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GREAT BARRINGTON

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Consumer Expectations

Business Investment Programs

The 1955 Survey of Consumer Finances, and the survey Investment and Sales Anticipations in 1955 contain revealing information concerning the economic outlook.* This information is gleaned through the reported opinions and plans of individuals as consumers and the reported programs of business for capital expenditures.

Consumer Expectations

In early 1955 consumers were more optimistic than they were a year earlier concerning both their own affairs and general business prospects. Three of 5 consumers expected business to be good throughout 1955, whereas a year earlier only 2 of 5 expected business to be good throughout 1954.

In general, consumers regarded their own financial situations as being a little better than they were a year earlier, and about as favorable as they were in early 1953. Moreover, consumers appeared to be more optimistic than a year ago concerning their own income prospects. The proportion of spending units expecting increases in income is much larger this year than it was in either 1954 or 1953. Conversely, the proportion expecting decreases is much smaller. These favorable expectations are reported to be common to all income and occupational groups. A larger proportion of consumers felt financially better off than was the situation a year earlier; a smaller proportion felt worse off. Although the pattern of income distribution was virtually the same in 1955 as in 1954, the proportion of consumers reporting larger incomes as compared with the preceding year, was smaller this year.

Consumer plans for automobile purchases do not differ greatly from plans in early 1954. The proportion of consumers planning to buy new cars is about the

same as a year ago; that planning to buy used cars is slightly larger. The indications are that, as compared with last year, a larger proportion of the new-car purchases will be in the first half of the year. The median planned expenditure of both those expecting to buy new cars and those planning to buy used cars is larger this year than last.

Although more consumers plan to buy furniture and appliances than they did in 1954 the proportion is smaller than it was in 1953. The median expenditure planned is little changed from that of the two preceding years. About one-third of the consumers are planning expenditures of \$500 or more for home improvement and maintenance, a proportion somewhat larger than that prevailing in the last two years.

More consumers plan to buy or build nonfarm houses than did in either 1954 or 1953. The greater increase from early 1954 is attributed primarily to the purchase plans of veterans. The reported frequency of the number of consumers who are "giving some consideration to buying or building a house in 1956" is about the same as that in the two preceding surveys. Although this is a highly nebulous statistic, it may constitute some reason for expecting a continuing high level of demand for houses.

The accompanying table compares the preliminary results of the 1955 survey with the results of the surveys for the years 1950 through 1954.

Business Investment Program

The joint Department of Commerce and Securities and Exchange Commission survey indicates that the trend of business expenditures for fixed investment will turn upward in the second quarter of this year following a mild downward trend since the third quarter of 1953. Business expenditures for plant and equipment are expected to total \$27,000,000,000 in 1955. This amount is slightly more than that for last year, and about \$1,000,000,000 less than that for 1953.

Because the trend of expenditures was downward during 1954 and the first quarter of 1955, the projected expenditures are at rates appreciably greater than those prevailing in recent months. Public utilities and commercial enterprises are primarily responsible for the increase in planned expenditures in 1955. However, a resumed upward trend in expenditures was reported for a number of manufacturing lines.

Manufacturers having assets in excess of \$50,000,000 plan little change in capital outlays in 1955 as compared with those for 1954. Firms having assets in the \$5,000,-

*The Survey of Consumer Finances was conducted 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, and cautions against treating the findings as anything more than tentative. The preliminary results are published in the *Federal Reserve Bulletin*, March 1955.

The survey, *Investment and Sales Anticipations, in 1955*, was conducted 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 1955.

000 to \$50,000,000 category plan somewhat larger expenditures than in 1954, firms with assets of less than \$5,000,000 expect their 1955 expenditures to be somewhat less than those of 1954. Businesses in the intermediate-size group reduced their 1954 expenditures somewhat more than did firms in the largest size group; businesses in the smallest size category reported less certain plans than those in the larger and more inflexible size groups.

Manufacturers expect to spend \$10,750,000,000 for new productive facilities this year. This amount compares with actual expenditures of \$12,000,000,000 and \$11,000,000,000 in 1953 and 1954, respectively. Expenditures in the automobile industry will be reduced following the large outlays of 1953 and 1954. Similarly, expenditures of the railroads will be reduced about 11 percent this year as compared with last, when outlays were reduced about \$500,000,000 from those of 1953. At about \$750,000,000, railroad capital outlays will be well below the average of the postwar years when the carriers were rapidly converting to diesel locomotives. Expenditures in industries whose investment programs were curtailed last year, notably iron and steel, nonferrous metals, and machinery except electrical, are expected to increase this year.

In discussing recent influences on business investment, the *Survey of Current Business* says: "There can be little doubt that the recovery in business sales and earnings since last fall has bolstered business confidence and has had a salutary effect on this year's programs."

Conclusion

The findings of the consumer report provide a measure of the consumer optimism that is helping to maintain retail sales at near-record levels; they also suggest a continued high level of consumer buying throughout 1955. The findings of the report on planned investment expenditures confirm business confidence and reinforce the belief that the capital-goods sector of the economy will be supported by a near-record demand throughout 1955. Although some untoward development or sudden deterioration in business confidence could deprive either or both of these reports of any significance, we believe that the findings of these reports are a basis for expecting a continuation of general business activity at present or slightly higher levels at least through the third quarter of this year.

Tighter Money

The raise in the Federal Reserve discount rate from $1\frac{1}{2}$ to $1\frac{3}{4}$ percent is a small step in the direction of tighter money. Evidently the Federal Reserve Board is taking advantage of the temporary strain on the money markets that usually accompanies the concentration of tax payments in the first half of the year in order to discourage further overexpansion of credit.

Only since early 1948 have the changes in the discount rate been as small as one-quarter of one percent. In 1928, for example, there were three $\frac{1}{2}$ -point raises within six months (which, incidentally, failed to cut short the speculative boom then under way).

We assume that the recent change will have some restraining influence, but present indications are that more drastic measures will be needed. The loss of \$50,000,000 of gold during the past week suggests that the Federal Reserve Board may soon be under greater pressure to take more effective action, especially if the outward flow of gold continues.

CONSUMER EXPECTATIONS AND PLANS

1950-1955

(Percent of spending units)

Expectation and Plan	(Percent of spending units)					
	1955	1954	1953	1952	1951	1950
Expected general business conditions						
Good times	59	43	n.a.	n.a.	n.a.	40
Fair times	5	8	n.a.	n.a.	n.a.	15
Bad times	12	25	n.a.	n.a.	n.a.	17
Uncertain	7	6	n.a.	n.a.	n.a.	19
Not ascertained	17	18	n.a.	n.a.	n.a.	9
All cases	100	100	n.a.	n.a.	n.a.	100
Expected change in income						
Making more year from now	39	29	34	36	39	30
No change	36	35	33	30	35	43
Making less year from now	6	15	10	8	13	16
Uncertain, not ascertained	19	21	23	26	13	11
All cases	100	100	100	100	100	100
Plans to purchase*						
House	9.6	6.6	8.8	6.4	8.5	8.4
Home improv. and maint.	21.4	19.6	16.9	n.a.	n.a.	n.a.
New automobile	7.7	7.9	9.0	6.8	6.6	10.6
Used automobile	7.1	6.5	6.2	6.0	5.5	6.9
Furniture and appliances	28.7	26.9	31.9	23.2	27.4	28.4

n.a.=Not available

*Includes those who "possibly would buy"

What the Indicators Say

The latest data for the statistical indicators reveal that during March:

1. The average number of hours worked per week in manufacturing industries (seasonally adjusted) increased nearly 1 percent.
2. Unemployment (seasonally adjusted) increased $1\frac{1}{2}$ percent.

The *Iron Age* composite price of No. 1 heavy-melting scrap for the week ended April 5 was \$37.00, unchanged from that for the preceding week.

Conclusion

The increase in the seasonally adjusted unemployment figure may be explained by the inaccuracy of the seasonal adjustment factor. However, in any event, the reported increase is not believed to signify any change in the generally favorable outlook suggested by the indicators.

SUPPLY

Industrial Production

Steel-ingot production of 2,292,000 tons during the week ended April 16, as indicated by operations scheduled at 95.0 percent of capacity, compares with 2,300,000 tons during the preceding week and 1,620,000 tons during the corresponding week last year.

The *New York Times* seasonally adjusted index of lumber production was 116.8 for the week ended April 2, compared with 124.4 a week earlier and 113.8 for the corresponding week last year.

Electric-power production of 9,633,000,000 kilowatt-hours during the week ended April 9 compares with 9,804,000,000 kilowatt-hours for the previous week and 8,400,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 207,700 vehicles for the week ended April 9, compares with a total of 218,400 for the previous week and 152,100 for the corresponding week last year.

These data compare with those for corresponding weeks of earlier years as follows:

	1929	1932	1948	1949	1954	1955
<i>Steel</i>						
Operating rate—percent cap.	96	23	71	99	68	95 _p
Ingot prodn.—million tons	1.32	.35	1.28	1.82	1.62	2.29
<i>Lumber</i>						
New York Times Index	136	42	94	92	114	117
<i>Electric Power</i>						
Kilowatt-hours—billions	1.66	1.47	5.03	5.36	8.40	9.63
<i>Automobiles</i>						
Vehicles—thousands	138	43	103	132	152	208 _p

p Preliminary

DEMAND

Department-Store Sales

Sales of the 325 reporting department stores compare with those of corresponding periods a year ago as follows:

Period	Percent Change
Week ended April 9	+8
Week before Easter†	+3
Four weeks ended April 9	+9
Year to date	+7

PRICES

Commodities at Wholesale

Index	1954		1955
	Apr. 13	Apr. 6	Apr. 13
Spot-market, 22 commodities	284	276	277
Commodity futures	378	323	327

Note: The indexes are respectively those of the United States Bureau of Labor Statistics and Dow Jones. Both indexes are converted so that their August 1939 daily averages equal 100.

BUSINESS

Ratio of Retail Inventories to Sales

The inventory-to-sales ratio of the 325 department stores reporting to the Federal Reserve Board is estimated to have decreased nearly 6 percent during March to 2.66. This ratio compares with 3.0 in March 1954 and 2.84 in February. The March 1954 ratio was the largest of that year, largely because the sales were the least.

The index of department-store sales for March 1955, seasonally adjusted, is estimated at 117, compared with 105 for March 1954. The index of inventories at the end of March estimated at 119, is about 2 percent less than that for March 1954.

†Because of the influence of Easter on department-store sales, comparisons are more significant if made for corresponding weeks before Easter. Thus we compare under "Week before Easter," sales of the week ended April 9, 1955, with the sales of the week ended April 17, 1954.

In February, department stores received about 12 percent more new merchandise than they did in January. Usually the amount of February receipts decreases from that of January. Apparently the large receipts of goods in February were the result of orders placed to restore inventories reduced by the unexpectedly large Christmas and January sales.

New orders in February were 2 and 1 percent less than those of the previous month and the corresponding month last year, respectively. The failure of sales to continue at their December and January rate as well as the large February receipts made additional ordering in February unnecessary.

Outstanding orders of department stores increased 8 percent during February to an amount 8 percent more than that of February a year earlier.

The ratio of sales to inventories, giving the turnover of inventories, is widely used to measure merchandising efficiency. This ratio was .950 for the first quarter of 1955, compared with .892 and .933 for the first quarters of 1954 and 1953, respectively.

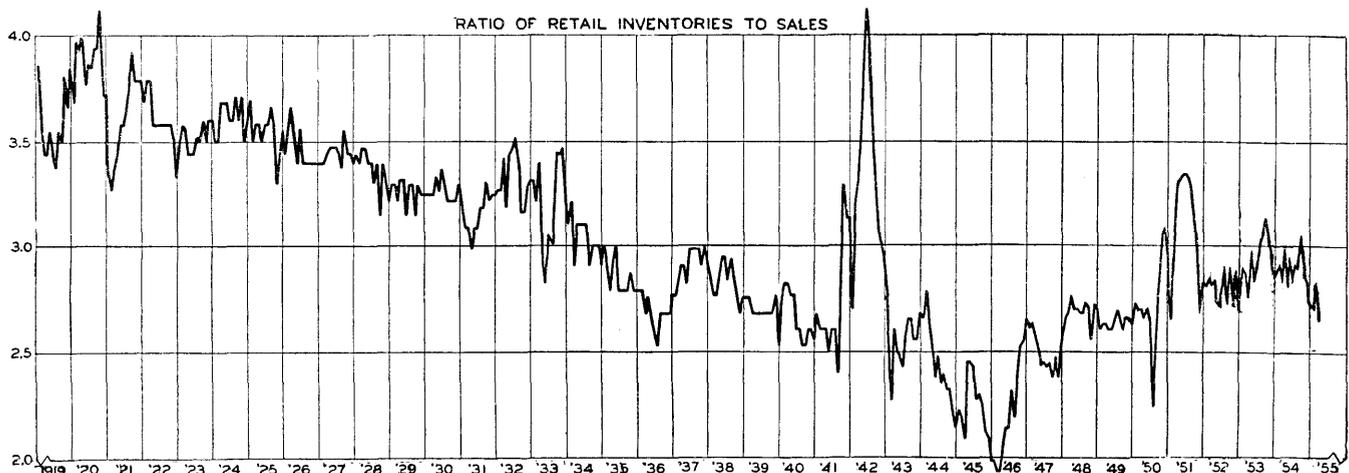
Unless second-quarter sales prove to be considerably less than is now indicated, the ratio of inventories to sales will remain low throughout the second quarter. In order to maintain basic assortments, purchases will have to be substantially more than those in the second quarter of 1954. Thus the recent low level of the ratio suggests that a marked increase in orders for the goods usually sold in department stores probably has already begun.

Employment and Unemployment

Nonagricultural employment, seasonally adjusted, is estimated at 48,500,000 for mid-March, compared with 47,950,000 at the lowest 1954 level reached in mid-August, and with 48,441,000 at mid-March 1954. Average hours worked per week, seasonally adjusted, is estimated at 40.7 for March compared with 39.3 as the smallest weekly average of any month in 1954 reached in June, and with 39.5 for March last year.

The number of unemployed at the end of March, seasonally adjusted, is estimated at 2,861,000 compared with 3,566,000, the largest number of unemployed in 1954 reported for mid-August and with 3,360,000 for mid-March 1954. The number of persons unemployed in March this year is estimated at 5.0 percent of the working force compared with 5.8 percent in March 1954.

Although the smallest average of hours worked per week for 1954 was reached in June, most of the increase in the average since then has come since November. The



yearly averages of hours worked per week in manufacturing have been as follows:

1949	39.2	1951	40.7	1953	40.5
1950	40.5	1952	40.7	1954	39.7

By increasing hours worked per week production may expand without changing the number of workers. For example, the Wall Street Journal reports that in January, ingot production increased 11 percent with steel industry employment actually 42,000 less than that a year earlier. Although improved productivity may be credited with a share of the increased output per worker the work week in the industry increased during the year from 35.7 to 37.8 hours. In February the auto industry, with 6 percent more workers turned out nearly 48 percent more passenger cars by increasing the work week to 45 hours.

Although the total number of employees engaged in manufacture in March was about the same as that in March 1954, industrial output has been increased about 10 percent with an increase of less than 3 percent in the average hours worked per week.

An analysis of employment data by industry classification indicates that during the past year the number of persons employed has decreased in manufacturing, mining, and construction although the number has increased in the categories of finance, insurance, real estate, services, and government.

We expect that, because of increased industrial production and general business activity, unemployment throughout 1955 will be less than that in 1954 but because of additions to the working force and increased efficiency it will not decrease to the levels of 1953 and 1952.

Private Contracts for Engineering Construction

Our 3-month moving average of the dollar value of private awards for engineering construction (plotted at the third month) increased 19 percent during March, a 5-week month, to reach an alltime record as the relatively large figure for March replaced a smaller figure for December. The March average was nearly 12 percent more than that for March 1953, when a previous alltime record for the series was established, and was 111 percent more than that for March 1954.†

The weekly average dollar value of contract awards

†The average is based on data compiled and published by *Engineering News-Record*. It is estimated that the data account for about three-fifths of the total of private new-construction contract awards, excluding those for residential construction other than mass housing. Monthly figures are calculated by adding weekly reports, and a pronounced seasonal variation occurs. However, our 3-month moving average reduces the magnitude of the seasonal changes and almost eliminates variations resulting from 4- and 5-week months.

for private engineering construction during March was \$268,200,000, compared with \$168,300,000 during February. The weekly averages for the corresponding months a year earlier were \$131,800,000 and \$114,900,000, respectively. Contract awards for mass housing averaged \$174,000,000 per week during March, compared with \$108,700,000 during February and \$79,600,000 during March 1954. Contract awards for commercial building averaged \$43,800,000 per week during March, compared with \$21,800,000 during February and \$22,000,000 during March 1954; those for industrial building averaged \$33,700,000 per week during March, compared with \$30,400,000 during February and \$25,900,000 during March 1954.

The weekly averages of the dollar value of contract awards for private engineering construction during the first quarters of 1955 and 1954 break down as follows:

	First Quarter	
	1955	1954
	<i>(Millions of dollars)</i>	
Mass housing	134	60
Commercial buildings	31	21
Industrial buildings	40	26
All other	11	4
Total	216	111

The *Engineering News-Record* index of construction costs increased slightly in April, after having been virtually unchanged in March and having increased slightly in February. The April figure is 5 percent more than that of April 1954. The April index reflects higher lumber prices in nine cities; higher cement prices in three. The *Engineering News-Record* for April 7, 1955, reports that lumber prices have leveled off.

Our 3-month moving average of the physical volume of private engineering construction (plotted at the third month), which is derived by dividing the dollar value of contract awards by the construction-cost index, decreased slightly during February but increased 19 percent during March. The March average was 100 percent more than that for March 1954. An alltime record for the series was established in March 1951.

Unless evidence becomes available indicating that the capital expenditures of business in 1955 will exceed those in 1954 by a greater margin than is now expected, we shall assume that the recent sharp advance in the average of contract awards to a record level reflects only a "catching up" of awards with planned expenditures. Present indications are that our 3-month average of the dollar value of contract awards will fluctuate within relatively narrow limits during the next 3 or 4 months. However, in the more distant future, rising interest rates may have an adverse effect on the construction boom.

