

NOVEMBER 1959

SURVEY OF

**CURRENT
BUSINESS**



U.S. DEPARTMENT OF COMMERCE

OFFICE OF BUSINESS ECONOMICS

SURVEY OF CURRENT BUSINESS

Vol. 39



No. 11

NOVEMBER 1959

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Published monthly by the U.S. Department of Commerce, **FREDERICK H. MUELLER**, Secretary. Office of Business Economics, **M. JOSEPH MEEHAN**, Director. Subscription price, including weekly statistical supplement, is \$4.00 a year; foreign mailings, \$7.50. Single copy, 30 cents. Send remittances to any Department of Commerce Field Office or to the Superintendent of Documents, United States Government Printing Office, Washington 25, D.C. Special subscription arrangements, including changes of address, should be made directly with the Superintendent of Documents. Make checks payable to Superintendent of Documents.

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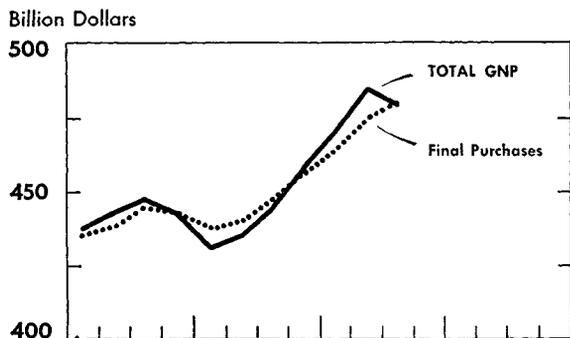
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The Business Situation

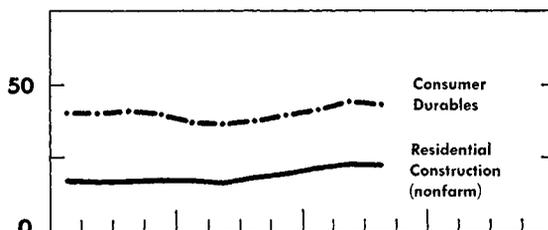
By the Office of Business Economics

Gross National Product

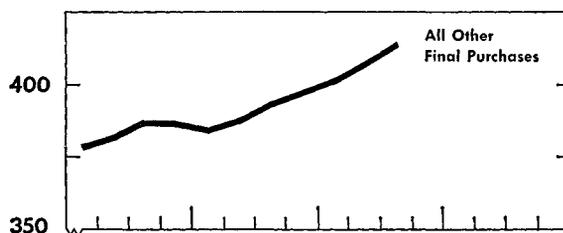
Final demand continues up—
Total off as inventory rise halts



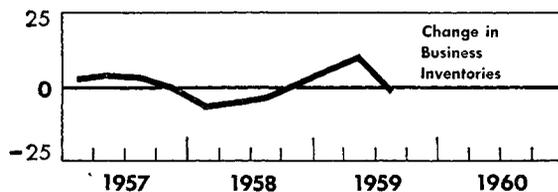
Some decline in these segments . . .



but other final purchases are higher



Steel tieup dominates inventory investment change



Quarterly Totals, Seasonally Adjusted, at Annual Rates

U. S. Department of Commerce, Office of Business Economics

59-11-1

A FEATURE of the business situation in October was the rise in retail sales resulting from a spurt in automobile sales under the stimulus afforded by the 1960 model cars. This rapid advance was temporary since new car production was sharply reduced after mid-October as steel supplies ran out. The October rise in retail trade brought the total up to about the July seasonally-adjusted rate as the declines of August and September were made up. Retail sales other than those of automotive dealers were steady in October, after having drifted down 1½ percent from the July peak. Both non-durables and durables other than the automotive group were lower in October than in July.

Overall economic activity in October was little changed from September as cross currents again characterized this month. Industrial activity sagged further as depletions of inventories forced output and employment curtailments in metal-using industries. The modest October decline in non-farm employment was centered in these industries, and layoffs were rising when the steel injunction became effective following the decision of the Supreme Court on November 7.

Personal income and employment

Personal income in October was up somewhat from that of August and September. A moderate decline in wage and salary disbursements was more than offset by small increases scattered elsewhere in other types of income.

The drop in seasonally adjusted nonfarm employment in October lowered the total back to that of August. Non-manufacturing employment has continued to show little change, following the gradual rise during the first half of the year.

In the latter part of October and in early November, additional layoffs developed, as production cutbacks resulting from the lack of materials became more widespread. Initial claims for unemployment compensation rose in the final 2 weeks before steel operations were resumed. The resumption of work in the steel industry raised employment also on the railroads and in the mines.

While rapid initial progress was made in stepping up steel activity, many steel-consuming industries had practically run out of steel or had exhausted some essential types; in these instances, further curtailment of production is necessary before the renewed flow of steel reaches volume proportions and regularizes operations.

Nonfood prices up

Consumer prices in September inched up and the index at 125.2 (1947-49=100) was a little more than 1 percent above a year ago, with lower food prices partially offsetting a quite

The downward trend of employment in the aircraft industry since the peak in 1957 is traced in the accompanying text table.

Commercial jet deliveries

Sales of civilian aircraft have recently moved upward following a decline beginning in 1957 and extending through the third quarter of 1958. The backlog has remained high.

In terms of numbers, most of the civilian planes produced are small craft—more than 90 percent are less than 3,000 pounds airframe weight. In value terms, however, the large planes account for more than four-fifths of sales. The jet commercial planes have made an outstanding record on

the routes on which they have been available. They have been traffic builders and have shown a low cost per passenger-mile.

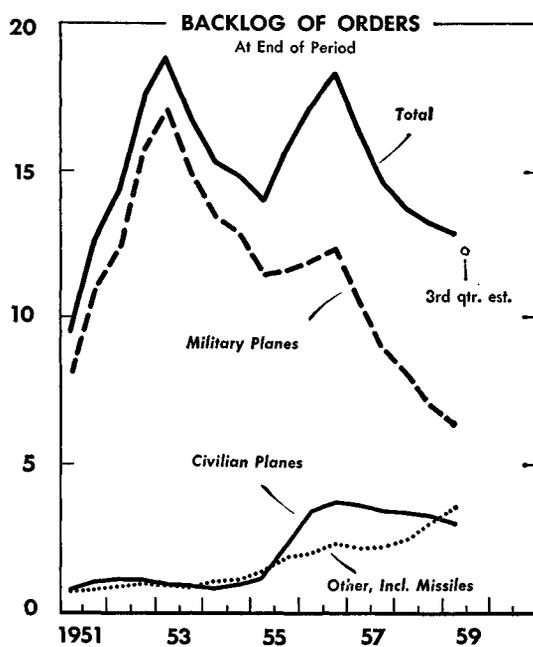
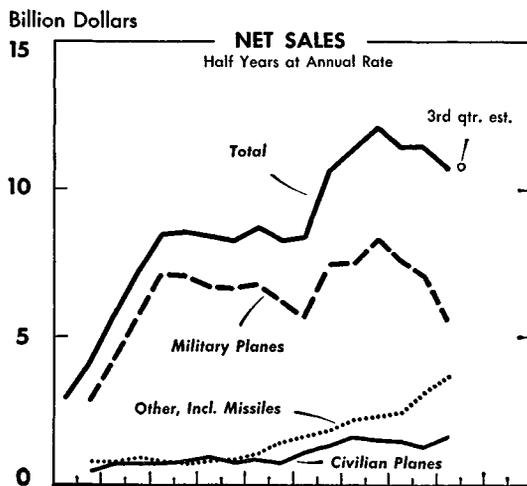
Missiles and research rising

There has been a pronounced upward trend in sales of the other products of aircraft producers. The "other" group includes research and development and missiles.

One of the characteristic features of the aircraft industry is the emphasis upon research and development. Since criteria have not been fully standardized for distinguishing such activity from other operations, estimates of the dollar value of such work have inherently an imprecise character. It is a major fact, however, that research and development projects of the Department of Defense are of growing importance, and a sizable portion of such work is being performed by the aircraft industry.

In the past 3 years Department of Defense obligations for research and development have shown a substantial increase. Much of the rise has been for missile work. Aircraft and missiles now account for well over half of research and development budget obligations. In fiscal year 1959 around \$5 billion of contracts were awarded to private industry by the Department of Defense for research and development. Obligations for 1960 are expected to be somewhat higher

Sales and Orders of Aircraft Producers



U. S. Department of Commerce, Office of Business Economics * 59-11-10

Total Employment in Aircraft and Parts Industry

	Monthly average for year	Monthly average for quarter			
		I	II	III	IV
1956.....	809.3	773.2	784.6	820.9	858.4
1957.....	861.7	885.8	890.4	870.1	800.4
1958.....	757.6	758.6	749.4	756.7	765.9
1959.....		755.7	741.6	732.8	

than last year, and again probably about half of the Government contracts will go to the aircraft industry.

Growth in the importance of research and development is reflected in shifts in the type of workers employed. Granting again the problem of classification, the percentage of production workers to all employees as reported by the Bureau of Labor Statistics has dropped steadily since 1953. In the first half of 1959, some three-fifths of aircraft employees were identified as production workers. Although a relative decline in production workers is a phenomenon common to manufacturing as a whole, that for the aircraft industry is well above average.

Other industries important

Companies other than those classified in the aircraft industry also have large commitments involving the development and production of systems built around unmanned aircraft. The relative role taken by each of the industries can be appraised roughly on the basis of an employment study by the Department of Labor.¹

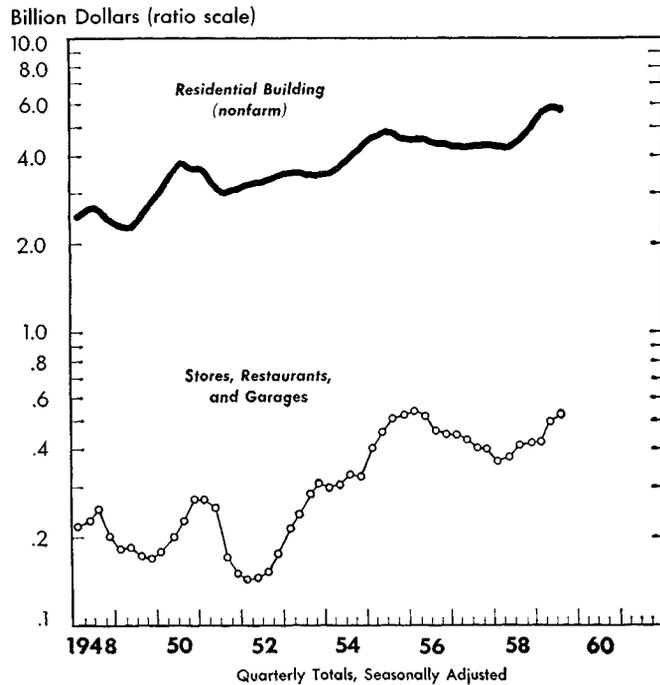
¹The making of missiles and parts has not been classified as a distinct industry. Thus, available data on an industry basis do not provide the figures necessary for analysis of all missile activity. This study presents the results of a special inter-industry survey of producers holding Defense Department contracts; in addition, all aircraft companies employing more than 200 persons were included whether or not they were listed as having contracts. Thus, it does not cover all establishments producing components destined for use in missile systems. On the other hand, even complete coverage would not have resulted in a body of economic data comparable with industry statistics. This follows because missile components do not represent the primary product of many establishments reporting missile activity.

have shown a fairly steady upward trend over the entire period. Outlays dipped only slightly in the 1949 recession and not at all in 1954; the large 1952 decline was the result of Government restrictions during the Korean period. Second, activity in the past 5 years has been unusually strong. Real outlays in the past 5 years, for example, were more than double those made in the 1950-54 period.

In the case of office buildings the general rise of outlays reflects the expanding needs for office space that has accom-

New Construction

Residential Structures and Stores



U. S. Department of Commerce, Office of Business Economics

59-11-8

Table 3.—Ratio of Store to Residential Construction Expenditures, Five-Year Periods, 1920-59

	Construction expenditures (billions of 1947-49 dollars)		Ratio of store to residential expenditures (Percent)
	Store	Residential	
1920-24	3.9	34.9	11.1
1925-29	7.0	51.1	13.6
1930-34	2.1	12.2	17.0
1935-39	2.4	19.9	12.2
1940-44	1.5	18.0	8.3
1945-49	3.6	35.0	10.4
1950-54	3.9	58.7	6.7
1955-59 ¹	6.3	71.7	8.8

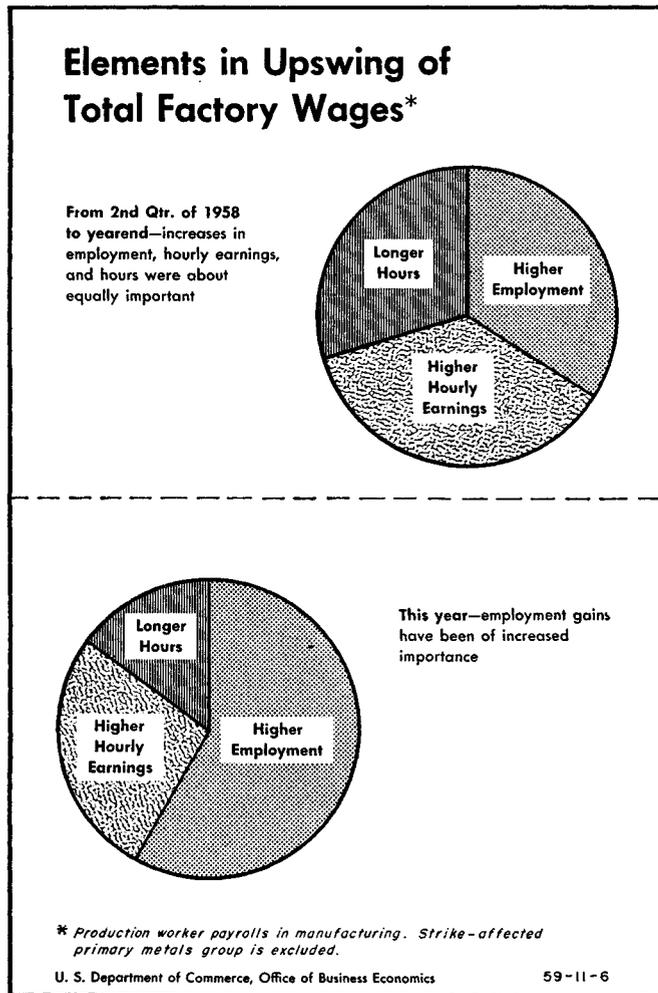
1. Data for 1959 are based on the seasonally adjusted annual rate in the first 9 months.

Sources: U.S. Department of Labor and U.S. Department of Commerce.

panied the trend of employment of professional, office, and kindred workers. Employment of white collar personnel has been increasing much more than total employment. As in the case of store construction this growth has also spread into new suburban areas, although in contrast with store construction, office buildings are still predominantly a central city phenomenon.

The acceleration in office building construction in the past 5 years is probably attributable in part to the liberalization of the depreciation provisions under the Revenue Act of 1954. By permitting rapid depreciation in the early years, the ability of investors to recapture a major part of their equity in a relatively short time has been greatly increased—a consideration which is of particular importance in the real estate industry where borrowed funds are the main source of financing.

The recent increase in interest rates may be acting as an unfavorable influence on this type of construction at the present time. Vacancy rates, however, while higher than they were 10 years ago, are still relatively low and the demand for the most modern facilities is still very strong. The new trend toward the automation of office work, while probably space-saving on balance, is still quite limited in its scope.



in the spring. Farm operators' income dropped again, more than offsetting the nonfarm gain for the quarter. Interest income of individuals continued its uptrend, and net rents were not significantly changed.

Private payrolls

Private payrolls were off \$1½ billion from the second to the third quarter of 1959. The drop in primary metals manufacturing and in the transportation and mining divisions, which were also immediately affected by the steel tieup, amounted to \$3 billion at an annual rate. The bulk of this decline was offset by the continuation of uptrends in most other industries. Gains in trade, services, and some hard-goods manufacturing lines, including machinery, accounted for the larger part of these latter increases.

The \$2½-billion advance in private payrolls outside primary metals, mining, and transportation industries compared with annual rate gains of \$7 billion in the spring quarter and \$4½ billion last winter. The lessened pace of expansion since midyear has been widespread. As indicated below, it is traceable to a slowing rise in manhours worked and, to a lesser extent, in hourly earnings.

Factors in payroll strength

In the earlier part of the current cyclical advance, the largest single element in the increase of payrolls was the continuing uptrend in average hourly earnings. The recovery in employment played a substantial part, however, and together with some lengthening of the workweek accounted for around half the rise in total wage and salary payments. For hard-goods manufacturing it was the principal factor.

In the first half of 1959 expansion of manhours became relatively more important, reflecting mainly a vigorous recovery of employment. In most nondurables manufacturing lines and in all the major durables, increased payments reflected sharper percentage gains in manhours than in hourly earnings. (See chart.) Available data indicate a similar experience in trade and contract construction.

After midyear payroll increases slowed in most durable and nondurable manufacturing lines as well as in contract construction, the utilities, trade, and service. As a rule this stemmed primarily from a tapering of the rise in manhours, as employment expansion lessened and the average length of the workweek declined on a seasonally adjusted basis for the first time in any quarter since early 1958. The tendency to shorter hours extended throughout manufacturing, with only scattered exceptions, and appeared in a number of other industry divisions as well. Average hourly earnings continued their advance, though generally at a reduced pace.

Unless otherwise stated, statistics through 1958 and descriptive notes are shown in the 1959 edition of BUSINESS STATISTICS

Table with 14 columns: 1958 (September, October, November, December), 1959 (January, February, March, April, May, June, July, August, September, October)

EMPLOYMENT AND POPULATION—Continued

Main data table with 14 columns and multiple rows. Sections include: HOURS AND EARNINGS—Continued, Average weekly gross earnings (U.S. Department of Labor)—Continued, All manufacturing industries—Continued, Durable goods industries—Continued, Nonmanufacturing industries, and Average hourly gross earnings (U.S. Department of Labor).

Revised. Preliminary. Except ordnance, machinery, and transportation equipment. Includes data for industries not shown separately. Revised series (first shown in September 1959 SURVEY); data beginning January 1958 are calculated on a different basis and are not strictly comparable with published figures through December 1957. Derived by assuming that overtime hours are paid at the rate of time and one-half.

Unless otherwise stated, statistics through 1958 and descriptive notes are shown in the 1959 edition of BUSINESS STATISTICS

Table with columns for years 1958 (September, October, November, December) and 1959 (January, February, March, April, May, June, July, August, September, October)

FINANCE—Continued

LIFE INSURANCE—Continued

Table containing Life Insurance statistics including Institute of Life Insurance (Assets, Stocks, Real estate, Policy loans), Life Insurance Agency Management Association (Insurance written, Payments to policyholders), and Life Insurance Association of America (Premium income).

MONETARY STATISTICS

Table containing Monetary Statistics including Gold and silver (Monetary stock, Production, Imports, Exports), Money supply (Currency in circulation, Deposits and currency), and Turnover of demand deposits.

PROFITS AND DIVIDENDS (QUARTERLY)

Table containing Profits and Dividends (Quarterly) for Manufacturing corporations, categorized by product type (Food and kindred products, Textile mill products, Lumber and wood products, Paper and allied products).

Revised, Preliminary, Revision for August 1958 (mil. dol.): 33,681. Revisions for January-July 1958 will be shown later. § Or increase in earmarked gold (-). ¶ Includes data for the following countries not shown separately: Mexico; Brazil; Colombia; Chile (through December 1958 only); Nicaragua; Australia; and India. ¶ The term "adjusted" denotes exclusion of interbank and U.S. Government deposits; for demand deposits, also exclusion of cash items reported as in process of collection. ¶ Includes Boston, Philadelphia, Chicago, Detroit, San Francisco, and Los Angeles. ○ Effective with the July 1959 SURVEY, estimates are based on the latest revised (1957) Standard Industrial Classification Manual and, for most industries, are not comparable with previously published data. Comparable data for 1st quarter of 1958 are available upon request.

