

AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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BULLETIN

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Will Hitler Attack England?

It has been generally assumed that the armed forces of Germany would attack England as soon as possible after the defeat of France. Many observers have also jumped to the conclusion that such an attack would quickly succeed. Now, in our opinion, it has been apparent that Hitler could not attack England while the French Army was in a position to threaten his lines of communication. Therefore, we have considered destruction of the French Army necessary before England could be attacked; but it does not follow, merely because the French Army has been destroyed, that England will be attacked.

Hitler's hate of England is often mentioned as a sufficient reason for believing that he will immediately attempt to cross the Channel. However, we suspect that what the general public assumes it knows regarding Hitler's emotional reactions is merely what he wants the general public to believe. We think that he is far shrewder, more clear-sighted, and much craftier than those who prefer to believe the obvious will grant. We doubt that his histrionic ability is properly appreciated, and believe that he will actually invade England only if he is reasonably sure that possible losses will be more than counterbalanced by reasonably certain gains.

Wholly aside from the peace rumors that have been appearing in the newspapers, there are reasons for suspecting that Hitler is not planning to invade England in the near future. Recently, Hitler himself has asserted that the tables are now turned, that it is England rather than Germany that is blockaded. In economic matters, Hitler is essentially naive; and it would not be surprising if he were repeating one of Napoleon's errors. Napoleon devoted much of his efforts to closing the ports of Europe to British shipping, on the assumption that destruction of her trade would in the end break England's power. If Hitler has adopted this viewpoint, he may feel that one of his principal objectives has already been attained.

In attempting to balance the prospective gains and losses, Hitler will presumably consider the following:

1. Because of the loose political ties that bind the British Empire, capitulation of England would not give Hitler any claims on the dominions. The status of the colonies under such conditions might be different.

2. Defeat of England would not necessarily mean surrender of the British Navy to Germany.

3. Hitler is certain of a free hand in Europe; he now has much to lose.

4. If the best part of the German Army suffered a disastrous defeat in England, Hitler might find it difficult to cope with dissatisfaction at home; uprisings in nations he has already conquered, and the attempts of Russia to find borders that can be defended against Germany.

5. Apparently, a prompt resumption of normal economic activities in Europe, insofar as that is possible, is desirable in order to prevent widespread famine during the coming winter.

There is also one important military factor that Hitler probably will not overlook. The successful evacuation of the British Army from Dunkerque indicated that the German Air Force was unable to gain and maintain continuous superiority in the air. This suggests that the lines of communication across the channel essential for an invading force might be dangerously vulnerable.

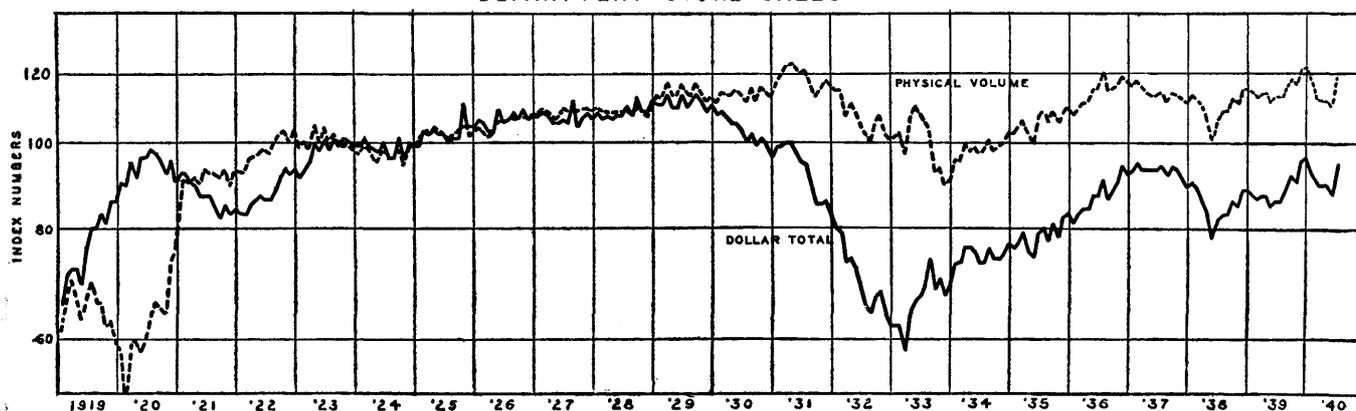
It would be unwise to assume that Hitler's weighing of the possible great losses against the somewhat doubtful gains will be the same as ours. Nevertheless, and at the risk of having the suggestion rendered ridiculous by near-future events, we believe that the possibility of no invasion of England should be kept in mind. If England is not invaded, the interventionists will lose whatever arguments there may still be on their side, and the possibility of our being involved will be reduced. If the English Channel proves to be a barrier that Hitler does not choose to cross, the Atlantic Ocean may reassure its normal proportions in the minds of those who listened with apprehension to the trans-Atlantic bomber schedule given by Mr. Roosevelt. Perhaps it would then be possible to devote a little thought to our own rearmament program before leaping rapidly in all directions. Thus far, our efforts seem to be based on a series of afterthoughts, more remarkable for the successively larger sums involved than for any evidence of the considered planning that should have occurred.

BUSINESS

Department-Store Sales

The Federal Reserve Board's Index of department-store sales declined in January and February, remained unchanged in March and April at the February level, and declined again in May. However, sales increased substantially during June, and the index for that month

DEPARTMENT-STORE SALES



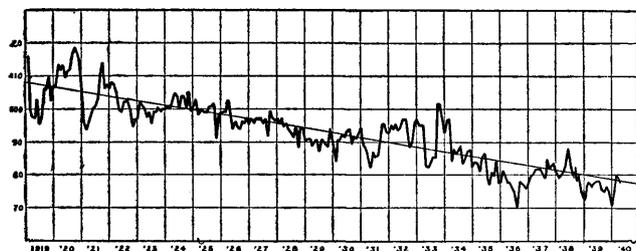
(preliminary) regained the greater part of the loss sustained during the first five months of the year.

The accompanying chart, in addition to presenting the Board's index based on dollar totals, shows the physical volume of department-store sales (obtained by adjusting the dollar totals for changes in retail department-store prices). Although average department-store prices advanced slightly (one per cent in all) during the first four months of 1940, they have since remained unchanged, and the physical-volume curve has followed a pattern similar to that of the dollar-total curve during the first half of 1940. It now appears probable that the physical volume of sales will reach new high levels during the fall months.

Ratio of Retail Inventories to Sales

The ratio of department-store stocks to sales increased in January and February, when the volume of sales was decreasing. However, during March and April, when the Board's index of sales remained unchanged at the February level, inventories were reduced; consequently, the ratio of stocks to sales declined. Although the ratio was above the long-term trend line indicated on the chart during February and March, it had declined below that line in April. The data for the months subsequent to April are not available, but incomplete reports indicate that department stores have not recently made substantial additions to stocks of goods. Therefore, a substantial decline in the ratio of stocks to sales for the month of June appears to be assured, and the current position of the ratio is probably well below the indicated long-term trend.

RATIO OF RETAIL INVENTORIES TO SALES



The Trend of Commercial Failures

The record of business insolvencies has been favorable during the early months of this year when compari-

sons were made with data for the corresponding months of 1939. The average number of failures was 11.2 per cent less than that during the first five months of 1939, and there was a decrease of 9.2 per cent in aggregate liabilities involved. The liabilities of commercial failures are one of the twenty-one series included by the National Bureau of Economic Research among its important statistical indicators of cyclical revivals. The behavior of this indicator during the first five months of 1940 is favorable.

The number and liabilities of commercial failures compiled by Dun & Bradstreet, Incorporated for the twelve months of 1939 and for the first five months of 1940 are shown in the accompanying table.

COMMERCIAL FAILURES, NUMBER AND LIABILITY

	<i>Number of Failures</i>		<i>Liabilities of Failures (In millions of dollars)</i>	
	1939	1940	1939	1940
January	1,567	1,237	20,790	15,279
February	1,202	1,042	13,582	13,472
March	1,322	1,197	19,002	11,681
April	1,331	1,291	18,579	16,247
May	1,334	1,238	15,897	13,068
June	1,119	.....	12,581	.....
July	1,153	.....	14,999	.....
August	1,126	.....	12,637	.....
September	1,043	.....	10,545	.....
October	1,234	.....	17,464	.....
November	1,184	.....	13,201	.....
December	1,153	.....	13,243	.....
Total	14,768	.....	182,520	.....

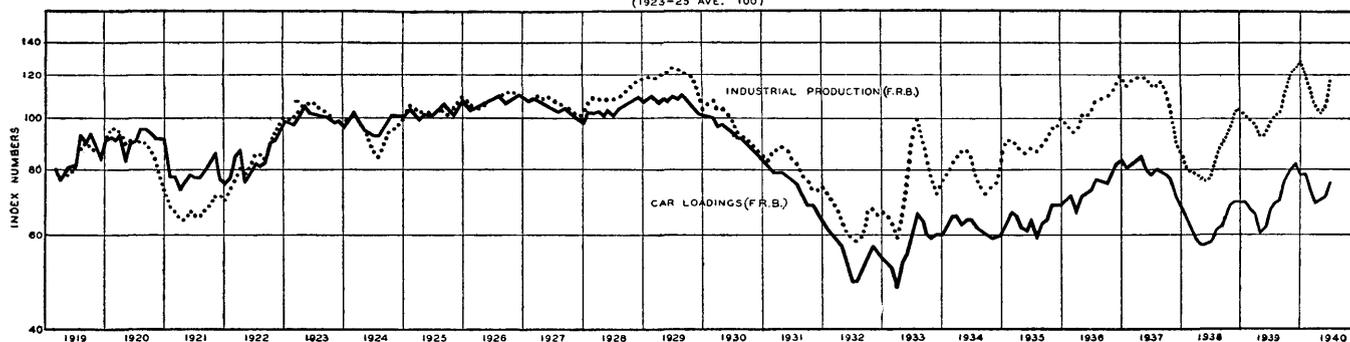
Exports in May

In last week's bulletin we published a summary of exports by destinations for May. We are summarizing exports for that month by leading commodities in this issue. As in previous war months, substantial gains from exports in the corresponding period of 1939 were recorded by steel manufactures and semi-manufactures. There were substantial percentage gains in exports of other commodities, such as raw cotton and lubricating oil, but the aggregate value of these products was relatively less important.

UNITED STATES EXPORTS

<i>Commodity</i>	<i>May</i>		<i>Per Cent Increase</i>
	1939 (In Millions of Dollars)	1940	
Unmanufactured Cotton	7.5	13.5	80.0
Unmanufactured Tobacco	4.2	5.3	26.2
Manufactured Foodstuffs	16.1	11.0	31.7*
Iron and Steel Semimanufactures	12.7	25.6	101.6

CAR LOADINGS VS. INDUSTRIAL PRODUCTION
(1923-25 AVE. 100)



UNITED STATES EXPORTS — Continued

Commodity	May		Per Cent Increase
	1939	1940	
Steel-Mill Manufactures	4.6	10.3	123.9
Copper Ingots, Plates, Rods	6.9	7.2	4.3
Lubricating Oil	6.7	9.3	38.8
Industrial Machinery	26.9	36.7	36.4
Electrical Machinery	8.3	9.6	15.7
Metal-Working Machinery	12.0	19.8	65.0
Motor Trucks	6.5	7.0	7.7
Passenger Cars	8.8	5.8	34.1*
Aircraft	10.4	22.6	117.3
All Other	114.5	134.4	17.4
Total	246.1	318.1	29.3

* Decrease

Carloadings vs. Industrial Production

The accompanying chart of carloadings vs. industrial production is published at approximately three-month intervals. The trends of the two indexes in the earlier years shown on the chart were discussed in the March 11, 1940 weekly bulletin (pages 44-45).

The Federal Reserve index of industrial production declined from 128 (1923-25 monthly average=100) in December 1939 to 102 in April. The subsequent recovery has been substantial, and the index for June (preliminary estimate) is 118.

The index of freight carloadings started to decline in December, 1939, one month earlier than the decline in the index of industrial production. However, the carloadings index advanced in April, one month before the advance in the industrial-production index began. The carloadings index for June indicates the same degree of recovery, in relation to the 1939 high, as that recorded by the index of industrial production. (This is shown by drawing lines between the two points on each of the two curves. The line connecting the points on the industrial-production curve is parallel to the line connecting the two points on the carloadings index.)

Commercial Confidence

Newspaper advertising lineage reported for May 1940 exceeded that reported for the corresponding months of 1939 by a more substantial margin than was indicated by the preceding month's data. The greatest gain was in automobile-display advertising, but there were increases in all of the other types specified with the exception of financial-display advertising, which was apparently affected by the slump in the security markets.

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

Newspaper Advertising Lineage	May 1939	May 1940	Per Cent Increase May 1940 From May 1939
Classified	22.7	23.9	5.3
Display			
Automotive	6.1	7.8	27.9
Financial	1.6	1.5	6.3*
General	18.5	19.4	4.9
Retail	63.5	67.2	5.8
Total	112.4	119.9	6.7

* Decrease

THE FUNDAMENTALS

Supply

The Independence Day interruption to work schedules last week invalidated comparisons of steel-mill activity with that in recent weeks. Daily average production appeared to be at about the same rate as it was in the preceding week. Orders placed by the French Government have been assumed by Great Britain and will presumably reduce potential British purchases in the future. It is reported that British finishing plants are now operating at capacity and that new orders will be placed for manufactured steel products and fabricated steel instead of semi-manufactured steel. Machinery and other manufacturers using semifinished steel have stocks on which they can draw but must again come into the market for steel ingots in preparation for the United States rearmament demand that will develop during coming months.

	1929	1932	1937	1938	1939	1940
Per Cent of Capacity	94.0	92.0	70.0	24.0	40.0	75.0

Electric-power production was maintained last week at approximately the level of recent weeks.

	1929	1932	1937	1938	1939	1940
Billion Kilowatt Hours	1.72	1.46	2.24	2.02	2.30	2.51

There was a decrease in automobile production from 90,060 units in the preceding week to 87,550 units last week. The decrease was about seasonal in extent and will probably be followed by an additional curtailment next week.

	1929	1932	1937	1938	1939	1940
Units (000 omitted)	99	40	123	41	71	88

Contrary to the usual seasonal trend, there was an increase in cotton-mill activity last week, and the adjusted index advanced from 136.6 to 137.9. Army contracts are assuming greater importance in the industry.

	1929	1932	1937	1938	1939	1940
New York Times Index	122.8	70.4	141.4	94.4	124.0	137.9

Because of the Fourth of July holiday, reports of lumber operations could not be obtained last week. For purposes of comparison, data for the latest week available are presented.

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

Demand

Retail trade is apparently retaining a substantial part of the gain recently made, according to reports from merchants in important trading centers. Although the gains reported from industrial sections of the country are not being matched in other areas, really slack demand for consumers' goods is evident in only limited sections. Figures just published by the National Industrial Conference Board indicate that the volume of new orders taken by manufacturers during May was 11 per cent greater than the volume in April and 24 per cent greater than that in May, 1939. The Board also reported a slight increase in manufacturers' inventories during May.

Prices

The sensitive wholesale commodity price indexes were moderately lower early last week. Moody's Spot Commodity Price Index was 155.6 on June 27 and 155.2 on July 2. The Dow-Jones Index of Commodity Futures closed at 51.90 on June 27 and at 51.39 on July 2.

RECOMMENDED BOOKS

"*Law of Bills and Notes*," by Henry W. Humble. Harmon Publications, Brooklyn, New York. (\$4.00.)

This is one of a series treating the law of labor contracts, bankruptcy, and other fields in which the business man may become concerned. The present volume will be valuable to anyone concerned as payee, payer, or endorser of notes involving appreciable sums.

SOURCES OF BUSINESS INFORMATION

Records of Waterway Traffic

Statistics of waterway traffic are compiled by the Corps of Engineers, United States Army, the Bureau of Foreign and Domestic Commerce, and other agencies. Complete data are published annually for all navigable rivers and harbors, canals, and the Great Lakes. Monthly figures for traffic on a limited number of important waterways are published regularly in the *Survey of Current Business*: These are Panama, Cape Cod, New York State, and Sault Ste. Marie Canals; and the Allegheny, Mississippi (Government-owned barges only), Monongahela, and Ohio (Pittsburgh District) Rivers.

Data for the tonnage and value of all coastwise traffic (limited by law to carriers of United States registry) are reported annually by the Army Engineers.

Waterway freight carried in United States domestic commerce is about six times as great as total foreign commerce, although it is only slightly more than half of the tonnage carried by the Nation's railroads. The following brief summary gives the distribution of freight tonnage between the railroads and ships in domestic and foreign commerce.

RAILROAD AND SHIPPING TONNAGE, 1936		
Type of Transportation	Millions of Tons	Per Cent of Total
Railroads	959	59.6
Foreign Commerce	90	5.6
Domestic Commerce		
Coastwise, between ports	132	8.2
Great Lakes, between ports	115	7.1
Traffic on rivers and canals	180	11.2
Other domestic commerce	133	8.3
Total domestic commerce	560	34.8
Total Rail and Water-borne Traffic	1,609	100.0

Foreign Trade Statistics

The close Federal regulation of foreign trade makes it possible to obtain virtually complete information concerning the value of exports and imports and quantitative data for the leading products entering into international trade. Sources of monthly information are *Monthly Summary of Foreign Commerce in the United States* and mimeographed statements of the Bureau of Foreign and Domestic Commerce and *Trends of United States Foreign Trade*. The Bureau of Foreign and Domestic Commerce publishes each year bound volumes entitled *Foreign Commerce and Navigation in the United States*.

Communications Data

Monthly data for the leading means of communication are published regularly in the *Survey of Current Business*. The activity of the postal business is indicated by postal receipts (in dollars) of fifty selected cities and a separate index for fifty industrial cities. The activity of the telephone business is reflected in a monthly series of the number of telephones in service at the end of each month and in two separate series of operating revenues, station revenues, and toll-message revenues. An indication of the activity of the telegraph, cable, and radiotelegraph carriers is afforded by monthly series of revenues. An approximate appraisal of the activity of the radio industry is also available from monthly reports showing radio advertising expenditures classified by ten different types of products advertised.

Air Transportation

The relatively small number of air-transport companies facilitates the collection of data for the limited traffic of these carriers. The *Survey of Current Business* publishes monthly series of air mail (pound miles), passenger-miles flown, passengers carried, express (pounds), and miles flown.

The next article will deal with commodity price data.

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