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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Statistical Indicators of Business-Cycle Changes[1]

Although the recent movements of the statistical indicators still reflect a high level of business activity, there are further signs that a weakening of activity is developing. Since our article 2 weeks ago, more recent data for the leading indicators suggest that the probability of a curtailment of business activity has increased.

The Leading Indicators

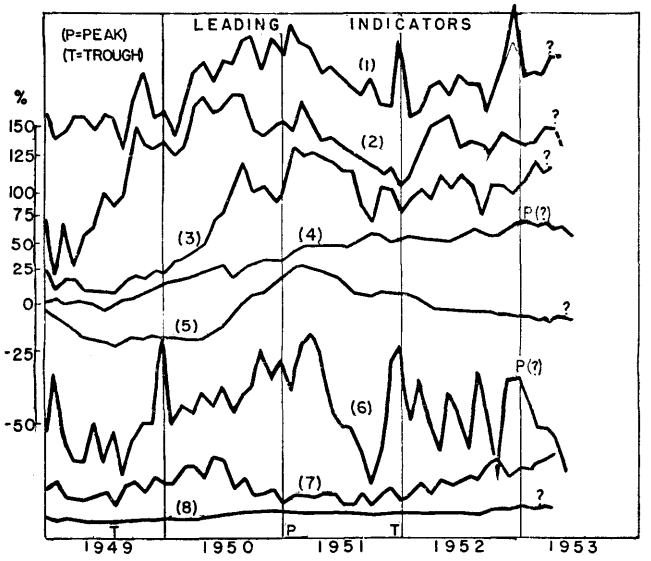
The "apparent recent trends" of the four leading indicators whose movements were indeterminate last month now seem clearer. The trend for contract awards for residential construction seems to be "up." The trend for average hours worked per week in manufacturing seems to have leveled off. The trends for both liabilities of commercial and industrial failures and the industrial-common-stock price index are "down." The recent trends of three of the indicators are "down," four are "up," and one is "level." The ratio of the number of indicators "down" to the number "up" is the greatest since January of this year.

The cyclical status of two indicators, inverted liabilities of commercial and industrial failures and industrial-common-stock prices, is "down (?)." Liabilities usually have been the first of the leading indicators to reach a peak, 10.5 months before general business activity. Industrial-common-stock prices ordinarily have reached a peak at approximately the same time as have new orders for durable goods and residential building, 6 to 7 months prior to a downturn of general business activity. The status of new incorporations is "up." All others are indeterminate; although downward cyclical trends may have begun in these indicators, it is too early to classify them as down.

The Roughly Coincident Indicators

The only changes in the roughly coincident indicators from the trends reported a month ago occurred in the "latest monthly change"; the most recent monthly move-

[1]We have added a new column entitled "Cyclical Status" to our table in order to indicate what we believe to be the current cyclical trend of each indicator. The "apparent recent trend" refers to the trend during the 5 or 6 months prior to the latest month for which data are available. The cyclical status indicates whether an indicator is in an expansion or a contraction phase of a business cycle, a phase that may last from 6 months to several years. Some of the time, because of inadequacies in the data and because of the delay in ascertaining whether the most recent trend reflects a "cyclical" trend rather than a temporary movement, we are unable to designate the cyclical status as "down" or "up." At such times we classify the cyclical status as "indeterminate" and designate it by a "?." At other times there is at least sufficient evidence to suggest the direction of a cyclical trend, but the evidence is not conclusive. At such times we indicate the cyclical status as "questionable" in the following manner: "down (?)" or "up (?)." The cyclical status of the leading indicators is also shown on the accompanying chart.



LATEST STATUS OF STATISTICAL INDICATORS

	Apparent Recent Trend	Latest Monthly Change		Current Cyclical Status
Leading Group				
1. Comm. and ind. bldg.	Up	(June)	NC	?
2. Res. bldg.	Up	(May)	Down	?
3. New orders dur. goods	Up	(Apr.)	Up	?
4. Ind. common stock prices	Down	(June)	Down	Down (?)
5. Whole. price, 22 commod.	Down	(June)	Down	?
6. Liab. of failures*	Down	(May)	Down	Down (?)
7. New incorporations	Up	(May)	Up	Up
8. Aver. hours worked	Level	(Apr.)	NC	?
Roughly Coincident Group				
9. Nonagri. employ.	Up	(May)	Up	Up
10. Unemployment*	Up	(May)	Up	Up
11. Bank debits outside NYC	Up	(May)	Down	?
12. Freight carloadings	Down	(May)	NC	Down (?)
13. Industrial production	Up	(June)	Down	?
14. Whol. prices excl. farm prod. and foods	Level	(June)	NC	?
Lagging Group				
15. Personal income	Up	(Apr.)	Up	Up
16. Sales by retail stores	Up	(Apr.)	NC	Up
17. Consumer install. debt.	Up	(Apr.)	Up	Up
18. Manufacturers' inventories	Up	(Apr.)	Up	Up

NC=no change; ?=cannot be determined; *inverted because movements of these series are generally opposite to most economic series; month indicated is the latest for which a reliable estimate can be made; (?)=status indicated remains questionable.

ment is shown on the accompanying table. The "apparent recent trends" were unchanged from those reported last month.

The "cyclical status" of the employment and the inverted unemployment series is "up." Both gross national product and corporate profits before taxes (which are roughly coincident indicators that are not included in our table because data for them are available only quarterly) appear to be "up." Freight carloadings are "down"; all others are "indeterminate."

The Lagging Indicators

The "apparent recent trend" of all the lagging indicators continued "up" during April. The "latest monthly change" of three of the indicators (personal income, consumer installment debt, and manufacturers' inventories) also continued "up." Retail sales changed from "down" in March to "no change" in April.

The "apparent recent trend" of bank rates on business loans (which is a lagging indicator for which data are available only quarterly) is "up." The "cyclical status" of bank rates is "up(?)." All other recent trends and cyclical statuses are "up."

Conclusions

The "cyclical statuses" of the indicators are those we should expect to prevail if a cyclical downturn in general business activity were to begin in the next several months. Two of the leading indicators already seem to be in the contraction stage of a cycle, five of the others are "indeterminate," and only one is "up." Of the roughly coincident indicators, two are "up" but three are "indeterminate" and one is "down." Of the laggers, all are "up." The indicators provide no clue as yet as to how long or how severe any such downturn probably will be.

SUPPLY

Industrial Production

Our preliminary estimate of the June index of industrial production adjusted for long-term trend decreased 1 percent from the revised May figure. The June index was 6 percent above the long-term trend but was 4 percent below the postwar high reached in October 1950 and in January and April 1951.

The June index unadjusted for long-term trend (not shown on the accompanying chart) was slightly less than that for May and was 1 percent below the alltime high reached during March 1953. The index during the first 6 months of 1953 was 9 percent above that during the corresponding period of 1952. However, a year ago, during the last 2 weeks of May and the first 4 weeks of June, production was substantially curtailed as a result of the steel strike.

During June, increases in lumber and furniture output (1 percent) and petroleum production (1 percent) were slightly more than counterbalanced by decreases in iron and steel production (nearly 2 percent), paper production (1 percent), and minerals (1 percent).

Production of steel ingots and castings during June is estimated at approximately 9,500,000 tons, about 500,000 tons less than that of May and about 670,000 tons less than the monthly record of 10,168,000 tons reached during March 1953. The steel market is becoming "easier." According to *The New York Times*, "at least two factors which have accounted for an 'extra surge' of steel demand for the past several months have been removed from the market: the steel strike possibility and the expectation of an increase of steel prices * * *." The report continues: "There are many factors in the steel market which will tend to keep output at a relatively high level in the third quarter; and at an 85 to 90 percent rate as an average for the fourth quarter." *The Wall Street Journal* also reports that steel producers note signs of a slightly easing demand; a trend is noted away from conversion steel and "scattered" cancellations have occurred. In spite of these indications of some curtailment of output later in the year, steel-scrap prices have increased somewhat during the last few weeks.

Passenger-car production, which was curtailed during the last week of May and the first week of June, increased during the last few weeks of June. The 3,400,000-car output anticipated by *Wards Automotive Reports* for the first half of 1953 will almost be realized. Without much doubt, output will surpass the previous first-6-months-of-the-year record of 3,100,000 units reached in 1951. However, according to the Federal Reserve Bank of Chicago's monthly review, "some decline doubtless is in prospect for the following months."

Another major steel consumer may curtail demand somewhat in the near future. The railroad-freight-car order backlog decreased to 33,770 units during June (the 26th consecutive monthly decrease). According to *The Iron Age*, "If new orders have not picked up [by the fourth quarter], builders may have to start closing down the shops."

Production of crude oil increased nearly 2 percent during June to within 2 percent of the record established during December 1952. Cotton consumption, which is the basis for our preliminary textile-production estimates, increased slightly during May from 36,700 bales to 37,400 bales per working day. Activity in the textile industry has remained nearly unchanged since August 1952.

Conclusions

If there is no substantial change in the international situation (and none seems imminent), we believe that industrial production will continue near present high levels for the next few months. However, in view of what appears to be an easing of demand, some further decrease seems more probable than a leveling-off or an increase during the remainder of the year.

Latest Weekly Data

Steel-ingot production, scheduled at 99.1 percent of capacity for the week ended June 27, 1953, was 3 percent more than that in the preceding week but was substantially more than production in the corresponding week last year, when a major steel strike occurred.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Percent of Capacity†	95	17	74	27	12	99p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.31	.26	1.12	.42	.25	2.23

Automobile and truck production in the United States and Canada during the week ended June 20, 1953, was estimated at 170,686 vehicles, compared with a revised total of 167,642 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Vehicles (000 omitted)†	127	53	112	42	129	171p

Electric-power production in the week ended June 20, 1953, increased to 8,329,297,000 kilowatt-hours from 8,244,852,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Billion Kilowatt-Hours†	1.70	1.44	2.26	2.05	7.25	8.33

Lumber production in the week ended June 13, 1953, increased. *The New York Times* seasonally adjusted index was 4 points above that for the preceding week and was 2 points above that for the corresponding week last year.

	1929	1932	1937	1938	1952	1953
The New York Times Index†	131	40	96	81	110	112

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

DEMAND

The Harwood Index of Inflation

Our preliminary estimate of the June index of inflation is 1 point below the revised May figure (the revised figures for the last several months are shown in the table on page 104). The June index is 7 points above that during June last year. The range of the fluctuations of the Harwood Index of Inflation since March 1951 has been only 11 points. Not since the late thirties has there been a period of such relatively small fluctuations.

During the first 3 weeks of June, investment-type assets increased $2,400,000,000: real-estate loans increased $70,000,000; loans on securities increased $160,000,000; other loans, which include consumer installment loans, increased $110,000,000; the commercial banks' holdings of Government securities increased $1,180,000,000 and their holdings of private securities decreased $190,000,000; the Federal Reserve banks' holdings of Government securities increased $1,070,000,000. Among the Government securities acquired by the commercial banks the major portion apparently consisted of tax-anticipation bills.

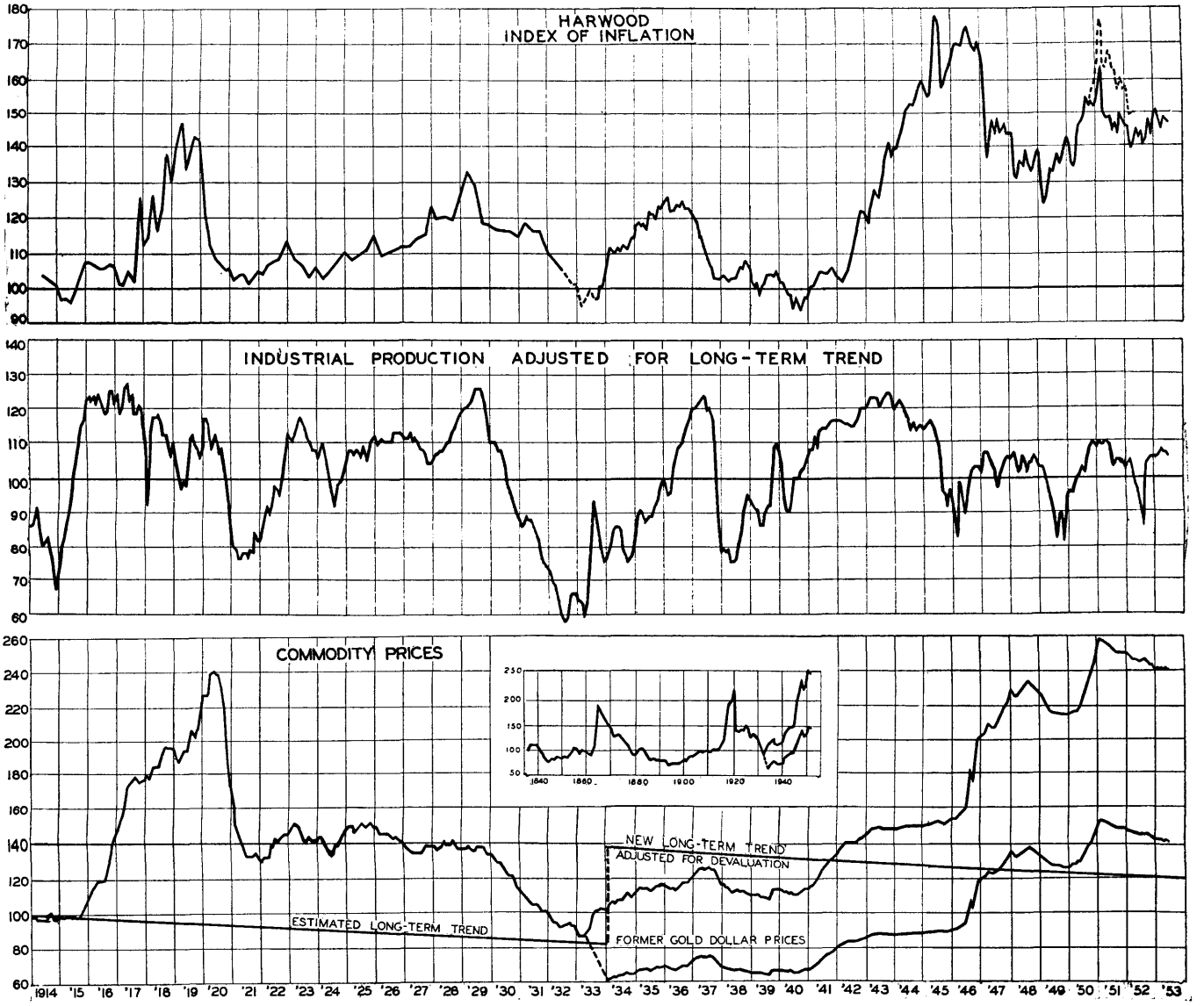
An analysis of probable Treasury receipts and expenditures during June indicates that the Treasury's operations may result in a net cash surplus of approximately $1,500,000,000 (the Treasury's net cash surplus during May was $150,000,000). Thus the net result of Treasury operations during the fiscal year 1953 (which ends June 30 this year) would be a net cash deficit of approximately $1,800,000,000, compared with a net cash deficit of only $400,000,000 during the fiscal year 1952.

The Treasury was unusually active in the Nation's money markets during May and June. Their activities included the following.

1. The Treasury obtained about $1,000,000,000 from sales of 3¼-percent, 30-year bonds. Only $130,000,000 of these bonds was sold to commercial banks; thus the major lenders were nonbank investors. An additional $420,000,000 of these bonds was issued in exchange for maturing United States savings bonds.

2. The Treasury borrowed an additional $1,200,000,000 in the form of 91-day Treasury bills. The purchasers of the bills apparently consisted largely of business corporations. The Treasury announced its intention of offering new bills for an additional $500,000,000 through July 16.

3. The Treasury offered 2⅝-percent, 1-year certificates of indebtedness in exchange for $4,963,000,000 of



maturing 1⅞-percent certificates of indebtedness and $725,000,000 of 2-percent bonds. This exchange operation has been classified by Treasury officials as unsuccessful because the "attrition" rate (the proportion of cash redemptions of maturing issues) was relatively high.

4. On June 3 the Treasury offered $800,000,000 of tax-anticipation bills maturing September 15 and acceptable in payment of third-quarter corporate income taxes. This issue was subscribed fully, and the original buyers apparently were commercial banks. Usually commercial banks sell these bills to corporations shortly after purchase.

5. On May 15 the Treasury announced a new offering of B Series savings notes. The new series is more attractive than the Series A notes offered 2 years ago (Series A notes yielded 1.88 percent if the notes were held for 3 years; Series B notes yield 2.47 percent if held for 2 years). The Treasury Daily Statement for June 17 indicates that, although holders of the old notes are taking advantage of the new offer, cash redemptions have exceeded cash sales to some extent.

6. The cash redemptions of United States savings bonds exceeded cash sales during May by $105,000,000; in addition, $420,000,000 of maturing Series F and G bonds was exchanged for 3¼-percent, 30-year bonds. The net cash redemptions during the first half of June were $150,000,000. Thus the situation of United States savings-bond redemptions exceeding sales, which prevailed during 1951 and 1952 but was reversed during early 1953, has been resumed, temporarily at least.

The Federal Reserve's reduction of member-bank reserve requirements, which was announced last Wednesday, should ease the present tight-money market to some extent, especially that for short-term funds, and should make Treasury financing during the last half of the year somewhat easier.

Because the Treasury probably will incur a substantial budget deficit during the last half of the year and presumably will not be able to borrow from nonbank investors all the funds needed to meet the deficit, an increase in the index of inflation seems probable during the last half of the year. By the end of the year, a level exceeding that of a year ago would not be surprising.

Department-Store Sales

Department-store sales for the week ended June 20, 1953, were 1 percent less than sales in the preceding week but were 13 percent more than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

A 1-percent decrease (preliminary estimate) in the Bureau of Labor Statistics' June index of wholesale commodity prices lowered the index to a level slightly below that for December 1952. The June figure is nearly 2 percent less than that of a year ago and is 6 percent below the alltime high reached in March 1951. June prices were 9 percent above those that prevailed in June 1950, when the Korean War started.

During the first half of June, prices of farm products and prices of processed foods decreased 2 and 1 percent respectively; prices of commodities other than farm and food products were unchanged.

The farm-product price increase in May was more than counterbalanced by the decrease during June. These prices in June were at the lowest level of the last 3 years and were only 1 percent above those of June 1950 at the start of the Korean War. Since the beginning of the year, farm-products have decreased 4 percent to a level 19 percent below the alltime high reached in March 1951. Prices received by farmers increased 1 percent from mid-April through mid-May. Prices paid by farmers were unchanged during this period. Consequently, the parity-price ratio was 94 percent at mid-May, compared with 93 percent in April and with 100 and 101 percent in April and May 1952 respectively.

Prices of processed foods at mid-June were at virtually the same level as in April, were 1 percent less than those at the beginning of 1953, and were 9 percent below the peak reached in February 1951. Meat prices, which had increased nearly 5 percent during May and thus interrupted a downward trend that began in August 1952, decreased 1 percent during June.

Prices of commodities other than farm products and foods, which increased slightly during May, remained unchanged through mid-June. Prices in June were nearly 1 percent higher than those at the end of 1952 but were 3 percent lower than the peak established in March 1951.

Both the spot-market daily price index of 22 basic raw materials and the Dow-Jones daily index of commodity futures decreased almost 3 percent from mid-May through mid-June to the lowest level since June 1950 (when the Korean War started). At mid-June the spot-market daily price index and the Dow-Jones daily index of commodity futures were 6 and 8 percent lower, respectively, than they were at the beginning of 1953.

Wholesale prices, which decreased gradually during 1951 and 1952, leveled off during the first 5 months of 1953. The decrease in June and the recent downward movements of the spot-market daily price index and the Dow-Jones daily index of commodity futures suggest that a resumption of the earlier downward trend is probable in the near future. However, the resumption of inflation expected during the next 6 months may postpone any substantial decline in prices.

Latest Weekly Data

	1952	*1953*	
(August 1939=100)	June 25	June 18	June 24
Spot-Market Prices (22 basic raw materials)	293	265	266
Commodity Futures Prices (Dow-Jones Daily Index)	370	330	330

Statistical Summary; Production, Index of Inflation, and Prices

	1952							*1953*					
	June	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*	*June*
Index of Industrial Production	92	86	97	104	105	106	106	106*	107*	108*	107*	107*	106*
Index of Inflation (Ratio Form)	142	144	140	142	148	143	150	151*	148*	145*	149*	148*	147*
Commodity-Price Index†	245	246	247	246	244	244	241	242*	241*	242*	241*	242*	240*
Commodity-Price Index†‡	145	146	146	146	145	145	143	143*	143*	143*	142*	143*	142*

†Both commodity-price indices have been revised beginning January 1947; ‡In terms of former gold dollars; *preliminary.