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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Commercial Banks Sell Government Securities

A significant development of recent months, one that has been largely obscured by more newsworthy events, has been the steady decrease in the Government securities held by the commercial banks. From July 1952, when holdings totaled $62,700,000,000, through June 1953, the commercial banks' holdings of Government securities decreased to approximately $58,000,000,000 (excluding tax-anticipation bills).

During this period, outstanding Government securities (excluding tax-anticipation bills and special issues held by Government trust funds) decreased $500,000,000. However, the Federal Reserve banks increased their holdings by $1,200,000,000; consequently, nonbank investors purchased a net $3,000,000,000 of Government securities of all types during the 11-month period.

A breakdown of the Government holdings of the commercial banks in July 1952 and June 1953 shows the following changes:[1]

	July 1952 (millions)	June 1953 (millions)	Change (millions)
Treasury Bills	$ 5,400	$ 3,500	−$ 1,900
Certificates	6,600	3,750	− 2,850
Notes	10,400	10,200	− 200
Treasury Bonds	35,100	35,300	+ 200
	$57,500	$52,750	−$ 4,750

The decrease in the commercial banks' holdings of Government securities has not reflected a decrease in total loans and investments of the banks (which increased approximately $500,000,000 during this period) but a shift in commercial-bank assets to "other" loans (including consumer loans), real-estate loans, and commercial, agricultural, and industrial loans, which increased $2,700,000,000, $1,200,000,000, and $2,100,000,000 (21, 8, and 7 percent) respectively.

According to the *Monthly Review* for July, 1953, of the New York Federal Reserve Bank, "The [recent] rise in interest rates also had significant effects on the investment policy of both institutional and individual investors. Some of these effects were no doubt only temporary. As always in a period of rising rates and market uncertainty, many long-term nonbank investors sought refuge from declining investment values in short-term securities, including Treasury bills, short-term municipal warrants, and early maturities of new railroad equipment obligations and municipal bond issues, and in fact nonbank investors absorbed substantial amounts of short-term Treasury securities sold by the commercial banks."

The purchases by nonbank investors may have been attributable, in part, according to the *Review*, to the following factors. "Continued expansion of personal incomes and, perhaps more important this year than in the past, higher interest rates contributed to the growth of savings during the first six months of the year. According to preliminary estimates, savings accumulated in life insurance companies and in savings institutions including savings banks, savings and loan associations, and commercial bank thrift accounts totaled 7½ billion dollars in the first half of 1953, about three quarters of a billion more than were accumulated in these institutions in the first half of 1952." Department of Commerce estimates indicate that personal net saving during the July 1952-June 1953 period was at an annual rate of approximately $20,100,000,000, compared with $18,500,000,000 during the preceding year.

Moreover, our preliminary and highly tentative estimates of idle demand deposits during the July 1952-June 1953 period indicate that a decrease in idle purchasing media of from 2 to 3 billion dollars may have occurred. Thus nonbank investors may have used idle funds as interest rates rose and investments became relatively more attractive.

Conclusions

The unusually great demand for consumer credit during recent months has been met in part by the reduction of bank holdings of Government securities. The recent easing of the money market by the Federal Reserve, rather than merely assuring adequate credit for those business needs necessary to the country's economic growth, may encourage an excessive credit expansion that will make future financing of Government and business needs even more difficult than had been anticipated.

SUPPLY

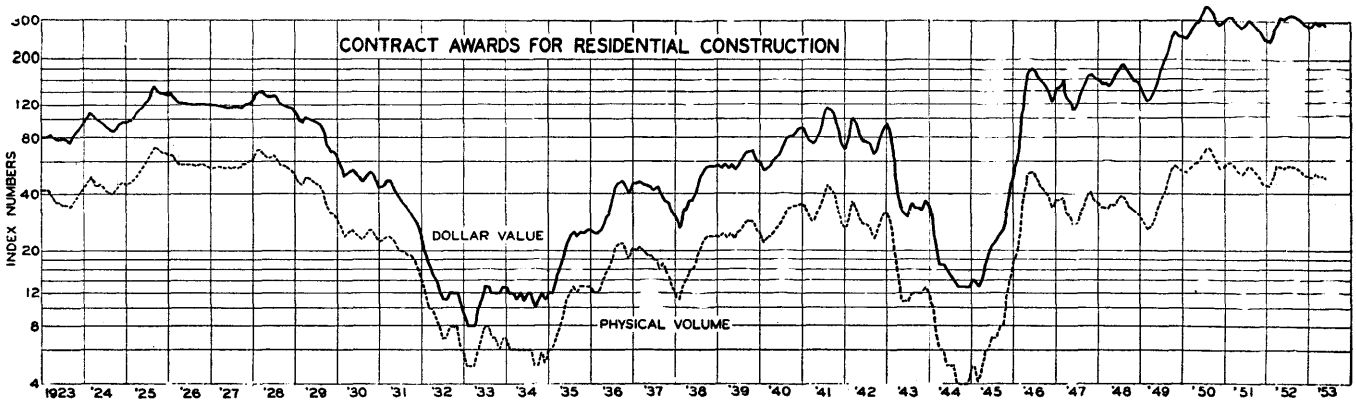
Industrial Production

Steel-ingot production, scheduled at 96.2 percent of capacity for the week ended July 18, 1953, was 4 percent more than that in the preceding week and 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	16	82	32	15	96p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.31	.24	1.24	.49	.31	2.16

Automobile and truck production in the United States

[1]Data are broken down for approximately 92 percent of all commercial banks; consequently, the totals are somewhat different from those mentioned in the first two paragraphs. The June 1953 data are estimates.



and Canada during the week ended July 11, 1953, was estimated at 166,805 vehicles, compared with a revised total of 140,491 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Vehicles (000 omitted)†	113	41*	100*	25*	71	167p

Electric-power production in the week ended July 11, 1953, increased to 8,096,149,000 kilowatt-hours from 7,970,000,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Billion Kilowatt-Hours†	1.71	1.34*	2.14*	1.94*	6.99	8.10

Lumber production in the week ended July 4, 1953, decreased. *The New York Times* seasonally adjusted index was 14 points below that for the preceding week and was 25 points below that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
The New York Times Index†	127*	38	97	71	125*	100*

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

Residential Construction

The index of residential-contract awards, which increased nearly 2 percent during April, decreased slightly more than 3 percent during May, according to our preliminary estimates.[2] The May figure is nearly 7 percent below that of the corresponding month a year ago, is 13 percent below the Korean War peak reached in July 1952, but is 23 percent above the low of January 1952.

(The Board's index is a 3-month moving average, centered, of the dollar value of contract awards reported in 37 States east of the Rocky Mountains. Thus the May figure shown on the accompanying graph includes residential-construction contracts awarded during April, May, and June, 1953.)

The *Engineering News-Record* index of construction costs increased nearly 1 percent during May from the previous alltime high reached in the preceding month. The May figure is nearly 6 percent above that of May 1952, 16 percent above the June 1950 index (at the start of the Korean War), and 39 percent above the August 1945 figure (at the end of World War II). With few exceptions, construction costs have increased steadily since mid-1938. Since June 1938, construction costs have increased more than 115 percent.

Our physical-volume index of residential construction (which is derived by dividing the index of the dollar value of residential construction by the index of construction costs) decreased 4 percent during May and is 14 percent below the corresponding figure a year ago.

The 107,000 new nonfarm dwelling units started during May were 3,000 below the April level. The Bureau of Labor Statistics reports that it was the first May-April drop since the end of World War II. During June starts totaled 103,000, a seasonal decrease of 4 percent. On a seasonally adjusted basis, the number of new dwelling units started during June was at an annual rate of 1,063,000, compared with 1,067,000 during May and 1,174,000 during April. During 1952, approximately 1,130,000 units were started.

There has been much discussion during recent months concerning mortgage credit and the decrease in residential construction. Many reports have indicated a reluctance on the part of lenders to enter the mortgage market at prevailing interest rates. According to the United States Savings & Loan League, "A number of big institutional lenders have stayed out of the mortgage market in recent months in the belief that interest rates would continue to rise." On the other hand, the League reported that the volume of mortgage lending during the January-April (1953) period was the "largest on record." Moreover, Federal Reserve data of nonfarm mortgage lending indicate that, although the rate of gain has been decreasing since June 1952, outstanding mortgage credit has increased by approximately $2,000,000,000 in each of the three quarters through March 1953. Outstanding real-estate loans held by the commercial banks also have continued to increase in recent months. We suspect that a slackening demand for new housing is largely responsible for the slowdown of construction (see our May 18 *Research Reports* article, pages 79-80).

Conclusions

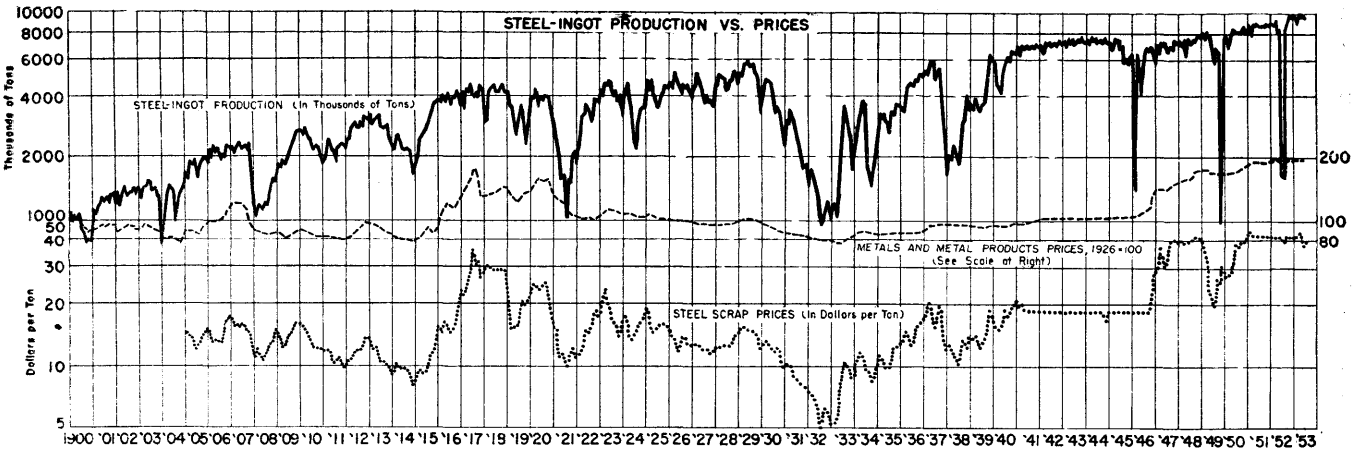
The decrease of residential-construction activity since mid-1952 has been relatively gradual, and present levels are well above the low reached in January 1952. However, there is little indication that the downward trend will be reversed in the next several months.

Steel-Ingot Production vs. Prices of Metals and Metal Products

Output of steel ingots and steel castings during June was 9,419,000 tons, 750,000 tons less than the alltime record established during March 1953 but more than production during any other June in history.

Steel production during the first half of 1953 was an alltime record of 57,961,000 tons, 11 percent more than that during the corresponding period of 1951, when the previous alltime half-year high was reached. (The 1952 first-half output of 45,032,000 tons was substantially less than that this year because of a major steel strike that occurred during June.) The annual rate of production during the first half of this year was 116,000,000 tons, nearly 11,000,000 tons more than the previous rec-

[2]As we had anticipated, the Federal Reserve Board's seasonally adjusted index of residential construction for March was revised upward; thus, the decrease from the February level was only 3 percent, compared with the decrease reported earlier of 15 percent.



ord production rate established during 1951. The industry's rate of operations during that period averaged 101.4 percent of theoretical capacity.[3]

Although some decrease in the rate of steel production during the second half of the year seems probable, there are some indications that the decrease will be minor. According to *The Iron Age*, "Steel demand seems to be passing another test with flying colors. Producers who have opened fourth quarter order books say they are filling up at a highly satisfactory rate." However, the same source warns that "there's no denying that steel supply and demand are closer to balance than at any time since the start of the Korean conflict." As an indication of an approaching slackening of demand, *The Iron Age* suggests that present orders overstate demand somewhat because some steel consumers currently are placing orders for more steel than they expect to consume in order to rebuild inventories. Moreover, seasonal factors that during recent years have not appreciably affected operations are now having an effect on production of some steel products.

In view of the fact that military production is taking less than 10 percent of current steel production, the rate of operations of the steel industry will depend largely on the extent of consumer demand, especially that of the automobile industry. However, we should not be surprised if output decreased somewhat more toward the end of the year.

Prices of Metals and Metal Products

Our May wholesale-price index of prices of metals and metal products (which includes prices for machinery and motive products) was 1 percent higher than that during the fourth quarter of 1952 and was slightly less than 1 percent higher than that during the first quarter of this year. Data for June are not available as yet; however, because the basic price of steel was increased by $4.30 a ton during June, the June index of prices of metals and metal products probably increased somewhat. The basic price increase, effective since June 17, was attributed primarily to the wage increase of 8½ cents per hour granted by the companies to the steelworkers. In addition to the basic price increase, the extra charges on some steel products have been increased by approximately $5 per ton, according to estimates of *The Iron Age* (extra charges cover special costs incurred in processing steel to consumer specifications). According to *The Iron Age*, "manufacturers will not pass higher steel prices on to the consumer as a matter of course. Quite the contrary—it appears that more of the higher steel costs will be absorbed than will be passed on to the public."

Steel-scrap prices (the monthly average of the weekly quotations of No. 1 heavy melting scrap at Chicago), which decreased nearly 13 percent from March through May, increased 5 percent during June and during the first week of July rose somewhat further.

According to studies made by the Institute, major decreases in prices of metals and metal products and decreases in steel-scrap prices frequently have preceded decreases in steel-ingot production. The lead of scrap prices has been especially consistent.[4]

The fact that the scrap-price decrease from March through May has been halted, temporarily at least, suggests that a drastic curtailment of steel production is improbable in the near future. The earlier decrease in scrap prices may well have been an early indication of the seasonal letdown expected this summer.[5] *The recent increases in scrap prices may reflect a resumption of buying in an attempt to accumulate inventories for fall operations.*

PRICES

Commodities at Wholesale

	1952	*1953*	
(August 1939=100)	July 16	July 9	July 16
Spot-Market Prices (22 basic raw materials)	293	269	271
Commodity Futures Prices (Dow-Jones Daily Index)	366	334	334

BUSINESS

Manufacturers' Orders, Sales, and Inventories

The seasonally adjusted dollar value of manufacturers' new orders, which increased more than 4 percent during

[3]This rate is computed on the basis of capacity as of January 1, 1953. Because the industry's capacity has been steadily increasing, an average rate of operations greater than 100 percent is possible.

[4]The accompanying chart shows all three series in order that readers may compare the relationships mentioned.

[5]Because price controls were still in effect until March of this year, there is no way of knowing what the peak price for scrap would have been in the absence of controls. Any actual rise above ceiling levels that may have occurred was concealed by lax grading procedures, etc. Presumably, the actual decline in scrap prices earlier this year, allowing for strict grading, was greater than the available figures indicate. If much greater, the recent upturn may be merely a minor and temporary reversal of a major downward trend.

April to a 1953 high, remained unchanged during May at $25,747,000,000, 13 percent more than the figure for a year ago. The May total was 5 percent greater than that at the beginning of 1953 but was 9 percent below the alltime high reached in January 1951. The general trend of new orders has been gradually upward since September 1951.

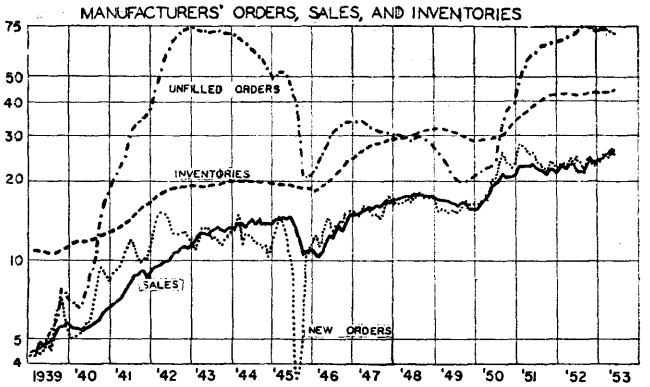
The seasonally adjusted dollar value of new orders for durable goods (one of the eight "leading" statistical indicators of business-cycle changes chosen by the National Bureau of Economic Research) was relatively unchanged during May at a level 16 percent above that of a year ago.[6] The greatest increases in new orders during May were reported for the following industries: transportation equipment, 26 percent; fabricated metals, 7 percent; and primary metals, 3 percent. New orders for nondurable goods decreased nearly 2 percent during May from the alltime high reached in April but were 3 percent greater than those at the beginning of 1953.

The seasonally adjusted dollar value of manufacturers' sales decreased nearly 2 percent during May from the alltime record established in the previous month to $26,314,000,000 and was 13 percent above that of a year ago. May sales were 8 percent greater than those at the beginning of the year and were 35 percent greater than those in June 1950, prior to the start of the Korean War. Total sales during the first 5 months of 1953 were nearly 12 percent more than those during the corresponding months of 1952. Sales of durable goods decreased more than 1 percent during May from the record level reached during April; sales of nondurable goods decreased 2 percent during the month from the record April peak. Sales of durable goods during May decreased as follows: fabricated metals, 6 percent; machinery (excluding electrical), 4 percent; lumber products, 4 percent; and primary metals, 3 percent. Sales of nondurable goods decreased as follows: textile-mill products, tobacco products, food, and petroleum products, 6, 5, 4, and 4 percent respectively. Sales of apparel, paper, and printing products decreased moderately.

Unfilled orders (this series is not adjusted for seasonal variations) decreased 1 percent during May to $71,604,000,000. The May figure was 5 percent below the peak reached in September 1952 and was more than 3 percent below the level prevailing at the beginning of the year. Unfilled orders for durable goods decreased more than 1 percent during May; unfilled orders for nondurable goods increased nearly 2 percent during the month. These divergent trends have prevailed during most of the recent decline in the backlog of orders. Consequently, unfilled orders for durable and nondurable goods in May were 2 percent less and 10 percent more, respectively, than those at the beginning of the year.

The seasonally adjusted dollar value of manufacturers' inventories increased 1 percent during May to an alltime high of $45,048,000,000, 4 percent above that of a year ago. Inventories of durable and nondurable goods each increased approximately 1 percent during the month. The May inventories of nondurable goods were virtually the same as those prevailing a year ago, but inventories of durable goods were 8 percent larger than those of a year ago.

Inventory data broken down according to stage of fabrication reveal that inventories of purchased materials



were virtually unchanged during May but have decreased 3 percent since December 1952. Inventories of goods-in-process and inventories of finished goods, which have increased steadily since July and October 1952, respectively, increased further during May.

The ratio of manufacturers' inventories to sales increased 3 percent during May, but was 8 percent below that of a year ago. Since the postwar peak reached in December 1951, the ratio has decreased erratically but steadily nearly 17 percent.

The downturn in unfilled orders that began in September 1952, the leveling-off of new orders for durable goods, and the decrease in inventories of purchased materials suggest that some curtailment of manufacturing activity is probable in the not-too-distant future.

DEMAND

Department-Store Sales

Department-store sales for the week ended July 11, 1953, were 16 percent more than sales in the preceding week and were 11 percent more than sales in the corresponding week last year.

Mail-Order and Chain-Store Retail Sales

Sales in the Nation's leading mail-order and chain-store companies during June were 7 percent more than sales in the corresponding month last year. The general-merchandise stores reported the largest percentage increase, followed by the men's-wear stores. The data compiled by *The New York Times* are summarized below.

Percentage Change in Retail Sales for June 1953 vs. June 1952

Mail Order	+ 7
Grocery	+ 6
Variety	+ 8
General Merchandise	+10
Apparel	0
Automotive-Variety	+ 8
Drug	+ 1
Shoe	+ 7
Men's Wear	+ 9

Note: The classes are given in the order of magnitude of dollar sales.

BOOK REVIEW

Costa Rica by Stacy May, Just Faaland, Albert R. Koch, Howard L. Parsons, and Clarence Senior
The Twentieth Century Fund, New York ($3)

This is the report of the findings of a team of economic investigators which was sent to Costa Rica by the Twentieth Century Fund. The report will be useful to all who are interested in the general problem of aid to underdeveloped areas.

[6]According to the Department of Commerce, a 2-percent increase occurred during May. However, seasonal factors computed by the Institute differ slightly from those used by the Department of Commerce.