AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

54 Dunster Street, Harvard Square - Cambridge, Mass.

MONTHLY BULLETIN

June 30 1941

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Another Chapter of Mein Kampf

Last week's outstanding event of course was Hitler's onslaught against the Soviets, the country whose agreement to the non-aggression pact with Germany gave the signal for the present conflict. This extension of the war area should not immediately have an important effect on our economy, although it obviously will ultimately have great significance if it proves to be a decisive factor in the outcome of the conflict. Even if the United States were willing to ship materials to Russia (at the risk of their being seized by a victorious German army), our national defense needs, including aid for Britain, will require all of the output of the heavy industries at least until new capacities are created. Not only do we have no war materials to spare for Russia, but the amount of such supplies that we could send across Siberia, the only route now open, would be negligible.

One effect of the new phase of the war that may be immediately felt may result from a change in the attitude of the trouble-making Communist minority in the ranks of labor. The Communist leaders have consistently defended all of the policies of the Soviet Government and have by now become expert in justifying changes in their own attitude to suit the interests of altered Soviet policies. Therefore, they will presumably stop attempting to sabotage our war munitions program because it may be of some service to Russian defense. They may even advocate the extension of our war involvement, although this influence will probably be offset by a cooling in the attitude toward involvement on the part of those holding strong anti-Communist sentiments.

Apparently, Hitler intends to subjugate Russia so thoroughly that the Nation will be in the position it was in after signing the Treaty of Brest-Litovsk in 1918; that is, no longer existent as a military power, but having economic resources capable of being exploited. The record made by the German war machine suggests that Hitler may be able to smash the Russian army and set up a subservient government within the time limits (reported to be three months) that he has set.

Although failure in Russia might be disastrous for the Nazi Government, even a complete victory over Russia this summer would not necessarily indicate that Hitler has won the war. He might find it more difficult to develop the resources of the Ukraine than he had anticipated, and the venture might not return much more in war sinews than must be expended to obtain the territory.

THE FUNDAMENTALS

Industrial Production

The Institute's preliminary Index of Industrial Production for May has been revised from 133.2 to 136.9. The upward revision reflected increased activity in industries for which statistics were not available when the preliminary estimate was prepared. This probably indicates that many of the smaller industries are benefiting from the secondary effects of the defense program and that the Government's effort to make subcontracting more general is meeting with success. The preliminary index for June is 139.6.

The Institute's index is adjusted for long-term trend as well as for seasonal variations. The bar diagram in the lower left-hand corner of the industrial production chart on page 105 shows the volume of industrial production (not adjusted) at significant periods from 1900 to date. The physical volume of goods now being produced is shown to be substantially greater than it has been at any other time in the Nation's history. The solid bar charts included in the discussion that follows show comparable data for each June during the years indicated. The Institute's production index, adjusted for long-term trend (page 105), shows that the current rate of manufacturing activity is higher than the peak levels reached either in the first World War period or in the New Era boom that culminated in 1929. Although some of the increase in manufacturing activity represents the production of a larger volume of nondurable consumer goods, the greater part of the total increase represents production of heavy type defense materials.

The steel industry operated at a slightly higher rate in June than it did in May, and total steel tonnage produced in June was probably greater than the industry's high tonnage record of 7,146,000 short tons reported for March. (The May total was 7,102,000.) The promulgation of more stringent priority orders during the month has made certain that a large proportion of this tonnage will be used for national defense rather than for private domestic purposes.

IRON AND STEEL PRODUCTION

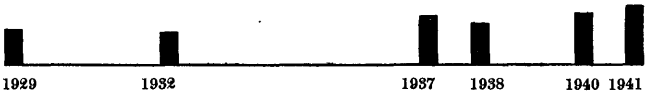
The steel-ingot production rate increased from 100.0 to 100.5 per cent of theoretical capacity last week. The *Iron Age* commented as follows on the current situation in the industry: "The new phase of the war in Europe will undoubtedly result in an intensification of the effort to aid Great Britain and build up our own defense. As this prospect looms, the lines are being drawn tighter on supplies of steel and other metals of those not engaged in defense activities. Some manufacturing plants have already been forced to curtail operations because of inability to obtain sufficient steel, and a further tendency in this direction appears to be inevitable over the coming months. With the growing use of preference ratings for direct and indirect defense requirements, the amount of steel remaining for civilian consumption is shrinking to such an extent that non-defense consumers are likely to be pinched much more severely than has been generally expected. It is estimated at Pittsburgh that fully 65 to 70 per cent of current steel production is earmarked for preferential treatment, leaving a relatively small amount for other consumers."

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
Per Cent of Capacity	95.0	22.0	75.0	28.5	88.0	100.5

(Latest 1941 weekly data; corresponding week earlier years)

The bar charts portraying electric-power output during the month of June for the years specified reflect the favorable long-term trend of power sales. Electric-power production during June 1941 was about 15 per cent greater than it was during June 1940.

ELECTRIC POWER OUTPUT

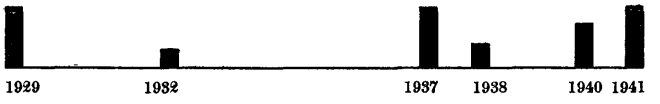


Last week, the electric-power industry maintained the 15 per cent gain in production compared with output in the corresponding period of 1940 that prevailed earlier in the month. Reports from the New England, Middle Atlantic, and Central Industrial regions were especially favorable.

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
Billion Kilowatt Hours	1.72	1.46	2.24	2.02	2.65	3.06

The automobile industry was active during June 1941. Production was approximately the same as it was in June 1937 and was exceeded in the years represented by the bar charts only in June 1929.

AUTOMOBILE PRODUCTION



The automobile industry produced 133,565 cars and trucks last week, slightly less than the preceding week's output of 134,682 units. It is now believed that the curtailment in production schedules that the industry agreed to put into effect at the beginning of August may be greater than the 20 per cent originally contemplated, because the supply of materials is becoming more and more limited

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
Units (000 omitted)	126	45	121	41	90	134

The cotton-goods industry is making full use of its equipment for the first time since 1920, and the bar chart for June 1941, based on preliminary data, indicates that production substantially exceeded that in the corresponding month of the years shown. Primarily because of the large available stocks of raw cotton, the price of cotton cloth is far below the level existing two decades ago.

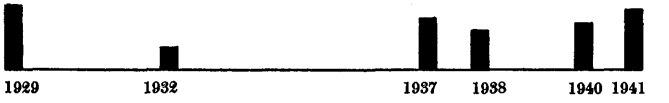
COTTON-GOODS PRODUCTION

During the most recent week for which data are available, the cotton-mill production rate increased more than seasonally, and the adjusted index advanced from 171.8 to 176.9.

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
New York Times Index	120.1	70.4	141.4	93.6	115.7	176.9

Lumber operations during June increased moderately from the rate that prevailed during May. Although the current position of the industry is less favorable than that of the other industries represented by the bar charts, the comparison of current data with figures for the corresponding month of the other years shown has improved moderately.

LUMBER PRODUCTION



Last week lumber production increased substantially and the seasonally adjusted index advanced from 114.3 to 119.8.

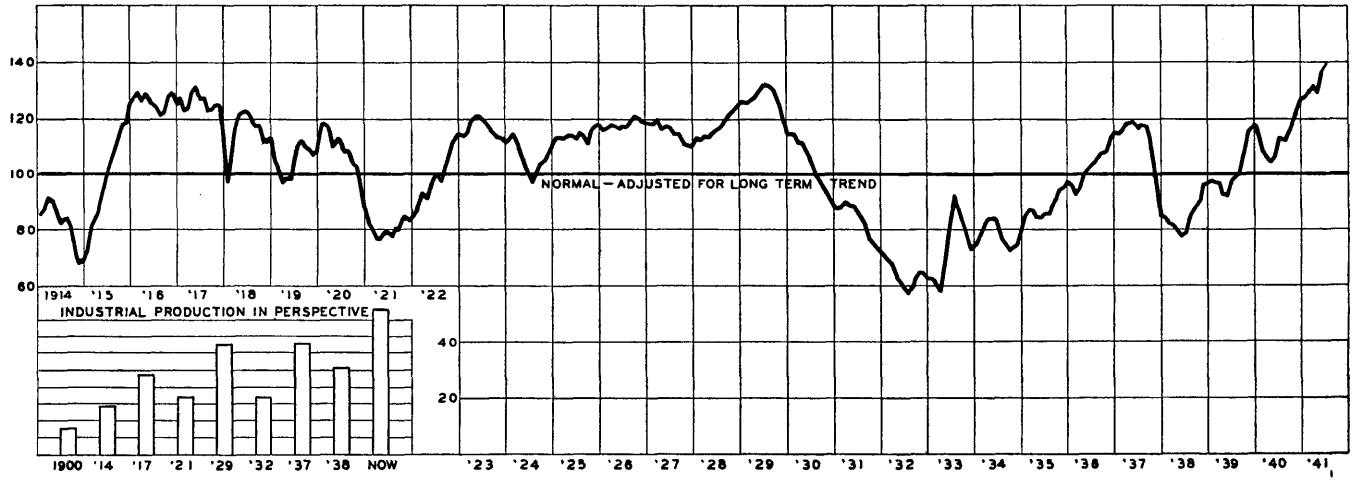
	1929	*1932*	*1937*	*1938*	*1940*	*1941*
New York Times Index	131.7	38.7	96.9	65.2	107.5	119.8

The Harwood Index of Inflation

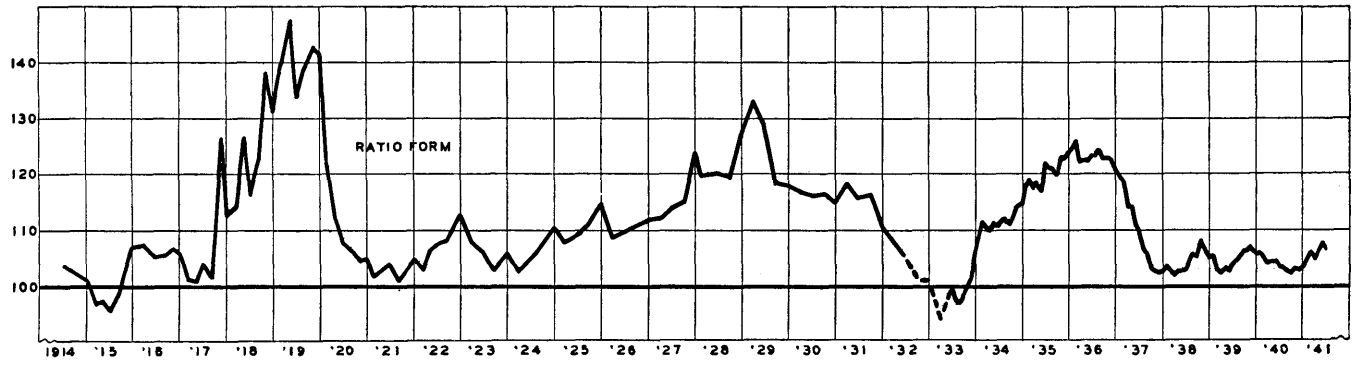
The revised Index of Inflation for May at 108.0 was fractionally higher than the preliminary Index of 107.2. The preliminary Index for June (as of June 18) is 106.5; one and a half points lower than the May index. The decline in the Index was primarily caused by the transfer of checking-account deposits from private to public accounts, as a consequence of the collection of the second installment of the Federal income tax due June 15.

Treasury reports show that the bulk of its receipts is concentrated in the months when income-tax payments, which constitute the most important source of Government revenue, are paid. Therefore, substantial sums are drawn from private to public accounts in the months of March, June, September, and December. The deflationary influences operating in these months are usually absent during the two months immediately following. The inflationary progression will therefore probably be resumed during July and August, although it may be temporarily halted again in September.

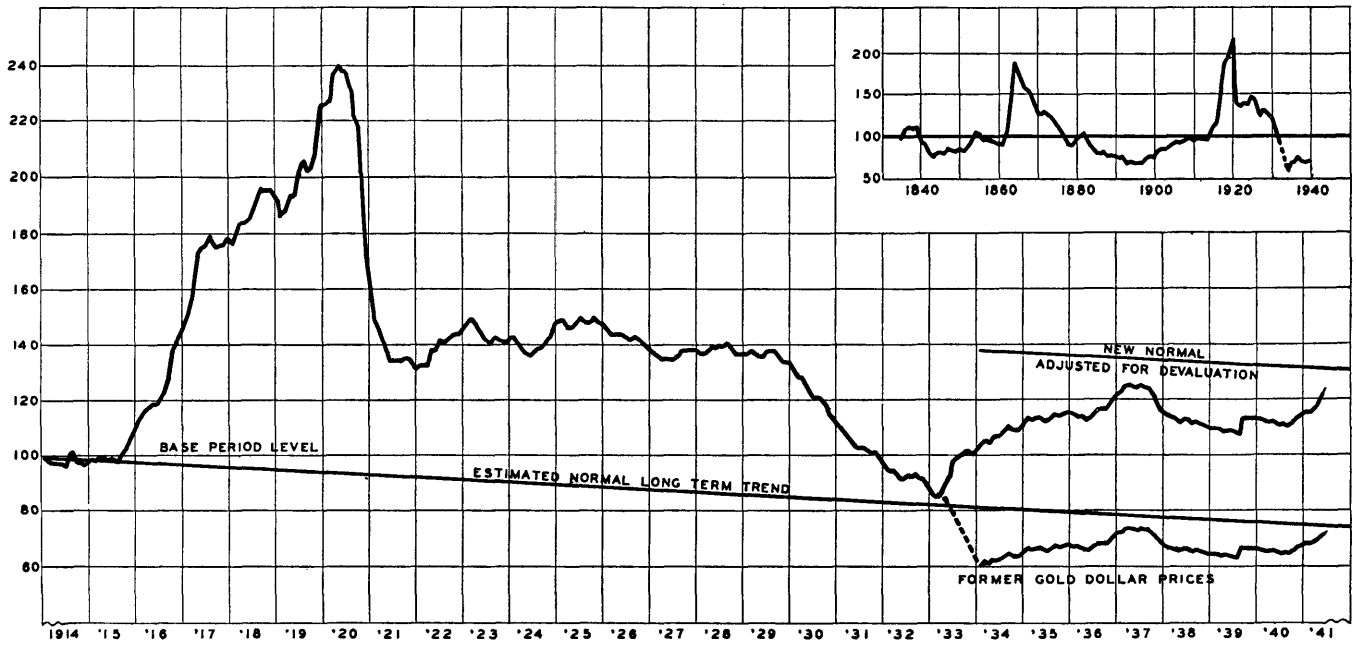
INDUSTRIAL PRODUCTION



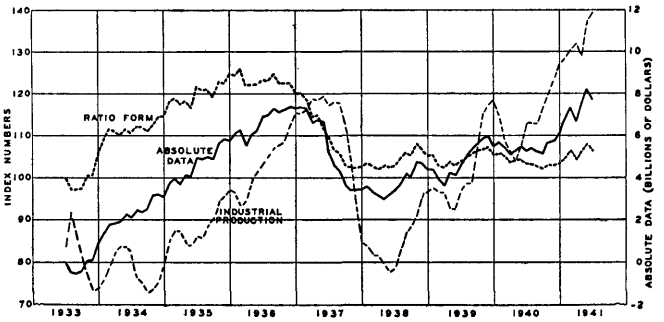
HARWOOD INDEX OF INFLATION



COMMODITY PRICES



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



The foregoing chart shows the absolute data and the Institute's Index of Industrial Production in relation to the Index in ratio form. The scale at the left of the 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. It will be observed that the solid line, representing the absolute amount of inflationary purchasing media in use, reached a higher point in May than that attained at the crest of the 1936–37 inflation and remained above the earlier high level even after last month's decline. The dotted line showing the Index in ratio form is still well below its 1936 peak, although its general trend has been upward since September 1940.

The difference in the trends of the two money-credit curves was caused by the increase in purchasing media from other than inflationary sources. These other sources are new currency or bank deposits resulting from additions to the monetary gold stock and new deposit credits derived from commercial loans. During the period from the spring of 1938 until after the passage of the Lend-Lease Bill, the most important source of new purchasing media, other than that derived from inflationary bank credits, was from currency issued in payment for monetary gold. This year additions to monetary gold stocks from imports have been greatly curtailed, but purchasing media from commercial loans have recently been increasing more rapidly than they have during the past few years. Although commercial loans result in the temporary creation of new purchasing media, such credit creations are not inflationary because they represent goods on the way to market and will presumably be retired when the goods reach the hands of the consumers.

If the Index of Inflation follows the pattern shown during the first part of 1941, it may be expected to advance substantially during the next two months and again turn downward in September, when the next installment of the income tax will be payable. The absolute-data curve indicates that there is a net addition to inflationary purchasing media at the completion of each three-month cycle. There will probably be two more similar three-month cycles during the second half of this year.

Other Demand Factors

The dollar volume of retail sales last week continued to make a favorable comparison with the total for the corresponding week of 1940. The gain in the Federal Reserve index of department-store sales was 17 per cent. During the past month, retail sales in farm areas, which were lagging those in the industrial areas earlier in the year, increased substantially.

Commodity Prices

There was another substantial advance in the combined wholesale commodity price index compiled by the United States Bureau of Labor Statistics last month. The preliminary index for June was 124.2, and the revised index for May was 121.6. The index has advanced 10 per cent during the past 12 months and is approximately 15 per cent higher than it was just before the war started. The chart of commodity prices shown on page 105 indicates that the current position of the index is nearly as high as it was in the summer of 1937 and that it is closer to the normal long-term trend line than it was at that time.

The accompanying table shows changes that have occurred in the major classifications of the wholesale commodity price indexes and in the combined index of all commodities. The June 1940 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*)

	June 1929	*June 1932*	*June 1940*	*May 1941*	*June 1941**
Farm Products	145.1	64.0	92.6	106.4	113.4
Foods	154.4	91.8	109.5	123.2	128.7
Hides and Leather	158.4	104.0	145.7	155.9	159.2
Textile Products	157.2	92.0	126.7	143.5	146.2
Fuel and Light	137.8	116.7	116.5	123.5	128.4
Metals and Products	111.5	87.9	104.3	108.0	108.4
Building Materials	167.9	124.8	163.0	177.1	178.0
Chemicals and Drugs	†	†	94.9	104.2	104.4
House Furnishings	168.0	132.7	157.2	164.1	166.4
Miscellaneous	118.1	92.0	110.7	113.6	114.9
Raw Materials	140.4	77.3	102.8	115.8	120.3
Semimanufactures	123.4	76.9	104.0	115.4	117.0
Finished Goods	136.9	100.9	116.0	125.5	128.5
All Commodities	136.4	91.5	111.0	121.6	124.2

*Preliminary estimate. † In process of revision.

Last month prices of all three of the economic classes advanced, but the largest gain was in the raw-material classification. Approximately equal percentage gains were made in prices of semimanufactures and finished goods. Advances were recorded in the prices of all of the separate classifications shown in the table. The largest gains were recorded by the farm products and foods classifications.

Statistical Summary; Production, Purchasing Media, and Prices

	1940							1941					
	June	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*	*June**
Index of Industrial Production..	113.1	112.9	112.8	116.3	119.8	122.6	127.0	128.5	130.2	131.8	128.9	136.9	139.6
Index of Inflation(ratio form)...	103.6	103.5	102.8	102.3	103.2	103.0	103.6	104.9	106.5	104.5	106.6	108.0	116.5
Commodity Price Index.....	111.0	111.2	110.9	111.7	112.8	114.3	114.6	115.8	115.5	116.8	119.2	121.6	124.2
Commodity Price Index..... (In terms of former gold dollar)	65.7	65.8	65.6	66.1	66.7	67.6	67.8	68.5	68.3	69.1	70.5	72.0	73.5

* Preliminary Estimate.