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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

New Capital Expenditures by Business in 1959

Continuation of the recovery phase of a business cycle to boom levels usually reflects a surge of activity in the capital goods industries. Until recently, there has been little evidence that a marked recovery in this segment of the economy was developing. However, surveys by the Department of Commerce and other agencies now have yielded data suggesting that a revival in the rate of new capital expenditures of business, the basis of a recovery in the capital goods industries, is in progress.*

Table 1, "Percentage Changes in Plant and Equipment Expenditures," shows the relative decrease in the rate of business expenditures for new plant and equipment from 1957 to 1958 and the relative increase expected in these expenditures in 1959 as compared with 1958. The figures projected for 1959 are based on actual expenditures during the first quarter of the year, anticipated expenditures reported for the second and third quarters, and estimated expenditures for the fourth quarter.

New capital expenditures of all business, which decreased 17 percent from 1957 to 1958, are expected to increase 7 percent in 1959. Sectors of industry in which these expenditures are expected to increase most are the railroads, where such expenditures decreased most relatively in 1958, and transportation other than rail. The expenditures of the latter industry reflect jetplane purchases by the airlines. Only the new capital expenditures of public utilities, outlays of which decreased least during 1958, are expected to decrease again in 1959.

In manufacturing industries, new capital expenditures by producers of durable goods are expected to increase at a rate about one-third more than that for producers of nondurable goods. This finding accords with the greater contraction in both rate of activity and rate of capital expenditure in the durable goods industries during 1958. In the durable goods industries, only the non-ferrous metal producers have failed to report an increase in such expenditures in 1959 over 1958. Among the industries that have scheduled the greatest relative in-

*Except as noted, the data used in this article are those developed from the thirteenth annual survey of business-investment plans by the Department of Commerce and the Securities and Exchange Commission, conducted early in 1959 and reported in the *Survey of Current Business* for March, 1959; and a supplemental survey made by those agencies in late April and May of this year, reported in U. S. Department of Commerce, "Business News Reports," June 11, 1959.

creases are producers of stone, clay, and glass, electrical machinery, motor vehicles, and other transportation equipment. The iron and steel industry, which had earlier expected a small decrease in the rate of these expenditures, now projects a 7-percent increase for this year.

In the nondurable goods industries, textile and rubber manufacturers are planning the greatest increases this year as compared with last, about one-third more than their new capital expenditures in 1958. Even the highly stable food industry is scheduling such expenditures at nearly one-eighth more than those of last year. Although both the chemical and petroleum industries had anticipated smaller new capital outlays this year than last, only the chemical industry still expects them to be less this year.

A clearer indication of the acceleration in the rate of new capital expenditures during the current recovery period is seen in the rates of those expenditures during the third quarters of 1957 and 1958, and in the rate anticipated during the third quarter of this year. These are reported in Table 2. In terms of annual rates, the total of such expenditures decreased from a record \$37,750,000,000 in the 1957 quarter to \$29,600,000,000 in the 1958 quarter and is expected to increase to nearly \$33,400,000 in the 1959 quarter, or by about 13 percent. A further increase that is indicated for the fourth quarter of this year would restore at least half of the decrease that had occurred between the third quarters of 1957 and 1958. As is to be expected, there has been a wider fluctuation in the rate of new capital expenditures of the durable goods industries than of the nondurable goods industries. For two categories of industry, namely, "transportation, other than rail," and "commercial and other,"

TABLE 1: PERCENTAGE CHANGES IN PLANT AND EQUIPMENT
EXPENDITURES FROM THOSE OF THE PRECEDING YEAR
1958 and 1959

	1958	1959*
Manufacturing	-28	+8
Durable goods industries	-32	+10
Nondurable goods industries	-25	+7
Mining	-24	+4
Railroad	-46	+15
Transportation, other than rail	-15	+32
Public utilities	-2	-3
Commercial and other	-6	+6
Total	-17	+7

* Anticipated.

Source: U. S. Department of Commerce and the Securities and Exchange Commission.

TABLE 2. EXPENDITURES FOR NEW PLANT AND EQUIPMENT*
SEASONALLY ADJUSTED ANNUAL RATES
THIRD QUARTERS 1957, 1958 AND 1959
(Billions of dollars)

	Third Quarter		
	1957	1958	1959†
Manufacturing	16.37	10.86	12.82
Durable goods industries	8.23	5.16	6.31
Nondurable goods	8.14	5.70	6.51
Mining	1.24	.88	.97
Railroad	1.54	.63	1.07
Transportation, other than rail	1.81	1.29	2.06
Public utilities	6.64	6.10	5.94
Commercial and other	10.15	9.85	10.53
Total	37.75	29.61	33.39

* Data exclude expenditures of agricultural business and outlays charged to current account.

† Estimates are based on anticipated expenditures reported by business in late April and May 1959.

Source: U.S. Department of Commerce and Securities and Exchange Commission.

new capital expenditures are projected at rates even greater than those of the 1957 quarter.

Another forerunner of changes in activity in the capital goods industries is the amount of money *appropriated* by industry in general for capital expenditure. According to a recent survey made by the National Industrial Conference Board for *Newsweek*, 500 manufacturers who have been reporting to this survey during the last 4 years appropriated in the 1959 first quarter 37 percent more for capital expenditures than they had in the first quarter of 1958. The impact on business activity of the spending that will result from this first quarter's appropriations is expected to occur in the third and fourth quarters of the year.

What the Indicators Say

Note: The indicators reported on below are seasonally adjusted.

Among the leading indicators, the liabilities of business failures (inverted) increased, but wholesale prices of 22 basic commodities decreased slightly in June.

Among the roughly coincident indicators, industrial production increased in May and the gross national product increased during the second quarter, but bank debits in centers outside New York City decreased sharply in May.

Among the lagging indicators, personal income and retail sales increased in May.

Near-term continuance of the business recovery still is signaled by the indicators.

* * * * *

The *Iron Age* composite price of No. 1 heavy melting steel scrap, not one of the indicators, was \$38.17 per ton on June 16, compared with \$37.50 on June 9.

BUSINESS

Industrial Productivity

Our index of industrial productivity increased 5.3 percent during 1958, compared with 4.0 percent as revised, during 1957. The increase last year compares with an average annual increase of 4.0 percent during the twelve-year period 1947-1958.*

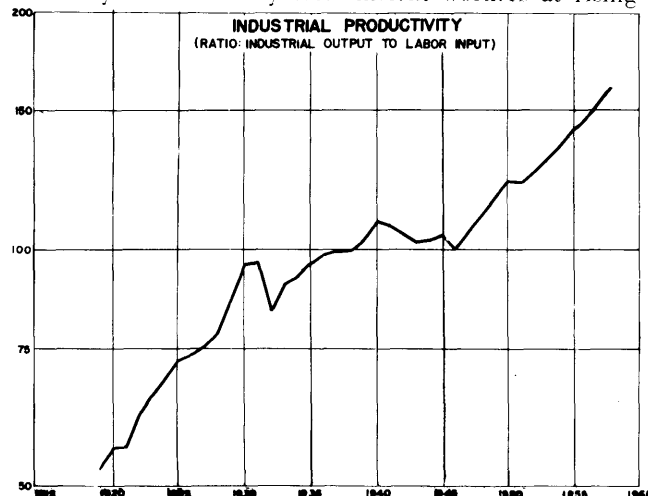
*The index is a ratio of industrial output to labor input. In series, it indicates changes in the quantity of things produced in proportion to the human effort employed, as measured by man-hours of work in the manufacturing industries. Gains or losses in productivity are due jointly to changes in the several factors of production and to other influences also, such as changes in rates of plant operation.

The recession of business activity in the early part of 1958 and the gradual recovery during the remainder of the year kept industry below the peak level of activity reached in the summer of 1957. Because of intensive efforts by business to reduce costs through more economical and efficient methods of operation, and because less use was made of the relatively inefficient facilities and workers, there was a greater-than-average increase in industrial productivity during 1958.

As is shown by the accompanying chart, industrial productivity in the United States has increased impressively during the past four decades, and has decreased only in periods of recession or war. The decade of the 1920's was marked by the intensified and more widespread application of the principles of mass production and of scientific factory management with a resulting high rate of increase in industrial productivity. During the Great Depression, however, heavy capital losses and the shrinkage of mass markets due to abnormal long-term unemployment retarded improvement in productivity for several years.

The only pronounced and prolonged decrease in American productivity during the past 40 years occurred during World War II, as a natural consequence of inefficiencies introduced into productive processes by massive transference of manufacturing efforts from peace to war production and by the withdrawal of millions of skilled workers from production into the armed services. Following World War II, a rapid resumption of consumer-goods production and the reabsorption of skilled workmen into their regular trades was accompanied by a high and sustained rate of increase in productivity, interrupted only briefly by the Korean War.

Among the principal determinants of industrial productivity are technological innovations, as the results of industrial expenditures for research and development and for new plant and equipment, and variations in the rate of utilization of industrial capacity. Research, apart from its importance in new-product development, affects productivity continuously by increasing the efficiency of productive processes and thereby facilitating increased production. The rate of capacity utilization, as determined by the demand for the final product, affects productivity by reducing man-hour unit cost as the rate of utilization rises toward the optimum rate. (The most effective rate of capacity utilization is somewhat less than 100 percent in most industries, because complete use of capacity usually requires a resort to obsolete machinery and relatively less efficient workers at rising



costs per unit of product.)

Continuation, during 1959, of the business recovery that began in the spring of 1958 may result in a smaller increase in industrial productivity this year than that of last year as increased employment involves less efficient workers and more and more industrial capacity is used at rates exceeding the optimum.

Employment and Unemployment

Overall employment conditions, as indicated by weekly hours of work, nonagricultural employment, and unemployment, have improved considerably since the low point of the recent recession in April 1958, although not as yet to prosperity levels.*

The seasonally adjusted average of weekly hours worked by manufacturing production employees was 40.9 in May, 0.3 hours more than the average in April and 2.5 hours more than the recession minimum reached in February 1958. The May average was also more than that in any month since December 1955. As is customary during the earlier phases of recovery, the hourly work-week average increased at a more rapid rate than did nonagricultural employment from May 1958 to April 1959; but in May the latter series began to expand more rapidly than the former. Overtime hours of work, changes in which are viewed as still more sensitive indications of future employment changes, also began to increase in May 1958 from their recession trough, and have continued to increase thereafter. As changes in these series tend fairly consistently to lead changes in employment and in unemployment by 3 or 4 months, their behavior through May 1959 supports the expectation of further improvements in employment data.

Employment in nonagricultural industries, as measured by Bureau of Labor Statistics payroll reports and as seasonally adjusted, increased 409,000 from April to May. At 52,159,000, the May level represented an increase of 2,105,000 or 4.2 percent from the recession

*Employment in nonagricultural establishments and unemployment, the latter inverted, are 2 of the 8 roughly coincident indicators of cyclical changes in business activity. The average of weekly hours worked in manufacturing industries is a leading indicator. All three series are seasonally adjusted.

Data for employment in nonagricultural establishments exclude agricultural workers, proprietors, the self-employed, domestic servants, unpaid family workers, and members of the Armed Forces.

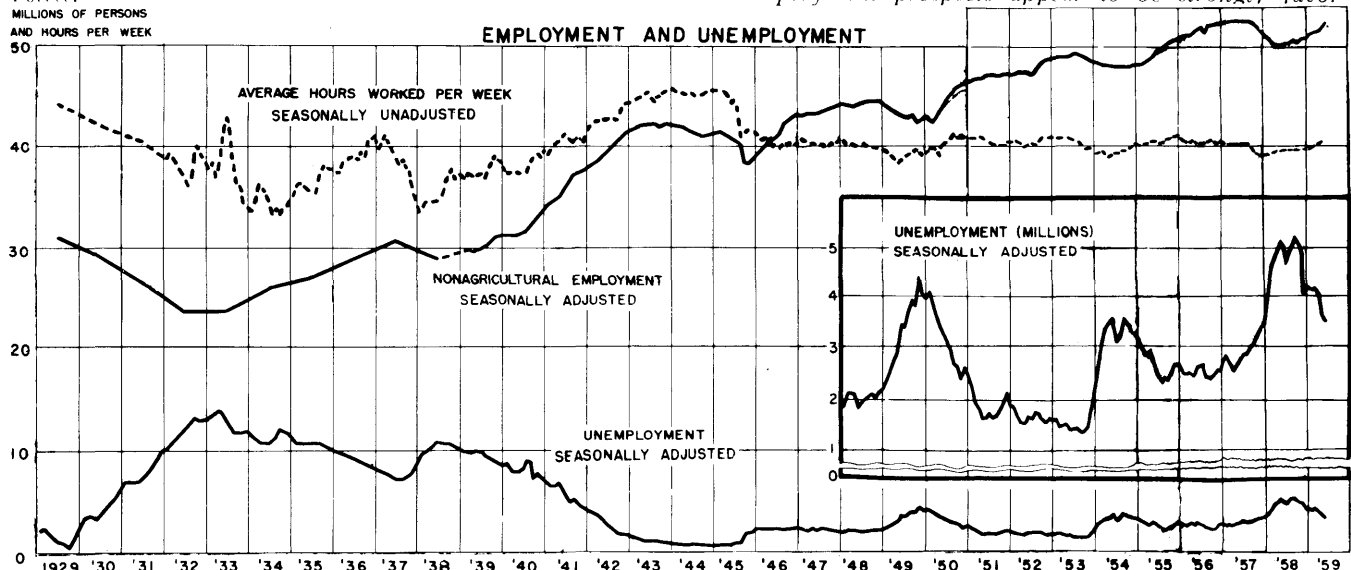
minimum reached in April 1958, and was only 305,000 less than the number employed in the prerecession peak month of July 1957. Thus, if the recent rate of increase is maintained for one more month, as seems probable, the seasonally adjusted June 1959 employment total will be the highest on record.

More than half of the increase in nonagricultural employment since April 1958 resulted from the recovery of manufacturing production; one-fifth of this part of the total increase was attributable to nondurable-goods factories and four-fifths to the more volatile durable-goods group. The increase of 958,000 workers in durable-goods factories since the recession low in May 1958 represents the largest and qualitatively the most significant single element in the recovery of employment, as it has in other recovery phases of business cycles. The growth in durable-goods factory employment lagged considerably behind employment recovery in nondurable goods, construction, and trade, with only one large gain in November during the 10 months May 1958 to February 1959; however, its stronger current expansion now appears to have become firmly established in March.

Total unemployment, as estimated from sampling interviews by the Bureau of the Census, was reported to have decreased to 3,389,000 in May, 238,000 less than in April and 2,048,000 less than the June 1958 peak number. After seasonal adjustment, the May figure of 3,441,000 represented a 6-percent decrease from that in April and was 1,731,000 less than the recession maximum in April 1958. Progress in the reduction of unemployment has been particularly satisfactory since February. However, total unemployment in May was still about 660,000 larger than that during early 1957, before the recession.

Upward trends among all important elements of the employment situation, with strong indications of further substantial improvements in the near future, are thus indicated by the most recent data reported. However, this advance may be interrupted temporarily by the widespread effects of an imminent steel strike and by subsequent labor disputes in other fields. It is improbable that these disputes will reverse the longer-range improvement in employment that now appears to be under way.

Employment prospects appear to be strongly favor-



able for the second half of 1959, except for temporary setbacks attributable to union-management disagreements.

DEMAND

Mail-Order and Chainstore Sales

Percentage increases in sales of mail-order and chainstore companies in May and in the first five months of 1959 from corresponding periods of 1958 were as follows:

	May 1959	First 5 Mos. 1959
Mail-order houses	10	13
Variety stores	3	6
Grocery stores	10	8
General merchandise stores	8	8
Women's wear stores	12	14
Shoestores	14	15
Men's wear stores	5	3
Automotive variety stores	18	21

Source: *The New York Times*.

Department-Store Sales

Sales of department stores reporting to the Federal Reserve Board compare with those of corresponding periods a year earlier as follows:

Period	Percent Change
Week ended June 13	+ 3
Four weeks ended June 13	+ 7
Year to date	+ 8

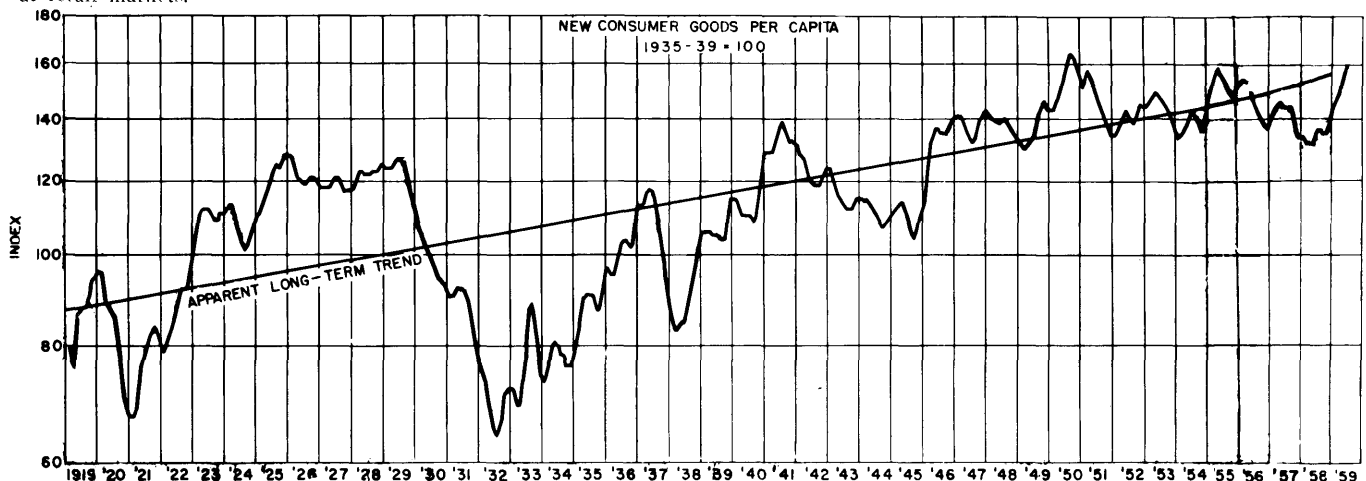
SUPPLY

New Consumer Goods Per Capita

Our index of new consumer goods per capita for May was 1.3 percent more than that for April, as revised, and 17 percent more than that for May 1958.* The sharp rate of increase, which began in October, continued unabated, and the index exceeded its estimated long-term trend-line for the first month in three years.

Production of consumer goods in May, unadjusted for population increases, was 2 percent more than that for April and 20 percent more than that for May 1958. Residential construction and automobile production have accounted for much of the increase since last autumn, while production of shoes, textiles, and furniture has in-

*The index reflects the production of goods that account for about two-thirds of all consumer purchases, and is preliminary for the latest month; it is a 3-month moving average plotted at the third month in recognition of the lag in the arrival of goods at retail markets.



creased substantially.

The Federal Reserve Board's seasonally adjusted index of consumer durable goods production in May is preliminarily reported to have been almost 34 percent more than that for May 1958. Every category of "big-ticket" consumer goods shared in this high rate of increase, which is expected to continue into the third quarter.

Our index of consumer goods per capita is expected to increase further during the second half of 1959.

Industrial Production

Production of steel, automobiles, lumber, and electric power (1) in the 1- and 4-week periods ended on the indicated dates in the current year and (2) in the corresponding periods of earlier years was as follows:

	1929	1932	1954	1957	1958	1959
<i>Steel</i>						
Ingots—million tons						
Week: June 20	1.32	0.26	1.33	2.18	1.76	2.64 _p
Four weeks: June 20	5.29	1.19	5.28	8.89	6.75	10.56 _p
<i>Automobiles</i>						
Vehicles—thousands*						
Week: June 13	126	53	139	155	106	165 _p
Four weeks: June 13	498	195	566	588	408	650 _p
<i>Lumber</i>						
New York Times Index						
Week: June 6	123	39	115	106	98	119
Four weeks: June 6	126	40	114	106	101	112
<i>Electric Power</i>						
Kilowatt-hours—billions						
Week: June 13	1.7	1.4	8.7	12.0	12.1	13.0
Four weeks: June 13	6.7	5.7	33.7	46.0	46.3	52.2

_p Preliminary.

* Cars and trucks in the United States and Canada.

PRICES

Commodities at Wholesale

Index	1958		1959	
	June 17	June 10	June 17	June 17
Spot-market, 22 commodities	262	270	270	
Commodity futures	329	314	317	

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.

BOOK REVIEW

Investing and Licensing Conditions in 32 Leading Markets, 1958 edition, Business International, 200 Fourth Avenue, New York 3, New York (\$50)

In this third annual study, up-to-date information is reported about changes in laws and regulations affecting foreign investments in each of thirty-two leading markets.