

Production or supply can be increased in the short run for other sensitive materials, such as scrap metals, wastepaper, copper, lead, zinc, and lumber. Because increases in output are accompanied by rising costs per unit of output or because of other conditions of supply, expansion in demands is reflected in price rises which provoke increases in supply. Price trends for a group of these sensitive materials often suggest the direction and strength of demands before other types of data for the same time period become available.

Many foods and foodstuffs—including livestock, poultry, and some crops—also conform to the type of market behavior described for sensitive industrial materials. For these, however, the response of domestic demands to cyclical and secular income changes is slight (the income elasticity of demand is low). Substantial changes in output may occur, however, mainly because of variations in weather, swings in the hog and cattle cycles, or rising productivity. Consequently, price fluctuations for these commodities usually reflect changes in supplies to a greater extent than they reflect shifts in demands.

Agricultural commodities subject to Federal support programs are largely protected from the price-depressing influence of large increases in production. At the same time, the existence of stocks previously accumulated in the process of supporting prices has limited in recent years the response of prices to a crop failure or other events that reduce production and supply.

For most industrial materials other than those described as sensitive, supply is expansible in the short run until some relatively high rate of capacity utilization is reached. This is true for steel mill products, paper products, many chemicals, cement, brick, and other materials. In the early stages of expansion, variable costs per unit of output are not likely to rise as increases in output are accompanied by gains in productivity and wage rates do not rise much. Fixed costs per unit and average costs per unit decline, and profit margins as well as total profits rise. Expansion in demands for these materials is accompanied for a time by rising output and supply without widespread advances in list prices. Absorption of freight and other concessions from list prices which had developed during the previous recession tend to be reduced during the early stages of expansion. These changes in actual prices are not reflected in the established price indexes, which are based mainly on manufacturers' published price lists.

The behavior of wholesale or manufacturers' prices of most finished industrial products in the early stages of expansion is much like that described for the second group of industrial materials—for similar reasons. Therefore, increases in their prices early in expansions are likely to be restricted in scope.

Continued expansion of demands eventually generates upward pressures of costs on prices of industrial materials in the second or nonsensitive group and on prices of finished products. The upturn in costs is primarily a consequence of higher levels of output in relation to available manpower and material resources.

Contrary to the suggestion sometimes made that pressures of demand against resources available to produce specific products cannot possibly contribute to increases in their prices and costs until operations are at 100 percent of capacity, costs of production often begin to rise before output approaches such high levels. The plant and equipment existing in an industry at any time is of varying age and efficiency. As demands expand, less efficient facilities must be used if output is to be increased to fill the rising volume of orders. Partly because these marginal facilities have to be activated, over-all productivity advance slows and may actually cease or be reversed. This contributes, along with increasing wage rates, premium payments for overtime, and advances in prices of some materials consumed in the industry, to rising costs per unit of output.

Price- and cost-raising pressures of demands in specific industries, furthermore, may become widespread enough to constitute a general problem before output reaches high rates in relation to capacity in all major industries. Usually, some industries are growing while others are not, and some regions are gaining while others are losing business. A number of important bottlenecks may develop even while unused capacity exists elsewhere. These developments also contribute to a higher level of frictional unemployment of labor than might exist otherwise. A judgment that output in the whole economy is at a high rate relative to plant capacity does not require that there be no margins of unused capacity, any more than "full employment" means that there are no persons looking for jobs.

Given variations in the timing and intensity of demand and cost pressures among industries, Governmental policies to further expand aggregate demands