AMERICAN INSTITUTE for ECONOMIC RESEARCH

GREAT BARRINGTON MASSACHUSETTS

WEEKLY BULLETIN

April 11 1955

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Is Caution Now Advisable?

This is the last of a series of articles that discuss in greater detail certain features of the article, "Our Estimate of the Situation," which was published in the bulletin dated February 14, 1955.

Those whose economic future will depend on today's decisions, especially businessmen and investors, may have become concerned about the developments discussed in this series of articles. In fact, "concerned" may be too mild a description; some who have written to us have seemed definitely alarmed.

As we hope readers realize, we endeavor in these bulletins to express our views frankly. We never hesitate to disclose our findings and conclusions in full, insofar as our command of the English language permits. Therefore, readers need feel under no compulsion to try to "read between the lines" or to suspect that we are hinting at developments more dire than we dare predict. When and if we have sufficient reason to believe that the Nation is on the verge of a major economic disaster, we shall not hesitate to say so. We are not among those who believe that keeping silent about a depression will exorcise it; on the contrary, we are convinced that, when economic danger threatens, the more who are prepared to cope with it the less severe it will prove to be.

Frankly, we think that every individual interested in the future of the United States should be alarmed about the present situation, if by "alarmed" one means stimulated to study the problem in order to do what he can to guard the Nation's welfare and his own. If by "alarmed" one means stimulated to hasty and ill-considered action in a frantic effort to find personal security against the economic hazards that threaten, then we should use some other word that might imply serious consideration without a panic rush to the "exits." We doubt the wisdom of a headlong rush either toward maximum liquidity (of investments or business) or toward the reverse. Either of these courses could be correct only if the corresponding extreme economic development soon occurred (panic and depression on the one hand or an unrestrained flight from the dollar on the other hand).

At this stage of developments, we suggest that any businessman would be wise to prepare for the possibility of substantially higher interest rates during the next several months or few years. If a need to expand plant and equipment is foreseen, we should borrow ample funds at today's rates and spend the borrowed funds slowly and cautiously. Any existing debt maturing within the next few years might preferably be refunded now, unless finding funds more difficult to obtain at higher prices would not be an important burden on the business.

As for investors, we usually restrict our advice for them to the pages of the Institute's *Investment Bulletins*. There the reader will find that we recommend a "hedged" position with funds divided among cash-or-equivalent and equities. From time to time in the past we have changed the percentage allocation of funds and no doubt shall do so in the future. At present, we think that placing all of one's funds in cash or all in equities would be, in effect, to bet on either one extreme economic development or the other. The evidence thus far available does not seem to us to justify either extreme course of action.

Perhaps we should emphasize that, if both extreme adverse developments (financial stringency attributable to large withdrawals of gold in the near future or a resumption of an extreme boom with a bust not far behind) are avoided, a prolonged period of *gradual* deflation need not be as harmful as many persons fear. For more than a decade beginning in 1879, the Nation experienced the most rapid and best sustained industrial growth in its history while commodity prices moved downward 40 percent as the Civil War greenbacks were "digested" through a process of gradual deflation. What happened once can happen again, although we doubt that this is the more probable of the developments ahead. So much wisdom in the money managers who have so soon been willing to repeat the blunders of the 1920's seems to us improbable.

What the Indicators Say

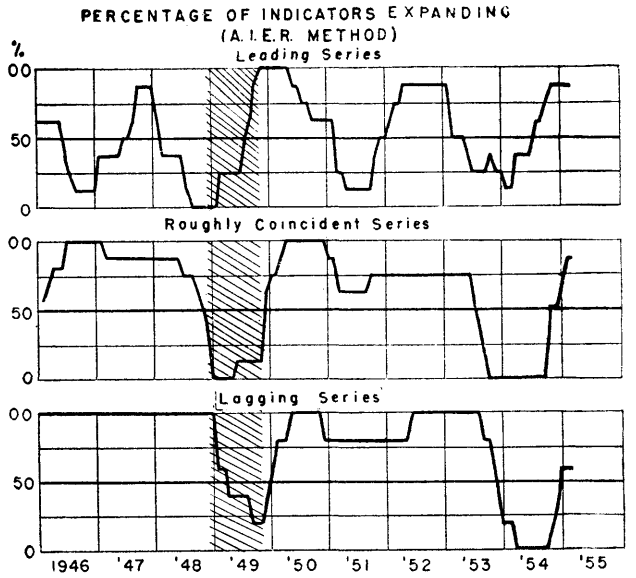
The percentage of leading indicators expanding during February, as measured by a method developed by the Institute, was unchanged at 87½, that of the roughly coincident indicators was unchanged at 87½, and that of the lagging indicators was unchanged at 60.*

Latest Data

1. The average of the Dow-Jones daily index of the common-stock prices of 30 industrials decreased slightly during March.

2. New orders for durable goods increased 6 percent during February.

*The Institute method was outlined in our bulletin of March 8, 1954.



3. The average of the Bureau of Labor Statistics daily index of wholesale prices of 22 basic commodities decreased 2 percent during March.

4. Personal income increased slightly during February.

5. Retail sales decreased slightly during February.

6. Consumer installment debt increased about 1 percent during February.

7. Manufacturers' inventories increased slightly during February.

The *Iron Age* composite price of No. 1 heavy-melting scrap for the week ended March 29 was $37.00, compared with $37.50 for the preceding week. The average of these prices for March was $37.19, compared with $36.16 for February.

Conclusions

The accompanying curves add support for our belief that business will improve further during the next several months.

SUPPLY

Industrial Production

Steel-ingot production of 2,276,000 tons during the week ended April 9, as indicated by operations scheduled at 94.3 percent of capacity, compares with 2,278,000 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 124.4 for the week ended March 26, compared with 119.5 a week earlier and 120.2 for the corresponding week last year.

Electric-power production of 9,804,000,000 kilowatt-hours during the week ended April 2 compares with 9,907,000,000 kilowatt-hours for the previous week and 8,460,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 218,700 vehicles for the week ended April 2, compares with a total of 217,300 for the previous week and 146,500 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.	96	21	84	99	68	94*p*
Ingot prodn.—million tons	1.32	.32	1.51	1.82	1.62	2.28
Lumber						
New York Times Index	129	40	100	94	120	124
Electric Power						
Kilowatt-hours—billions	1.68	1.48	5.04	5.38	8.46	9.80
Automobiles						
Vehicles—thousands	137	43	105	119	146	219*p*

p Preliminary

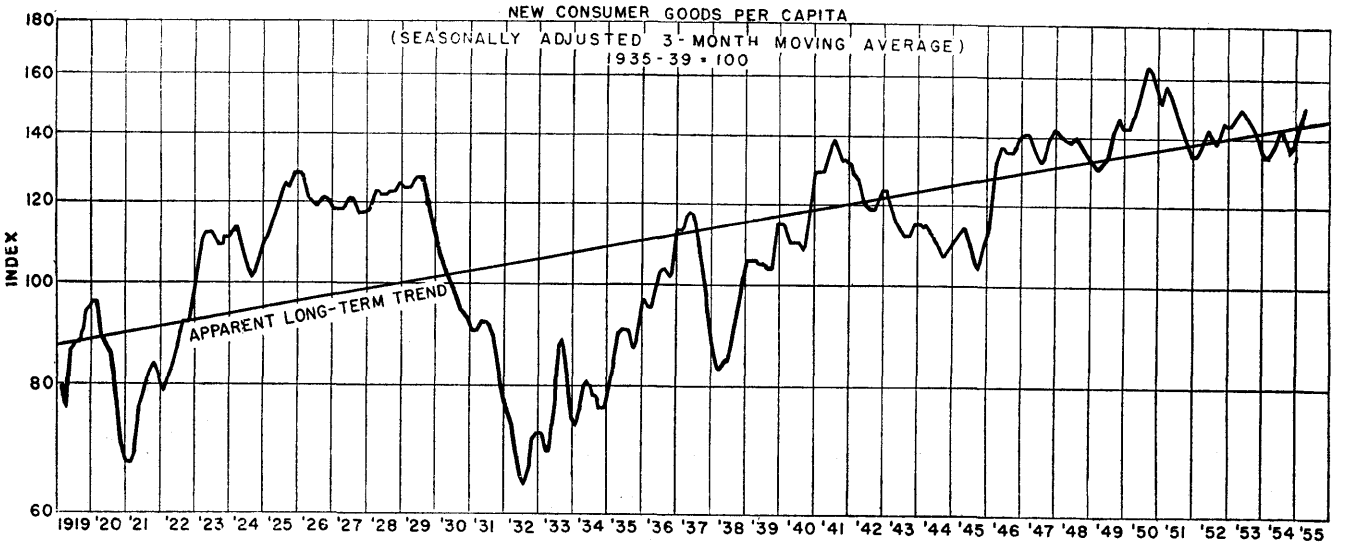
New Consumer Goods Per Capita

Our index of consumer goods produced per capita increased nearly 3 percent during February to a point about 12 percent more than that for February last year.†

Production of goods in February, the third of the 3 months for which the index reflects production, was unchanged from that in January. January production, which had been reported unchanged from that in December, was revised upward nearly 2 percent.

The present high level of the index is influenced greatly by the large automobile production and near-record rate of home building. The automobile industry

†The index reflects production of seven categories of consumer items accounting for more than two-thirds of all consumers' purchases The index is a 3-month moving average, plotted at the third month.



produced its second million cars for the calendar year by March 28 this year, 40 days earlier than last year. Moreover, reports placing new-car stocks of automobile dealers at levels only slightly higher than those of a year ago indicate that cars have been moving into consumers' hands.

Production of textiles and shoes in February was 8 percent more than that of February 1954. Shoe production was at an alltime record. Mill orders for piece goods are larger than a year ago, and reports of department stores indicate that sales of men's clothing and women's ready-to-wear are at near-record levels.

Although the production of furniture has gained relatively less than that of other component products in the index excepting the comparatively stable food and tobacco groups, February production exceeded that of February last year by 4 percent.

Production of food in February exceeded that of the corresponding month last year by only 1 percent.

Personal income, which in the long run must equal the value of goods and services used by the consumer plus personal savings, was reported in February at a rate 2.6 percent greater than that of February 1954.

Because of the sharp advance in the index of consumer goods produced per capita since that for last November and because the index for January is nearly 5 percent above its long-term-trend line, we expect that any further increase in the index during the next 3 or 4 months will be moderate.

DEMAND

Purchasing Media

Total purchasing media at the end of March, estimated at nearly $130,000,000,000, compares with $130,000,000,000 at the end of February (revised), and $123,600,000,000 at the end of March 1954. In the nine years following World War II total purchasing media has decreased, on the average, about $2,100,000,000 in March. Had the final payment date for Federal income tax payments been in March this year as in earlier years, instead of in April, it is estimated that total purchasing media would have decreased about $1,900,000,000 during the month.

At the end of March only about 41 dollars of every hundred were noninflationary.

Noninflationary Purchasing Media

Noninflationary purchasing media, or purchasing media derived from gold and from commercial, industrial, and agricultural loans totaled approximately $53,100,000,000 at the end of March. This amount compares with $52,500,000,000 at the end of February and $52,700,000,000 a year earlier. Purchasing media derived from gold, at $21,700,000,000, was practically unchanged from that at the end of February and compares with $22,000,000,000 a year earlier.

Purchasing media derived from commercial, industrial, and agricultural loans increased about 2 percent during March to $31,400,000,000, which compares with $30,700,000,000 at the end of March last year.‡

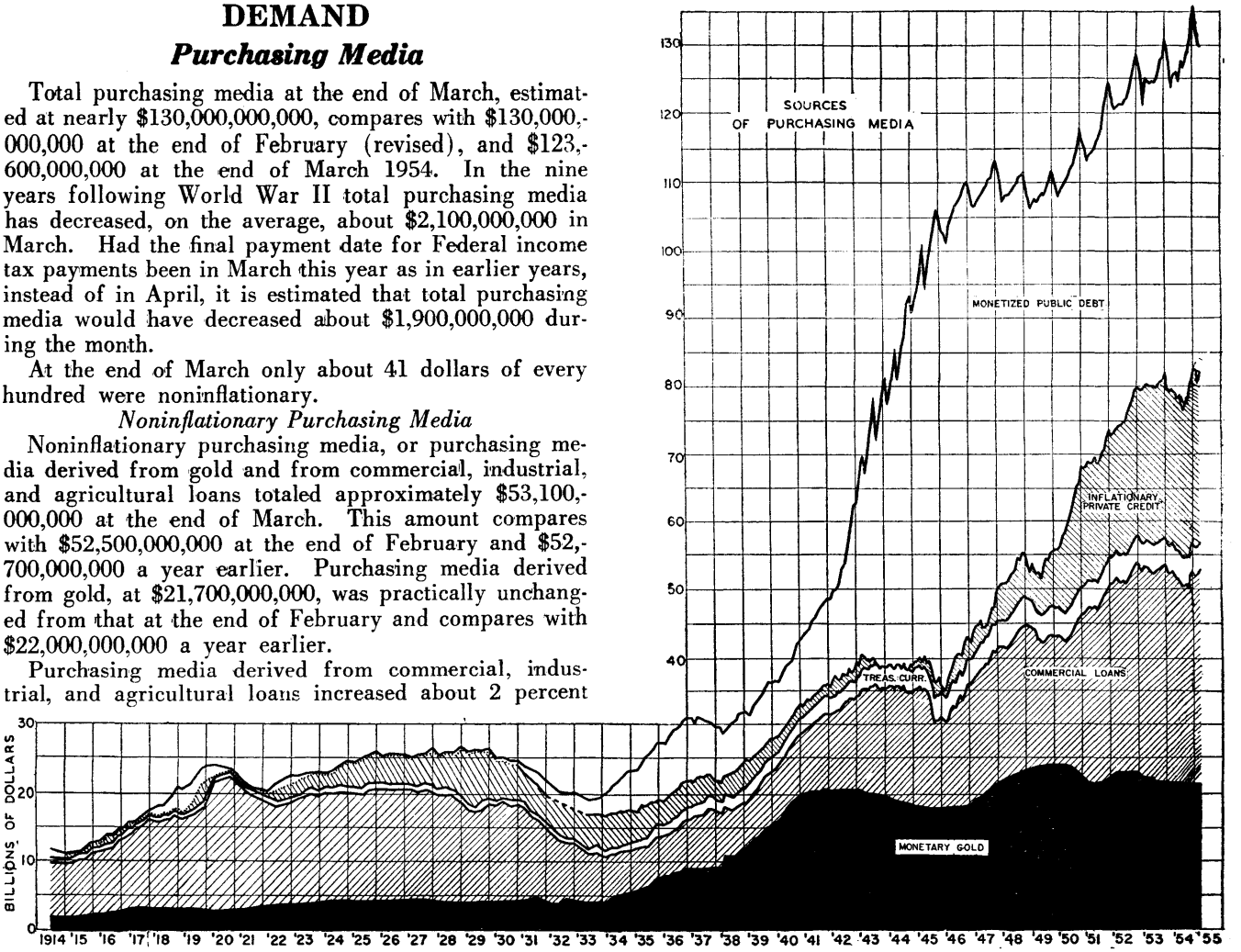
Inflationary Purchasing Media

Inflationary purchasing media are those purchasing media derived entirely from credit other than commercial, industrial, and agricultural loans, or based on silver holdings of the Treasury (valued at $2,446,000,000 at the end of March). The total of such purchasing media was $72,700,000,000. This amount compares with $73,300,000,000 at the end of February, and $70,500,000,000 a year ago.

Purchasing media based on the credit of the United States, or on silver and circulating as Treasury currency totaled about $4,100,000,000 at the end of March, about $100,000,000 more than that at the end of March last year. Purchasing media based only on the credit of the United States (Government securities) and monetized through demand deposits of commercial banks and Federal Reserve notes are estimated at $47,700,000,000, compared with $49,700,000,000 revised at the end of February and $47,000,000,000 at the end of March 1954.

Purchasing media derived from all other sources and monetized through demand deposits of commercial banks are estimated at $24,900,000,000 compared with $23,-

‡In a monetary system based and operating on strictly commercial banking principles seasonal and cyclical changes in the economy's need for purchasing media would be met by changes in purchasing media derived from this source.



600,000,000 at the end of February and $19,500,000,000 a year ago.§

Conclusion

If the total of purchasing media followed its post World War II pattern, it would increase appreciably in April. (The average increase for that month since the War has been nearly $1,700,000,000.) However, it is estimated that deferment of Federal income-tax payments to April will carry forward into April income-tax payments comparable in amount with the average post-war increase in total purchasing media during April. We believe therefore that there will be little change in the total of purchasing media during April.

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 April 2	+11
Second week before Easter‖	+ 1
Four weeks ended April 2	+ 9
Year to date	+ 7

PRICES

Commodities at Wholesale

	1954	*1955*	
Index	*Apr. 6*	*Mar. 30*	*Apr. 6*
Spot-market, 22 commodities	281	276	276
Commodity futures	380	325	323

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.

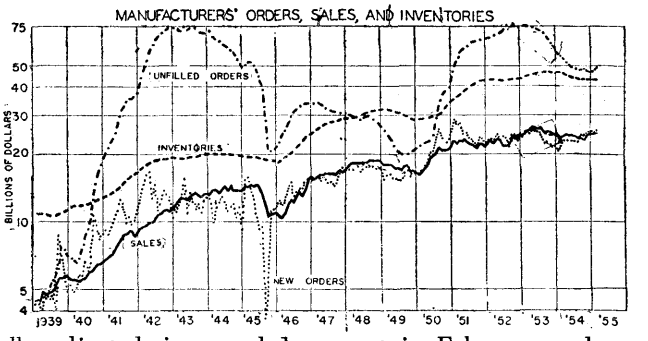
BUSINESS

Manufacturers' Orders, Sales, and Inventories

New orders received by manufacturers during February, seasonally adjusted, increased 4 percent from those in January and were 17 percent more than those in February 1954. The seasonally adjusted total was $25,700,000,000.

Manufacturers' new orders in February were divided almost equally between the durable- and nondurable-goods industries. New orders for durable goods, one of the eight leading indicators, increased 6 percent during February to an amount 33 percent larger than that of February last year. New orders for nondurable goods increased about 2 percent during February to an amount 3 percent larger than that for February 1954. Although increases were reported to have been general, the greatest were reported for primary- and fabricated-metal products. In January, the latest month for which the data are available, new orders for primary- and fabricated-metal products were 50 percent more than new orders for these products in January 1954.

Manufacturers' sales (shipments or billings), seasonally adjusted, increased 1 percent in February and at $25,200,000,000 were 8 percent larger than in February last year. Sales of durable goods in February were 10 percent larger than in either January of this year or February of last year. Sales of nondurable goods exceeded those in January by 2 percent and those in February 1954 by 4 percent.



Manufacturers' unfilled orders increased nearly 2 percent during February to $48,700,000,000, but at the month end were 11 percent less than they were a year earlier. Unfilled orders for the durable-goods industries currently account for approximately 94 percent of all unfilled orders of all manufacturers, compared with 96 percent a year ago. During the year, unfilled orders of the durable-goods industries decreased 11 percent; those of the nondurable-goods industries increased 25 percent.

Manufacturers' aggregate inventories of purchased materials, goods-in-process, and finished goods seasonally adjusted are one of the five lagging indicators. At the end of February these inventories were practically unchanged from those at the end of January and were 5 percent larger than those at the end of February 1954.

The ratio of manufacturers' inventories to sales, both seasonally adjusted, was 1.73 at the end of February, compared with 1.75 (revised) at the end of January and 1.96 at the end of February 1954. This ratio for the durable-goods industries was 1.90 and 2.32 at the end of January and the end of February 1954, respectively; for the nondurable-goods industries at corresponding dates the ratio was 1.68 and 1.61.

The increase in unfilled orders for the second consecutive month, the increases in new orders for both durable and nondurable goods, and the lowest inventory-sales ratio since the spring of 1953 reflect the generally favorable statistical position of manufacturing industries. Until some deterioration appears in one or more of these series, we shall expect the general course of manufacturing activity to trend upward.

BOOK REVIEW

Annual Report of the Secretary-General on the Work of the Organization, 1 July 1953-30 June 1954, United Nations General Assembly Official Records: Ninth Session ($1.25)

Columbia University Press, 2960 Broadway, New York 27, New York

The annual report of the Secretary-General of the United Nations outlines problems before that organization in the working out of its tremendous project, and reports on developments in economic and social fields, the development of public understanding of the organization's work, and administrative and budgetary questions concerning its operation.

§This credit is represented by commercial bank holdings of (1) notes taken in exchange for all loans other than commercial, industrial, and agricultural loans and (2) bonds and other forms of indebtedness, excepting that of the United States Government.

‖Because of the influence of Easter on department-store sales, comparisons are more significant if made for corresponding weeks before Easter. Thus we compare under "Second week before Easter," sales of the week ended April 2, 1955, with sales of the week ended April 10, 1954.