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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Summary and Outlook

Developments in the coal-mining industry and the recent strike of Chrysler Corporation employees have altered the outlook presented in the December "Monthly Bulletin" to some extent. In spite of the fact that January operations of the steel industry were maintained at near-capacity levels, automobile manufacturers increased output to nearly 160,000 vehicles per week, and electric-power output increased to an all-time high, the upward trend of industrial production may soon be halted temporarily at least.

Department-store sales increased substantially in December, but a slight decrease probably occurred in January. Because of the near-record amount of purchasing media in circulation and the further inflation expected during the next several months, demand at the retail level probably will be well maintained. If retailers become overoptimistic, as they have on several occasions since the war, demand at the wholesale and manufacturing levels may increase markedly for a few months.

No substantial change has occurred in either wholesale commodity prices or consumers' prices. Both series have been leveling off for several months, and the additional inflation during the next several months probably will only prevent extensive declines. The long-term (10-year) trend of prices is downward.

Unfortunately, the President's state-of-the-Union message, his Annual Economic Report, his Budget message, the Council of Economic Advisers Annual Report, and the Council's Annual Economic Review reveal a dangerous lack of knowledge among those who are formulating the Government's economic policies. The failure of the Council to apply the scientific method is especially unfortunate. The nature of the Council's reports raises serious questions regarding either the competence or the intentions of the Council's principal members.

Mr. Truman's tax message, first mentioned in his state-of-the-Union address, offered only general recommendations that some excise taxes be reduced and that "loopholes in the present tax laws" be closed. Government expenditures were again defended as the "lowest possible levels consistent with the requirements of national security, world peace, economic growth and the well-being of our people." Of course, changes in the tax laws can be made only by Congress; consequently, Mr. Truman's general recommendations are of little significance. However, the President's insistence on increased revenues to replace funds lost through tax reductions suggests that decreases in excise taxes probably will have to be accompanied by some provision promising increased revenues in order to gain Mr. Truman's approval. Although the closing of specific loopholes would not necessarily increase revenues at all, the inclusion of provisions intended to close the "loopholes" or possibly provisions requiring earlier payment of corporate taxes might satisfy Mr. Truman.

SUPPLY

Industrial Production

Primarily because of the resumption of operations at a high rate in the automobile industry, the preliminary index of industrial production adjusted for long-term trend rose 4 percent during January. The index has increased 13 percent since the October low and is 3 percent above the level reached in September, the last month preceding the steel and coal strikes.

The January index of industrial production (adjusted for long-term trend) was 19 percent above the postwar low reached in February 1946 and was 35 percent above the low reached during 1937-38. However, the index was 9 percent below the postwar highs.

Preliminary data reveal the following increases from the December levels of activity: automobiles, 46 percent; steel, 5 percent; and paper, 4 percent. On the other hand, lumber and minerals production decreased 13 and 4 percent respectively. Petroleum production was unchanged during January.

Developments in the coal-mining industry during the next few days may have a substantial effect on industrial production. If Mr. Denham, head of the independent office of the General Council of National Labor Relations Board, obtains a temporary injunction against the United Mine Workers, the miners presumably will be compelled to work a 5-day week during the hearings of the board on the charges that the Union is guilty of unfair labor practices and coercion. Meanwhile, the strike of approximately 75,000 miners and the 3-day week being worked by the remaining 325,000 miners has not yet affected industrial production markedly. Although the supply of coal for domestic consumers apparently has been reduced greatly, industrial users, as a whole, have had sufficient coal to maintain operations. According to a recent survey, conducted by *The New York Times*, "The cutbacks in the steel industry affected only a few thousand of the industry's half-million workers and most other industries had no immediate plans for lay-offs. * * * The United States Steel Corporation was understood to have from five weeks to three months supply of coal at most of its mills. No curtailment plans were announced by Bethelehem Steel or Jones and Laughlin. * * * The Ford Motor Company announced that it had sufficient coal to carry its power-generating and steel-manufacturing operations for twenty-five days or more. Few other large industries indicated they were much closer to a coal famine." A continuation of the strike, however, probably would be reflected in further curtailment of production as various industries attempt to conserve their fuel supplies.

As a result of the coal strikes the recent increases in steel output were halted in the week ended January 28, when production decreased approximately 1 percent. However, unless the coal strike is intensified during the next few weeks, a substantial decrease in steel production is not expected.

If the present plans of automobile manufacturers are carried out, production during the first 6 months of 1950 should be 26 percent greater than that of the corresponding period of 1949 and 12 percent greater than that of the last 6 months of 1949. Production in the third week of January was only 1 percent less than the all-time record established during the week ended September 17, 1949. However, the strike of the 89,000 employees of the Chrysler Corporation, which began last week, could decrease total weekly production by as much as 20 percent. If all companies are in full operation, a new monthly record probably will be made during March or April. General Motors, Ford, Chrysler, and many of the independents are planning to reach record rates of production by that time.

Once again, the level of production during the next several weeks depends primarily on the outcome of various strikes. If there is a complete resumption of coal and automobile production, we should expect industrial production to continue the upward trend that began in November.

Latest Weekly Data

Steel-ingot production, scheduled at 93.9 percent of capacity for the week ended January 28, 1950, was 1 percent less than production in the preceding week and was 2 percent less than that in the corresponding week last year. The industry's annual theoretical capacity has been increased to 99,392,800 net tons. (The data shown in the accompanying table have been adjusted to show this change in theoretical capacity.)

	1929	*1932*	*1937*	*1938*	*1949*	*1950*
Percent of Capacity†	84	28	82	33	100.1	94p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	1.85	1.91
Production (Million Tons)	1.16	.43	1.24	.51	1.85	1.80

Automobile and truck production during the week ended January 21, 1950, in the United States and Canada was estimated at 157,950 vehicles, compared with a revised total of 154,552 vehicles for the previous week.

	1929	*1932*	*1937*	*1938*	*1949*	*1950*
Vehicles (000 omitted)†	107	30	81	65	114	158p

Electric-power production in the week ended January 21, 1950, increased to 6,041,158,000 kilowatt-hours from 6,028,589,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1949*	*1950*
Billion Kilowatt-Hours†	1.72	1.60	2.26	2.11	5.77	6.04

Lumber production in the week ended January 14, 1950, decreased. *The New York Times* seasonally adjusted index was 1.6 points below that for the previous week but was 13 points above that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1949*	*1950*
The New York Times Index†	144	39	96	75	84	97

†Latest weekly data; corresponding weeks of earlier years
p=preliminary

DEMAND
The Harwood Index of Inflation

The January preliminary estimate of the Harwood Index of Inflation was 2 points above the revised December figure and was at the highest level reached since January 1948. Revised data for the last several months reveal that the rise since September has been continuous.

The substantial increase in the degree of inflation since March 1949, contrasts markedly with the decreases that occurred in each of the three preceding years. In fact, the 11-percent increase in 9 months is the largest reported since 1945, when the war was still in progress.

During the past 10 months the investment-type assets of the commercial banking system have increased more than $7,500,000,000, while the savings-type liabilities have increased $780,000,000. The difference between these two figures plus the $2,200,000,000 additional purchasing media released from idle or hoarded funds (hoarded Government deposits, individuals' deposits, and currency) accounts for the $9,000,000,000 increase in the inflationary purchasing media in circulation since March 1949.

A break-down reveals that, among the investment-type assets, real-estate loans have increased $800,000,000 since March; Government securities and other investments, $5,800,000,000; and other loans, $1,300,000,000. The commercial banks increased their security holdings more than $9,000,000,000 during the past 10 months, but part of this increase was offset by a $3,600,000,000 decrease in the Federal Reserve banks' holdings of Government securities.

Since March the Government has released more than $2,000,000,000 of idle deposits to the channels of trade. Of the purchasing media in existence, some may be hoarded in the form of currency or idle checking accounts. When purchasing media are hoarded, the amount involved is temporarily withdrawn from the channels of trade; therefore, it may be considered an offset to an equivalent amount of inflationary purchasing media when the latter exceed hoardings as is the situation today. Of course, when the hoarded funds are spent and thereby returned to the channels of trade, the amount of inflationary purchasing media is correspondingly increased.

The unpredictable factor that obscures the outlook during the next 2 months is the disposition of Treasury tax-savings notes held by corporations and individuals. (The total of such notes outstanding exceeds $8,000,000,000.) Thus far no definite trend is apparent, although total redemptions during the past 6½ months have been less than redemptions in the previous fiscal year. Because corporations no doubt hold most of these notes, the use of such notes for the payment of taxes presumably will not occur in large volume until March 15, when the first quarterly installment of corporations' 1949 taxes will be due. If the holders of these notes do use them to a substantial extent for tax payments, the Government will be forced to borrow in order to meet current obligations. Most such borrowing probably would be from commercial banks with resulting further additions to the inflationary purchasing media in use.

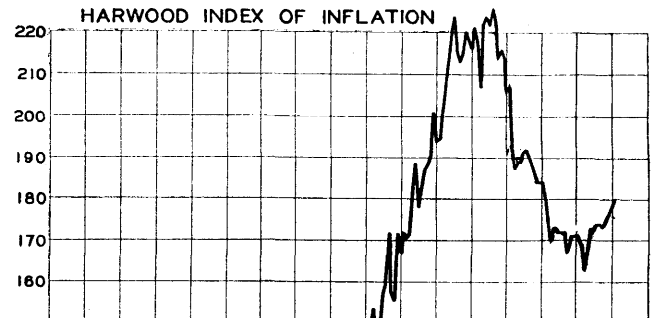
The Treasury has announced a slight increase in the rate on a short-term-note issue, which will be used to refund certain issues maturing in February. Evidently the Treasury has finally consented to aid the Federal Reserve Board in its efforts to raise interest rates slightly while business activity continues at high levels. Recently a congressional subcommittee of the Joint Committee on the Economic Report recommended that Congress restore the supremacy of the Federal Reserve Board and instruct the Treasury to manage the public debt in accordance with the Board's credit policies. We assume that the Treasury's latest actions reveal a belated, partial recognition of the fact that the Nation's welfare rather than the Treasury's convenience should determine credit policies. However, there is as yet no reason to believe that the Treasury intends more than a token surrender. The real test will come when curtailment of the current or next inflationary boom becomes advisable.

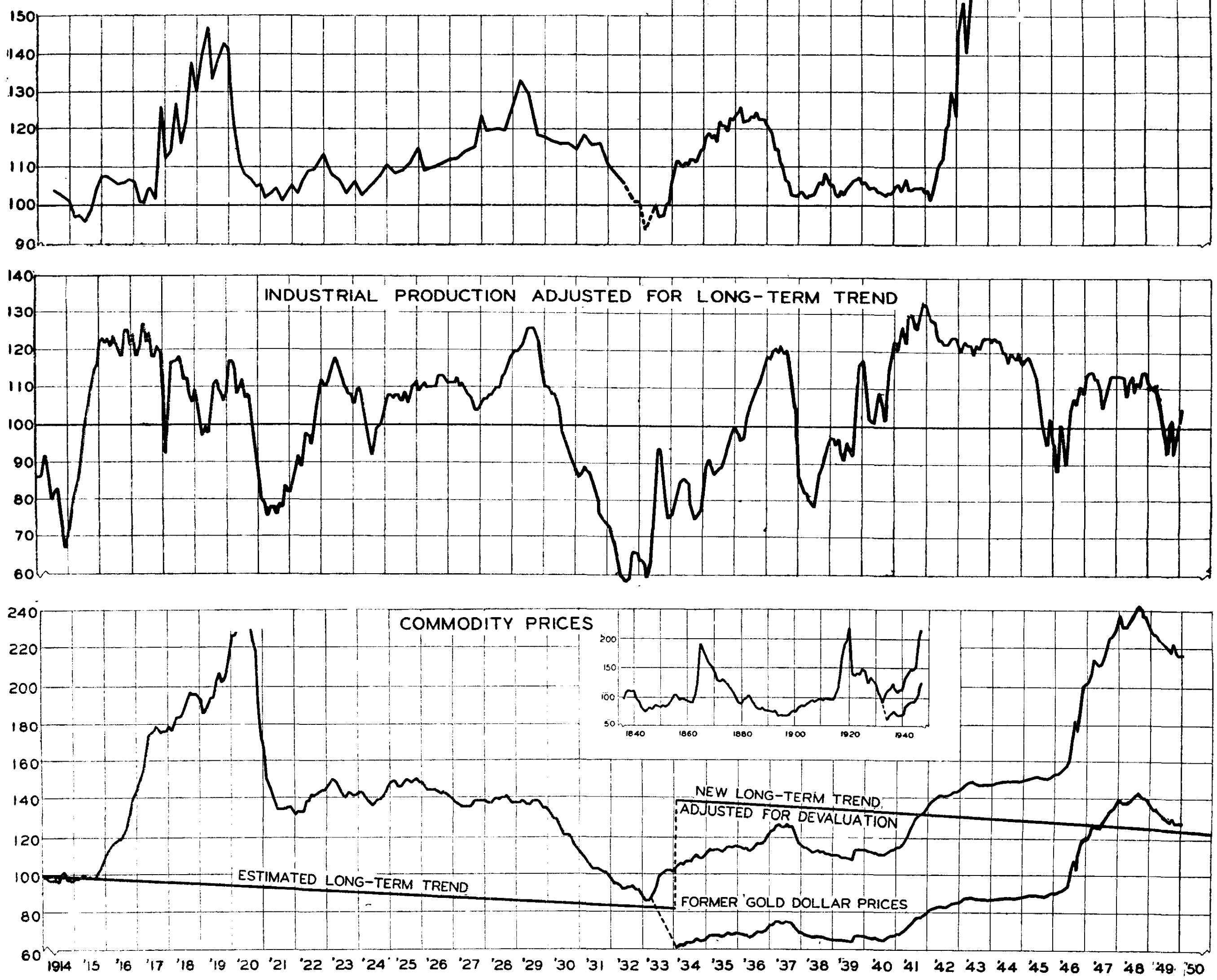
Conclusion

If tax-savings notes are used in large volume for the payment of taxes due by March 15, more inflation is probable during the present quarter. Further inflation in the second quarter is almost assured; and, unless Congress drastically reduced the expenditures proposed by the President, even more inflation is to be expected in the third quarter of 1950. Whether the continuing inflation will stimulate a resumption of the recent boom and convince the Federal Reserve Board that decisive deflationary action is advisable cannot be foreseen at this time. We do not expect either the Administration or the Federal Reserve Board to force deflation, regardless of the extent of the business boom, prior to the elections due next November.

Department-Store Sales

Department-store sales for the week ended January 21, 1950, were 1 percent less than sales for the previous week but were the same as sales in the corresponding week last year.





PRICES

Commodities at Wholesale

At mid-January the index of wholesale commodity prices was unchanged from the December figure. However, the preliminary January index is 6 percent below the index for January 1949 and 12 percent below the all-time peak.

Although prices rose slightly in September, the index fell in October and decreased to a 1949 low in November. Since November, prices have leveled off. The rate of the decline from the all-time peak reached in August 1948 has slackened in recent months, but a reversal of the downward trend similar to the increase of the index of industrial production has not occurred.

The only major component of the wholesale price index to decrease as much as 1 percent during January was the farm-products index. Changes in several of the components during the first 3 weeks of January were not large enough to show in the table. Prices of foods decreased somewhat; but prices of fuel and light, metals, building materials, and chemicals all rose slightly.

There has been some question in the financial press as to whether or not automobile prices will be raised because of the recent increases in steel prices. However, the automobile manufacturers' plans to increase production and reports of decreased consumer interest suggest that the industry may be forced to lower prices in order to stimulate sales.

The recent offer of the Commodity Credit Corporation to sell corn, oats, potatoes, barley, dried eggs, flaxseed, peanuts, linseed oil, dried milk, and dry beans to exporters at below cost was reflected in an immediate decline in the prices of corn and oats to the lowest levels in 2 months. The ultimate effect on domestic prices of the Government's "give-away" program is difficult to foresee. However, as long as funds are available for the price-support program, domestic prices presumably will not fall much below the support levels.

Recent changes in the prices of several commodities emphasize the effect of world conditions. The rise in natural-rubber prices (about 70 percent of the rubber used in the United States is "natural"; the other 30 percent is "synthetic"), for example, presumably has resulted from the following: (1) decreased production in the Far East, (2) increased demand from European nations and Russia, (3) delayed shipments from Indonesia because of currency problems between that nation and the Netherlands, and (4) decreased output of synthetic rubber. Even the possibility of Communist control in the Far East is thought by some to have been a contributing factor to the price rise. Demand for wool throughout the world is so much greater than the available supply that prices of fine Australian wool have reached new peak levels. On the other hand, since the removal of price controls the relatively abundant world supply of tin has been reflected in a decrease of 25 percent from the Reconstruction Finance Corporation's previously established price of $1.03 a pound.

No marked change in the index of wholesale commodity prices is expected during the next few months. The additional inflation that now seems probable during the remainder of 1950 may not prevent a gradual downward trend of prices, but further divergence from the typical range of postwar trends shown in the last monthly bulletin is to be expected.

Latest Weekly Data

(August 1939=100)	*1949 Jan. 26*	*1950 Jan. 19*	*1950 Jan. 26*
Spot-Market Prices (28 basic raw materials)	282	249	249
Commodity Futures Prices (Dow-Jones Daily Index)	283	281	283

United States Bureau of Labor Statistics
Wholesale Commodity Price Index
(Monthly Average 1913=100)

	1920 High	*1933 Low*	*1948-49 High*†	*Jan. 1949*	*Dec. 1949*	*Jan. 1950*p
All Commodities	240	86	243	230	216	216
Farm Products	238	57	279	241	217	214
Foods	232	84	296	258	243	242
Textile Products	340	89	263	255	241	241
Fuel and Light	342	99	224	224	212	212
Metal Products	173	85	193	193	186	186
Building Materials	297	123§	360	357	335	335
Chemicals	238¶	88	173	158	145	145
Hides and Leather	307‡	100	298	271	265*	NA
Housefurnishings	266	127	264	264	255*	NA
Miscellaneous	255	83	177	168	157*	NA
Raw Materials	241	70	268	246	233*	NA
Semimanufactures	338	74§	216	214	194*	NA
Finished Goods	227	95	237	226	216*	NA

p=preliminary; ‡1919; ¶1918; §1932; *November 1949
†excludes highs in last two columns; NA=not available

BOOK REVIEWS

Elementary Accounting by Arthur W. Holmes and Robert A. Meier
Richard D. Irwin, Inc., Chicago ($6)

This book is a standard text on elementary accounting. The authors have been extremely thorough in their exposition of principles and practices and have included a wealth of illustrative material. We recommend this book to investors and businessmen who wish to improve their knowledge of accounting.

Mines Register (1949 ed.) Joseph Zimmerman, Editor-in-Chief
Atlas Publishing Company, New York ($25)

This book is a valuable source of detailed information about almost all mining companies operating in the Western Hemisphere. Included in the data are histories, officers, production, security prices, and financial information of the major companies. A list of sellers of mining equipment is also given.

Statistical Summary; Production, Purchasing Media, and Prices

	1949 Jan.	*Feb.*	*Mar.*	*Apr.*	*May*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*1950 Jan.*
Index of Industrial Production	110	110	109	106	100	98	93†	101†	102*	93*	98*	101*	105*
Index of Inflation (Ratio Form)	169†	168†	162†	166†	173†	172†	174*	174*	173*	175*	176*	178*	180*
Commodity-Price Index	230	227	227	225	223†	222†	220*	219*	220*	218*	217*	216*	216*
Commodity-Price Index (In terms of former gold dollar)	136	134	134	133	132†	131†	130*	130*	130*	129*	128*	128*	128*

*preliminary; †revised