

AMERICAN INSTITUTE for ECONOMIC RESEARCH

MONTHLY
BULLETIN

February 28

GREAT BARRINGTON

MASSACHUSETTS

1955

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Statistical Indicators of Business-Cycle Changes

The composite of changes reported for the statistical indicators during the past month continues to indicate a favorable business outlook. Changes in the several indicators are detailed in the accompanying table, and the monthly positions of the eight leading indicators are shown in the following chart.

The Leading Indicators

Liabilities of business failures, which had increased for 2 months, decreased contraseasonally. The index of business failures, adjusted for seasonal variation and inverted, increased from 24 to 28. At this level, the index compares with 36 a year ago.

Commercial and industrial building increased in January, and the current cyclical status of this series was changed from *Up(?)* to *Up*. Although the January figure for average hours worked per week did not become available, we have changed the current cyclical status of this series from *Up(?)* to *Up*. A decrease in the number of new incorporations in January was the only decrease reported among the leading indicators.

The Roughly Coincident Indicators

Freight carloadings and bank debits outside New York City decreased during January. However, because the decrease in the freight carloading series was negligible the current cyclical status of this series was changed from *Up(?)* to *Up*.

The third quarter of 1954 is the last period for which data are available for the series corporate profits after taxes. However, on the basis of our estimates we have changed both the apparent recent trend and the current cyclical status of this series from *Down* to *Up*.

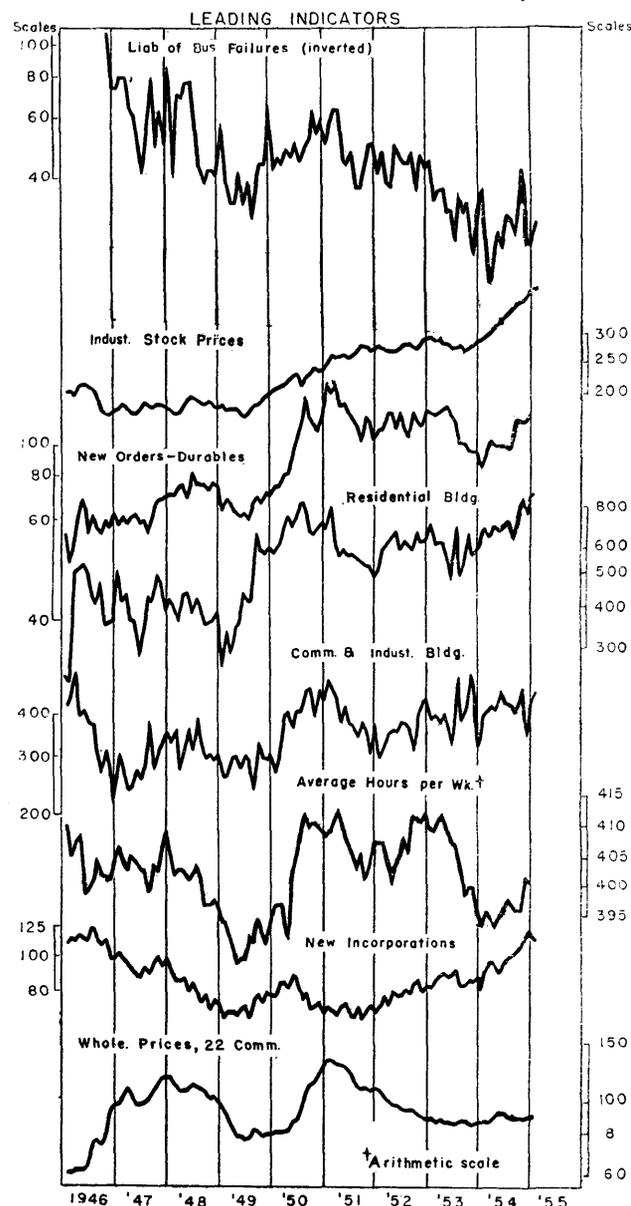
The Lagging Indicators

Personal income increased in December, and the apparent recent trend of this series was changed from *Level* to *Up*; the current cyclical status was changed from *?* to *Up*. Although manufacturers' inventories remained unchanged in December, the apparent recent trend of this series was changed from *Down* to *Level*; the current cyclical status was changed from *Down* to *?*. Retail sales decreased slightly more than seasonally in January. Nevertheless, we have dropped the *(?)* following the current-cyclical-status classification of the series, making it *Up*. In view of recent monetary developments suggesting a firming of interest rates generally, we have changed the current cyclical status of that series from *Down* to *Down(?)*. On the basis of preliminary and incomplete data for January, we have changed

the current cyclical status of consumer installment debt from *Up(?)* to *Up*.

Conclusion

Changes in the roughly coincident and lagging indicators reflect the vigor of the present business recovery; changes in the leading indicators give no suggestions of a future downturn in general business activity.



MOVEMENT AND STATUS OF THE INDICATORS

Group and Series	Apparent Recent Trend	Latest Mo. or Quar. Change	Current Cyclical Status
<i>Leading</i>			
Liab. of business failures*	Up	Up (Jan.)	Up
Industrial stock prices	Up	Up (Feb.)	Up
New orders—durable goods	Up	Up (Dec.)	Up
Residential building	Up	Up (Jan.)	Up
Com. and industrial bldg.	Up	Up (Jan.)	Up
Avg. hours worked	Up	Down (Dec.)	Up
New incorporations	Up	Down (Jan.)	Up
Whole. prices, 22 commod.	Level	Up (Feb.)	?
<i>Roughly Coincident</i>			
Freight carloadings	Up	Down (Jan.)	Up
Employment (nonagri.)	Up	Up (Jan.)	Up
Bank debits outside NYC	Up	Down (Jan.)	?
Industrial production	Up	Up (Jan.)	Up
Whole. prices excl. farm prod. and foods	Level	None (Feb.)	?
Gross national product	Up	Up (4'54)	Up
Unemployment*	Up	Up (Dec.)	Up (?)
Corp. prof. after taxes	Up Est.	Down (3'54)	Up Est.
<i>Lagging</i>			
Personal income	Up	Up (Dec.)	Up
Manufacturers' inventories	Level	None (Dec.)	?
Retail sales	Up	Down (Jan.)	Up
Bank rates	Down (?)	Down (4'54)	Down (?)
Consumer install. debt	Up	None (Dec.)	Up

*Inverted because movements of these series uninverted are generally opposite in direction to movements of the other series.

?=status cannot be determined.

(?)=status indicated remains doubtful.

SUPPLY

Industrial Production

We estimate that the February index of industrial production adjusted for seasonal variation and long-term trend is unchanged from that of January and 3 percent larger than that of February 1954. The present level of the index is higher than that of any month in 1954 and is 4 percent above the average for 1954.

The February index, not adjusted for long-term trend, is about halfway between the postwar peak of July 1953 and the ensuing trough of August 1954. In the 6 months following August the recovery, as measured by the index of industrial production, has averaged better than 1 percent a month. However, recovery of the individual components of the index has not been consistent with the movement of the overall index.

The components registering greatest recovery since August 1954, expressed in percentages, are lumber (affected by a strike in August) 38, transportation equipment (including automobiles) 25, rubber and leather products 20, primary metals 18, petroleum and coal products 11, minerals 12, and furniture and miscellaneous 14.

The accompanying table indicates the relationship of the components of the index in August 1954 and January 1955 to their July 1953 levels. Seven of the components of the index are currently at higher levels than in July 1953. These components are lumber, paper, petroleum, minerals, transportation equipment, chemicals.

Machinery, the largest single component of the index and accounting for a little more than one-eighth of the whole index, was 87 percent of its July 1953 level in both August 1954 and January 1955. The two divisions of this component, electrical and nonelectrical machinery, have not, however, followed parallel courses since last August. Electrical machinery increased from 89 to 97 percent of its July 1953 level; nonelectrical machinery, with a weight nearly twice that of electrical, decreased from 87 to 85 percent of its July 1953 level.

It has been estimated that about half of the gain in the entire index since October is due to the earlier introduction of new-model passenger cars. This gain promises to be at the expense of industrial production later in the year unless production in other segments of industry increases to compensate for a smaller output of automobiles later. For example, at present production rates more than 8,000,000 passenger cars would be produced in 1955. When it is recognized that production of cars in the best year, 1950, was 6,300,000 cars and this was nearly 10 percent more than that of any other year, there is little doubt that production will decrease substantially next summer or fall.

In comparing present rates of industrial activity with those of July 1953, the record month for the index of industrial production, two significant changes should be kept in mind. On the one hand, the Nation's population and its productive capacity have increased, perhaps by as much as 5 percent; on the other, Government spending in the calendar year 1955 is scheduled to be about \$13,000,000,000 less than that in the calendar year 1953.

We expect that the index of industrial production will increase gradually during the next several months. As yet we have no basis for predicting whether or not it will soon exceed the peak month of 1953, but we do not expect it to do so in the near future.

COMPONENTS OF FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION AS PERCENTAGES OF THEIR JULY 1953 LEVELS IN AUGUST 1954 AND JANUARY 1955

Components	August 1954	January 1955
All components	90	96
Primary metals	76	90
Fabricated metal products	86	89
Machinery	87	87
Transportation equipment	85	103
Instruments	87	90
Stone, glass, clay products	97	98
Lumber and products	83	113
Furniture and miscellaneous manufactures	79	90
Textiles and apparel	90	93
Rubber and leather products	84	101
Paper and allied products	99	102
Printing and publishing	100	101
Chemicals	97	101
Petroleum	92	102
Foods, beverages, tobacco	98	99
Minerals	91	101

Latest Weekly Data: Selected Items

Steel-ingot production of 2,153,000 tons during the week ended February 26, as indicated by operations scheduled at 89.2 percent of capacity, compares with 2,150,000 tons during the preceding week and 1,760,000 tons during the corresponding week last year.

The New York Times seasonally adjusted index of lumber production was 140.3 for the week ended February 12, compared with 141.6 a week earlier and 125.4 for the corresponding week last year.

Electric-power production of 9,912,000,000 kilowatt-hours during the week ended February 19 compares with 9,922,000,000 kilowatt-hours for the previous week and 8,550,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 198,700 vehicles for the week ended February 19, compares with a total of 199,400

for the previous week and 148,300 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
<i>Steel</i>						
Operating rate—percent cap.	89	26	94	100	74	89 _p
Ingot prodn.—million tons	1.23	.40	1.69	1.84	1.76	2.15
<i>Lumber</i>						
New York Times Index	123	39	111	89	125	140
<i>Electric Power</i>						
Kilowatt-hours—billions	1.72	1.55	5.25	5.65	8.55	9.91
<i>Automobiles</i>						
Vehicles—thousands	119	34	111	114	148	199 _p

p Preliminary

DEMAND

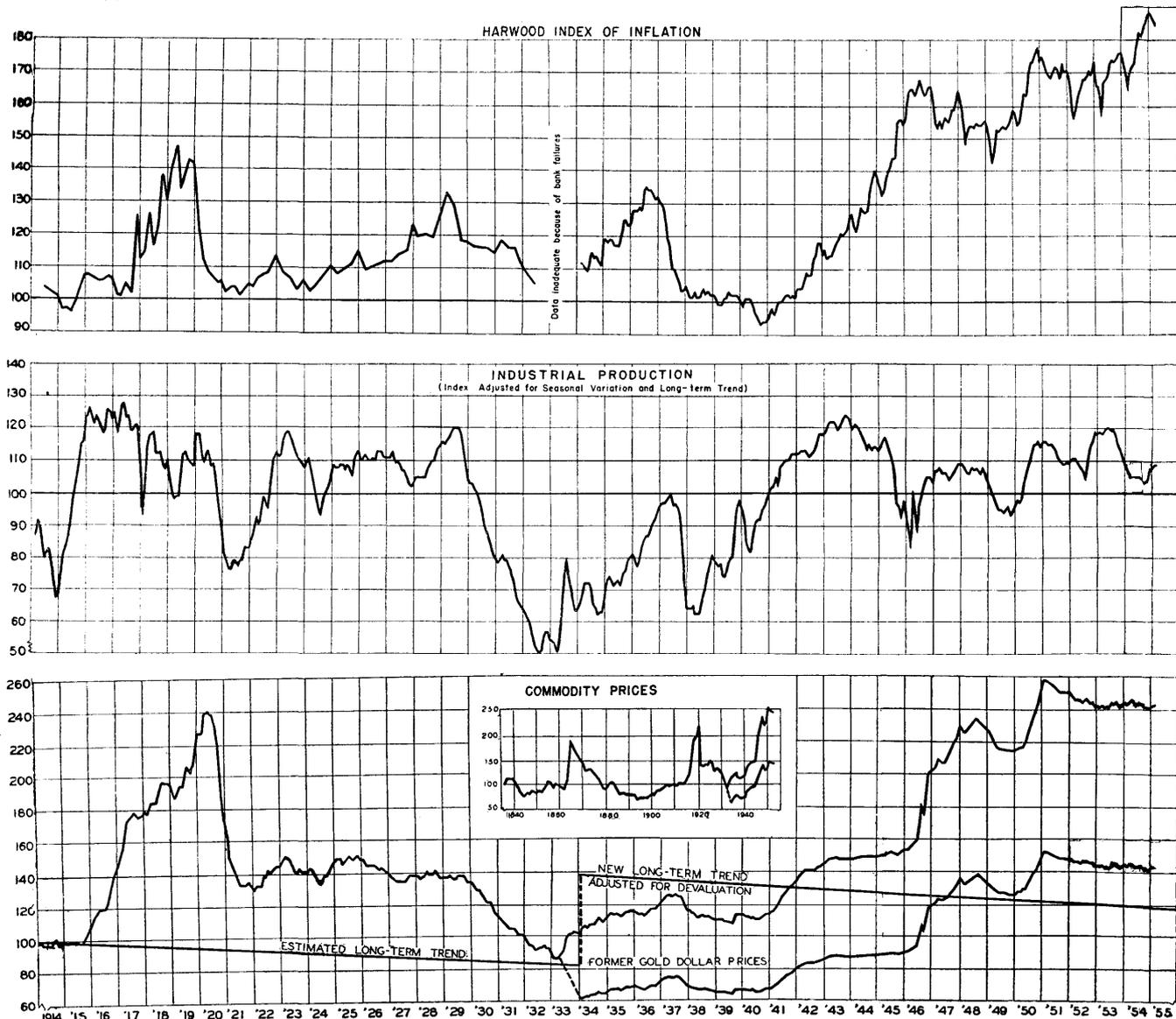
The Harwood Index of Inflation

We estimate the Harwood Index of Inflation for February at 184, compared with 187 for January and 168 for February 1954. The decrease in the index results primarily from a reduction in the amount of investment-type assets held by the banking system. According to preliminary data, sales of United States Government obligations, which comprise about three-fifths of all investment-type assets, accounted for the decrease.

Interim Treasury data indicate that cash receipts of the Treasury will exceed expenditures for February by less than \$100,000,000, with the result that the Government's day-to-day operations have been an unimportant factor affecting the money supply during the month.

After the Federal Reserve banks had reduced their holdings of Government obligations by \$1,300,000,000 in the 4 weeks ended January 26, their holdings of Governments were increased moderately. The small increase in Reserve bank holdings of Government securities, with a consequent addition to commercial-bank reserves, has been attributed to the Federal Reserve Board's desire to facilitate the Treasury refinancing operations involving shifts in ownership of refinanced debt, rather than to a basic shift to an easier money policy.

Although the \$1,900,000,000 of 40-year 3-percent bonds issued in exchange in the February 15 Treasury refinancing was a refunding issue and was not large as Government financing goes, the issue may compete to some extent with other long-term offerings. In that event, especially inasmuch as the total of prospective new turnpike and many other types of issues is extremely large, mortgage funds may not be so readily available this year as they were in 1954, and interest rates may rise.



The extension of the period of tax payments and the recent purchases of the Federal Reserve banks are tending to retard the seasonal decrease in the index of inflation, which has been attributable primarily to the quarterly tax payments. Nevertheless, the index presumably will decrease appreciably during the next 2 to 3 months. Thereafter, an upward trend is probable; but, until the rate of increase in installment and real-estate loans has become apparent in May or June, we shall have little basis for judging whether the index will rise to a new high later in the year.

Department-Store Sales

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

Period	Percent Change
Week ended February 19	+5
Four weeks ended February 19	+2
Year to date	+6

PRICES

Commodities at Wholesale

The Bureau of Labor Statistics index of wholesale prices is estimated to have increased slightly in February to a point slightly less than the index for February 1954 and nearly 1 percent less than that for April 1954, when the record in 1954 was reached.

The farm-products component of the index increased about one-half of 1 percent between mid-January and mid-February, but the processed-foods component decreased at the same rate. The component "all commodities other than farm products and foods" was practically unchanged.

In the farm-product component of the index, coffee prices decreased about 18 percent in February. Substantial decreases also were reported in the prices of hogs. In the processed-foods component, meat prices, which had increased in January, decreased about 1 percent in February. In the component *all commodities other than farm products and processed foods*, the greatest changes, increases of about 10 percent, were in the prices of copper and rubber.

The Bureau's daily index of spot-market prices of 22 commodities advanced nearly 1 percent between mid-January and mid-February.* The Dow-Jones daily index of commodity futures decreased about 2 percent in the month ended February 14 and has continued to recede.

Prices received by farmers increased 2 percent during January; prices paid by farmers increased nearly 1 percent. The parity-price ratio was reported unchanged at 86.

Wholesale commodity prices generally have changed little recently. The influence of the Formosan situation

*The monthly average of this index is one of the eight leading statistical indicators.

in the commodity markets has largely abated, and, granted its nonrecurrence as a market factor, the principal uncertainty in the wholesale commodity markets generally appears to be the question of whether the business recovery will induce an overexpansion of industrial inventories. In the absence of such overexpansion, we should expect commodity prices to trend lower during the next several months. In the absence of a war scare we should interpret an upward trend in commodity prices during the near future as evidence of inventory speculation by industrial users.

Latest Daily Indexes

Index	1954		1955	
	Feb. 23	Feb. 16	Feb. 23	Feb. 16
Spot-market, 22 commodities	270	280	276	
Commodity futures	370	348	342	

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.

BOOK REVIEWS

The Great Powers and Eastern Europe by John A. Lukacs

American Book Company, 55 Fifth Avenue, New York 3, New York (\$7.50)

This book gives an interesting account of the history since 1917 of the small nations between Germany and Russia. For these nations, Finland, Estonia, Latvia, Lithuania, Poland, Czechoslovakia, Austria, Hungary, Rumania, Yugoslavia, Albania, Bulgaria, and Greece, "statehood became a tangible reality, when, in 1917-18, Russia and Turkey retired, and Austria-Hungary crumbled." The book contains many interesting details and documents, some of which are published for the first time.

Billions, Blunder, and Baloney by Eugene W. Castle

The Devin-Adair Company, 23 East Twenty-sixth Street, New York 10, New York (\$3.50)

It seems safe to predict that the next generation, if it believes the fantastic descriptions of overseas squandering of public funds, will conclude that the great war and postwar inflation had so intoxicated the American people that they lost their native shrewdness and common sense. The delusions of economic grandeur seemingly reflected in the developments Mr. Castle records are not unusual during prolonged periods of inflation, but this does not make them any more pleasing to those who have paid and are still paying the bill. This might well be required reading for everyone who imagines that dollars spent abroad can buy friends who will meet the tests of adversity.

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Indexes of Production, Inflation, and Prices

	1954					1955							
	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
Industrial Production	106	105	105	105	105	104	104	104	105	108*	108*	109*	109*
Inflation (Ratio Form)	168*	164*	170*	172*	173*	179*	182*	181*	184*	185*	188*	187*	184*
Commodity-Prices	243	243	244	244	242	243	243	242	241	242*	241*	242*	243*
Commodity-Prices§	144	144	144	144	143	144	144	143	143	143*	142*	143*	144*

§In terms of former gold dollars; *preliminary.