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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Agricultural Situation¹

The Department of Agriculture estimates that agricultural production during 1953 will equal that during 1952 and will be 7 percent greater than the average during 1947-49. A 5-percent decrease in this year's crop output is expected to be counterbalanced by a 2-percent increase in livestock and livestock products. Because agricultural exports have decreased substantially during recent months, the domestic food supply this year is expected to be greater than that during 1952.

Supply

Official grain estimates indicate that the 1953 corn crop will be slightly less than the 1952 crop but nearly 1 percent more than the average crop during 1942-51. The total supply of corn available during the next 12 months (which includes the carryover on farms and in Government warehouses on October 1, 1953) will be 5 percent larger than that during the preceding 12 months but slightly less than the record corn supply available in 1949-50.

Production of a second grain crop, wheat, is estimated to be 9 percent less than that during last year but 8 percent more than the average for the 1942-51 period. Thus although this year's wheat crop is not a record crop, the total supply of wheat for 1953-54 will be the largest domestic supply ever available; the available wheat supply will exceed that of the preceding year by 12 percent and the previous record supply available during 1942-43 by 8 percent. The Agriculture Department estimates that the wheat carryover on July 1, 1954, will be substantially greater than the record carryover of 1942.

The harvests of oats are estimated to be slightly less and those of barley slightly more than the corresponding harvests during 1952. However, the 1953 harvests will be 9 and 20 percent, respectively, less than the average crops during 1942-51. Including the carryovers, the total available supply of both these grains will be somewhat smaller than that during last year.

The potato crop this year is 9 percent more than that during 1952 but 7 percent less than the average output during 1942-51.

Meat supplies during the next 12 months are expected

to exceed greatly those available during the preceding year. As a result of a sharp expansion of beef-cattle herds during 1950-52, output of beef and veal during 1953 is expected to be 24 and 25 percent more than output during 1952 and the average output during 1942-51, respectively. However, the recent expansion in the number of beef cattle is expected to end this year; thus, increases in beef production during 1954 comparable with those during 1951 and 1952 are not probable.

The 1953 production of lamb and mutton is expected to be 8 percent more than that during 1952 but 17 percent less than average output during 1942-51. In view of the increase in lamb and mutton production during 1952 and 1953, the downward trend of production of those meats during the postwar period has been interrupted. Production of pork during 1953 is estimated at 13 percent less than that during 1952 and 11 percent less than average production during 1942-51. The decrease in pork production followed a sharp reduction in the supply of hogs during 1952.

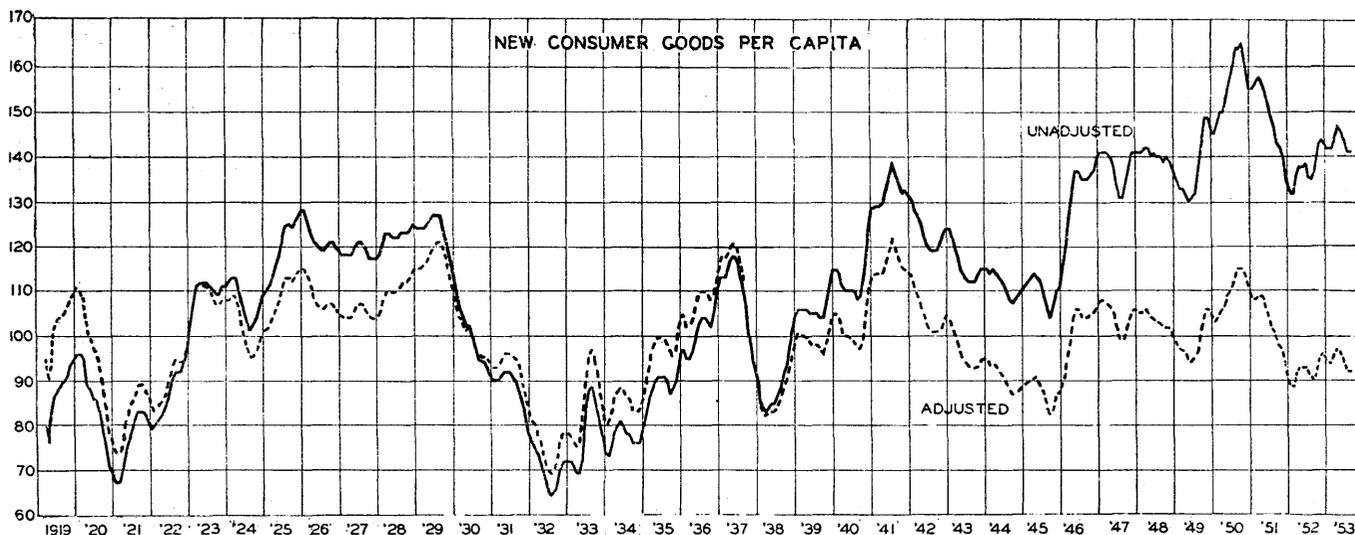
Production of dairy products, including milk, butter, cheese, and eggs, probably will be more in 1953 than the totals reported for 1952. Production of milk during 1953 is expected to be 5 percent more than last year and 4 percent more than the average production during 1942-51; production of cheese in 1953 is expected to be 13 percent more than that of last year and 21 percent more than the average during 1942-51. Production of butter, which has been at a relatively low level during the postwar period, has recovered during 1953 to within 6 percent of the average production during 1942-51. Production of eggs is expected to be slightly more than that

PRODUCTION OF FARM COMMODITIES
(Units as Indicated)

	Average 1942-1951	1952	1953*
Corn (Millions of Bu.)	3,036	3,307	3,216
Wheat (Millions of Bu.)	1,088	1,291	1,169
Oats (Millions of Bu.)	1,325	1,268	1,206
Barley (Millions of Bu.)	295	227	237
Potatoes (Millions of Bu.)	411	348	381
Soy Beans (Millions of Bu.)	220	292	280
Pork (Millions of Lbs.)	11,271	11,547	10,000
Beef and Veal (Millions of Lbs.)	10,732	10,840	13,400
Lamb and Mutton (Millions of Lbs.)	846	648	700
Poultry (Receipts in 5 Markets) (Millions of Lbs.)	510	656	607
Fluid Milk (Millions of Lbs.)	116,713	115,116	121,000
Butter (Millions of Lbs.)	1,400	1,206	1,310
Cheese (Millions of Lbs.)	1,118	1,195	1,350
Eggs (Millions)	55,838	61,297	61,480

*Estimate for the year, based on latest data available.

¹This article, the first of two articles that will discuss the agricultural situation, will be limited to the supply side of the overall picture. In a subsequent article, we intend to discuss demand, prices, and other relevant aspects.



during 1952 and 10 percent more than the average during 1942-51.

Poultry supplies this year are expected to be 7 percent less than the unusually large supply during 1952 but 19 percent more than the average supply during 1942-51.

Conclusions

The slightly smaller but still relatively large 1953 crops, the increase in livestock production, the improved supplies of agricultural products throughout much of the remainder of the world, and the large carryovers from earlier harvests of several of the more important farm products indicate that the supply of agricultural products available in the United States during the next 12 months will be somewhat more adequate than that of the past year.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 94.6 percent of capacity for the week ended October 10, 1953, was slightly less than that in the preceding week but was 4 percent less than production in the corresponding week last year.

	1929	1932	1937	1938	1952	1953
Percent of Capacity†	84	19	64	49	107	95p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.16	.29	.97	.75	2.22	2.14

Automobile and truck production in the United States and Canada during the week ended October 3, 1953, was estimated at 142,957 vehicles, compared with a revised total of 140,953 vehicles during the previous week.

	1929	1932	1937	1938	1952	1953
Vehicles (000 omitted)†	83	14	44	25	143	143p

Electric-power production in the week ended October 10, 1953, increased to 8,414,452,000 kilowatt-hours from 8,353,541,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1952	1953
Billion Kilowatt-Hours†	1.82	1.50	2.33	2.21	7.66	8.41

Lumber production in the week ended September 26, 1953, increased. *The New York Times* seasonally adjusted index was 5 points above that for the preceding week but was 5 points below that for the corresponding week last year.

	1929	1932	1937	1938	1952	1953
<i>The New York Times</i> Index†	123	36	85	101	116	111

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

New Consumer Goods Per Capita

The index of new consumer goods per capita (a 3-month moving average plotted at the last month) unadjusted for long-term trend, which decreased 2 percent during July, remained unchanged during August at a level 4 percent below the 1953 high reached during April. The August index was more than 4 percent above that of the corresponding month a year ago but was 15 percent below the alltime high reached in October 1950.

The index adjusted for long-term trend, which decreased 2 percent during July, remained unchanged during August. The August figure was 5 percent below the 1953 high reached during April but was 2 percent above that for the corresponding month a year ago.

Production of consumer goods, which decreased 2 percent during July, remained virtually unchanged during August. A 3-percent increase in residential construction and a 7-percent increase in textile production were counterbalanced by an 11-percent decrease in automobile production and a 2-percent decrease in furniture production. August consumer-goods production was 5 percent above that of August 1952 but was 6 percent below that of March 1953, when the high for the year was reached, and was 14 percent below the post-World War II peak reached in August 1950.

Automobile production, which totaled 705,075 cars and trucks in July, decreased to 626,000 cars and trucks in August. Our preliminary estimate for September, based on *Ward's* weekly reports, is 573,600 cars and trucks; thus the third-quarter car output totaled approximately 1,586,160 units. According to *Ward's* estimate, the industry now expects to make 1,414,000 cars in the final quarter instead of 1,534,000 as it had earlier planned. *Ward's* explains that the industry is trying to get in "line with retail demand."

The August figure for residential contract awards, which is a 3-month moving average, was 3 percent above the revised July level but was 6 percent below that of the corresponding month a year ago.

According to executives in the textile industry, business this fall has been "disappointing." *The Wall Street Journal* reports that the expected seasonal upturn in textile activity is "nowhere in sight."

A record shoe production of 523,700,000 pairs was achieved in the 12 months ended July 31, according to

the National Shoe Manufacturers' Association. Only three times in the history of the industry has the total reached 500,000,000. In 1952 output was 501,234,000 pairs.

The Agriculture Department reported that total cigarette production, including those for export, reached a record 437 billion cigarettes for the year ended June 30, nearly 4 percent more than the total a year earlier.

Conclusions

In view of the expected decrease in automobile production and in the absence of any sign of a major recovery in the production of other consumer goods, we believe that a further decrease of consumer-goods production is the most probable development during the next few months.

DEMAND

Purchasing Media

Total purchasing media decreased \$560,000,000 during September to \$123,780,000,000, about \$300,000,000 more than the figure for September 1952 but \$4,900,000,000 less than the alltime high reached in December 1952.

During the last 7 years purchasing media have increased during September six times and decreased only once (in 1949), and the average increase was \$800,000,000. Thus, this year's September decrease may be especially significant. Moreover, during the third-quarter this year total purchasing media decreased about \$520,000,000, compared with an average third-quarter increase since World War II of \$1,900,000,000. Not since 1937 has there been a decrease in the purchasing-media total during the third quarter of any year.

Purchasing media derived from the first source, the money commodity (monetary gold), decreased \$60,000,000 during September. In view of the fact that foreign dollar holdings have been increasing (as a result of a relatively favorable trade balance and United States aid), the recent outflow of gold may continue in the near future if foreign governments decide to convert more of their dollar holdings into gold.

Commercial, industrial, and agricultural loans, the second source of purchasing media, increased \$190,000,000 during September, substantially less than that seasonally expected. Loans to manufacturers of foods and liquors increased, but those to sales finance companies decreased.

Purchasing media derived from the third source, Treasury currency, have not changed greatly during recent months.

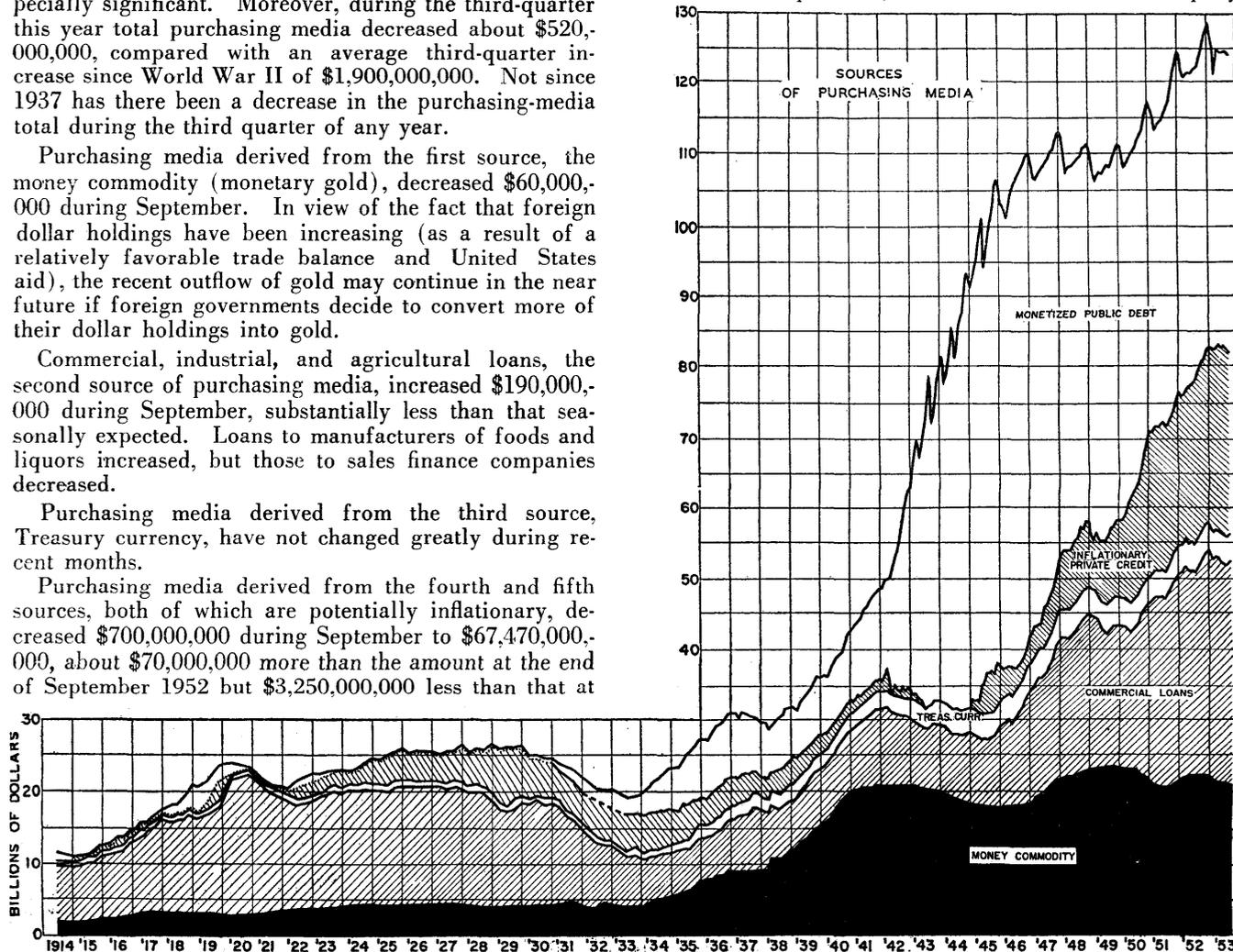
Purchasing media derived from the fourth and fifth sources, both of which are potentially inflationary, decreased \$700,000,000 during September to \$67,470,000,000, about \$70,000,000 more than the amount at the end of September 1952 but \$3,250,000,000 less than that at

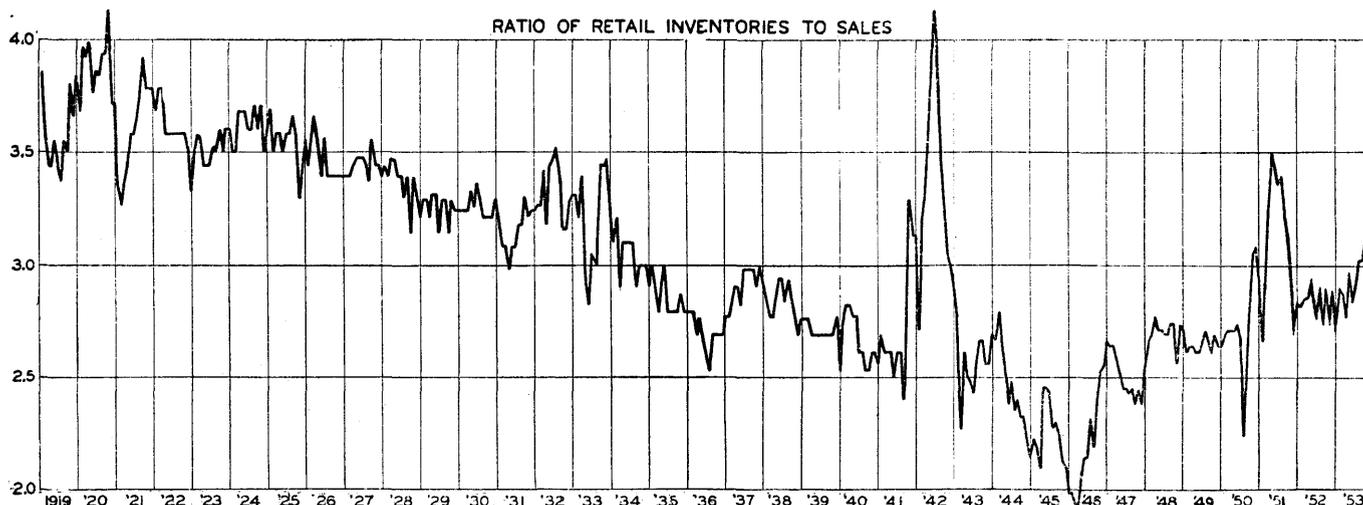
the end of December 1952, when a postwar peak was reached.

Investment-type assets of the commercial banks (including the Federal Reserve banks) decreased \$420,000,000 during September: loans on real estate increased \$80,000,000; loans on securities decreased \$115,000,000; other loans, which include consumer installment credit, decreased (for the first time since February 1952) \$160,000,000; corporate and municipal securities held by commercial banks increased \$30,000,000; Government securities held by the commercial banks decreased \$425,000,000; and Government securities held by the Federal Reserve banks increased \$170,000,000.

Final data for Treasury operations during September reveal that the net cash deficit during the month was \$195,000,000, compared with a surplus of \$200,000,000 during September last year. The cash deficit was substantially less than we had expected; the reason for the relatively small deficit was that corporations unexpectedly bought a net of \$660,000,000 in tax-savings notes in order to take advantage of the higher yields involved.

Yields on 91-day Treasury bills, which were about 2 percent at mid-September, decreased to 1.39 percent during the week of October 10. In addition, interest rates have been decreased by several leading dealers in commercial paper. For example, Goldman, Sachs and Company, General Motors Acceptance Corporation, C. I. T. Financial Corporation, and Commercial Credit Company





recently decreased their rate for 9-month notes from $2\frac{3}{4}$ percent to $2\frac{5}{8}$ percent. Apparently, as the need for short-term funds has declined, more funds have become available for investment in Government and business short-term paper. Thus far, the prime bank rate charged by commercial banks has not been changed. As a result of the decrease in short-term yields, the Treasury has replaced Series B tax-savings notes, which yielded 2.47 percent if held for 2 years, by a Series C that yields 2.21 percent for the same period.

In recent years the Treasury has incurred a substantial deficit during the fourth quarter of the year, and the budget deficit during that period this year may be as large as \$5,000,000,000. A substantial portion of this deficit will be met by drawing on the balance in the general fund, which on September 30 was \$7,360,000,000; the remainder probably will be met from proceeds of sales of securities to be offered in the next few weeks. As a result of these operations, the amount of available purchasing media probably will increase substantially during the fourth quarter. However, the increase in purchasing media from this source may be counterbalanced to some extent as the Government security holdings of the commercial banks (especially tax-anticipation certificates) are sold to nonbank investors.

The injection of new purchasing media as a result of Treasury operations during the fourth quarter of the year as well as some expansion of commercial, industrial, and agricultural loans may bring the total amount of purchasing media to a level equal to or somewhat above that at the end of December 1952. Not since 1949 has the purchasing-media total at the end of a calendar year been less than that 12 months earlier.

Department-Store Sales

Department-store sales for the week ended October 3, 1953, were 2 percent less than sales in the preceding week and were 3 percent less than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

	1952	1953	
(August 1939=100)	Oct. 8	Oct. 1	Oct. 8
Spot-Market Prices (22 basic raw materials)	288	266	262
Commodity Futures Prices (Dow-Jones Daily Index)	358	327	324

BUSINESS

Ratio of Retail Inventories to Sales

Preliminary estimates indicate that the ratio of retail inventories to sales, which was unchanged during August, increased nearly 3 percent during September to a 1953 high. The September figure was 8 percent above that of September 1952 and 13 percent above that of December 1952, when the recent upward trend began.

The seasonally adjusted index of department-store inventories, which increased slightly during August, apparently decreased somewhat during September. The seasonally adjusted index of sales, which increased 2 percent during August, decreased 4 percent during September. Consequently, the September ratio increased nearly 3 percent. (The ratio is derived by dividing the inventory index by the sales index.) September inventories were 8 percent greater than those of September 1952 and 3 percent larger than inventories at the start of the Korean War.

The dollar value of new orders placed by department stores during August (later data are not available) was 3 percent more than that during July but was 10 percent less than that during August a year ago. Although there are no precise seasonal changes in new orders from month to month, the changes in July and August clearly reflected more cautious purchasing by department-store buyers.

The dollar value of outstanding orders decreased 6 percent during August, compared with a seasonally expected increase of 3 percent. Outstanding orders at the end of August were 9 percent less than those at the end of August a year earlier.

The dollar value of goods received by department stores increased 39 percent during August, substantially less than the 57-percent gain seasonally expected.

Although the ratio of retail inventories to sales increased substantially during September, the rise was attributable primarily to a sharp decrease in sales during the 2 weeks of unusually hot weather at the beginning of the month. Recent data for new orders, receipts of goods, and outstanding orders indicate that retailers apparently had begun to cope with what had become a burdensome inventory situation as early as July. However, the decrease of sales during the last 3 months has more than counterbalanced those efforts. Presumably, further action in the form of lower prices or additional curtailment of new orders will be necessary in the near future.