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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

NATIONAL ECONOMIC SITUATION AND OUTLOOK FOR 1960

Talk by Nathan M. Koffsky
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at the 37th Annual Agricultural Outlook Conference
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The outlook for 1960 is for higher rates of economic activity and employment than the records established just before the steel strike. Total consumer incomes, which in mid-1959 were some 7 percent larger than a year earlier, may increase another 4 or 5 percent by mid-1960. Even with continued substantial growth in population and the prospects that consumer prices will average slightly higher next year than this year, we expect per capita purchasing power of the average consumer to increase some further in 1960. As of mid-year 1959, per capita purchasing power averaged 5 percent above a year earlier and more than 20 percent above the level of 10 years ago.

From July on, the steel strike and its attendant effects brought some reductions in industrial production and employment and in the flow of income in the economy. The declines overall were relatively small and most economic indicators remained well above the levels of 1958. The strike had little impact on consumer markets, particularly the demand for food.

Meanwhile, confidence generally remains high that the upward trend in the economy, which got underway in the spring of 1958, will be resumed now that steel operations are rising. In fact, the outlook for 1960, particularly for the first half of the year, has been strengthened further by backlogs of demand built-up during the strike period.

Growth in the economy was fairly rapid to the middle of this year, proceeding at a rate roughly comparable to the expansions which followed the earlier post-war recessions. Gross national product in constant prices rose 10 percent between the second quarter of 1958 and the second quarter of 1959, and at that time was 5 percent higher than the peak rate attained before the recession in the fall of 1957. Reflecting the slow down caused by the steel strike, real gross national product in the third quarter of this year declined between 1 1/2 and 2 percent from the second quarter. Employment had risen to a new high in mid-1959. Despite a substantial increase in the labor force, unemployment was reduced to less than 4 million persons compared with over 5 million unemployed in mid-1958. Employment, however, rose much less than economic activity, reflecting a longer work week and, as has usually occurred in recovery from recession, a very substantial improvement in productivity per man hour. More recently, employment in some durable goods industries has declined as supplies of steel were reduced. Nevertheless, in September, total employment was still some 1.7 million higher than a year earlier and unemployment, declining seasonally, was 3.2 million, some 900,000 less than in September 1958.

The general price situation has been fairly stable over the past year. The BLS index of wholesale commodity prices in September was only slightly above the level of a year earlier--the net outcome of declines in prices of farm products and processed foods and a somewhat higher level of prices of industrial commodities. The BLS index of consumer prices and the AMS index of prices paid by farmers for family living items showed increases of about 1 percent over September 1958, again with lower retail prices of foods partly offsetting price increases elsewhere. The persistent rise in charges for services, such as medical and personal care, continued over the past year.

We turn now to the major forces which have shaped the economy in the past year or so, keeping in mind that in the first part of the period the economy was recovering from recession, while the most recent quarter reflected the effects of the steel strike. Table 1 summarizes the marked increase in expenditures from the main sources of demand--consumers, business and government--which occurred between the second quarter of 1958 and the second quarter of 1959. Also shown are the changes in the most recent quarter.

Table 1.- Gross National Product

| | 2nd | 2nd | 3rd | Change | |
|--|--------------|--------------|--------------|-------------------|--------------|
| | quarter | quarter | quarter | 2nd 1958:2nd 1959 | to : to |
| | 1958 | 1959 | 1959 | 2nd 1959:3rd 1959 | Bil. Dol. |
| | Bil. Dol. | Bil. Dol. | Bil. Dol. | | |
| Gross National Product | <u>434.5</u> | <u>484.5</u> | <u>478.6</u> | <u>+50.0</u> | <u>- 5.9</u> |
| Personal consumption expenditures | 290.9 | 311.2 | 313.3 | +20.3 | + 2.1 |
| Private investment | 52.5 | 75.7 | 66.9 | +23.2 | - 8.8 |
| Government purchases of goods and services | 91.1 | 97.7 | 98.4 | + 6.6 | + 0.7 |

(Seasonally adjusted annual rates)

Source:

U. S. Department of Commerce

Between the second quarter of 1958 and the second quarter of 1959, the flow of expenditures in the economy increased some 50 billion dollars, with demands up substantially in each of the major sectors. Consumer expenditures rose 7 percent. Private investment outlays, where much of the 1957-58 recession was concentrated, rose almost 50 percent, accounting for almost half of the total increase in expenditures in the economy. Government purchases of goods and services--Federal, State and local--increased some 7 percent.

In the most recent quarter, the decline associated with the steel dispute has been largely reflected in the private investment sector. Government outlays and consumer expenditures have continued to rise.

Table 2.- Personal Consumption Expenditures

| | 2nd quarter 1958 | 2nd quarter 1959 | 3rd quarter 1959 | Change | |
|--------------------------------------|------------------------|------------------------|------------------------|--|--------------|
| | Bil. Dol. | Bil. Dol. | Bil. Dol. | 2nd 1958:2nd 1959 to : to 2nd 1959:3rd 1959 Bil. Dol. | |
| Personal consumption expenditures | <u>290.9</u> | <u>311.2</u> | <u>313.3</u> | <u>+20.3</u> | <u>+ 2.1</u> |
| Durable goods | 36.7 | 44.1 | 43.6 | + 7.4 | - 0.5 |
| Nondurable goods | 141.5 | 147.7 | 148.0 | + 6.2 | + 0.3 |
| Services | 112.7 | 119.4 | 121.6 | + 6.7 | + 2.2 |
| Consumer disposable income | 312.9 | 335.3 | 335.1 | +22.4 | - 0.2 |
| Savings | 22.0 | 24.1 | 21.9 | + 2.1 | - 2.2 |
| Personal savings rate | 7.0% | 7.2% | 6.5% | + 0.2% | - 0.7% |

(Seasonally adjusted annual rates)

Source:

U. S. Department of Commerce

The consumer sector shows broad strength, particularly for durable goods for which expenditures rose 20 percent between the second quarter of 1958 and the second quarter of 1959. Sales of appliances and furniture were up, reflecting a higher rate of new housing completions. Sales of new automobiles have risen to a rate of over 6 million cars this year (including some 600,000 foreign cars). This compares with about 4 1/2 million in 1958 but is still less than in 1955 when over 7 million cars were purchased. Consumer spending for services has about kept pace with the rise in consumer income, although expenditures for nondurables, especially food, did not rise as fast. This reflects the lower level of food prices this year.

By and large, the increase in total consumer expenditures by the second quarter of this year was about in line with the rise in consumer incomes, after taxes. The rise in consumer takings has also involved a sharp expansion in consumer credit outstanding, not only for the purchase of automobiles but for other purposes as well. Even so, with higher incomes, the ratio of repayments on installment credit to income has not changed materially for some years. Moreover, while the ratio of total consumer credit outstanding to income is somewhat higher than a year ago, it still is not as high as two years ago.

In the most recent quarter, consumer expenditures, most notably for services have continued to increase although consumer incomes showed little change overall. Accordingly, there was some reduction in the rate of personal savings out of current income.

Table 3.- Private Investment Expenditures

| | 2nd quarter 1958 | 2nd quarter 1959 | 3rd quarter 1959 | Change | |
|-----------------------------------|------------------------|------------------------|------------------------|---|--------------|
| | Bil. Dol. | Bil. Dol. | Bil. Dol. | 2nd 1958:2nd 1959 to : to 2nd 1959:3rd 1959 | Bil. Dol. |
| Private investment | <u>52.5</u> | <u>75.7</u> | <u>66.9</u> | <u>+23.2</u> | <u>- 8.8</u> |
| Residential construction | 16.9 | 23.1 | 22.6 | + 6.2 | - 0.5 |
| Non-residential construction | 17.7 | 17.9 | 18.3 | + 0.2 | + 0.4 |
| Producers' durable equipment | 22.6 | 26.0 | 27.0 | + 3.4 | + 1.0 |
| Change in business inventories | - 5.8 | 10.4 | - 1.0 | +16.2 | -11.4 |
| Net exports of goods and services | 1.2 | - 1.8 | 0.0 | - 3.0 | + 1.8 |

(Seasonally adjusted annual rates)

Source:

U. S. Department of Commerce

Most of the increase in private investment outlays up to mid-1959 and the subsequent decline stem from sharp shifts in the business inventory situation. In the second quarter of 1958, business inventories were being reduced at a rate of almost 6 billion dollars a year. By the second quarter of 1959, business inventories were being accumulated at a rate of over 10 billions a year though part of the increase was due to the prospects for a steel strike. Even so, with business sales up appreciably in 1959, stock-sales ratios, particularly in durable goods industries, at the end of June were substantially below a year earlier and low in comparison with other recent years. There was a substantial gain also in outlays for residential construction, between the second quarter of 1958 and the second quarter this year, involving large federal purchases of mortgages and more liberal credit terms for FHA and VA assisted housing. The rate of new housing starts rose from an annual rate of about 1.0 million units to almost 1.4 million. More recently, housing starts have eased off as credit conditions have tightened. The September rate of starts, however, was still above a year earlier.

Business capital outlays for new equipment, which had declined sharply in the 1957-58 recession, rose 15 percent by mid-1959 and a further gain was noted in the third quarter. However, such outlays have not risen as fast as in the recovery of 1954-55, and are still substantially below the level reached two years ago. Business construction, however, has not changed much in total. Construction of industrial plants is down, reflecting enlarged capacities from earlier programs, while commercial construction, particularly of office buildings has improved. Purchases of farm machinery were apparently increased earlier this year, partly reflecting the higher farm income realized in 1958. Farm construction also appears to be at a higher level than in 1958.

Our net export balance was a minus factor in the economy up to about mid-year but more recently has shown some improvement. U. S. imports, earlier this year ran more than 20 percent ahead of a year earlier and have continued at this level in recent months. Exports were somewhat under a year earlier but more recently have risen above. The rapid rise in foreign gold and dollar holdings earlier this year has slowed with the recent improvement in the trade balance and the repayment before maturity of some foreign loans.

Table 4.- Government Purchases of Goods and Services

| | 2nd | 2nd | 3rd | Change | |
|--|-------------|-------------|-------------|------------------------------|--------------------------------|
| | quarter | quarter | quarter | 2nd 1958:2nd 1959 to : to | 2nd 1959:3rd 1959 Bil. Dol. |
| | 1958 | 1959 | 1959 | | |
| | Bil. Dol. | Bil. Dol. | Bil. Dol. | | |
| Government purchases of goods and services | <u>91.1</u> | <u>97.7</u> | <u>98.4</u> | <u>+ 6.6</u> | <u>+ 0.7</u> |
| Federal | 51.3 | 53.9 | 53.6 | + 2.6 | - 0.3 |
| National Defense | (44.3) | (46.2) | (45.9) | (+ 1.9) | (- 0.3) |
| State and local | 39.7 | 43.8 | 44.8 | + 4.1 | + 1.0 |

(Seasonally adjusted annual rates)

Source:

U. S. Department of Commerce

In the government sector, federal purchases of goods and services at mid-year were somewhat larger than in mid-1958, primarily due to higher outlays for the national defense. In the third quarter of 1959, federal purchases showed a small decline from the second quarter, again due to a reduction in national defense expenditures. Transfer payments, such as unemployment compensation, are running under a year earlier as a result of an improved employment situation. Expenditures by State and local governments rose somewhat more over the past year than in most recent years, although there has been a recent downtrend in public construction. Nevertheless, State and local government payrolls continue to move up as employment and wage rates increase.

We turn now to the outlook for these major expenditure flows in the period ahead, specifically for the next 12-15 months. Budget expenditures of the Federal government in the current fiscal year, according to the September Budget Review, are scheduled to be below the fiscal year which ended June 30, 1959. Federal receipts on the other hand have risen sharply reflecting increased tax receipts generated by economic recovery. A small budget surplus was projected for the current fiscal year in contrast to a substantial deficit incurred in 1958-59. State and local government expenditures, on the other hand, are expected to continue their rise, although the large increase of the past year may not be matched, partly as a result of high interest rates as well as some slackening in the highway and school construction programs. Thus, total government expenditures in the year ahead are likely to rise much less than in the year just passed.

Similarly, we should not expect as large an increase in private investment expenditures, as in the past year when there was a radical shift in the inventory situation, as well as a rapid increase in residential construction. Nevertheless, with steel operations resumed, a substantial rate of inventory accumulation is likely for many months ahead, not only to rebuild stocks of steel but also to bring stocks generally better in line with the level of sales, present and prospective. However, the expansionary impact of inventory build-up will likely be felt more in the first half of 1960 than in the second half of that year.

There also appears to be every likelihood that business capital outlays for new plant and equipment will continue to increase in 1960. According to the September survey by the Securities and Exchange Commission and the Department of Commerce, business planned to spend 18 percent more for new plant and equipment in the fourth quarter of 1959 than in the final quarter of 1958. Each succeeding survey during the year has indicated upward revision of plans reported earlier. Corporate profits have been reestablished at a high level and rising sales have generated business optimism. Further, we should keep in mind the investment generating effects of heavy expenditures for research and development by business which has risen to a rate of some 9 billion dollars a year. The tight steel supply, may, however, cause some postponements. Thus far, most of the increase in capital outlays is for new equipment rather than for enlarging plant, but as output comes closer to capacity industrial construction may increase as well. The prospects are not bright for farm capital outlays, inasmuch as farm income has moved lower. Residential construction, which is fairly sensitive to high interest rates and a tightening in the availability of mortgage financing, will likely continue to ease off in 1960. Also, construction costs have increased.

Our transactions with foreign countries over the next year should provide a plus factor for the economy in contrast to the past year. Foreign holdings of gold and dollar reserves have improved sharply, some trade restrictions have been eased, and economic growth abroad has been resumed. Although U. S. imports are likely to continue to rise, exports may well increase more than imports in the year ahead.

The consumer is likely to increase his expenditures. Higher outlays by the business and government sectors will reinforce rising consumer demands. Although the economy may not grow as fast in the next 12 months as in the past period, the rate of growth will likely exceed the long-term rate of 3 percent or so a year. Employment should increase faster than additions to the labor force and unemployment may well be reduced further especially as the rate of productivity advance per man hour usually slows at this stage of the business cycle. Wage rates continue to move up steadily. In manufacturing, straight time hourly earnings have risen 3 3/4 percent over the past year. Next year, higher consumer incomes are likely to translate into higher purchasing power again for the average consumer. The average price rise is likely to be small since somewhat lower food prices will tend to offset increases elsewhere. Public reception of new car models has been generally good so far, and we may expect a further increase in automobile sales and in durable goods overall next year. This will likely involve again some increase in consumer credit outstanding. Expenditures for services should rise about in line with the gain in income. Expenditures for nondurables, including food, may not rise as much as income in 1960. But a favorable aspect for the longer run is that the heavy-eating teen age group will be increasing faster in the next 5 years than any other age group.

One final note from business cycle annals. According to the National Bureau of Economic Research, the expansion phases of the post-war business cycles have run some 3 years or more. Thus, if the current expansion phase should conform, the next critical period would not be until the spring of 1961. In view of the interruption to economic growth occasioned by the steel strike, it might well be put off further.