Recession, Yes-But Not in Washington
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Our Changing Economy

Recession, Yes—But Not in Washington

By Philip Stoddard Brown
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When will the next recession begin and what will be its impact upon Washington-area residents?

The next recession has begun—so it appears to me. Output and employment are still very high, but recent cutbacks suggest to me that the cyclical peak has been passed. More important, the latest figures on inventories, new orders and contract awards indicate, I think, that the present rate of activity will not last.


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In my view, that is what has happened and is happening.

● In the late spring of 1958, industrial output began to rise and this rise continued until mid-1959. In the latter half of this period of remarkably steep rise in production, nearly $5 billion worth of goods went to build up inventories.

● Then came the steel strike and also the sharp and prolonged curtailment in automobile production. New-car sales were less than manufacturers had expected, but the shutdown of steel and automobile industries was so long that stocks were greatly reduced.

● Toward the end of 1959 expectations changed. The backlog of demand for steel and other products was thought to be enormous. Businessmen envisaged record-high sales in 1960. They ordered more goods to build up inventories. (Washington department stores, for example, had 36 per cent more goods on order at the end of 1959 than at the 1958 year-end.) Investors shared this optimism and bid up stock prices. Optimism grew. There was talk of the boom lasting through 1961.

● But retail sales in January and February weren't great enough to sustain these high expectations. The consumer wasn't in a mood to be "a hero"—that is, to overspend. Why? One can guess, but not know.

● Merchants took another look at their inventories and told buyers to go easy. Consequently, manufacturers' new orders declined more than they usually do in January. Shipments were large, so the backlog of unfilled orders fell. Likewise, contract awards for construction dropped and the backlog of work in the building industry declined.

● Automobile dealers find themselves with the greatest stockpile of new cars they have ever had, and the build-up continues. There are a million unsold new cars.

● Manufacturers' inventories have increased and the prices of some raw materials have declined. Steel supplies have risen considerably. Gasoline stocks are the highest in nearly two years. The price of copper has declined. So it goes.

What of the future? Well, the way to reduce inventories is to produce less. The way to produce less is to shorten the workweek and, finally, to lay off workers. In the automobile industry, the curtailment in output will be drastic. How far will the recession go? One can only conjecture how many new American-made cars and new houses people will buy. New-model cars and new houses have to be sold, so production will adjust before long to the decisions of buyers.

Then too, much depends on Government appropriations, what happens at the coming international conferences—everything that affects the hopes and fears of businessmen faced with decisions about inventory policies and capital outlays.

In the past two months, the market value of shares listed on the New York Stock Exchange alone has declined by more than $20 billion. This is equal to almost a full year's saving by individuals. Washington residents, among others, have suffered considerable losses—"paper losses" some say, but what other kind are there?

Not many Washington residents are in the position of the Detroit auto workers. The jobs of most people who work in Washington do not depend on what people outside the area buy. They work for the Federal Government, or for firms that have Government contracts, or for businesses whose customers are area residents.

This doesn't mean that the Washington economy is not vulnerable. It is. But vulnerable to different decisions: those, for example, involving congressional appropriations (especially for local public works and defense expenditures), the location of Federal establishments and Federal pay scales.

Perhaps the most vulnerable sector of the area economy at present is the construction industry. It will take a huge total of new contracts to sustain the present rate of activity. If the larger projects now being planned receive financial backing, the value of new contracts awards will be very great—sufficient to employ a labor force of 45,000 to 50,000 for another year or two.