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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Statistical Indicators of Business-Cycle Changes

Changes reported in the 21 statistical indicators during the past month continue to point toward a favorable business outlook.

The latest change and status of each indicator are reported in the accompanying table; the monthly data are plotted on the accompanying charts.*

The Leading Indicators

Liabilities of business failures increased in February causing the inverted index of failures to decrease from 28 to 21. At this level the index compares with 19 for February 1954.

For the first 3 weeks of March the average of industrial stock prices was about $\frac{1}{2}$ percent less than that for February. If the average for the month is less than that for February, as is now indicated, the decrease will be the first in the monthly average since September 1954.

New orders for durable goods increased nearly 2 percent in January to an amount about 47 percent more than that for January last year.

Contract awards for both residential building and commercial and industrial building increased during February. Residential-building awards were about 4 percent more than in January and about 54 percent more than in February 1954. For commercial and industrial building these increases are 6 and 24 percent, respectively.

Average hours worked per week in February increased slightly to an amount about 2 percent greater than that for February 1954.

The number of new incorporations for February decreased less than seasonally, with the result that our index of new incorporations increased 7 percent during the month. The total for February is 8 percent more than that for February last year.

No change is made this month in either the apparent recent trend or the current cyclical status of any of the eight leading indicators.

The Roughly Coincident Indicators

Freight carloadings in February remained unchanged from their January level, and were about 3 percent more than those in February 1954.

The index of unemployment seasonally adjusted and inverted increased about 9 percent during February to a level 12 percent higher than that for the same month last year.

*All the indicators are seasonally adjusted except average hours worked per week, bank rates, corporate profits, and each of the price series.

Bank debits outside New York City in February were 5 percent more than those in January and 8 percent more than those in February 1954. The current cyclical status of this series was changed from indeterminate to *Up(?)*.

The change in the current cyclical status of bank debits outside New York City was the only change made in the apparent recent trends or the current cyclical statuses of this group of indicators.

The Lagging Indicators

Consumer installment debt, for which January data were reported, was the only indicator of the lagging group to increase. None of this group, however, decreased. At the end of January, consumer installment debt was only 2 percent larger than that of a year earlier.

No change is made this month in either the apparent recent trend or the current cyclical status of any of the five indicators in this group.

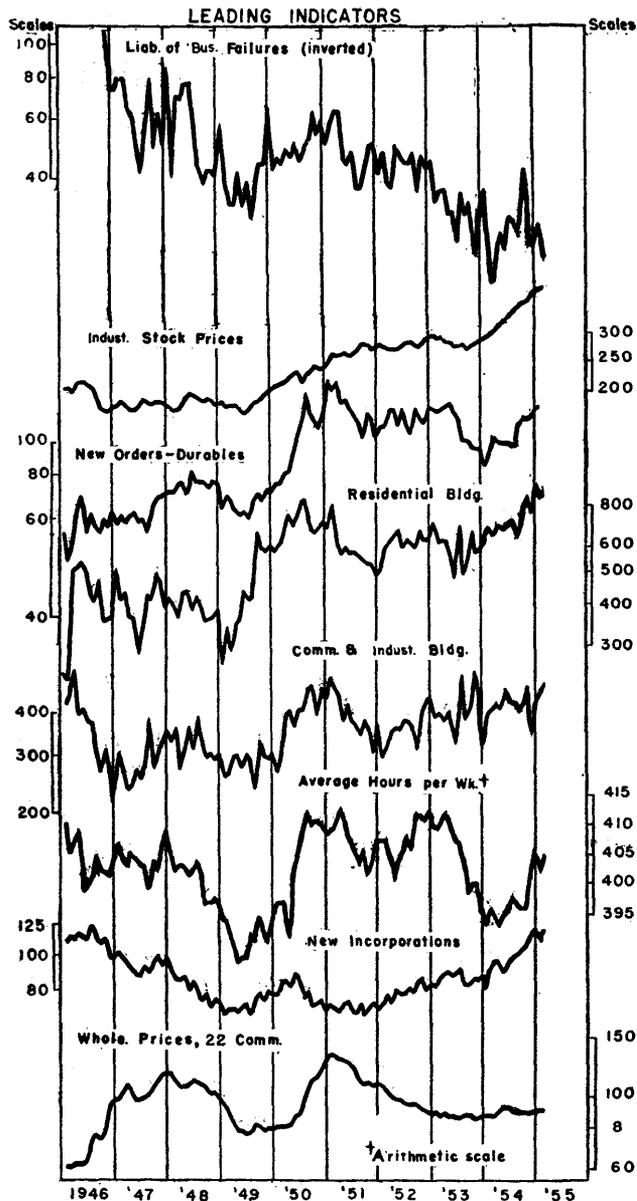
Conclusion

If the three leading indicators decreasing this month should decrease again next month and be accompanied by downturns in one or more of the other leading indicators, we should look upon the changes as possibly foreshadowing a downturn in general business activity. However, as yet there is no reason to believe that these are

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	Down (Feb.)	Up
Industrial stock prices	Up	Down (Mar.)	Up
New orders—durable goods	Up	Up (Jan.)	Up
Residential building	Up	Up (Feb.)	Up
Com. and industrial bldg.	Up	Up (Feb.)	Up
Avg. hours worked	Up	Up (Feb.)	Up
New incorporations	Up	Up (Feb.)	Up
Whole. prices, 22 commod.	Level	Down (Mar.)	?
<i>Roughly Coincident</i>			
Freight carloadings	Up	None (Feb.)	Up
Employment (nonagri.)	Up	Up (Feb.)	Up
Bank debits outside NYC	Up	Up (Feb.)	Up(?)
Industrial production	Up	Up (Feb.)	Up
Whole. prices excl. farm prod. and foods	Level	None (Mar.)	?
Gross national product	Up	Up (4'54)	Up
Unemployment*	Up	Up (Feb.)	Up(?)
Corp. prof. after taxes	Up	Up (4'54)	Up
<i>Lagging</i>			
Personal income	Up	None (Jan.)	Up
Manufacturers' inventories	Level	Down (Jan.)	?
Retail sales	Up	Down (Jan.)	Up
Bank rates	?	Down (4'54)	Down(?)
Consumer install. debt	Up	Up (Jan.)	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.



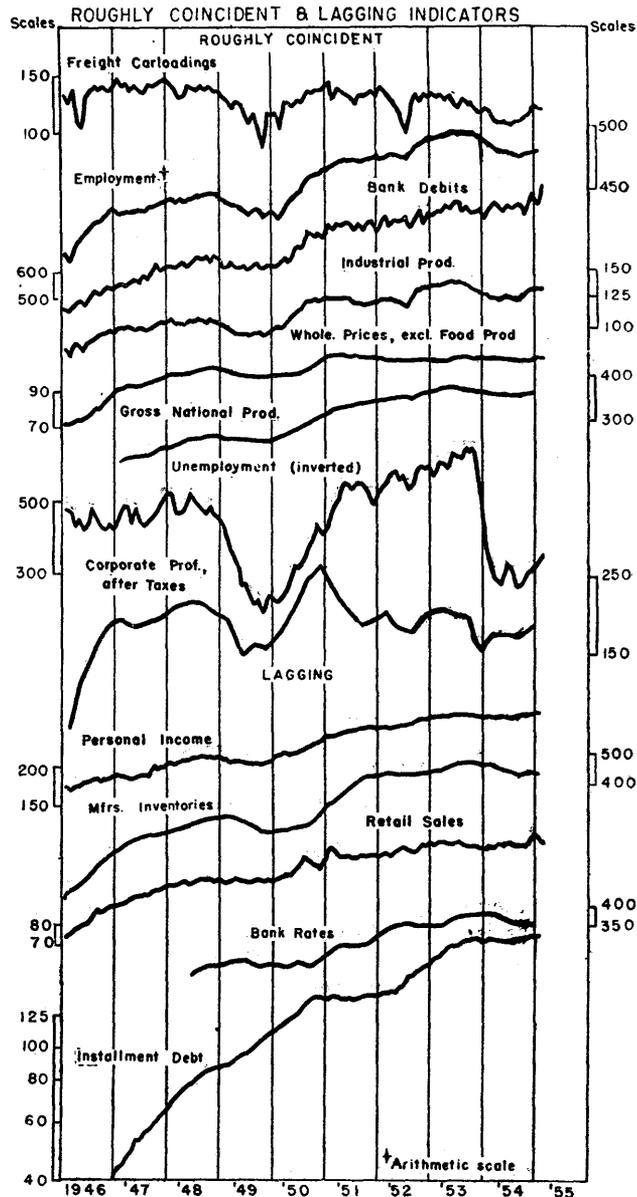
other than random changes of no cyclical significance. Accordingly, we continue to believe that general business activity will trend upward for the next 3 to 6 months.

SUPPLY Industrial Production

We estimate the March index of industrial production, adjusted for seasonal variation and long-term trend, at 11½ percent larger than the February index (revised), which was 11½ percent larger than the January index. The March index is 6 percent larger than that of March 1954 and 6 percent smaller than the postwar record reached in the late spring of 1953.

Unadjusted for long-term trend but adjusted for seasonal variation, the index is estimated at 135, 11½ percent larger than that of February and 7 percent larger than that of March 1954. The index is now at a point equal to that of March 1953.

Between last September, when the index of industrial production turned up, and February, production of manufactures and minerals combined increased 8 percent, production of manufactures 6½ percent, and production of



minerals, output of which had decreased relatively more than that of manufactures, 10 percent. In this same period, output of durable goods, production of which had decreased relatively more than that of nondurable goods, increased 9½ percent and output of nondurable goods increased 5 percent.

The accompanying table shows the position of the various subcomponents of the index of industrial production relative to their postwar highs. The production trends of some subcomponents of the index differ from the trends of the components of which they are parts just as the production trends of the components differ from the trend of the overall index. Although maximum production records are by no means production ceilings, they are one guide in judging relative levels of production. In considering earlier records, however, growth of the Nation's population and economy should always be kept in mind. Moreover, the index components in juxtaposition to their earlier records are an aid in judging the production potential of the economy.

February production of minerals and of seven of the subcomponents of manufactures was reported or estimated at an alltime record.

We believe that the seasonally adjusted index of industrial production unadjusted for long-term trend, will increase further during the second quarter until it approximates its 1953 peak by the middle of the year.

COMPONENTS: FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION
1947-49 = 100

Component	Index	
	February 1955	Postwar High
All Components	133	137
Manufactures—Total	134	139
Durable manufactures—Total	147	157
Primary metals	132	137
Fabricated metal products	125	142
Machinery	148	165
Transportation equipment	194	194
Instruments	141	157
Stone, clay, glass	137	137
Lumber and products	128 est.	131
Furniture and misc.	123	135
Nondurable manufactures—Total	121	123
Textiles and apparel	105 est.	115
Rubber and leather products	126	126
Paper and allied products	142 est.	142

Component cont'd	1955	High
Printing and publishing	122	122
Chemical and allied products	155 est.	155
Petroleum and coal products	136	136
Food, beverages, tobacco	106	110
Minerals—Total	121	121

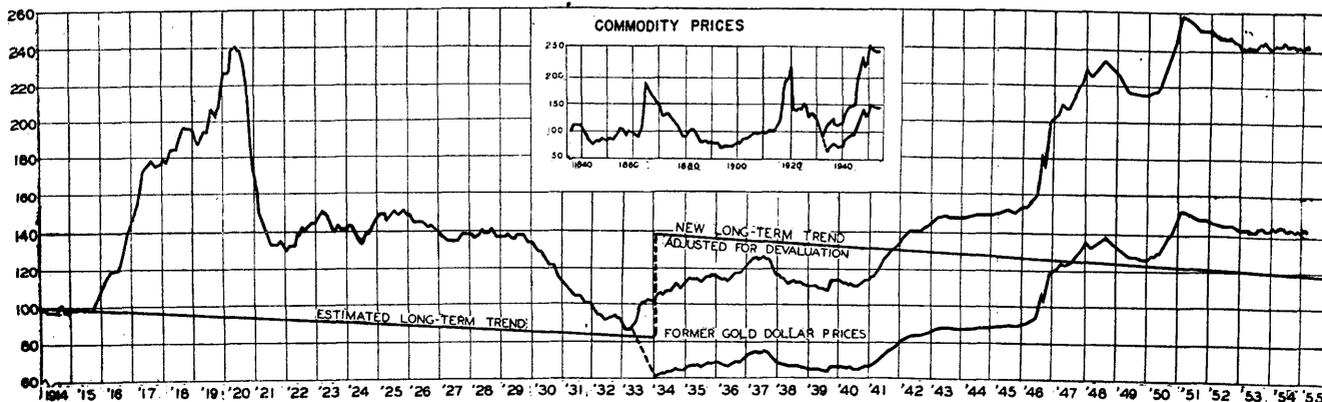
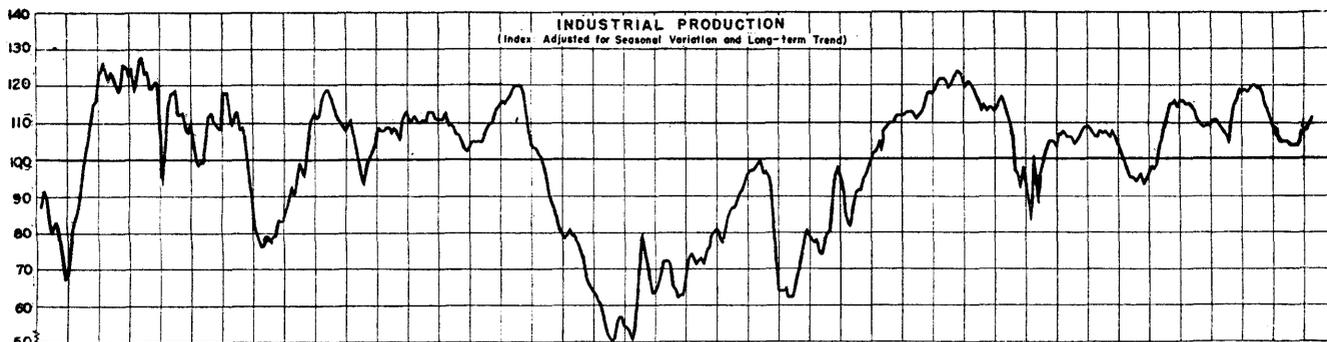
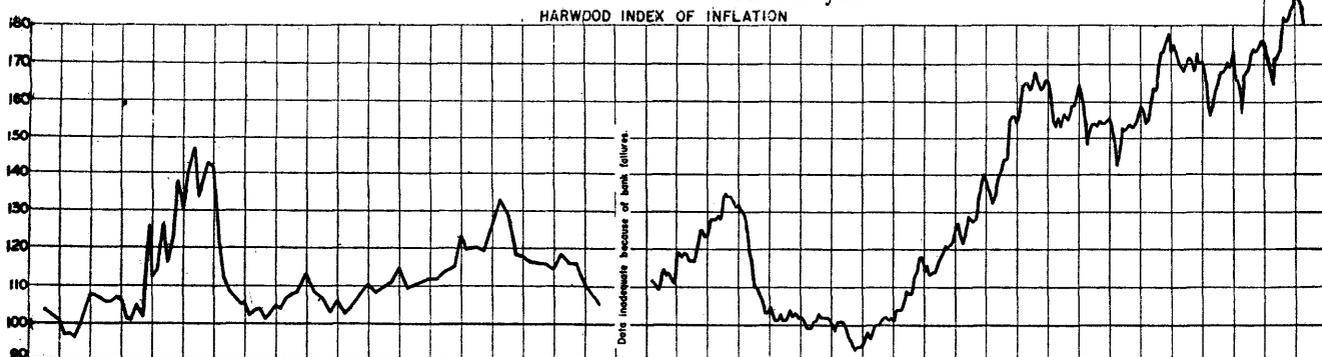
Latest Weekly Data: Selected Items

Steel-ingot production of 2,240,000 tons during the week ended March 26 as indicated by operations scheduled at 92.8 percent of capacity, compares with 2,273,000 tons during the preceding week and 1,620,000 tons during the corresponding week last year.

The New York Times seasonally adjusted index of lumber production was 125.8 for the week ended March 12, compared with 127.4 a week earlier and 118.4 for the corresponding week last year.

Electric-power production of 9,814,000,000 kilowatt-hours during the week ended March 19 compares with 9,726,000,000 kilowatt-hours for the previous week and 8,570,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 212,500 vehicles for the week ended March 19, compares with a total of 204,300 for the previous week and 154,900 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.	95	24	96	101	68	93 _p
Ingot prodn.—million tons	1.31	.36	1.73	1.86	1.62	2.24
<i>Lumber</i>						
New York Times Index	132	38	100	92	118	126
<i>Electric Power</i>						
Kilowatt-hours—billions	1.69	1.54	5.14	5.50	8.57	9.81
<i>Automobiles</i>						
Vehicles—thousands	136	34	116	121	155	212 _p

p Preliminary

DEMAND

The Harwood Index of Inflation

The Harwood Index of Inflation for March at 180 (estimated) compares with 184 for February and 164 for March 1954.

This decrease in the index is accounted for primarily by a reduction in the amount of investment-type assets held by the banking system and an increase in the amount of demand deposits held by the Treasury.† Incomplete data for the month indicate that the reduction in the amount of investment-type assets will be in the neighborhood of \$1,500,000,000. The decrease is expected to result principally from a reduction in the amount of Government obligations held by the commercial banks.

Extension of the period of tax payments has changed the pattern of Treasury receipts from that prevailing in recent years. That Treasury receipts have been coming in at a slower rate than has been usual at this time of the year is suggested by the amount of the Treasury's current borrowing through tax-anticipation certificates against its June tax collection.‡ This amount is \$3,000,000,000 and compares with \$3,750,000,000 as the amount of tax-anticipation certificates that matured March 22 and were turned into the Treasury in lieu of cash payments for taxes.

Commercial, industrial, and agricultural loans decreased in the neighborhood of \$600,000,000 less between January 1 and March 15 this year than in the corresponding period last year. The monetary effect of the smaller decrease in these loans has been to maintain a larger total of demand deposits. Because of the resulting larger total of purchasing media, the index of inflation decreased somewhat more in the first quarter of the year than it would have, had commercial, industrial, and agricultural loans decreased in the amounts they decreased last year.§

Because the indications are that the Treasury's cash operations will involve no appreciable deficit during the second quarter of this year, there is little probability of any appreciable amount of the deflation of the first quarter being fully counterbalanced in the second quarter. However, it is probable that the index will increase in the second quarter and may reach record levels before the year-end.

†Investment-type assets are the source of inflationary purchasing media deriving from the banking system; demand deposits held by the Treasury are purchasing media withdrawn from the total supply. The position of such deposits with respect of the total supply of purchasing media is the same as that of currency held by the Treasury and therefore not in circulation.

‡The tax-anticipation certificate, in practical terms, is a means by which the Treasury discounts future tax receipts. The face amount of the certificate plus the interest accrued at maturity of the certificate is, in effect, the amount of taxes discounted.

§The effect on the index of the larger total of purchasing media results from the fact that the index is the ratio of total purchasing media in use to noninflationary purchasing media.

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 March 19	+14
Four weeks ended March 19	+11
Year to date	+8

PRICES

Commodities at Wholesale

The Bureau of Labor Statistics index of wholesale prices is estimated to have decreased slightly in March to a point about one-half of 1 percent less than the index for March 1954. This index has been fluctuating within a narrow range for more than 2 years.

Both the farm-products and the processed-foods components decreased about 1 percent between mid-February and mid-March. The component "all commodities other than farm products and foods" remained virtually unchanged.

In the farm-products component of the index, the largest decreases were in the prices of cocoa beans, hogs, and steers, decreases of about 15, 5, and 5 percent, respectively. The largest increase was in coffee prices, which increased about 7 percent. In the processed-foods component, the largest change was a decrease in meat prices of about 5 percent. In the component "all commodities other than farm products and foods," the greatest changes were decreases in the prices of tallow, rubber, and hides. These decreases were approximately 13, 11, and 5 percent, respectively.

The Bureau's daily index of spot-market prices of 22 basic commodities receded 3 percent between mid-February and mid-March.|| The Dow-Jones daily index of commodity futures receded 5 percent during that period.

Prices received by farmers increased one-half of 1 percent during February; prices paid by farmers were virtually unchanged. The parity-price ratio was reported at 87, one point higher than that for January.

The *Wall Street Journal* recently reported concerning the outlook for commodity prices that of 30 bankers and industrial executives interviewed in a dozen cities over the United States, "20 thought prices would hold where they are," eight expected prices to decline, and only two foresaw higher prices.

The commodity-futures prices, recognized by some as harbingers of trends in the general price level, have been weak during the past 2 months. This weakness is reflected in the Dow-Jones Commodity Futures Index, which has declined about 9 percent since the end of January.

We believe that wholesale commodity prices will trend downward during the next several months.

Latest Daily Indexes

Index	1954		1955
	Mar. 23	Mar. 16	Mar. 23
Spot-market, 22 commodities	277	273	275
Commodity futures	375	329	327

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.

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