WEEKLY OUTLOOK
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March 2, 1983

SIGNS OF ECONOMIC RECOVERY

RECENTLY IN THE UNITED STATES, indications of an economic recovery have begun to appear in abundance. Industrial output has increased, capacity utilization of factories is up, real income continues to rise, unemployment appears to be decreasing, interest rates may be falling again, and inflation remains low. Obviously, one month of good economic news does not make a recovery, but the signals are enough to make one very optimistic.

The most convincing sign of economic recovery is the 0.9 percent rise in U.S. industrial production in January. This is the first significant rise in industrial production since February, 1982, and only the third rise since August, 1981. January's production level was boosted in almost every sector. Automobile production rose by 10 percent, the largest gain to be noted. In addition, large increases in production occurred in construction supplies, defense and space equipment, and steel and other basic metals.

Of course, the rise in industrial production in January has boosted utilization of our nation's factories as well: they operated at 67.8 percent of capacity in January, a 0.5 percentage point rise from December and the first rise since last February. As with industrial production, this rise is only the third to be observed since August, 1981.

Over 1.7 million new homes were started in January, up a record 35.9 percent from December. Building activity was almost double the annual rate of January, 1982, and is the highest in almost 3 1/2 years. This boost in housing starts is the result of lower interest rates and strengthening home sales as well as very mild weather over most of the country. Every region in the country registered a jump in housing starts in January, led by a 55 percent increase in the North Central region and a 40 percent increase in the South. February's reasonably good weather in much of the country will probably help sustain housing starts near that level.

The prime interest rate posted by several major banks was reduced last week to 10.5 percent, leading to speculation that further declines in consumer borrowing rates will follow. Such declines will not only ensure the continuation of improved economic activity, but will strengthen it as well.

Recognizing the need to encourage economic growth, the Federal Reserve Board has set new monetary growth rates for 1983 compatible with lower interest rates. In effect, what the Board is saying is that slight growth in 1983's money supply will allow the economy to expand and interest rates to fall further, provided inflation continues at a low level. Thus the greatest concern in financial markets is the extent of Federal borrowing needs in 1983. If economic recovery is stronger than the administration is projecting--as I believe it is--the government may need to borrow less money than expected, reducing the pressure on interest rates further.

Other favorable economic news includes the rise in real personal income in January, which although 0.1 percent, has been part of a continuous series of increases that began over a year ago. Unemployment fell unexpectedly in January to 10.4 percent from 10.8 percent. Finally, inflation appears to be still receding, as indicated by a rise in the consumer price index of only 0.2 percent in January, or about 2.8 percent annually on a compounded basis. If there is to be economic recovery in 1983, the evidence could not be stronger or more plentiful. An official announcement of recovery will not be forthcoming from the National Bureau of Economic Research (a private economics research firm that tracks economic activity) for several months.

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