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GREAT BARRINGTON MASSACHUSETTS

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Further Tests of Monetary Policy

A year ago, in discussing the then approaching test of monetary policy, we concluded in part as follows: "The present Administration has committed itself to a 'sound dollar.' President Eisenhower has said, 'We believe finally that our truly urgent need is to make our nation secure, our economy strong, and our dollar sound. For every American family today, this matter of the sound dollar is crucial. Without a sound dollar, every American family would face a renewal of inflation, an ever increasing cost of living, the withering away of savings and life-insurance policies.'

"Within the next few months we shall witness a test of the Administration's determination to make its actions conform to its expressed intentions. A serious dilemma confronts the Treasury experts: on the one hand, competing for bona fide savings in the market place on the scale indicated above will almost certainly cause a further sharp rise in interest rates and in all probability will force a radical revision of many plans for corporate expansion; and, on the other hand, financing the deficits by selling new securities to the commercial banks will almost certainly force a resumption of inflation."

Announcement of the return to an easy money policy was made a few weeks later. All doubts as to the Administration's choice have been resolved by the actions taken at that time and since.

Again this year the Treasury is confronted with a major financing problem. Present indications are that the Federal deficit during the last 6 months of 1954 will be comparable to that a year earlier, possibly $8,000,000,000 or thereabouts.

No doubt a substantial part of the funds can be obtained by the sale of tax-anticipation notes to individuals and business corporations. However, business tax liabilities accruing this year are substantially less than those of 1953. Therefore, an even larger amount of the tax-anticipation notes probably will be placed with the commercial banks than was thus placed last year. That process, of course, would add more inflationary purchasing media to the large total already in circulation.

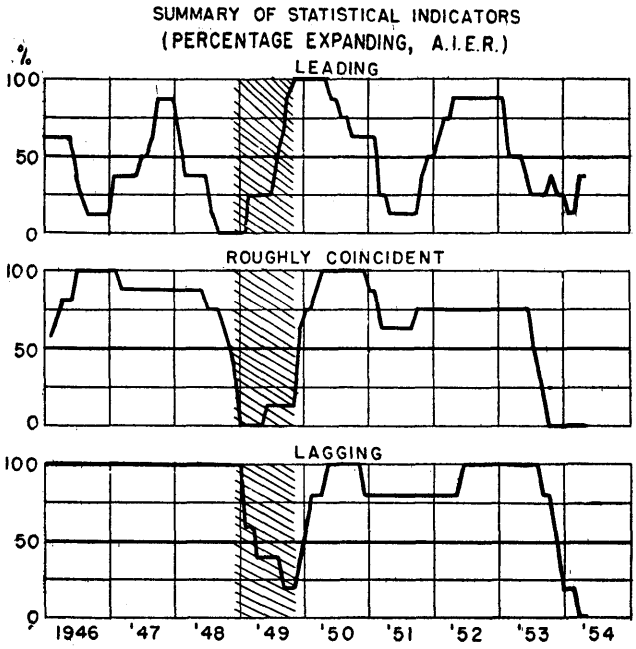
During the latter part of 1953, consumer loans were still increasing more rapidly than such loans were being repaid. In recent months, that situation has been reversed. We do not now expect a resumption of the rapid increase in consumer borrowing from the commercial banks with resulting inflationary effects. Consequently, the inflation during the remainder of 1954 presumably will be less than that in the latter part of 1953.

Also to be considered in this connection is the possibility that involvement in the Indo-China war against Communist forces will result in an enlargement of armament spending. In view of the huge amounts of war materials now in storage here and abroad, we should think that a relatively small war in southeastern Asia would involve little more armament production than that still under way. However, the potential attraction of some stimulus to business in the months before election is a factor not to be overlooked. Presumably the Administration readily could obtain congressional support for more defense spending.

Two developments during the next two months may throw some light on future possibilities, as far as the prospects for more inflation are concerned. The Bridges-Reece Bill, the Gold Redemption Act of 1954, provides for resumption of specie payments and a return to the complete gold standard. Senate hearings have been held, and further action on the bill is expected.

Thus far, the Administration has opposed a resumption of specie payments; but Mr. Burgess of the Treasury, when questioned during his testimony before the Senate Committee, declined to say whether or not the White House was *unalterably opposed* to the measure. A possible implication is that the bill will not be vetoed if it is passed by both Houses of Congress. If this bill becomes a law, we shall assume that the Administration has not abandoned its intentions to balance the budget and stop inflation.

The other development is the action taken on the Administration's request for an increase in the debt limit. Apparently, some increase will be necessary even for the presently contemplated level of defense spending. If the increase authorized is barely that needed for the Administration to "get by" during the next several months, especially if such a moderate authorization is coupled with enactment of the Gold Redemption Act of 1954, we shall assume that Congress as well as the Administration still intends to return to fiscal sanity. However, if the authorized increase in the debt is unduly large, and especially if the Gold Redemption Act is not passed by Congress, we shall assume that Congress as well as the President has decided to follow the path of least political resistance without regard to the ultimate effects in terms of inflation and further depreciation of the dollar.



What the Indicators Say

The accompanying chart shows the overall cyclical status of each of the three groups of indicators through April summarized according to a technique developed by the Institute and outlined in our bulletin of March 8, 1954.

The percentages of all three groups of indicators expanding were unchanged in April from the March levels. The curves of the roughly coincident and lagging indicators remained at the zero line; the curve of the leading indicators did not continue the upward movement begun in March and has not crossed the 50-percent line thus far.

Latest Data

Employment in nonagricultural establishments (unadjusted for seasonal variations) decreased slightly in May. Unemployment decreased further in May; however, the decrease was similar to that in April and was less than that seasonally expected. Consequently, our seasonally adjusted *inverted* series of unemployment decreased further for the seventh consecutive month. Personal income continued to decrease in April for the sixth successive month.

The summary of the statistical indicators strengthens our earlier view that no marked improvement in general business activity is to be expected during the next few months.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 73 percent of capacity for the week ended June 12, 1954, was 4 percent more than that in the preceding week but was 21 percent less than production in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Percent of Capacity†	97	17	74	26	98	73p
Weekly Cap. (million tons)	1.38	1.52	1.51	1.54	2.25	2.38
Production (million tons)	1.34	.26	1.12	.40	2.21	1.74

Automobile and truck production in the United States and Canada during the week ended June 5, 1954, was estimated at 120,606 vehicles, compared with a revised total of 148,606 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Vehicles. (000 omitted.)†	125	50*	104*	27*	135	121*p

Electric-power production in the week ended June 5, 1954, decreased to 8,246,000,000 kilowatt-hours from 8,433,000,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Billion Kilowatt-Hours†	1.69	1.38*	2.18*	1.94*	8.10	8.25*

Lumber production in the week ended May 29, 1954, decreased. *The New York Times* seasonally adjusted index was 3 points below that for the preceding week but was 6 points above that for the corresponding week last year.

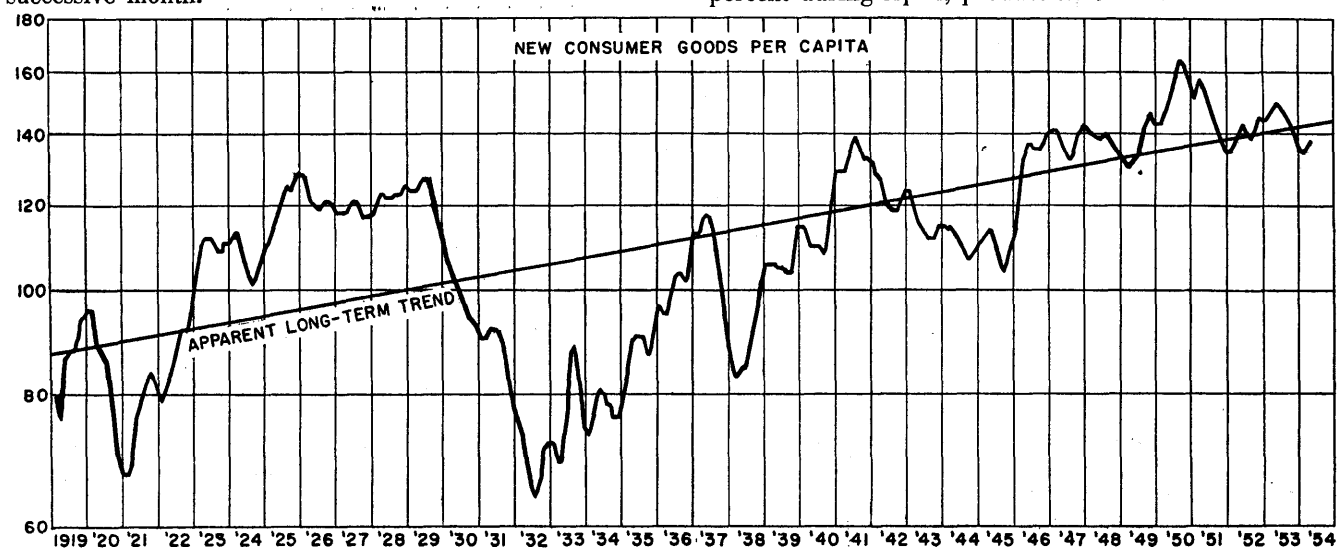
	1929	*1932*	*1937*	*1938*	*1953*	*1954*
The New York Times Index†	120*	39	96	79	106	112

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

New Consumer Goods Per Capita

Our index of new consumer goods produced per capita (a 3-month moving average plotted at the last month) increased 1 percent during April for the second consecutive month to a level 7 percent below that of April a year earlier and 3 percent below the long-term trend.

Production of consumer goods, which increased nearly 3 percent during March, remained virtually unchanged during April. Automobile production increased slightly, residential-building construction expanded more than 4 percent during April, production of textiles decreased 1



percent, and footwear production decreased 10 percent.

Automobile production, which totaled 631,000 cars and trucks in April, decreased to an estimated 577,000 cars and trucks in May. A further decrease, approximately 6 percent, is expected during June according to *Ward's Automotive Reports.* If this reduction materializes, automobile production during the first half of this year may fall slightly short of the 3,500,000 units we estimated in our *Research Reports* of May 17, 1954. A further decrease during the second half of 1954 is highly probable, in view of the large and still increasing dealers' stocks of new cars and in view of the usual concentration of about 60 percent of annual sales in the first half of the year.

According to our preliminary estimate, the April figure for residential-construction contract awards, which is a 3-month moving average, increased further from the relatively high level of February and March. However, the number of new housing units started during the first 4 months of this year totaled 346,000, compared with 368,500 during the corresponding period of 1953. In spite of generally pessimistic expectations regarding the outlook for residential construction during the remainder of the year, some improvement in construction activity seems probable. According to a *Wall Street Journal* survey, " * * * most home builders * * * find business in the big spring selling season is bettering that of this time last year. The big booster, builders agree, is easier-to-get credit for house buying."

April footwear production decreased 10 percent below that of March and 7 percent below that of April last year, according to the Census Bureau. Total output of shoes and slippers in April was 42,306,000 pairs, compared with 47,170,000 pairs in the previous month.

The downward trend of textile production which started in June 1953 apparently has not yet been reversed. The April textile-production index was nearly 18 percent below the 1953 high reached in May. According to the Clothing Manufacturers Association, production of men's clothing during the first quarter of 1954 was about 13 percent less than that of the corresponding period of 1953.

As for furniture, "the indicators still point moderately downward," according to Seidman and Seidman, accountants for the furniture industry.

Food and tobacco production was virtually unchanged in April. However, production of tobacco manufactures thus far this year has been considerably below the level of the corresponding period a year earlier.

In view of the expected curtailment of automobile production in June and during the third quarter of the year, a further marked increase in production of new consumer goods does not seem very probable. After an unusually sharp decrease in automobile production during the third quarter, however, the general upward trend of our index may be resumed.

DEMAND

Purchasing Media

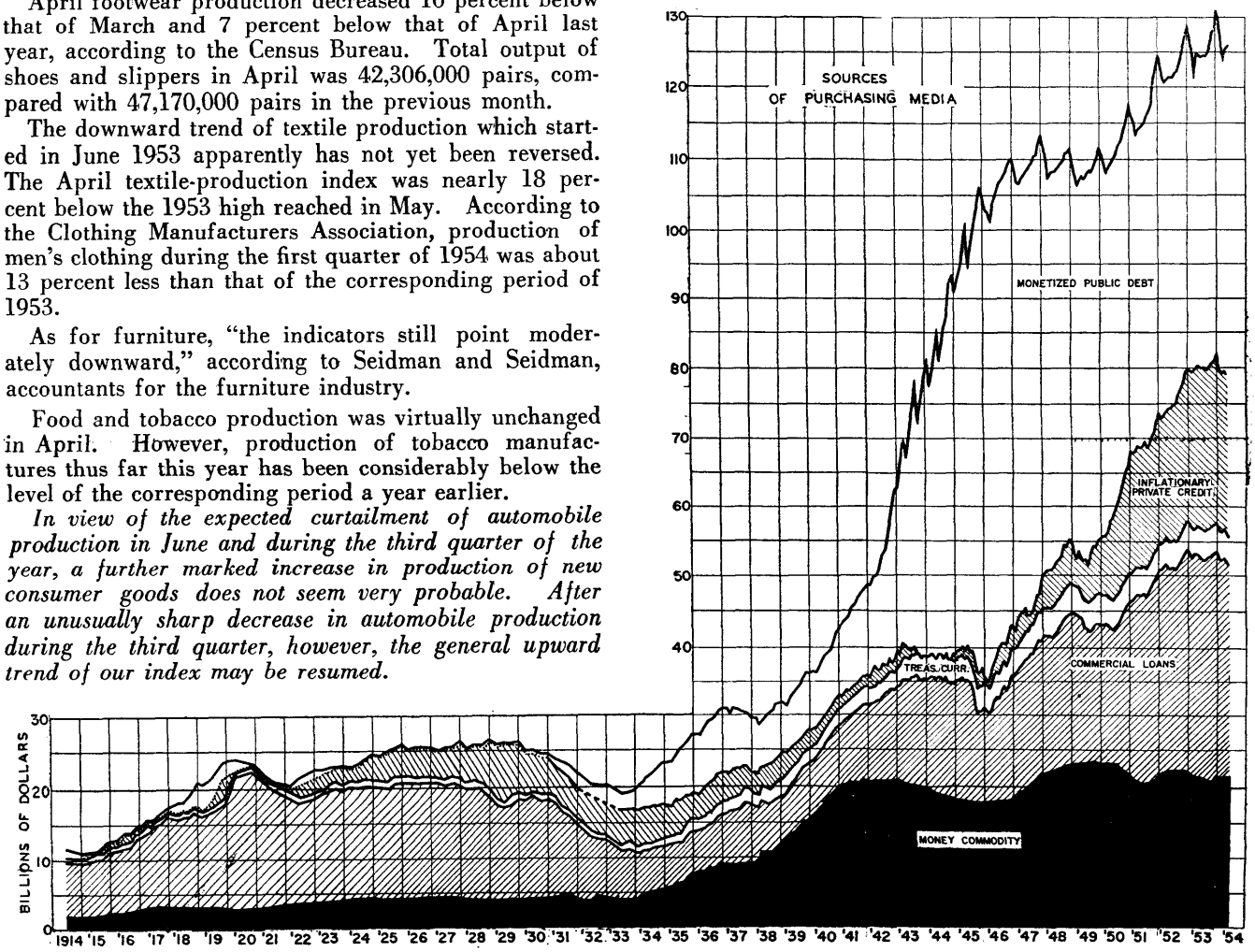
Total purchasing media increased approximately $700,000,000 during May to $126,000,000,000, about $5,100,000,000 less than the alltime high reached in December 1953 but approximately $1,500,000,000 more than the figure for May 1953. During the last 8 years the purchasing-media total has increased during May six times and the average increase has been $550,000,000.

Purchasing media derived from the first source, monetary gold, decreased slightly during May. Since last September, when the gold outflow ended, the total amount of monetary gold in the Treasury has changed little.

Purchasing media derived from the second source, commercial, industrial, and agricultural loans, decreased about $450,000,000 during May. This decrease was substantially less than that seasonally expected. The average level of commercial, industrial, and agricultural loans during the first 5 months of 1954 was nearly 3 percent less than that during the corresponding period of last year.

Purchasing media derived from the third source, Treasury currency, changed little during May.

Purchasing media derived from inflationary private credit and monetized public debt, the fourth and fifth sources (both of which are inflationary), increased about $1,200,000,000 to a level approximately $3,000,000,000 more than that during May last year. Most of



the increase was in purchasing media derived from monetized public debt.

A breakdown of inflationary purchasing media into the fourth and fifth sources[1] reveals that inflationary private credit, which expanded rapidly during 1950 and 1952, leveled off starting in mid-1953. The relatively rapid expansion of the commercial banks' investments in private securities during early 1954 has been offset by a comparable increase in the savings-type liabilities of the commercial banks.

Monetized public debt increased approximately $3,000,000,000 during the last 12-month period. Prior to this increase, monetized public debt had leveled off for 2 years (1951-52) and had been decreasing during some prior years (1946-50). The change was facilitated by the return to an easy money policy, which was initiated by the Federal Reserve Board in April and May 1953 and has since continued.

We expect that total purchasing media will increase in the last 6 months of 1954, as it has during each of the last several years. Moreover, we should not be surprised to see the December 1953 peak exceeded by December 1954.

Department-Store Sales

Department-store sales for the week ended June 5, 1954, were 8 percent less than sales in the preceding week and were 18 percent less than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

(August 1939=100)	*1953* *June 10*	*1954* *June 3*	*June 9*
Spot-Market Prices (22 basic raw materials)	268	286	283
Commodity Futures Price s (Dow-Jones Daily Index)	333	377	378

[1]The fourth source, inflationary private credit, represents purchasing media that have been created as a result of investments of commercial banks in the obligations of private business, municipalities, and States, and loans made by commercial banks to private individuals (such as real-estate, consumer, "other" loans, and loans on securities) in excess of the available capital and savings deposits of the banking system. The fifth source, monetized public debt, is that portion of the public debt that represents creation of new demand deposits by the commercial banking system in exchange for Government securities.

BUSINESS

Ratio of Retail Inventories to Sales

Our preliminary estimates indicate that the ratio of retail inventories to sales increased 2 percent during May to a level 3 percent above that of May 1953. (The revised figure for April reveals a 4-percent decrease of the ratio for that month.) The estimated ratio for May was 13 percent below the postwar high reached in mid-1951. Since 1952 the series has fluctuated erratically, but the trend has been slightly upward.

The seasonally adjusted index of department-store inventories increased nearly 3 percent during May from the revised April figure, which had decreased slightly from the March level. In May, inventories were 3 percent smaller than those of May 1953 and 2 percent smaller than their 1953 average level. The index of department-store sales (seasonally adjusted), which increased 4 percent during April, increased 1 percent further during May.

The dollar value of new orders placed by department stores during April (later data are not available) was 13 percent less than that in the previous month but 1 percent more than that during April 1953. The April decrease of new orders was about that seasonally expected.

The dollar value of outstanding orders, which decreased 15 percent in March, decreased 19 percent in April to the lowest level since May 1952. Prompt delivery of goods ordered by department stores is primarily responsible for the low level of outstanding orders.

The dollar value of goods received by department stores during April decreased 11 percent. In view of the fact that Easter came 2 weeks later this year than in 1953, the decrease was about that seasonally expected.

The ratio of retail inventories to sales continued at a relatively high level in May. As no substantial upturn in sales can be expected in the near future, we believe that efforts will persist to bring the ratio to a more comfortable level. Buyers probably will continue to be extremely cautious in placing new orders, and further price reductions probably will be made to stimulate sales.

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