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Federal Reserve Bank of Chicago - -

August 31, 1956



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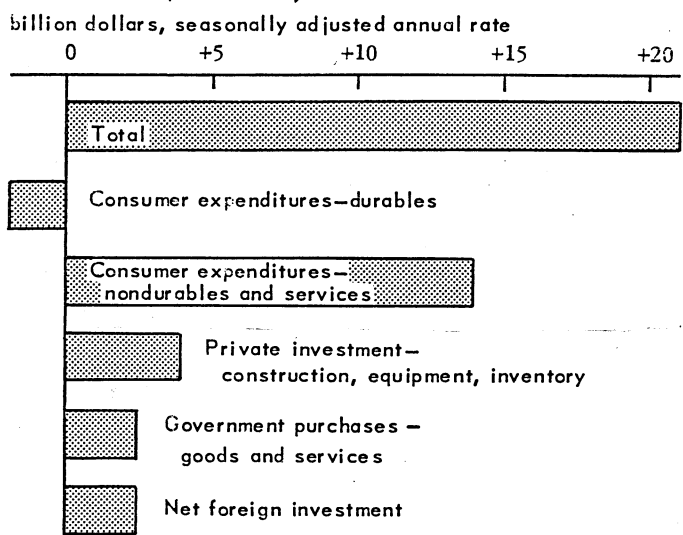
A FAST TEMPO of economic activity is evident almost everywhere. Demand for most commodities and services continues strong. And with the economy operating near capacity in most lines there is a scramble to expand output by obtaining the ownership or use of additional resources. The result: a tremendous demand for credit and upward pressure on costs and prices.

The nation's total output in the second quarter of the year showed a gain of about 5 per cent over the year-earlier figure. A part of the increase, of course, reflected higher prices. The July index of all commodity prices at wholesale was 3 per cent above July 1955. And in recent weeks price increases have been announced for a long list of manufactured items.

Consumer expenditures have been rising steadily, reflecting their larger income. But current spending has been augmented somewhat less than last year by additions to outstanding consumer credit, reflecting primarily reduced auto purchases. Outlays for food and other nondurables and services, however, have continued to expand, with the gains more than offsetting reductions for durables.

THE GROSS NATIONAL PRODUCT,

Change between second quarter 1955 and second quarter 1956,



A BIG FACTOR in the expanding demand for goods and services has been the rise in business spending for new factories, machinery, stores and other capital goods. This has fully offset the reduction in residential construction outlays. Furthermore, plant and equipment outlays are scheduled to increase further in the remainder of the year and possibly into 1957.

GOVERNMENT PURCHASES, which account for about 20 per cent of the nation's total output, are scheduled to increase. Defense outlays probably will rise by at least a billion dollars in the coming year, and

expanded outlays are in prospect for many nondefense programs including the soil bank program and veterans' benefits.

State and local government spending is increasing also. Road construction is expected to rise sharply, and the need for other public facilities and services continues to grow.

TOTAL OUTPUT of goods and services will probably climb above the current record level in the fourth quarter. Supported by the continued growth in consumer income, the domestic demand for farm products is expected to remain at a high level. Also, foreign takings of farm products are at a high level, 19 per cent above year earlier in the first half and, according to USDA, will probably reach a record volume for the year as a whole.

TAXES are rising on farm land, as on other types of real estate. A growing population and higher levels of living require increased amounts of public services, and wage and material costs have advanced. Taxes levied on U.S. farm real estate in 1955 (payable largely in 1956) averaged 87 cents per acre, for an increase of about 6 per cent over 1954. Average levies per acre and the change from year earlier for District states were:

Illinois.....	\$2.97	+7%
Indiana.....	1.75	+11
Iowa.....	2.27	-1
Michigan.....	1.22	+22
Wisconsin.....	1.93	+5

Michigan showed the largest gain of any state; Iowa showed the largest decline. Taxes can be expected to rise further in most states as outlays of state and local governments respond to demands for additional schools, roads, sewers, water systems and other facilities and services.

THE CONSERVATION RESERVE segment of the soil bank program has now been outlined in some detail. Information on county programs is available from county ASC offices. Also, the acreage reserve program for the 1957 crop of wheat has been announced. Farmers having wheat allotments may sign up through September 21 for fall-seeded wheat. Payments at the rate of \$1.20 a bushel of normal yield of wheat will be made on reductions of acreage below allotments.