AMERICAN INSTITUTE for ECONOMIC RESEARCH

GREAT BARRINGTON MASSACHUSETTS

WEEKLY BULLETIN

January 10 1955

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The State of the Union

President Eisenhower has delivered his third state of the Union message to Congress. As did his message last year, his latest message laid the ground for subjects to be presented in special messages that will discuss the following: (1) foreign trade, (2) pay increases for civil service and postal employees, along with increased postal rates, (3) military pay increases and a new reserve program. These are scheduled for delivery January 10, 11, and 13, respectively, and are to be followed by the regular budget message January 17 and The Economic Report January 20.

The President's latest message, as well as the Administration's record through 1954, emphasizes the justification of our comment in reviewing the President's message on the state of the Union last year, "Whatever may have been the hopes of many individuals who voted for Mr. Eisenhower in 1952, developments during the past year [1953] had long since revealed that an effort to reverse completely and ultimately discard all the policies of the New Deal would not be sponsored by the present Administration."

In his address before Congress last Thursday the President indicated that he would continue his past policies. No doubt, the bipartisan support that he will need in Congress explains his attitude in part. However, we suspect, as Walter Lippmann wrote in the *New York Herald-Tribune* of January 4, 1955, that "as between President Eisenhower and the present Democratic leadership of the Congress there are no deep and difficult differences of belief either about foreign or domestic affairs." In support of his thesis Mr. Lippmann pointed out that Mr. Eisenhower was an executive officer of the Government "when the Congress was controlled by the same kind of men, in most cases by the same men with whom he is now going to deal."

As economists we find it disappointing that the President is apparently oblivious to any similarity between the present economic situation and that of 1928. If we are to profit from history, certainly the program laid in broad outline before Congress in this annual message of the President should have evidenced a greater awareness of the similarities between this and the earlier period and a readiness to take advantage of the earlier experience.

Price controls remain a dead issue but minimum wages, health insurance, and public housing have been revived as issues; public housing remains as a hardy perennial. Wisely administered, the country could benefit from an extension of the reciprocal trade act as favored by the President.

Last year we expressed the opinion that "those who are impatient with the lack of forthright leadership in a direction opposite to that of the New Deal" at least had the consolation of a breathing spell in which they could present their views under circumstances more propitious for calmer reconsideration. Although we do not suggest that the New Deal philosophy again governs in the White House, the President's message, against the background of the Administration's record, gives little reason to hope that the opportunity for calmer reconsideration will be wisely used.

Higher Margin Requirements

The Federal Reserve Board has raised margin requirements from 50 percent to 60 percent. This change may be compared with the increase from 50 to 75 percent ordered in mid-1945 and the further increase to 100 percent ordered in January 1946. The current relatively mild action, in spite of the much greater volume of trading in recent weeks, suggests that the Board is understandably timid and, we believe, still unaware of or at best not apprehensive about the extent to which present conditions parallel those of 1928.

A search of the records reveals no occasion in the past when the stock market has risen so far so fast and with so little new borrowing as it has since the elections. Without attempting to predict the future trend, we should nevertheless assume that developments of the past several weeks reflected an extremely strong technical position.

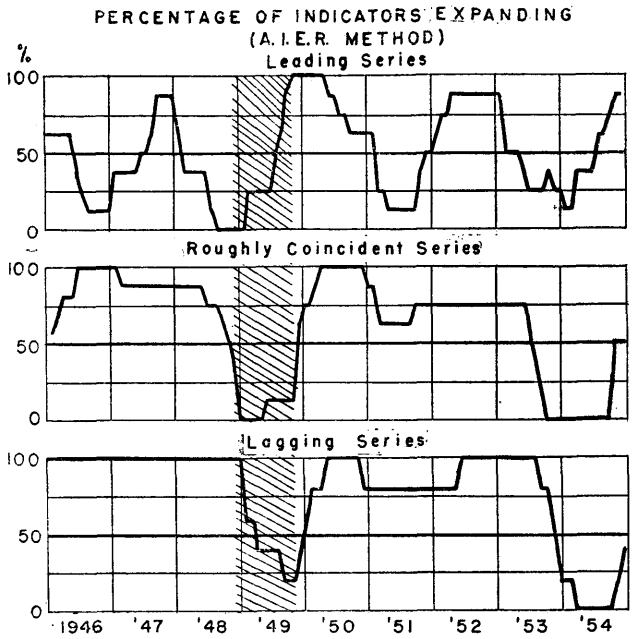
That the higher margin requirements will tend to freeze present speculative holdings seems obvious. That the higher margins will have no influence on outright purchases made with funds previously hoarded seems equally obvious. Therefore, we think that any effects of the Board's recent action will prove to be as temporary as were the effects of the successive small increases in the rediscount rate during 1928.

What the Indicators Say

The monthly percentages of leading and roughly coincident indicators expanding, as measured by the Institute

To Annual Sustaining Members:

The Institute's new publication, *Reconstruction of Economics*, was sent to you a few days ago. If you do not receive your copy within a few days, please let us know.



method, remain unchanged at 87½ and 50, respectively.[1] The percentage of lagging indicators expanding, however, increased from 20 to 40 as consumer installment debt became the second of the lagging indicators whose apparent recent trend is classified as *up*.

Latest Data

The daily average of the Dow-Jones index of 30 industrials was $393.79 for December, compared with 375.70 for November. The average of the daily index of 22 commodities for December was less than 1 percent below that for November. Consumer installment debt at the end of November was slightly more than that at the end of October.

The *Iron Age* composite price of $32.83 for No. 1 steel scrap for the week ended December 28 was unchanged from that for the previous week.

The increase in the percentage of lagging indicators expanding appears to be another step toward final confirmation of a cyclical business recovery.

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

SUPPLY

Industrial Production

Steel-ingot production of 1,943,000 tons during the week ended January 8, as indicated by operations scheduled at 80.5 percent of capacity, compares with 1,850,000 tons during the preceding week and 1,790,000 tons during the corresponding week last year.

The New York Times seasonally adjusted index of lumber production was 143.0 for the week ended December 25, compared with 135.5 a week earlier and 136.2 for the corresponding week last year.

Electric-power production of 9,425,000,000 kilowatt-hours during the week ended January 1, compares with 9,431,000,000 kilowatt-hours for the previous week and 8,200,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 148,400 vehicles for the week ended December 31, compares with a total of 149,400 vehicles for the previous week and 106,100 for the corresponding week last year.

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

	1929	1932	1948	1949	1954	1955
Steel						
Operating rate—percent cap.	62*	25	94	99	75	80*p*
Ingot prodn.—million tons	.86	.38	1.69	1.82	1.79	1.94
Electric Power						
Kilowatt-hours—billions	1.64*	1.42*	4.87	5.49	8.20*	9.42**p*
	1929	*1932*	*1948*	*1949*	*1953*	*1954*
Lumber						
New York Times Index	115*	30	99	115	136*	143*
Automobiles						
Vehicles—thousands	24*	28*	66	82	106	148**p*

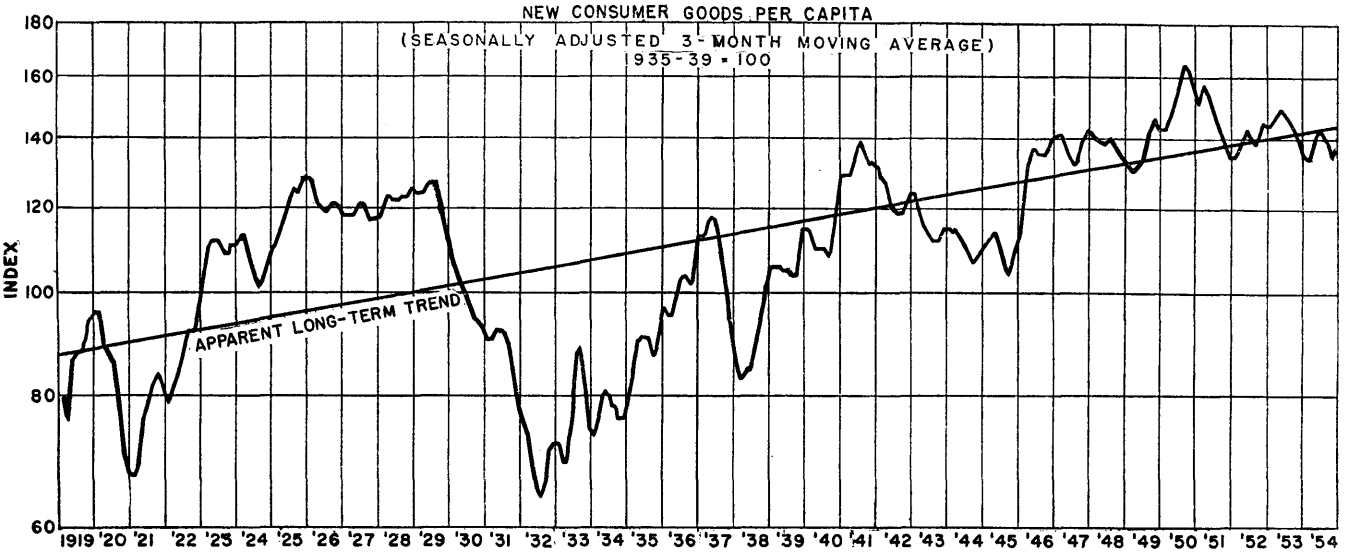
p Preliminary; * Holiday week

New Consumer Goods Per Capita

Our index of new consumer goods per capita increased 1 percent during November after having declined during October to its lowest point since that of January 1954.[2] The November index was only about 1 percent less than that of November 1953, whereas the October index was 5 percent less than that of October 1953.

As a 3-month moving average, the index does not re-

[2]The index is a 3-month moving average plotted at the third month in recognition of the time lag involved in getting the goods to the retail markets.



flect fully the latest increases in the production of new consumer goods. For example, although the production of consumer goods increased 7 percent in November, the effect of this increase on the index is reduced by averaging November production with that of September and October, the months of smallest production in 1954.

The automotive component of the index, which reflects the production of 508,100 passenger cars in November as compared with 370,500 in November 1953, was primarily responsible for the increase in the index. One-fifth of all passenger cars produced in 1954 were manufactured in November and December, compared with one-eighth in the corresponding months of 1953. Furthermore, 28 percent of the passenger cars produced in 1954 were 1955 models, a record for new-model output previous to January 1.

Although the residential-construction component of the index declined in November for the first time in the year, residential construction in November was exceeded in dollar volume in only two other months of 1954. (See "Residential Construction" for further detail.)

The textile component of the index increased 2 percent during November and was 7 percent more than that of November 1953. The other components of the index, except that of tobacco (which was 5 percent less than it was in November 1953), remained practically unchanged.

On the basis of the indicated November increase in the production of new consumer goods, the monthly index of new consumer goods per capita is expected to exceed that of the corresponding month of the previous year for the first time since December 1952. Statements of industry leaders and available statistics suggest that the index will increase further during the early months of 1955.

Residential Construction

The seasonally adjusted index of the dollar total of residential-construction contract awards, which reached an alltime record in October, decreased 4 percent in November. Nevertheless, the November index was about 44 percent more than that of November 1953.

The *Engineering News-Record* index of construction costs at the beginning of December was unchanged from its November level and was virtually unchanged from that of October. The December index was 5 percent more than that of December 1953.

The November index of the physical volume of residential construction, determined by dividing the index of contract awards by the index of construction costs, was about 4 percent less than that of October, but was still 35 percent more than that of November 1953.

The 103,000 new nonfarm dwelling units started in November is an alltime record for that month. The November figure compares with 106,000 in October and 79,900 in November 1953. This favorable comparison continued into December, for which month new housing starts are estimated at 83,600, compared with 64,500 for December 1953. On the basis of the preliminary December figure, 1,206,000 nonfarm dwelling units were started in 1954, compared with 1,038,000 in 1953.

The Bureau of Labor Statistics reports that the houses built during 1954 in 15 metropolitan areas were about 5 percent larger in size than the houses built in 1951. The 1954 houses were reported as having an average of 1,140 square feet of floor area. The Bureau reported also that two-thirds of the nonfarm one-family houses built in the first quarter of 1954 had three or more bedrooms.

We believe that the sharp upward trend of the seasonally adjusted index of residential-construction contract awards has ended. However, we expect the series to trend moderately upward during the early months of 1955.

DEMAND

Department-Store Sales

Sales of 325 reporting department stores compare with those of corresponding periods a year ago as follows:

Period	*Percent Change*
Week ended December 31, 1954	−1
Four weeks ended December 31, 1954	+6
January 1 through December 31, 1954	−1

PRICES

Commodities at Wholesale

Index	*1954 Jan. 5*	*1954 Dec. 29*	*1955 Jan. 5*
Spot-market, 22 commodities	272	277	279
Commodity futures	353	361	359

Note: The indexes are respectively those of the United States Bureau of Labor Statistics and Dow Jones. Both indexes are converted so that their August 1939 daily averages equal 100.

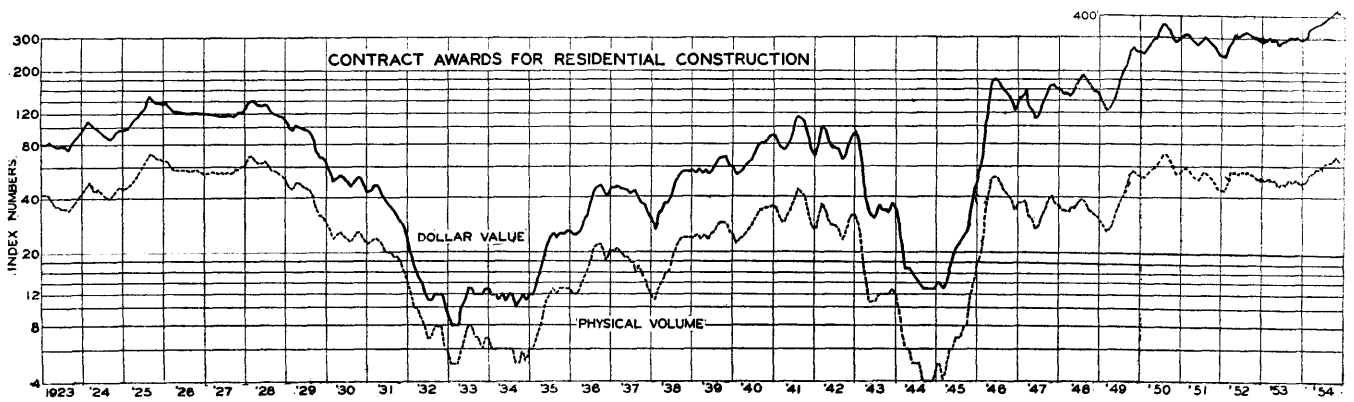
BUSINESS

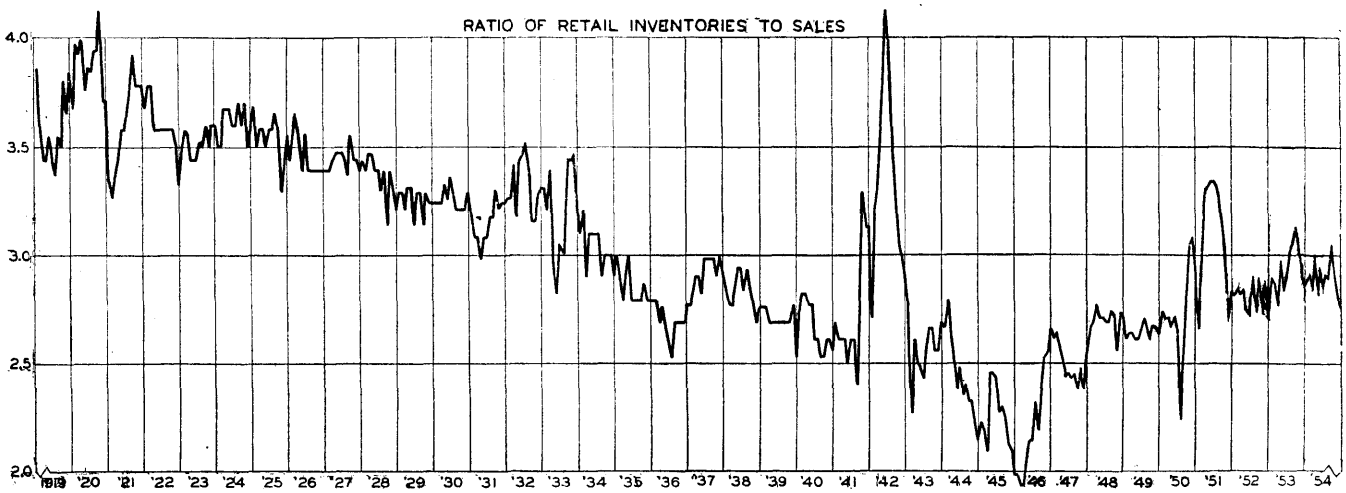
Ratio of Retail Inventories to Sales

We estimate that our ratio of retail inventories to sales decreased 3 percent in December after having decreased 1 percent (revised) in November.[3]

The estimated December ratio is nearly 10 percent less than that of September, the largest of the year, and

[3]The ratio is derived by dividing the inventory index by the sales index. The estimate is compiled from information supplied to the Federal Reserve Board by 325 department stores. Over a period of 25 years the ratios of all retail stores have closely paralleled those of the reporting department stores.





4 percent less than that of December 1953. Moreover, it is the smallest since December 1952, and is smaller than the annual averages for the post-Korean War years 1952-1954.

The seasonally adjusted index of department-store inventories for December, estimated at a level unchanged since June 1954, is less than 1 percent higher than that of December 1953. The seasonally adjusted index of department-store sales is estimated to be nearly 3 percent more than that of November and about 4 percent more than that of December 1953. The greater dollar sales with substantially the same-sized inventory, of course, accounts for the more favorable ratio of inventory to sales.

The dollar value of new orders placed in November (latest month for which the data are available) was 5 percent less than that in October and 15 percent more than that in November 1953. Reflecting the completion of Christmas buying, orders placed by retailers usually decrease in November. The decrease this year was somewhat less than seasonal, and the increase as compared with 1953 orders suggests that the department stores were preparing for the record December sales that were realized.

Receipts of goods by retailers increased 7 percent in November and were nearly 10 percent more than those in November 1953. Usually receipts of goods decrease in November. The increase in receipts of goods in November as compared with receipts in October 1954 and November 1953 indicates that retailers were getting prompt delivery on orders placed in anticipation of greater Christmas sales.

Outstanding orders decreased nearly 16 percent during October but were nearly 8 percent more than those of November 1953. Outstanding orders of the 325 reporting department stores for the last 4 months of 1952-54 were as follows:

Month Ended	*1952*	*1953*	*1954*
	(millions of dollars)		
September	592	499	486
October	573	463	477
November	454	375	403
December	358	291	n.a.

n.a.=not available

These data suggest that for the first time in 2 years a downward trend of buying in the last 4 months of the year has been reversed. Not only was the seasonal decrease from October to November reduced, but also the increase in November outstanding orders as compared with those of the previous year suggests that the large ratio of inventories to sales has been corrected. Outstanding orders at the end of December are estimated to have exceeded those at the end of December 1953.

We surmise that the experience of excessive inventories is too fresh in the minds of buyers for them to set aside caution. The depletion of stocks by record Christmas sales and the confidence shown by recent statements of department-store executives indicate that new orders will increase further.

BOOK REVIEW

Seedtime of the Republic by Clinton Rossiter
Harcourt, Brace and Company, 383 Madison Avenue, New York 17, New York ($7.50)

The three principal subdivisions of this book provide: first, a general survey of Colonial America; second, a description of the lives and philosophies of five eminent colonists whose ideas were important in the development of American notions about men and their governments; and third, an analysis of the political beliefs and principles that became dominant during the American Revolution and provided the foundation for the Republic.

The author's concluding paragraph merits quotation in full. "What is especially amazing about modern American political thought is not that it continues to employ the idiom and exhibit the mood of the Revolution, but that both idiom and mood seem adequate to deal with many present-day problems. Perhaps this is a huge mistake. Perhaps Americans could achieve a larger measure of liberty and prosperity and build a more successful government if they were to abandon the language and assumptions of men who lived almost two centuries ago. Yet the feeling cannot be downed that rude rejection of the past, rather than levelheaded respect for it, would be the huge mistake. Americans may eventually take the advice of their advanced philosophers and adopt a political theory that pays more attention to groups, classes, public opinion, power-elites, positive law, public administration, and other realities of twentieth-century America. Yet it seems safe to predict that the people, who occasionally prove themselves wiser than their philosophers, will go on thinking about the political community in terms of unalienable rights, popular sovereignty, consent, constitutionalism, separation of powers, morality, and limited government. The political theory of the American Revolution—a theory of ethical, ordered liberty—remains the political tradition of the American people."