WEEKLY OUTLOOK
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June 8, 1983

THE BUMPY ROAD TO ECONOMIC RECOVERY

THE U.S. ECONOMY IS ON THE ROAD TO RECOVERY. This has been increasingly apparent since the beginning of 1983. Figures that depict strength in the economy, such as rising industrial production, increased factory orders, and surging retail sales, are being recited by government economists. Yet changes in some indicators, such as interest rates, the money supply, and unemployment, imply that the road to recovery may be a bumpy one. Whatever its course, it is unlikely that this recovery will come to an abrupt halt as did the one in 1980.

There is little doubt that the economy is expanding. Revised U.S. Department of Commerce figures show that the gross national product (GNP) grew by about 2.5 percent in this year's first quarter. The production of goods and services, which comprises the GNP, is likely to continue to expand in the second quarter and beyond. This projection is based on the fact that industrial production in April, the first month of the second quarter, was up by 2.1 percent; factory orders, which lead to subsequent near-term production, were also up 2.1 percent; and sales in May by the ten largest retailers in the United States were 3.6 percent to 23.6 percent higher than in the same period a year ago. Such strong sales indicate that those retailers are likely to increase their orders of goods to replace those that were recently sold.

The road to recovery may be impeded by three factors. First, interest rates are likely to remain higher than usual. In addition, they may move upward occasionally, as they have in recent weeks, rather than downward continually, as would be preferred. Second, one measure of the money supply, M1 (primarily cash and checking-type deposits), grew at an 11.9 percent rate from last October, 1982, through March, 1983, almost 4 percentage points higher than targeted by the Federal Reserve. Such growth, largely attributable to the new banking accounts introduced nationwide last October, brings concern about renewed inflation and restrictive monetary policy (higher interest rates) to investors and consumers alike. Finally, the unemployment rate, currently at 10.1 percent of the labor force, may rise briefly this summer as discouraged job seekers reenter the work force to look for jobs.

Despite these three factors, the recovery is likely to continue. The Department of Commerce's index of leading economic indicators rose 1.1 percent in April, the tenth consecutive month in which a rise has taken place. The factor which contributed most to the rise was the increase in the average American's work week. This bodes well for the unemployed; as the currently employed reach their limits on regular and overtime work hours, companies will start to rehire workers. Finally, consumer confidence has surged in April, as indicated in the University of Michigan's consumer confidence index rise from 80.8 to 89.1. This level has not been seen since May, 1977.

If the recovery continues, the farm economy will benefit. Increased consumer spending should be reflected in food purchases, especially of meat. An increased demand for meat will help support farm livestock prices. In the longer run, as the U.S. economy recovers, the world economy will also recover, resulting in increased export demand for U.S. agricultural commodities.

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