

AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

W E E K L Y
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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Third Term Issue

Subscribers who have any doubts as to whether the "draft" that overcame Mr. Roosevelt's alleged inclinations was forced are invited to refer to the July 19, 1937 bulletin. Under the heading, "Why Rage?" in that bulletin three years ago we analyzed Mr. Roosevelt's reported reactions to third term questions and concluded, "Mr. Roosevelt earnestly desires and is planning to be his own successor in office."

We believe that the third term issue is fully as controversial a one as the Supreme Court packing attempt. As we have previously asserted, the tide of the New Deal seems to have made its high water mark at that time. It is our belief that the injection of the third term issue into the campaign, especially inasmuch as the Chicago Convention's action was obviously dictated by a combination of New Deal extremists and some of the worst political machines in the country, will result in the defeat of Mr. Roosevelt. (Incidentally, an interesting sidelight was provided by Tammany's announcement that it favored a fourth term also.) The economic consequences of Mr. Roosevelt's departure from public office, as well as those that would follow from his re-election will be discussed in a series of articles as the campaign develops.

BUSINESS

Postal Receipts

The volume of business in fifty of the largest city postal districts during the first six months of 1940 exceeded the volume for the first half of 1939 by nearly three per cent. The trend during the first five months of the year was generally favorable, but receipts for June were nearly four per cent less than receipts in

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	29.7
March	28.8	33.8	31.8	33.5	32.7
April	28.9	31.1	29.6	29.8	31.6
May	27.9	29.8	28.2	30.9	32.3
June	28.3	29.6	28.0	29.8	28.7
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	

June 1939. The decrease last month can probably be attributed to the suspension of a considerable proportion of the usual volume of direct-mail advertising because the public's interest had been diverted from domestic affairs to war news. The monthly series for the preceding four years and for the first half of 1940 are shown in the accompanying table.

Building Permits vs. Construction Contracts

The chart on page 126 shows the trends of building permits and construction contracts in dollar value. The two series are not strictly comparable, although each covers a substantial proportion of the building industry.

Contracts awarded indicate the volume of building that has actually been started. Building permits are usually issued in advance of contracts and do not necessarily indicate that the buildings will actually be erected. Therefore, the trend of building permits usually shows sharper variations than that of construction contracts. During a period of general optimism, the volume of building permits increases more rapidly than the total of construction contracts; and, during a period of business curtailment, permits issued decline more than do contracts awarded.

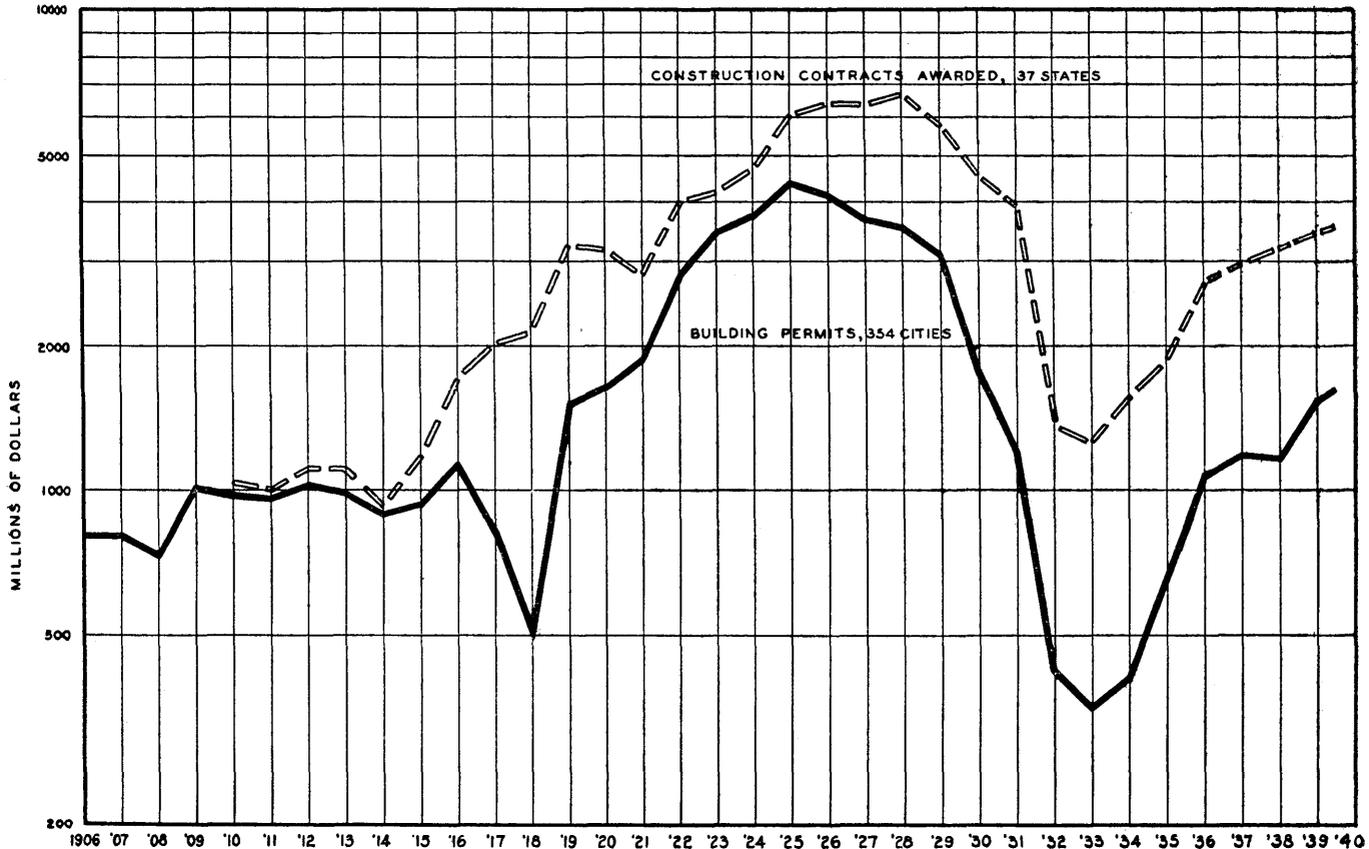
The fact that permits are not required for public works also affects the comparison of the two trend lines. Consequently, when private construction is more active than public building, there is apparently a tendency for the chart of building permits to show a sharper upward trend than the chart of construction contracts. In order to facilitate a comparison of trends, a ratio scale was used.

Since the great depression, the proportion of public works to total construction has been greater than it was in former years. However, there was an improvement in the ratio of private construction to the total in 1939, and the curve of building permits advanced more sharply than did the curve of construction contracts awarded. This trend has persisted, although to a lesser degree, during the first half of 1940.

It will be seen that the line indicating building permits for the first half of 1940 inclined upward more steeply than the line representing construction contracts awarded for the same period. The chart is on an annual

Notice to Annual Sustaining Members: A copy of the 1940 edition of "Investment Trusts and Funds from the Investor's Point of View" was mailed to you last week. If you did not receive it, please let us know.

CONSTRUCTION CONTRACTS VS. BUILDING PERMITS



basis, and the points are plotted on the assumption that the rate of gain in both building permits and construction contracts that prevailed during the first half of 1940 will be continued throughout the year.

The improvement in the proportion of private to public construction is a favorable development. Factories and commercial buildings are more productive of new wealth than are most public buildings.

THE FUNDAMENTALS

Supply

The steel-ingot production rate was unchanged last week at 87½ per cent of theoretical capacity. Sustained activity in the industry during the normally quiet summer months now seems to be assured. The *Iron Age* stated: "Aggregate steel orders in the first half of July ran ahead of those of the first half of June, but the rate of increase during June is apparently not being maintained this month. Nevertheless, for most companies orders have been moderately in excess of shipments and backlogs are not being reduced, except perhaps in sheets and strip, in which new buying has been light since the June 30 deadline on specifications against low-priced commitments. The bulk of new business now is running to the heavier products — semi-finished steel, shell billets, plates, bars and structural steel. This trend is likely to continue as the National Defense Program unfolds."

	1929	1932	1937	1938	1939	1940
Per Cent Capacity	95.0	22.0	83.0	33.0	56.5	87.5

Electric-power production last week failed to compare as favorably with output in the corresponding week of 1939 as it has earlier in the year. However, this is

primarily attributable to a sharp upward trend followed during July 1939.

	1929	1932	1937	1938	1939	1940
Billion Kilowatt Hours	1.73	1.44	2.30	2.08	2.32	2.48

The automobile industry last week produced 62,176 units. Output was 63,910 cars and trucks in the corresponding week of 1939. This is the first week in 1940 when production failed to exceed output in the preceding year. Demand for new cars is greater than it was a year ago, but the large producing companies are curtailing production earlier this year in order to prepare for production of the new models.

	1929	1932	1937	1938	1939	1940
Units (000 omitted)	115	30	115	45	64	62

The daily average of cotton-mill production increased contraseasonally last week, and the adjusted index advanced from 114.2 to 150.0. At last week's level the index was higher than it has previously been since the statistical series was started in January 1929.

	1929	1932	1937	1938	1939	1940
New York Times Index	114.2	64.0	138.0	114.3	120.0	150.0

Lumber output increased substantially last week and the seasonally adjusted index advanced from 64.6 to 74.6.

	1929	1932	1937	1938	1939	1940
New York Times Index	134.5	41.9	102.7	67.5	80.7	74.6

Demand

In New York and in cities where industrial expansion for defense needs has become appreciable, retail trade increased substantially last week. In other sections of the country, there was little change in the

volume of consumer distribution, which has recently been about seven or eight per cent higher than the level of a year ago. The season is now at hand when retail merchants are placing orders for autumn apparel, and the initial volume is greater than it was last year. Retail sales of new cars and trucks during the first ten days of July were fifty per cent greater than sales during the corresponding period of 1939. This demand is attributed primarily to improved pay rolls in the metal industries. There is no statistical evidence as yet that peace rumors have adversely affected the demand for products of the heavy industries. Even if a truce is declared this summer, our national-defense program will no doubt be developed extensively.

Prices

The sensitive wholesale commodity price indexes declined moderately last week. Moody's Spot Commodity Price Index was 156.3 on July 11 and 155.2 on July 18. The Dow-Jones Index of Commodity Futures closed at 51.21 on July 11 and at 50.51 on July 18. After remaining at 92.8 (January 1931=100) from March 1 to June 1, the Fairchild Retail Price Index advanced to 92.9 on July 1. At that level it was four per cent higher than it was a year ago.

FINANCE

Sources of Purchasing Media

Another substantial gain in aggregate purchasing media available to the public is indicated by the accompanying chart. The total is estimated to have increased from \$36,665,000,000 at the end of May to \$37,100,000,000 at the end of June.

The increase in purchasing media from the money commodity was greater than it has been in any preceding month, although a portion of the total gold imported was "earmarked" for foreign accounts and therefore was not monetized. The official figures for gold imports for the month of June have not yet been made public, but an estimate based on weekly reports indicates that they exceeded \$1,100,000,000. The Nation's monetary gold stock increased about \$800,000,000 during the month.

Purchasing media from commercial loans continued the downward trend followed during the preceding three months, and decreased moderately during June. (Judging by data of reporting member banks of the Federal Reserve System for the first half of July, the

trend has been reversed this month and commercial, industrial, and agricultural loans have recently increased.)

There was a decline of about \$100,000,000 in purchasing media derived from the third source (an excess of investment-type assets representing tangible property with respect to the savings available to the banking system). The commercial banks reduced their holdings of both Government-guaranteed and "other" securities.

There was an increase of approximately \$200,000,000 in purchasing media from the printing press. This was accomplished by the commercial banks' increasing their holdings of direct Government obligations and through the distribution of funds accumulated in the Treasury's accounts with the Federal Reserve System.

Until national-defense spending becomes substantially greater, it is possible that the rate of increase in available purchasing media may slacken. Gold imports have recently been the most important factor in augmenting total purchasing media. Imports of the metal from Europe can now presumably be prevented by Germany, and the transfer of gold from Great Britain has probably been substantially completed. The bulk of the South African production will probably continue to be sent here to finance the purchase of war materials for Great Britain, but this supply will not be great compared with the flow of gold from Europe since the outbreak of the war (gold imports from South Africa during the first six months of this year were valued at \$150,000,000, or about ten per cent of the total).

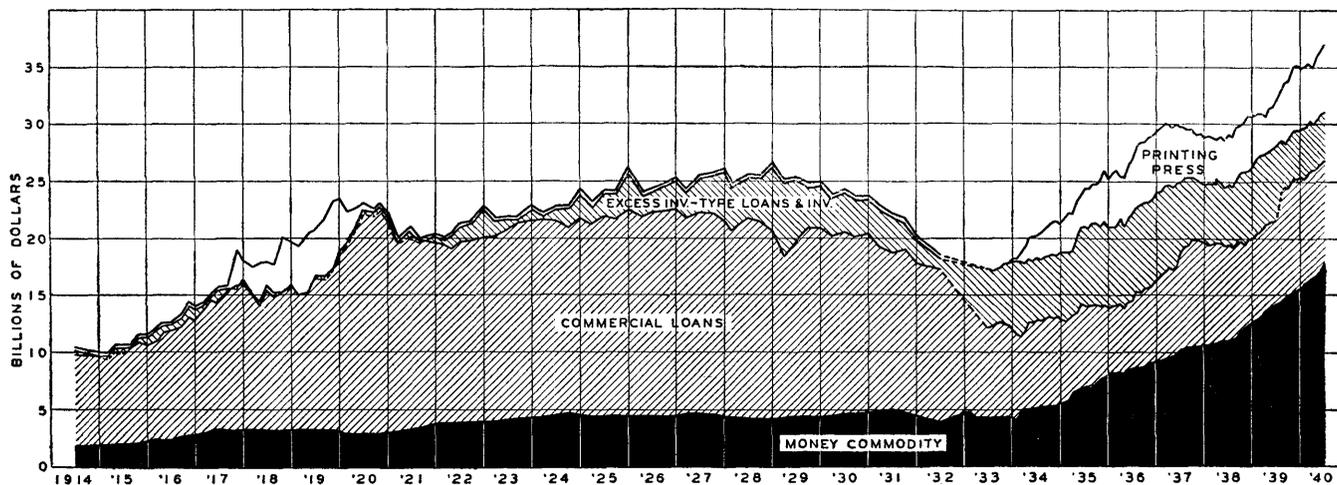
If there is a decline in gold imports it may be partially offset by the release of a portion of the gold now earmarked for foreign accounts (now valued at about \$1,700,000,000). Likewise, some of the United States currency now being hoarded by foreigners may be deposited in the banks. Our most recent estimate of hoarded currency is \$1,144,000,000 as of the end of May. A preliminary estimate indicates that hoardings increased substantially during June and may have reached a peak in that month.

SOURCES OF BUSINESS INFORMATION

Financial and Investment Information

In order to make intelligent use of the mass of financial information that is available, it is essential to understand the fundamentals of the money-credit

SOURCES OF PURCHASING MEDIA



mechanism. Therefore, without attempting to present a treatise on the subject, brief discussions of the major elements of the money-credit system will be incorporated in this section of the "Sources of Business Information" series.

It is vital to remember that financial transactions usually involve paper records that are only the symbols of goods that have been or are being produced. Current money incomes ordinarily represent current production or value added to goods by services. Durable goods, such as houses, and durable-producers goods, such as factories, are normally represented by the records of savings institutions and individuals in the form of mortgages, mortgage bonds, and other securities. Bank accounts and investments therefore include the records of current production plus past production that has been saved and still exists in the form of usable products and other durable goods. Although the essential function of the commercial banking system is the facilitation of the flow of goods to market, these banks by accepting time deposits and acquiring investment-type assets have assumed a dual function. The effect of this dual function will be discussed subsequently.

These elementary facts have been obscured by the complicated modern economic structure and by the habit acquired over many years of treating financial transactions as separate from the trade and industrial processes they actually represent. In this section of the article, we shall discuss the sources of information reflecting conditions in all of the important departments of the money-credit system.

Bank Data

Data summarizing the important asset and liability items of the Nation's banking business are collected annually by the United States Comptroller of the Currency. His report of figures collected as of June 30 is usually available in January of the following year. A summary is also presented in the annual report of the Board of Governors of the Federal Reserve System. There is complete coverage of commercial banks and mutual savings banks, but adequate data for building and loan associations, coöperative banks, credit unions, and similar savings institutions are not included.

Commercial banking developments are revealed more often than annually by reports of the member banks of the Federal Reserve System. Member banks are required to make standardized reports of asset and liability items on "bank call dates." There are normally four bank calls a year, one of them as of June 30, the date required for reporting to the Comptroller of the Currency. The others are at approximately three-month intervals. In June 1939 there were 15,146 banks in the United States, 6,362 of which were members of the Federal Reserve System. The member banks are generally larger than the non-member banks and in June 1939 held 65 per cent of the total assets of the commercial banking system. The data for member banks are published in the *Federal Reserve Bulletins* as soon as they are compiled.

A relatively small number of the larger member banks make weekly reports of their asset and liability items. In 1939 these 101 reporting member banks held 45 per cent of the total assets of the commercial banking system. The reporting member bank data are published each Tuesday (data as of the preceding Wednesday) in the leading newspapers and business periodicals and are

published monthly in the *Survey of Current Business* and the *Federal Reserve Bulletin*. The important items reported by the reporting member banks and all member banks are presented graphically in the book of Federal Reserve Charts, mentioned in a preceding article.

The activity of demand deposits (checking accounts) can be determined from reports of bank clearings or bank debits regularly published covering transactions of the larger banks of the country. (Bank clearings are the total value of checks passing through the city clearing houses. Debits are charges against the checking accounts of individuals and companies.) The monthly bank-clearings series is divided into two sections, New York City clearings and clearings outside of New York City. It extends over a forty-year period and is published regularly in the *Commercial and Financial Chronicle*. The bank debits monthly series is compiled by the Federal Reserve Board and begins in January 1919. Separate data for New York City bank debits and for debits outside of New York City are reported separately.

Although the extent to which checking accounts are being actively used cannot be determined with complete accuracy, an estimate that is probably satisfactory can be made from an index compiled by the Federal Reserve Bank of New York. The bank's statisticians compute the velocity of demand deposits in 101 leading cities by dividing bank debits by the demand deposits and making adjustments for seasonal factors. This index of the turnover or velocity of demand deposits is published in the *Monthly Review* of the Second Federal Reserve District (New York), in the *Analyst*, and in other business periodicals.

Currency in Circulation

Data respecting currency in circulation are even more readily available than commercial banking data. The total amount of currency in circulation is reported in the weekly supplement to the *Survey of Current Business*. Total currency outstanding is reported in the daily statement of the United States Treasury, but some of this is held in the Federal Reserve Banks, the proportion of which is not specified. Monthly reports of currency in circulation outside of the Treasury and Federal Reserve Banks are published in the *Federal Reserve Bulletins*. There are two separate tables, one specifying the kind of currency in circulation (silver certificates, Federal Reserve notes, National Bank notes, and other types) and the other reporting coin and paper currency separated by denominations. There is no information regarding the velocity of circulating currency, but it is presumed that there is a general correlation between the velocity of currency and of checking accounts.

Studies made by Federal Reserve statisticians of data during the 1933 bank crisis provide the basis for estimating the extent of currency hoarding at any specified time. This estimate is possible because hoarded currency is usually held in the form of larger denominations than is required for ordinary commercial and household transactions. Monthly estimates are made by this Institute and can be obtained on request.

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