

AMERICAN INSTITUTE for ECONOMIC RESEARCH

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The End of the New Deal?

By nominating Mr. Wendell Willkie, the Republican Party has given the voting public a chance to place a real liberal (old-fashioned definition) in the White House. Apparently, many thousands of independent voters who cast their ballots for Mr. Roosevelt in 1932 were seeking just that type of man and simply made the unfortunate error of judging Mr. Roosevelt by his campaign speeches. It can hardly be doubted that the nomination of Mr. Willkie has greatly strengthened the chances of a New Deal defeat in November, and this fact is of vital economic significance because many observers had assumed that the critical European situation would assure Mr. Roosevelt's election for a third term.

The details of the possibilities involved will become clearer as the campaign develops. As soon as the Democratic platform and candidate are known, we shall start publishing our usual analyses of the platform planks that have economic significance. In the meantime, it will be interesting to observe the reactions of the speculative markets to this news that puts an end to Republican Party suicide rumors.

Capital Goods' Stock Prices and Durable Goods Employment

The wide fluctuations in composite indexes of industrial production are caused largely by changes in the activity of the durable goods' industries. The accompanying chart shows two statistical series that reflect activity in the durable goods' and capital goods' industries. (The two groups of industries are not identical, but most of the heavy-type industries are included in both classifications.)



The index of capital goods' stock prices, which includes fourteen groups of stocks, is compiled by the Standard Statistics Company. Normally, this index tends to rise and fall as earnings and the prospect for future earnings of the heavy type industries improve or decline. The index of employment in durable goods' industries, compiled by the Board of Governors of the Federal Reserve System, likewise moves with changes in the activity of this industrial group. However, the capital goods' stock price index is subject to more violent fluctuations than the index of durable goods' employment, because stock prices are affected by influences not directly connected with industrial activity.

The trend of the capital goods' stock price index was generally favorable from the middle of 1938 until the panic in May 1940. The recent decline has been so great that the index is now only a little higher than the lowest point reached in 1938. The recent movement of this indicator of economic trends is clearly unfavorable, but the implication may be modified by the fact that serious declines in the index in times of panic (as in the summer of 1932) have been short-lived.

The recovery movement in the durable goods' employment index that began in August 1938 has been interrupted only for a brief period, in the spring of 1939 and again during the first four months of 1940. At the present level, the index is not far below the highest point reached in 1937.

What Next?

The Continuing Record

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

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

The proportion of favorable to unfavorable indicators of cyclical trends has decreased slightly since the

Summary was published a month ago. Then there were 9 pluses, 3 minuses and no zeros. In this summary, there are 8 pluses, 4 minuses, and no zeros.

BUSINESS

Exports in May

The effect on our export trade of the German conquests, first evident in the data for April, became more pronounced in the figures for May. The value of exports to all destinations decreased only moderately (from \$324,000,000 in April to \$318,000,000 in May), but the increase over the value of exports in the corresponding months of 1939 decreased from 40 per cent in April to 29 per cent in May.

UNITED STATES FOREIGN TRADE

Destination	May		Per Cent Increase
	1939	1940	
	<i>Exports</i>		
	<i>(In millions of dollars)</i>		
Canada	40.9	59.4	45.2
Mexico	6.2	7.4	19.4
South and Central America	33.1	52.4	58.3
Belgium	6.7	1.9	71.6*
France	12.6	36.6	190.5
Germany	8.0
Italy	4.4	12.6	186.4
Netherlands	7.1	1.3	81.7*
Norway	2.3
Sweden	2.3	2.1	8.7*
United Kingdom	36.8	49.3	34.0
U. S. S. R.	3.6	0.5	86.1*
Other Countries	82.1	94.6	15.2
Total	246.1	318.1	29.3

* Decrease

Exports to Canada, South and Central America, France, and the United Kingdom retained the substantial gains that have been recorded since the beginning of the war. The summary of the value of exports by destinations indicates the extent to which losses have been incurred in trade with Belgium, Germany, the Netherlands, Norway, and Sweden. It is interesting to observe that exports to Russia during May had dwindled to about 14 per cent of the value exported to that destination in May 1939. This is in contrast to a substantial gain in exports to Russia during April. Exports to Russia by way of the Atlantic Ocean have presumably been interrupted and shipments to Pacific ports may not increase sufficiently to offset this loss.

The trend of our export trade during the first eight months of the war closely followed the predictions made in our study of "Wartime Economic Trends." Exports solely as a result of superseding European competitors have been of real importance, and purchases of war materials by the Allies before the French collapse were assuming the volume indicated as probable. However, if the British Navy fails to maintain control of the important sea lanes, our conclusions, already modified by Hitler's mastery of Europe, will have to be modified more extensively as was indicated by the table presented on page 95 of the June 3, 1940, bulletin.

Index of Living Standards

The Institute's Index of Living Standards advanced from 100 (estimated normal) in September 1939 to 108 in February 1940. It subsequently declined and in June was three per cent above normal. After decreasing earlier in the year, industrial production is again increasing; and, as the goods currently being made come to market, the index will again tend to rise. Before this new influence is felt, the index may decline somewhat further, but it will probably not fall below the normal level.

Postal Receipts

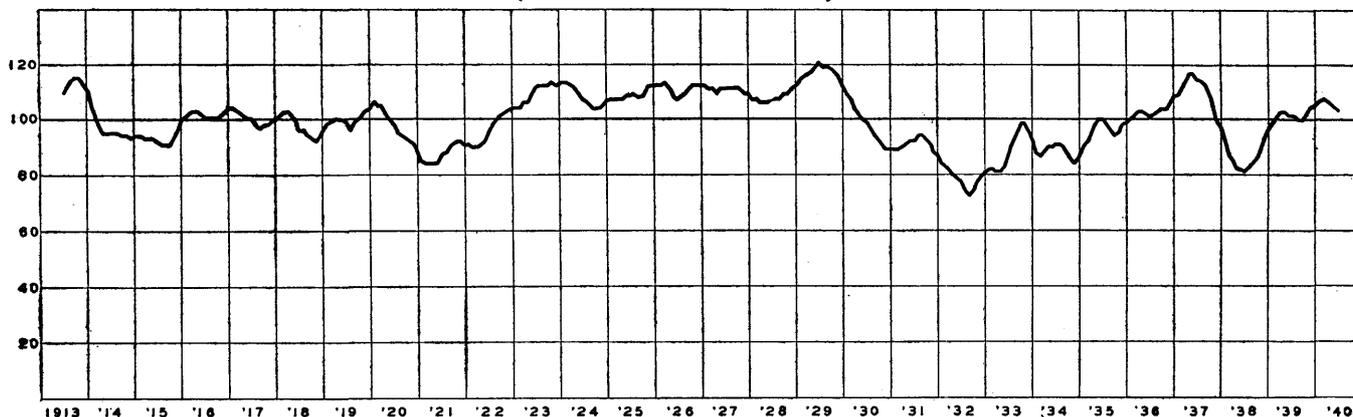
Dollar receipts in fifty of the largest city postal districts during May exceeded the volume for May 1939 by 4.4 per cent, and the trend for the first five months of the year compared favorably with that during the first five months of 1939. The fact that postal business, which primarily reflects commercial activity, made a favorable showing during a time of panic in the security markets confirms other evidence that commercial activity was not seriously affected by the threatening foreign situation.

THE FUNDAMENTALS

Supply

The steel-ingot production rate continued to advance last week and reached 88 per cent of theoretical capacity. The rate was 87 per cent of capacity in the preceding week. The *Iron Age* stated: "It is not yet definitely known in Washington what demands will be made on the iron and steel industry, but surveys are under way by the national defense commission to determine actual tonnages involved in prospective requirements. That they will be extremely large goes without saying. . . . A defense measure that is moving rapidly is rehabili-

INDEX OF LIVING STANDARDS
(ADJUSTED FOR LONG TERM TREND)



tation of railroad equipment. . . . It is estimated that between 50,000 and 60,000 cars may be bought within a few months."

	1929	1932	1937	1938	1939	1940
Per Cent of Capacity	95.0	22.0	75.0	28.5	54.0	88.0

The report of electric-power production was somewhat less favorable last week than it was in the preceding week. A gain of 9.8 per cent over production in the corresponding week of 1939 compared with a gain of 11.1 per cent reported during the preceding week. Power output was best sustained in the Central Industrial and Rocky Mountain sections of the county.

	1929	1932	1937	1938	1939	1940
Billion Kilowatt Hours	1.72	1.46	2.24	2.02	2.29	2.51

There was a customary decrease in automobile production last week, when output was reduced to 90,060 units compared with production of 93,635 units in the preceding week. The industry is expected to complete work on 1940 models during the next few weeks; consequently, the production trend will be downward.

	1929	1932	1937	1938	1939	1940
Units (000 omitted)	126	45	121	41	81	90

Cotton-mill activity was unchanged last week, when a seasonal decline is customary. As a result, the adjusted index advanced from 133.9 (revised) in the preceding week to 136.6.

	1929	1932	1937	1938	1939	1940
New York Times Index	120.1	70.4	141.4	93.6	125.8	136.6

There was a slightly greater than seasonal increase in lumber production last week and the adjusted index advanced from 79.5 to 80.2.

	1929	1932	1937	1938	1939	1940
New York Times Index	131.7	38.7	96.9	65.2	75.9	80.2

Demand

Merchants throughout the country reported moderate declines in consumer purchases last week, compared with the volume in the preceding week. However, dollar sales exceeded those in the corresponding week last year, and preliminary data indicate that, after allowing for seasonal factors, trade in June was better than it was in April and May. It is possible that the demand for heavy products by industrial users seeking to accumulate supplies before government orders are placed may be satisfied before the armament program becomes an important factor. Even if this occurs, the current high rate of industrial activity probably will be interrupted for only a brief period.

Prices

The sensitive wholesale commodity price indexes declined moderately last week. Moody's Spot Commodity Price Index was 157.2 on June 20 and 155.6 on June 27. The Dow-Jones Index of Commodity Futures closed at 52.63 on June 20 and at 51.90 on June 27.

The accompanying table, which was omitted from the June 24, 1940 bulletin because of space limitations, is shown in this issue for subscribers who wish to compare current prices of the wholesale commodity groups with the prices in the corresponding months of preceding significant years.

UNITED STATES BUREAU OF LABOR STATISTICS WHOLESALE COMMODITY PRICE INDEX

(Monthly Average 1913=100)

	June 1929	June 1932	June 1939	May 1940	*June 1940
Farm Products	145.1	64.0	87.3	96.8	93.3
Foods	154.4	91.8	105.3	111.5	109.8
Hides and Leather	158.4	104.0	135.5	150.1	146.3
Textile Products	157.2	92.0	117.5	126.2	125.5
Fuel and Light	137.8	116.7	119.1	118.1	117.8
Metals and Products	111.5	87.9	102.6	104.1	104.4
Building Materials	167.9	124.8	157.8	162.3	162.4
Chemicals and Drugs	116.5	91.2	94.4	95.8	95.3
House Furnishings	168.0	132.7	152.0	159.7	159.7
Miscellaneous	118.1	92.0	105.7	110.0	110.3
Raw Materials	140.4	77.3	98.5	105.4	102.8
Semimanufactures	123.4	76.9	99.3	104.4	103.7
Finished Goods	136.9	100.9	114.6	117.4	116.6
All Commodities	136.4	91.5	108.3	112.3	110.9

* Preliminary Estimate.

Prices of semimanufactures and of finished goods declined fractionally, and raw-material prices declined more substantially. There were decreases from the May to the June level in a majority of the component commodity-group averages. However, a few groups resisted the trend. The "metals and metal products," "building materials," and "miscellaneous" groups advanced slightly, and the average price of "house furnishings" remained unchanged.

There was no appreciable change in the cost of living from the April to the May level, according to the National Industrial Conference Board's index published last week. Food costs were slightly higher, but there was a seasonal decrease in expenditures for fuel and light.

	May 1929	May 1932	May 1939	April 1940	May 1940
All items combined	99.0	78.3	84.8	85.9	86.0
Food	104.6	70.0	78.1	79.9	80.6
Housing	92.1	73.5	86.2	86.7	86.7
Clothing	98.2	66.9	72.1	73.2	73.1
Fuel and Light	91.7	85.7	84.0	85.4	84.1
Sundries	99.1	94.1	96.6	97.0	97.0

SECURITIES

Bonds

Bond prices have advanced with only moderate interruptions since the last week in May. After reaching a new high for the movement on June 24 (from the May 28 low), prices reacted moderately. The Dow-Jones Average of Forty Bonds was 86.40 on June 20 and 86.74 on June 27.

Stocks

The rally in the stock market that developed during the middle of June failed to make substantial progress, and the tone of the market has recently been reactionary. Market weakness may be partly the result of Congress' apparent intention to limit corporate profits on armament orders, but the war and presidential campaign uncertainties are no doubt important factors. Although Government orders will be the backbone of any impending industrial boom, they will constitute only a minor part of the total revenue-producing volume of business.

SOURCES OF BUSINESS INFORMATION

Transportation and Communications Data

The transportation of raw materials, the distribution of finished goods, passenger traffic, and the activity of communication facilities are frequently significant general business indicators. They sometimes aid in estimating the rate at which goods are flowing into consumer channels. Statistical information is available reflecting the activities of the longer-established transportation agencies represented by the railroads and domestic and foreign shipping companies; however, the available reports on motor-truck transportation are not yet satisfactory.

Statistics of Railroads

Data relating to the movement of freight by the railroads are published by two important agencies. The Interstate Commerce Commission collects and publishes reports of both the earnings and freight tonnage carried by the "Class I steam railways in the United States." This group of 143 railroads includes about 98 per cent of the Nation's railway system. The Association of American Railroads also compiles data for the Class I railroads; their figures are published weekly and are the recognized source of freight carloadings information. The Association of American Railroads reports the total number of freight cars loaded each week and eight principal subdivisions. The separate classifications are: merchandise (less-than-carlot), and miscellaneous freight (these two classifications include primarily manufactured goods moving to market, although some raw-material shipments are included in the miscellaneous classification); grains and grain products, and livestock (agricultural products en route to the milling companies and to the slaughtering or meat-packing establishments and the shipments of processed grains to distribution centers); coal, coke, forest products, and ore (largely materials used by the durable-goods industries).

The Board of Governors of the Federal Reserve System regularly publish an index of freight carloadings computed from weekly data compiled by the Association of American Railroads. In computing the index, monthly loadings are derived from the weekly data by prorating the figures for overlapping weeks according to the number of working days falling in each month. Allowance is made for Sundays and holidays. The monthly index is adjusted for seasonal variations. In addition to the combined index, there are separate indexes for the classifications enumerated.

Freight-carloadings data are published weekly in the leading metropolitan newspapers. The figures compiled by the Association of American Railroads are published in the *Survey of Current Business*. The Federal Reserve index of freight carloadings is published each month in both the *Federal Reserve Bulletin* and the *Survey of Current Business*.

These data do not accurately reflect the long-term trend of railroad freight shipments, because it is estimated that the capacity of freight cars has increased nearly 10 per cent during the past fifteen years. The Federal Reserve index has not been adjusted for this factor; therefore, the secular trend of railroad-freight movements indicated by carloadings appears to be more

unfavorable than it actually is. The Federal Reserve freight-carloadings index shows a decline of 31 per cent from the 1925 monthly average to the 1939 monthly average. The tonnage data compiled by the Interstate Commerce Commission show a decrease of 20 per cent in tonnage carried in 1939 from that carried in 1925. Although the two different types of data are not strictly comparable, there is sufficient evidence to indicate that the railroads are not losing traffic so rapidly as the Board's carloadings index suggests.

Passenger Travel Statistics

Travel statistics are of relatively limited value to business executives who are not directly connected with transportation companies. However, they presumably reflect business trends in some degree and may be considered as supplementary evidence that may facilitate deductions from more significant trade data.

The Interstate Commerce Commission reports passenger traffic on Class I steam railways by months, but there is a delay of two or three months before publication. Monthly series are also available for passenger-miles in Pullman cars, passenger-miles flown on scheduled airlines, foreign travel, and visitors to National Parks. Data for hotel occupancy provide another monthly series reflecting the trend of travel. All of the statistics mentioned are regularly published in the *Survey of Current Business*.

Motor-Truck Transportation

Truck competition with the railroads in the carrying of freight became important in 1928. Although the use of truck transportation for short hauls of general merchandise had been increasing for several years, the large truck transportation companies had not become important in the field. The truck-transportation industry is therefore a comparatively recent one, and satisfactory statistics relating to the industry are not available. Although an increasing proportion of the freight carried by trucks is handled by large companies, the relatively small investment required to establish a truck-transportation company (in comparison with that required for a railroad) invites competition by the smaller companies.

Figures compiled by the American Trucking Association are based on reports from approximately 200 leading motor carriers operating in thirty-five states. These data have been compiled since January 1936, and month-to-month fluctuations have in general been similar to those of freight carloadings; however, the trend of truck loadings has been somewhat more favorable. The fact that the Bureau of Foreign and Domestic Commerce has not included the monthly series of truck-freight loadings in the *Survey of Current Business* indicates that the Bureau's statisticians are not convinced that the data are adequate.

Inasmuch as a substantial part of the freight moved by truck, perhaps half or more, is carried in vehicles owned by the shipper and no statistics covering such shipments are available, it must be conceded that the truck-loading data may not be representative.

The article on Transportation and Communications data will be continued in a subsequent issue.

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