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GREAT BARRINGTON MASSACHUSETTS

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

A Question Mark Removed

Two weeks ago, in discussing the change in fiscal policy to be expected from the new Administration, we mentioned several unanswered questions.[1] One of these questions is concerned with the rumor that Mr. Eisenhower is being advised by certain influential individuals to create a free and open market for gold. Interest in this question is unusually great at this time. *The Economist* recently reported, "Rumors about a possible increase in the dollar price of gold have waxed and waned throughout the postwar years with almost monotonous regularity. At the moment they are waxing more strongly than ever before, and this has been marked on world stock exchanges by a revival of activity in gold shares."[2]

A few recent developments may be noted. According to an article in the November 25 issue of *The New York Times*, "Franz Pick of New York, publisher of Pick's World Currency Report, tonight predicted that the official gold price, under American leadership, will be increased from $35 to $52.50 an ounce." A recent *Journal of Commerce* reports from London, "Commonwealth Prime Ministers have decided a rise in the price of gold would be a good tonic for the ailing pound sterling [and] have authorized experts to prepare their views for submission to the United States whose co-operation is essential if the present fixed price of $35 an ounce is to be altered." *The Economist* sees fit to mention Professor John Williams' recent "somewhat hesitant support of the case for a higher price," although adding that "it would be unwise to interpret his remarks as the harbinger of a real change of attitude by those who make policy in Washington." Finally, we should mention the several recent articles in *The Commercial and Financial Chronicle* and in various monthly bank letters that have discussed the possibility of a change in the price of gold.

What Is the Probability of a Change?

The Economist believes, " * * * the prospects do not look very rosy. Any hopes aroused by the disappearance from the Treasury of Mr. John Snyder, who so often and so resolutely opposed any increase in the dollar price of gold, seem likely to be disillusioned as more becomes known of his successor, Mr. George Humphrey, and of Mr. Joseph Dodge, who has been appointed by the President-elect to be the 'link-man' with the Bureau of the Budget during the interregnum and who is clearly destined to be one of the principal financial advisers to the new Administration.

"The fact must therefore be faced that any plea for an increase in the gold price may still fall on stony ground."

Although *The Economist* believes that "the Commonwealth Prime Ministers will * * * be wise if they make their expected plea for an increase in the gold price," the periodical adds, "But that does not necessarily mean that speculators would be wise to expect that any such plea will be successful."

The Institute now has what it believes to be reliable information that the new Administration is not contemplating a devaluation. On the contrary, we have most positive assurance that Mr. Eisenhower and his closest advisers definitely are opposed to a change in the price of gold.

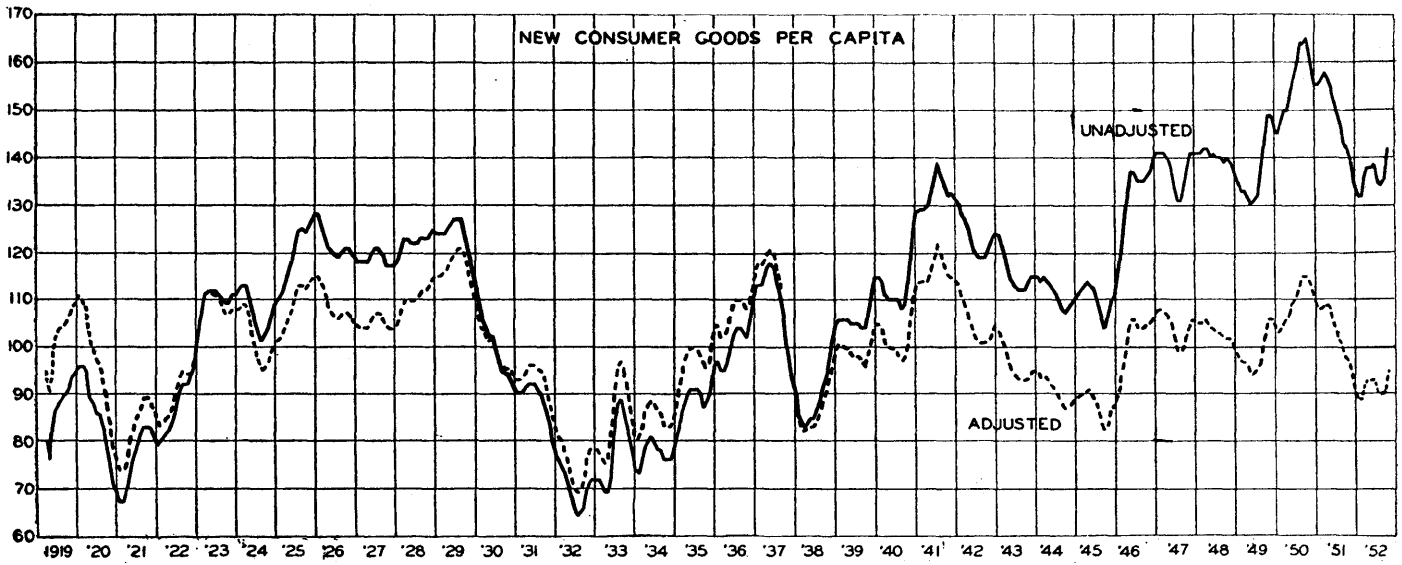
Although this question has been answered as far as we at the Institute are concerned, we believe it to be of the utmost importance that the new Administration make known its intentions as soon as possible, preferably before assuming office. Until such an announcement is made and the rumors now circulating are quashed, a disastrous flight from the dollar will continue to be a major danger. We warned in last week's bulletin that "a huge amount of idle, potentially inflationary, purchasing media is in the hands of individuals and businesses where it could be used in an explosive scramble for goods, real estate, and stocks. The ensuing 'flight from the dollar' could take on proportions seldom seen in the entire history of the country."[3]

We do not believe that events of recent decades generally have increased the confidence of individual citizens in the abilities of their governments to handle monetary and fiscal policies. Successive devaluations in several countries have created a situation such that rumors of further devaluation find a relatively large receptive audience. A forthright public denial from Mr. Eisenhower himself or some other individual closely associated with him probably would be necessary in order to remove the doubts in the minds of most people.

[1] "A Change of Fiscal Policy?" *Research Reports*, December 1, 1952.

[2] "Prospects for the Gold Price," *The Economist*, December 6, 1952.

[3] "The Money-Credit Situation in the United States," *Research Reports*, December 8, 1952.



Conclusions

The Institute is confident that the Eisenhower administration does not intend to change the present definition of the gold dollar.[4] *However, we believe that if the present rumors are permitted to gain credence by the silence of men in a position to end those rumors, unnecessary economic difficulties may occur. We suggest that the incoming Administration avoid any such difficulties by ending the uncertainty that now exists.*

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 105.5 percent of capacity for the week ended December 13, 1952, was slightly less than that in the preceding week but was 6 percent more than production in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
Percent of Capacity†	64	15	27	61	104	106p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.00	2.08
Production (Million Tons)	.89	.23	.41	.94	2.08	2.20

Automobile and truck production in the United States and Canada during the week ended December 6, 1952, was estimated at 134,780 vehicles, compared with a revised total of 119,781 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
Vehicles (000 omitted)†	31	11	86	98	117	135p

Electric-power production in the week ended December 6, 1952, increased to 8,165,463,000 kilowatt-hours from 7,701,176,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
Billion Kilowatt-Hours†	1.81	1.51	2.20	2.34	7.44	8.17

Lumber production in the week ended November 29, 1952, increased. *The New York Times* seasonally adjusted index was 4 points above that for the preceding week and was 14 points above that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
The New York Times Index†	122*	34*	59*	97*	124*	138*

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

[4]Although our confidence is based on what we consider reliable information from three key individuals whose consent would be a prerequisite to further devaluation, we are fully aware of the fact that the ways of man are impossible to predict with absolute certainty.

New Consumer Goods Per Capita

Our index of new consumer goods produced per capita (a 3-month moving average), unadjusted for long-term trend, increased 4 percent during October to a level nearly 8 percent above the 1952 low reached in January and February. The October index was equal to that of a year ago but was 14 percent less than the all-time record established in October 1950.

The index adjusted for long-term trend increased 4 percent during October to a level 7 percent above the 1952 low reached in January. The index was 2 percent below the October 1951 figure and was nearly 18 percent below the peak reached in August, September, and October, 1950. The October index was within 5 percent of the long-term-trend line.

Production of consumer goods decreased nearly 1 percent during October from the revised September output, which was at a 1952 peak. Automobile and furniture production increased 10 and 2 percent respectively. However, these increases were more than counterbalanced by decreases of 3, 2, and 2 percent in residential-contract awards, textile production, and food production.

Automobile production, which reached a 1952 peak of 472,000 cars and 132,000 trucks during October, is estimated to have decreased to 397,000 cars and 110,000 trucks during November. According to *Ward's Automotive Reports*, a slight increase to 410,000 cars and 120,000 trucks is expected during December.

Residential-contract awards, which reached a 1952 peak in April, have decreased 8 percent during the last 6 months. The October index was 25 percent below the postwar high reached in July 1950.

Furniture production reached a 1952 peak during October. The October index was 6 percent greater than that for December 1951 and was nearly 14 percent above the 1952 low reached in July. However, in spite of these recent increases, the October index was 5 percent below the postwar peak reached in October 1950.

The 2-percent decrease in food output during October counterbalanced the increase during September. Food production, which has not decreased substantially for any length of time since the early 1930's, apparently has decreased slightly during 1952. Primarily responsible for the decrease have been decreased exports of manufactured foodstuffs and beverages, which were 16 per-

cent less during the first 8 months of 1952 than exports during the corresponding period of 1951.

Although textile production decreased 2 percent during October from the 1952 peak reached during September, output was still 10 percent higher than the monthly average during the previous 9 months of 1952.

Because the August production figure probably will be replaced by a somewhat higher November figure in calculating the 3-month moving average for November, the November index of new consumer goods per capita probably will increase. As we suggested a month ago, a recovery in the consumer-goods industries appears to have been under way since early 1952. However, the decrease in consumer-goods production during October, interrupting the upward trend in August and September, injects a note of caution concerning the trend in the near and more-distant future.

DEMAND

Purchasing Media

The total purchasing media available increased $1,200,000,000 during November to an all-time record of $111,777,000,000. (October data were revised.) During all seven previous postwar years the purchasing-media total increased during November; the average gain was $1,000,000,000.

Purchasing media derived from the first source, monetary gold, remained virtually unchanged during November. The Nation's gold stock has changed little since March 1952.

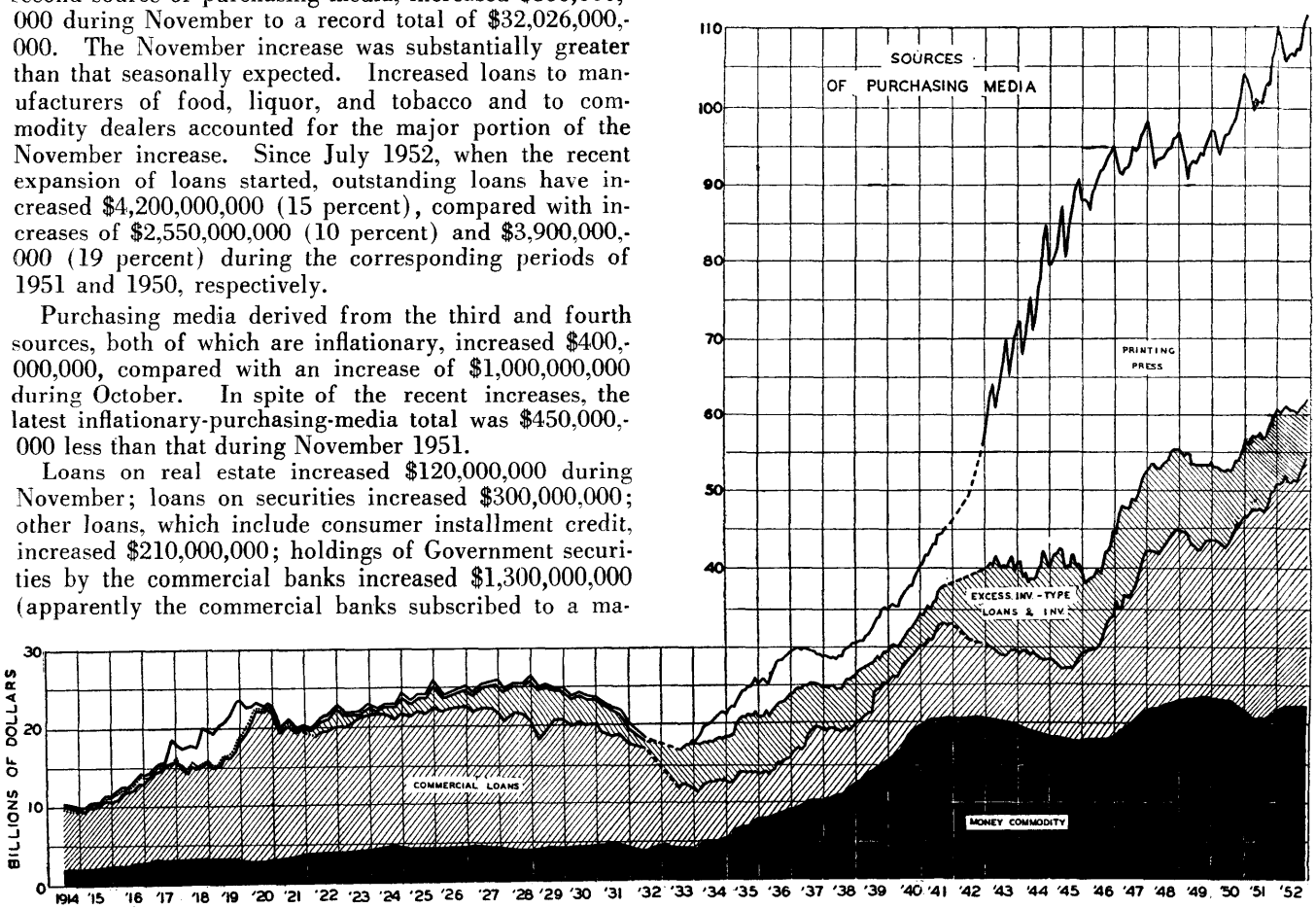
Commercial, industrial, and agricultural loans, the second source of purchasing media, increased $850,000,000 during November to a record total of $32,026,000,000. The November increase was substantially greater than that seasonally expected. Increased loans to manufacturers of food, liquor, and tobacco and to commodity dealers accounted for the major portion of the November increase. Since July 1952, when the recent expansion of loans started, outstanding loans have increased $4,200,000,000 (15 percent), compared with increases of $2,550,000,000 (10 percent) and $3,900,000,000 (19 percent) during the corresponding periods of 1951 and 1950, respectively.

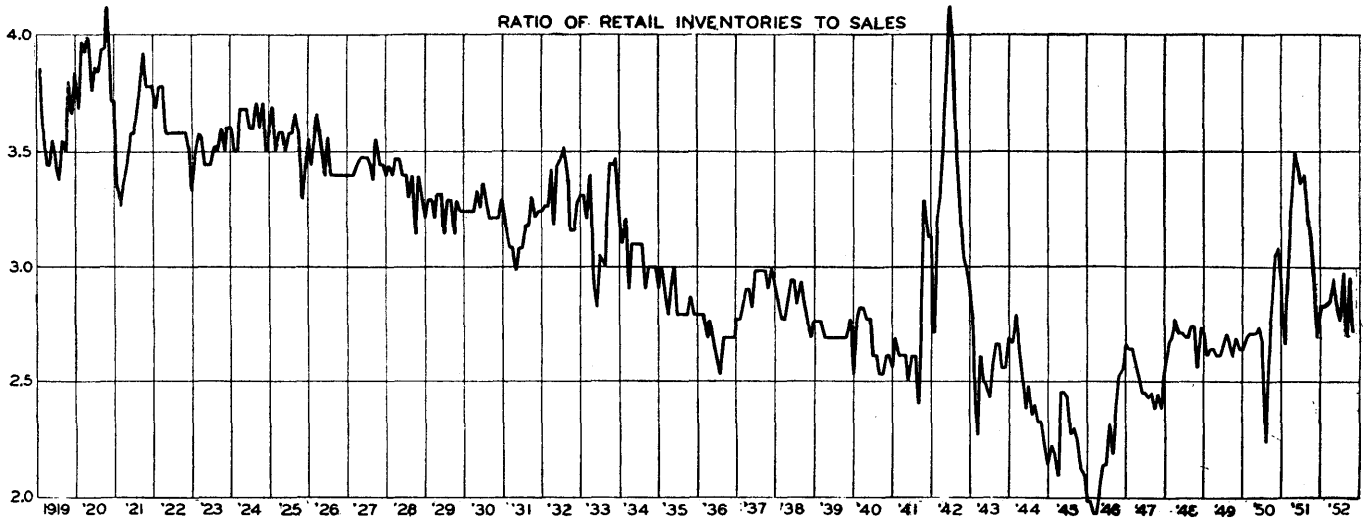
Purchasing media derived from the third and fourth sources, both of which are inflationary, increased $400,000,000, compared with an increase of $1,000,000,000 during October. In spite of the recent increases, the latest inflationary-purchasing-media total was $450,000,000 less than that during November 1951.

Loans on real estate increased $120,000,000 during November; loans on securities increased $300,000,000; other loans, which include consumer installment credit, increased $210,000,000; holdings of Government securities by the commercial banks increased $1,300,000,000 (apparently the commercial banks subscribed to a major portion of the second $2,000,000,000 issue of tax-anticipation bills); and holdings of Government securities by the Federal Reserve banks increased $140,000,000.

Defense expenditures during November decreased to $3,300,000,000 from $3,700,000,000 during October and $3,960,000,000 during September. Moreover, the Defense Department recently announced that military production would be extended over a longer period. Defense expenditures already have lagged behind the schedules originally announced in the President's budget message. Military expenditures were to have reached $4,000,000,000 a month by the end of 1952 and $4,500,000,000 by mid-1953. As a result of the lag in defense expenditures, the official Government estimate of the budget deficit for fiscal 1953 has been revised for the second time and now is approximately $5,500,000,000. The first deficit estimate was $14,400,000,000; the second estimate, announced last August, was $10,400,000,000.

Several important factors should be considered in estimating the probable decrease in purchasing media during the first quarter of 1953. First, although industrial, commercial, and agricultural loans usually decrease during the first few months of the year, there are no reliable indications as to how large the decrease will be in 1953. Second, the Treasury's budget receipts during the first quarter will exceed budget expenditures substantially but probably by somewhat less than the $5,700,000,000 reported during the first quarter of 1952. Third, the Treasury's income will be augmented by net receipts of several hundred million dollars from trust-account





operations. Fourth, actual cash receipts will be less than budget receipts to the extent that nonbank investors turn in tax-anticipation bills in lieu of corporate tax payments. Finally, presumably several hundred million dollars of tax-savings notes held by nonbank investors also will be presented in payment of taxes.

In view of the continued slow-down of defense expenditures during recent months and the uncertainties mentioned above, we now believe that the decrease in purchasing media during the first-quarter deflation will be at least as great as that during the corresponding period of 1952 (when more than $4,000,000,000 was removed from circulation). We do not expect the December level of purchasing media to be exceeded prior to the last few months of 1953, if then.

Department-Store Sales

Department-store sales for the week ended December 6, 1952, were 41 percent more than sales in the preceding week and were 2 percent more than sales in the corresponding week last year.

PRICES

Commodities at Wholesale[5]

	1951	*1952*	
(August 1939=100)	*Dec. 11*	*Dec. 4*	*Dec. 11*
Spot-Market Prices (22 basic raw materials)	328	279	278
Commodity Futures Prices (Dow-Jones Daily Index)	402	361	360

BUSINESS

Ratio of Retail Inventories to Sales

The ratio of retail inventories to sales decreased 8 percent during October to within 1 percent of the 1952 low reached during August. The October ratio was 6 percent below that during October 1951 and was approximately at the level that prevailed during the 6 months prior to the beginning of the Korean War.

The seasonally adjusted index of department-store inventories was unchanged during October; the seasonally adjusted index of department-store sales increased 8 percent. (The ratio is derived by dividing the inventory index by the sales index.) Inventories, after decreasing from July 1951 through March 1952, have increased 4 percent during the last 7 months. However, inventories at the end of October were 1 percent less than those at the end of October 1951. The average level of inventories thus far during 1952 is 9 percent below that during 1951 but is 7 percent above that during 1950.

The dollar value of new orders placed by department stores during October was virtually unchanged from that placed during September but was 13 percent more than that during October last year. The leveling-off of new orders during October may indicate that retailers are less confident about sales in the near future.

The dollar value of outstanding orders at the end of October was 3 percent less than that at the end of September. The October decrease was not so great as that seasonally expected. Moreover, although inventories at the end of October were virtually equal to those last year and sales during October were only 5 percent greater than those a year earlier, outstanding orders at the end of October were 28 percent greater than those at the end of October last year.

Receipts of goods increased 14 percent during October to a 1952 high, 17 percent more than the figure for October last year. The October increase was slightly less than that seasonally expected. Usually receipts of goods reach a seasonal peak during the month. However, in view of the relatively high level of outstanding orders at the end of October, we believe that the decrease in receipts of goods during November and December this year may be somewhat less than that seasonally expected. We should not be surprised if there even was a slight increase during November.

On the basis of preliminary data, our estimates of the November seasonally adjusted index of department-store inventories range from a slight decrease to a slight increase. The November seasonally adjusted index of department-store sales apparently decreased somewhat. Consequently, the ratio of inventories to sales may have increased during November.

If seasonally adjusted department-store sales during December are maintained at the relatively high October and November level, the ratio of inventories to sales may rise somewhat. However, even if Christmas sales are somewhat below recent levels, an excessive accumulation of inventories probably could be avoided by reducing orders during the next few months. A major inventory crisis in the near future seems improbable.

[5]The Bureau of Labor Statistics recently has revised the 28-commodity daily spot-market price index by eliminating six commodities that are no longer actively traded. The new series has been linked to the old on November 19, 1952.