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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Wartime Economic Trends

The upsurge in commodity prices and industrial activity immediately following the outbreak of the European war was motivated primarily by the assumption that foreign demand for American products would equal in magnitude the volume developed by the World War. Before the end of the year, business men began to have doubts that the new war would produce the same foreign demand created by the previous one, and the flow of anticipatory orders began to dwindle.

In September the Institute's staff began an investigation in order to estimate the probable effects of the war on the United States' economy. New factors of supply and industrial and military aspects of the problem were analyzed, and a detailed study of the economic developments in 1914-1917 was made. The general conclusion (See November 20, 1939 bulletin) was that, if the war continued for two or three years, our export trade would probably increase greatly and would stimulate domestic industry.

During the first five months of the European war, the trend of exports has closely followed predictions made in the Institute's study of wartime economic trends. (The record can be traced by reference to statistics in recent Research Report bulletins.) Although the value of exports in January 1940 did not quite equal the total for December 1939, the gain from the corresponding month of the preceding year, increased from 37 per cent for the final month of 1939 to 70 per cent for the first month of the new year. The accompanying table may be compared with the table on page 30 of the February 19 weekly bulletin for recent changes in the trend of exports to foreign destinations. The feature of the January report is the large increase in exports to the United Kingdom.

The British Government's recent action in mobilizing a portion of its citizen's private security holdings suggests that the Allies' war purchases will be continued in large volume, and the rate may be accelerated. It is also becoming evident that neutral nations, especially in this hemisphere, will increase their purchases from the United States if they can obtain the wherewithal in dollar exchange. Purchases of war materials by the belligerents and the neutrals' demand for materials formerly purchased from the nations now at war are greatly stimulating our export trade.

During the World War, exports reached a record high of \$6,234,000,000 in the calendar year 1917. In

UNITED STATES FOREIGN TRADE

Destination	January		Per Cent Increase
	1939	1940	
	<i>Exports</i> (In millions of dollars)		
Canada	25.4	38.9	53.1
Mexico	5.4	7.9	46.3
South and Central America	27.5	50.6	84.0
Belgium	5.6	3.9	30.4*
France	10.7	37.9	254.2
Germany	8.9
Italy	4.4	8.2	86.4
Netherlands	7.8	13.1	67.9
Norway	1.5	4.2	180.0
Sweden	4.3	6.5	51.2
United Kingdom	41.6	66.5	59.9
U. S. S. R.	2.8	11.3	303.6
Other Countries	64.4	108.9	69.1
Total	210.3	357.9	70.2

*Decrease.

1929, the value of exports was \$5,421,000,000. In 1939, the value of exports was \$3,177,000,000. It would not be surprising if the 70 per cent gain during January continued throughout the year. If that occurred, the total value of exports in 1940 would be \$5,400,000,000. Although this would fall short of the 1917 record by almost \$1,000,000,000, it would exceed the total reported for 1929.

THE FUNDAMENTALS

Industrial Production

The level of industrial activity continued to recede during February at about the same rate as that followed in January. The Institute's preliminary index for February is 103.0, and the index for January was revised from 110.0 to 108.0. The chart on page 35 shows that a relatively small portion of the 1938-1939 recovery has been lost, but the rate of production appears to be receding as rapidly as it advanced during the final quarter of 1939.

The steel-ingot production rate has moved progressively lower during each week in 1940, and it is now probable that total tonnage produced in February will be at least 20 per cent less than the quantity produced in January. Even at the current reduced operating rate, steel-ingot production makes a favorable comparison with the postdepression months shown by the bar charts.

STEEL INGOT PRODUCTION



Last week the steel-ingot production rate decreased from 68½ to 67 per cent of capacity. However, foreign orders are already increasing in volume.

	1927	1929	1932	1938	1939	1940
Per Cent of Capacity	83.5	88.5	26.5	31.0	54.0	67.0

(Latest 1940 data; corresponding week earlier years)

The present position of the electric-power industry is the most favorable of any shown by the bar charts for the month of February. Output in February 1940 exceeded that in February 1939 by 11½ per cent, which was greater than the year's gain of 10 per cent from February 1938 to February 1939.

ELECTRIC POWER OUTPUT



Electric-power production decreased last week, and the gain from output in the corresponding week of last year was 10 per cent, the smallest in recent weeks.

	1927	1929	1932	1938	1939	1940
Billion Kilowatt Hours	1.58	1.70	1.55	2.06	2.25	2.48

The bar charts inserted below indicate that automobile production during February 1940 was greater than in any corresponding months of recent years. However, production was appreciably less than it was in February 1929. Dealers are now adequately stocked with new cars, and a further gain in the rate of production of the automobile industry will depend on the demand for the new models during the spring selling season.

AUTOMOBILE PRODUCTION



Last week, the automobile industry produced 95,050 units. This compares with output of 95,185 in the preceding week. According to a statement made by Ward's Automotive Reports, the current production rate is approximately 6 per cent higher than that planned at the beginning of the month.

	1929	1932	1938	1939	1940
Units (000 omitted)	111	30	59	80	95

Cotton-mill operations during February were approximately at the February 1929 level and, as the bar charts show, exceeded the level in all of the other corresponding months shown in the comparisons.

COTTON-MILL ACTIVITY



In the most recent week for which statistics are available, there was a slightly greater-than-seasonal increase

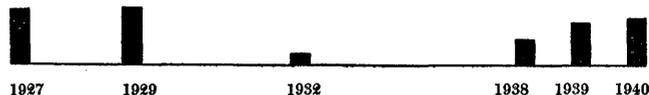
in cotton-mill activity, and the adjusted index advanced from 135.7 to 137.5.

	1929	1932	1938	1939	1940
New York Times Index	*	88.7	90.6	121.8	137.5

* Not available until third week in March.

Lumber operations during February 1940 are compared with those in corresponding months of the earlier years. The bar charts reflect the effects on the lumber industry of active residential and commercial building in 1927 and 1929; stagnation of construction in 1932; and partial recovery during the past three years. Expressed as a percentage of the February 1930 level, the lumber production index was 119 in February 1929; 29 in February 1932, and 98 in February 1940.

LUMBER PRODUCTION



The Harwood Index of Inflation

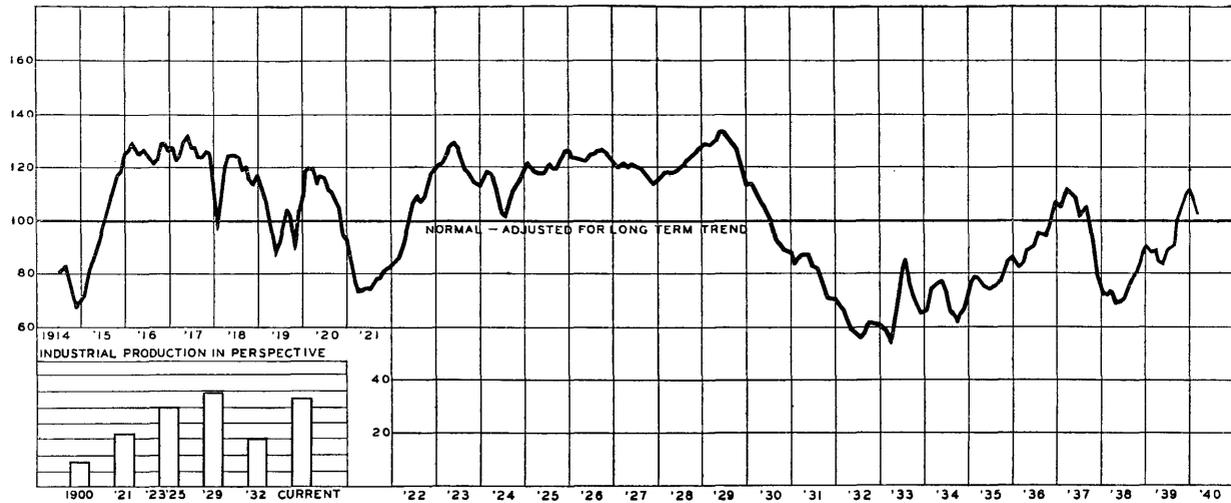
The preliminary index of inflation for February is 104.6, slightly lower than the January index, which was revised from 105.6 to 105.0. Movements of the index in recent months have indicated no significant change in the credit situation. The index is now at the monthly average for 1939.

Both the investment-type assets and the savings-type liabilities of the banking system in February were virtually unchanged. The total of real estate loans, loans on securities, and investments, which exceeds \$30,000,000,000, increased only \$5,000,000, a change too small to affect the computation of the index. The decline in the index was attributable to an increase of \$145,000,000 in the Treasury's deposits with the commercial banks and with the Federal Reserve Banks. This increase was the result of Social Security taxes, which aggregated more than \$160,000,000 during the first half of February. Until spent by the Government, these funds are withdrawn from the purchasing media available to the public.

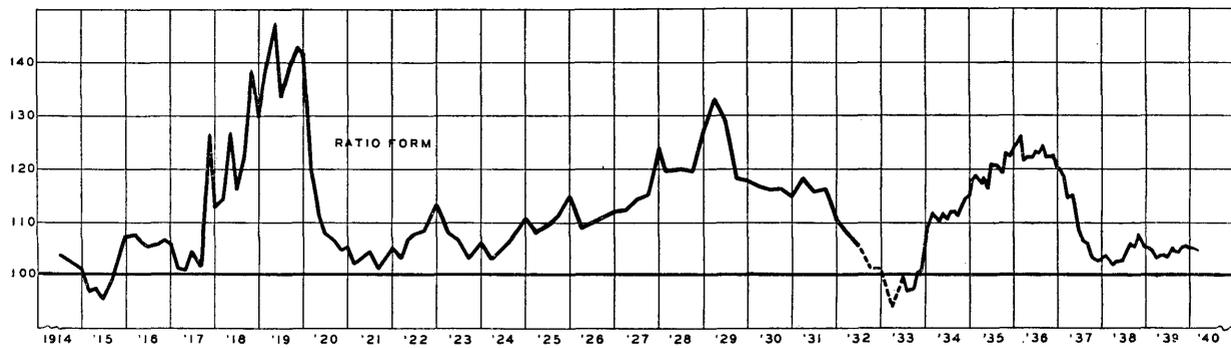
The Harwood Index of Inflation in ratio form is shown on page 35. The smaller chart on page 36 shows the absolute data and industrial production as well as the ratio form of the index. This chart is also presented in order to show the divergent trends of the index in ratio form and the absolute date. This divergence was especially marked when total purchasing media available to the public were being augmented as a result of the heavy inflow of gold from Europe. During the past month, the Nation's monetary gold stock has continued to increase, but this has been offset in its effect on both forms of the index by the withdrawal of funds as a consequence of the large tax collections already discussed. The trends of the absolute data and of the ratio form of the index last month were therefore more nearly parallel than they have been in recent months.

In the January monthly bulletin, we explained the effect on the index of inflation to be expected as a result of Social Security tax collections. We also predicted a similar effect in March as a result of Federal income tax collections. We therefore again conclude that, unless the rate of Government spending is greatly accelerated or private business seeks credit on a larger

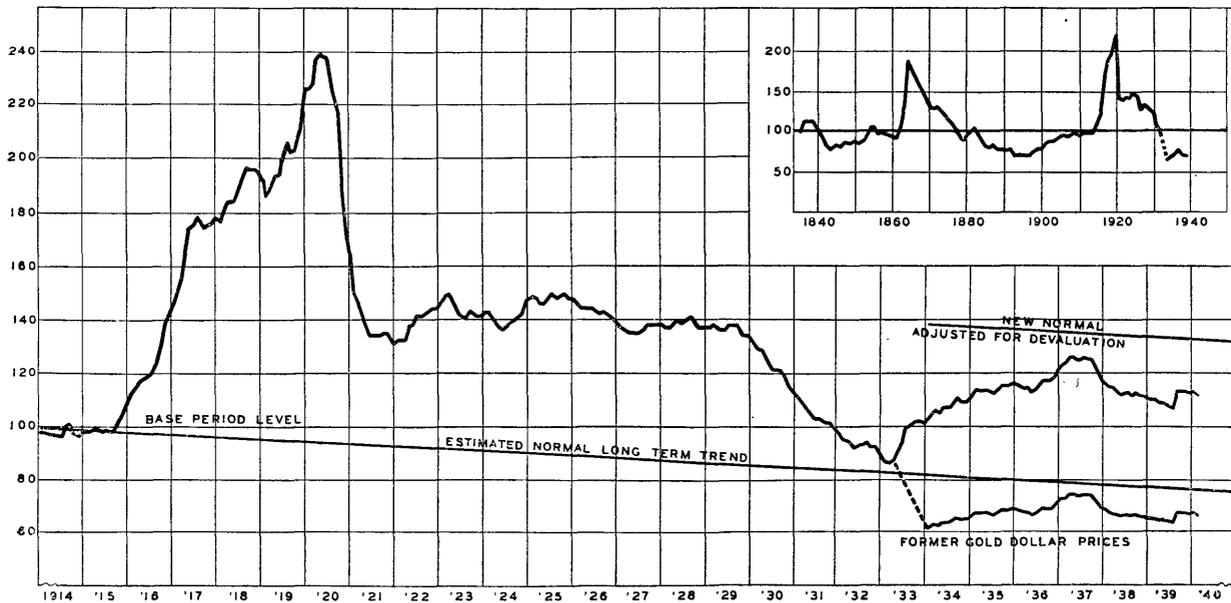
INDUSTRIAL PRODUCTION



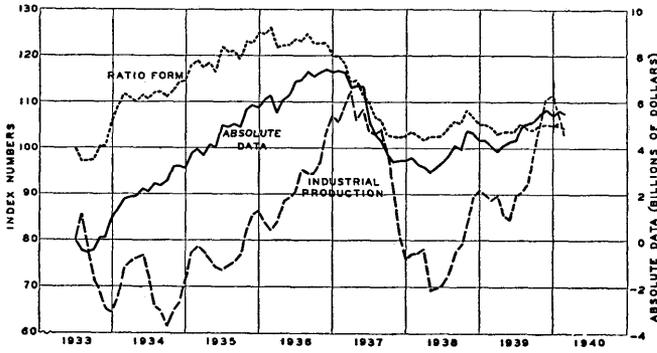
HARWOOD INDEX OF INFLATION



COMMODITY PRICES



HARWOOD INDEX OF INFLATION, RATIO FORM, ABSOLUTE DATA, AND INDUSTRIAL PRODUCTION



scale than recently, there will probably be no important change in the money-credit situation before April.

Other Demand Factors

Adverse weather conditions again affected the volume of retail sales last week. Consumer distribution was especially affected along the populous Northeastern Seaboard. Demand for products of the heavy industries is still inhibited by accumulations of manufacturers' inventories. These are in process of reduction and probably would no longer be considered excessive if an upward trend in consumer demand appeared. The upturn in domestic sales of refined copper during the past few days may be the advance guard of a renewed expansion of industrial demand. Such has usually been the case in the past.

Commodity Prices

The United States Bureau of Labor Statistics' index of wholesale commodity prices declined from 113.6 in January to 112.6 (preliminary) in February. This was the greatest change that has occurred in the index since the 6 point gain in September 1939. From September to January inclusive, the index fluctuated only fractionally within the narrow limits 113.3-113.8.

The decline in commodity prices last month was not large but appeared to be general, all of the major commodity-price classifications participating in various degrees. There were more substantial decreases in the prices of raw materials and semimanufactures than in prices of finished goods. Declines exceeded 1 point in the average prices of commodity groups classified as "foods," "hides and leather," and "textile products." There were only slight declines in the average prices of "fuel and light," "metals and metal products," and "building materials."

The accompanying table shows changes that have occurred in the major classifications of the wholesale commodity price index. The February 1940 preliminary indexes are compared with the revised indexes of earlier significant periods.

UNITED STATES BUREAU OF LABOR STATISTICS
WHOLESALE COMMODITY PRICE INDEX

(Monthly Average 1913=100)

	Feb. 1929	Feb. 1932	Feb. 1939	Jan. 1940	Feb.* 1940
Farm Products	147.4	70.8	94.0	97.2	96.4
Foods	152.8	97.4	111.4	111.8	110.4
Hides and Leather	159.9	115.0	134.9	152.9	151.5
Textile Products	161.1	104.4	115.4	136.3	131.4
Fuel and Light	135.2	111.4	119.1	119.6	119.1
Metals and Products	110.8	89.1	103.9	105.7	105.2
Building Materials	169.1	129.5	158.0	164.4	164.2
Chemicals and Drugs	119.3	94.1	95.1	97.0	96.4
House Furnishings	166.6	137.7	151.3	160.0	159.0
Miscellaneous	118.5	92.3	105.3	111.3	110.5
Raw Materials	142.6	82.7	103.1	107.8	105.7
Semimanufactures	126.3	82.6	114.0	109.3	106.9
Finished Goods	135.9	102.9	115.6	118.3	117.3
All Commodities	136.7	95.0	110.2	113.6	112.5

* Preliminary estimate.

After a consistent declining trend in January, both spot and "futures" sensitive wholesale commodity price averages moved gradually upward during the first three weeks in February. Such a change is frequently followed by similar movements in the more comprehensive price indexes.

BUSINESS

Postal Receipts

Postal receipts in January 1940, as compared with receipts in January 1939, recorded the largest gain shown in recent years. There is normally a very large decrease in receipts in January from those in December of any year, but it was less than normal in the December 1939-January 1940 comparison. The dollar value of postal receipts is primarily an indicator of commercial activity. The monthly series for the preceding four years and for the first month of 1940 are shown in the accompanying table.

POSTAL RECEIPTS IN FIFTY LARGE CITIES

(In millions of dollars)

Month	1936	1937	1938	1939	1940
January	27.4	27.9	27.5	28.5	30.4
February	26.1	27.8	27.0	27.7	
March	28.8	33.8	31.8	33.5	
April	28.9	31.1	29.6	29.8	
May	27.9	29.8	28.2	30.9	
June	28.3	29.6	28.0	29.8	
July	26.7	26.6	24.6	25.5	
August	26.0	26.3	26.6	28.2	
September	29.3	30.0	29.5	30.0	
October	32.9	31.7	30.9	32.0	
November	29.2	30.7	31.4	32.5	
December	41.3	42.0	42.5	42.9	

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Statistical Summary; Production, Purchasing Power, and Prices

	1939											1940	
	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.*
Index of Industrial Production ..	88.8	89.7	85.5	84.4	89.4	90.5	92.4	99.7	105.2	111.2	113.2	108.0	103.0
Index of Inflation (ratio form) ..	104.5	103.1	103.8	103.9	103.5	105.2	104.5	104.4	105.5	105.7	105.1	105.0	104.6
Commodity Price Index	110.2	109.9	108.9	109.2	108.3	108.2	107.5	113.5	113.8	113.6	113.3	113.6	112.5
Commodity Price Index	65.2	65.0	64.4	64.6	64.1	64.0	63.6	67.2	67.3	67.2	67.0	67.2	66.6

(In terms of former gold dollar)

*Preliminary Estimate.