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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Will the Boom Be Resumed?

In this eighth year since the end of World War II the economic situation is similar, in many important respects, to that in the eighth year after the end of World War I. In fact, the similarity has become so marked, in view of the Federal Reserve Board's actions during recent months, that one is invited to wonder whether the great speculative boom that characterized the closing years of the earlier decade will shortly be repeated. Apparently, the principal question is, Can we do it again?

Before attempting to answer this question, a brief review of the similarities of developments in the past 10 years and those of the earlier period will be helpful. Presumably there is no need to explain in detail to readers of these bulletins how the deficit financing of World War II resembled that of World War I. The two inflationary procedures were identical as far as the mechanisms were concerned; they differed only in that the process was continued twice as long during World War II and the relative magnitude of the later inflation was greater than the earlier one.[1]

In 1946 a postwar recession similar in some respects to that of 1920-21 occurred, but it was less drastic. As in 1920, there was some deflation (removal of inflationary purchasing media from circulation), and industrial production receded sharply. However, commodity prices (at least those in legal rather than black markets) rose after controls were removed in the fall of 1946. Stimulated by purchases postponed during the war years, business activity in general quickly recovered and remained at high levels through much of 1948. That year was comparable in some respects to 1923, which marked the peak of the recovery from the 1920-21 depression.

Like the recession that began in 1923 and continued into 1924, the recession of 1949 was small in magnitude and of brief duration. In 1924 the Federal Reserve Board, through open-market operations, intervened at an early stage of the recession. By purchasing about $500,000,000 of Government bonds, the Federal Reserve authorities initiated in 1924 the easy-money policy that facilitated the great boom of the years that followed. These open-market purchases equaled about 25 percent of the reserves of the member banks of the Federal Reserve System and were about 2½ percent of the Nation's demand deposits.

In late 1949 the Federal Reserve Board's intervention was comparable to that of 1924. In the succeeding 18 months of 1950 and 1951, the open-market purchases of Federal Reserve banks were nearly $6,000,000,000. These purchases equaled about 30 percent of the reserves of the member banks and were about 6½ percent of the Nation's demand deposits.

Of course, the Korean War with the accompanying scare buying by consumers and by industry generally accentuated the 1951 boom and made it more extreme than the prosperity that followed the recovery in the latter part of 1924. The upturns of both commodity prices and industrial production were more extensive than the corresponding upward movements in the earlier period. Moreover, the boom of the past 3 years, which included a brief setback in 1952 from the 1951 extremes, has differed from that of 1925-26 in that the capital expenditures for the creation of an armament industry have been superimposed on the capital expenditures of a rapidly expanding civilian-goods sector of the economy.

However, 1953 seems in many respects to be similar to 1927. Then, as now, commodity prices had been declining slowly for 2 years; industrial production had reached a peak early in the year; but perhaps the boom of 1953 was somewhat greater in its effect on minimizing unemployment and in some other respects than that of early 1927.

As in 1927, the Federal Reserve authorities were faced again this year with the necessity of deciding whether to continue a relatively firm money policy or to create once again the artificially easy money that has accompanied the prolonged inflation of many years. And as in the earlier instance, the Federal Reserve Board has chosen, through open-market and other operations, to try easy money.

In 1927 the Federal Reserve purchased some $300,000,000 of Government securities, which equaled about 13 percent of the reserves of the member banks and

[1]Unfortunately, the data readily available do not permit us to judge the relative magnitude of the World War II inflation within a small margin of error. During World War II a substantial portion of projects that would otherwise have been financed by commercial loans were financed by means of Government loans. When research in progress is completed, our index of inflation adjusted for the situation just mentioned presumably will provide a better basis for comparison with the level of the index in 1919, for example. Until we have the results of the research in progress, it seems reasonable to assert only that the inflation during World War II was substantially greater than that during World War I.

nearly 2 percent of the Nation's demand deposits. During the present year the Federal Reserve authorities have reduced the reserve requirements of the member banks by $1,200,000,000 and have purchased $1,500,000,000 worth of Government securities in the open market. The combined total, $2,700,000,000, has been counterbalanced to some extent by an increase in Federal Reserve note circulation and by an outflow of gold during recent months; but the net aid to member banks has approximated $1,700,000,000. This is nearly 10 percent of the required reserves and somewhat less than 2 percent of total demand deposits, adjusted. Thus the recent actions of the Federal Reserve authorities repeat the general order of magnitude of the similar operations of 1927.

The easy-money policy of 1927 was followed by a business expansion as well as by speculation in securities primarily, but also in real estate, apartments, new hotels, etc., all of which were significant elements of the great boom. After the minor recession of early 1927, industrial production recovered in early 1928 and then increased greatly until mid-1929. Commodity prices, which had been declining steadily, leveled off until the fall of 1929. Encouraged by easy money, the speculation in security prices surged ahead through 1928 and by mid-1929 had reached the proportions of a raging fever, a situation that had not been seen since the Mississippi and South Sea Bubbles in France and England more that 200 years earlier.

Can We Do It Again?

Thus the question arises, Can we repeat in 1954-55 or 1956 the experience that culminated the boom decade a quarter century ago? What are the chances that we shall see once again that too easy a money policy has been adopted? Will the Federal Reserve operations of 1953 recreate the boom during the year or two ahead?

At present there appears to be no way of ascertaining precisely whether or not other aspects of the situation are such that the easy-money efforts of the Federal Reserve will lead to a major boom.[2] In the light of past experience, however, we perhaps should assume that such an outcome is well within the range of possibilities.

Past experience also suggests that the boom cannot be revived for long without the assistance of rapidly growing speculation in some field. In 1928 and 1929 the margin speculation in stocks was the source of a huge flow of inflationary purchasing media into the channels of business. Although many commentators supposed that the loans represented funds immobilized in Wall Street, the increasing total of brokers' loans and bank loans on securities throughout the Nation reflected in part creation of inflationary purchasing media that speculators used to buy new homes, new cars, and other evidences of their success.

In the absence of such a great speculative boom, the business recovery of 1928 probably would not have reached such high levels, the continued upsurge of industrial production into mid-1929 presumably would not have occurred, and commodity prices might have resumed more quickly the downward drift that prevailed through 1926 and 1927.

Conclusion

We conclude that a resumption of the boom conditions of late 1952 is possible in the next several months if the Federal Reserve and the Administration continue their easier money efforts.[3] *Its continuation for many months thereafter will be improbable unless there is a major speculative boom in the stock market or elsewhere, perhaps in real estate. That the general situation would become more vulnerable and that business risks would be greatly augmented if such a speculative boom develops seems unnecessary to emphasize.*

[2]See the *Research Reports*, August 24, 1953, "How May the Next Depression Be Different?"

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 93.7 percent of capacity for the week ended October 31, 1953, was 1 percent less than that in the preceding week and was 5 percent less than production in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Percent of Capacity†	80	20	51	55	107	94p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.10	.30	.77	.85	2.22	2.11

Automobile and truck production in the United States and Canada during the week ended October 24, 1953, was estimated at 149,341 vehicles, compared with a revised total of 152,643 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Vehicles (000 omitted)†	77	10	92	68	145	149p

Electric-power production in the week ended October 24, 1953, increased to 8,306,426,000 kilowatt-hours from 8,264,800,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Billion Kilowatt-Hours†	1.82	1.53	2.33	2.28	7.70	8.31

Lumber production in the week ended October 17, 1953, increased. *The New York Times* seasonally adjusted index was 10 points above that for the preceding week but was 3 points below that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
The New York Times Index†	124	38	77	96	113	110

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

DEMAND

Department-Store Sales

Our preliminary estimate of the seasonally adjusted index of department-store sales (based on dollar value) increased nearly 3 percent during October. (Revised data reveal that a 3-percent decrease occurred during September.) Estimated October sales were 3 percent less than those a year earlier and were 5 percent less than sales during May, when the 1953 peak was reached.

The index of prices of goods sold in department stores was relatively unchanged during August at the lowest level since December 1950, and we believe that little change occurred during September and October. Price changes thus far during 1953 have been slight.

According to our preliminary estimates, the index of the physical volume of department-store sales (which is calculated by dividing the dollar-value index of sales by the index of prices) increased 3 percent during October, thus counterbalancing the decrease during September. Since early 1952, when prices of department-store goods

[3]This conclusion is not a contradiction of our conclusion a week ago that "Developments among the leading and roughly coincident statistical indicators suggest that a cyclical downturn in general business activity either began a short time ago or is about to occur." We simply wish to inform our readers as to all possibilities that deserve consideration.

virtually leveled off, the physical-volume index shown on the chart has paralleled the dollar-sales index.

Neither September nor October data for the potential volume of department-store sales (which are based on the production of goods available for sale in department stores and reflect the estimated volume of goods available for sale in department stores) were available when the accompanying chart was prepared. The trend of the series since November 1952 has been downward.

As usual about this time, articles are beginning to appear concerning the probable trend of department-store sales during the Christmas buying season. One of the first (*The Wall Street Journal,* October 22, 1953), on the basis of opinions of representatives at a recent retailers' conference, indicates that "Christmas holiday sales this year should range from as good as last year to 10 percent better." Seasonally adjusted sales at present (October) are somewhat below those during the Christmas season a year ago (regardless of whether the Christmas season is defined as November and December or December alone). A range such as that indicated, if compared with November and December a year ago, would mean an increase in sales from present levels of from 2 to 12 percent; if compared with December a year ago, such a range would mean an increase of from 4 to 14 percent from present levels. During 1952, sales during November and December were 2 percent less those during October; sales during December were the same as those during October. We believe that in general the retailers' expectations are somewhat overoptimistic.

In order to help readers interpret more accurately the week-to-week reports that appear in various newspapers and in these bulletins, we have calculated that if the seasonally adjusted index of sales for November is to be maintained at the October level, the weekly sales for November 1953 should average the same as the weekly sales figures for November 1952.

Although department-store sales recovered somewhat during October from the September level, the increase was not large enough to indicate that the recent downward trend in department-store activity has been interrupted (let alone reversed). In accordance with the evidence that a general curtailment of business activity of at least some magnitude has begun or is about to begin, we do not expect a recovery of department-store sales in the near future.

Latest Weekly Data

Department-store sales for the week ended October 24, 1953 were 4 percent less than sales in the preceding week and were 7 percent less 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 September were slightly less than sales in the corresponding month last year. The apparel stores reported the largest percentage decrease, followed by the mail-order companies. The data compiled by *The New York Times* are summarized below.

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

Mail Order	− 6
Grocery	+ 2
Variety	+ 2
General Merchandise	+ 4
Apparel	− 8
Shoe	+14
Automotive-Variety	− 4
Drug	0
Men's Wear	+ 2

Note: The classes are given in the order of magnitude of dollar sales. An investigation of the percentage changes in sales of shoe chains, which was prompted by a reader's inquiry, has revealed that the recent large increases have been attributable largely to the fact that the 1953 sales are for a larger number of stores than the 1952 sales; consequently, the reported figure is misleading.

PRICES

Commodities at Wholesale

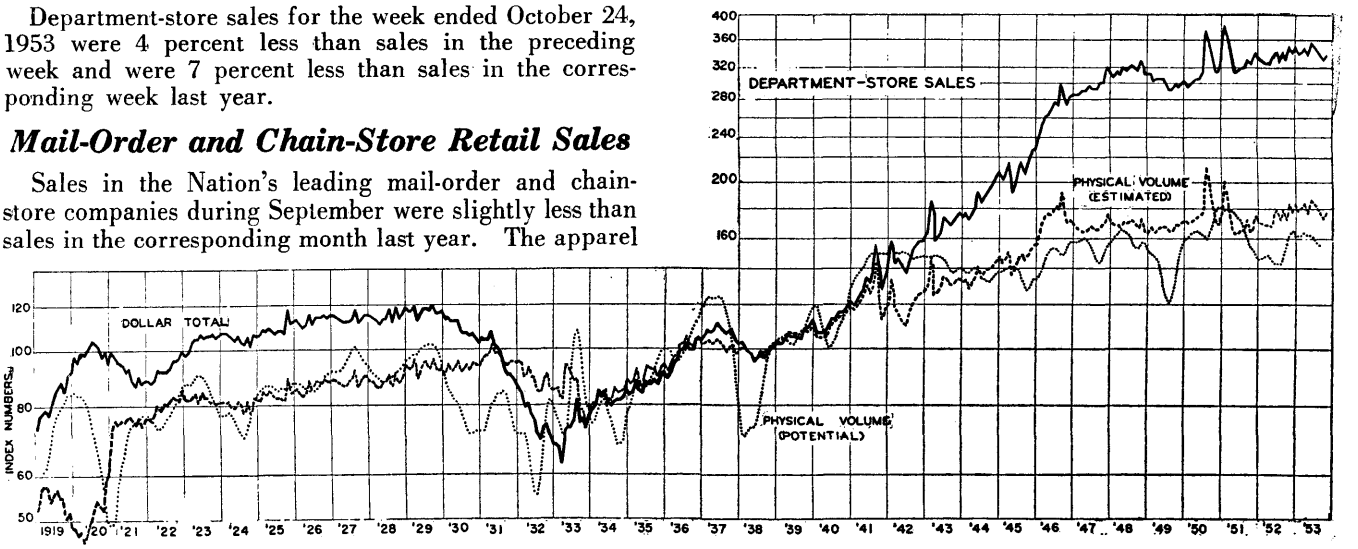
(August 1939=100)	1952 Oct. 29	1953 Oct. 22	1953 Oct. 28
Spot-Market Prices (22 basic raw materials)	280	267	266
Commodity Futures Prices (Dow-Jones Daily Index)	356	329	332

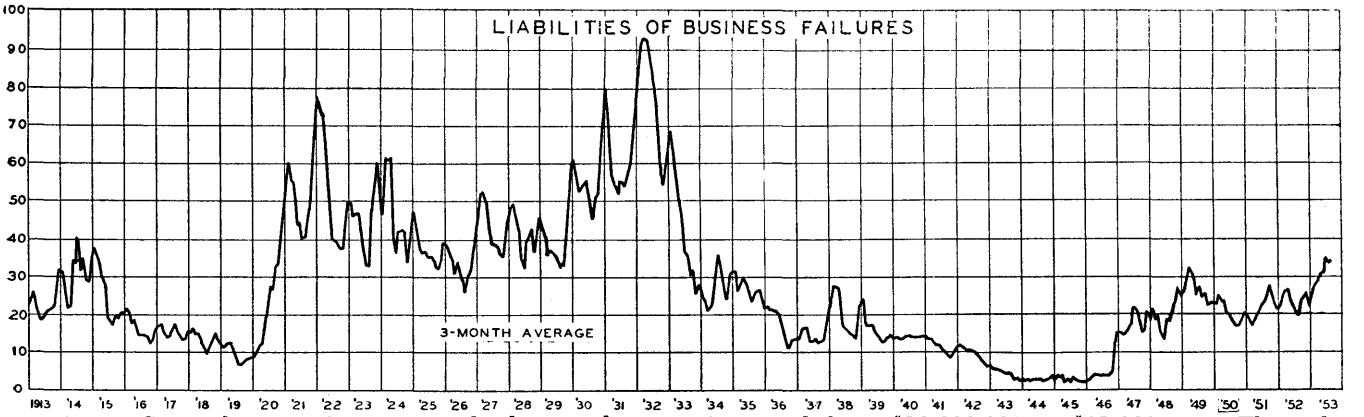
BUSINESS

The Trend of Business Failures

Liabilities of business failures, which decreased 28 percent during August, increased 19 percent during September.[4] Although no precise seasonal adjustments are available for the series of failures, liabilities have tended to decrease from August to September in the past. On the basis of tentative seasonal factors computed by the Institute, the increase of the seasonally adjusted fig-

[4]Failures data are compiled by Dun & Bradstreet, Inc., and include discontinuances following assignment, voluntary or involuntary petition in bankruptcy, attachment, execution, foreclosures, and voluntary withdrawal from business with known losses to creditors.





ure during September was 37 percent, the largest thus far this year.

The liabilities involved in business failures during September totaled $33,817,000, compared with $28,529,000 during the preceding month and with $20,138,000 during the corresponding month a year ago. Last month's liabilities are the largest September figure since 1932, when a figure of $56,100,000 was recorded. The September figure is the second highest this year. The number of failures in September was 686, compared with 700 in August and 539 in September a year ago. Average liabilities per failure increased to $49,296 during September, compared with $40,756 in August, the record for the year of $55,014 reached in July, and $37,362 in September 1952.

The series shown on the accompanying chart is a 3-month moving average (plotted at the midmonth) of liabilities of business failures. The August figure increased 1 percent to a level only 3 percent below the 1953 high reached in June. The August average was 6 percent above the peak reached in March 1949 and was 73 percent above the 1952 low reached in August.

A breakdown of August failure liabilities (data for September are not yet available) into major types of businesses shows that increases occurred in retail trade, construction, and commercial services. Liabilities of manufacturing and mining industries and wholesale trade decreased. The proportion of total liabilities represented by retail trade increased from 27 to 49 percent; those of construction and commercial services, from 7 to 13 and 3 to 7 percent, respectively. The proportion of manufacturing- and mining-industries liabilities decreased from 41 to 21 percent; that of wholesale trade, from 22 to 10 percent.

The business-failure liabilities for the first 7 months of this year totaled $214,300,000, compared with $169,600,000 during the corresponding period a year ago. According to *Dun's Review*, the liabilities of mining and manufacturing industries increased from $65,700,000 during the first 7 months of 1952 to $82,700,000 during the corresponding period this year. The textile industry shows the largest increase from $11,800,000 to $15,200,000. The wholesale-trade liabilities increased during the same period from $21,300,000 to $32,700,000. The lumber group experienced the largest percentage of losses (from $2,200,000 to $5,000,000). Retail-trade liabilities increased from $46,000,000 to $66,700,000; furniture (which increased from $6,100,000 to $15,400,000), apparel and accessories (which increased from $7,100,000 to $10,300,000), and the automotive group (which increased from $3,900,000 to $7,500,000) experienced the largest losses. Construction liabilities increased from $19,800,000 to $21,900,000. The only group whose liabilities decreased during the period under consideration was that of commercial services; its liabilities decreased from $16,900,000 to $11,700,000.

Dun's Review recently has classified causes of business failures during the year ended June 30, 1953. A total of 7,801 failures occurred during that period, with liabilities totaling $310,800,000. Neglect was the "underlying cause" of 5 percent of failures during this period; fraud was responsible for 4 percent; lack of experience in the line, 11 percent; lack of managerial experience, 11 percent; unbalanced experience (in sales, finance, purchasing, and production), 17 percent; incompetence, 50 percent; disaster, 1 percent; and the remaining 1 percent were for failures attributable to unknown reasons.

The number of failures reported for the 4 weeks ended October 22 was 729, compared with 643 for the corresponding period of September and with 569 for that of October a year ago.

Conclusions

Although our 3-month moving average increased during August, the June high was not quite reached. Moreover, a further decrease will occur during September if October liabilities are not large enough to replace the high July figure in the calculation of the 3-month moving average. However, month-to-month changes in liabilities are especially erratic; thus we believe it premature to assume that the interruption of the upward trend of this series is anything but temporary.[5]

[5]We have mentioned on previous occasions that the *inverted* seasonally adjusted monthly series of liabilities of business failures is one of the earliest and most consistent indicators of cyclical changes of business activity; the series usually leads cyclical peaks of general business activity by an average of nearly 11 months.

COMMERCIAL FAILURES, NUMBER AND LIABILITIES

	Number of Failures			*Liabilities of Failures (000 omitted)*		
	1951	*1952*	*1953*	*1951*	*1952*	*1953*
January	775	671	647	$21,685	$26,208	$23,309
February	599	619	691	16,009	19,474	27,273
March	732	715	739	17,652	29,232	31,082
April	693	780	693	17,064	29,500	27,520
May	755	638	697	23,504	21,193	32,789
June	699	671	817	22,733	21,222	32,379
July	665	580	724	21,088	22,789	39,830
August	678	594	700	26,417	16,322	28,529
September	620	539	686	26,643	20,138	33,817
October	644	621		30,417	35,049	
November	587	590		17,567	18,757	
December	612	583		19,403	23,400	
	8,059	7,601		$240,779	$283,284	