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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Consumer Expectations
Business Investment Programs

With the onset of the recession, interest has increased in the possible effects on general business of changes in the levels of business expenditures for new plant and equipment and consumer expenditures for new durable goods. In evaluating these changes, the 1954 *Survey of Consumer Finances*[1] and the *Survey of Expected 1954 Expenditures for New Plant and Equipment,*[2] are of special interest. Accordingly, we quote below highlights from the surveys.

Consumer Expectations

"The proportion of consumers planning to buy new automobiles within the year was smaller in early 1954 than in early 1953 or early 1950 but larger than in early 1952 or early 1951. * * *

"Plans to buy furniture and major household appliances were less numerous early this year than in early 1953 but changes were not uniform for all items covered by the Survey. * * *

"Fewer consumers planned to buy new and existing nonfarm homes in 1954 than in 1953 but about the same number as in 1952. * * *

"With regard to personal financial prospects, the proportion of nonfarm consumers expecting to be making more at the end of the year was a little smaller in early 1954 than in early 1953, but about the same as in each of the three years preceding the Korean outbreak. * * *

"With respect to prices, more than a third of the consumers interviewed in early 1954 expected declines during the year."

Business Investment Program

"American business has scheduled 1954 investment in new plant and equipment close to the high 1953 rate. Investment programs for 1954 call for an expenditure of $27.2 billion, or about 4 percent below actual spending of $28.4 billion in 1953. Since average costs of capital goods have been relatively stable over the past year, the comparison can be accepted as a measure of the volume change as well. * * *

"By industries, the survey indicates that manufacturing companies are anticipating a 7 percent reduction in fixed capital outlays from 1953. Commercial and mining companies are planning 3 percent increases, while the public utilities have projected little change from their 1953 expenditures. The most noteworthy change in investment rates from last year, a decline of about one-fourth, appears in railroads; other transportation companies expect to lower their investment about 4 percent."

The survey suggests the following developments as the factors contributing to the relatively high rate of manufacturer demand for new capital goods.

"First, total demand for the products of business is still quite high despite the recent decline. Second, a number of investment programs are of long-run nature and—barring a major business downtrend—are not seriously influenced by short-term fluctuations in business activity. This is particularly true of industries with strong growth trends such as electric utilities, petroleum, and electrical machinery. Third, there is still a substantial backlog of projects under the defense mobilization program. Many of these are already under way but they require considerable expenditure for completion. Fourth, replacement requirements are increasing. This is due partly to the generally rising trend in the nation's stock of fixed capital."

What the Indicators Say

The accompanying chart presents three indices developed according to a technique of the National Bureau of Economic Research and introduced in our bulletin for March 1, 1954. The indices summarize the over-all cyclical status of the three groups of statistical indicators through February 1954. The curve giving the percentage of the eight leading indicators expanding was revised for December after final data became available. The revised curve crossed the 50-percent line to a point above it in December, returned to the line in January, and fell back below it again in February. However, it is important to note that the curve for January and February is highly tentative, being based on preliminary or

[1]The survey was conducted in January and February of this year by the Board of Governors of the Federal Reserve System in cooperation with the Survey Research Center of the University of Michigan. The Board warns the reader of the experimental nature of the survey, particularly in periods of recession, and cautions against treating the findings as anything more than tentative. The preliminary results are published in the Federal Reserve *Bulletin*, March 1954, pages 246-249.

[2]This survey was conducted during February and early March by the Office of Business Economics of the Department of Commerce and the Securities and Exchange Commission. In the past, findings of the survey corresponded closely to the final figures of expenditures for new plant and equipment. The findings are published in the *Survey of Current Business*, March 1954, pages 9-13.

estimated data. Moreover, adjustment of the individual series for seasonal variations is another possible source of errors. The curve of roughly coincident indicators, which was subject to minor revision for December, and the curve of the lagging indicators show no major changes for January and February. The latter reached the zero line in February; the former turned up in February but was little above the zero line.

The index of leading indicators gives little evidence of an early upturn, although recent actions of the index raise doubts as to how long the downward trend will continue. Thus the possibility of an upturn sometime this year cannot be ruled out.

Latest Data

New orders of durable goods increased during February, the first increase since last May. Manufacturers' inventories continued to decrease in February.

The long decline of steel-scrap prices, not included among the indicators of the National Bureau, was halted in mid-March, at least temporarily. Steel-scrap prices recovered during the week ended March 23.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 68 percent of capacity for the week ended April 3, 1954, was slightly less than that in the preceding week and was 26 percent less than production in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Percent of Capacity†	96	22	92	36	97	68p
Weekly Cap. (million tons)	1.38	1.52	1.51	1.54	2.25	2.38
Production (million tons)	1.32	.33	1.39	.55	2.19	1.62

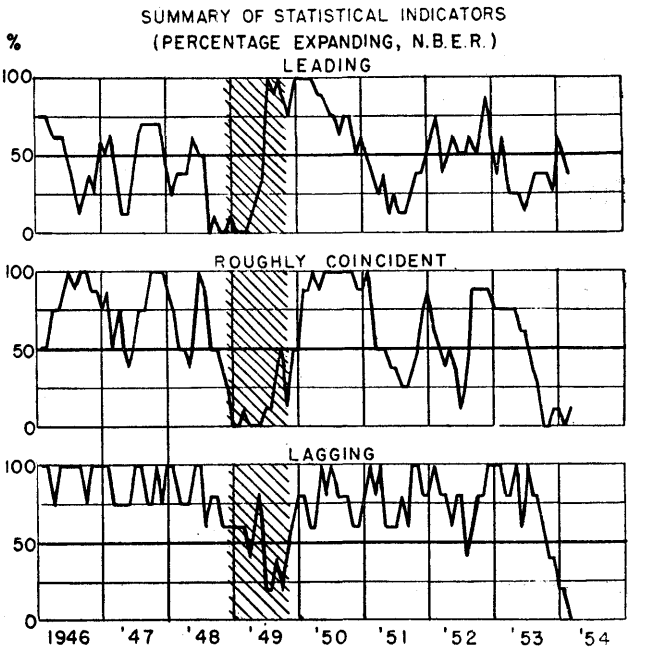
Automobile and truck production in the United States and Canada during the week ended March 27, 1954, was estimated at 149,098 vehicles, compared with a revised total of 154,895 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Vehicles (000 omitted)†	137	37	101	57	182	149p

Electric-power production in the week ended March 27, 1954, decreased to 8,491,000,000 kilowatt-hours from 8,572,000,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Billion Kilowatt-Hours†	1.68	1.52	2.24	2.03	8.07	8.49

Lumber production in the week ended March 20, 1954, decreased. *The New York Times* seasonally adjusted index was slightly below that for the preceding week and



was 7 points below that for the corresponding week last year.

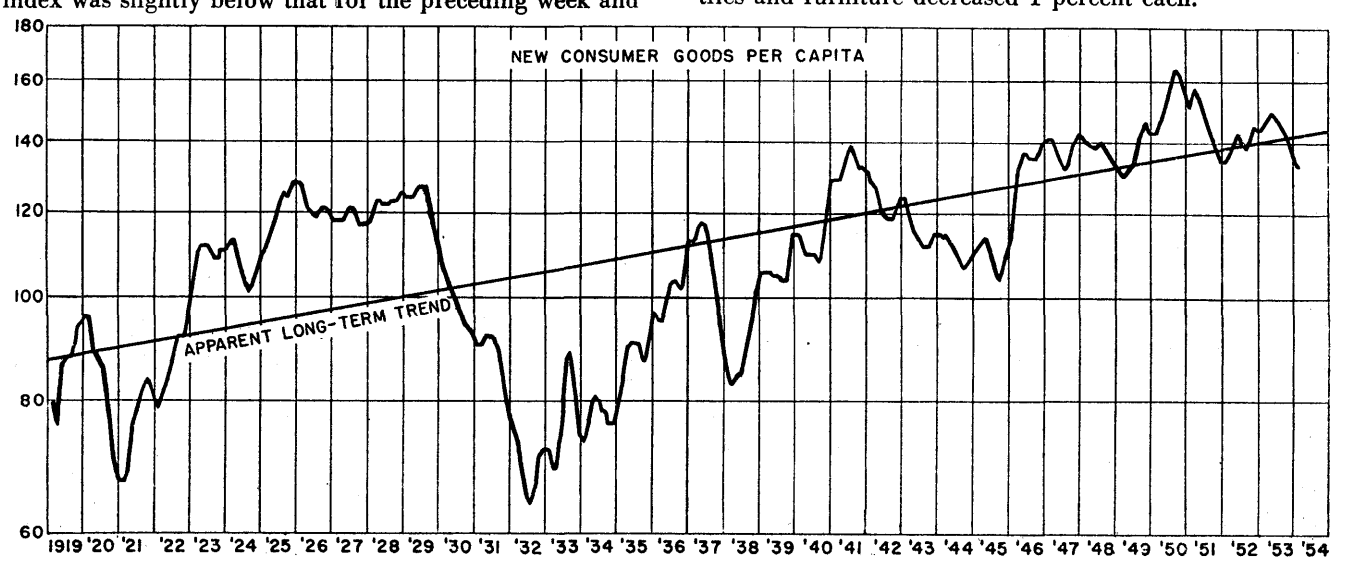
	1929	*1932*	*1937*	*1938*	*1953*	*1954*
The New York Times Index†	129	40	94	88	125	118

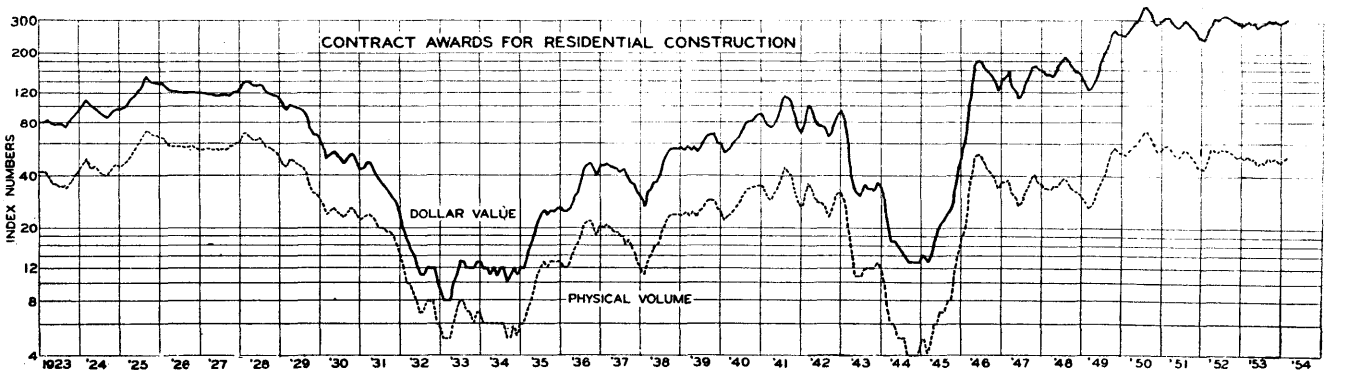
†Latest weekly data; corresponding weeks of earlier years
p=preliminary

New Consumer Goods Per Capita

The index of new consumer goods produced per capita (a 3-month moving average plotted at the last month) decreased about 1 percent during February from our revised figure for January (the revised figure was 1 percent below the figure for December 1953). The figure for February was 11 percent below the 1953 high reached in May and 19 percent below the post-World War II peak reached in August 1950. Since May 1953 the trend of the series of consumers' goods has been downward.

Production of consumer goods, which increased 1 percent during January, decreased 3 percent during February. Production of foods decreased 7 percent; automobile production decreased 4 percent; production of textiles and furniture decreased 1 percent each.





Automobile production, which totaled 529,141 cars and trucks during February, increased to 625,000 units in March. The March increase is believed to be seasonal. According to *Ward's Automotive Reports,* however, the increase thus far has been less than seasonally expected. Similarly, a *Wall Street Journal* survey shows that * * * "car merchants say the pickup thus far is below both the speedy year-ago pace and their expectations for spring 1954."

Manufacturers' stocks of new cars increased to an alltime high of 650,000 cars on March 10, 60 percent more than the figure for the corresponding period last year. On the other hand, dealers' stocks of used cars were 700,000 units as of March 10, 40,000 less than those a month ago and only 2 percent more than those during the corresponding period last year.

The decline of cigarette consumption for 1953 is singular. The Department of Agriculture reported that Americans smoked 2 percent fewer cigarettes in 1953 than in 1952, the first drop, except for the 1944 war year, since the early 1930's.

The trend of furniture production has been downward since April 1953; and, according to Seidman and Seidman, accountants for the furniture industry, "The decline * * * shows no positive sign of coming to a halt." Unfilled orders of the industry at the end of February 1954 were 38 percent less than those in February last year.

The seasonal increase in automobile production during March and following months may be sufficient to cause our index of consumer goods per capita to level off during the next few months. However, we do not expect an early resumption of an upward trend. The virtual elimination of overtime in most industries as well as the decline in personal income and a more restrained use of installment credit on the part of consumers is expected to reduce the over-all demand for new consumer goods.

Residential Construction

According to our preliminary estimates, the index of residential-construction contract awards, which rose 4 percent during January, advanced 1 percent further during February to the highest level since September 1952. The February figure was 3 percent above that of February a year earlier but was 16 percent below the post-World War II peak reached in July 1950.

The *Engineering News-Record* index of construction costs increased during February to an alltime high. The February figure was nearly 5 percent above that of February 1953 and was 20 percent above that of June 1950. According to preliminary reports, construction costs decreased slightly during March.

Our physical-volume index of residential construction (which is derived by dividing the index of the dollar value of residential construction by the index of construction costs) increased 4 percent during January and 1 percent further during February. The February index was equal to that of February 1953.

The revised number of new nonfarm dwelling units started during February is 73,000, compared with 66,000 units started during January and 79,200 units started during February a year earlier. The number of units started during the first 2 months this year is 139,000, compared with 151,300 units started during the corresponding period of 1953, a decrease of 9 percent.

As is reported elsewhere in this bulletin, the annual survey of consumer finances conducted by the Board of Governors of the Federal Reserve System has found that "fewer consumers planned to buy new and existing nonfarm homes in 1954 than in 1953." According to the survey, slightly less than 7 percent of spending units expect to purchase houses this year, compared with nearly 9 percent as found by the 1953 survey.

Actually, the demand for houses seems to be somewhat less this year than last year. According to a survey conducted by *Fortune*, "It now takes two to six weeks longer to dispose of a house than it did a year ago." However, builders continue to be optimistic. *Fortune* reports that they expect to start 1,200,000 new dwelling units in 1954.

Present indications are that the demand for houses will be somewhat less this year than in 1953. Thus we expect that the volume of residential construction will be smaller this year than last year.

DEMAND

Department-Store Sales

We estimate the Federal Reserve Board's seasonally adjusted index of department-store sales for March at 1 percent below the figure reported for February.[3]

The indicated sales in March were 6 percent less than those during March last year and 2 percent less than monthly average sales during 1953, continuing the downward trend begun in May 1953.

Our index of prices of goods sold in department stores declined slightly during January and February. The index for February, nevertheless, was hardly 1 percent below the 1953 peak reached last November.

Our index of physical volume of department-store sales (calculated by dividing the index of sales by the index of prices) decreased nearly 2 percent during Feb-

[3]Estimating the index for March and April is especially difficult because of the effect on department-store sales of Easter coming at different dates from year to year.

ruary to a level 2 percent below that for February 1953.

Our index of potential volume of department-store sales decreased 3 percent during January and nearly 1 percent during February. (The index is based on the production of goods sold in department stores and is taken to reflect the estimated physical volume of goods available for sale through these stores.) The index has declined 16 percent since June 1953, when its most recent peak was reached. This is the largest decline of the series since 1940.

Comparison of weekly sales during March and April with those of the corresponding weeks of 1953 are misleading unless the effect of the later date of Easter this year is taken into account. Ordinarily, department-store sales increase markedly in the 4 or 5 weeks immediately preceding Easter. In order to have a basis for comparing sales of these weeks in one year with sales of the corresponding weeks of the preceding year, we have analyzed the weekly pre-Easter sales increases of the last 10 years. Over these years sales have increased from weekly average sales of the sixth to ninth week inclusive preceding Easter (the base period) by 5, 12, 18, 25, and 37 percent respectively in the fifth, fourth, third, second, and first weeks preceding Easter. These weekly increments were relatively uniform in all except certain of the war years.

If sales follow the pattern of previous years, they will have been about 12 percent less in both the fourth and third weeks preceding Easter (the weeks ended March 27 and April 3) than in the corresponding calendar weeks of 1953. But during the second and first weeks preceding Easter (the weeks ending April 10 and 17) they will be about 12 percent more than in the corresponding calendar weeks of 1953. Deviation in sales of the coming weeks from sales of the corresponding weeks of 1953 in amounts other than those indicated will tend to be the result of nonseasonal factors.

During the 1949 recession department-store sales decreased 12 percent; in the present recession they have decreased only about 8 percent. In view of the fact that in many other business activities the decline during the present recession has been close to that of 1949, there is some reason to expect that the downward trend of department-store sales will continue for some months.

Latest Weekly Data

Department-store sales for the week ended March 27, 1954, were 5 percent more than sales in the preceding week but were 11 percent less than sales in the corresponding week last year.

PRICES

Consumers' Prices

The Bureau of Labor Statistics' index of consumers' prices, which increased three-tenths of a point in the month ending mid-January, decreased two-tenths of a point between mid-January and mid-February to a level more than 1 percent above that of February 1953 and 13 percent above that of June 1950. The February index was four-tenths of a point below the alltime high reached in October 1953.

Increases in housing and medical and personal care were more than counterbalanced by decreases in the other components. The rise of the housing component was attributable to the further increase in rent. However, the increase was the smallest since 1947. Gas, electricity, and fuel increased likewise. Food declined four-tenths of 1 percent and was 1 percent higher than a year earlier and 12 percent above the June 1950 level. Primarily responsible for the lower food component were reductions in prices of fresh vegetables, meats, poultry, milk, and eggs. Coffee prices increased for the second consecutive month, and further advances have been reported. Increases since December have been nearly 9 percent. The apparel component decreased two-tenths of 1 percent; transportation declined slightly less than 1 percent. Lower prices for used automobiles and some downward adjustments in new car prices are primarily responsible for the latter decrease. The reading and recreation component decreased, reflecting lower prices for television sets and radios and substantial reductions in motion-picture admission charges.

We expect that the index will continue to drift downward during the next several months.

Commodities at Wholesale

	1953	*1954*	
(August 1939=100)	*April 1*	*Mar. 25*	*Mar. 31*
Spot-Market Prices (22 basic raw materials)	273	277	280
Commodity Futures Prices (Dow-Jones Daily Index)	344	380	380

BOOK REVIEW

The Investigating Powers of Congress compiled by Julia E. Johnson

The H. W. Wilson Company, 950 University Avenue, New York 52, New York ($1.75)

This publication is a compilation of articles from such sources as *The New York Times Magazine, Saturday Evening Post, Harper's Magazine, Nation's Business, Atlantic Monthly,* and various law reviews.