

Our Changing Economy

U. S. Business Drop Felt Slightly in D. C.

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WHAT is the state of business and what change is indicated by present commitments? First, in the country as a whole:



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Economic activity has declined since January, if allowance is made for the usual spring upturn. But it is still very great. Businessmen have been building up inventories—producing more goods than they have been selling to ultimate users—and spending a lot for new plant and equipment. Now they have lots of goods and excess productive capacity.

• The inventory build-up, greatest in the steel and steel-using industries, may be near its peak. Steel executives expect their operations to go below 60 per cent of capacity within a month or so. Layoffs at "captive" coal mines and other affected industries are now in progress.

Some appliance and farm-machinery manufacturers, oil refiners and lumber firms have also curtailed output to avoid a further buildup of stocks. Auto makers will soon order massive layoffs, because there are well over 1 million unsold American-made cars that become obsolete in October—earlier than usual, this year.

• Dealers may have to carry over a lot of current-model cars. Many people, aware of the huge clearance sale that must be held this summer, may wait for a markdown in new-car prices. Others may be deterred by the drop in trade-in values: already the drop in used-car prices this spring has been the sharpest in many years. Still others may wait to see those new "compacts" to be offered this fall by Pontiac, Olds and Buick, which Frederic G. Donner, chairman of General Motors, says "represent a significant advance over anything competitors have offered in the smaller car field."

• The marked decline in new orders for machine tools points to a probable decline next year in capital spending by manufacturing firms. (In most cases, commitments for current expenditures were made last year.)

• Contract awards for new construction in the first four months of this year were 8 per cent less than in the same period last year. In April, despite three big contracts for pipelines, they were 11 per cent below those of April, 1959. Housing starts have been far below those of last spring. Mortgage rates are 6 per cent or higher in most areas, and even if there is some "easing" of rates this summer, it may be months later before the pace of residential building is affected.

• The peak of industrial production was probably reached in January, as I suggested some months ago. It may not be regained for a year or longer, unless the downturn is interrupted by added authorizations for military procurement, or some other political development that scares corporate purchasing agents into placing more orders.

• Two weeks have passed since the failure of the Summit Conference, without any apparent increase in anxiety. Sensitive commodity prices are unchanged. No reports have been made of any pickup in new orders for manufactured goods. In fact, the continued decline in backlogs points to extended layoffs of a large number of workers this summer.

• Recently most business analyses, after citing some of the above facts, have concluded with some such remark as "caution is being overdone" and then prediction of "upturn in the fall."

No Recession in Washington

Business in Washington will not be much affected by inventory adjustments. Washington's principal export is "services," which can't be stockpiled.

Housing starts this spring have been 25 per cent fewer than last spring, but other construction in this area is greater and the backlog of work is enormous. About 50,000 persons were engaged in construction in April, the same as last year.

In Southwest Washington, public construction of the new Fourteenth Street Bridge, channel crossing and approaches is in progress. A new firehouse and police station are being built. Sewers are being laid. A new elementary school is near completion. These and other public works will be followed soon by a great wave of private building. In its present stage, this development is an impressive reminder of how much public investment is required in any community these days.

The election this fall may bring to office an administration committed to broader welfare and regulatory programs and, possibly, a bigger defense program. This could result, a year from now, in a marked increase in the Federal payroll—the first in several years.

In conclusion, it should be noted that Washington has not grown as fast during the past decade as the Board of Trade figures indicated. The preliminary census of the area's population (2,035,000) is 100,000 less than the estimated figure. Apparently Washington reached the 2-million mark about two years after the observed date.

AREA BUSINESS INDICATORS

(Per Cent Change, 1959 to 1960)

	April	January through April
Federal civilian payroll	— 1	+ 3
Employment (Metropolitan Area)		
Government (civilian)	+ 2
Government (military)	— 4
*Private	+ 3
Number of dwelling units authorized	—30	—25
Retail trade:		
New-car registrations	+21	+15
Department store sales	+15	+ 3
Electric appliance sales	— 8	— 8
Public utility services:		
Electric power (Pepco area)		
*Commercial	+13	+10
Residential	+15	+ 7
Gas sales (Wash. Gas Light)		
Business	+36	+23
Residential	+20	+10
Telephone service:		
Local calls	+ 9	+ 8
Out-of-town calls	+ 9	+11
Commercial banking (D. C. only):		
Value of checks written	— 4	+ 3
Loans outstanding		
Newspaper advertising	+ 1	+ 3
Food-price index	+ 1	

*Except proprietors, non-salaried doctors and lawyers, domestics and other self-employed persons for which there is no current tally.

**Excluding D. C. and U.S. Government sales.