AMERICAN INSTITUTE for ECONOMIC RESEARCH

GREAT BARRINGTON MASSACHUSETTS

WEEKLY BULLETIN

March 9 1953

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Money Market Continues to Tighten[1]

Only 6 months ago we drew attention to the tightening of the money market then occurring.[2] "On August 11 the Treasury sold its weekly offering of 91-day bills at a yield of 1.903 percent, the highest since the 'bank holiday' of March 1933. During the week ended July 30 member-bank borrowing from the Federal Reserve reached $1,403,000,000, the highest figure since March 8, 1933. Furthermore, for the first time in more than 20 years the Treasury paid as much as 2-percent interest on an exchange issue for maturing certificates bearing a 1⅞ interest rate. Finally, the *Barron's* index of Government bond prices reached 100.7 on August 8, the lowest level during the history of the index, which began April 1941."

Since August further developments have occurred. In January the Federal Reserve Board raised the rediscount rate to 2 percent from 1¾ percent. Member-bank borrowing from the Federal Reserve banks decreased from the July 30 high during August and September but rose to new peaks during October, November, and December. Some decrease occurred in January and February, but the most recent levels are unusually high; borrowings on February 25, 1953, were nearly double those on the corresponding date a year earlier.

In February the Treasury offered a long-term bond at 2½ percent as one alternative in exchange for maturing short-term certificates of indebtedness. The results of this refunding operation indicated to many observers that an increase in long-term rates would be necessary in order to increase the holdings of long-term Government securities by nonbank investors. Current rumors among financial observers are that a 3-percent or 3¼ percent bond may be issued later in the year.

Recently Government long-term bonds have reached new lows, some issues now being nearly 6 points below par. The 2½s of 1966-71, which were at 96 in August 1952, were quoted at 94½ at the end of February.

Moreover, the outflow of gold continues. From the end of November 1952 through February 25 the Treasury's gold stock decreased $665,000,000. The outflow of gold tends to decrease member-bank reserves, which in turn may force some deflation. A continuation of the outward flow at the recent rate could eventually lead to a further increase in the rediscount rate by the Federal Reserve Board, which in turn would tend to raise the general money-rate structure.[3]

The Treasury has three major refunding issues due during 1953: nearly $5,000,000,000 of 1⅞-percent certificates mature in June; nearly $8,000,000,000 worth of 2-percent bonds mature in September 1953; and in December, $10,500,000,000 worth of 2⅛-percent notes mature. Although direct influence on the Federal Reserve by the Administration or Treasury may not be exerted, the Board presumably will desire to facilitate the refunding operations in order to avoid any serious disturbance of the money market. Consequently, the Federal Reserve Board may be reluctant to raise the rediscount rate substantially until after the success of the major refundings is assured.[4]

Conclusions

The further tightening of the money market during 1953 will depend to a large extent on the future actions of the Federal Reserve Board. On the whole, its recent attitude suggests that the Board is adhering to a firmer monetary policy.[5]

If the outflow of gold continues, the Board will be placed in the awkward position of having to choose between adherence to sound central-banking policies that

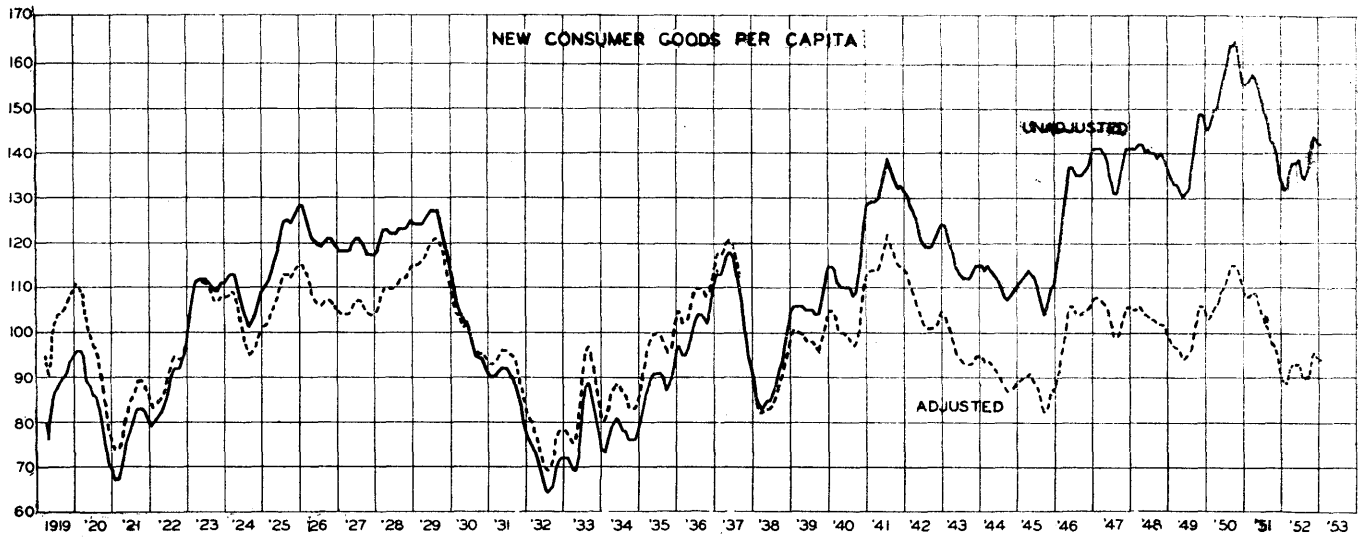
[1]A "tight money market" is a confusing term to many individuals. The phrase does not mean that inflation has been eliminated, nor does it mean that further inflation is impossible. What it does imply is that so much credit has been extended that the obtaining of additional credit is being made more difficult.

[2]"The Money Market Tightens," *Research Reports*, August 18, 1952.

[3]The Federal Reserve is required by law to retain a certain proportion of gold to its holdings of member-bank reserves. If the supply of gold is decreased to near its legal minimum, the Federal Reserve must prevent the disproportionate increase in reserves that might result from commercial banks selling securities to the Federal Reserve or by borrowing from the Federal Reserve. The present supply of gold, even after allowing for the additional exports that would occur if foreign balances were largely withdrawn, greatly exceeds the amount required for the System's basic reserves. However, sound central-bank operation calls for prompt recognition of the implications of a gold outflow and a gradual tightening of money rates rather than waiting until a crisis is forced by a need for more drastic measures.

[4]If the Federal Reserve banks were forced to acquire large quantities of Government securities, member-bank reserves would be increased greatly, the need for member banks borrowing from the Federal Reserve would be largely eliminated, and an increase in the rediscount rate would serve little purpose.

[5]We have not considered the recent lowering of margin requirements as a significant change in the Board's policy.



probably would complicate the Treasury's refunding problem and postponing the needed action (raising the rediscount rate) with the result that the delayed readjustment later would have far more serious repercussions.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 99.5 percent of capacity for the week ended March 7, 1953, was slightly more than that in the preceding week and was 7 percent more than production in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Percent of Capacity†	93	27	86	30	101	100p
Weekly Cap (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.28	.41	1.30	.46	2.10	2.25

Automobile and truck production in the United States and Canada during the week ended February 28, 1953, was estimated at 164,813 vehicles, compared with a revised total of 161,860 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Vehicles (000 omitted)†	121	33	112	57	118	165p

Electric-power production in the week ended February 28, 1953, decreased to 8,069,760,000 kilowatt-hours from 8,196,186,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Billion Kilowatt-Hours†	1.71	1.51	2.23	2.07	7.42	8.07

Lumber production in the week ended February 21, 1953, increased. *The New York Times* seasonally adjusted index was 1 point above that for the preceding week and was 12 points above that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
The New York Times Index†	126	40	109	77	123	135

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

New Consumer Goods Per Capita

Our index of new consumer goods produced per capita (a 3-month moving average), unadjusted for long-term trend, was unchanged during January at a level 1 percent below the 1952 peak reached during November 1952 and 14 percent below the alltime high reached in October 1950.

The index adjusted for long-term trend was also unchanged during January at a level 2 percent below the 1952 peak reached during November.

Production of consumer goods, which decreased 3 percent from September through December, increased 2 percent during January to within 12 percent of the alltime high reached during August 1950. All components except furniture production increased during January. Automobile production increased 8 percent; textile production increased 3 percent; the physical volume of residential-construction contract awards increased 2 percent; and food production increased 2 percent. Furniture production decreased 2 percent.

Production of passenger cars during February was 482,800 cars, compared with 465,700 cars produced during January and 333,900 cars produced during February 1952. Only during February 1951 has production in the month of February exceeded that during the month this year. According to *Ward's Automotive Reports,* passenger-car production during March is expected to be 589,000 cars. Thus the first-quarter production of automobiles probably will be more than 1,500,000 passenger cars and 340,000 trucks. According to *Ward's,* "All companies are taking advantage of unlimited production in an effort to produce all the cars they feel the public will buy." However, the labor supply is reported tight; "The hiring of women has begun to [resemble] the war year days; men are now being replaced by women in the less strenuous jobs."

According to our estimate, the January Federal Reserve Board *adjusted* index of contracts awarded for residential construction decreased nearly 1 percent. (In our computations of new-consumer-goods production we adjust the Board's index for changes in construction cost in order to obtain an index representing physical volume.) The adjusted January index was 19 percent above that for January 1952 but was 10 percent below the 1952 peak reached in April. The number of new dwelling units started during January was 71,000, 6,000 more than the number started during January 1952.

Production of major home appliances during 1952 was substantially below that during the record year 1950 but was greater in some lines than that during 1951.[6] The 1952 production of relatively new products, such as air-conditioning equipment, clothes dryers, and farm and home freezers, was substantially greater than that during 1950 and 1951; however, production of electric re-

[6]Although home appliances are not yet included in the calculation of our index of new consumer goods per capita, recent developments are of interest.

frigerators, radios, electric water heaters, and washing machines during 1952 was less than that during both 1950 and 1951. Production of television sets increased to such an extent during late 1952 that the total 1952 production was 13 percent more than that during 1951 (although 18 percent less than that during 1950). In general, demand for, and production of, all major appliances increased substantially during the latter part of 1952, partially as a result of the rapid expansion of consumer installment credit.

Because the November production figure probably will be replaced by a slightly higher February figure in calculating the 3-month moving average, the February index of new consumer goods produced per capita may increase slightly. Moreover, in view of the expected substantial increase in automobile production during March, our March index probably will increase further. However, raw-material and labor resources apparently are being employed nearly at capacity, and no imminent major decreases in military production are expected; consequently, an increase in new-consumer-goods production to the level of late 1950 and early 1951 seems improbable.

DEMAND

Department-Store Sales

Our preliminary estimate indicates that the February seasonally adjusted index of department-store sales was unchanged from that during January at a level 5 percent below the 1952 peak reached in December. The February index was nearly equal to the average for 1952.

The index of prices of goods sold in department stores decreased slightly in December and decreased further during January. (Latest data are not yet available.) Since July 1952 these prices have been relatively unchanged.

The index of physical volume of department-store sales (which is calculated by dividing the dollar-value index of sales by the index of prices) decreased 5 percent during January from the 1952 high reached during December. The January index was 3 percent above that during January 1952 and was slightly above the average for 1952.

The index of potential physical volume of department-store sales was unchanged during January. However, the January index was 11 percent above that for January 1952 and 7 percent above the average for 1952. The potential-volume series, which is based on the production of goods sold in department stores, reflects the estimated physical volume of goods available for sale in department stores.

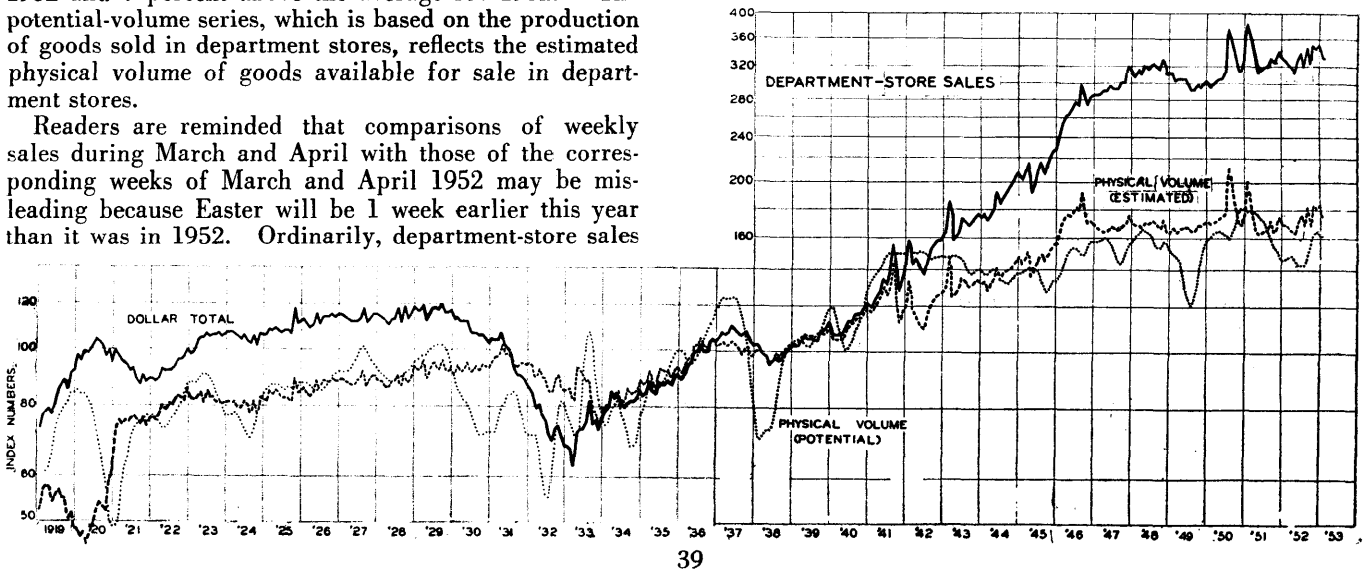
Readers are reminded that comparisons of weekly sales during March and April with those of the corresponding weeks of March and April 1952 may be misleading because Easter will be 1 week earlier this year than it was in 1952. Ordinarily, department-store sales increase markedly in the 4 or 5 weeks before Easter. In order to have a basis for comparison during the weeks before Easter, we have analyzed the changes in sales during those weeks in the past decade. The average increases in sales from the base period (the average of the 6th to the 9th weeks inclusive preceding Easter) have been 6, 13, 19, 26, and 34 percent respectively, for the 5th, 4th, 3d, 2d, and 1st weeks preceding Easter. The changes were nearly uniform in all except some of the war years.

In order to equal the usual pre-Easter gains, department-store sales during the 5 weeks prior to Easter will have to exceed sales during the corresponding weeks of last year as follows: week ended March 7, 4 percent; week ended March 14, 12 percent; week ended March 21, 14 percent; week ended March 28, 12 percent; and week ended April 4, 10 percent. By comparing the week-to-week percentage changes reported in the weekly *Research Reports* with those indicated above, subscribers will have the earliest possible information on the pre-Easter trend of department-store sales.

Department-store sales in the Nation during 1952 were equal to those during 1951. However, sales in the New York Federal Reserve district were 6 percent less, and sales in the Chicago, Boston, and Cleveland districts were 2, 1, and 1 percent, respectively, less than those during 1951. On the other hand, 1952 sales in southern districts were substantially higher than those during 1951; increases were as follows: Atlanta district, 8 percent; Dallas district, 6 percent; and Richmond district, 3 percent. Sales in the San Francisco district were 5 percent greater, and sales in the Kansas City and St. Louis districts were 2 and 1 percent greater, than those of a year ago. Sales in the Philadelphia and Minneapolis districts during 1952 were equal to those during 1951.

The trend during 1952 apparently is a continuation of a trend that started in 1946. From 1946 to 1952 all department-store sales increased 13 percent; the greatest increases, 46 and 38 percent respectively, occurred in the southern districts of Dallas and Atlanta; the smallest increases, 7 and 13 percent respectively, occurred in the New York and Boston districts. Those trends reflect the generally more favorable rate of growth in the southern areas of the country.

A month ago we suggested that the seasonally adjusted index of department-store sales may have reached a tem-



porary peak in December. The leveling-off of sales during February strengthens this belief, for it suggests that the decrease during January was not simply another of the erratic fluctuations that have occurred in department-store sales during the last several months. There are few indications of the probable trend of department-store sales during the next few months; however, in view of the unusually high level of production and employment, a relatively high level of department-store sales is probable.

Latest Weekly Data

Department-store sales for the week ended February 28, 1953, were 9 percent more than sales in the preceding week and were 9 percent more than sales in corresponding week last year.

PRICES

Consumers' Prices

The Bureau of Labor Statistics' new index of prices of goods bought by moderate-income families in small, medium-sized, and large cities decreased slightly during the month ended January 15. Some increases in prices of transportation, housing, medical care, and other goods and services were more than counterbalanced by decreases in food and apparel prices. The index was slightly below the alltime high reached first in August 1952 and again in November 1952 but was nearly 1 percent above that of a year ago and was 12 percent above the level that prevailed prior to the beginning of the Korean War in June 1950.

The January figure is the first based on the Bureau of Labor Statistics' recently revised "market basket" of consumer expenditures.[7] Two figures are published, one based on 1935-39 prices=100 and one based on 1947-49 prices=100. We shall continue to use the 1935-39 base figure on the accompanying chart.

The Bureau's revised "market basket" includes the goods and services bought in 1952 by urban wage-earner and clerical-worker families living in small, medium-sized, and large cities and having a yearly income averaging $4,160 after taxes. These families represent about 64 percent of all people living in urban places and about 40 percent of the total United States population. Approximately 300 consumer goods and services are priced, compared with the 225 items priced previously. Moreover, the prices of goods and services are collected in 46 different cities, including small and medium-sized cities, compared with 34 large cities previously.

Major items added include some frozen foods, restaurant meals, used cars, television sets, hotel rooms, legal services, and burial expenses. Direct payments for goods and services such as water, tolls, postage, automobile-license fees, drivers' permits, taxes on real estate and personal property continue to be included in the index. (Sales taxes, retail excise taxes, custom duties, and processor taxes presumably are all included in the prices paid by consumers.) Not included are personal income, inheritance, gifts, poll, and other taxes; nor are social-security contributions or premiums paid for veterans' insurance included.

The "old" consumers' price index published prior to January 1953 had six major components with the following weights: foods, 35; miscellaneous, 32; apparel, 13; rent, 11; housefurnishings, 6; and fuel and electricity, 3. The new index has eight major components, which are weighted as follows: housing, 32; food, 30; transportation, 11; apparel, 10; reading and recreation, 5; other goods and services, 5; medical care, 5; and personal care, 2. The new "housing" component includes rents, prices paid for "other shelter" (home purchase, repairs and maintenance, and other homeowner costs), gas and electricity, "solid" fuels and fuel oils, housefurnishings, and household operations. The new components of transportation, medical care, personal care, and reading and recreation previously were subcomponents of "miscellaneous."

During January food prices decreased nearly 1 percent to a level 2 percent below that of a year ago and 3 percent below the alltime high reached in August 1952. Although food prices have decreased steadily during the last 5 months, they were 11 percent higher in January than food prices prior to the beginning of the Korean war in June 1950.

Slight increases in futures prices and in spot-market prices during the last 2 weeks of February may reflect the immediate reaction to removal of price controls. We suspect that the upturn is temporary, but these increases in wholesale prices may be reflected in consumers' prices during March. The relatively abundant supply of goods and the tightening money market indicate that some further decrease in consumer prices may occur in the next several months.

Commodities at Wholesale

(August 1939=100)	*1952* *Mar. 5*	*1953* *Feb. 26*	*1953* *Mar. 5*
Spot-Market Prices (22 basic raw materials)	306	225	275
Commodity Futures Prices (Dow-Jones Daily Index)	381	348	350

[7]A discussion of some of the limitations of this index and its lack of historical continuity was presented in the March 2 *Research Reports* article, "The New Consumer Price Index."