

TABLE 8.—*Consistency of actual behavior with expectations, 19 manufacturing industries, 1948-56*

[Number of industries]

	Consistent	Inconsistent	Uncertain
Preliminary classification.....	4	4	11
Corrected classification.....	13	4	2

Five of the eleven "uncertain" cases were industries in which unit labor costs rose by less than average, demands rose by less than average, and gross business incomes rose by less than unit labor costs. These industries were: lumber, textiles, apparel, leather, and miscellaneous manufacturing. The first characteristic, a less-than-average rise in unit labor costs, would lead us to expect an increase in gross margins. The second characteristic, a less-than-average rise in demand, would lead us to expect a decrease in gross margins. In all five industries gross business income did actually fall as a percent of value added. Since the rise in demand in all of these industries appeared to be *substantially* less than the rise in demand for other industries, the behavior of gross business income per unit may be judged to be consistent with expectations. In the "corrected" classification we have transferred these industries to the column denoting consistency with expectations.

In two of the "uncertain" industries, fabricated metal products and transportation equipment, unit labor costs rose more than average (expectation: a decrease in the gross margin) and demand rose more than average (expectation: an increase in the gross margin). In both of these industries gross margins fell. In the case of fabricated metal products the rise in demand appeared to be only slightly greater than average, while the rise in unit labor costs was substantially greater than average. Hence the actual results appear to confirm expectations and the industry was transferred to the "consistent" column. In the case of transportation equipment, however, the rise in demand was substantially greater than average while the rise in unit labor costs was only moderately greater than average. The actual behavior of gross margins was, therefore, inconsistent with expectations. There are two very important subindustries within this industry group—aircraft and automobiles. Responding to the huge increase in Government aircraft procurement, the aircraft industry has grown more rapidly than the automobile industry. Since a very large proportion of plant and equipment in the aircraft industry is Government owned, a satisfactory rate of return on private investment can be earned with a very small margin on sales. Thus, as the proportion of total output in the industry accounted for by aircraft rises, the total industry figure for gross business income per unit tends to be depressed. This may account for the apparent disagreement between expectations and actual results for this industry. Without a further breakdown of the data, it is impossible to test this hypothesis, however, and we have left the industry in the "uncertain" column.

There were three "uncertain" industries, primary metals, non-electrical machinery, and instruments, in which unit labor costs rose more than average (expectation: a decrease in gross margins)