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GREAT BARRINGTON MASSACHUSETTS

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Another Parallel, 1953-54 vs. 1927-28

In addition to the similarities and differences between the post-World War I and II periods already discussed in these bulletins,[1] another interesting parallel seems to be developing. We refer to the record of contract awards for residential construction.

A chart showing the seasonally adjusted index of residential contract awards is shown with our regular article on the subject, and the latest one will be found on page 199 (the November 22 bulletin). By referring to this chart, readers can more readily visualize the relationships discussed in the paragraphs that follow.

In 1923, residential construction awards were among the leading indicators of the cyclical recovery. Apparently the easy-money policy of the Federal Reserve authorities in 1924 further stimulated residential construction, which increased to a peak in 1925. Similarly, in 1949, residential construction awards lead the cyclical recovery that began then. Presumably, the easy-money policy of the Federal Reserve authorities stimulated the gains, which continued until a peak was reached in 1950.[2]

For nearly 3 years after the 1924 peak and again for a little more than 3 years after the 1950 peak, residential construction awards decreased somewhat but continued large. Late in 1927 an upturn began, no doubt stimulated or at least facilitated by the Federal Reserve Board's easy-money policy. In mid-1953, a similar upturn began.

The 1927 upturn of residential contract awards continued until a level slightly less than the 1925 peak was reached early in 1928. Thereafter, residential construction awards decreased at an accelerating rate (except for 1930) through 1932. The latest upturn already has brought the monthly total of awards to an amount greater than the 1950 peak. Various indications suggest that the upward trend may continue well into 1955. (For example, applications for Federal Housing mortgage guarantees and for G. I. home loans are double those of 1953 and 1954, respectively; and Government economists have estimated a 13-percent increase in residential construction in 1955.) However, such an upward trend is by no means assured, and various factors, especially higher money rates, may bring about a downturn within the next several months.

As to whether or not money rates will rise substantially from present levels, we have no basis for confident predictions. However, if foreign governments and central banks continue to augment their demand claims on the Nation's gold reserves, we should expect the Federal Reserve authorities to exhibit some concern about the trend of such developments before many more months have elapsed. If there is a continuation of the rapid rise in stock prices, that likewise may be sufficiently striking to induce the Federal Reserve authorities to reconsider their easy-money policies.

Although the increase in residential contract awards has brought the yearly totals to figures more than double the peaks reached in the 1920's, the rise in costs has been so great that the estimated annual physical volume of such construction in recent years has only approximated that of 1925 to 1928. However, the duration near peak levels of the residential construction boom has somewhat exceeded that of the 1920's already and still continues.

We assume that the trend of contract awards for residential construction will provide one of the more reliable clues to future developments during the next year or two. Of course, similarities of one or two patterns alone are not adequate evidence on which to base conclusions about economic developments, but when numerous indicators follow similar patterns one is justified in giving more weight to assumptions regarding similarities of important but less readily discernible economic conditions that may decisively influence further developments.

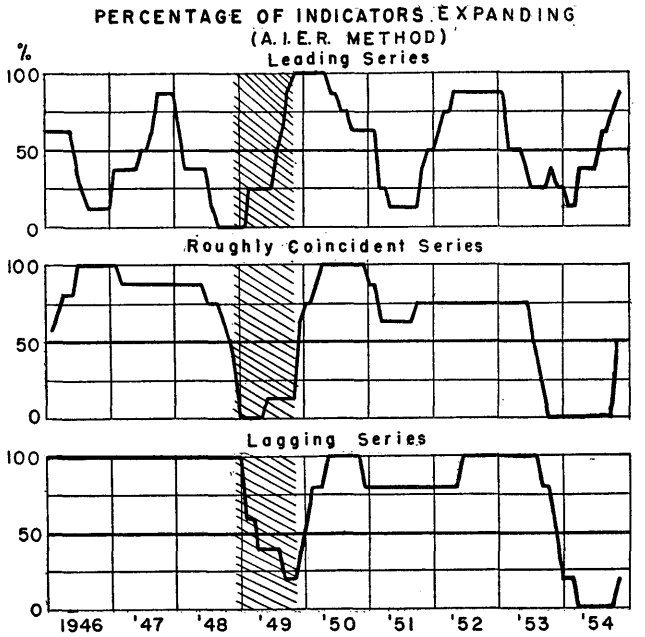
Lest the foregoing be misunderstood, we perhaps should emphasize that we are not now predicting another 1929-32. However, we believe that more and more evidence is accumulating that reveals a repetition of post-World War I mistakes in fiscal policy, mistakes so important that their possible effects should be given careful consideration. When and if we do believe that the cumulation of economic maladjustments probably will result in a major readjustment involving a severe depression, we shall not hestitate to say so in these bulletins.

What the Indicators Say

The percentage of all three groups of statistical indicators expanding in October, as measured by the Insti-

[1] "Significant Differences," *Research Reports*, November 22, 1954, and other articles referred to therein.

[2] The similarities of the Federal Reserve authorities' actions were described in the article, "Will the Boom Be Resumed," *Research Reports*, November 2, 1953.



tute technique, increased.[3] The percentages are 87½, 50, and 20 for the leading, roughly coincident, and lagging indicators respectively.

Latest Data

The daily average of the Dow-Jones index of 30 industrials was 375.70 for November compared with 358.29 for October. New orders for durable goods in October decreased slightly from the upward revised figure for September. The average of the daily index of 22 commodities in November was less than one-half percent below that for October. Consumer installment debt at the end of October was substantially unchanged from that at the end of September.

The *Iron Age* composite price of $32.33 for No. 1 steel scrap for the week ended November 30 compares with $34.00 at the beginning of November.

The increase of the curve of the roughly coincident indicators to the 50-percent line may be considered with a like movement in the corresponding curve developed under the technique of the National Bureau for Economic Research and published in last week's bulletin as strong evidence that a cyclical recovery is in progress.

SUPPLY

Industrial Production

Steel-ingot production of 1,944,000 tons during the week ended December 11, as indicated by operations scheduled at 81.5 percent of capacity, compares with 1,941,000 tons during the preceding week and 1,960,000 tons during the corresponding week last year.

[3]The Institute method is outlined in our weekly bulletin of March 8, 1954.

The New York Times seasonally adjusted index of lumber production was 131.4 for the week ended November 27, compared with 136.1 a week earlier and 123.9 for the corresponding week last year.

Electric-power production of 9,612,000,000 kilowatt-hours during the week ended December 4 compares with 9,087,000,000 kilowatt-hours for the previous week and 8,580,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 167,400 vehicles for the week ended December 4, compares with a total of 134,900 for the previous week and 123,400 for the corresponding week last year.

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

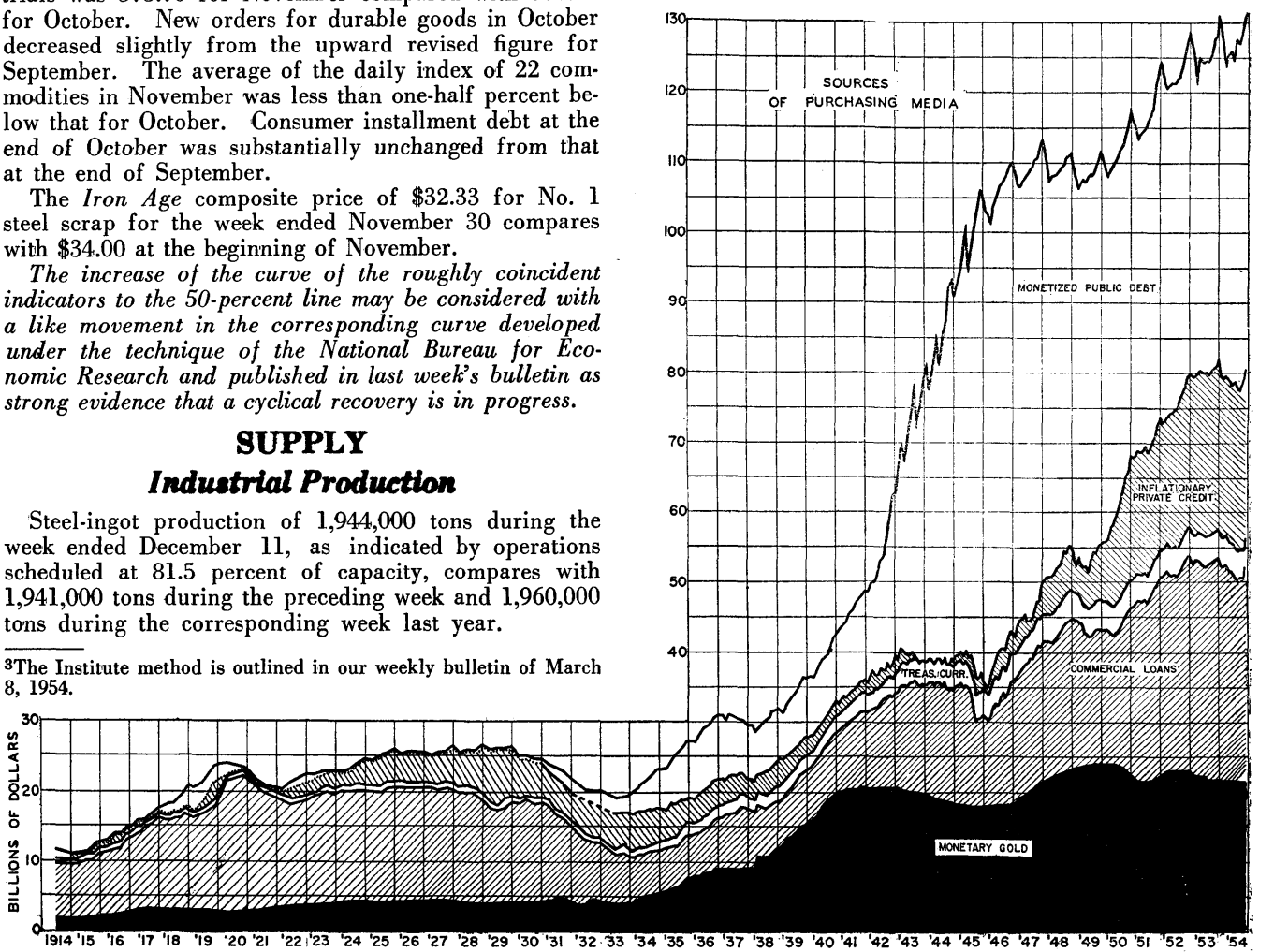
	1929	*1932*	*1948*	*1949*	*1953*	*1954*
Steel						
Operating rate—percent cap.	64	15	100	92	87	82*p*
Ingot prodn.—million tons	.88	.23	1.80	1.69	1.96	1.94
Lumber						
New York Times Index	122*	34*	95	110	124*	131*
Electric Power						
Kilowatt-hours—billions	1.81	1.51	5.65	5.74	8.58	9.61
Automobiles						
Vehicles—thousands	31	11	125	73	123	167*p*

p Preliminary; *Holiday week

DEMAND

Purchasing Media

Total purchasing media, as measured by the latest



weekly data, increased about $1,400,000,000 during November to nearly $131,500,000,000, compared with approximately $128,000,000,000 a year ago.

Purchasing media derived from the first source, monetary gold, decreased $50,000,000 again during November.

Purchasing media derived from the second source, commercial, industrial, and agricultural loans, increased nearly $1,600,000,000 during the month.

Purchasing media derived from the third source, Treasury currency, were virtually unchanged during the month.

Purchasing media derived from the fourth and fifth sources, inflationary private credit and monetized public debt, decreased nearly $200,000,000 during November to $75,103,000,000. The full amount of the decrease is credited to a reduction in the amount of monetized public debt.

Investment-type assets of the commercial banking system (including the Federal Reserve banks) increased about $992,000,000 during November; loans on real estate increased $292,000,000; loans on securities decreased $14,000,000, "other" loans increased $186,000,000; United States Government securities held by commercial banks increased $437,000,000; those held by the Federal Reserve banks increased $172,000,000; other security holdings of the commercial banks decreased $93,000,000.

United States Treasury deposits with the Federal Reserve and commercial banks increased about $800,000,000. This increase in deposits in a month in which Treasury deposits usually decrease reflects the shifting of $1,150,000,000 of Commodity Credit Corporation loans to private credit sources. Apparently this transfer of credit accounted for a large part of the increase during the month in commercial, industrial, and agricultural loans (the classification under which banks appear to report these loans) and was an important factor in bringing about the decrease in inflationary purchasing media.

The purchasing-media total, now at a record level, is expected to increase further by the end of the year. The year-end level, however, should be the record for several months, because total purchasing media decreases seasonally in the first quarter. Unknowns, such as the amount of tax-anticipation notes that will be turned in by corporations for tax payments in January, preclude a close estimate of the first-quarter contraction in purchasing media. In the past few years, the reduction in the total has averaged about $5,500,000,000, and we assume that a reduction of that order of magnitude is probable early in 1955.

Department-Store Sales

Department-store sales for the week ended December 4 were 44 percent more than sales in the preceding week and were 1 percent more than sales in the corresponding week last year.

PRICES

Consumers' Prices

Prices of goods and services bought by moderate-income city families decreased two-tenths of a point during the month ended October 15, as measured by the United States Bureau of Labor Statistics index of consumer prices. This, the third consecutive monthly decrease of the index, is attributable largely to lower food prices. At mid-October the index was less than it has been since June 1953. It was eight-tenths of 1 percent less than that of October 1953, but was still 12 percent more than the pre-Korean War index of June 1950.

The food component of the index decreased one-half of 1 percent between mid-September and mid-October to a level 1.6 percent below that of October 1953. The index for October was 4 percent less than it was at its maximum in August 1952, but still 11 percent more than that of June 1950. Lower prices for pork, poultry, apples, and potatoes were offset partially by higher prices for green beans, lettuce, and tomatoes. Coffee prices decreased slightly during the month.

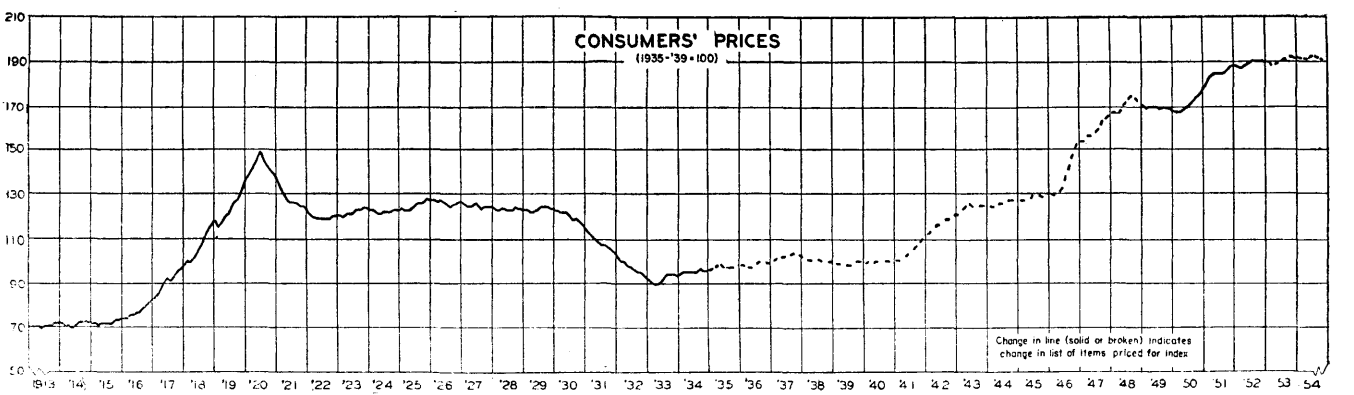
The housing component, which includes rent, fuels, utilities, housefurnishings, and household operations, was unchanged between mid-September and mid-October. Higher rents and higher prices for gas, coal, and fuel oil were offset by lower prices for electrical appliances, household textiles, and some furniture.

The transportation component of the index, which is not so heavily weighted as the food and housing components, decreased 1.1 percent between mid-September and mid-October, reflecting price concessions by new-car dealers preparatory to the introduction of 1955 models.

The personal-care component of the index decreased slightly during the month.

Slight increases in the components for apparel, medical care, and reading and recreation were reported for the month; the component other goods and services was unchanged.

According to Secretary of Labor Mitchell, the October decrease in consumer prices helped the purchasing power of factory workers' pay envelopes increase to its greatest amount for that month in any year. The United States Chamber of Commerce in its *Washington Report* for November 12, 1954, pointing to the workers' gains in earnings, says:



The Consumers' Price Index rose 0.3 percent this year through September, but, during the same period, average hourly earnings in manufacturing climbed 2.3 percent. Last year the price index rose 0.8 percent while the average hourly earnings of factory employees were increasing by six percent. * * * In the last 16 years, prices increased faster than earnings in *only three years.* * * * If the growth in all fringe benefits were added to wages, the favorable picture would be further improved. Furthermore, the price index generally does not reflect the improvement in the quality, durability, and serviceability of products. * * * A great majority of people mistakenly feel that the cost of living outstrips their incomes. Only a minority living on fixed incomes would be correct in that view.

Concerning the index of consumer prices, *The Journal of Commerce* says: "There is considerable evidence, however, that BLS is only just catching up with [price] declines that actually occurred months ago, so far as their effect on the pocketbooks of consumers is concerned."

We expect that the general trend of consumer prices, as well as that of actual prices to consumers, will be slightly downward over the next several months.

Commodities at Wholesale

	1953	*1954*	
(August 1939=100)	*Dec. 9*	*Dec. 2*	*Dec. 8*
Spot-Market Prices (22 basic raw materials)	271	276	277p
Commodity Futures Prices (Dow-Jones Daily Index)	341	360	359

p Preliminary

BUSINESS

Ratio of Retail Inventories to Sales

Our preliminary ratio[4] of retail inventories to sales, which decreased 3 percent during October (revised figures from previous report), decreased 4½ percent further during November and is 5 percent less than that of November 1953. The percent ratio is the smallest for the year to date and is nearly 8 percent less than the ratios of both February and August, which were equal and were maximum ratios for the year.

[4]The ratio is derived by dividing the inventory index by the sales index.

The seasonally adjusted index of department-store inventories, which remained unchanged during October, is estimated to have decreased 1½ percent during November. Inventories at the end of November were 5 percent smaller than those for November 1953 and 4 percent smaller than the average of inventories in 1953.

The seasonally adjusted index of department-store sales increased 3 percent during November after having increased the same amount in October. Sales of the 3 months September through November were 1¼ percent greater than those of the comparable 1953 period.

The dollar value of new orders placed in October (latest month for which data are available) was approximately the same as that for September and was 2 percent more than that for October 1953.

September and October usually are the 2 months in which the largest dollar totals of orders are placed.

The dollar value of outstanding orders decreased 2 percent in October after having increased 6 percent in September to an amount 3 percent more than that for October 1953. An analysis of department stores' outstanding orders indicates that the seasonal pattern in which October orders exceed those of August has been resumed.

The dollar value of goods received in department stores increased 6½ percent during October, compared with increases of 17 percent and 14 percent in October 1953 and 1952 respectively. The following table showing receipt of goods by department stores during the 3 months August-October of the latest 3 years indicates that in each successive year deliveries tended to be earlier, i. e., successively larger proportions of the 3-month totals each year were in August and September.

	1952	*1953*	*1954*
	(millions of dollars)		
August	386	397	404
September	478	452	487
October	547	531	521
	1,411	1,380	1,412

Evidently the inventory problem that has caused some concern on the part of retailers for nearly 2 years has been solved by a combination of cautious buying and well-sustained sales. Continuation of the recent improvement in sales during the remaining weeks of the year may result in the lowest ratio of inventories to sales since the scare buying of July 1950. The implications of such a development in terms of increased new orders for industry are obvious.