Whether the domestic automobile market can expect to match the sales and production levels of the late 1970’s is uncertain. Even if the 1983 recovery lasts three and one-half years—the average length of past recoveries—the cycle peak in domestic new-car sales could fall short of the more than 9 million units reached in both 1977 and 1978. In recent years, American consumers have decreased their total demand by shifting from cars to trucks, buying fewer cars and keeping their cars longer. Future demand for new domestic cars will depend on continued growth in real disposable personal income, moderation in gasoline prices, and reductions in the real purchase price of autos. Imported cars, on the other hand, usurped over 25 percent of the new-car sales market in 1980, 1981, and 1982. (Voluntary import quotas have been helping to hold down the number of auto imports.) Domestic automobile manufacturing is critical to both the District’s economy and the nation’s. The District is a major producer of machine tools, motors, generators, electrical equipment supplies, heavy-duty trucks, and business equipment (including computers). These industries have begun to revive—with nondefense capital-goods production trending upward since January 1983. Yet, interest rates and abundant idle capacity hamper the recovery of these key industries.  

Conclusion  

The pattern and composition of the national economic recovery are among the most important elements shaping local economic fortunes. The national economy shifted into recovery in the first quarter of 1983, with real gross national product rising at an annual rate of 2.6 percent annual rate. At the same time, total nonagricultural employment in the Fourth District has steadily risen, and Fourth District unemployment rates, while still substantially higher than national unemployment rates, have dropped.1 Although these short-run developments are encouraging, the recovery in the Fourth District is restricted to just a few industries, primarily automotive producers and steel makers. The concentration of the District’s resources in heavy manufacturing, such as automobiles, steel, and machine tools, partly explains the cyclical vulnerability of the local economies and why employment gains have been spotty in the early stages of recovery. While the Fourth District’s recovery is tied to the national recovery, underlying structural and competitive problems limit the District’s economic performance as the recovery develops. That is, employment growth over the recovery is influenced by long-term (i.e., structural and competitive) changes in the District’s economies, as well as by short-term cyclical factors. As the pattern and composition of the recovery shift toward increasing value-added in goods and services produced in a given period, although

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1. The Federal Reserve Fourth District includes all of Ohio, western Pennsylvania, northern and eastern Kentucky, and the northern panhandle of West Virginia.

The question of recovery is generally signaled by a shift into positive rates of change in the District’s economy. This represents a strong 

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Conclusion 

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has become increasingly concentrated in nondurable goods and services, the growth potential of the Fourth District has become increasingly limited because of its large share of durable-goods-producing industries. While sharing in this major production restructuring, the District is further hampered by the deteriorating competitive positions of its industries. Few Fourth District industries, especially steel and automobiles, have been able to maintain their share of the national market. This Economic Commentary examines the character of economic recovery, both in the nation and in the Fourth District. The article analyzes the performance of past employment expansions in the District's major standard metropolitan statistical areas—Cleveland, Pittsburgh, and Cincinnati—and discusses the outlook for the current recovery in the Fourth District.
Beyond the first quarter after the trough, driving force, contributing three times its second, slower-growth phase of recovery of GNP is about 13 percent. In the second phase, about 50 percent of the growth in real GNP is derived from nonagricultural employment. Sector contributions of GNP sectors are predictable in many ways. First, the impact of the initial surge tends to be somewhat misleading, because employment acceleration roughly corresponding to real GNP growth over the recovery. For example, the first surge in employment reflects the pickup in housing and consumer goods spending and the inventory swing in the first phase of recovery. After a brief plateau around the third quarter after the trough, investment spending begins to dominate the recovery and starts a second surge, which has a slower rate than those for Cleveland and Cincinnati. The 1983 recovery in the Fourth District (relative to the nation) was characterized by above-average wages, high interest rates, and nonagricultural employment expansion. For example, the District’s share of total employment has been steadily declining, as shown by the widening gap between the U.S. and local economies, especially since 1979.

The Table Local Recovery

<table>
<thead>
<tr>
<th>Sector</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>6.8%</td>
</tr>
<tr>
<td>Non-Manufacturing</td>
<td>3.5%</td>
</tr>
<tr>
<td>Services</td>
<td>4.2%</td>
</tr>
<tr>
<td>Total</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

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The chart shows that the recovery in the District is dampened by the manufacturing industries, the most cyclical group of the District’s industries. The most notable exception is Pittsburgh’s economy, which is dominated by the steel industry. While retaining the distinct phases of the national employment expansion, the path of Pittsburgh’s recovery has been virtually continuous. The service-related industries of the District’s industries—service-related as well as manufacturing—have experienced slower growth than their national counterparts over the post-War period. The strength of the District’s industries—service-related as well as manufacturing—has been virtually flat. Most of the improvements in such factors as above-average wages, high interest rates, and nonagricultural employment expansion are manufacturing-related. As a result, recovery has been revising their economic forecasts downward, but there is still some uncertainty as to whether the fairly typical 6 percent per quarter rate will materialize in the third and fourth quarters after the trough. By the second quarter of the current recovery was fueled by housing and durable-goods expenditures. Inventory liquidation and continued inventory accumulation continued through 1983:IIQ at a slower rate than in 1983:IQ; thus, inventory investment contributed more to real-GNP growth in the second quarter. The strength of the second phase of the recovery is especially uncertain. Business investment, which is the driving force in the second phase of recovery, may have a slower-chin-normal response to the pickup in economic activity because of above-average interest rates.

The automotive industry historically has led in recoveries and is a significant factor in steel, fabricated metals, glass, and rubber. Thus far in the current recovery, consumer durables—new-car sales have revived slowly from a 1982 recession trough rate of about 5.5 million units (saar) to nearly 10 million units (saar) in the first quarter of 1983. Real income between financial and tangible goods has increased at a rate of 1.8 percent per quarter after the trough, while preliminary estimates show an 8.7 percent increase in 1983:IQ. Analysts have been revising their economic forecasts downward, but there is still some uncertainty as to whether the fairly typical 6 percent per quarter rate will materialize in the third and fourth quarters after the trough. By the second quarter of the current recovery was fueled by housing and durable-goods expenditures. Inventory liquidation and continued inventory accumulation continued through 1983:IIQ at a slower rate than in 1983:IQ; thus, inventory investment contributed more to real-GNP growth in the second quarter. The strength of the second phase of the recovery is especially uncertain. Business investment, which is the driving force in the second phase of recovery, may have a slower-chin-normal response to the pickup in economic activity because of above-average interest rates.

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