COMING EFFECTS OF CURRENT EVENTS

Business in the First Quarter of 1957 and Present Dangers

Following the crest of the boom reached late in 1956, the first quarter of 1957 was a period of hesitation in overall business activity. The quarter has been described as one in which business activity was better than business sentiment. Although various statistical indicators signaled caution, business continued at near-record levels and areas of price weakness tended to be outweighed by areas of price strength.

Industrial production, as measured by the Federal Reserve Board index seasonally adjusted, reached an all-time record level of 147 in December 1956, decreased 1 point to 146 in January, and remained at that level during February and March. As measured by gross national product in dollars, which overstates real output by accounting and price increases, business activity continued to increase in the first quarter.

Employment in most major areas changed little during the quarter with the overall total remaining greater than that of a year earlier. Continued high levels of employment were reflected in record levels of personal income. However, there was a decrease of about 30 minutes in the seasonally adjusted average number of hours worked per week in manufacturing.

Personal income increased in each of the first 3 months of the year and reached an annual rate of $337,500,000,000 in March, $4,000,000,000 more than that of the fourth quarter of 1956 and 6 percent more than that of March 1956. Most sources of income are reported as having contributed to the increase. Personal income after taxes averaged 5 percent more in the 1957 quarter than it did in the 1956 quarter. Moreover, consumer expenditures for goods and services increased in the first quarter of 1957 over those of the first quarter of 1956 correspondingly. (Increases of about 1 1/2 percent in population and 3 1/2 percent in consumer prices in the 1957 quarter as compared with those of the 1956 quarter indicate substantially no change between the quarters in average income and spending after adjustment for population and price increases.)

Preliminary figures indicate that business sales, seasonally adjusted, were at a slightly higher rate in the first quarter of the year than their alltime record rate reached in the fourth quarter of 1956 and were 7 percent more than those of the corresponding 2 months of 1956. Sales of manufacturers in the first quarter were 2 percent more than those of the fourth quarter last year with somewhat higher prices accounting for part of the increase. Although retail sales in February equaled their record rate of December, advance figures indicate that sales in March decreased about 1 percent.

Increasing expenditures for plant and equipment by business and for construction and military items by the Federal, State, and local governments added current strength to economic activity, which strength was largely offset by weakness in other areas of economic activity. Principal among these areas were home building and automotive and steel manufacture.

Residential construction was one of the weakest sectors of the economy. Outlays for new houses in the first quarter were about 7 percent less than those of the corresponding quarter of 1956, although building costs were higher in the 1957 quarter than those in the 1956 quarter. New-car sales lagged behind expectations as sales for the quarter barely equaled those of the first quarter of 1956. Disappointing automobile sales and weakness in the durable consumer-goods market generally contributed to a reduced rate of demand for the lighter steel products. The trend in demand for steel and an apparent widespread reduction in inventories of some of the lighter steel products in the hands of steel users are credited with successive weekly decreases in the steel operating rate in the second half of the quarter.

Although business as a whole continued increasing inventories in the first quarter, the rate of increase was less than half that of the first quarter of 1956.

Despite price weakness in certain areas, notably those of copper and steel scrap among industrial materials and of automobiles among consumer durable goods, business activity in the first quarter was accompanied by generally firm prices. Wholesale prices collectively in March were substantially unchanged from those in January; consumer prices were only slightly higher at the end of the quarter than at the beginning. There were offsetting movements of individual prices, but increases generally were more moderate than they had been in 1956.

To those concerned during 1955 and 1956 with restraining the boom and preserving the purchasing power of the dollar, business activity since the turn of the year can hardly be disturbing. The danger in the present situation as we see it is not the corrective developments that might result from the mildly restrictive policies of the Federal Reserve Board. Rather, the dangers are from monetary developments associated with the magnitude and complexities of the Treasury’s fiscal operations to say nothing of other steps that might be taken
in consequence of the current leveling off of business activity. Although underlying demand does not have the exuberance of that of 1955 and 1956, it still appears to be strong enough so that developments tending to counter the Board's restrictive policies could revive inflationary trends and the business boom.

Unusually large drains on the Treasury's cash during the past 5 months have had an inflationary impact upon purchasing media, decreasing substantially the tax-deflation that in recent years has characterized monetary conditions in the early months of the year. Although present indications are that this rate of drain has diminished, it is expected to remain large for some time, thereby tending to extend the recent inflationary influences of the Treasury's operations. If to these influences are added others, as for example, tax reductions now apparently commanding the serious attention of Congress in association with proposed budget cuts or active Federal Reserve cooperation in Treasury refinancing, the balance between inflation and deflation might well be tipped in favor of more inflation. In that event, we should expect the boom to be resumed.*

However, present indications are that the tax-payment deflation of early 1957 was in substantial part offset by a more rapid rate of spending by the Federal Government and by extensive cashing of savings bonds. In the absence of sufficient deflation to initiate a cumulative liquidation of private debt on the one hand, and in the absence of deficit financing by the Treasury, on the other, we should expect an indefinitely prolonged continuation of business activity near present levels.

What the Indicators Say

The percentage of indicators expanding in March, as measured by the American Institute for Economic Research method, are plotted on the accompanying chart.†

On the basis of the latest available and estimated data, the percentage of leading indicators expanding in March was 0, unchanged from that in February; the percentage of roughly coincident indicators expanding was 50, unchanged from that in February; and the percentage of lagging indicators expanding in March was 100, also unchanged from the percentage expanding in February.

Among the leading indicators, new orders for durable goods decreased from $14,000,000,000 in February to $13,600,000,000 in March. Among the lagging indicators, manufacturers' inventories increased from $51,900,000,000 at the end of February to $52,200,000,000 at the end of March. The data are seasonally adjusted and both changes conformed with latest trend evaluations.

The Iron Age composite price of No. 1 heavy melting steel scrap, not one of the indicators, was $42.83 on April 30, compared with $42.17 on April 23.

The prospect of a business downturn signalled by the leading indicators several months ago still awaits a further confirmatory decrease in the percentage of the roughly coincident indicators expanding.

BUSINESS

Business Failures

Liabilities of business failures totaled $55,800,000 in March, 15 percent less than the February total but 31 percent more than the total in March 1956. Our 3-month moving average of failure liabilities increased for February to $58,400,000, compared with $56,600,000 for January and with $44,900,000 for February 1956.§ The average was the largest for any month since that for March 1933.

The number of failures was 1,336 in March, 17 percent more than that in February and 14 percent more
than that in March 1956. Liabilities per failure averaged $41,800 in March, compared with $57,100 in February and with $36,400 in March 1956.

The number of failures during the 4 weeks ended April 25 was 1,104, about 10 percent more than the total for the corresponding 4 weeks last year.

Failures in March were more numerous than those in February among firms of all size groups and among all industry classifications. Liabilities of failures were more in March than in February in retail trade, construction, and commercial services, but were less in mining, manufacturing, and wholesale trade. Liabilities of failures in the various industry groups, as percentages of the failure liabilities of all groups, changed from February to March as follows: retail trade from 22 to 26; construction from 13 to 18; commercial service from 4 to 7; wholesale trade from 10 to 11; and mining and manufacturing from 51 to 32.

Dun's Failure Index, seasonally adjusted and expressed as an annual rate per 10,000 enterprises, increased from 51 in February to 55 in March; this compares with a rate of 46 in March 1956.

The number of failures in March 1957 exceeded the total for March 1939, and was more than that for any March since 1933. In relation to the number of active enterprises, however, the number of failures in March was last exceeded in 1941. Although increasing competition, less readily available funds, and narrowing profit margins all have contributed to the recent increases in failures, none of these factors appears generally to have reached severe proportions compared with prewar standards.

Only more inflation would seem likely to defer the correction in the rate of business activity suggested by the recent trend and levels of business failures.

DEMAND

Department-Store Sales

We estimate the April sales of the department stores reporting to the Federal Reserve Board, adjusted seasonally and for number of trading days, to have been 2 percent less than those in March (revised), but 3

percent more than those of April 1956. This comparison takes into account the effect of the shifting date of Easter, which was 3 weeks later in 1957, and the one extra trading day in April 1957. Total sales in March and April 1957, with the same number of trading days this year as last, exceeded those of March and April 1956 by 4 percent.

Sales of men's, women's, and children's apparel during the 3 weeks preceding Easter are reported as having increased more than seasonally.

Our index of prices of goods sold in department stores continued to rise and is now 2 percent higher than it was in April 1956. Retail prices of textiles and apparel increased during the month to the levels of last fall. Prices of housefurnishings, although slightly lower than those of the previous month, were 1 percent higher than those of last fall.

The physical volume of department-store sales in April was 2 percent smaller than that in March (revised) and 1 percent larger than that in April 1956.†

Our index of potential physical volume of department-store sales for March (which reflects the production of the kinds of goods sold in department stores) was unchanged from that for the previous month, but was 4 percent less than that for the corresponding month of 1956. The position of the index, as given on the chart, suggests a balanced relationship between sales and production.

†The index is derived by dividing the seasonally adjusted sales by our index of department-store prices.
Because industrial production and employment are not expected to decrease appreciably during the next 2 or 3 months and because department-store sales have usually lagged general business activity, we believe that sales of these stores will exceed those of a year ago through June at least.

Latest Weekly Data

Sales of the 325 department stores reporting to the Federal Reserve Board compare with those of corresponding periods a year earlier as follows:

<table>
<thead>
<tr>
<th>Period</th>
<th>Percent Change</th>
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<tbody>
<tr>
<td>Week ended April 27</td>
<td>+3</td>
</tr>
<tr>
<td>Four weeks ended April 27</td>
<td>+8</td>
</tr>
<tr>
<td>First week after Easter</td>
<td>+18</td>
</tr>
<tr>
<td>Year to date</td>
<td>+2</td>
</tr>
</tbody>
</table>

Note: In order to compare weeks of corresponding relationship to Easter, we compare sales of the week ended April 27 with sales of the week ended April 7 last year under "First week after Easter."

SUPPLY

Industrial Production

Steel-ingot production of 2,280,000 tons during the week ended May 4, as indicated by operations scheduled at 89.0 percent of capacity, compares with 2,270,000 tons during the preceding week and 2,370,000 tons during the corresponding week last year.

The New York Times seasonally adjusted index of lumber production was 109.7 for the week ended April 20, compared with 109.3 a week earlier and 115.3 for the corresponding week last year.

Electric-power production of 11,310,000,000 kilowatt-hours during the week ended April 27 compares with 11,490,000,000 kilowatt-hours for the previous week and 10,870,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 161,000 vehicles for the week ended April 27, compares with a total of 151,000 for the previous week and 163,000 for the corresponding week last year.

These data compare with those for corresponding weeks of earlier years as follows:

<table>
<thead>
<tr>
<th></th>
<th>1929</th>
<th>1932</th>
<th>1953</th>
<th>1954</th>
<th>1956</th>
<th>1957</th>
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</thead>
<tbody>
<tr>
<td>Steel</td>
<td></td>
<td></td>
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<tr>
<td>Operating rate—percent cap.</td>
<td>101</td>
<td>24</td>
<td>100</td>
<td>69</td>
<td>96</td>
<td>89p</td>
</tr>
<tr>
<td>Ingot prodn.—million tons</td>
<td>1.39</td>
<td>0.36</td>
<td>1.80</td>
<td>1.27</td>
<td>2.37</td>
<td>2.28p</td>
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<tr>
<td>Lumber</td>
<td>135</td>
<td>42</td>
<td>118</td>
<td>114</td>
<td>115</td>
<td>110</td>
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<tr>
<td>New York Times Index</td>
<td></td>
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<tr>
<td>Electric Power</td>
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<tr>
<td>Kilowatt-hours—billions</td>
<td>1.70</td>
<td>1.46</td>
<td>8.02</td>
<td>8.26</td>
<td>10.87</td>
<td>11.31</td>
</tr>
<tr>
<td>Automobiles</td>
<td></td>
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<td></td>
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<tr>
<td>Vehicles—thousands</td>
<td>143</td>
<td>37</td>
<td>195</td>
<td>158</td>
<td>163</td>
<td>161p</td>
</tr>
<tr>
<td>p Preliminary.</td>
<td></td>
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</tbody>
</table>

PRICES

Consumer Prices

The Bureau of Labor Statistics index of prices of goods and services bought by moderate-income city families, known as the Cost of Living Index, increased two-tenths of 1 percent during the month ended March 15. The index was 3.7 percent higher than that for March 1956. This was the seventh consecutive monthly increase for the index.

Food costs decreased slightly on the average. Lower prices for eggs and pork accounted for most of the decline in the food component. Transportation costs increased one-half of 1 percent, as used-car prices increased 3.5 percent. Housing costs increased three-tenths of 1 percent, as costs of home maintenance, rents, and mortgage interest rates increased. The price of apparel increased seven-tenths of 1 percent, as prices of spring and summer items advanced. Prices of medical care increased seven-tenths of 1 percent; those of "other goods and services" increased slightly.

The Bureau of Labor Statistics reports that during March the average "take-home pay" of a factory worker with three dependents decreased a little more than 30 cents to $74.65, compared with $72.25 during March 1956. The decrease is attributed to a shorter workweek. In terms of purchasing power the workers' spendable earnings this year did not equal those of last because of higher prices.

H. E. Riley, Chief of the Bureau's Division of Prices and Cost of Living, anticipates further increases in the cost of living. These he bases on expected seasonal increases in some food items, including meats, possibly higher prices for apparel in April, and a continuing upward trend in the cost of services.

A further but small increase is indicated in the consumer price index for April. Whether increases or decreases prevail in the months immediately following will depend largely on the trend of consumer buying. The latest data indicate that this has recently been somewhat more than that suggested by earlier data.

Commodities at Wholesale

<table>
<thead>
<tr>
<th>Index</th>
<th>1956</th>
<th>1957</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spot-market, 22 commodities</td>
<td>283</td>
<td>271</td>
</tr>
<tr>
<td>Commodity futures</td>
<td>327</td>
<td>326</td>
</tr>
</tbody>
</table>

Note: The indexes are respectively those of the United States Bureau of Labor Statistics and Dow Jones. Both indexes are converted so that their August 1939 daily averages equal 100.

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