AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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WEEKLY BULLETIN

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

War Trends

Two years ago this month, Hitler launched his onslaught against the Soviets under auspices that appeared so favorable to the Reich that there were few military commentators in this country who foresaw the resistance that actually developed. Germany intended to subjugate Russia so thoroughly that the Nation would be in the position that 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 German general staff no doubt realized that failure in Russia would be disastrous for the Nazi government, but the majority probably felt that failure was so remote a possibility that it did not have to be considered seriously.

Two years of costly campaigns in Russia have won territory but relatively little in resources that could be turned into practical use. Instead, most of the resources of Europe were drained in undertaking the vast project of defeating Russia.

Until recently, there were commentators on military affairs who expressed the opinion that one more well-organized offensive by the German war machine might destroy Russian resistance. The season for a major campaign in Russia is now so far advanced that such opinions are being silenced. Instead of news of German offensives in Russia, we now have reports of Russian attacks against the German lines.

Last week's announcement that proposals of surrender to the United Nations had been received from Rumania was apparently premature but probably reflects a sentiment that will lead to the loss by Germany of a strategically situated satellite Nation. Rumania's desertion from the Axis would gravely imperil German forces in Russia and undoubtedly would not be possible if the German military power remained strong enough to prevent it either through threat or actual occupation.

Developments in the fringes of Hitler's empire will be followed eagerly here, where the news of an early disintegration of that whole structure would mean so much to us in the preservation of lives and resources. Of course, the termination of the war in Europe will have dominant significance on the future trend of the internal economy.

War and Postwar Readjustments

As long as the war lasts, there will undoubtedly be changes in the types of war materials that will be required by our armed forces. Nevertheless, the war program, as far as industry is concerned, may now be considered to have reached maturity. The major portion of our industrial resources will be applied to winning the war until its successful conclusion. Thereafter, private initiative, if given the opportunity, will be a more potent agent than the Government in restoring the Nation's economy to its normal schedule of operation.

It was probably fortunate that industry was not forced to undertake an overnight transition to a wartime economy. The process here began as soon as the European war developed extra demands for war materials but was later accelerated when our national defense program was adopted in 1941. Industry was thus partially prepared for the greater exaction demanded of it when we entered the conflict.

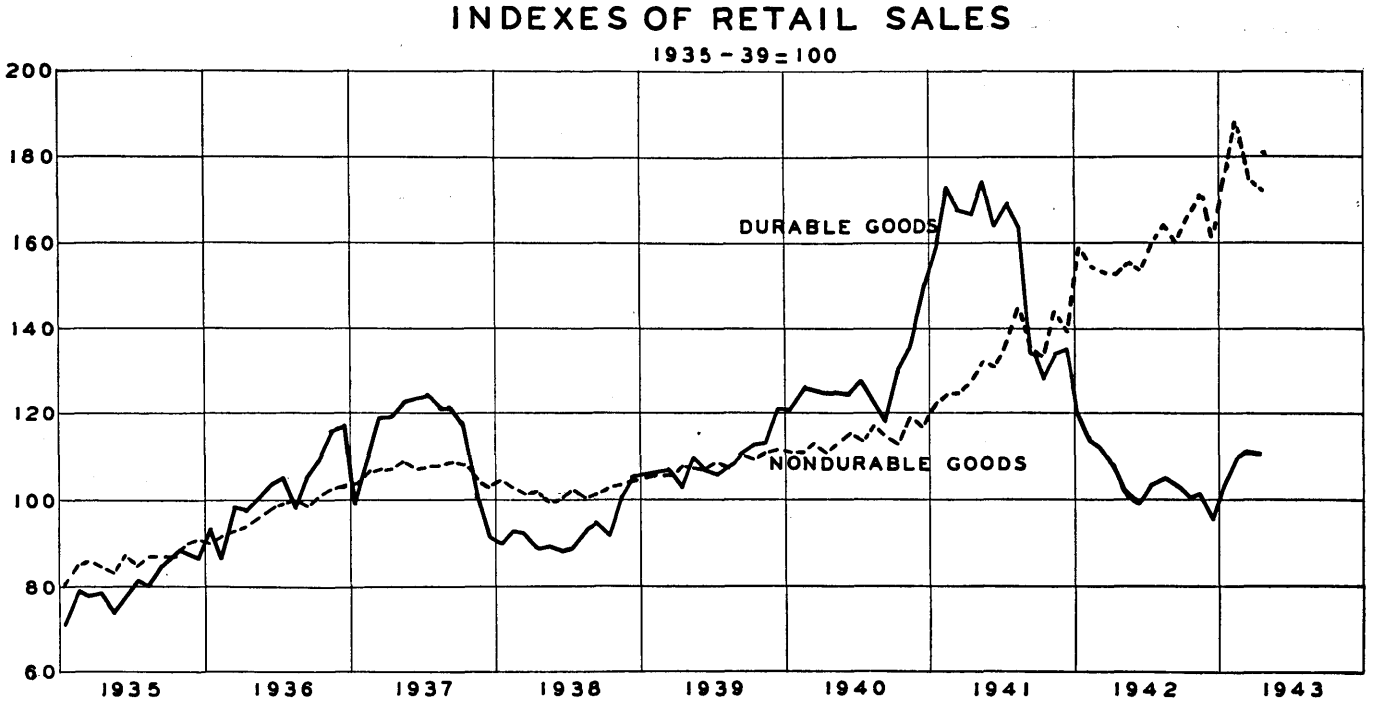
The postwar readjustment should be simplified as was the transition to a wartime economy by the fact that wartime demand is primarily concentrated in the products of a relatively small number of industries. These are primarily the metal industries, and, although they constitute the most important sector of industry, they normally embrace less than half of all industrial production.

The impressive expansion in the operations of this group of industries vital to the war effort is indicated by the following table. The Federal Reserve indexes are shown for the period immediately preceding the outbreak of war in Europe, for the period when American industries were filling war orders for both Britain and France, for the period just before our entrance into the war, and for the latest month available.

FEDERAL RESERVE INDEXES OF INDUSTRIAL PRODUCTION
(1935–39 Average = 100, Adjusted for Seasonal Variations)

Industrial Groups	*Aug. 1939*	*June 1940*	*Nov. 1941*	*Apr. 1943*
Iron and Steel	113	152	191	209
Machinery	104	128	221	362
Transportation Equipment	104	135	280	592
Nonferrous Metals and Products	112	126	189	194
Nondurable Goods	105	122	166	148

The first four groups of industries shown in the table were especially stimulated by the war in Europe and have since become essential contributors to the industrial department of the war effort. The transportation-equipment group, which has shown the largest gain of the groups of industries in the table, includes the aircraft and shipbuilding industries. The data for



these industries are not shown separately, because the figures have not been made public since we entered the war. The automobile industry is also included in the transportation-equipment group. Otherwise, the combined index would have been higher during the period when the automobile industry was being transformed into an establishment for war-material production.

During the war, we are accumulating more armament and munitions than will be required for victory. We shall have enormous quantities of war planes that can be used to a relatively small degree in peacetime. Just as in the first World War, we shall have more shipping than we shall know what to do with after the war is over. In the meantime, the industries producing the essentials for waging war have drawn workers away from other industries. There is thus a preponderance of manpower employed in the metal industries that cannot be maintained after the war ends.

A considerable majority of the Nation's gainfully employed persons are either directly connected with industry, with the distribution of industrial products, or with the clerical processes involved. After the war, employment opportunities will virtually disappear for a time in the shipbuilding, armament, and munitions industries. Part of this labor force will find employment in trade as normal commercial activities are resumed. Others will be absorbed by industries supplying demand for heavy-type goods that could not be obtained during the conflict. Stocks of hardware normally carried by dealers throughout the country have been depleted, and there is a scarcity of nearly all products for civilian supply for which metal is an important material. However, the employment opportunities afforded by the replacement of depleted stocks of consumer durable goods will not be so great as those existing under wartime conditions. The most promising potential source of employment to take up the slack that will be left after the war is over lies in the development of new industries and new industrial processes.

BUSINESS

Indexes of Retail Sales

The indexes of retail sales, shown in the accompanying chart, are compiled by the United States Bureau of Foreign and Domestic Commerce. The indexes are intended to reveal the trend of consumer expenditures, about two-thirds of which are made through retail-store outlets. Although the indexes prepared by the Bureau are based on incomplete data, the information obtained is believed to be typical of all store sales in the United States.

The indexes are expressed as percentages of the 1935–1939 monthly average and are adjusted to allow for the number of working days in the month and for seasonal factors. There is a combined index of all retail stores, and there are separate indexes for durable goods stores and nondurable goods stores. We have selected the last two indexes to present in chart form, because their trends have economic significance in normal times and are especially important during the war period.

The durable goods outlets used in compiling the index include stores selling clothing materials, hardware, household furnishings, and passenger automobiles. Although this index has recovered somewhat from the low level reached in December 1942, there was little change in the index during March and April, perhaps indicating that restricted supplies of this class of goods will prevent any recovery of substantial proportions in the index during war period.

Nondurable goods stores include food stores, restaurants, apparel stores, filling stations, and general merchandise stores. Since the summer of 1941, public spending has shifted its emphasis from purchases of durable goods to purchases of nondurable goods. The nondurable goods index continued to make substantial progress toward higher levels until March 1943 when there was a sharp decline followed by a more moderate decrease in April. The supply situation suggests that

the trend of nondurable goods sales will be generally downward during the remainder of the year. However, the indexes are based on the dollar volume of sales, and, if prices get out of hand because of inflation, the value of sales may increase, even though the physical volume represented becomes more limited.

The Trend of Commercial Failures

Commercial failures, measured either by number or by the liabilities involved, decreased to a new low level during May. The total number was reduced to 281, and the liabilities, to $2,550,000, a negligible amount compared with the total volume of credit extended to commercial and industrial establishments.

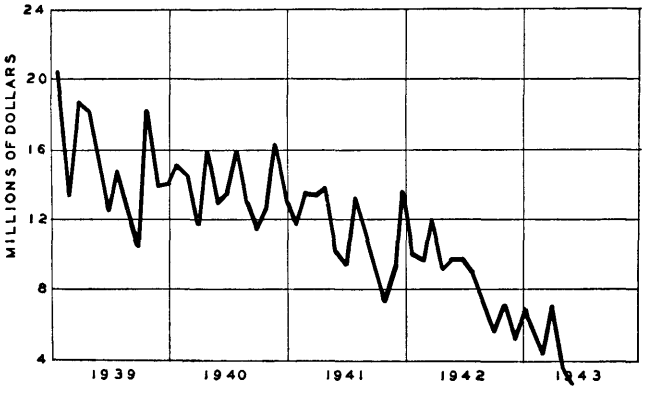
The comprehensive monthly series, compiled by Dun & Bradstreet, showing the number and liabilities of commercial failures during each month for 1941 and 1942 and during the first five months of 1943 are shown in the following table.

COMMERCIAL FAILURES, NUMBER AND LIABILITY

	Number of Failures			*Liabilities of Failures (000 Omitted)*		
	1941	*1942*	*1943*	*1941*	*1942*	*1943*
January	1,124	962	458	$11,888	$9,916	$5,515
February	1,129	916	422	13,483	9,631	4,163
March	1,211	1,048	410	13,444	12,011	7,282
April	1,149	938	362	13,827	9,282	3,523
May	1,119	955	281	10,065	9,839	2,550
June	970	804		9,449	9,906	
July	908	764		13,422	8,598	
August	954	698		11,134	6,786	
September	735	556		9,393	5,473	
October	809	673		7,333	7,181	
November	842	585		9,197	5,245	
December	898	506		13,469	6,950	
	11,848	9,405	880	$136,104	$100,818	$9,678

The liabilities involved in commercial insolvencies afford a more significant indicator than do the number of failures, and we are therefore showing the chart of the liabilities in millions of dollars each month. Although there are rather wide month-to-month fluctuations, the general trend can be observed.

LIABILITIES OF COMMERCIAL FAILURES



The general trend of the series has been downward for the war period, and this trend has been more rather than less pronounced during our participation in the conflict. As we have previously pointed out, we believe that this experience is primarily attributable to the wartime inflation. The abundant purchasing media that the Government has distributed to the public have enabled individuals operating businesses to make the necessary adjustments to war time economy without becoming involved in bankruptcy proceedings.

THE FUNDAMENTALS

Supply

The steel-ingot production rate increased last week from 94½ to 97½ per cent of theoretical capacity. The gain represented the industry's partial recovery from the effects of the bituminous coal strike. *The Iron Age* stated: "The advent of warm weather invariably means production losses, sometimes as much as four to seven per cent in some steel plants, due to the effect of the heat upon the workers' efficiency." In the meantime, the Government is demanding more steel and expects a higher tonnage production of steel ingots. It is understood that the steel industry will be given full priority during the third and fourth quarters of this year to meet heavy production demands. "The military forces, ahead of their schedules and facing crucial campaigns, are expected to be the chief beneficiaries of the greater production, which will consist mostly of carbon steel. However, the farm equipment industry already has been allocated an increased allotment of 300,000 tons of carbon steel (a grant which surprised some military men) and the railroads, lend-lease and other accounts are expected to benefit."

	1929	*1932*	*1937*	*1938*	*1942*	*1943*
Per Cent of Capacity	96.0	22.0	75.5	27.5	100.0	97.5

(Latest 1943 weekly data; corresponding week earlier years)

There was an increase in electric-power production last week, but the gain in comparison with output in the corresponding week of 1942 remained about the same as it was in the preceding week. The war industries' demand for electric power has been especially great from the aluminum, magnesium, and electric-furnace steel plants. Although the number of kilowatt-hours produced has been close to the 4,000,000,000 mark for many weeks, last week was the first in which that record was surpassed.

	1929	*1932*	*1937*	*1938*	*1942*	*1943*
Billion Kilowatt-Hours	1.72	1.46	2.24	2.02	3.46	4.04

There was a contraseasonal increase in lumber production last week, and the adjusted index advanced from 107.8 to 108.9 per cent of the 1935–1939 monthly average. The volume of new orders increased from the preceding week's level.

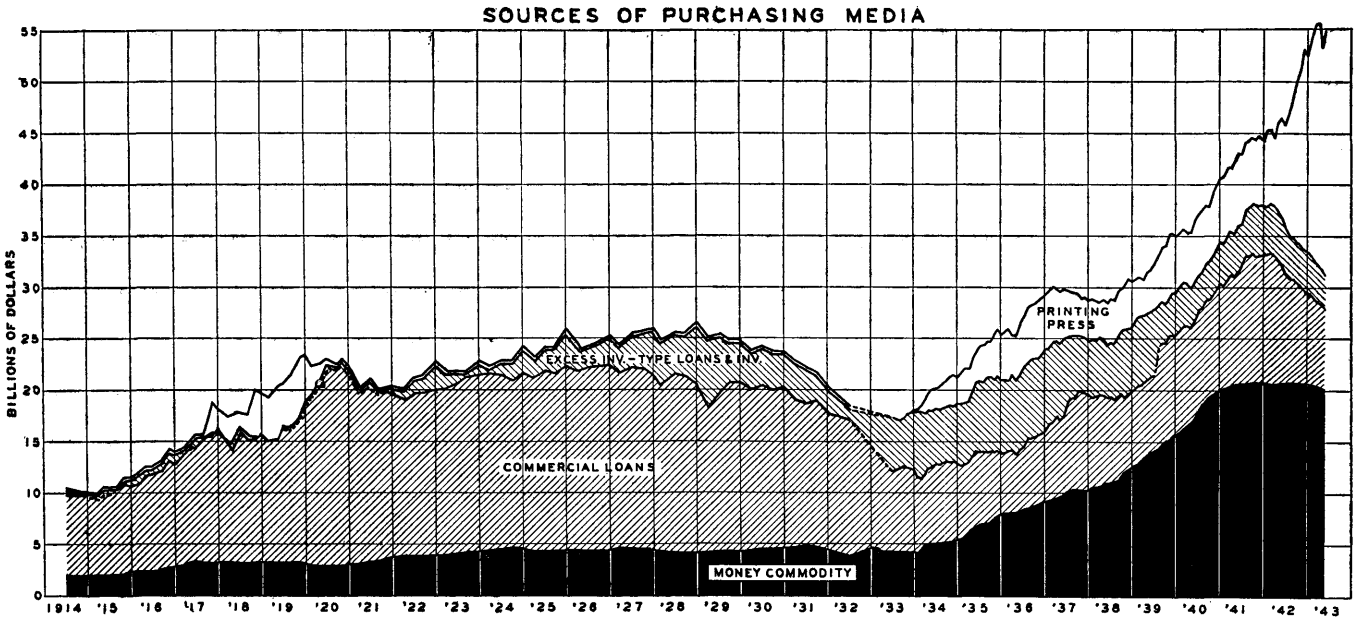
	1929	*1932*	*1937*	*1938*	*1942*	*1943*
New York Times Index	131.7	38.7	96.9	65.2	112.6	108.9

Demand

The dollar volume of department-store sales last week was 28 per cent larger than that for the corresponding week of 1942. This is a remarkable showing in a month when an income tax installment must be paid. A year ago this liability for the average tax payer was less than half as much as it was this year.

Prices

The sensitive wholesale commodity price indexes were reactionary last week, although losses were moderate. Moody's Spot Commodity Price Index was 245.0 on June 10 and 243.8 on June 17. The Dow-Jones Index of Commodity Futures closed at 92.06 June 10 and at 91.90 on June 17.



Substantial increases in the food and fuel and light items were responsible for an increase in the cost of living of one point from the March to the April level, according to the National Industrial Conference Board's index. The combined index has advanced 24 per cent since the war started in 1939. The most substantial increase (54 per cent) occurred in the average cost of food. Actually, food costs have increased more extensively than is indicated by such compilations as are made by the National Industrial Conference Board and by the United States Department of Labor, inasmuch as these do not include the higher prices that prevail in the black markets. The composite index and separate items for March and April 1943 and for earlier significant periods are shown in the accompanying table.

	July 1914	*June 1920*	*Aug. 1939*	*Mar. 1943*	*Apr. 1943*
All Items Combined	61.3	192.0	84.0	103.0	104.0
Food	66.1	147.2	75.3	112.8	115.4
Housing	57.7	91.2	86.3	90.8	90.8
Clothing	58.8	149.9	71.9	88.6	88.6
Fuel and Light	63.3	98.6	84.0	92.4	93.7
Sundries	59.0	107.3	96.9	106.5	106.5

FINANCE

Sources of Purchasing Media

There was a substantial increase in purchasing media available to the public last month, but the total remained somewhat below the record high level reached just before the Second War Loan drive. Purchasing media available to the public consist of currency in circulation plus checking-account deposits. The chart at the top of this page shows the purchasing media in use during each month of the twenty-nine-year period and indicates the sources from which the purchasing media were derived.

The volume of purchasing media from the money-commodity source was reduced somewhat further last month following the trend that has generally prevailed this year. The total decrease in the Nation's monetary gold stock since we entered the war has been approximately $300,000,000. The net gold export has apparently been caused by credits granted to countries sympathetic to the cause of the United Nations or by other employment of the metal as a weapon in the prosecution of the war.

Purchasing media derived from commercial loans decreased during May as they did in April. The type of credit from which these purchasing media originated was augmented to finance the increase in manufacturer's inventories to supply materials for the armament program in 1941. Soon after we entered the war, this volume of credit was reduced. The Government pursued a policy of insisting on the reduction of inventories that were considerably larger than those carried by corporations during the prewar period and were therefore considered to be excessive. Government credit was advanced for the financing of war production where required.

There was a moderate decrease last month in purchasing media from the third source (credit resulting from the banks' acquirement of investment-type assets that represent tangible property in excess of the savings available to the banking system). The commercial banks decreased their holdings of securities other than direct obligations.

There was a substantial increase in purchasing media from the fourth source during May. The volume of direct Government obligations held by the commercial banks increased about $5,000,000,000 during the month. This actually represented receipts from sales of Government issues during April that were not recorded until the following month. Such operations as were involved in the $18,000,000,000 War Loan drive are so vast that complete records do not appear in the Treasury's statement or the statements of the commercial banks until several weeks after the date of issue. Purchasing media available to the public will probably remain about unchanged during the month of June. The Treasury should be able to maintain its bank accounts at a high level. The distribution of funds to maintain the war effort should be offset by substantial income-tax receipts that are payable June 15.