

AMERICAN INSTITUTE for ECONOMIC RESEARCH

WEEKLY
BULLETIN
October 19

GREAT BARRINGTON

MASSACHUSETTS

1953

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Agricultural Situation¹

Demand

In view of the fact that consumption per capita of major foods remained relatively unchanged during 1953 and in view of the increase in population of about 2,500,000, the domestic demand for foods (in terms of physical volume) apparently increased somewhat during 1953. However, as a result of considerable curtailment of exports of foods during 1953 and other developments, the Nation's farmers have been confronted with relatively insufficient markets and decreasing farm-product prices. Agricultural surpluses have become a serious problem as on many occasions in the past.

The long-term future trend of the Nation's demand for foods is fairly definitely upward. According to Dr. Byron T. Shaw, head of the Agricultural Research Administration, there may be a problem after the year 1975 supplying enough agricultural products to meet demand. Population projections for 1975 indicate that by that time the United States population may be as great as 190,000,000. Dr. Shaw estimates that in order to feed this number of Americans at present standards, United States farmers will have to produce about one-third more food than they do now, and that this would require an additional 100,000,000 acres of cropland at the 1950 yields per acre. Mr. Shaw indicates that nearly all good croplands are already in use, and only about 30,000,000 of additional acreage is available. The remainder of the food-production increase would have to be achieved by applying new methods of production and by raising agricultural productivity. We believe that both will undoubtedly be forthcoming as needed.

The more immediate increase in demand probably will be limited to an expansion of population rather than an increase in per capita consumption. As personal incomes have expanded, the per capita consumption of foods has increased rapidly during the last two decades from that during the depression period of the thirties and has reached, at least for a major portion of the Nation's population, the physical limits of an individual's food-consumption capacity. Thus, the per capita consumption of foods probably will not expand in the years ahead at recent rates.

¹This article is the second of two articles on the agricultural situation. The first appeared in last week's *Research Reports*, October 12, 1953.

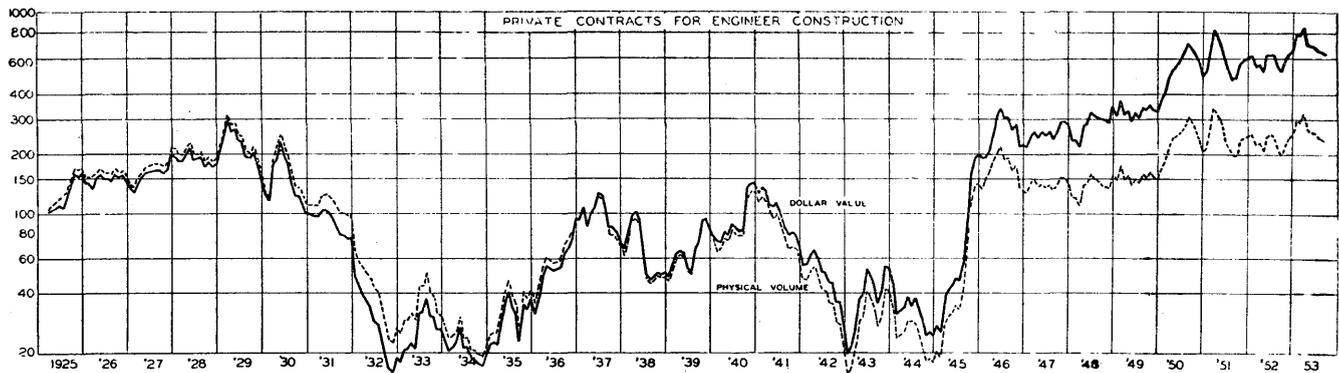
Exports of farm products during the early World War II period were relatively large, and were made possible through the loans, gifts, and direct contributions of food to Europe and Asia. Our exports of agricultural products decreased during 1949-51 when economic foreign aid was curtailed somewhat and agricultural production increased in the foreign countries themselves. During 1951-52, exports increased substantially, primarily as a result of developments attributable to the Korean War. However, during the last fiscal year our agricultural exports decreased 26 percent.

According to an article published in the September *Federal Reserve Bulletin*, the reasons for the recent curtailment of our agricultural exports were several: "Smaller farm exports reflect to an important extent the substantial easing in world supplies of raw materials. Agricultural production abroad has continued to rise and the desire to acquire and hold stocks has weakened as war fears moderated, anti-inflationary policies were carried into effect, and general price levels stabilized. In many important countries, holdings of farm products, built up following the Korean outbreak, were reduced in 1952-53. The generally lower level of stocks and some increase in gold and dollar reserves of importing countries are factors of potential strength in the outlook for farm exports. On the other hand, weather conditions this season are favorable in most foreign countries, and carryover stocks in other major exporting countries, as in the United States, are large."

Government Farm-Price-Support Action

During fiscal 1952-53 the Federal Government expanded its farm-price-support activities under existing agricultural legislation. Net Federal expenditures for farm-price supports at slightly more than \$2,000,000,000 approximated the record amount spent during 1948-49; and the total dollar amount invested in agricultural products by the Commodity Credit Corporation at the end of May 1953 was \$3,200,000,000, more than double the amount invested at that time a year ago. The major portion of 1952-53 support expenditures was for wheat, corn, and cotton.

Under present legislation, the Federal Government is required to support the prices of basic crops at 90 percent of parity through 1954 but has the power to limit the acreage planted by farmers. If the farmers vote against acreage controls, the farm-price-support level would be lowered to 50 percent of parity. In August this year a majority of wheat farmers voted in favor of



the 90-percent-of-parity price support and Government acreage limits. As a result, the Department of Agriculture has limited the Nation's 1954 wheat acreage allotments to 62,000,000 acres. Similar acreage allotments are being considered for cotton production.

According to present legislation, the 90-percent-of-parity farm-price support is to be replaced by a more flexible support system after January 1, 1955. However, opinions as to what the farm-price policy should be extend over a wide range.

Prices

The general trend of wholesale farm-products prices during 1951, 1952, and the first half of 1953 was downward. From March 1951, when the postwar high was reached, through August 1953 the Bureau of Labor Statistics' index of wholesale prices of farm products decreased 18 percent; during the last 12 months the decrease was 12 percent. The August 1953 level of wholesale farm-product prices was only 2 percent above the figure for June 1950, prior to the outbreak of the Korean War; the August 1953 level of wholesale prices of commodities other than farm products and foods was 12 percent above the June 1950 level.

The trend of retail food prices has been somewhat different during the last few years. The Bureau of Labor Statistics' index of retail food prices continued upward through August 1952; since then a slight downward movement has occurred, but the decrease during the last 12 months has been only 2 percent. The August 1953 level of retail food prices was nearly 14 percent above the June 1950 figure.

In view of the relatively large supplies of foods available during the coming year and in view of decreasing exports, recovery of farm-product prices does not seem probable. On the other hand, a continuation of as sharp a downward trend of prices as that during late 1952 and early 1953 is improbable in view of the Government commitments to support prices of basic crops at 90 percent of parity.

Conclusions

A relatively greater increase in the food supply during the next 12 months compared with demand should be reflected in somewhat lower prices.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 94.4 percent of capacity for the week ended October 17, 1953, was slightly less than that in the preceding week and was 4 percent less than production in the corresponding week last year.

	1929	1932	1937	1938	1952	1953
Percent of Capacity†	79	20	63	52	106	94p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.09	.30	.95	.80	2.20	2.12

Automobile and truck production in the United States and Canada during the week ended October 10, 1953, was estimated at 151,624 vehicles, compared with a revised total of 142,364 vehicles during the previous week.

	1929	1932	1937	1938	1952	1953
Vehicles (000 omitted)†	82	12	72	38	138	152p

Electric-power production in the week ended October 10, 1953, decreased to 8,307,309,000 kilowatt-hours from 8,414,452,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1952	1953
Billion Kilowatt-Hours†	1.81	1.51	2.34	2.23	7.70	8.31

Lumber production in the week ended October 3, 1953, decreased. *The New York Times* seasonally adjusted index was 5 points below that for the preceding week and was 9 points below that for the corresponding week last year.

	1929	1932	1937	1938	1952	1953
<i>The New York Times</i> Index†	122	37	78	95	115	106

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

DEMAND

Department-Store Sales

Department-store sales for the week ended October 10, 1953, were 7 percent more than sales in the preceding week but were 5 percent less than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

	1952		1953
(August 1939=100)	Oct. 15	Oct. 8	Oct. 15
Spot-Market Prices	285	262	264
(22 basic raw materials)			
Commodity Futures Prices	353	324	328
(Dow-Jones Daily Index)			

BUSINESS

Private Contracts for Engineering Construction

The 3-month moving average of the dollar value of private awards for engineering construction decreased 3 percent during September. The September figure was 22 percent more than that of a year ago but was 25 percent less than the 1953 peak reached in March.

The dollar value of contract awards for private engineering construction during the first 9 months of 1953 totaled \$6,487,000,000, compared with \$5,130,000,000

and \$5,654,000,000 during the corresponding periods of 1952 and 1951, respectively. The percentage distribution of contract awards during the first 9 months of 1953 and 1952, respectively, among major groups was as follows: mass housing, 42 and 45 percent; industrial buildings, 32 and 39 percent; commercial buildings, 14 and 9 percent; unclassified, 12 and 7 percent.

The *Engineering News-Record* index of construction costs decreased slightly during September but was 4 percent more than that for September last year. From September 1952 through May 1953 the index was relatively unchanged, but in June the earlier upward trend was resumed. The increase in the index from June through September 1953 was largely attributable to an increase in labor costs.²

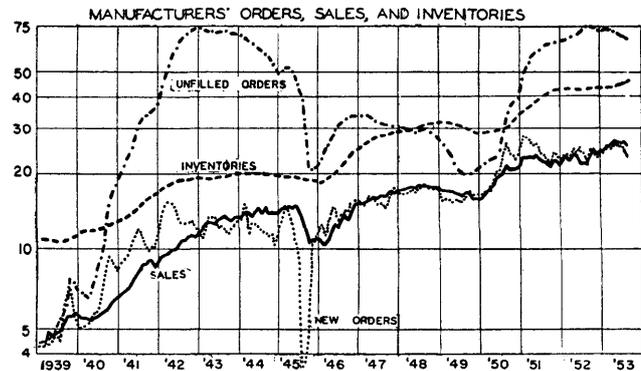
The 3-month moving average of the physical volume of private engineering construction (which is calculated by dividing the dollar value of contract awards by the construction-cost index) decreased 4 percent during September but was 18 percent more than that for September 1952. Since March 1953, when the year's peak was reached, the physical volume of private engineering construction has decreased 28 percent.

According to a report of the Office of Defense Mobilization, the total value of projects authorized under the accelerated tax-amortization provision and completed during the first half of 1953 was \$2,500,000,000, substantially less than the total of \$6,500,000,000 scheduled to be completed during the first half of the year. The total of such projects completed during the 1951-52 period amounted to \$5,700,000,000. Thus the total completed through June 30, 1953, amounted to \$8,200,000,000. The value of all projects authorized under the accelerated tax provisions through March 31, 1953, was \$25,800,000,000.

According to a joint survey conducted in August by the Securities and Exchange Commission and the Department of Commerce, expenditures for new plant and equipment during 1953 are estimated at \$27,821,000,000, 5 percent more than those during 1952. Expenditures scheduled by businessmen for the second half of this year are equal to those during the first half of the year, but expenditures scheduled for the fourth quarter are 5 percent less than the record expenditures scheduled for the third quarter.

Expenditures by specific industries have had somewhat different trends during 1953 than during 1952. For example, the increase in the durable-goods industries was 3 percent during 1953, compared with 12 percent during 1952. According to the *September Survey of Current Business*, this change " * * * may be traced to the somewhat slackened tempo of investment in basic metal industries—with both iron and steel and nonferrous metal companies indicating slight declines from their 1952 capital outlays. Expansion in these industries was given major emphasis in mobilization planning and present programs indicate that a substantial portion of the current expansion goals in these areas will have been completed by the end of this year." The increase of expenditures by public utilities in 1953 was 15 percent, compared with 5 percent in 1952. The mining, com-

²The unit of measurement of the construction-cost index is a hypothetical block of construction requiring 6 barrels of cement, 1,088 feet (board measure) of lumber, 2,500 pounds of steel, and 200 hours of common labor. The index is reported monthly on a 20-city average basis.



mercial, and transportation-other-than-rail industries, which curtailed expenditures during 1952, increased expenditures slightly during 1953. Expenditures in the railroad industry decreased in both 1952 and 1953.

The total value of contract awards for engineering construction during 1953 probably will establish a new record high in spite of the present downward trend of the series. We do not expect, however, that the 1953 record rate of new contract awards will be maintained during the first half of 1954.

Manufacturers' Orders, Sales, and Inventories

The seasonally adjusted dollar value of manufacturers' new orders, which leveled off at the year's high from April through June, decreased 5 percent during July and nearly 7 percent during August. The August level of new orders was 11 percent below the April-June level. In spite of the recent decreases, August new orders were 4 percent more than those during August last year.

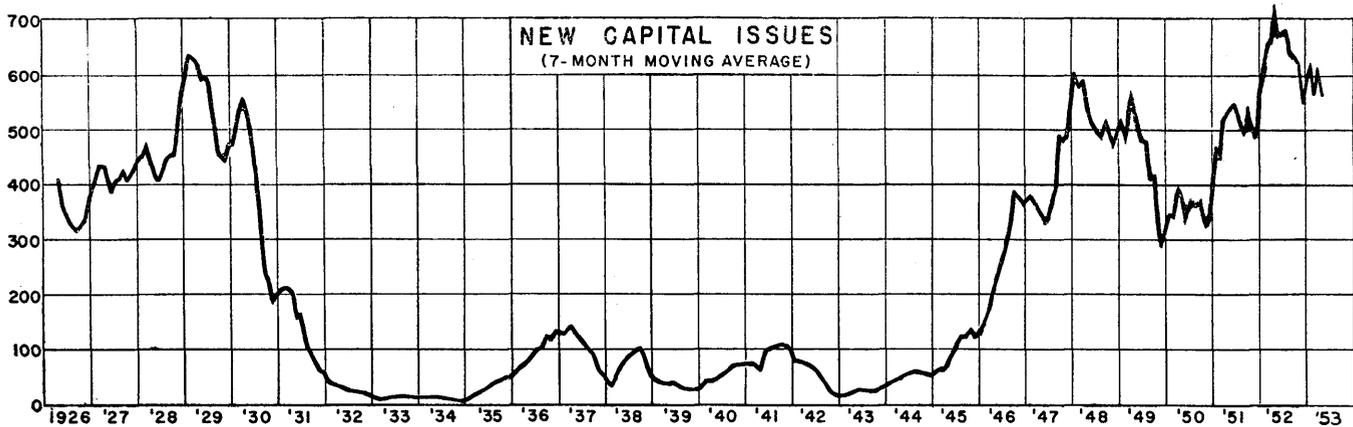
The seasonally adjusted dollar value of new orders for durable goods (one of the eight "leading" statistical indicators of business-cycle changes chosen by the National Bureau of Economic Research) decreased 12 percent during August to a level 7 percent above that of the corresponding month a year ago (the figure for August 1952 was the lowest figure for that year) and 26 percent below the 1953 peak reached in February. The trend of the series appears to be downward.

The seasonally adjusted dollar value of manufacturers' sales, which had leveled off from April through July at a postwar high, decreased 4 percent during August to \$25,500,000,000. The August sales figure was 13 percent above that for August last year. Sales of nondurable goods decreased slightly more during August than did sales of durable goods.

Unfilled orders (this series is not adjusted for seasonal variations), which have been decreasing each month since March of this year, decreased 3 percent further during August. The decrease was the largest percentage decrease since 1949. Almost all of the decrease occurred in the durable-goods industries. The August figure of unfilled orders was 11 percent below the alltime high reached in September 1952.

The seasonally adjusted dollar value of manufacturers' inventories, which has increased 1 percent each month since April, increased 1 percent more during August to an alltime high of \$46,200,000,000. The August inventory increase was distributed nearly equally between the durable- and nondurable-goods industries.

Although inventories of finished goods and goods-in-



process have leveled off in the last few months, inventories of purchased materials have continued to increase.

The ratio of manufacturers' inventories to sales increased nearly 5 percent during August to a 1953 high but was 8 percent below that during August last year and 12 percent below the postwar high reached in December 1951.

The developments during August in manufacturing activity tend to confirm our conclusions of last month that a peak of manufacturing activity may have been reached earlier this year. We continue to believe that some further curtailment of activity is the most probable development in the near future.

FINANCE

New Capital Issues

Our centered-7-month-moving-average value of new capital issues, which decreased sharply from April 1952 through November 1952 to the lowest level since November 1951, increased in December and has more or less leveled off during 1953. The prevailing trend has been downward since the 1952 peak reached in April.

(The April 7-month moving average, the last figure shown on the chart, includes data for the first 7 months of this year. Data through March 1953 have been compiled by *The Commercial and Financial Chronicle*. In order to give readers more recent information, we have estimated the value of new corporate issues for the four additional months ending in July on the basis of data published by the Securities and Exchange Commission.)

The Securities and Exchange Commission reports that new corporate financing during the first 7 months of this year totaled \$4,728,624,000, compared with \$5,596,300,000 during the corresponding period a year ago. 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 such outlets as underwriters or the various stock exchanges. According to *The New Times*, the new corporate issues offered publicly totaled \$2,841,000,000 during the period January to July this year, compared with \$3,006,900,000 during the corresponding period a year ago. Thus the issues placed privately represented about 40 percent of the aggregate new corporate issues during the first 7 months of 1953, compared with 32 percent during the corresponding period a year ago, with 37 percent during the entire year of 1952, and with 43 percent in 1948 (when a record high was reached).

The proportions of total value of new-money securities issued by major industries during the first 7 months of 1953 were as follows (in parentheses are the corresponding percentages for the first 7 months a year ago): manufacturing, 30 (45) percent; utilities, 39 (34) percent; railroads, 3 (4) percent; communications, 3 (12) percent; and financial and real-estate, 25 (5) percent.

Most of the new money obtained through new corporate offerings during the first 7 months of 1953 was for plant and equipment, the remainder for working capital. Funds for plant and equipment totaled \$3,310,755,000 (70 percent), compared with \$4,374,000,000 (78 percent) during the corresponding period a year ago.

Expenditures on new plant and equipment during 1953 are estimated at \$27,821,000,000, compared with \$26,455,000,000 during 1952. All major groups, with the exception of the railroads, increased expenditures. However, some groups plan smaller fourth-quarter outlays. We do not believe expenditures should be expected to remain at present high levels during 1954, when many of the larger defense-related projects will be completed. (See "Private Engineering Contracts" article for further details.)

Accompanying the decreased new corporate offerings during 1953 has been a relatively "tight" money market. During the last 4 weeks some easing has become apparent. However, it is too early to say whether the development is especially significant or what its relationship to the future of new corporate issues may be.

Conclusions

The total of new corporate issues thus far this year was less than that of the corresponding period last year. We expect a further reduction in the capital investments of many businesses during the last quarter of this year and in 1954 and thus believe that a continued slackening of new corporate issues is the most probable development during the remainder of this year and during the early months of 1954. A \$600,000,000 issue contemplated by American Telephone and Telegraph could counterbalance this downward trend to some extent.

BOOK REVIEW

Corporation Giving by F. Emerson Andrews
Russell Sage Foundation, New York (\$4.50)

This publication will be of interest to corporation executives and should prove to be a useful aid in the formulation of policy regarding corporate gifts. Summaries of the laws of the various States are included as well as comprehensive information on corporate practices and policies. Tax aspects likewise are discussed.