AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

WEEKLY BULLETIN June 1 1953

GREAT BARRINGTON MASSACHUSETTS

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Approaching Test of Monetary Policy?

In articles published in August 1952 and March 1953 we drew attention to the tightening of the money market then occurring.[1] In the last few months the money market has continued tight. The yields of 3- to 5-year Government bonds have increased recently to 2.85 percent, those of 5- to 10-year bonds to 3 percent, and those of 10 or more years to 3.30 percent. The commercial banks' prime commercial rate charged to high-grade customers has been increased from 3 percent to 3¼ percent. The rates for 4- to 6-month prime commercial paper advanced from 2⅜ in March to 2⅝ percent in May. The rates on Government-insured mortgages were increased from 4 percent to 4½ percent, and the rates on loans extended by the Commodity Credit Corporation were increased from 3½ percent to 4 percent.

Demand for and Supply of Credit

Although decreasing in the latter months of the year, new capital issues reached an alltime record during 1952. Moreover, although some decrease probably will occur during the remainder of 1953, the demand for funds is expected to be relatively large.[2] The need for working capital, which is reflected in the demand for commercial, industrial, and agricultural loans, remained relatively great during the first half of 1953 (commercial loans failed to decrease seasonally). Moreover, consumer demand for credit, which is reflected in the amount of new consumer loans, continued to increase greatly during the first half of 1953.

On the "supply" side, the action of the Federal Reserve System has been important during recent months. The System has maintained the policy of not supporting Government securities at par during the last several months. Thus additional reserves of the member banks have not been created by this means.[3] Such purchases of Government securities by the Federal Reserve banks were the major source of additional member-bank reserves during the past decade, but the recent actions of the Federal Reserve System have ended this encouragement to increasing inflation.

Treasury Action

During April 1953 the impact of Treasury actions on the money market became more pronounced than at any time in the last year. The Treasury started to compete for the available savings seeking investments by offering 3¼-percent, 30-year bonds (previous long-term issues offered during World War II had an interest rate of 2½ percent); additional quantities of 91-day Treasury bills were offered; and the Treasury raised interest rates on certificates of indebtedness from 1⅞ percent to 2⅝ percent in an exchange offer for $5,688,000,000 of issues maturing during June.

According to President Eisenhower's statements in his radio speech on May 19, the Federal budget deficit during the next fiscal year (beginning July 1, 1953) may reach $6,000,000,000. However, the budget deficit during the 6 months ended December 31, 1953, presumably will be substantially greater as a result of the present corporate-tax payment schedule (which requires that corporations pay 20 percent of their 1952 tax liability during the last two quarters of 1953 and 90 percent of their 1953 tax liability during the first two quarters of 1954).

Although an accurate estimate of the deficit during the last 6 months of 1953 is difficult to make, present indications are that the Treasury's cash deficit (excluding its receipts from public debt operations) may exceed $8,000,000,000. This sum could be borrowed from the commercial banks if the Federal Reserve banks would augment the reserves of the commercial banks by purchasing a large amount (perhaps $3,000,000,000) of Government securities. However, this would be a repetition of the inflationary procedures followed during World War II with results that the present Administration has deplored and has promised not to permit again. An alternative will be for the Treasury to compete in the market for the new savings seeking investments, a procedure that seems certain to tighten the money market further.

Conclusions

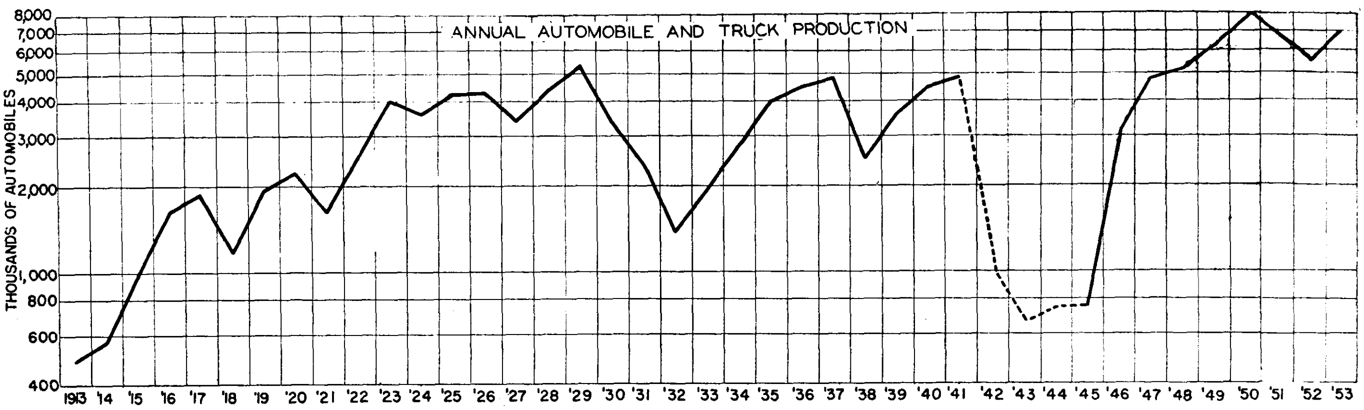
The present Administration has committed itself to a "sound dollar." President Eisenhower has said, "We believe finally that our truly urgent need is to make our nation secure, our economy strong, and our dollar sound. For every American family today, this matter of the sound dollar is crucial. Without a sound dollar, every American family would face a renewal of inflation, an ever increasing cost of living, the withering away of savings and life-insurance policies."

---

[1] "The Money Market Tightens," *Research Reports*, August 18, 1952, and "The Money Market Continues to Tighten," *Research Reports*, March 9, 1953.

[2] See the article "New Capital Issues" in this *Research Reports*.

[3] Commercial banks have increased their reserves through direct borrowing from the Federal Reserve banks, and their present average indebtedness to the Federal Reserve banks exceeds $1,000,000,000. However, such loans must be repaid in a relatively short period and therefore offer individual banks only a temporary expedient.



Within the next few months we shall witness a test of the Administration's determination to make its actions conform to its expressed intentions. A serious dilemma confronts the Treasury experts: on the one hand, competing for bona fide savings in the market place on the scale indicated above will almost certainly cause a further sharp rise in interest rates and in all probability will force a radical revision of many plans for corporate expansion; and, on the other hand, financing the deficits by selling new securities to the commercial banks will almost certainly force a resumption of inflation. We assume that the Treasury will attempt to follow a "middle way," that is, will use both procedures to some extent. The extent to which inflationary procedures are used will be a clear indication of the weight to be given to President Eisenhower's pledge to maintain a "sound dollar."

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 100.6 percent of capacity for the week ended May 30, 1953, was 1 percent 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†	95*	23	75	29	102*	101p*
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.31	.35	1.13	.45	2.12	2.26

Automobile and truck production in the United States and Canada during the week ended May 23, 1953, was estimated at 162,110 vehicles, compared with a revised total of 177,305 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Vehicles (000 omitted)†	136	45	131	47	128	162p

Electric-power production in the week ended May 23, 1953, increased to 8,012,902,000 kilowatt-hours from 7,959,054,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Billion Kilowatt-Hours†	1.71	1.44	2.25	2.02	7.15	8.01

Lumber production in the week ended May 16, 1953, increased. *The New York Times* seasonally adjusted index was 1 point above that for the preceding week and was 26 points above that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
The New York Times Index†	133	41	92	82	84	110

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

Automobile Production

Approximately 734,000 motor vehicles (605,000 cars and 129,000 trucks) were produced in the United States during April, the largest monthly output since March 1951. April production was nearly 5 percent less than expected because of strikes in some plants of the Ford and Chrysler companies. According to *Ward's Automotive Reports*, automobile production during May is estimated to have been 742,000 (614,000 cars and 128,000 trucks).

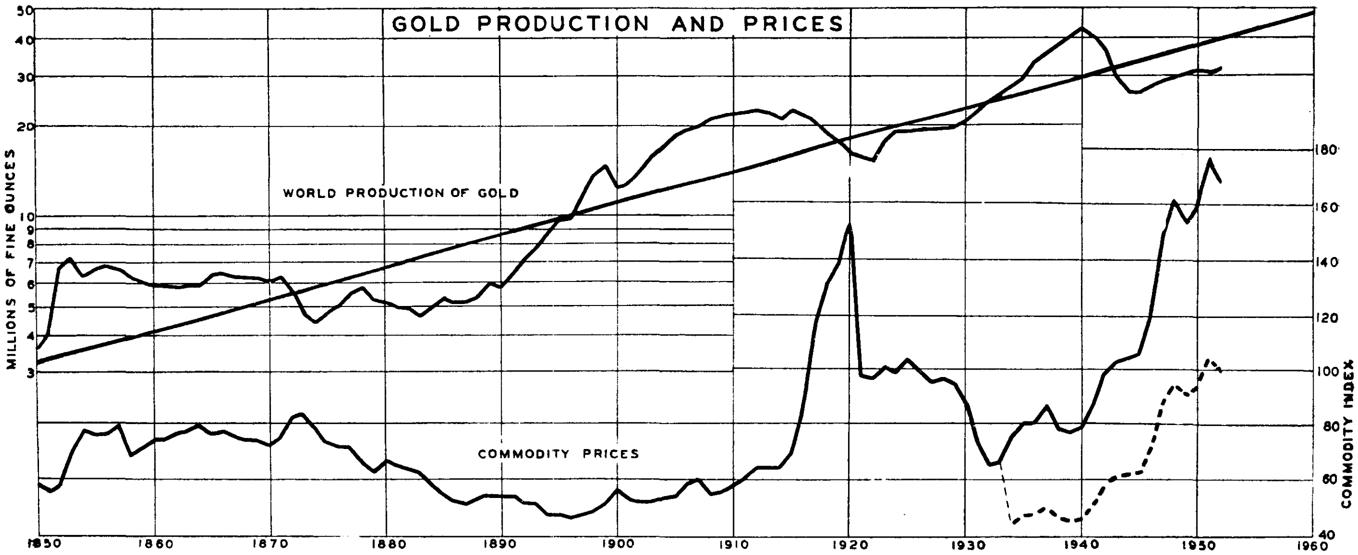
Production during the first quarter of 1953 was 1,848,900 units (1,506,500 cars and 342,400 trucks), compared with 1,293,900 units produced during the corresponding period of 1952. Estimated output during the first 5 months of 1953 was approximately 3,325,000 units, 43 percent greater than that during the corresponding months of 1952.

The United Nations *Monthly Bulletin of Statistics* for May 1953 gives data for automobile output in major countries throughout the world (excluding China, and the Soviet Union and its satellite countries). Passenger cars and trucks produced during 1952 were as follows: Austria, 3,840; Japan, 38,880; Italy, 138,480; West Germany, 412,080; Canada, 432,680; France, 485,760; United Kingdom, 689,960; and United States, 5,538,840. Comparisons with the respective outputs during 1951 reveal the following percentage increases: Austria, 39; West Germany, 13; France, 9; Canada, 3; and Japan, 1. Production in the United States, United Kingdom, and Italy decreased 18, 6, and 6 percent respectively.

Conflicting reports have been received from other sources as to the current situation in the industry. A *Wall Street Journal* article indicates that, although automobile production and sales are soaring, dealers are becoming pessimistic. Production is increasing faster than sales, most dealers' stocks are increasing, competition is becoming more keen, and many dealers are engaged in price shaving. On the other hand, an article in *The Iron Age* points out that sales this year in traditionally slow March exceeded the rate of any single month since the recordbreaking days of 1950. According to the article, *Automotive News* views without alarm the 2-year peak in dealers' inventories, because new-car stocks are "well below the saturation point."

Strikes in parts producers have been causing temporary disruption of assembly lines in most automobile companies. However, no substantial curtailment of output has occurred. The agreements reached by General Motors, Ford, and Chrysler with the United Auto Workers reduce the probability of a major reduction of production. Presumably only a prolonged steel strike, which does not seem probable, could affect operations in the automobile industry.

A continuation of recent operating rates through the remainder of 1953 would result in total output of nearly



8,000,000 cars and trucks. However, many officials of the automobile industry as well as such sources as The Iron Age *and* Ward's Automotive News *expect a curtailment of production during the second half of the year that would limit the total annual output to about 7,000,000 units (5,500,000 cars and 1,500,000 trucks). Production during 1952, 1951, and the record year of 1950 was 5,538,500, 6,765,200, and 8,003,000 units respectively. The pre-World War II record was established in 1929, when 5,350,000 units were produced.*

DEMAND

Department-Store Sales

Department-store sales for the week ended May 23, 1953, were 9 percent more than sales in the preceding week and were 8 percent more than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

	1952	*1953*	
(August 1939=100)	May 28	May 21	May 28
Spot-Market Prices			
(22 basic raw materials)	298	271	272
Commodity Futures Prices			
(Dow-Jones Daily Index)	367	340	335

FINANCE

Gold Production and Commodity Prices

According to preliminary estimates, world production of gold increased 3 percent during 1952. Thus the upward trend of gold production that started in 1946 and was temporarily interrupted in 1951 may have been resumed. The rate of increase during 1952 was about equal to that during 1948-50 but was less than that during 1946-47. The annual rate of increase of the long-term trend is nearly 2½ percent; thus the rate of increase during 1952 was slightly greater.

The index of United States wholesale commodity prices, which is plotted on the accompanying chart, decreased 3 percent during 1952.[4] Commodity prices in the major gold-producing countries leveled off or increased somewhat during 1952. The decrease in gold production during 1951 apparently was attributable in part to the rise in production costs that occurred during 1950 and 1951 in major gold-producing countries as wholesale commodity prices increased. Several factors apparently contributed to the increase of gold production during 1952. During late 1951 and 1952 the worldwide upward trend of commodity prices apparently was retarded and later halted; consequently, production costs of the gold-mining industries apparently did not increase during 1952 so much as they did during 1951. Moreover, apart from the encouragement of relatively more favorable production costs, the gold-mining industries were still able to sell a substantial portion of their output at premium prices. Finally, two major gold-producing countries, the Union of South Africa and Canada, provided additional incentives to the gold-mining industries during 1952.[5]

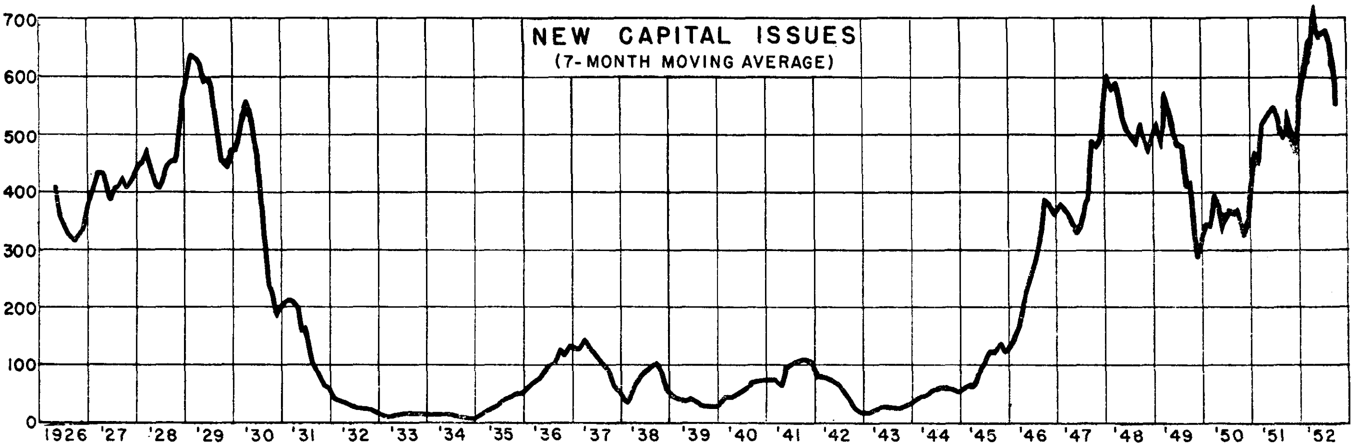
According to data published by the International Monetary Fund (in the May issue of *International Financial Statistics,* pages 14-15), the gold holdings of international institutions, central banks, Treasuries, and other governmental institutions, excluding Russia, China, and satellites, increased $275,000,000 during 1952, although total gold production was estimated at $851,000,000. Thus a third of the world's 1952 gold production was taken by national monetary systems, and the remainder went into private hoards, or was used in industry. The International Monetary Fund suggests that "the major part went to increase private hoards"; on the other hand, the Union Corporation, England, estimates that 60 percent has been used in industrial manufactures and 40 percent has been hoarded privately.[6]

According to Dr. M. A. Kriz (in an article entitled "Gold," published in *Engineering and Mining Journal,* February 1953), "The slowing down in gold disappearance last year seems to have reflected a decline in demand in Western Europe, especially France, as well as in the Middle and Far East. This decline appears attributable principally to the abatement of inflationary pressure and

[4]Unfortunately, a reliable index of world commodity prices is not available. Prices plotted on the chart represent wholesale commodity prices in the United Kingdom prior to 1914 and those in the United States thereafter.

[5]In South Africa, tax rates for the gold-mining industries remained unchanged during 1952 in spite of the fact that rates were increased for other industries; in Canada, subsidies amounting to an average of $2.80 per fine ounce were paid to those producers who sold their entire year's product to the central banking authorities.

[6]*The Manchester Guardian,* England, April 16, 1953.



to the reversal in expectations of currency devaluation in some European countries. The reduced demand, along with the pressure of increased supplies already noted, tended to depress free-market gold prices."

International Financial Statistics reports, "During the year the free market price of gold in terms of U. S. dollars continued the decline that had begun in September 1951. To some extent this may have resulted from the actions of those countries that relaxed the previous restrictions upon sales of gold at premium prices following the Fund's policy statement of September 28, 1951. Whatever the cause of the decline, the premium price was reduced by the end of 1952 to about $37 per fine troy ounce, or to very little more than the official price of $35 per ounce."[7]

Although gold production trended upward during 1952, we do not believe that recovery of gold production to the long-term-trend line is probable in the near future. However, a downward trend of prices throughout the world seems probable in the next year; consequently, some further increase in gold production is also probable.

New Capital Issues

Our centered 7-month moving average value of new capital issues has decreased sharply from the record high established in April 1952 and by September had reached the lowest level since November 1951.[8] However, total new corporate financing during 1952 established an all-time annual record of $7,719,300,000 that exceeded the 1951 total of $6,302,700,000 by nearly 23 percent.

The data include both the corporate issues placed privately with institutions such as life-insurance companies, trust funds, educational institutions, etc., and those placed publicly through underwriters. Issues placed privately totaled $3,146,875,288 during 1952, compared with $2,775,529,128 during 1951 and $2,410,809,511 during 1950. Although the 1952 figure was the largest since 1937 (when the compilation of these data was started), it represented only 37 percent of the aggregate new corporate issues in 1952, compared with 40 percent in 1951, 41 percent in 1950, and 43 percent in 1948 (which was a record high).[9]

The proportions of the total value of new securities issued by major industries during 1952 were as follows (in parentheses are the corresponding percentages for 1951): public utilities, 41 (47) percent; other industries and manufacturing, 30 (32) percent; iron, steel, copper, and coal, 8 (5) percent; oil, 9 (3) percent; railroads, 4 (5) percent; and miscellaneous, 6 (6) percent.

During the last 3 years there has been a trend toward a decreasing use of stock financing. The portions of total new capital issues represented respectively by stocks and debt issues were 22 percent and 78 percent during 1952, compared with 26 and 74 percent during 1951 and 27 and 73 percent in 1950.

Businessmen have programmed 1953 capital spending for plant and equipment at $27,000,000,000, compared with $26,500,000,000 in 1952. Even if these plans materialize, we expect that depreciation allowances will provide a somewhat greater amount this year than they did last year. Thus, the need for offering new bonds and stocks in order to finance these expenditures may be somewhat less than that of a year ago.

The April *Federal Reserve Bulletin* states, "Although financing of plant and equipment expenditures accounted for the greater part of corporate demand for long-term funds in 1952, working capital requirements were also an important factor. Of the 9 billion dollar total of corporate security offerings, nearly 2 billion—or about one-fifth—were to provide working capital." Some increase in inventories during the next several months, either as a result of a further expansion of business activity or as a result of a decrease in business activity (inventories lag behind cyclical movements of general business activity), may require additional capital financing but we do not expect it to be substantial.

The money market is "tight," and the trend of interest rates has been upward. For example, the yields of corporate Aaa bonds (Moody's), which were virtually unchanged during the first 9 months of 1952, increased from 2.95 in September to 3.29 in May. We assume that "dearer" money will tend to reduce somewhat the amount of new capital issues. According to *The Journal of Commerce*, some utilities already have delayed or reduced their planned offerings.

Conclusions

Although the specific data used in the compilation of our 7-month moving average have not yet been published for any month this year, other available data indicate that offerings of new issues during the first 4 months this year were slightly less than those issued a year earlier. Consequently we believe that the trend of our 7-month moving average will decrease to below the November 1951 low during the first few months of 1953 but will not change substantially during the 4 or 5 months thereafter. We expect the total of new corporate issues during 1953 to be less than that during 1952.

---

[7] *International Financial Statistics*, May, 1953, page ii.

[8] The September 7-month moving average, the last figure shown on the accompanying chart, includes data for the last 7 months of the year.

[9] The data for 1951 and 1950 were revised recently.