposable income during the first quarter of that year. The sensitivity of consumers to their income position mentioned above combined with the similiar pattern of changes between consumer income and expenditures for goods strongly suggest that the cut in personal taxes was probably an important factor in the recovery and strengthening of total consumer spending. Another way in which Government fiscal policy contributed to maintaining disposable income in the 1953-54 recession was through transfer payments in the form of unemployment compensation, veterans' allowances, and so forth. An increase in transfer payments also helped to sustain income in the earlier postwar recession.

As in the earlier postwar recession, consumer spending for services increased counter to the decrease in income during the third and fourth quarters of 1953 and increased along with the rise in income during the subsequent months of the recession. Price rises have played an important part in the constant upward trend in consumer spending for services. During both the 1948-49 and the 1953-54 recessions when the indexes for selected types of nondurable and durable consumers goods were either stable or declining, the price indexes for rent and medical care were rising. During both postwar recessions, the increase in consumer expenditures for housing accounted for approximately 50 percent of the increased expenditures for all consumer services. In general, this rise in consumer spending for housing reflects increases in the number of dwelling units combined with higher average prices (reflecting, in part, qualitatively better housing).

### Summary

Comparisons of consumer behavior during the two postwar recessions and the current prosperity suggest that during the last two years consumer spending has been more closely associated with current financial developments—especially changes in income—and less closely associated with backlogs in demand than during 1948-49. This appears to be particularly the case with durable goods purchases. Durable goods spending, moving countercyclically to the downturn in disposable income, was a major source of strength during the earlier postwar "inventory" recession. On the other hand, declines in durable goods buying paralleling the declines in income were a significant source of weakness during the 1953-54 recession. On the whole, durable goods buying has been the most dynamic source of change in total consumption expenditures during the postwar years.

Consumer spending for automobiles has, on the whole, been the main factor underlying fluctuations in consumer spending on durables. Statistical studies show that changes in automobile sales in the past have been strongly sensitive to changes in income as well as in the level of income, prices, and so forth. This suggests that the current high level of consumer spending for automobiles—and consumer instalment credit—may reflect the strong upsurge in disposable income as well as the high level of income, and other factors. To the extent that the rise in disposable income has been important, a continuation of the current high level of car sales will require for its continuance increases in income similar to those experienced in 1955.

Changes in consumer spending for nondurables have been rather closely associated with changes in income during the 1948-49 recession and recovery as well as during the more recent postwar downturn. Consumer spending for services, on the other hand, has shown continued increases over the entire postwar period—including the two periods of recession. The continued strength in the demand for services is reflected in the fact that the postwar upward trend in consumer spending for services has been accompanied by a parallel rise in rents and the prices of other major components of services.

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### FLOW OF FUNDS BOOK AVAILABLE

The book *Flow of Funds in the United States, 1939-1953* is now available from the Board of Governors of the Federal Reserve System (price \$2.75). This is a highly technical book on a detailed flow-of-funds system of accounts which includes sources and uses of funds statements for ten major economic groups or sectors in the national economy. The statement for each sector embraces all transactions involving transfers of credit and money, existing assets, and currently produced goods and services. Estimates of the amounts of financial assets owned and debts owed are also given in the book, along with many detailed tables describing the relationship of the flow-of-funds accounts to the national income accounts and to other statistical concepts in general use among economists. Requests for copies should be directed to the Board of Governors of the Federal Reserve System, Washington 25, D. C.

**BUSINESS INDEXES—TWELFTH DISTRICT<sup>1</sup>**  
(1947-49 average=100)

Year and month	Industrial production (physical volume) <sup>2</sup>								Total nonagricultural employment	Total mfg employment <sup>4</sup>	Car-loadings (number) <sup>5</sup>	Dep't store sales (value) <sup>6</sup>	Retail food prices <sup>7</sup>	Waterborne foreign trade <sup>8</sup>	
	Lumber	Petroleum <sup>9</sup>		Cement	Lead <sup>10</sup>	Copper <sup>11</sup>	Wheat flour <sup>12</sup>	Electric power						Exports	Imports
		Crude	Refined												
1929	95	87	78	54	165	105	90	29	....	....	102	30	64	190	124
1931	50	57	55	36	100	49	86	29	....	....	68	25	50	138	80
1933	40	52	50	27	72	17	75	26	....	....	52	18	42	110	72
1935	54	62	56	33	86	37	87	30	....	....	47	24	48	135	109
1937	73	71	65	56	114	88	84	38	....	....	60	30	50	170	119
1939	71	67	63	56	93	80	91	40	....	....	55	31	47	163	95
1940	78	67	63	61	108	94	87	43	....	....	63	33	47	132	101
1941	92	69	68	81	109	107	87	49	....	....	83	35	40	....	....
1942	92	74	71	96	114	123	88	60	....	....	121	102	49	....	....
1943	89	85	83	79	100	125	98	76	....	....	164	99	59	....	....
1944	88	93	93	63	90	112	101	82	....	....	158	105	65	....	....
1945	75	97	98	65	78	90	112	78	....	....	122	100	72	....	....
1946	80	94	91	81	70	71	108	78	....	....	95	101	91	89	57
1947	97	100	98	96	94	106	113	90	....	....	100	106	99	96	129
1948	104	101	100	104	105	101	98	101	....	....	102	100	104	103	86
1949	100	99	103	100	101	93	88	108	....	....	97	94	98	100	85
1950	113	98	103	112	109	115	86	119	....	....	105	97	105	100	91
1951	113	106	112	128	89	115	95	136	....	....	122	100	109	113	186
1952	116	107	116	124	86	112	96	144	....	....	132	101	114	115	200
1953	118	109	123	130	74	111	96	161	....	....	139	100	115	113	308
1954	112	106	119	132	70	101	99	173	....	....	120	136	96	113	260
1954															
October	125	104	116	143	70	110	105	176	121	138	102	116	113	112	277
November	121	104	119	132	73	116	104	177	121	139	98	115	111	118	196
December	133	105	119	132	69	114	101	173	122	140	106	118	111	113	313
1955															
January	136r	105	116	119	74	118	107	173	122	140	106	125	112	163	287
February	136r	105	122	131	76	130	112	179	122	140	99	118	112	184	263
March	123r	106	120	137	82	130	108	188	123	140	103	118	112	163	240
April	121r	106	118	149	77	127	97	191	124	141	105	120	113	149	290
May	121r	106	115	155	78	131	96	189	124	143	110	118	113	162	280
June	122r	106	120	153	76	129	97	200	125	145	111	118	112	152	299
July	119	106	128	157	72	40	94	191	125	145	99	123	113	171	368
August	123	106	127	160	67	91	101	196	126	144	106	122	111	....	....
September	118r	106	132	159	69	128r	108	196	126	146	107	126r	112	....	....
October	117	105	129	155	71	131	106	197	126	147	104	126p	112	....	....

**BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT**  
(amounts in millions of dollars)

Year and month	Condition Items of all member banks <sup>7</sup>				Bank rates on short-term business loans <sup>8</sup>	Member bank reserves and related items <sup>10</sup>					Bank debits Index 31 cities <sup>14</sup> (1947-49=100) <sup>15</sup>
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted <sup>9</sup>	Total time deposits		Reserve bank credit <sup>11</sup>	Commercial operations <sup>12</sup>	Treasury operations <sup>13</sup>	Coin and currency in circulation <sup>11</sup>	Reserves	
1931	1,898	547	984	1,727	....	+ 21	- 154	+ 154	+ 48	147	28
1933	1,486	720	951	1,609	....	- 2	- 110	+ 150	- 18	185	18
1935	1,537	1,275	1,389	2,064	....	+ 2	- 163	+ 219	+ 14	287	25
1937	1,871	1,270	1,740	2,187	....	- 1	- 90	+ 157	- 3	549	32
1939	1,967	1,450	1,983	2,267	....	+ 2	- 192	+ 245	+ 31	584	30
1940	2,130	1,482	2,390	2,360	....	+ 2	- 148	+ 420	+ 96	754	32
1941	2,451	1,738	2,893	2,425	....	+ 4	- 596	+1,000	+ 227	930	39
1942	2,170	3,630	4,356	2,609	....	+ 107	-1,980	+2,826	+ 643	1,232	48
1943	2,106	6,235	5,998	3,226	....	+ 214	-3,751	+4,486	+ 708	1,462	60
1944	2,254	8,263	6,950	4,144	....	+ 98	-3,534	+4,483	+ 789	1,706	66
1945	2,663	10,450	8,203	5,211	....	- 76	-3,743	+4,682	+ 545	2,033	72
1946	4,068	8,428	8,821	5,797	....	+ 9	-1,607	+1,329	- 326	2,094	86
1947	5,358	7,247	8,922	6,006	....	- 302	- 510	+ 698	- 206	2,202	95
1948	6,032	6,366	8,655	6,087	....	+ 17	+ 472	- 482	- 209	2,420	103
1949	5,925	7,016	8,536	6,255	....	+ 13	- 930	+ 378	- 65	1,924	102
1950	7,093	6,415	9,254	6,302	....	+ 39	-1,141	+1,198	- 14	2,026	115
1951	7,866	6,463	9,937	6,777	....	- 21	-1,582	+1,983	+ 189	2,269	132
1952	8,839	6,619	10,520	7,502	....	+ 7	-1,912	+2,265	+ 132	2,514	140
1953	9,220	6,639	10,515	7,997	....	- 14	-3,073	+3,158	+ 39	2,551	150
1954	9,418	7,942	11,196	8,699	....	+ 2	-2,448	+2,328	- 30	2,505	153
1954											
November	9,343	8,089	10,937	8,596	....	- 1	- 244	+ 342	+ 27	2,440	158
December	9,422	7,973	11,158	8,663	....	0	- 127	+ 175	- 23	2,505	173
1955											
January	9,510	7,998	11,246	8,725	....	- 34	- 150	+ 77	- 79	2,481	161
February	9,612	7,693	10,945	8,765	....	+ 15	+ 26	- 57	+ 13	2,447	166
March	9,696	7,390	10,733	8,837	....	+ 10	- 401	+ 362	- 1	2,418	177
April	9,657	7,756	11,060	8,833	....	+ 60	- 306	+ 261	+ 15	2,432	165
May	9,810	7,690	10,951	8,885	....	- 55	- 51	+ 195	+ 50	2,476	170
June	10,102	7,446	11,023	9,026	....	+ 27	- 449	+ 429	+ 35	2,439	178
July	10,191	7,557	11,212	8,995	....	+ 10	- 193	+ 217	- 9	2,495	166
August	10,392	7,407	11,163	9,021	....	- 23	- 253	+ 200	+ 8	2,415	177
September	10,559	7,375	11,312	9,054	....	+ 17	- 148	+ 276	+ 18	2,541	173
October	10,665	7,487	11,465	9,067	....	- 43	- 245	+ 174	+ 15	2,417	171
November	10,931	7,238	11,665	9,005	....	+ 46	- 81	+ 205	+ 18	2,575	181

<sup>1</sup> Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, various lumber trade associations; petroleum, cement, copper, and lead, U.S. Bureau of Mines; wheat flour, U.S. Bureau of the Census; electric power, Federal Power Commission; nonagricultural and manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Bureau of the Census.  
<sup>2</sup> Daily average. <sup>3</sup> Not adjusted for seasonal variation. <sup>4</sup> Excludes fish, fruit, and vegetable canning. <sup>5</sup> Los Angeles, San Francisco, and Seattle indexes combined. <sup>6</sup> Commercial cargo only, in physical volume, for Los Angeles, San Francisco, San Diego, Oregon, and Washington customs districts; starting with July 1950, "special category" exports are excluded because of security reasons. <sup>7</sup> Annual figures are as of end of year, monthly figures as of last Wednesday in month or, where applicable, as of call report date. <sup>8</sup> Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. <sup>9</sup> Average rates on loans made in five major cities during the first 15 days of the month. <sup>10</sup> End of year and end of month figures. <sup>11</sup> Changes from end of previous month or year. <sup>12</sup> Minus sign indicates flow of funds out of the District in the case of commercial operations, and excess of receipts over disbursements in the case of Treasury operations. <sup>13</sup> Debits to total deposits except interbank prior to 1942. Debits to demand deposits except Federal Government and interbank deposits from 1942. <sup>14</sup> Preliminary. <sup>15</sup> Revised.