

AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

54 Dunster Street, Harvard Square - Cambridge, Mass.

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R E S E A R C H R E P O R T S

COMING EFFECTS OF CURRENT EVENTS

Wartime Economic Trends

Our study of wartime economic trends, the results of which were published in the Research Report bulletins after the outbreak of war in Europe in 1939, sought to determine the probable effects of the war on our domestic economy. The records of the first World War were examined for the purpose of drawing such comparisons as might be valuable in forecasting economic developments in the present war. In addition to measuring the war's effect on our money-credit system, the survey traced its effects on the production of our leading industries. Emphasis was laid on the trend of our exports during the earlier war period, because our major problem was one of supplying materials for waging warfare abroad.

In last week's issue, we announced that analyses of wartime economic trends will be features of the bulletins during the next few months. In order to check the validity of the methods previously employed, a brief review of the earlier study to determine the extent to which it has proved correct seems advisable.

Our original survey was predicated on the assumption that the major field of military operations would be central Europe; that is, that there would be a more or less stabilized battle line between France and Germany. Of course, the fall of France effected a profound change in the character of the war and in the direction of the current of supplies flowing from United States production centers. In spite of this basic change, the trend of exports for the most part has been about as we predicted. The chief deviation in the trend of exports from that indicated was in their destinations.

The experience of the first World War indicated the probability that the total value of our exports would increase by at least fifty per cent from the prewar level. During the first half of 1940, the value of our exports was increasing at such a rate that a similar record seemed probable within a short time. (The per cent increase in exports for June 1940 from the June 1939 level was 48.4 per cent.) However, the German successes in Europe eliminated many of our foreign customers, in fact, practically the whole of the European area outside of the British Isles.

In spite of this unlooked-for development, the total dollar volume of our export trade continued to exceed the prewar level by a substantial margin. During the first eight months of 1941, the gain in all exports in comparison with those for the corresponding period of

1939 was thirty per cent. The value of exports to Great Britain exceeded the value of exports to all of Europe (including the British Isles) by 27 per cent. Exports to Canada had more than doubled, and exports to Africa had tripled. The value of exports to South and Central America had increased about fifty per cent, and, in spite of a substantial curtailment in supplies sent to Japan during this period, there was an increase of 25 per cent in the value of exports to the Far East. It is thus apparent that, although the increase in the volume of our export trade resulting from the war has been somewhat less than was at first expected, it has nevertheless been considerable.

Our National Defense Program

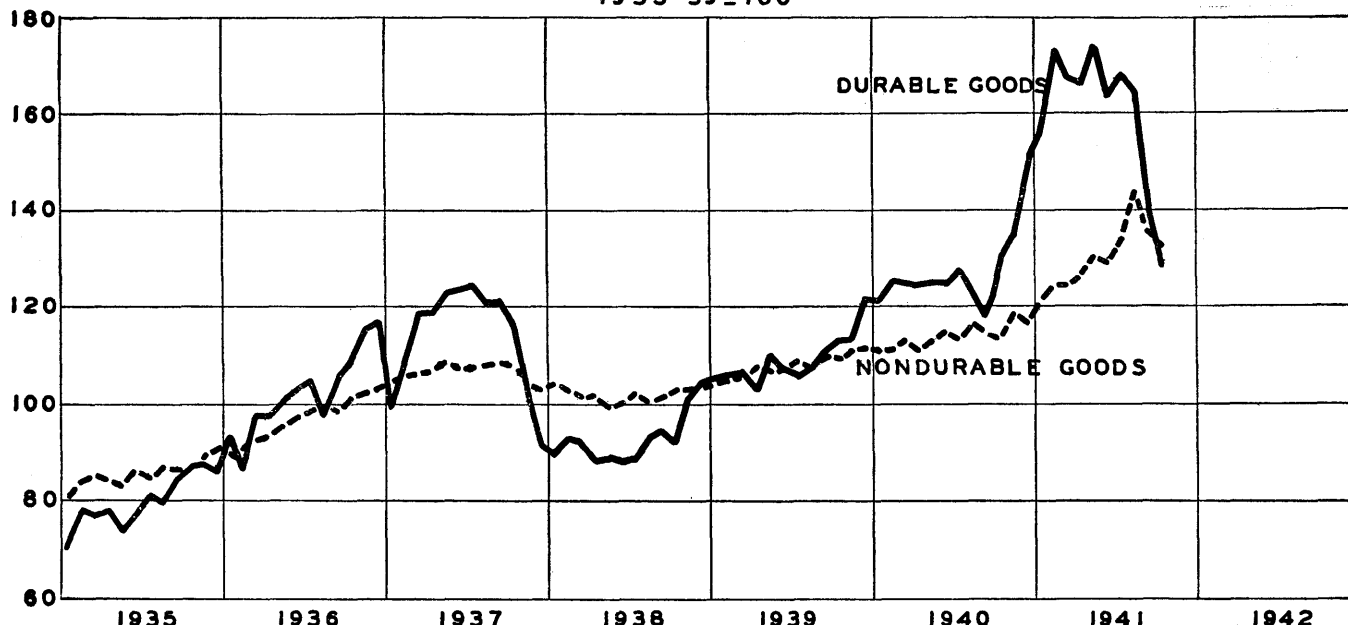
The initial stimulation to United States production that immediately followed the outbreak of war in 1939 was traceable partly to increased domestic demand in anticipation of possible shortages and primarily to increased foreign demand for war materials. The war also gave us the opportunity to supersede European competitors in other world markets. The latter factor was clearly evident in the substantial increase of exports to South America. After the fall of France, demand arising from our national defense program gradually became the dominating factor in stimulating United States industrial production. Our entrance into active warfare will of course effect great changes in the character of the goods that we shall produce and in the volume and direction of our export trade. Nevertheless, the flow of exports to some destinations will be largely maintained.

The Government has announced that the flow of lend-lease shipments will be continued in spite of the necessity of sending war materials and supplies to the Far East. Inasmuch as only a fraction of the lend-lease appropriations had been utilized for purchases and shipments to war areas up to our entrance into the war, it may be assumed that the trend toward acceleration of such purchases and shipments may continue. An indication of what this may mean can be gained from the following summary of data recently made public by the President:

LEND-LEASE AID EACH MONTH IN 1941			
Month	Millions of Dollars	Month	Millions of Dollars
March	18	August	150
April	40	September	207
May	60	October	225
June	85	November	283
July	134	December	

INDEXES OF RETAIL SALES

1935-39=100



It is possible that the increase in lend-lease shipments will offset the loss in exports to Far Eastern destinations. Our trade with the western Pacific has of course been eliminated by the war with Japan, and we do not yet know the extent to which trade with the West Coast of South America will be affected by enemy raiders. Presumably, the Government will endeavor to maintain trade with the Latin American countries in furtherance of its good-neighbor policy and as a measure for hemisphere defense.

Exports to Africa, which have been greatly stimulated during the war, will probably be continued, unless seriously interfered with by enemy raiders, inasmuch as this destination is now an important one for war materials. Recently, the dollar volume of our exports to African destinations has been nearly as great as the value of shipments to the Far East, which constituted about 17 per cent of total exports after the fall of France.

Effects on Leading Industries

In the first study of wartime economic trends, we indicated the probable effects of the war on the Nation's leading industries. The basic iron and steel industry and the industries that depend on steel for their major material are most intimately affected by war. These industries include the automotive, machinery, and aircraft producers. The next article in this series will survey the experience of these industries from the beginning of the war up to the time of our participation and will discuss their probable future under wartime conditions.

BUSINESS

Indexes of Retail Sales

The chart at the top of this page was first published in the November 10, 1941 bulletin (page 182), together with a description of the data on which the curves are based, and a discussion of the trends during the earlier

years shown. During the two months for which additional data are now available, there have been significant changes in the trend of retail sales.

It is now apparent that retail sales of durable goods reached a maximum during the first half of 1941 that cannot again be approximated, at least until the end of the war. There was a moderate declining tendency beginning last June, and this was accelerated during September and October. Further declines in the index are probable during the remainder of the year while existing stocks of durable consumer goods in the hands of wholesalers and retailers are being exhausted. Presumably, the index will later become stabilized at a low level that will reflect the sale of a minimum volume of durable goods sufficient to maintain necessary business equipment and equipment for health services.

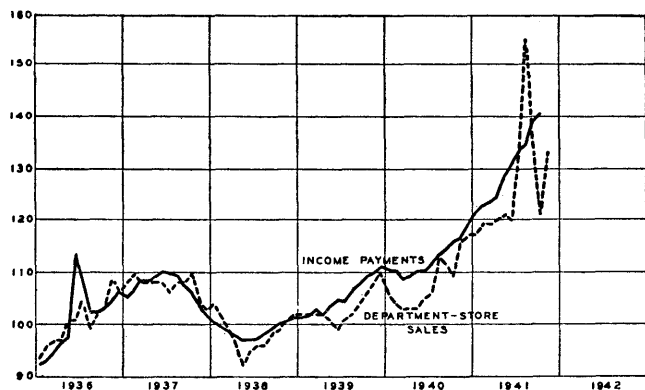
The peak in nondurable goods sales was reached several months after the peak in durable goods sales. Although it cannot be demonstrated statistically, we believe that the public first utilized its increased income to assure itself of improved household and transportation equipment and thereafter began to spend more freely for daily living. There is also evidence that the sharp rise in the nondurable goods index during August was partly attributable to purchases of canned goods for hoarding and of clothing in anticipation of future shortages. The nondurable goods index probably will decline further during the remainder of the year, but the rate of decline should be much less than that of the durable goods index.

Income Payments and Department-Store Sales

The monthly index of total income payments in the United States, compiled by the Department of Commerce, has recently been revised and the base period changed. It is now expressed as a per cent of the 1935-1939 monthly average.

The index is shown in the chart on page 207 for the period beginning January 1936. The figure for October 1941 (the latest month available) was 141 per

INCOME PAYMENTS AND DEPARTMENT-STORE SALES



cent of the 1935-1939 monthly average. Although the index is adjusted for seasonal variations, it is not adjusted for population growth.

The dotted line on the same chart shows the index of department-store sales adjusted to the base that was used for the income payments (1935-1939 monthly average = 100). As might be expected, the general trend of the two indexes has been parallel, but the month-to-month fluctuations have varied. The wide fluctuations in the department-store sales index during recent months, when the index of income payments has been advancing substantially and consistently, was apparently caused by the attitude of consumers toward the prospect of scarcities in consumer goods. The index of department-store sales advanced in November from the October level following the sharp decline in September from the August peak. It should be noted that the November index of department-store sales is plotted on the small chart, but the November indexes were not available for the chart of durable and nondurable goods sales.

Commercial Confidence

Newspaper advertising lineage in October 1941 exceeded the total in October 1940 by about four per cent. However, the gain was primarily attributable to an increased volume of retail advertising, which more than offset a slight decrease in classified advertising and a substantial decrease in automotive advertising.

Newspaper advertising lineage in the dailies of 52 cities in October 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	October 1940 (Millions of Lines)	October 1941	Per Cent Increase From October 1940
Classified	22.8	22.0	3.6*
Display			
Automotive	6.5	5.6	13.8*
Financial	1.6	1.6	...
General	18.5	20.0	8.1
Retail	69.4	74.7	7.6
Total	118.8	123.8	4.2

* Decrease.

Postal Receipts

The volume of business in fifty of the largest city postal districts during November exceeded the volume for 1940 by less than two per cent. This was a smaller

gain than was recorded earlier in the year. There was an increase of 6½ per cent in receipts for the first ten months of 1941 over receipts for the corresponding period of 1940. The monthly series for the first eleven months of 1941 and for earlier significant years 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	30.5
March	34.4	26.7	33.8	31.8	32.7	34.0
April	32.4	24.3	31.1	29.6	31.6	34.9
May	32.4	22.6	29.8	28.2	32.3	33.7
June	29.3	22.0	29.6	28.0	28.7	31.2
July	29.1	23.8	26.6	24.6	27.6	30.6
August	29.3	23.9	26.3	26.6	29.0	30.4
September	30.5	25.8	30.0	29.5	30.3	33.1
October	35.7	26.7	31.7	30.9	35.2	36.9
November	32.7	26.1	30.7	31.4	33.2	33.8
December	40.8	33.1	42.0	42.5	45.4	

THE FUNDAMENTALS

Supply

The steel-ingot production rate remained unchanged last week at 97½ per cent of theoretical capacity. The industry's failure to increase production was attributed to the inadequacy of supplies of pig iron and steel scrap. It is understood that the Government's effort to increase steel-producing capacity will first emphasize plant expansion for the production of pig iron and special-treatment steels, alloyed steels, and specific steel products necessary for war purposes. *The Iron Age* stated: "Incoming orders for steel are fairly close to the November rate, although some mills report an advance of as much as 10 per cent. Many producers have been forced to turn away nondefense business, a step partly accounting for the leveling-off of orders."

	1929	1932	1937	1938	1940	1941
Per Cent of Capacity	63.5	14.5	27.0	53.0	97.0	97.5

(Latest 1941 weekly data; corresponding week earlier years)

The electric-power industry established a new high level in production last week in spite of the relatively poor showing made by the Pacific Coast States (apparently reflecting the effects of protective black-outs). Power output exceeded that for the corresponding week of 1940 by 14.2 per cent, compared with a gain of 13.2 per cent in the preceding week.

	1929	1932	1937	1938	1940	1941
Billion Kilowatt Hours	1.86	1.55	2.20	2.33	3.00	3.48

Last week the automobile industry concluded its final week of near-normal production with output of 95,990 cars and trucks, compared with 131,175 units produced in the corresponding week a year ago. Henceforth for the duration of the war, production of passenger cars will be a relatively unimportant activity of the industry.

	1929	1932	1937	1938	1940	1941
Units (000 omitted)	23	31	82	103	131	96

There was a moderate increase in cotton-goods production last week, but it was somewhat less than seasonal and the adjusted index declined from 161.6 to 159.6. Trading in cotton goods was restricted because of uncertainty over the effects of the war on the industry.

	1929	1932	1937	1938	1940	1941
New York Times Index	101.9	96.1	93.1	125.6	145.9	159.6

Lumber output decreased last week and the adjusted index declined from 132.0 to 128.2. There was an increase in the volume of new orders that will probably later be reflected in increased production inasmuch as stocks are smaller than they were a year ago.

	1929	1932	1937	1938	1940	1941
New York Times Index	122.9	34.9	54.4	75.9	126.6	128.2

Demand

Unless more air-raid alarms affect retail sales in the populous coastal trading areas, the dollar volume of the stores this season will probably exceed last year's substantial record. Nevertheless, it is already apparent that the physical volume will be smaller in view of the higher price range. This of course marks the beginning of the effects of the war on consumers. Demand for new automobile tires that can no longer be satisfied typifies the beginning of a demand-supply relationship that will affect more and more items as the war is prolonged. The dollar volume of department-store sales last week was only one per cent greater than that for the corresponding week of 1940.

Prices

The sensitive wholesale commodity price indexes moved irregularly last week. Moody's Spot Commodity Price Index was 217.1 on December 11 and 216.6 on December 18. The Dow-Jones Index of Commodity Futures closed at 84.60 on December 11 and at 83.88 on December 18. There was an increase of a full point in the National Industrial Conference Board's cost-of-living index from the October to the November level. The November combined index was 92.9 per cent of the 1923 monthly average. The latest index is more than ten per cent higher than it was immediately preceding the outbreak of war in September 1939.

FINANCE

New Capital Issues

The volume of new capital obtained by private corporations during the month immediately preceding our entrance into the war compared favorably with the average for the preceding ten months of the year, although it was slightly smaller than the October total of \$103,000,000. The aggregate new capital flotations for November were \$89,000,000, nearly one-half of which was borrowed by public utilities and most of the remainder by industrial corporations. The railroads were represented only by a bond issue of \$1,200,000.

The record for the first eleven months of the year was the best made since 1937. The total for this period reached nearly \$1,000,000,000, of which 23 per cent was issued by the railroads; 40 per cent, by public utilities; and 37 per cent, by industrial corporations.

NEW CORPORATE FINANCING IN THE UNITED STATES

Year	First Eleven Months		Year	First Eleven Months	
	November	Months		November	Months
	(In Millions of Dollars)			(In Millions of Dollars)	
1926	332	3,943	1934	8	143
1927	389	4,649	1935	33	337
1928	596	4,631	1936	109	985
1929	183	6,154	1937	36	1,178
1930	138	4,626	1938	44	810
1931	50	1,692	1939	22	351
1932	9	313	1940	169	673
1933	7	145	1941	89	963

Source: Commercial and Financial Chronicle.

The volume of new corporate financing will probably be negligible during the war period. Government officials have already expressed the view that private financing must be subordinated while the Government is forced to seek vast new credits. Therefore, we may expect an experience somewhat similar to that in the London new capital market after the outbreak of war in 1939. All new financing in Great Britain during the first four months of the war totaled little more than £1,000,000, in contrast with an average of approximately £50,000,000 of such issues during the last four months of 1936, 1937, and 1938.

SECURITIES

Bonds

The movement of the bond market was indeterminate last week. Prices of Treasury issues and high-grade corporate bonds remained firm, but there was moderate weakness in lower-grade issues, which was attributed primarily to tax selling. The Dow-Jones average of 40 bonds was 87.70 on December 11 and 87.62 on December 18. The Federal Reserve Banks purchased \$56,000,000 worth of Government bonds to stabilize the market on our entrance into the war. Purchases of more than \$400,000,000 were required at the outbreak of war in September 1939.

Stocks

The rally that followed the sharp break in stock prices after the attack on Pearl Harbor lost its force last week, and the volume of transactions, which had diminished after the decline, again increased as prices receded, although it was not so large as it was during the initial selling wave.

RECOMMENDED BOOKS

"The Economics of American Defense," by Seymour D. Harris, W. W. Norton & Company Inc. (\$3.50).

Professor Harris has made a comprehensive analysis of the economic aspects of American defense; but, in our opinion, he is a little too willing to assume that planning along various lines and control in various fields will operate as expected. A specific illustration of what we have in mind is provided by his suggestion that an extremely large tax, perhaps as much as seventy-five per cent, should be levied on new automobiles in order to curtail demand rather than to arrange for a curtailment of production directly, as has been done. Sales of new cars during the past several weeks, at least, suggest that demand has already been curtailed to a far greater extent than he apparently considered possible, although the present excise tax is negligible in comparison with that suggested by him.

He is also somewhat optimistic about the ability of controls to keep prices within bounds. However, he wisely adds that "... once the principle of control is accepted, the country must be prepared for ensuing regimentation, espionage, and dictation from Washington." At least, he has not overlooked the lessons to be learned from attempts to control prices in other times and places.

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