

AMERICAN INSTITUTE for ECONOMIC RESEARCH

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Critical Weeks Ahead

Two developments of vital economic significance will occur during the next several weeks. These developments will have long-continuing effects that will influence the trends of security prices, commodity prices, and business activity.

The first of these coming events is the November election. The future of the New Deal trend toward Socialism is relatively obvious. It is not so certain that the policies thus far advocated by the Republican candidate will completely reverse this trend, because he has already indicated approval of the principles involved in various New Deal experiments, such as the Social Security Act, the attempt to establish minimum wages and hours, and others.

As the campaign proceeds, Mr. Willkie's views on both domestic and foreign policies will presumably be clarified by a detailed presentation of his ideas in successive campaign speeches. In the weekly Research Reports, we shall analyze Mr. Willkie's comments on each feature of major economic significance. In addition, we shall point out what may be expected with respect to each such factor if Mr. Roosevelt is re-elected. In the bulletin just before the election, we shall summarize the results of these analyses in order to aid subscribers in acting quickly to safeguard their economic interests, if that proves to be necessary, as soon as the results of the election are known.

The second development of vital significance will be the rate at which defense spending forces a renewal of the inflationary progression. Complete information regarding the Harwood Index of Inflation is ordinarily published in each monthly Research Report (the last weekly issue each month). During the next several weeks, when defense spending will presumably be increasing rapidly, special interim reports will be given in the weekly bulletins also.

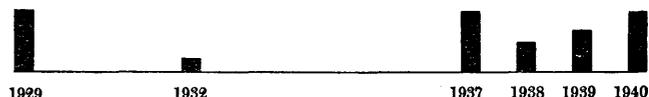
THE FUNDAMENTALS *Industrial Production*

The Institute's Index of Industrial Production for July was revised from 103.0 to 104.0. The revision reflects a moderate increase in industrial activity instead of a small decrease from the June level. The preliminary index for August is 105.0. The last Monday of the month is at an early date in August this year; conse-

quently, data for compiling the Institute's preliminary index are less complete than they have been in recent months, and the first estimate may be subject to more extensive revision than usual.

The steel-ingot production rate failed to increase so consistently and substantially during August as it did during July, but the weekly average was about seven per cent higher last month than it was in July. During July, approximately 5,600,000 tons of steel ingots were produced, and apparently August production will be nearly 6,000,000 tons, slightly less than the high records made in October and November 1939.

STEEL INGOT PRODUCTION



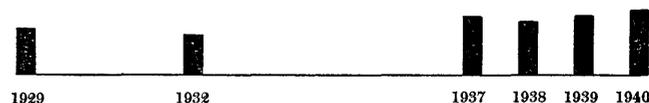
The rate increased last week from 89½ to 90½ per cent of theoretical capacity. The *Iron Age* stated: "Some companies which normally are not consumers of steel in any quantity are now entering the market for that metal, a development which indicates that the Nation's defense program is making some progress, however slow, and that plants making peacetime products are gradually changing over to defense products."

Year	1929	1932	1937	1938	1939	1940
Per Cent of Capacity	90.0	13.5	83.0	42.0	63.0	90.5

(Latest 1940 weekly data; corresponding week earlier years)

During August, electric-power production exceeded that for the corresponding period of 1939 by about 11½ per cent. The comparison was more favorable than it was in July, when the gain was ten per cent. Electric power generated by the industry during August 1940 was greater than that produced during any of the other periods shown on the bar charts.

ELECTRIC-POWER PRODUCTION

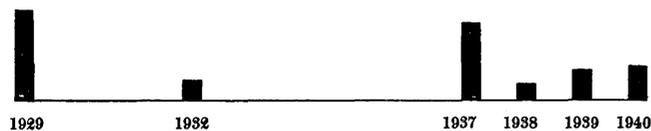


Electric-power output of 2,606,122,000 kilowatt hours last week set a new high record for the year. Gains were reported in all sections of the country but were greatest in the Central Industrial and Rocky Mountain regions as they have been in recent weeks.

	1929	1932	1937	1938	1939	1940
Billion Kilowatt Hours	1.75	1.43	2.30	2.14	2.37	2.61

The poor record made by the automobile industry for August this year is less significant than is suggested by the bar charts. The model change-over period, during the middle of the month, was earlier than ever before. Production will be increasing during the next few weeks somewhat in advance of the seasonal trend ordinarily expected.

AUTOMOBILE PRODUCTION

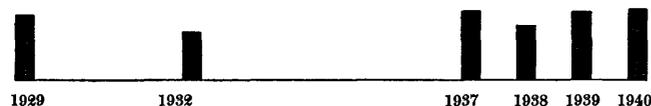


Last week, motor-car assemblies increased from 11,635 cars and trucks to 20,475. The three largest companies have completed production of 1940 models, but only one, the Ford Motor Company, has started production of 1941 models on a large scale. According to present schedules, the entire automobile industry should achieve mass production early in September.

	1929	1932	1937	1938	1939	1940
Units (000 omitted)	112	20	93	24	15	20

The cotton-goods industry remained active during August, and the level of operations compared favorably with the records for August of the other years shown by the bar charts.

COTTON PRODUCTION

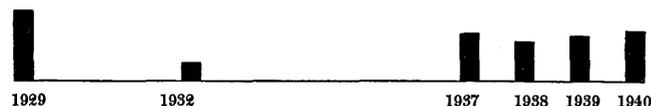


There was a slightly less-than-seasonal increase in cotton-mill activity last week, and the adjusted index declined from 129.9 to 127.6. Wholesale companies are reported to have asked for price concessions, but manufacturers believe that their present volume of business can be maintained at the present price levels.

	1929	1932	1937	1938	1939	1940
New York Times Index	114.2	84.2	140.4	121.7	125.4	127.6

Lumber production during August compared more favorably with that during the corresponding months in the other years shown on the bar charts than it has during recent months. Nevertheless, the volume was only about two-thirds of that in August 1929.

LUMBER PRODUCTION



Last week lumber production increased less than seasonally and the adjusted index declined from 87.2 to 85.5.

	1929	1932	1937	1938	1939	1940
New York Times Index	128.9	35.4	84.8	73.5	78.4	85.5

The Harwood Index of Inflation

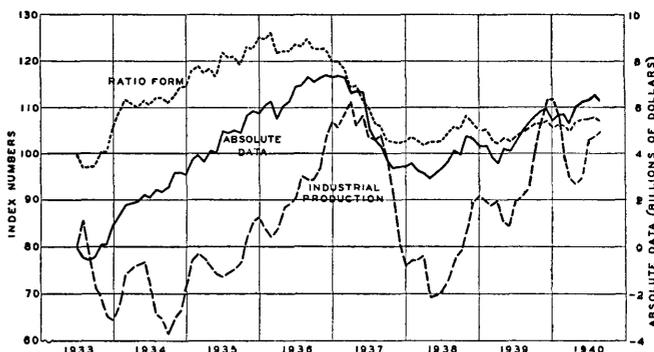
The preliminary Index of Inflation for August declined nearly one point to 106.6 from the July Index, which was 107.5 (revised). As the chart on page 149 shows, the Index has fluctuated within a relatively

narrow range since the advance that began in April 1939 and ended in November of that year.

The inflationary credit created by an increase of \$200,000,000 in commercial banks' investment-type assets that was not offset by an increase in savings-type liabilities was nullified by two deflationary factors. The less important factor was an increase of more than \$100,000,000 in currency hoarded by the public (probably for foreign accounts). The second and more important factor was an increase of more than \$300,000,000 in funds held by the Treasury in its checking accounts. The Treasury has been able to accumulate working balances by moderately increasing its short-term borrowing (in the form of bills) and by virtue of increased tax receipts while its expenditures have failed to expand substantially. The new excise taxes have evidently been a source of substantial income to the Treasury. During the first half of August, miscellaneous internal revenue was \$250,000,000, compared with receipts from this class of taxation totaling \$114,000,000 during the corresponding period last year.

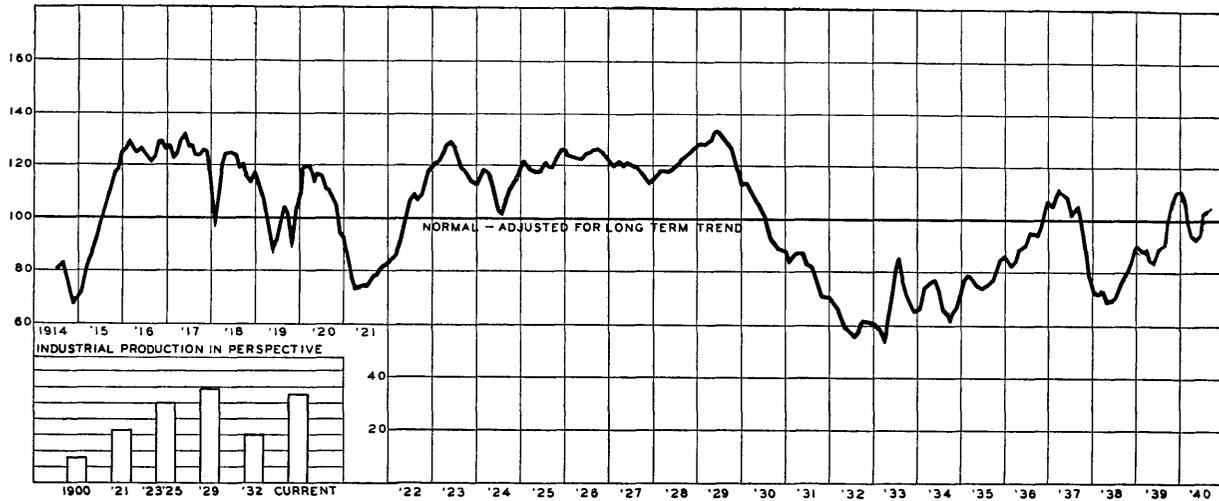
The Treasury has evidently been improving its cash position in order to meet large outlays for national defense. Judging by actual expenditures, the progress of the national defense program has been slow. During July, there was an increase of 55.8 per cent in national defense expenditures, compared with such expenditures during July 1939. In the first twenty-one days of August, national defense expenditures were only 52.7 per cent greater than they were in the corresponding period of 1939.

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

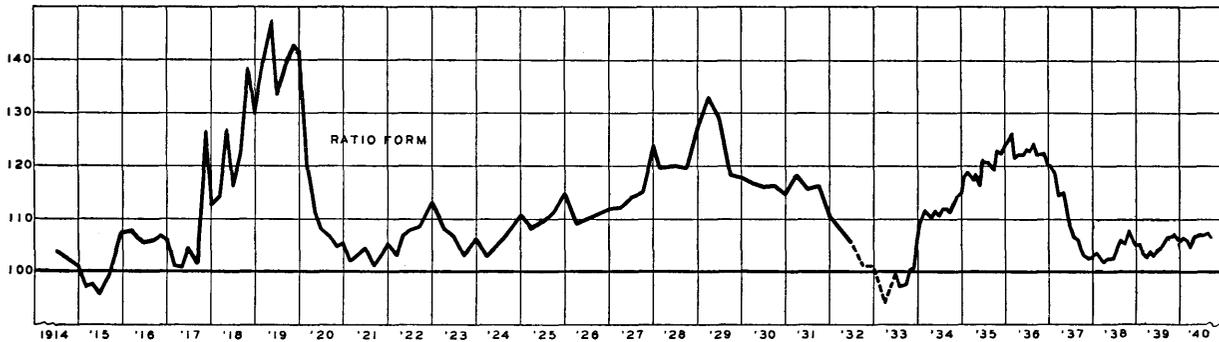


The accompanying chart presents the absolute data and industrial production, as well as the ratio form of the Index. The absolute data for the Index of Inflation are the actual totals of inflationary purchasing media in circulation from time to time. During most of the period of acute crisis and war in Europe, the trend of the absolute-data curve has been more steeply upward than the trend of the ratio form of the Index. This was caused by the great increase in purchasing media from increases in our monetary gold stock. (The ratio form of the Index shows total purchasing media available to the public as a per cent of that which would be in circulation if the inflationary purchasing media were suddenly withdrawn.) Since Germany gained control of the continent of Europe, the only important source of gold imports has been the British Empire. Consequently, the flow of gold to the United States has somewhat diminished, and, as we pointed out in an

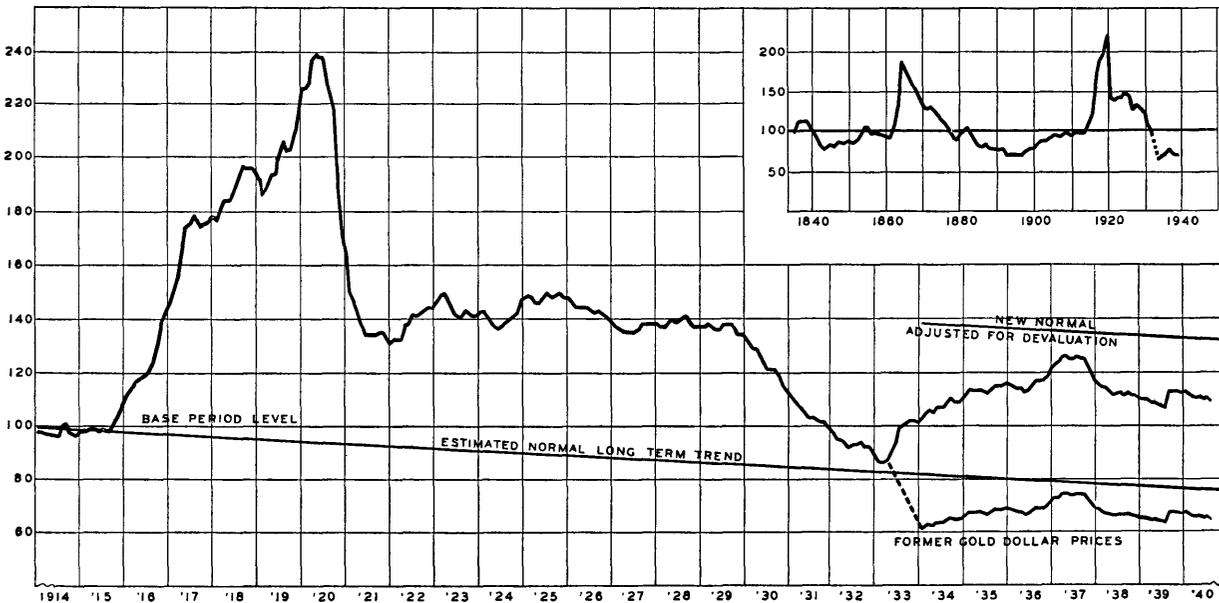
INDUSTRIAL PRODUCTION



HARWOOD INDEX OF INFLATION



COMMODITY PRICES



earlier bulletin (July 22, 1940, page 127), the peak of gold imports has probably passed. The two forms of the Index of Inflation will probably move more nearly in parallel as they did last month, if our assumption regarding gold imports is correct.

During the remainder of 1940, fluctuations in the Harwood Index of Inflation, for reasons explained on page 147, will be especially significant. This Index will reveal the extent to which the national defense program is progressing and the manner in which it is being financed. Both commodity prices and business activity will be influenced by these factors.

Other Demand Factors

The dollar volume of retail trade last week exceeded that reported during the corresponding week of 1939 by five per cent, as it did during the preceding week. The physical volume of goods distributed has apparently followed the same trend, because Fairchild's Retail Department-Store Price Index has remained at the July level during August. In the August issue of the *Survey of Current Business*, the Department of Commerce stated: "In May, incoming business exceeded shipments and increased the volume of unfilled orders for the first time in six months. In June, there was a further and even larger increase in new business which extended over a broad area of manufacturing industry. Most industries participated in the larger flow of new orders, exceptions being mostly seasonal in character. Although data are available only through June, they are indicative of the current situation" (apparently on the basis of preliminary reports).

Commodity Prices

The United States Bureau of Labor Statistics combined index of wholesale commodity prices declined from 111.2 (revised) in July to 110.2 (preliminary) in August. The decrease in the composite index was primarily the result of lower raw-material prices,

UNITED STATES BUREAU OF LABOR STATISTICS WHOLESALE COMMODITY PRICE INDEX (Monthly Average 1913=100)

	Aug. 1929	Aug. 1932	Aug. 1939	July 1940	*Aug. 1940
Farm Products	150.4	68.7	85.3	93.7	91.2
Foods	161.2	96.3	104.7	109.5	107.9
Hides and Leather	160.8	102.4	136.1	146.5	143.8
Textile Products	156.7	94.2	118.3	125.5	125.3
Fuel and Light	134.0	117.6	118.4	117.3	116.8
Metals and Products	110.6	88.2	102.6	104.5	104.5
Building Materials	167.9	122.7	158.0	163.5	163.7
Chemicals and Drugs	116.7	91.4	93.0	95.9	95.6
House Furnishings	167.5	130.7	152.0	159.9	159.9
Miscellaneous	118.6	92.6	105.0	110.7	109.9
Raw Materials	144.1	81.0	96.7	102.8	100.9
Semimanufactures	124.9	77.3	99.5	103.9	103.1
Finished Goods	137.1	101.9	114.0	116.7	115.3
All Commodities	137.9	93.4	107.4	111.2	110.2

* Preliminary Estimate

although prices of semi-manufactures and finished goods also decreased somewhat. Apparently, the break in the speculative commodity markets was caused by fear that the United States might lose its best foreign customer. If England continues its successful resistance, prices will probably recover. In fact, greater strength has already followed more favorable reports from abroad.

Only two of the principal subdivisions of the wholesale commodity price index resisted the downward trend. The index for "metals and metal products" remained unchanged, and there was a slight advance in the "building materials" index. The accompanying table shows changes that have occurred in the major classifications of the index. The August 1940 preliminary indexes are compared with the revised indexes of earlier significant periods.

During recent sessions, speculative commodity prices have shown a firmer trend than has been seen since early in July. Moody's Spot Commodity Price Index was 150.3 on August 15 and 151.1 on August 22. The Dow-Jones Index of Commodity Futures closed at 49.66 on August 15 and at 49.64 on August 22.

BUSINESS

The Trend of Commercial Failures

The unfavorable trend of business insolvencies, after allowing for seasonal factors, that was first observed in June was also evident in July. In July, for the first month in 1940, the number of failures and the liabilities involved were greater than they were in the corresponding month of 1939.

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

COMMERCIAL FAILURES, NUMBER AND LIABILITY

	Number of Failures		Liabilities of Failures (In millions of dollars)	
	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	1,114	12,581	13,734
July	1,153	1,175	14,999	16,213
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

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Statistical Summary; Production, Purchasing Power, and Prices

	1939					1940							
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.*
Index of Industrial Production..	92.4	100.0	107.1	111.8	112.1	109.0	100.9	95.5	93.4	95.8	103.3	104.0	105.0
Index of Inflation (ratio form) ..	105.7	106.7	106.7	107.3	105.5	106.5	106.2	104.7	106.8	107.1	107.1	107.5	106.6
Commodity Price Index.....	107.5	113.5	113.8	113.6	113.5	113.8	112.8	112.3	111.9	112.3	111.0	111.2	110.2
Commodity Price Index..... (In terms of former gold dollar)	63.6	67.2	67.3	67.2	67.2	67.3	66.7	66.4	66.2	66.5	65.7	65.8	65.2

*Preliminary Estimate.