

AMERICAN INSTITUTE for ECONOMIC RESEARCH

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Transfer of Shipping Facilities

The President's proposal to obtain at least 2,000,000 tons of merchant shipping for "all-out aid to the democracies" will make more acute an already threatening shortage of our import shipping facilities. It is estimated that about one-half of the desired tonnage may be provided by foreign vessels seized in our harbors, but the transfer of the remaining tonnage desired from neutral commerce to the North Atlantic lanes will obviously decrease the cargo space that has been available for carrying import merchandise from nonbelligerent destinations.

The President stated in his announcement of the program: "I realize fully that to get cargo and refrigerated ships and tankers diverted from their existing routes of travel will cause not only great inconvenience but the loss of trade and sacrifices by the consuming public."

Our Shipping Resources

The loss or diversion of foreign shipping occasioned by the war, the transfer of some of our ships to Great Britain, and new demand for imported materials arising from our defense efforts have created a situation that has already brought higher prices for imported commodities and now threatens shortages before the end of the year. Although the United States is the least dependent on imported commodities of any of the major powers, if imports were generally restricted American supplies both of "guns and butter" would be affected. There are twenty-eight basic commodities included in the spot commodity price index compiled by the United States Department of Labor. From August 1939 to the end of March 1941, seventeen commodities designated as "import" advanced 43 per cent, while eleven commodities termed "domestic" advanced 28 per cent.

An analysis of the shipping situation recently published by the United States Bureau of Foreign and Domestic Commerce¹ presents statistics of the employment of shipping under United States registry in June 1939 and in December 1940. During this period, our merchant fleet was reduced from 8,135,000 gross tons to 7,279,000 gross tons. The addition of 600,000 tons of newly constructed ships failed to offset the transfer of

1,500,000 tons of shipping to foreign registry (more than half to the United Kingdom or its Allies, and the remainder to neutral registry).

For many years, the United States has depended on foreign shipping to carry exports and imports. Our merchant marine was built up during the World War but could not compete profitably with shipping not hampered by the restrictions imposed by the Federal Government and the maritime unions. The proportion of our commerce carried by ships of United States registry was 51 per cent in 1921 but had declined to 23 per cent in 1939. In one way or another the war has diverted from United States trade routes much of the foreign shipping that had been serving our needs. Shipping under British registry was the most important carrier of our foreign trade, and the tonnage that was operating between the United States and non-European countries is gradually being withdrawn to make good the losses sustained by enemy action in the Atlantic. After the Mediterranean and European regions were closed to our vessels by the war, the shipping formerly engaged in this traffic was diverted to other destinations. About ten per cent of our coastwise shipping was also transferred to foreign routes. These shifts in operations only partially relieved our dependence on foreign shipping.

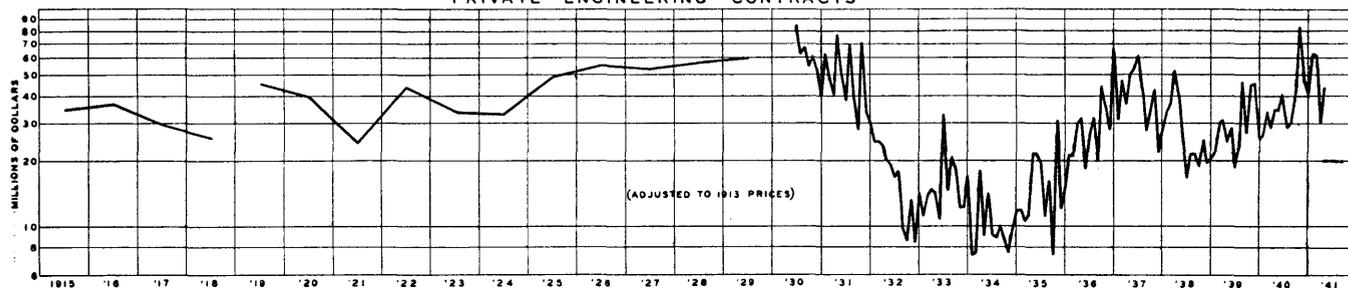
Maritime construction facilities in this country are being used for naval building for both Great Britain and the United States, and apparently no substantial increase in our merchant marine as a result of new construction will be possible this year. The Maritime Commission has established a voluntary system of priorities that is more likely to be tightened than relaxed and will probably place increasing emphasis on commodities essential to the defense program rather than those for consumer requirements. Freight rates on foreign merchandise carried in nonwar zones have increased from 50 to 100 per cent since the war began. Scarcity of shipping facilities was the primary factor causing higher rates, but increased labor and fuel costs and higher insurance rates also contributed.

The following paragraph from the article in the *Survey of Current Business* indicates some of the commodities that may be affected by the inadequacy of our shipping resources:

"Importers have experienced growing difficulty during recent weeks in obtaining shipping space for movement of goods into the United States. Agencies in Washington responsible for stockpiling of strategic and

¹"The American Shipping Situation," by Warren Wilhelm, *Survey of Current Business*, April 1941, pages 13-16.

PRIVATE ENGINEERING CONTRACTS



critical materials have had some trouble in promptly moving chrome, rubber, tungsten, copper, and other materials, while industrial consumers of wool, rubber, hides, sugar, and many other commodities have experienced similar concern. As yet these difficulties have not been serious in the sense that shipments have been completely interrupted; nevertheless, all the cargo space required has not been available."

Private Engineering Contracts

The chart at the top of the page shows the dollar total of private engineering construction adjusted for changes in building costs since 1913. The data reflect as closely as practicable the changes in the physical volume of construction activity covered by private engineering contracts. The data are plotted only once annually for the years 1915 through 1929, because monthly figures were not available until June 1930. Prior to that date there are two breaks in the curve, one in 1918 and the other between 1929 and 1930. These were unavoidable because the data are not continuous for the entire period. Those shown for the years preceding 1930 do not include so large a percentage of private construction contracts awarded as is included in the data since 1930. However, the earlier figures do give a general picture of trends and totals.

The series is not adjusted for seasonal variations. In fact, month-to-month variations in private engineering contracts are so erratic that calculation of a seasonal index is hardly practicable. However, in spite of striking irregularities in the past, the longer-term trends are clearly apparent. Since June 1938 the trend has been generally upward, with the greatest total of awards concentrated in the winter of 1940-41. The volume declined sharply in March 1941, but there was an encouraging degree of expansion last month.

What Next?

The Continuing Record

The latest available information regarding the more significant indicators of future trends is summarized in

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

the accompanying table. A plus sign indicates an advance in the indicator; a minus sign, a decline; and a zero, an unchanged position.

The number of favorable indicators of cyclical trends has remained about the same since the summary was published a month ago. Then there were eight pluses, three minuses, and one zero. In this summary, there are eight pluses, four minuses, and no zeros.

BUSINESS

Commercial Confidence

Newspaper-advertising lineage reported for March 1941 was substantially the same as that for the corresponding month of 1940. Classified-advertising lineage increased about eight per cent, but there was a slight decrease in retail-display advertising, which normally constitutes more than one-half of the total. Retail sales in March 1941 exceeded sales in March 1940 by sixteen per cent. Demand this year is evidently so insistent that this record could be made with less advertising effort than was necessary a year ago.

Newspaper-advertising lineage in the dailies of fifty-two cities during March 1940 and 1941 with the percentage increase in the latter compared with the earlier period is shown in the accompanying table.

<i>Newspaper Advertising Lineage</i>	<i>March 1940</i>	<i>March 1941</i>	<i>Per Cent Increase March 1941 From March 1940</i>
	<i>Millions of Lines</i>		
Classified	22.9	24.7	7.9
Display			
Automotive	5.6	5.9	5.4
Financial	1.8	1.8	...
General	17.6	17.2	2.3*
Retail	66.2	64.7	2.3*
Total	114.3	114.4	0.1

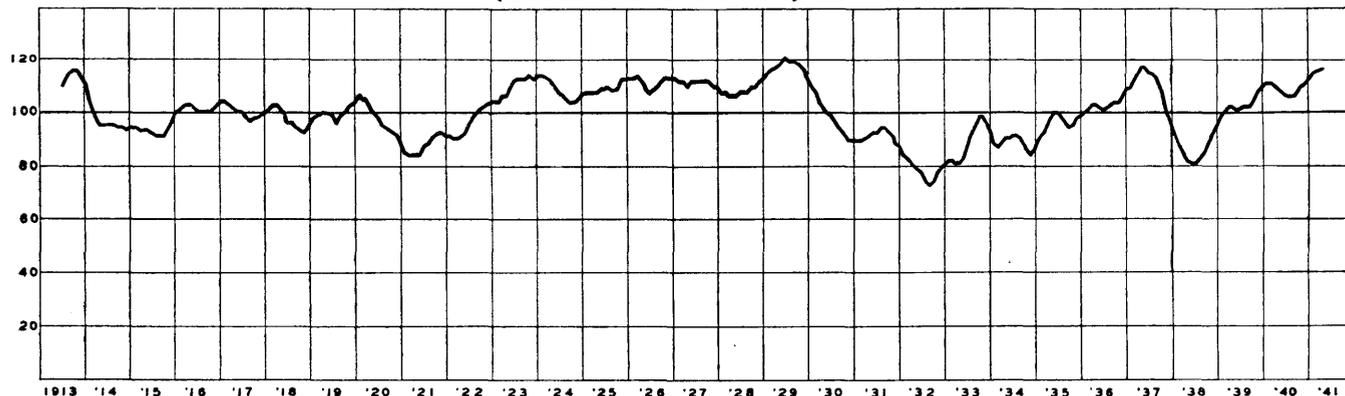
* Decrease

Index of Living Standards

The Institute's index of living standards, which reflects the volume of consumer goods produced per capita in the United States adjusted for seasonal influences and long-term trend, has been revised from January 1939 to April 1941 on the basis of comprehensive statistical data compiled by the Board of Governors of the Federal Reserve System and by the Federal Reserve Bank of New York. The intermediate fluctuations are substantially the same in the old and in the revised index, but the upward trend during the past two years is somewhat more pronounced in the revised index.

The revised index advanced from 115.6 per cent of normal in March 1941 to 116.1 in April. At last month's level it was only one point below the recovery high

INDEX OF LIVING STANDARDS
(ADJUSTED FOR LONG TERM TREND)



recorded in April 1937. In spite of the decrease in consumer goods' production that was apparent during the past month, the index will probably continue to advance at least moderately during the next few months when goods produced earlier in the year will be coming to the market.

THE FUNDAMENTALS

Supply

The steel-ingot production rate last week decreased from 96 to 94 per cent of theoretical capacity. The *Iron Age* appraised the effects of the bituminous coal strike on the steel industry as follows: "The loss cannot be measured by the decline of a few hundred thousand tons of ingots which will be shown by the April figures as compared with those of March. There has been an even greater loss in pig-iron production, which is irreparable, and a still further loss, which cannot be shown in figures, caused by depletion of mill stocks of coal, coke, pig iron, and scrap. In the latter two items particularly there was already a shortage. The replacing of these stocks will be almost impossible for many months to come owing to the need for every ton of steel that furnaces can turn out. During the past month orders have been pouring in to most of the mills at a rate in excess of record-breaking March; this despite the fact that some companies can book no additional orders in many products for shipment this year."

	1929	1932	1937	1938	1940	1941
Per Cent of Capacity	101.0	22.0	91.0	32.5	63.0	94.0

(Latest 1941 weekly data; corresponding week earlier years)

The seasonal trend of the power industry is downward in the Spring and last week was the first since the end of March in which a gain was recorded in electric-power production. Kilowatt hours generated increased from 2,701,879,000 in the preceding week to 2,750,277,000 last week. The gain from output in the corresponding week of 1940 was 14.7 per cent.

	1929	1932	1937	1938	1940	1941
Billion Kilowatt Hours	1.70	1.46	2.19	1.94	2.70	2.75

Automobile production increased from 99,945 in the preceding week to 108,165 cars and trucks last week. The industry's production schedules forecast further gains in output during the next two or three weeks.

	1929	1932	1937	1938	1940	1941
Units (000 omitted)	141	31	132	61	101	108

Cotton-mill activity decreased slightly more than seasonally last week, and the adjusted index declined from 164.3 to 161.6. At last week's level, the index was 41 per cent higher than it was a year ago.

	1929	1932	1937	1938	1940	1941
New York Times Index	118.6	70.0	134.5	77.8	114.2	161.6

There was a moderate decrease in lumber production last week when an upward trend is seasonal. Consequently the adjusted index declined from 124.4 to 120.8. However, last week's index was more than twelve per cent higher than the index for the corresponding week of 1940.

	1929	1932	1937	1938	1940	1941
New York Times Index	134.8	40.5	86.0	54.4	107.1	120.8

Demand

Retail sales last week were maintained at the high level of the preceding week, and the dollar volume was 17 per cent greater than it was in the corresponding week of 1940. The cost of living index in March 1941 was 86.3 compared with a high of 89.2 in 1937; whereas, the index of income payments was 97.8 compared with a high of 89.3 in 1937. Obviously, consumer purchases have been greatly stimulated by this situation.

Prices

The sensitive wholesale commodity price indexes were about unchanged during the first of last week's trading sessions but advanced later in the week. Moody's Spot Commodity Price Index was 185.2 on April 24 and 186.8 on May 1. The Dow-Jones Index of Commodity Futures closed at 62.85 on April 24 and at 64.67 on May 1. Consumers who have observed the rising trend of food prices will not be surprised to read the reports of the United States Department of Agriculture showing that prices received by the farmers advanced substantially from April 1940 to April 1941. During this period the following price increases were recorded: hogs, 64 per cent; dairy products, 19 per cent; eggs, 31 per cent; and chickens, 22 per cent.

FINANCE

The Harwood Index of Inflation

During the period when defense spending may force a renewal of the inflationary progression that has been confined to relatively minor proportions since 1937, special interim reports of changes in the Harwood Index of Inflation will appear in the weekly bulletins. These

will be published when there is an appreciable change in the Index.

Data, on the basis of which the preliminary Index of Inflation for April was calculated, were provided by the reporting member banks of the Federal Reserve System as of April 16. This Index, discussed on pages 68 and 70 of the April 28, 1941 monthly bulletin, was 105.8, nearly two points higher than the Index based on the April 2 reports. There was a half point advance in the Index to 106.3 in the following seven days.

During the week ending April 23, there was an increase of approximately \$600,000,000 in the banks' investment-type assets. This increase was caused largely by the banks' purchase of two new series of short-term notes issued by the Reconstruction Finance Corporation. These notes were announced as a \$300,000,000 issue of $\frac{7}{8}$ per cent obligations due October 15, 1942 and a \$300,000,000 issue of $1\frac{1}{8}$ per cent obligations due July 15, 1943. The issues were many times oversubscribed, and aggregate allotments of \$644,000,000 were made. Although the commercial banks purchased most of the two issues, a substantial proportion probably was bought for customers to whom the bonds will be distributed during the early part of May. Therefore, a considerable part of this credit expansion may be only temporary.

During the week in which commercial bank credit increased \$600,000,000, the Treasury's accounts with the Federal Reserve Banks also increased substantially. The Treasury's accounts with these depositories aggregated \$620,000,000 on April 16 and \$1,027,000,000 on April 23. The Treasury's budgetary deficit for the week was approximately \$200,000,000, but receipts from the sale of the RFC obligations were deposited with the Federal Reserve Banks and enabled the Treasury to increase its accounts \$400,000,000. A considerably greater increase in the Index of Inflation would have been recorded but for this temporary withdrawal of \$400,000,000 from purchasing media available to the public.

The Treasury's deficit for the month of April was not so large as the estimated \$1,000,000,000, because the repayment of capital stock by the Reconstruction Finance Corporation in the amount of \$175,000,000 was entered in the receipts column. This bookkeeping transaction had no important effect on the credit situation, but the new RFC borrowings that made the transfer possible increased the ratio of Government-guaranteed securities to the direct public debt.

Extension of Money Powers Asked

In the absence of Congressional action, the President's emergency power to determine the value of the dollar, to maintain the stabilization fund, and to issue \$3,000,000,000 of "greenbacks" will expire on June 30 of this year. President Roosevelt has requested the extension of these powers until June 1943. Congress will probably grant the President's request in spite of the recommendation that these special powers be allowed to lapse that was embodied in the report of the Board of Governors of the Federal Reserve System last January.

The Board's recommendations for measures to be taken "to forestall the development of inflationary tendencies" were summarized as follows:

1. To eliminate much of the existing \$7,000,000,000 of excess reserves by raising reserve requirements.
2. To eliminate the President's power to devalue the dollar further and issue \$3,000,000,000 of "greenbacks"; to stop issuing silver certificates against seigniorage on silver reserves and foreign silver purchased.
3. To limit future gold acquisitions if this can be done without interfering with assistance by the Government to friendly nations.
4. To finance deficits by the sale of Treasury issues to investors other than commercial banks.
5. To meet an increasing proportion of the defense expenses by tax revenues as the national income increases.

No attempt has been made to cut down excess reserves, and it is now evident that the President has no intention of relinquishing his money powers. Gold acquisitions are at present limited by the virtual cessation of gold imports.

SECURITIES

Bonds

From April 21 to April 29 the bond market recovered about two-thirds of the loss sustained earlier in the month, but subsequently turned downward. The Dow-Jones Average of Forty Bonds was 91.39 on April 24 and 91.45 on May 1.

Stocks

The stock market was reactionary last month, and the volume of transactions was the smallest recorded in any April since 1918. Dividend payments in April 1941 were about ten per cent greater than they were in April 1940, but corporate earnings are now no longer a reliable guide to stock prices.

RECOMMENDED BOOKS

"The Spanish Guild Merchants," by Robert S. Smith, Duke University Press, Durham, N. C. (\$2.50).

The rise of the various *hansas* and "gildes" affords an interesting field of research in the background of capitalism. The Spanish guilds, or *consulados*, gradually increased in power and scope until they became courts of considerable authority, both in the regulation of trade and in the establishment of trade associations and exchanges. These guild-courts justified their existence because the regular tribunals did not possess sufficient judicial, administrative, regulatory, and executive powers. The *consulados* assured the flow of foreign commerce, giving the merchants protection on the high seas, offering a powerful champion against foreign injustices, and furthering public works to facilitate trade. Professor Smith deals with the period of the first four hundred years after 1283. During this early period, the public services of the *consulados* were considerable, but later the monopoly powers that they gradually acquired invited abuses that destroyed their social value.

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