

# AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

54 Dunster Street, Harvard Square - Cambridge, Mass.

W E E K L Y  
B U L L E T I N

July 7  
1941

## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *Divided Allegiance*

In the June 23, 1941 Research Report Bulletin under the heading "The St. Lawrence Waterway Project," we expressed the opinion that the President's revival of the scheme suggests that he is unwilling to forego indulgence in New Deal experiments in the interests of national defense. Since then, our opinion has been supported by the conclusions of a Congressional Committee that has been holding hearings in regard to the progress of the national defense program. The majority report (16 to 9) of the Military Affairs Committee of the House of Representatives, in spite of its reserved manner of presentation, comprises one of the most telling indictments of the New Deal that has appeared since its inception. The full report has not yet been made public, but excerpts have been printed in the newspapers. The following paragraph from the report succinctly summarizes the major criticism of the Administration's defense policies:

"Emphasis over the past few years has been made on social reform rather than national security. As a Nation we seem to have forgotten that, without national security, social reform might well prove meaningless."

#### *Carloadings and Lumber Production*

The chart at the bottom of this page showing carloadings of heavy products and lumber production presents two series of data that reflect changes primarily in the activity of the heavy industries (which are large consumers of bituminous coal) and the construction industry.

#### *The Carloadings Record*

Freight carloadings of heavy products include coal and coke, ore, and forest products. The carloadings record is greatly influenced by changes in shipments of coal and coke inasmuch as carloadings of these materials account for about two-thirds of the total shown.

The sharp declines in carloadings in April 1939 and again in April 1940 were caused in each instance by a strike of bituminous coal miners. After the settlement of each strike, the tonnage of bituminous coal moved by rail increased substantially.

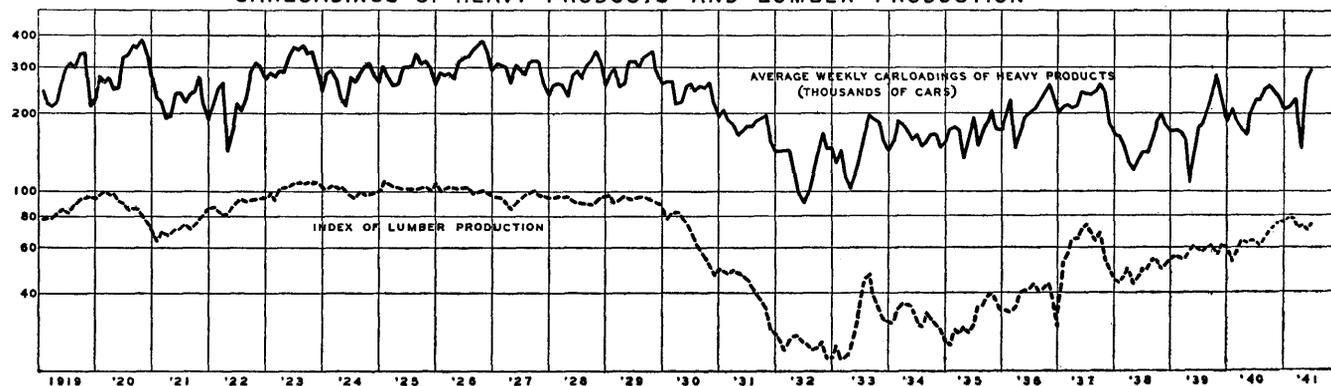
The statistical series of freight carloadings of heavy products is not adjusted for normal seasonal variations, but, in spite of the extensive month-to-month fluctuations, a general upward trend since the spring of 1938 is readily discernible.

#### *Lumber Production*

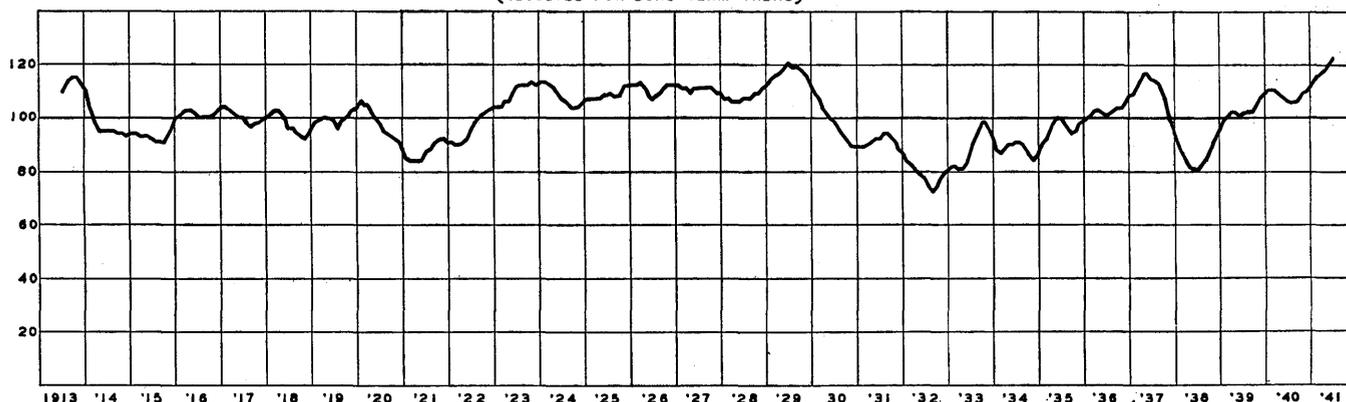
Although the residential construction industry is the most important consumer of lumber, large quantities of lumber are used for forms and scaffoldings for commercial and industrial buildings and for engineering construction.

The trend of lumber production has been steadily although gradually upward since early in 1938 (the low point of lumber production in 1938 coincided with the low month of the record of carloadings of heavy products). Producers have evidently maintained a close control over output with respect to demand because the violent fluctuations that characterized the lumber production curve during the years 1933-1937 have been absent during the past three years.

CARLOADINGS OF HEAVY PRODUCTS AND LUMBER PRODUCTION



**INDEX OF LIVING STANDARDS**  
(ADJUSTED FOR LONG TERM TREND)



The demand for lumber for cantonment construction was probably primarily responsible for the more substantial increase in lumber production last winter, and the completion of most of the projects was consequently responsible for the decrease in lumber production after February 1941. However, a straight line drawn through the years from January 1938 to June 1941 will show the steady upward trend of the series.

**What Next?**

*The Continuing Record*

The latest available information regarding the more significant indicators of future trends is summarized in the following table. A plus sign indicates an advance in the indicator; a minus sign, a decline; and a zero, an unchanged position.

	<i>Latest Indication</i>
Private Engineering Contracts (June)	+
Machine-Tool Activity (June preliminary)	0
Orders for Steel Boilers (April)	-
Capital Goods' Stock Prices (Last Week)	-
Durable Goods' Employment (May)	0
Steel-Ingot Production (Last Week)	-
Prices of Metals and Metal Products (Last Week)	+
New Capital Issues of Corporate Securities (May)	+
Velocity of Purchasing Media (May)	+
Carloadings of Heavy Products (Last Week)	+
Lumber Production (Last Week)	+
Harwood Index of Inflation (June)	-

The number of favorable indicators of cyclical trends decreased moderately since the summary was published a month ago. Then there were eight pluses, four minuses, and no zeros. In this summary, there are six pluses, four minuses, and two zeros.

**BUSINESS**

**Index of Living Standards**

The Institute's index of living standards shown at the top of this page is a six-month moving average of the volume of durable and nondurable consumer goods produced in the United States per capita. The index is plotted at the end of the six-month period on the assumption that the average length of time required for this class of goods to reach the consumer after production is three months. The index is adjusted for seasonal influences and for long-term trend and is expressed as a per cent of estimated normal.

The index advanced this spring to a record high

level for the twenty-eight year period shown. Government expenditures for national defense and their stimulating effect on private business is apparently responsible for the present situation. The increased incomes available to the public have made possible a great demand for consumer goods and the present high level of living standards. The public has not yet been forced to curtail its consumer purchases in the interests of national defense, and until more material scarcities develop, taxes become more burdensome, and retail commodity prices rise more extensively, the index may be expected to remain abnormally high.

**Foreign Trade Trends**

After we had announced in the June 23, 1941 Bulletin that the United States Department of Commerce had suspended the release of analyses of foreign-trade data by destinations, the Department published such data for April. However, we are informed that the April data will be the last for the duration of the emergency to show separate figures by destinations. The Department of Commerce does not at present contemplate suspension of the analysis of exports by types of merchandise.

The total value of exports including re-exports in April 1941 was \$385,500,000, compared with \$357,200,000 in March and \$322,900,000 in April 1940. More than two-thirds of our exports are now sent to Great Britain and to the British Empire. The following brief summary indicates the relative importance of the principal markets now available for United States exports.

<i>Destinations</i>	UNITED STATES EXPORTS		<i>Per Cent of Total April</i>	
	<i>Value in Millions of Dollars</i>			
	<i>1940</i>	<i>1941</i>	<i>1940</i>	<i>1941</i>
Canada	54.1	70.8	16.8	18.4
Mexico, So. and Cen. America	54.5	64.1	16.9	16.6
West Indies	9.6	13.5	3.0	3.5
United Kingdom	53.3	127.6	16.5	33.1
South Africa	7.6	16.0	2.3	4.2
Russia	6.1	5.2	1.9	1.3
Far East*	48.8	60.1	15.1	15.6
Other Destinations	88.9	28.2	27.5	7.3
<b>Total</b>	<b>322.9</b>	<b>385.5</b>	<b>100.0</b>	<b>100.0</b>

\* Includes Australia and New Zealand, British India, British Malaya, Hong Kong, China, Japan, The Netherlands Indies, and the Philippine Islands.

Below we present a summary of the value of exports for April by leading commodities in 1939, 1940, and 1941 and also show the per cent change from exports in the prewar period (the per cent of April 1941 from April 1939 data). The total shown in the following summary is slightly smaller than that in the table presenting exports by destinations, because re-exports that were included in the other summary are omitted from this one.

Commodity	UNITED STATES EXPORTS			Per Cent Increase April 1941 from April 1939
	April (Millions of Dollars)			
	1939	1940	1941	
Unmanufactured Cotton	9.1	21.1	4.4	51.6*
Unmanufactured Tobacco	4.1	3.1	3.2	22.0*
Manufactured Foodstuffs	13.8	15.7	14.3	3.6
Iron and Steel Semimanufactures	10.9	23.3	29.5	211.0
Steel-Mill Manufactures	5.0	9.3	13.1	162.0
Copper Ingots, Plates, Rods	5.4	5.0	1.5	72.2*
Lubricating Oil	6.2	10.3	7.1	11.5
Industrial Machinery	24.6	40.6	41.0	66.7
Electrical Machinery	8.7	9.7	12.3	41.4
Motor Trucks	7.0	5.5	12.0	71.4
Passenger Cars	10.0	5.2	5.6	44.0*
Aircraft and Engines	7.5	21.8	55.3	637.3
All Other	115.4	123.8	176.9	53.3
<b>Total</b>	<b>227.6</b>	<b>316.5</b>	<b>376.2</b>	<b>65.3</b>

\* Decrease

The products of the metal-trades industries are now by far the most important group of commodities exported. The trend revealed by the three columns of the value of commodity exports in April 1939, 1940, and 1941 may be expected to continue as production of materials provided for by the Lease-Lend measure increases. There is no indication that an unusually large volume of food supplies were sent to England in April.

### Commercial Confidence

Newspaper advertising lineage reported for May 1941 exceeded that reported for the corresponding month of 1940 by a small margin. There was a substantial decrease in automobile display advertising, although sales of new cars were larger than they were in April last year.

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

Newspaper Advertising Lineage	May 1940	May 1941	Per Cent Increase From May 1940
	(Millions of Lines)		
Classified	23.9	25.6	7.1
Display			
Automotive	7.8	6.9	11.5*
Financial	1.5	1.7	13.3
General	19.4	18.3	5.7*
Retail	67.2	69.8	3.9
<b>Total</b>	<b>119.9</b>	<b>122.4</b>	<b>2.1</b>

\* Decrease

## THE FUNDAMENTALS

### Supply

The daily average steel-mill production last week appeared to be at about the same rate as it was in the preceding week, but the steel-ingot rate declined from 100½ to 93½ per cent of theoretical capacity because

of the Independence Day interruption to work schedules. However, the percentage decrease was only half as great as it was in the holiday week last year. The *Iron Age* stated: "Highlighting the growing pressure on civilian steel consumers to find enough steel and some other materials to maintain anything like normal operating schedules, is the effort to curtail automobile production. Automobile manufacturers, singled out because of the size of their industry, its great consumption of vital materials and its added importance after conversion into a defense industry, insist that the industry's planners and schedule makers have only one interest, and that is an orderly transition from automobile output to full defense production."

Per Cent of Capacity	1929	1932	1937	1938	1940	1941
	94.0	22.0	70.0	24.0	75.0	93.5

(Latest 1941 weekly data; corresponding week earlier years)

Electric power generated last week established a new high record for the industry. There was an increase of 17.3 per cent in production compared with output in the corresponding week of 1940. Reports from the Southern States were more favorable than they have been recently but output in the Pacific Coast States exceeded that of a year ago by only a slight margin.

Billion Kilowatt Hours	1929	1932	1937	1938	1940	1941
	1.72	1.46	2.24	2.02	2.66	3.12

There was a decrease in automobile production from 133,565 cars and trucks in the preceding week to 127,926 units last week. The decrease was about seasonal in extent and is probably the beginning of the usual downward trend in the production of the current year's models that occurs during the summer months.

Units (000 omitted)	1929	1932	1937	1938	1940	1941
	99	40	123	41	88	128

Contrary to the usual seasonal trend, the cotton-mill industry maintained its recent high level of activity last week. Consequently, the seasonally adjusted index advanced from 182.4 (revised) to 187.1 per cent of estimated normal.

New York Times Index	1929	1932	1937	1938	1940	1941
	122.8	70.4	141.4	94.4	118.5	187.1

Because of the Fourth of July holiday, reports of lumber operations could not be obtained last week. For purposes of comparison, data for the latest week available are presented.

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

### Demand

Retail trade is apparently retaining the substantial gains made earlier this year. Although the Federal Reserve index of department-store sales for last week was not available because of the holiday, reports from merchants to the commercial newspapers indicated sustained public demand. Gains reported from industrial sections of the country are not yet being matched in other areas but a more pronounced upward trend in the agricultural sections of the country has recently broadened the general average of trade activity. Although the index of the volume of new orders by manufacturers compiled by the United States Department of Commerce is not yet available for May, the National Industrial Conference Board has published its index for that month. The Conference Board's index advanced from 241 per cent of the 1935-1939 monthly average in April to 247 per cent in May.

## Prices

The upward trend of the sensitive wholesale commodity price indexes that started the first of the month was interrupted after the publication of statements by Leon Henderson, Director of the Office of Price Administration, indicating that he is contemplating extending price controls to apply to additional commodities. Moody's Spot Commodity Price Index was 204.2 on June 26 and 202.5 on July 2. The Dow-Jones Index of Commodity Futures closed at 72.85 on June 26 and at 72.38 on July 2.

The National Industrial Conference Board reported another fractional increase in the combined cost of living index from the April to the May level. The composite index and separate items for May 1929, 1932, 1940, and for April and May 1941 are shown below.

	May 1929	May 1932	May 1940	April 1941	May 1941
All items combined	99.0	78.3	85.2	86.9	87.4
Food	104.6	70.0	78.1	81.0	82.2
Housing	92.1	73.5	86.7	87.8	88.0
Clothing	98.2	66.9	78.1	73.3	73.6
Fuel and Light	91.7	85.7	84.1	86.4	86.4
Sundries	99.1	94.1	97.0	98.3	98.5

## FINANCE

### *The Harwood Index of Inflation*

The Harwood Index of Inflation last week remained at the preceding week's level of 106.6 (ratio form). Government receipts and expenditures were about balanced last week, and the commercial banks' asset and liability items remained substantially unchanged.

The Treasury's latest analysis of the distribution of the Federal debt shows that slightly more than a third of the outstanding Government securities was held by the commercial banks. The commercial banks' savings-type liabilities that measure the ability of the banks to purchase investments without inflationary credit creations have recently shown no tendency to increase, and therefore any additions to the banks' investment-type assets through the purchase of Government securities will probably have inflationary effects.

The Treasury has estimated that new borrowings for the fiscal year that has just started will total nearly \$13,000,000,000. (This estimate will probably be revised upward.) If the new Government debt is distributed in about the same proportion as the outstanding debt, inflationary purchasing media during the next twelve months will increase \$4,000,000,000. The new bank-deposit credits that will result will add more than 50 per cent to the absolute data (the absolute amount of total purchasing media in use) that the Harwood Index of Inflation indicates as existing at the present time. The extent to which the ratio form of the index will advance will depend on the extent of increases in total purchasing media derived from sources other than new bank-deposit credits that are inflationary, such as may be caused by increases in the Nation's monetary gold stocks or in commercial, industrial, and agricultural bank loans.

## SECURITIES

### *Bonds*

Bond prices remained virtually unchanged last week. The Dow-Jones Average of 40 bonds was 91.15 on June 26 and 91.10 on July 2.

## Stocks

The stock market apparently interpreted the German attack on Russia as a favorable development. Prices advanced, and there was an increase in the volume of transactions on the first trading day after the news was published. However, the market subsequently tended to decline moderately, and the volume again became extremely small.

## RECOMMENDED BOOKS

*"The Output of Manufacturing Industries 1889-1937,"* by Solomon Fabricant. National Bureau of Economic Research, Inc., New York. (\$4.50.)

This first volume of a series of related surveys dealing with long-term changes in the output and productive efficiency of industry in the United States is a really important statistical study. During the period of nearly four decades covered by the survey, the United States Bureau of the Census compiled records of one of the greatest industrial developments in the history of the world. Many analyses have been made of this record but this study is one of the most significant that has been undertaken. Dr. Fabricant's work has been made possible by a special grant, and excellence of the statistical work is guaranteed by both the author's standing and that of the National Bureau of Economic Research.

The first third of the book contains an analysis of the broad changes in factory production and their significance in the national economy. The remainder of the book is devoted to an analysis of seventeen industry groups and those of the separate component industries for which data are available.

The book has practical uses for both industrial and commercial executives. In addition to interpreting the general industrial development and cyclical changes that occurred during the period (the indexes of physical volume are especially valuable) the book traces changes that have occurred in types of goods manufactured. The rise of the automobile industry and the decline of the carriage industry, the shift in smoking habits from cigars to cigarettes, and changes in food habits can be traced in this statistical record. These changes are well known, but the analysis also reveals similar changes in other industries and the ability to trace their trends may be useful for industrial planning and market analysis. The fact that data formerly were not available in the detail in which they can now be obtained somewhat limits the value of the survey, but this drawback is obviously not chargeable either to Dr. Fabricant or to the National Bureau of Economic Research.

*"The Defense of the United States,"* Proceedings of the Academy of Political Science, January 1941, Columbia University, New York. (\$2.50.)

The latest issue of the proceedings presents an enlightening discussion of our defense problems by some of the leading authorities. Especially interesting is Rear Admiral Woodward's statement that we have the "greatest, most powerful, and most effective Navy of any single nation on earth."

*American Institute of Economic Research is a non-political, non-commercial organization engaged in impartial economic research.*