

comparison of developments in the period with the process described above will tend to show that the originating causes of inflation in the 1954-57 expansion—as in other periods of expansion characterized by inflation—were strong demands and overly optimistic appraisals of prospects. Once begun, the inflation was sustained by persistence of strong demands, by demand-price-cost-demand interaction, and by generation of widespread expectations of continuing inflation.

The business expansion that began in the spring of 1958 had not, through the spring of 1960, led to large and widespread increases in prices, as producers endeavored to hold down and reduce costs. Comparison of this period with both the process described previously and with the 1954-57 experience shows that the growth in final demands, while substantial, was reasonably well balanced and moderate in relation to available resources.

The 1954-57 expansion

Recovery from recession began in the second quarter of 1954. Expansion of consumer buying and residential construction activity was followed shortly by a shift from liquidation to accumulation of inventory. This was a period of rapid industrial expansion abroad, and foreign demands were contributing strength to domestic markets.

Prices of sensitive industrial materials began to rise in the spring of 1954, as shown in the attached chart, and were back to the prerecession level by the spring of 1955. By that time, prices of some other materials and producers' equipment also had been raised. Changes in wholesale prices of industrial commodities from June 1954 to June 1955, and over succeeding 12-month periods, are shown in the accompanying table.

Wholesale prices—Percent increase

	June 1954 to June 1955	June 1955 to June 1956 ¹	June 1956 to June 1957	June 1954 to June 1957
Industrial commodities.....	1.8	4.9	3.2	10.2
Materials.....	2.4	5.4	2.9	11.0
Sensitive.....	² 5.4	5.4	-2.6	8.1
Other.....	1.3	5.4	4.9	11.9
Finished goods.....	.9	4.2	3.7	9.0
Consumer.....	.3	2.6	2.5	5.5
Durable.....	.5	3.5	3.0	7.2
Nondurable.....	.2	2.1	2.1	4.5
Producers' equipment.....	2.1	7.9	6.1	16.9

¹ Well over half of the increases in this period occurred during the 2d half of 1955. The rate of increase in prices in that period was faster than after the end of 1955 when the rapid shift in the composition of demands is said to have become a major influence.

² The rise in this group began in March 1954, and from that time to June 1955 amounted to 7 percent

Source: Based on Bureau of Labor Statistics data.

Industrial production reached a new high in the spring of 1955 and continued to expand, while the labor market tightened. Sales and output of autos far exceeded previous records, under the influence of price concessions, radical changes in design, and a shift in credit terms to considerably longer maturities and lower downpayments. The volume of residential building was exceptionally large, and production of other consumer durable goods and business plant and equipment all advanced. Even though steel production reached capacity levels and output of other primary metals was at peak rates, metals were in short supply, and capacity was under mounting strain in many other important industries. Business profits after taxes increased considerably. This intensified incentives to expand capital investment and also provided some of the needed funds, with the result that business investment plans rose sharply further.

These were the conditions and expectations in mid-1955, when some important labor contracts were negotiated. Demands for large increases in wage rates and fringe benefits were strong, and resistance to them was weak. In the auto, steel, and certain other major industries, large increases were agreed upon, and these liberal contract terms were negotiated for the most part without work stoppages.

Given the demand conditions and prospects of the time, prices could be and were raised to cover not only the increases in wage rates but also advances in other costs such as those resulting from the sharp increase in hiring of non-production or salaried workers. Costs of materials and supplies were also ad-