AMERICAN INSTITUTE for ECONOMIC RESEARCH

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

What the Indicators Say

In a Special Bulletin dated January 5, 1953, we discussed the possibility that the new Administration would attempt to stop the prolonged inflation and substitute gradual deflation in an effort to restore sound economic relationships. The President's choice of advisers, especially of such men as Mr. Dodge, Mr. Humphrey, Mr. Burgess, and Mr. Burns had provided clues; and the addition of Mr. Jacoby and Mr. Stewart to the President's Council of Economic Advisers has strengthened the evidence. There was every reason to believe that gradual deflation would be attempted by a balancing act on a "high wire" stretched from the peaks of inflationary prosperity across the valley of depression to the plateau of stable prosperity.

The strenuous efforts to preserve a balance, first by tighter money to stop inflation and then by using easy money to prevent drastic deflation have been discussed in detail in these bulletins during the spring and summer of 1953. In the meantime, the leading indicators of business-cycle movements traced a pattern that in the past has been the forerunner of business recessions. By August 1953 we here were nearly sure that a recession either had begun or soon would begin, and a few months later the fact that a recession was under way had become obvious to any careful observer. But at the end of 1953 and early in 1954 the $64 question still was, How severe and how prolonged would the recession be?

Presumably it is unnecessary to discuss again in detail here the various developments that have been described in recent bulletins. However, a brief summary of the future trends that would be unfavorable and favorable respectively may help us in our search for clues during the weeks ahead.[1]

Unfavorable, that is, evidence that the current recession probably will become severe:

1. A downturn of industrial-stock prices to a level below that of last September.
2. Substantial increases in the liabilities of business failures.
3. A marked downturn of wholesale prices of basic commodities.
4. Downturns or continued downward trends of the other leading indicators.
5. Acceleration of the downward trend of steel-scrap prices.
6. A decline of our index of inflation below the lowest level reached in 1953.

Favorable, that is, evidence that the current recession probably will be neither severe nor prolonged:

1. Continuation for 2 or 3 more months of the upturn of industrial-stock prices that began last October.
2. Marked decreases for a few months in the liabilities of business failures.
3. Any other than a marked downward trend of wholesale prices of basic commodities.
4. Upturns among some of the other leading indicators.
5. An upturn in prices of steel scrap.
6. A renewed upward trend of our index of inflation after the first-quarter decline.

Although any one of the developments mentioned above will provide some basis for future judgments, the greater the number of specific indications we have, the more we shall be justified in reaching the indicated conclusion. By the time as many as four or five of the numbered trends are in agreement, the evidence justifying the appropriate conclusions will be strong indeed. Until we arrive at that more satisfying situation when we shall have an adequate scientific basis for specific conclusions, we must keep in mind the fact that the chances of an early recovery from the recession are perhaps equaled, possibly even exceeded, by the chances of a major recession.

Summarizing the Current Behavior of the Statistical Indicators, II

Last week we summarized the current behavior of the statistical indicators by means of a technique developed by the National Bureau of Economic Research. We explained that the technique was purely mechanical and mentioned our work on an alternate technique allowing more room for judgment in the interpretation of the cyclical status of the individual indicators.

The technique developed by the Institute for summarizing the current behavior of the statistical indicators applies the same method as that used by the National

[1]As we have during the past periods when changes of decisive import were in process, we propose during the next several weeks to comment briefly each week on all the more significant indicators until we have a reasonably satisfactory answer to the important question, Is a major or only a minor recession under way?

Bureau of Economic Research. Each of the three groups of indicators is combined into an index that shows the percentage of indicators in the group in the expansion stage of the business cycle.

Our computation of the percentage of series expanding differs widely from that used by the National Bureau of Economic Research. The Bureau first smooths the series by means of a statistical technique known as moving averages; the number of series expanding is then expressed as a percentage of the number of series in the group. On the other hand, the Institute's computation of the percentage of series expanding is based on our estimate of the current cyclical status of the individual series. If in any month, for example, two of the eight leading indicators were believed to be in the expansion phase of the business cycle, i.e., are classified "up" or "up(?)" in the table published in our "Monthly Bulletin," the percentage-expanding figure for that month would be 25.

Judgment as to whether an individual series is in the expansion or contraction phase of the business cycle can be made only after the trend has been of sufficient duration and magnitude to be classified as cyclical. Thus indices based on the estimate of current cyclical status are several months behind present developments. In order to overcome this lag, we bring each series up to date by using its apparent recent trend until its cyclical status becomes evident.

Our estimates of the current cyclical status and apparent recent trend as published in the "Monthly Bulletin" for the latest month for which data are available are made on the basis of most recent preliminary or estimated data. Moreover, all other pertinent information available is considered in arriving at our estimate. Estimates are revised on receipt of final data. (It may be useful to recall at this point that the apparent recent trend covers a period of 2 to 6 months.)[2]

The accompanying percentage-expanding curves have been developed as described above.[3] Thus these curves reflect the judgment of the observer to some extent. Because estimates of apparent recent trends are available for less than 3 years, more testing is required for a more conclusive evaluation of the usefulness and reliability of the technique.

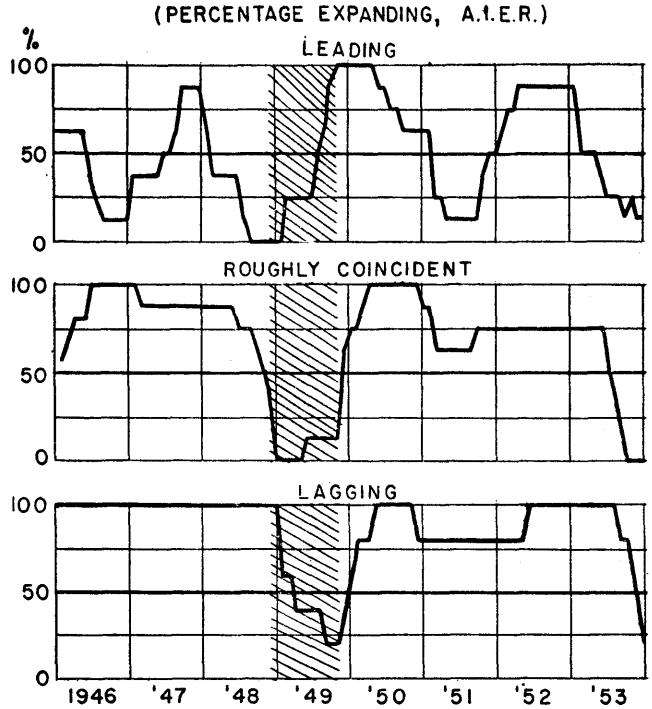
Leading Group

The first curve plotted on the accompanying chart shows the percentage expanding for the eight leading indicators since 1946. During that period the index fell below the 50-percent line four times, compared with eight such declines for the corresponding index of the National Bureau. Only twice was this pattern of movement followed by the indices of the coincident and lagging groups, i.e., in 1948-49 and in 1953.

Roughly Coincident Group

The behavior of this index composed of eight series has differed from that of the corresponding National Bureau index. The Institute index fell below the 50-percent line only twice, in November 1948 and in July 1953. The corresponding National Bureau index crossed the 50-percent line six times. The Institute index fell to zero twice, in 1948-49 and in 1953, as did the

SUMMARY OF STATISTICAL INDICATORS
(PERCENTAGE EXPANDING, A.I.E.R.)



National Bureau index. In 1948 the Institute index crossed the 50-percent line in November; the National Bureau index, in October. In 1953 both indices reached zero in September.

Lagging Group

Both indices dropped below the 50-percent line twice in the period covered. In 1949 both crossed this line in March. In 1953 the National Bureau index crossed this line in October; the Institute index crossed it in November. In 1949 both indices fell below the 50-percent line 4 months after the downturn of general business activity. Neither index reached the zero line in the period covered.

The General Picture and Latest Data

Both the indices developed according to techniques of the National Bureau and those developed according to the technique of the Institute follow the same general pattern. Both confirm the cyclical nature of the downturn in general business activity that began during the third quarter of 1953. The Institute indices are smoother than those of the National Bureau, but whether this will prove to be an advantage or not remains to be seen.

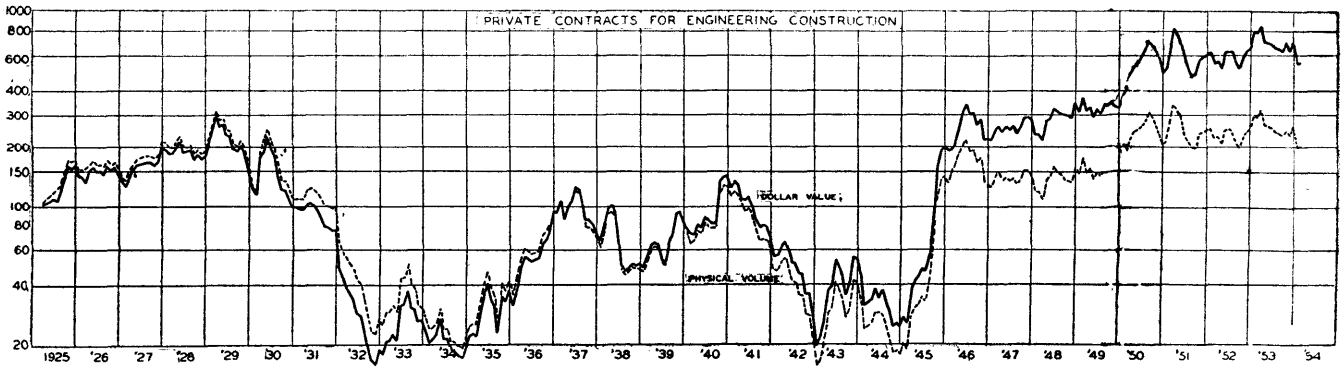
Average prices of industrial common stocks decreased slightly during the second half of February. However, the average for the entire month was well above that for January and at a post-World War II high. Average hours worked per week were unchanged in January. The daily average of wholesale prices of 22 commodities during February and wholesale prices of commodities other than food and farm products for February were unchanged. Personal income decreased during January for the third consecutive month.

In reviewing the favorable and unfavorable trends for clues as to whether a major or minor recession is under way, we find the following:

Two more or less counterbalancing trends stand out boldly. These are industrial-stock prices and steel-scrap

[2]The National Bureau meets the problem of lag by projecting the individual series mathematically.

[3]The shaded area of the chart marks the most recent period of business-cycle contraction according to the National Bureau.



prices, respectively conspicuous for their strength and weakness.

Recent increases in liabilities of business failures point this series in an unfavorable direction, but they do not give it a trend foreboding a severe recession.

The downward or doubtful trends of the remaining indicators make them evidence unfavorable to an early recovery.

The comparative stability of wholesale prices of basic commodities places this series among those not unfavorable to an early recovery.

The index of inflation shows a marked inflationary trend that is expected to be reversed during the first quarter of 1954. However, Government monetary policy in the event of a more pronounced recession may be reflected in an upward trend for the index, placing it among series indicative of an early recovery.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 70.5 percent of capacity for the week ended March 6, 1954, was 4 percent less than that in the preceding week and was 25 percent less than production in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Percent of Capacity†	93	27	86	30	100	70p
Weekly Cap. (million tons)	1.38	1.52	1.51	1.54	2.25	2.38
Production (million tons)	1.28	.41	1.30	.46	2.25	1.68

Automobile and truck production in the United States and Canada during the week ended February 27, 1954, was estimated at 146,774 vehicles, compared with a revised total of 148,257 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Vehicles (000 omitted)†	121	33	112	57	168	147p

Electric-power production in the week ended February 27, 1954 decreased to 8,396,000,000 kilowatt-hours from 8,551,000,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Billion Kilowatt-Hours†	1.71	1.51	2.23	2.07	8.07	8.40

Lumber production in the week ended February 20, 1954, decreased. *The New York Times* seasonally adjusted index was slightly below that for the preceding week and was 10 points below that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
The New York Times Index†	126	40	109	77	135	125

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

BUSINESS

Private Contracts for Engineering Construction

The 3-month moving average of the dollar value of private awards for engineering construction increased 2 percent during February (a 4-week month). The corresponding figure had increased 15 percent during December (a 5-week month) and had decreased 24 percent during January (a 4-week month). The February average was 29 percent below that of February a year earlier and was 33 percent below the alltime high reached in March 1953. However, the February average was 51 percent above that of February 1949 (3 months after the downturn of general business activity that began in 1948).

The dollar value of contract awards for private engineering construction during February was $440,000,000, compared with $338,000,000 in January, $899,000,000 in December, and $651,000,000 in February 1953. According to *Engineering News-Record*, the total of private engineering-construction contract awards during the first 8 weeks of 1954 was $810,000,000, compared with $1,612,000,000 during the corresponding period a year earlier, a decrease of 50 percent. The largest decrease was in industrial buildings, which decreased 69 percent to $213,000,000, compared with $693,000,000 during the corresponding period a year earlier. Private mass-housing contract awards were down 40 percent and totaled $406,000,000, compared with $674,000,000 during the first 8 weeks of 1953. Commercial building contract awards increased 14 percent to $160,000,000, compared with $140,000,000 a year earlier.

Private engineering-construction contract awards during 1953 reached an alltime high of $8,665,000,000, compared with $7,113,000,000 during 1952, an increase of 20 percent. The largest gain was in commercial building, 35 percent; industrial building and mass-housing projects increased 15 and 13 percent respectively.

The *Engineering News-Record* index of construction costs, which was relatively unchanged during November and December, increased slightly during both January and February. The February figure was 5 percent above that of February last year and was 20 percent above that of June 1950, when the Korean War started.

The 3-month moving average of the physical volume of private engineering construction (calculated by dividing the dollar value of contract awards by the construction-cost index) increased 2 percent during February. This average had decreased 24 percent during January after a 15-percent increase in December. The February figure was 32 percent below that of February 1953 and 36 percent below the alltime high reached in March 1953 but was 17 percent above the February 1949 index (3 months after the start of the previous recession).

Engineering News-Record recently published an estimate of engineering-construction awards for the current

year. It estimates a 7-percent decline in private awards from $8,665,000,000 in 1953 to $7,875,000,000 in 1954. According to the *Engineering News-Record,* the largest decrease is expected in industrial building contract awards, which may fall 13 percent. The mass-housing contract awards are expected to decline 6 percent; commercial building contract awards may increase 15 percent. However, as *Engineering News-Record* points out, the decrease in private awards will be offset partially by an estimated 7-percent gain in State and municipal awards.

Conclusions

There are no signs of an early reversal of the present downward trend.

DEMAND

Department-Store Sales

Our preliminary estimate of the seasonally adjusted index of department-store sales (based on dollar value) remained unchanged during February. (Revised data reveal a 2-percent decrease in January sales.) The estimated February figure is about 2 percent less than that for February 1953.

The index of prices of goods sold in department stores remained about the same during January at a level about 1 percent higher than that for January 1953. These prices have been relatively stable for the past 2 years.

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) decreased more than 1 percent during January. The January figure was 2 percent less than that for January 1953.

The potential volume of department-store sales (which is based on the production of goods ordinarily sold in department stores) decreased nearly 2 percent during December. The trend of potential volume of department-store sales has been downward since June 1953, apparently reflecting retailers' determination in reducing their orders. The December figure was nearly 10 percent less than that for December 1952 and was about 13 percent less than that for June 1953.

According to trade reports, department-store buying is increasingly on a hand-to-mouth basis. Buying of men's wear for fall 1954 is reported light. This condition in the market has been explained by buyer expectations that waiting will bring them lower prices.

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 March is to be maintained at the February level, the weekly sales figures for March 1954 should average about 5 percent less than the corresponding weekly sales figures for March 1953.

We still expect that further decreases or a leveling-off of department-store sales during the next several months are more probable than an increase.

Latest Weekly Data

Department-store sales for the week ended February 27, 1954, were 5 percent more than sales in the preceding week but were 3 percent less than sales in the corresponding week last year.

PRICES

Consumers' Prices

After decreasing for 2 months, the Bureau of Labor Statistics' index of consumers' prices increased three-tenths of a point in January to a level only two-tenths of a point below the alltime high reached last October.

Primarily responsible for the January increase was the increase in food prices, especially those of coffee and pork. The food component of the index increased seven-tenth of 1 percent. The apparel index declined four-tenths of 1 percent as prices were reduced in January sales. The housing index decreased slightly in response to lower prices for house furnishings. However, the rent component of the housing index continued to increase.

The transportation index increased more than 1 percent largely as a result of increased 1954 car prices compared with end-of-season prices charged for earlier models.

The medical-care index and personal-care costs continued to increase. Both indices increased one-tenth of 1 percent. The reading and recreation index declined two-tenths of 1 percent reflecting lower prices for television sets, toys, and sporting goods. The index of other goods and services was unchanged.

Conclusions

We continue to believe that, in spite of temporary interruptions, the more probable course of the index during the next several months is downward.

Commodities at Wholesale

	1953	*1954*	
(August 1939=100)	*March 4*	*Feb. 25*	*March 3*
Spot-Market Prices (22 basic raw materials)	275	271	271
Commodity Futures Prices (Dow-Jones Daily Index)	349	371	374