

Extent of the Slowdown

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SPENDING growth has slowed in recent months; production has stagnated or declined. Total dollar spending on goods and services rose at about a 4 per cent annual rate from the third to fourth quarter of 1969, compared with an average 8 per cent rate from 1965 to the fall of 1969. Spending probably rose yet more slowly in early 1970. Real production of goods and services declined slightly from the third to fourth quarter last year, and the decline probably accelerated in early 1970. From mid-1968 to the fall of 1969, real output had risen at a 2.8 per cent rate, and 5 per cent in the previous year.

Other measures of economic performance have also shown weakness in recent months. Industrial production has declined at a 5 per cent annual rate since last July, after rising about 5 per cent in the previous year. Payroll employment was about unchanged from last October to February. Unemployment, which averaged an unusually low 3.5 per cent of the civilian labor force last summer, rose to 4.2 per cent in February. Unemployment among married men rose from 1.5 per cent to 2 per cent.

Despite the marked slowing in the growth of spending and the cutbacks in production, prices have continued to rise at about the same pace as in early 1969. Although the rate of increase of the general price index (GNP price deflator) ostensibly slowed somewhat to a 4.7 per cent annual rate in the fourth quarter, it rose at a 5 per cent rate during the last half of 1969, the same rate as during the first half of the year.

An evaluation of current trends in economic developments cannot be completed for many months. Meanwhile, some insight may be gained by comparing recent developments in the chief economic measures and public policies with their behavior around peaks in economic activity in previous postwar cycles. The last three peaks in economic activity selected by the National Bureau of Economic Research are May 1960, July 1957, and July 1953. Comparison of the current situation with these periods may be helpful in providing perspective on the magnitude of the current downturn and in developing judgments about its possible future course.

Selecting a recent "peak" month or quarter for comparison is arbitrary at this time. Housing starts

reached a high about a year ago. Other measures, including industrial production, reached their peaks last summer, while others, such as construction, reached highs in the fall. A number of dollar-amount time series, including personal income, have continued to rise, but at a reduced pace. In this study August 1969 is used as a tentative peak. It is the middle month of the quarter when total real output of goods and services was greatest. Any other month from last July to November might have been selected.

Comparisons with Previous Cycles

Spending growth in recent quarters has been considerably faster than around the previous three cyclical peaks. In the year ending with the third quarter 1969, total spending on goods and services rose 8 per cent (Table I). This was greater than for the corresponding period preceding any of the other peaks. The average for the last year of the three previous economic upswings was 5 per cent.

From the third to the fourth quarter last year, total spending rose at a 4 per cent annual rate. In

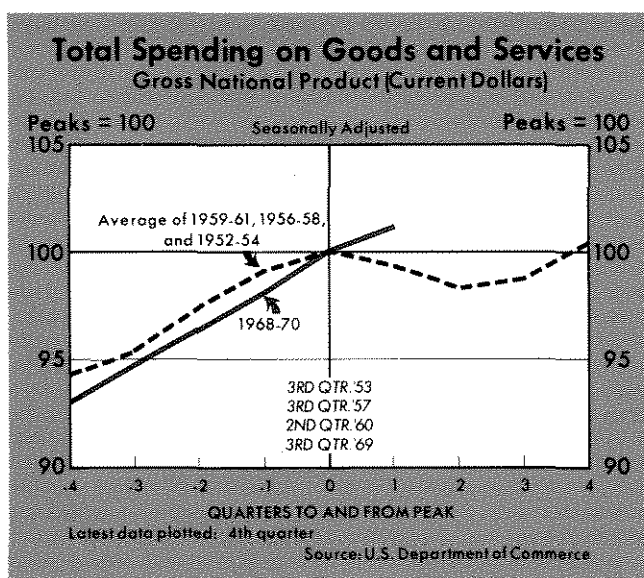
Table I
CHANGES IN PRODUCTION AND SPENDING
(Annual Rates of Change)

Peak Quarter of Economic Activity	Total Spending ¹	Total Production ²
III/1969	7.6	2.5
Recessions:		
II/1960	3.7	2.0
III/1957	6.1	2.4
III/1953	5.9	5.0
Average of 1960, 1957, and 1953 peaks	5.2	3.1
Slowdowns: ³		
IV/1966	8.5	4.9
III/1962	7.7	6.4
III/1969	4.0	- 0.4
Recessions:		
II/1960	- 0.4	- 1.9
III/1957	- 4.2	- 6.0
III/1953	- 5.3	- 4.7
Average of 1960, 1957, and 1953 peaks	- 3.3	- 4.2
Slowdowns: ³		
IV/1966	1.8	- 1.0
III/1962	5.5	3.7

¹Gross National Product in current dollars

²Gross National Product in constant dollars

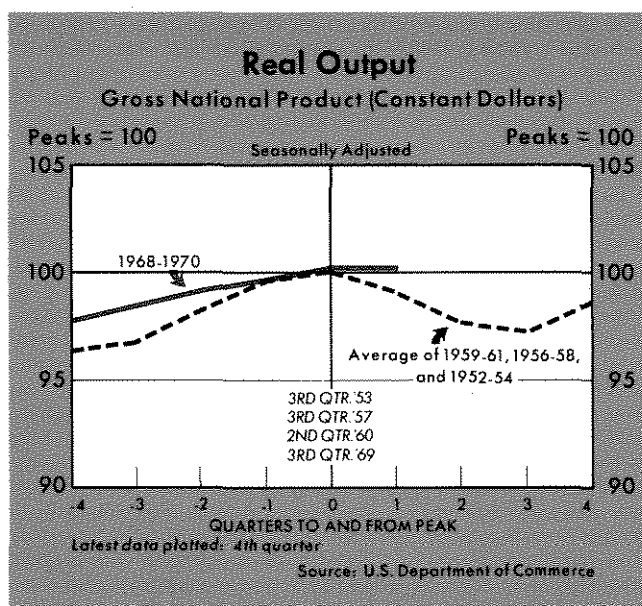
³Slowdowns selected by Federal Reserve Bank of St. Louis.



the first quarter of each of the three previous business recessions total spending declined at an average 3 per cent rate. Preliminary data indicate that total spending probably continued to rise moderately from the fourth quarter last year to the first quarter this year. In the second quarters of the three previous recessions, total spending declined at an average rate of 4 per cent.

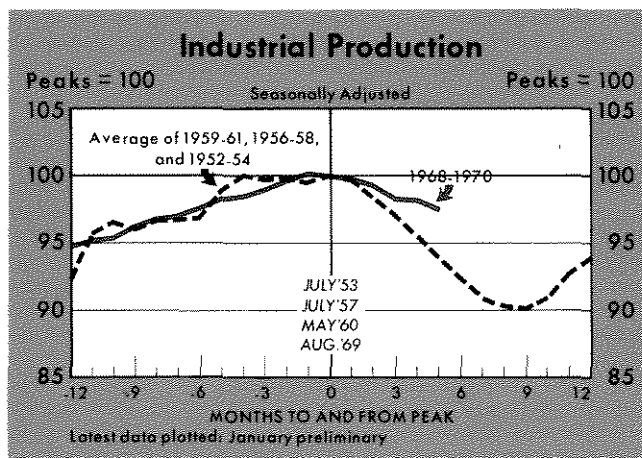
The more rapid growth of spending in 1969 and early 1970 than around previous cyclical peaks reflects the higher rate of inflation in the current period. In real terms, the recent and earlier periods are more nearly similar. Real production before the assumed peak last August grew somewhat slower than before other peaks, but it has demonstrated more strength after the turn than during the early months of the three previous business recessions. In the year ending with the third quarter of 1969, total output of real goods and services rose 2.5 per cent, compared with an average 3.1 per cent in the corresponding years before the 1960, 1957, and 1953 peaks (Table I). From the third to fourth quarter in 1969, production declined at a 0.4 per cent annual rate, while in each of the first quarters after the three previous cyclical turns, output declined much more sharply, averaging a 4.2 per cent annual rate.

Industrial production, which includes only about one-third of total production but which is measured monthly, has followed a pattern similar to total real output. In the eight months ending last August, industrial production rose at a 5 per cent annual rate (Table II), about the same as the average for the eight months before the 1953, 1957, and 1960 business cycle peaks.



The decline of industrial production at a 6 per cent annual rate from August to January was much more modest than in the comparable 1957 and 1953 periods, and about the same as in the 1960 period. Production fell at an average 14 per cent rate in the corresponding five months of the three previous recessions.

Employment trends have been much stronger in 1969 and early 1970 than around the upper turning points of the three earlier business cycles (Table II). From December 1968 to August 1969 payroll employment rose at a 3.6 per cent annual rate. In the comparable eight months preceding each of the three previous business cycle peaks, the growth rate of payroll employment averaged 2 per cent. Since last August payroll employment has risen slightly, at a 0.5 per cent rate, whereas in the first five months of each of the three previous recessions, it had declined, at an average annual rate of 2.8 per cent.



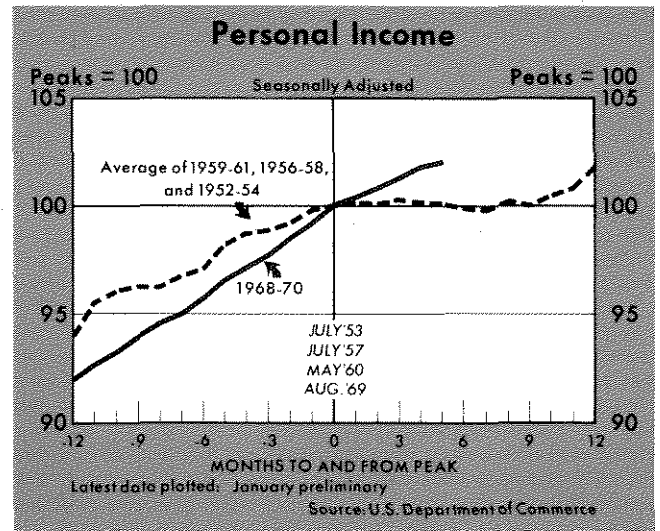
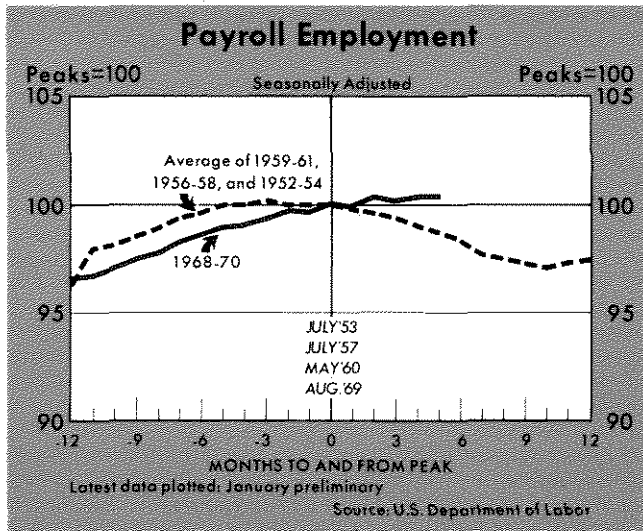
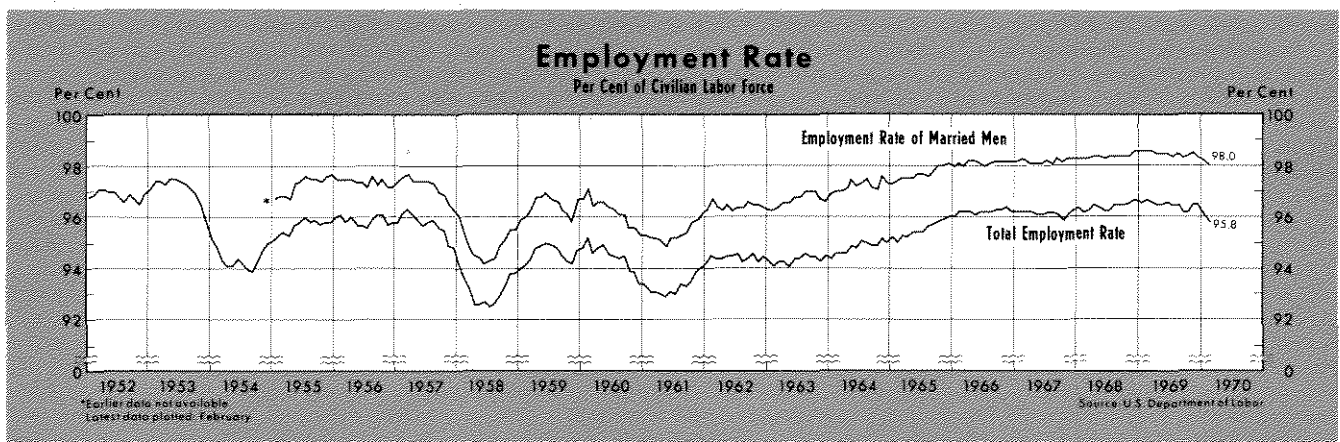


Table II

CHANGES IN SELECTED ECONOMIC INDICATORS
(Annual Rates of Change)

Peak Month Of Economic Activity	Industrial Production	Payroll Employment		Personal Income	Construction Expenditures
		Eight Months Before Peak			
August 1969	5.0	3.6	8.8	6.5	
Recessions:					
May 1960	8.6	3.1	7.0	-2.1	
July 1957	1.0	0.7	5.5	1.1	
July 1953	6.2	2.1	5.2	4.2	
Average of 1960, 1957, and 1953 peaks	5.3	2.0	5.9	1.1	
Slowdowns:					
October 1966	7.0	4.5	8.2	-6.8	
July 1962	5.4	2.9	5.2	5.8	
		Five Months After Peak			
August 1969	-6.0	0.5	5.0	-3.4	
Recessions:					
May 1960	-6.2	-1.7	1.9	-2.2	
July 1957	-16.1	-3.1	-0.1	2.2	
July 1953	-19.5	-3.5	-1.4	0.6	
Average of 1960, 1967, and 1953 peaks	-13.9	-2.8	0.1	0.2	
Slowdowns:					
October 1966	-4.2	2.8	6.6	.3	
July 1962	.8	1.1	5.1	-.8	

Other indicators of economic activity, both nominal and real, generally confirm the evidence emerging from the above measures that the economy has been stronger in the past than at periods around the three previous cyclical peaks. Personal income rose more rapidly immediately before and after August 1969 than in the like periods around May 1960, July 1957 and July 1953. Construction expenditures, which were adversely affected in the past year by financial disintermediation, nevertheless compare favorably with expenditures over the entire period before and after the earlier cyclical peaks (Table II). About 96 per cent of those in the labor force were employed in early 1970, while at the same stage in the three previous recessions the employment rate averaged about 94 per cent.

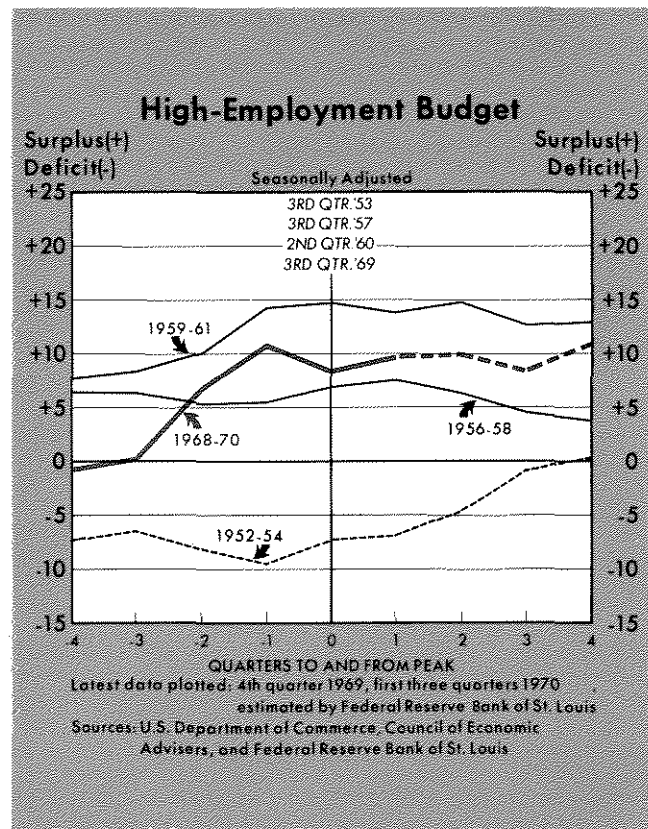


Inflation is also much stronger now than around the earlier cyclical highs. Overall prices rose 5.1 per cent during 1969. In the comparable years ending one quarter after the three previous business highs, overall prices rose an average 1.6 per cent.

Fiscal and Monetary Conditions

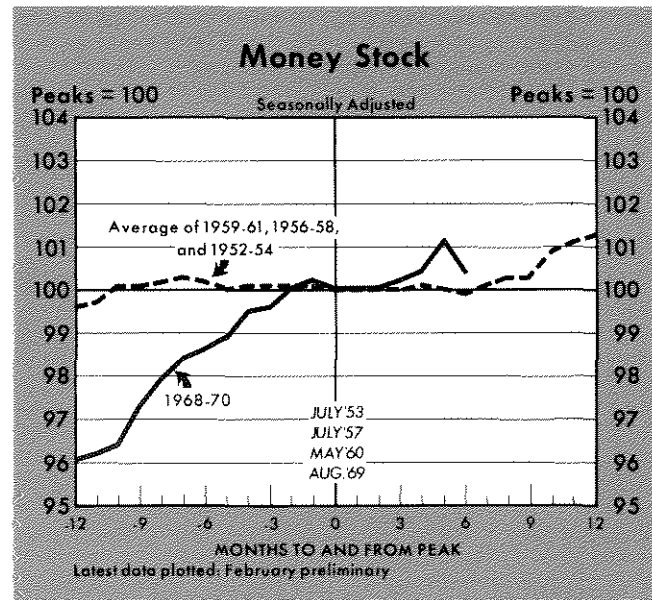
A brief review of recent Government economic stabilization actions, compared with those around the beginnings of the last three business recessions, may also be useful in evaluating recent business developments. Fiscal conditions, as measured by the high-employment budget, were nominally stimulative prior to the July 1953 peak and restrictive before the July 1957, May 1960, and August 1969 high points. Monetary actions, as measured by changes in the money supply, were restrictive prior to each of the four peaks.

1953— Around the July 1953 turning point in business activity, fiscal actions were stimulative while monetary developments were moderately restrictive. The budget was in large deficit as a result of the Korean conflict, but in the peak quarter it was somewhat less stimulative than in the previous quarter. Immediately after the peak, fiscal actions became less expansionary, with cutbacks in spending after the Korean War more than offsetting lower tax rates.



The money stock increased at a 1.6 per cent annual rate in the seven months before the July 1953 peak. This was much slower than the 4 per cent rate from 1949 to 1952. After the peak in business activity, money changed little on balance for a relatively long period of nine months before it began rising rapidly. The recession of 1953-54 was the longest of the three considered, and illustrates that a downturn can occur despite a stimulative Federal budget.

1957— Around the July 1957 peak both fiscal and monetary developments were restraining forces. The high-employment surplus was slightly restrictive, moving up \$2 billion in the two quarters before the peak and remaining at about this level for two quarters afterward. Thereafter, the budget became somewhat less restrictive.



Seven months before the 1957 turning point, the money supply reached a plateau and remained at this level until two months after economic activity began contracting. From the second to the sixth month of recession, money contracted at a 3 per cent rate. After the sixth month of recession, however, money rose at a rapid 5 per cent rate in the following five months. By most measures the 1957-58 recession was the most severe of the three examined, but its subsequent recovery was also the most pronounced.

1960— Before the cyclical peak of May 1960, both fiscal and monetary conditions were very restrictive. In the year ending with the peak quarter, the high-employment surplus rose from \$8 billion to about \$15 billion, a high level by historical standards. Money contracted at a 3 per cent annual rate during the

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