AMERICAN INSTITUTE for ECONOMIC RESEARCH
GREAT BARRINGTON MASSACHUSETTS
WEEKLY BULLETIN
December 6 1954

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Democrats' Dilemma

Now that control of both houses of Congress by the Democrat Party seems to be assured, a question arises as to what domestic policies of economic significance will be changed and what new policies will be initiated. We assume that the political import for 1956 of whatever is proposed will receive the most careful consideration by the politicians who will be in power.

If the contraction of business activity under way from mid-1953 to mid-1954 were to continue, there is reason to believe that the new Congress would strive, by every possible means, to reverse the downward trend. Presumably, both reductions in taxes and additional spending would be authorized. The President could either oppose such spend-for-prosperity notions or join in advocating them. We assume that few Republicans in Government would wish to appear to be in opposition to prosperity; moreover, by means of the huge public highway project now being formulated, the President and his advisers already have indicated the trend of their thinking along these lines.

If, then, the recession continues or is resumed after a short interruption, we assume that the Republican administration and the Democrat Congress will vie with one another not only in attempting to reverse the downward trend but also in attempting to convince the public that the credit for saving a desperate situation should be given to the Republicans or Democrats, respectively. However mistaken either or both Parties may be in selecting the best remedy for a depression, there is no reason to question the good intentions of each nor should we expect a nonpartisan approach to the problem. If there is a severe depression, the Party blamed for it, if either is blamed, probably will not remain in office; and, if there is a reversal of such a downward trend, the Party that gets credit for the reversal, if either does, probably will win control of both the executive and legislative branches of the Government in 1956.

On the other hand, if the upturn of business activity that has begun proves to be a cyclical recovery of business rather than a brief interruption of a major downward trend, the situation will be different. In that event, the Democrats will be confronted with an interesting dilemma. If they do nothing, the Republicans will get the credit (if either Party does) for the ensuing prosperity; but if the Democrats try to do something that might lead the public to give them credit for prosperity and Eisenhower vetoes their legislation, that will only emphasize the viewpoint that the Republicans rather than the Democrats deserve the credit.

To be more specific, it would not be surprising to see Senator Douglas, for example, sponsor a combined spending and tax-reduction program on the grounds that it was essential in order to restore prosperity. If convinced that a cyclical recovery already were under way, the President might veto the legislation and in his veto message emphasize the trends already visible, urge that the proposed legislation was both unnecessary and harmful, and contend that to Republican policies was due the credit not only for the mildness of the recession but also for the promptness and extent of the recovery under way and the prosperity to come.

We conclude that the share of governmental responsibility that the Democrat Party recently acquired may prove more embarrassing than helpful to that Party. The usual political "gouging and scratching" is to be expected as a matter of course. Various investigations no doubt will be energetically pushed in order to make political "hay" for the 1956 campaign. But as far as any drastic modification of programs already in effect are concerned, we believe that the Democrats in control of Congress occupy a weak tactical position and that they will have little influence on economic trends during the next two years.[1]

E. C. HARWOOD

What the Indicators Say

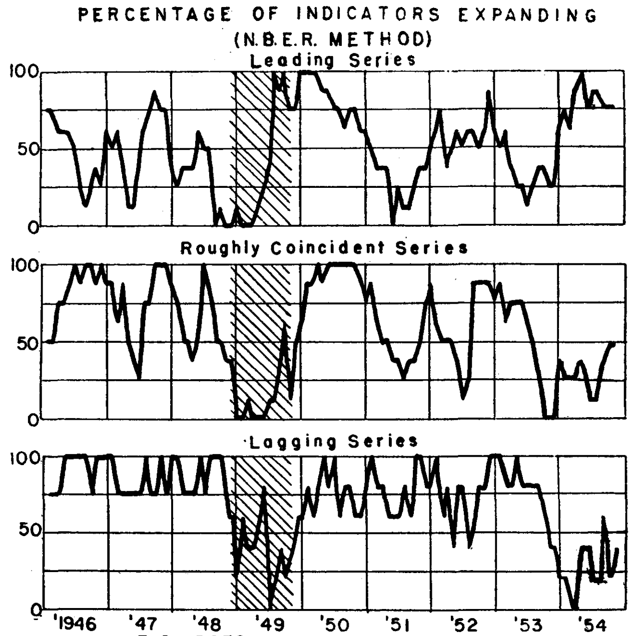
The percentages of leading and roughly coincident indicators expanding in October, as measured by the National Bureau of Economic Research method, were unchanged from the revised figures for September. The percentages for the two groups are 75 and 50 respectively. The percentage of lagging indicators expanding increased from 20 in September to 40 in October.[2]

The percentage of roughly coincident indicators expanding in October and September (revised) is 50. For the first time the percentage has equaled that critical

[1] As is our custom when we publish an article that ranges afield from what is primarily economic analysis, the author rather than our editorial board assumes responsibility for the views expressed.

[2] This method of summarizing the cyclical status of each of the three groups of indicators is outlined in our bulletin of March 1, 1954. The curves are based on preliminary or estimated data for the latest 2 to 4 months and reflect revisions in the data for earlier months.

To Annual Sustaining Members:
The revised edition of *What Will Social Security Mean To You* was mailed to you recently. If you have not received your copy, please let us know and another will be sent.



point since July 1953.

Retail sales are now included with personal income in the category of lagging indicators expanding.

The *Iron Age* composite price of No. 1 steel scrap, which was $34.00 at the beginning of November, declined to $32.83 for the week ended November 23.[3]

The reaching of the 50-percent line by the curve of the roughly coincident indicators and the upturn in the curve of the lagging indicators to 40 percent provide additional evidence that a cyclical business recovery is under way.

SUPPLY

Industrial Production

Steel-ingot production of 1,919,000 tons during the week ended December 4, as indicated by operations scheduled at 80.5 percent of capacity, compares with 1,915,000 tons during the preceding week and 1,980,000 tons during the corresponding week last year.

The New York Times seasonally adjusted index of lumber production was 136.1 for the week ended November 20, compared with 127.2 a week earlier and 126.5 for the corresponding week last year.

Electric-power production of 9,087,000,000 kilowatt-hours during the week ended November 27 compares with 9,317,000,000 kilowatt-hours for the previous week and 8,140,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 135,000 vehicles for the week ended November 27, compares with a total of 160,100 for the previous week and 74,300 for the corresponding week last year.

These data compare with those for corresponding weeks of earlier years as follows:

	1929	*1932*	*1948*	*1949*	*1953*	*1954*
Steel						
Operating rate—percent cap.	67	16	100	88	88	80*p*
Ingot prodn.—million tons	.92	.24	1.80	1.62	1.98	1.92
Lumber						
New York Times Index	124	33	108	112	126	136
Electric Power						
Kilowatt-hours—billions	1.72*	1.48*	5.37*	5.54*	8.14*	9.09*
Automobiles						
Vehicles—thousands	28*	11*	90	76	74*	135**p*

p Preliminary; *Holiday week

Steel-Ingot Production vs. Prices of Metals and Metal Products

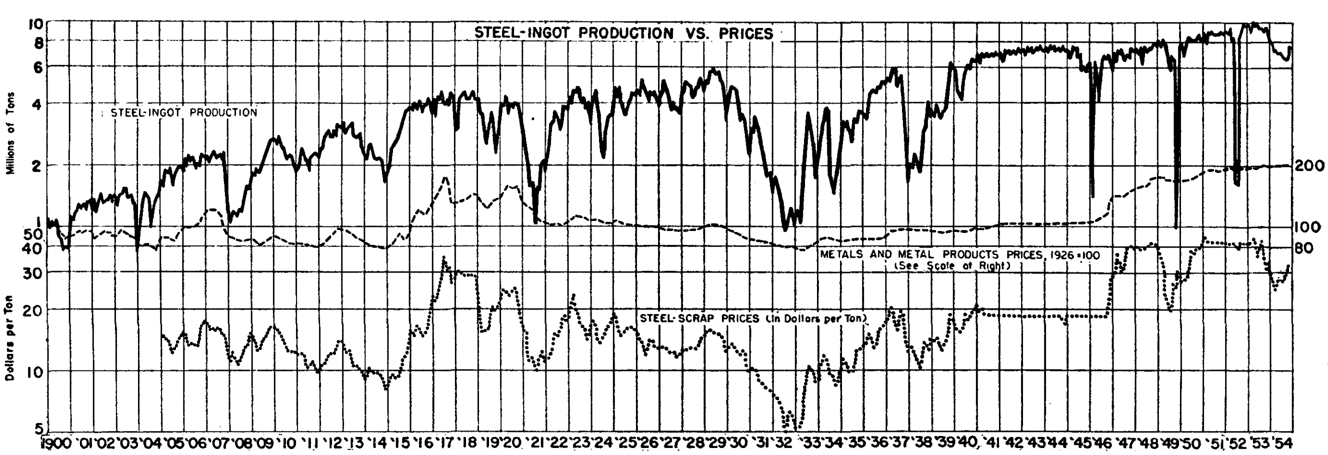
The decreasing trend of steel-ingot production began in May 1953, leveled off during the summer of 1954, and turned up abruptly in October. After decreasing from a monthly rate of about 10,000,000 tons in early 1953 to about 6,600,000 tons in July 1954, ingot production increased slowly in August and September, then sharply in October to 7,700,000 tons, compared with 9,463,000 tons in October last year.

Ingot production during the first 10 months of the year was 71,936,000 tons, compared with 94,973,000 tons during the corresponding period of 1953.

The industry's rate of operations, which is based on the reported capacity as of the first of each year, averaged 73 percent during October, compared with 67 percent for September and 95 percent for October 1953. The reported weekly operating rate in November averages nearly 79 percent, which gives an indicated production for the month of slightly more than 8,000,000 tons. This amount compares with 8,690,000 tons of ingots produced in November 1953. If the industry averages its current rate of operations during December, the year's ingot production will equal about 88,000,000 tons, compared with the alltime record of 111,600,000 tons last year.

Seasonal buying of the automobile industry has been largely responsible for the increased rate of steel production. Moreover, this increase in demand has been credited by spokesmen of the industry with stimulating

[3]This series is not included among the indicators.



demand from other sources. As a result of this increased buying, delivery periods for mill products in greatest demand are reported by one producer to be extended from January to March, and the usual year-end decline in steel production is not expected this year. Products in lesser demand were reported in mid-November to be available for delivery in November.

As is not unusual in the industry, the operating rates of the principal producing centers differ appreciably; centers with the largest proportions of their mill capacities in products of greatest demand report the highest rates. As a result of this situation, mills in the Chicago area have been operating at a rate several points above that of the Youngstown area, which in turn has been operating at a rate several points above that of the Pittsburgh area.

C. F. Hood, president of United States Steel Corporation, recently expressed the view that, although continued improvement in the industry could be expected, a boom is improbable. The same spokesman warned that steel now is being produced faster than it is being consumed.

Another indication that extreme optimism may be unjustified is found in recent developments in the steel-scrap market. After reaching a high of $34 for the weeks ended November 2 and 9, the *Iron Age* composite price of No. 1 steel scrap declined to $33.83 and $32.83 for the weeks ended November 16 and 23.

Our index of wholesale prices of metals and metal products (including machinery and motive products) continues an almost uninterrupted slight upward trend commenced last March. For October the index equals 203, compared with 201 for October 1953.

Steel-ingot production is expected to continue near its present level throughout December and into the early part of 1955. Although more time is required to judge better how the production is currently balanced against consumption, a slight upward trend in production seems more probable than a downward trend over the next several months.

DEMAND

Department-Store Sales

The seasonally adjusted index of the dollar total of department-store sales for November is estimated to be less than 2 percent greater than that for October and a like amount greater than that for November 1953. The revised index for October was nearly 6 percent more than that for September and nearly 3 percent more than that for October 1953.

Prices of goods sold in department stores, as measured by our index of department-store prices, were practically unchanged in October and were two points below those of November 1953. Price changes have been slight and have fluctuated little more than 1 percent during the last year. Since June 1950, the index for all items measured by the Bureau of Labor Statistics index of consumer prices has increased 12.5 percent, although that of apparel, the principal component in our index of department-store prices, increased only 8.4 percent.

Because of the very slight change in the department-store price index, the index of physical volume of department-store sales (which is obtained by dividing the dollar-value index of sales by the index of prices) increased less than 2 percent. The two indexes, dollar-sales volume and physical volume, have paralleled each other for most of the year 1954, revealing a relative stability of prices.

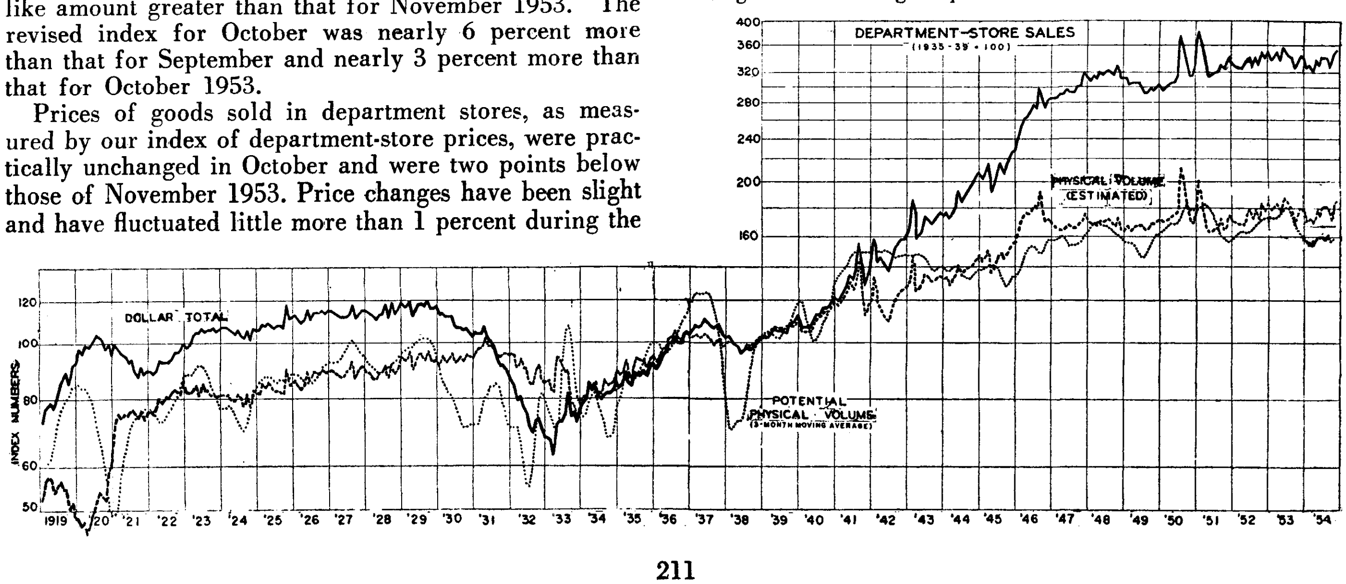
Our index of the potential volume of department-store sales for October is unchanged from that for September.[4] With the increased physical volume of sales the resulting slightly wider gap between the indexes of physical volume and potential volume of sales indicates that inventories of goods sold through department stores are now smaller in relation to department-store sales.

Sales in six of the last eight weeks have exceeded those of the corresponding weeks in 1953, reflecting improved business activity, especially the increased production of steel, automobiles, and lumber.

The decrease of 4 percent in department-store sales for the first 6 months of this year as compared with those of last year has been reduced to 3 percent for the first 11 months. Department- and chain-store executives are predicting an increase of 5 percent in sales this Christmas season as compared with last. Even if that prediction is realized, 1954 sales of the nation's department stores will not exceed those of 1953, which was the best sales year in retail history. However, Christmas season sales 5 percent greater than those of last year would make 1954 the second best sales year. Factors favoring Christmas season sales this year include (1) the largest Christmas Club payments in history, (2) twenty-five selling days between Thanksgiving and Christmas instead of the usual twenty-four or less, and (3) well balanced inventories.

The current increase in sales appears to reflect the generally improved business activity. Until there is evidence of a reversal of this activity, which does not seem probable within the next few months, we believe that the trend of sales will be moderately upward.

[4]The index reflects changes in production of the principal kinds of goods sold through department stores.



Latest Weekly Data

Department-store sales for the week ended November 27 were 1 percent less than sales in the preceding week and were unchanged from sales in the corresponding week last year.

Mail-Order and Chain-Store Sales

Sales of the Nation's leading mail-order and chain-store companies during October were slightly more than sales in October 1953. The grocery stores reported the largest percentage increase, followed by the shoe companies. Data compiled by *The New York Times* are given below in the order of magnitude of dollar sales of the type of outlet.

Change in Total Sales: October 1954 vs. October 1953

Type of Outlet	*Percent*
Mail Order	−2
Grocery	+8
Variety	−1
General Merchandise	0
Apparel	−3
Shoe	+3
Automotive Variety	−9
Drug	+2
Men's Wear	+1

PRICES

Commodities at Wholesale

	1953	*1954*	
(August 1939=100)	*Dec. 2*	*Nov. 24*	*Dec. 2*
Spot-Market Prices (22 basic raw materials)	273	278	273
Commodity Futures Prices (Dow-Jones Daily Index)	342	365	360

BUSINESS

The Trend of Business Failures

The 3-month moving average of liabilities of business failures for September decreased 3 percent to an amount about 1 percent less than that for September 1953.[5] This was the sixth consecutive month of decrease. Since reaching a post-World War II peak in March, the average has decreased nearly 34 percent. Nevertheless, the average for September was still 66 percent more than that for August 1952, from which point the latest cyclical uptrend in the average began.

The *monthly total* of liabilities of business failures decreased approximately 20 percent during October, after having increased 12 percent in September. (The increase in September reflected the failure of four businesses each with liabilities in excess of $1,000,000.) Failure liabilities of $29,000,000 in October compare with $36,381,000 in September and $37,076,000 in October 1953. There were 871 failures in October, compared with 819 in September and 840 in October 1953. Average liabilities of $33,295 per failure in October compare with $44,421 in September and $44,138 in October 1953.

The direction of change in number and liabilities of failures by industry classification in October was as follows:

	Number	*Liabilities*
Mining and Manufacturing	Increase	Decrease
Wholesale Trade	Decrease	Decrease
Retail Trade	Increase	Decrease
Construction	Increase	Decrease
Commercial Services	Increase	Decrease

The percentages of all failure liabilities accounted for by the several industry groupings changed from September to October, as follows: mining and manufacturing, from 31 to 22; wholesale trade, from 15 to 10; retail trade, from 33 to 48; construction, from 15 to 12; commercial services, from 6 to 8.

Liabilities of business failures in the United States during the first 10 months of this year totaled $387,458,000, compared with $313,604,000 during the corresponding period of 1953. About 40 percent of this increase was accounted for by the failure liabilities of retail trade; those of mining and manufacturing accounted for 32 percent of the increase.

The contraseasonal decrease in failure liabilities in October confirms our tentative conclusion of last month that the cyclical trend of failure liabilities is downward.[6]

Business Failures: Number and Liabilities

Month	*Number*			*Liabilities (000 omitted)*		
	1952	*1953*	*1954*	*1952*	*1953*	*1954*
January	671	647	867	$26,208	$23,309	$29,592
February	619	691	926	19,474	27,273	47,774
March	715	739	1,102	29,232	31,082	57,280
April	780	693	975	29,530	27,520	42,512
May	638	697	943	21,193	32,789	38,494
June	671	817	965	21,222	32,379	41,613
July	580	724	856	22,789	39,830	32,230
August	594	700	912	16,322	28,529	32,582
September	539	686	819	20,138	33,817	36,381
October	631	840	871	35,049	37,076	29,000
November	590	815		18,757	36,795	
December	583	813		23,400	43,754	
Total	7,611	8,862		$283,314	$394,153	

[5]The moving average is based on data reported by Dun & Bradstreet, Inc., and is plotted at the midmonth; monthly figures are those of Dun & Bradstreet.

[6]The series of business failure liabilities included among the leading statistical indicators is inverted, and thus its cyclical status is reported as *up*.