

# AMERICAN INSTITUTE for ECONOMIC RESEARCH

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BULLETIN

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## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *Shadows of European Events*

It may be months before the news from Europe reveals the significance of the military developments in Norway. In the meantime, one or two recent developments perhaps foreshadow important coming events.

Britain's costly rerouting of all her commercial shipping that formerly went through the Mediterranean is unusually drastic action and may have significance not mentioned in the official dispatches. It suggests that, in the North Sea test of ship versus plane, the slow-moving merchant ship having neither side nor deck armor has been found especially vulnerable to attack from the air. However, the battleship-versus-bomber debate remains to be decided, unless the German claims have concealed proof of superiority. However, it is safe to assume that Mr. Hitler would be only too eager to have his Italian friend know if such proof existed.

It is interesting that victory of the bomber over the battleship would lessen the force of arguments urging our participation in Europe's war. If planes constitute the superior force, the Atlantic and Pacific Oceans are more formidable barriers to potential enemies than has generally been supposed. Even if Mr. Hitler wins by means of Germany's superior air force and gains control of England's navy, it would be an obsolete weapon incapable of bringing the "blitzkrieg" to America. In the air, we should have a tremendous advantage, partly as a result of our great and rapidly expanding commercial aviation system, and partly because of the plane-producing capacity that we are developing for the Allies.

Even definite air superiority will not necessarily mean victory for Germany in Europe. Two can play at that game, given time, and much time has been given. It seems more probable that the determining

factor will be economic rather than military, and it should not be necessary to tell American citizens that economic society based on slavery is necessarily inefficient. Russia is demonstrating the soundness of this assertion, and we believe that Germany will rediscover its truth.

#### *Private Engineering Contracts*

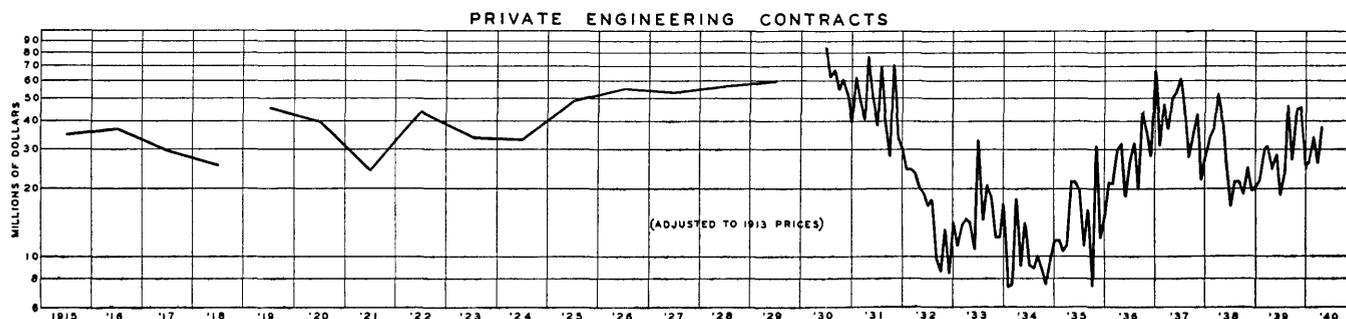
Private engineering contract awards are one of the most important indicators of cyclical trend. The accompanying chart shows the dollar total of private engineering construction adjusted for changes in building costs since 1913. The data reflect as closely as is practicable the changes in the physical volume of construction activity covered by private engineering contracts.

The substantial increase in private engineering contracts during April encourages the hope that the underlying trend is toward further recovery. The index is not corrected to allow for normal seasonal movements; and it will be observed that, with the exception of the depression years 1932 and 1933, there was usually an increase in contract awards during the first quarter of each year. However, the increase this year started from a higher level than that which existed in the preceding year, and the adjusted data for the first four months of 1940 show an increase of 18 per cent when compared with the adjusted data for the first four months of 1939.

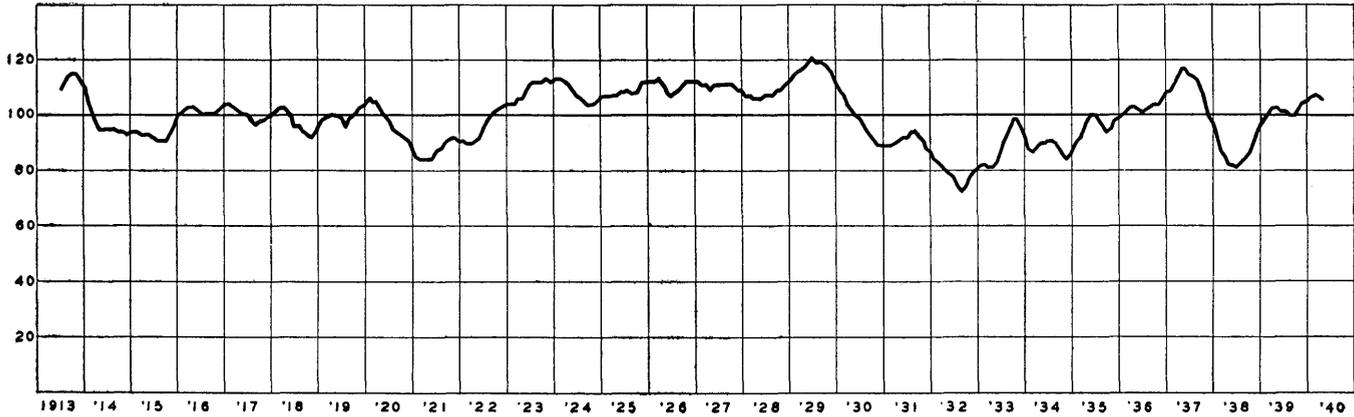
### WHAT NEXT?

#### *The Continuing Record*

The latest available information regarding the more significant indicators of future trends is summarized in the table on page 78. A plus sign indicates an advance in the indicator; a minus sign, a decline; and a zero, an unchanged position.



**INDEX OF LIVING STANDARDS**  
(ADJUSTED FOR LONG TERM TREND)



	Latest Indication
Private Engineering Contracts (April preliminary)	+
Machine-tool Activity (April preliminary)	0
Orders for Steel Boilers (February)	+
Capital Goods' Stock Prices (Last Week)	-
Durable Goods' Employment (March)	-
Steel-Ingot Production (Last Week)	+
Prices of Metals and Metal Products (Last Week)	0
New Capital Issues of Corporate Securities (March)	-
Velocity of Purchasing Media (March)	+
Carloadings of Heavy Products (Last Week)	+
Lumber Production (Last Week)	+
Harwood Index of Inflation (April preliminary)	+

The proportion of favorable to unfavorable indicators of cyclical trend has increased since the summary was published a month ago. Then there were 5 pluses, 5 minuses, and 2 zeros. In this summary, there are 7 pluses, 3 minuses, and 2 zeros.

## BUSINESS

### Commercial Confidence

Although newspaper advertising lineage reported for March 1940 exceeded by a small margin that reported for the corresponding month of 1939, the increase was not distributed equally among the separate classifications, and the volume of the important retail-display advertising was virtually unchanged during the two periods. The substantial increase in automobile advertising evidently represents competition among the separate companies for business now that the public is in the mood to buy.

Newspaper advertising lineage in the dailies of fifty-two cities during March 1939 and 1940, with the percentage increase of the latter in comparison with the record for the earlier period, is shown in the accompanying table.

	March 1939	March 1940	Per Cent Increase From March 1939
<i>Newspaper Advertising Lineage Classified</i>	22.1	22.9	3.6
Display			
Automotive	4.8	5.6	16.7
Financial	1.7	1.8	5.9
General	17.4	17.7	1.7
Retail	65.8	66.3	0.8
Total	111.8	114.3	2.4

### Index of Living Standards

The Institute's Index of Living Standards last month continued the decline started in March. How-

ever, the slightly lower level remained 7 per cent above normal, and, in view of the stable operations of most consumer-goods industries revealed by the latest reports, a substantial decline in the Index during the next few months is not expected. The Index shown in the accompanying chart reflects the volume of consumer goods produced per capita in the United States and is adjusted for seasonal influences and for long-term trend.

## THE FUNDAMENTALS

### Supply

Last week, the steel-ingot rate at 63 per cent of capacity was one point higher than it was in the preceding week. The increase in operations coincided with the rescinding of lower prices on some steel products. The *Iron Age* said: "Export business still accounts for a substantial part of steel companies' orders, though April sales were probably below those of March. Inquiries are plentiful, but foreign buyers are a little slow in closing. March exports of iron and steel totaled 457,052 gross tons against 436,585 tons in February and 162,098 in March 1939.

	1929	1932	1937	1938	1939	1940
Per Cent of Capacity	101.0	22.0	91.0	32.5	48.5	63.0

Electric-power production last week compared somewhat less favorably with that during the corresponding week of 1939 than it has recently. A gain of 9.8 per cent compared with a gain of 10.1 per cent recorded during the preceding week. Power output was best sustained in the Central Industrial, Southern, and Rocky Mountain sections of the country.

	1929	1932	1937	1938	1939	1940
Billion Kilowatt Hours	1.69	1.46	2.18	1.94	2.18	2.40

Automobile production continued to exceed 100,000 units last week, although there was a moderate decrease in output from the total for the preceding week.

	1929	1932	1937	1938	1939	1940
Units (000 omitted)	141	33	139	51	87	101

Cotton-mill activity followed the seasonal trend last week, which was slightly downward. The adjusted index was unchanged at 130.3. At that level it was 7 per cent higher than it was a year ago.

	1929	1932	1937	1938	1939	1940
<i>New York Times Index</i>	117.0	70.0	134.5	80.3	121.4	130.3

There was a greater than seasonal increase in lumber production last week and the adjusted index advanced from 78.1 to 79.5.

	1929	1932	1937	1938	1939	1940
<i>New York Times</i> Index	134.8	40.5	86.0	54.4	73.4	79.5

### Demand

An improvement in weather conditions throughout a considerable area of the country last week was reflected in a greater volume of retail sales. However, the increase failed to equal merchants' earlier hopes, and there is evidence that public confidence is being adversely affected by developments in Europe.

The metal-trades industries appear to be the major beneficiaries of the existing situation. Data compiled by the Foundry Equipment Manufacturers' Association (representing 65 to 70 per cent of the foundry-equipment industry) and reported by the United States Department of Commerce afford factual evidence of expansion in the metal trades. The following figures are based on the 1922-24 monthly average = 100.

	March 1939	February 1940	March 1940
<i>Foundry Equipment</i>			
New Orders during the Month	146.6	179.4	243.4
Unfilled Orders at End of March	193.6	226.5	291.0
Shipments	128.1	184.2	179.0

### Prices

The sensitive wholesale commodity price indexes declined moderately last week. The decline appears to be a normal reaction after the steadily advancing trend followed throughout the greater part of April. Moody's Spot Commodity Price Index was 163.3 on April 26 and 162.0 on May 2. The Dow-Jones Index of Commodity Futures closed at 60.93 on April 26 and at 60.36 on May 2.

## FINANCE

### *Easy-Money Policy Attacked*

Publication in the Annual Report of the Board of Governors of the Federal Reserve System of the Federal Advisory Council's recommendations revealed that this body of twelve representative bank executives has protested emphatically against the Government's easy-money policy. The dangers inherent in the Government's policy that were pointed out by the Council were discussed in these bulletins a year ago (March 27, 1939, page 64; and April 17, 1939, page 80).

The important adverse effects of the easy-money policy are:

1. Discouragement of savings, because of low dividends paid on mutual savings deposits and life insurance policies.

2. Serious curtailment of the incomes of educational and charitable institutions.

3. Encouragement of a high proportion of long-term bond maturities in portfolios of the banking system.

4. Destruction of the earning power of the banks that "threatens the existence of private banking and with it the whole system of private enterprise."

5. The creation of "illusions as to the eventual burden of carrying a constantly increasing [public] debt."

The artificially low interest rates maintained originally by the Government to encourage credit expansion and to promote business recovery have been continued although they have failed to accomplish their original

purpose. Without the benefit of low interest rates, the Treasury could not hope to succeed in its program of financing huge annual budgetary deficits. The problem is thus one with that of balancing the Federal budget. Until the budget is balanced a return to "normal" conditions in the money market cannot be expected.

## SECURITIES

### *Bonds*

Changes in bond prices were minor last week. The Dow-Jones Average of Forty Bonds was 89.17 on April 26 and 89.37 on May 2.

### *Stocks*

Last week, the stock market relinquished the small gains made during the preceding week, but the volume of transactions was small and the price range remained within the groove it has occupied since last September.

## RECOMMENDED BOOKS

"*From Barter to Banking*," by Joseph Leeming. Appleton-Century. (\$2.00.)

This is primarily a description of the evolution of money. Although the last chapter is entitled "the Use of Money in the World Today," the space allotted to this discussion is sufficient for only an outline of the subject.

"*The Public Library*." Edited by Marian C. Manley. Special Library Association, New York. (\$2.00)

The Special Library Association has added another useful book to its excellent list of publications. The new volume tells how to establish and operate business departments in public libraries. This reference work is intended primarily for librarians in public libraries that are sufficiently large to make business branches possible, but the book can also be used to advantage by those who require the services of a business library.

Descriptions of the special services that these business libraries perform may come as a revelation to business men who have not been aware of the facilities that may be within their reach. Perhaps the most valuable feature of the book for the layman is to be found in the appendixes where new book and pamphlet information sources, business periodicals, and directories are listed and briefly described. For the professional librarian, lists of supplementary reading accompany the various chapters.

## SOURCES OF BUSINESS INFORMATION *Industrial Production Data*

Every industrial executive is interested in production trends for his own business and in the standing of his company with respect to the industry as a whole. It is equally important for him to observe general business trends, because most companies are affected by the cyclical changes. Unless an individual industry is so specialized or is so concentrated in a few establishments as to preclude the publication of production data (because data relating to individual establishments might thereby be revealed), the desired information can usually be found.

The promptness with which figures become available is governed by the characteristics of the different indus-

tries. For example, 90 per cent of all electric power generated is produced by large public utility groups that are able to make production data available quickly. The activity of the steel and automobile industries can also be readily ascertained and promptly reported. Both industries are concentrated in limited areas and are under relatively few separate managements. Measurement of tonnage affords a reasonably accurate production record of the steel industry, and the number of cars and trucks assembled by the automobile industry is a satisfactory unit of measure, because most of the cars are now priced within a narrow range. On the other hand, the activity of many important industries can be less readily measured. The units of the railroad-equipment and shipbuilding industries are so large and the time required for production is so great that monthly data are not significant. For other reasons, machine-shop production cannot be readily measured; the products are diversified and are made in many relatively small establishments.

#### *Classification of Industries*

The United States Census of Manufactures enumerates data for 351 separate industries from among the "thousands of more or less distinct lines of manufacturing activity." The intricacy of our industrial mechanism is apparent when a classification is attempted. The semifinished steel industry provides the major material for the manufacture of producers' tools, transportation equipment (railroad, automobile, shipping, and aeronautic), structural-steel fabrication, and the canning industry. Food materials from the farms and fisheries are processed by the important milling, baking, canning, and confectionery industries. Textiles are produced by many distinct processes and by the use of a growing number of materials. In spite of the spectacular Federal and other hydro-electric developments, most of our fuel and energy requirements are met by the petroleum and coal industries. The lumber industry still provides the principal material for building and furnishing homes and provides the material for the paper industry, on which in turn the printing and publishing industries depend. The chemical industry includes producers of many things from fertilizers and paints to soap and drugs and has now grown so complicated as almost to defy classification. The mining and smelting of nonferrous metals provide essential materials for industries making products ranging from heavy machinery to jewelry and watches. The rubber, glass, and leather industries provide materials for a long list of more or less distinct industries. If the tobacco industry is added to those just enumerated, virtually all of the 351 census industries will fall within the list of basic industries mentioned.

Data that will give at least a clue to the production trends of these basic industries are available after varying intervals. The *Survey of Current Business* now presents monthly data for more than 100 separate industries.

#### *Foreign Supply*

In attempting to determine the supply of goods in relation to the current demand, it is of course necessary to give consideration to the flow of international trade. In 1937, the date of the most recent United States Census of Manufactures, the value of manufactured and semimanufactured imports of merchandise for domestic

consumption was \$1,626,000,000. This was only 2.7 per cent of the total value of manufactured products (\$60,713,000,000) reported in that year. Although the volume of imported goods is relatively small, imports constitute an important source of supply of a few industrial products. A substantial proportion of the supply of semimanufactures, such as wood pulp, nickel and alloys, and tin bars, and manufactures or semimanufactures of silk, sugar, and alcoholic beverages, is imported. Preliminary import data are now being made available within a few weeks.

#### *Where to Find Production Data*

The industrial executive can in many instances obtain data reflecting the rate of operations in his own industry with a satisfactory degree of promptness. He can also ascertain the general trend of manufacturing activity by consulting combined indexes based on incomplete data that nevertheless are seldom found to be seriously misleading when revised later in accordance with more comprehensive reports.

Executives who are primarily interested in production data relating to the larger industries, as measured by the value of products, will find reports published in the daily newspapers before they are available elsewhere. The *New York Times*, the *New York Herald-Tribune*, the *Wall Street Journal*, the *Journal of Commerce* (New York) feature industrial information. Most of the other leading metropolitan newspapers publish data as regularly as they can be obtained. Once the reader has acquired the habit of looking on certain pages for items in which he is interested, he will find the newspapers valuable sources of early business information.

The weekly publications providing industrial information should also be consulted. The weekly supplement to the *Survey of Current Business*, the *Commercial and Financial Chronicle*, the *Annalist*, and *Dun's Review* have been previously mentioned as weekly sources of information. There is a convenient "tabloid" summary under the heading "The Pulse of Industry and Trade" published regularly in *Barron's*.

More comprehensive statistics are available monthly. The *Survey of Current Business*, described in a preceding article, is the standard source of data reflecting production trends. In some cases, the actual data in production units are presented, and other series are in the form of seasonally adjusted index numbers. The *Federal Reserve Bulletin*, published monthly by the Board of Governors of the Federal Reserve System, Washington, D. C. (\$2 per year) publishes its production data in the form of adjusted and unadjusted index numbers. Monthly indexes are published for more than twenty separate manufacturing industries and separately for the production of minerals. There are also indexes of construction contracts awarded, presented separately for residential and for "all other" types. There is usually a time lag of more than a month before the publication of statistics in the *Survey of Current Business* and the *Federal Reserve Bulletin*.

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The article on Industrial Production Data will be continued in the next issue.

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