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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Letting the Cat Out of the Bag

In testimony before the House Currency and Banking Committee, Jesse Jones, Secretary of Commerce, was reported by the United Press as saying, "We're in the war. At least we're nearly in the war; we're preparing for it." Subsequently, he had the words stricken from the formal record. Both the words and the fact of their deletion from the record are too revealing to require interpretation.

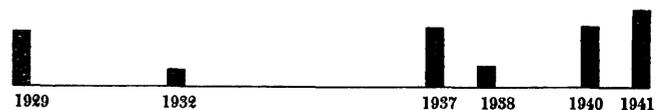
THE FUNDAMENTALS

Industrial Production

The Institute's preliminary Index for February is 127.4, about one point lower than the January Index which was 128.5. It is estimated that there was a slight increase in the volume of production during February from the January level, but the gain was less than seasonal. The Federal Reserve index of industrial production, from which the Institute's Index is calculated, is based on the combined data for eighty separate industries. Of these separate industries, fifty are seasonally more active in February than they are in January; twenty-one are less active; and nine remain at approximately the same rate during both months. The net effect is a seasonal increase of about 1½ per cent in total production from the January to the February level. Under the title "Present Trends and Future Developments" in the January 6, 1941 weekly bulletin (pages 1-3), we explained: "Industrial production in general is already so near to capacity levels that the seasonal gains ordinarily expected in some industries during the early spring months may not be seen. This may cause a moderate recession in some of the widely published indexes of business activity that are adjusted for seasonal variation." Monthly production during the second quarter is ordinarily greater than the average for the twelve months. The normal summer lull begins in June. Therefore, unless new production facilities become available, the Industrial Production Index may fluctuate within a narrow range during the next few months in spite of extraordinary demand.

Iron and steel production maintained a rate close to practical capacity through February. Production in February 1941 was greater than that for February in any of the preceding years shown in the bar chart.

IRON AND STEEL PRODUCTION



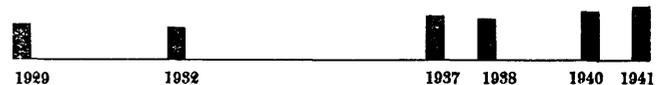
Last week the steel-ingot production rate was reduced from 97 to 96 per cent of theoretical capacity because of necessary repairs to equipment. The *Iron Age* stated: "Congestion of orders at steel mills is forcing steel companies to put into effect more rigid controls of their own devising. Some recent inquiries have shown an astonishing gain over normal takings, and in such cases steel companies are insisting that they be scaled down. Inquiries for third quarter are in many instances larger than the orders placed for second quarter. The piling up of steel orders has occurred despite the fact that British orders recently have been lower than in recent months. However, when the Lend-Lease Bill has been passed an avalanche of new orders is expected which may cause considerable disruption in mill schedules."

| | 1929 | 1932 | 1937 | 1938 | 1940 | 1941 |
|----------------------|------|------|------|------|------|------|
| Per Cent of Capacity | 88.5 | 26.5 | 85.0 | 30.5 | 67.0 | 96.0 |

(Latest 1941 weekly data; corresponding week earlier years)

Approximately 12 per cent more electric power was generated during February 1941 than was produced in February 1940. The industry will probably continue to make new all-time high production records during the next several months.

ELECTRIC POWER OUTPUT



The gain in electric-power production last week in comparison with output during the corresponding week of 1940 was more than 13 per cent, the best weekly record in 1941.

| | 1929 | 1932 | 1937 | 1938 | 1940 | 1941 |
|------------------------|------|------|------|------|------|------|
| Billion Kilowatt Hours | 1.70 | 1.55 | 2.21 | 2.06 | 2.48 | 2.81 |

During February 1941 the automobile industry maintained approximately the same high rate of activity that characterized production during January. Last year at this time production was curtailed because dealers were adequately stocked with new cars. This year dealers are reported to be fully as well stocked, but high assembly rates have been maintained, apparently

as a precaution against possible shortages that may later result from the national defense program. Executives fear that there may be scarcities of such essential raw materials as aluminum.

AUTOMOBILE PRODUCTION

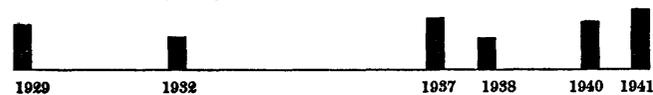


The automobile industry produced 127,500 cars and trucks last week, compared with output of 127,675 units in the preceding week and 95,050 in the corresponding week of 1940.

| Units (000 omitted) | 1929 | 1932 | 1937 | 1938 | 1940 | 1941 |
|---------------------|------|------|------|------|------|------|
| | 127 | 30 | 73 | 58 | 95 | 128 |

Cotton-mill operations during February were approximately at the February 1929 level, and, as the bar charts show, exceeded the level in all of the other corresponding months included in the comparison.

COTTON-GOODS PRODUCTION



In the most recent week for which statistics are available, the rate of cotton-goods production remained unchanged from the level of the preceding week, although the seasonal trend was upward. Consequently, the adjusted index declined from 148.0 to 143.7.

| New York Times Index | 1929 | 1932 | 1937 | 1938 | 1940 | 1941 |
|----------------------|------|------|-------|------|-------|-------|
| | * | 88.7 | 140.4 | 90.6 | 121.0 | 143.7 |

* Not available until third week in March.

Although the lumber industry is the only one among those shown in the bar charts for which current production has not exceeded that in February 1929, the comparison is more favorable this year than at any time since the depression. The more favorable comparison apparently reflects the demand for lumber by the Government.

LUMBER PRODUCTION



Last week lumber production increased slightly more than is seasonally expected and the adjusted index advanced from 139.5 to 139.7

| New York Times Index | 1929 | 1932 | 1937 | 1938 | 1940 | 1941 |
|----------------------|-------|------|------|------|-------|-------|
| | 116.5 | 40.1 | 75.3 | 53.1 | 112.3 | 139.7 |

The Harwood Index of Inflation

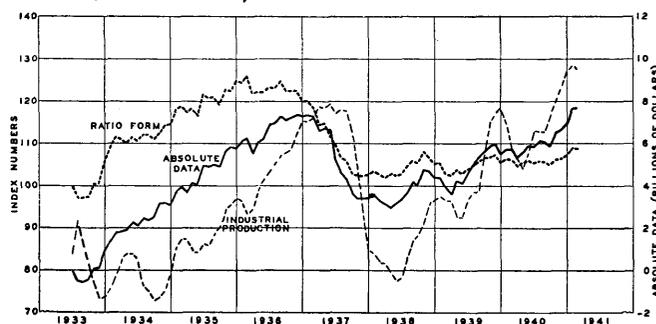
The preliminary Index of Inflation for February was 108.9, slightly lower than the January Index, which was revised from 108.2 to 109.0. Until last month the Index in ratio form had advanced each month since August 1940. In spite of this advance, the Index is not high in relation to its peaks during the inflationary periods shown in the chart on page 33, particularly those of 1919, 1929, and 1936.

The preliminary Index of Inflation for February was based on data for February 12. During the first two weeks of the month, there were no appreciable changes in either the bank-credit situation or in the Treasury's general fund. The commercial banks ap-

parently retained most of the Treasury's national defense notes that they purchased in January, and Treasury receipts were sufficient to permit the Treasury to maintain its checking-account balances.

The Harwood Index of Inflation in ratio form is shown on page 33. The smaller chart on this page shows the absolute data and the industrial production chart, as well as the ratio form of the Index. The scale at the left of the accompanying chart refers to the Index of Inflation in ratio form and to the industrial production index. The scale at the right of the chart refers only to the absolute-data curve.

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

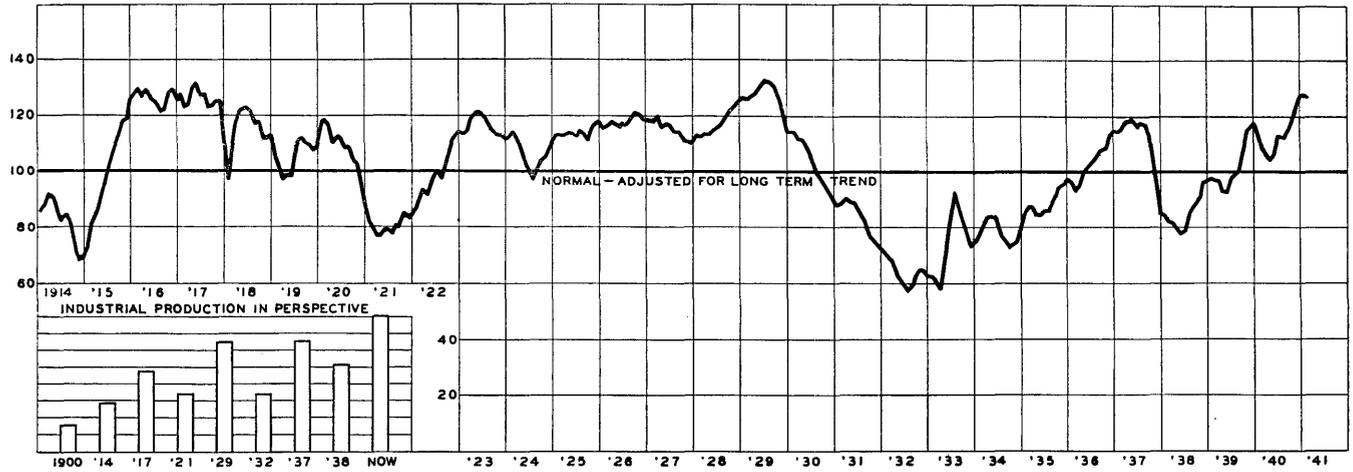


Last month, although there was a slight decline in the ratio form of the Index, there was a modest increase in the absolute data. The difference in the trends of these two money-credit curves was caused by the increase in purchasing media from sources other than bank-credit. The absolute data for the Index of Inflation are the actual amounts of inflationary purchasing media in circulation. In calculating these data, the total of the commercial banks' savings-type liabilities is subtracted from the total of the investment-type assets. The ratio form of the Index is intended to show the importance of the absolute data in relation to all purchasing media in circulation. The most important source of additional purchasing media, other than those derived from bank credits, is monetary gold. (Although the Government has the power to issue currency without monetary backing, it has not recently exercised this power.) During the first half of February, for the first time in many months, the increase in the Nation's monetary gold stock was small. However, it was large enough to account for the slight difference in trend between the absolute data and the ratio form of the Index.

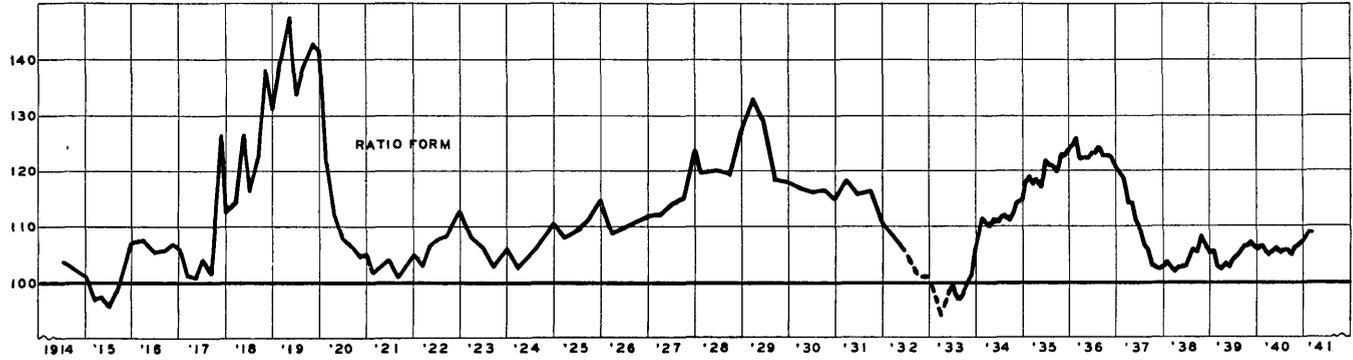
Other Demand Factors

Reports of extraordinary gains in retail trade during the first three weeks of February, in comparison with trade in the corresponding period of 1940, reaching 28 per cent in some districts, were made possible because sales were curtailed at that time last year by the occurrence of severe blizzards, even in the Southern States. Nevertheless, the actual dollar volume is being maintained at the high level of December and January after adjustments for seasonal variations. Gains in the dollar volume and the physical volume of retail sales have recently been substantially the same because price increases have been moderate. The Fairchild retail-price index advanced from 93.9 on January 2 to 94.2 on February 1, but was then only 1.4 per cent higher than it was in February 1940.

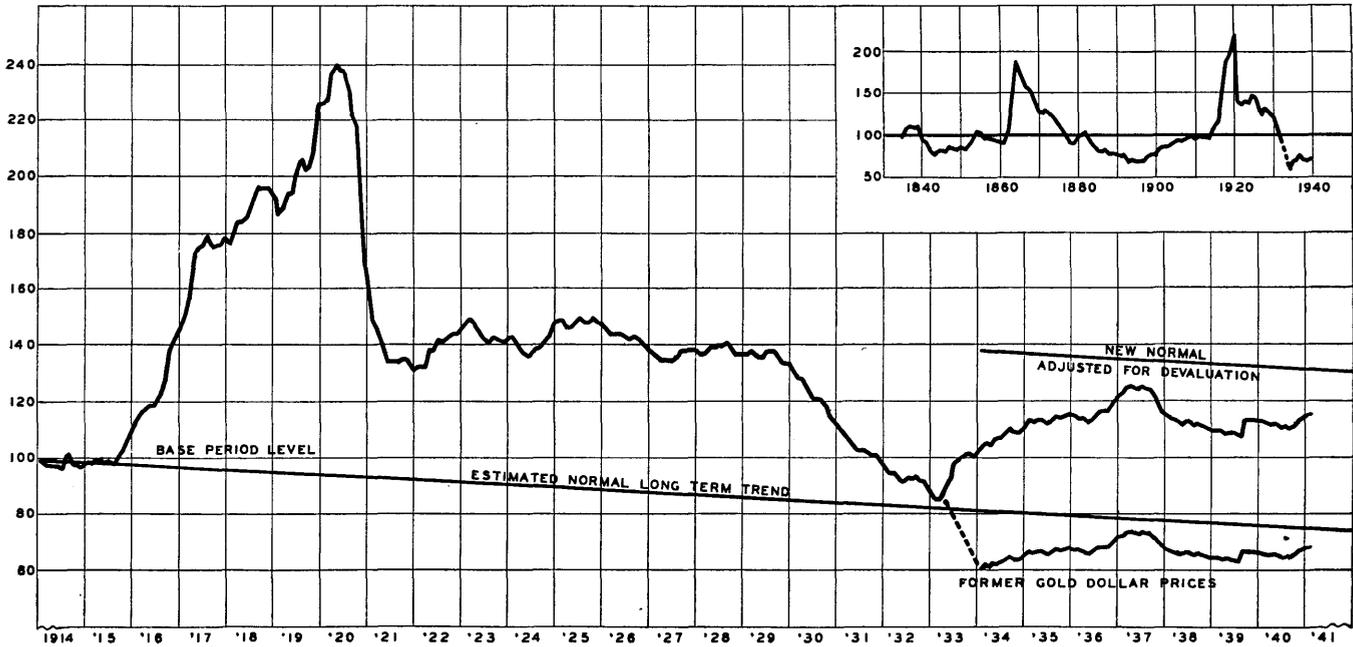
INDUSTRIAL PRODUCTION



HARWOOD INDEX OF INFLATION



COMMODITY PRICES



Commodity Prices

The United States Bureau of Labor Statistics' index of wholesale commodity prices in February at 115.3 (preliminary) was unchanged from the January level (revised from 114.9). Previously, the index had advanced in each month since August. The total increase during the period was 4.4 per cent. Wholesale prices are still substantially below the level reached during early 1937.

In the three economic classes, raw-material prices decreased, but prices of semimanufactures and finished goods were slightly higher. Prices of farm products declined more than one point; prices of textile products increased more than one point; all of the other major commodity price classifications remained unchanged, or changes were confined to small fractions.

The accompanying table shows changes that have occurred in the major classifications of the wholesale commodity price index. The February preliminary indexes are compared with the revised indexes of earlier significant periods.

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

| | Feb. 1929 | Feb. 1932 | Feb. 1940 | Jan. 1941 | Feb. 1941* |
|---------------------|--------------|--------------|--------------|--------------|---------------|
| Farm Products | 147.4 | 70.8 | 96.1 | 100.0 | 98.9 |
| Foods | 152.8 | 97.4 | 110.7 | 114.5 | 114.0 |
| Hides and Leathers | 159.9 | 115.0 | 150.4 | 150.8 | 150.1 |
| Textile Products | 161.1 | 104.4 | 131.6 | 130.2 | 131.6 |
| Fuel and Light | 135.2 | 111.4 | 118.1 | 118.4 | 118.9 |
| Metals and Products | 110.8 | 89.1 | 105.0 | 107.7 | 107.7 |
| Building Materials | 169.1 | 129.5 | 164.4 | 175.7 | 175.3 |
| Chemicals | † | † | 96.6 | 97.9 | 98.0 |
| House Furnishings | 166.6 | 137.7 | 156.3 | 160.6 | 160.7 |
| Miscellaneous | 118.5 | 92.7 | 110.7 | 110.2 | 110.0 |
| Raw Materials | 142.6 | 82.7 | 105.7 | 108.1 | 107.3 |
| Semimanufactures | 126.3 | 82.6 | 106.7 | 108.1 | 108.4 |
| Finished Goods | 135.9 | 102.9 | 117.3 | 120.6 | 120.7 |
| All Commodities | 136.7 | 95.0 | 112.8 | 115.3 | 115.3 |

* Preliminary estimate. † In process of revision.

After a downward trend early in February, both spot and future sensitive wholesale commodity price averages tended to recover later in the month. Such a change is frequently followed by similar movements in the more comprehensive price indexes. Moody's Spot Commodity Price Index was 173.0 on February 13 and 173.6 on February 20. The Dow-Jones Index of Commodity Futures closed at 56.00 on February 13 and at 56.76 on February 20.

The cost of living increased slightly during January and was about 1½ per cent higher than it was in January 1940. Although food and housing costs and costs of "sundries" have increased during the past year, clothing prices have remained unchanged. The composite index, prepared by the National Industrial Conference Board and separate items for January 1929, 1932, 1940, December 1940, and January 1941 are shown in the accompanying table.

| | Jan. 1929 | Jan. 1932 | Jan. 1940 | Dec. 1940 | Jan. 1941 |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| All Items Combined | 99.8 | 81.6 | 84.6 | 85.9 | 86.0 |
| Food | 104.9 | 74.4 | 76.3 | 78.3 | 78.7 |
| Housing | 92.0 | 77.1 | 86.6 | 87.5 | 87.6 |
| Clothing | 99.3 | 72.0 | 73.0 | 73.0 | 73.0 |
| Fuel and Light | 94.6 | 90.0 | 85.8 | 86.5 | 86.4 |
| Sundries | 100.5 | 94.8 | 96.9 | 98.1 | 98.1 |

BUSINESS

Postal Receipts

Postal receipts in January 1941, compared with receipts in January 1940, recorded a substantial gain. There is normally a very large decrease in receipts during January from those in December of any year, but the decline was less than normal in the December 1940-January 1941 comparison. The dollar volume of postal receipts is primarily an indicator of commercial activity. The monthly series for 1929, 1932, 1937, 1938, 1940, and for the first month of 1941 are shown in the accompanying table.

POSTAL RECEIPTS IN FIFTY LARGE CITIES
(In Millions of Dollars)

| Month | 1929 | 1932 | 1937 | 1938 | 1940 | 1941 |
|-----------|------|------|------|------|------|------|
| January | 31.6 | 25.3 | 27.9 | 27.5 | 30.4 | 32.3 |
| February | 30.0 | 24.1 | 27.8 | 27.0 | 29.7 | |
| March | 34.4 | 26.7 | 33.8 | 31.8 | 32.7 | |
| April | 32.4 | 24.3 | 31.1 | 29.6 | 31.6 | |
| May | 32.4 | 22.6 | 29.8 | 28.2 | 32.3 | |
| June | 29.3 | 22.0 | 29.6 | 28.0 | 28.7 | |
| July | 29.1 | 23.8 | 26.6 | 24.6 | 27.6 | |
| August | 29.3 | 23.9 | 26.3 | 26.6 | 29.0 | |
| September | 30.5 | 25.8 | 30.0 | 29.5 | 30.3 | |
| October | 35.7 | 26.7 | 31.7 | 30.9 | 35.2 | |
| November | 32.7 | 26.1 | 30.7 | 31.4 | 33.2 | |
| December | 40.8 | 33.1 | 42.0 | 42.5 | 45.4 | |

SECURITIES

Bonds

There was better resistance to selling pressure in the bond market last week than there has been for several weeks. The Dow-Jones average of Forty Bonds was 90.33 on February 13 and 89.82 on February 20.

Stocks

The stock market also exhibited more confidence than has been apparent since the first week in January. The railroad issues showed greater strength than did the industrial or utility groups.

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Statistical Summary; Production, Purchasing Media, and Prices

| | 1940 | | | | | | | | | | | 1941 | |
|-------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Jan. | Feb.* |
| Index of Industrial Production . . | 109.0 | 106.0 | 104.0 | 107.6 | 113.1 | 112.9 | 112.8 | 116.3 | 119.8 | 122.6 | 127.0 | 128.5 | 127.4 |
| Index of Inflation (ratio form) . . | 106.2 | 104.4 | 105.4 | 106.0 | 105.2 | 105.8 | 105.6 | 104.8 | 106.3 | 106.5 | 107.4 | 109.0 | 108.9 |
| Commodity Price Index | 112.8 | 112.3 | 111.9 | 112.3 | 111.0 | 111.2 | 110.9 | 111.7 | 112.8 | 114.0 | 114.6 | 115.3 | 115.3 |
| Commodity Price Index | 66.7 | 66.4 | 66.2 | 66.5 | 65.7 | 65.8 | 65.6 | 66.1 | 66.7 | 67.5 | 67.8 | 68.2 | 68.2 |

(In terms of former gold dollar) *Preliminary Estimate.