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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Statistical Indicators of Business-Cycle Changes

Recent changes among the 21 statistical indicators continue to reflect a high level of business activity. The latest change and the status of each indicator are reported in the accompanying table; the monthly data for the leading indicators are plotted on the accompanying chart.*

The Leading Indicators

Liabilities of business failures, as reported by Dun and Bradstreet, decreased during March, with the result that our *inverted* index increased to 26 from 21 in February. This compares with our March 1954 index of 19.

The average of the Dow-Jones daily index of the prices of 30 industrial stocks increased during the first half of this month, following a slight decrease in March.

Contracts for residential building, as measured by preliminary floor-space data, decreased about 4 percent during March, after having decreased slightly in February. Consequently, we have changed the apparent recent trend of this series from *Up* to *Level* and the current cyclical status from *Up* to *Up* (?).

The average of the Bureau of Labor Statistics daily index of wholesale prices of 22 basic commodities increased nearly 1 percent during the first half of this month, after having decreased about 2 percent in March. We have changed the current cyclical status of the series from *indeterminate* to *Up* (?).

The Roughly Coincident Indicators

Freight carloadings, bank debits outside New York City, and industrial production increased during March, but there was no change in our estimate of employment in nonagricultural establishments. The *inverted* unemployment series decreased during March, but we have left unchanged the current cyclical status of this series, which is *Up* (?). The Bureau of Labor Statistics index of wholesale prices exclusive of farm products and foods is estimated to have been unchanged in April as well as in March, and we have changed the current cyclical status of the series from *indeterminate* to *Up* (?).

The Lagging Indicators

Personal income and consumer installment debt both increased during February, the latest month for which

data are available. Retail sales increased during March. Manufacturers' inventories were unchanged in February, the latest month for which data are available, but we have changed the apparent recent trend of this series from *Level* to *Level* (?). Although final data are not yet available for bank rates on business loans during the first quarter of this year, we have changed the apparent recent trend of the series from *indeterminate* to *Up* and the current cyclical status from *Down* (?) to *Up*.

Conclusion

Changes of the last month in the leading indicators point strongly to continued business improvement. Although the index for residential building decreased, all three of the indicators for which decreases were reported last month (liabilities of business failures, inverted, industrial stock prices, and wholesale prices of 22 commodities) have increased, thereby removing, for the present at least, questions concerning the future of business which decreases in these series this month would have raised.

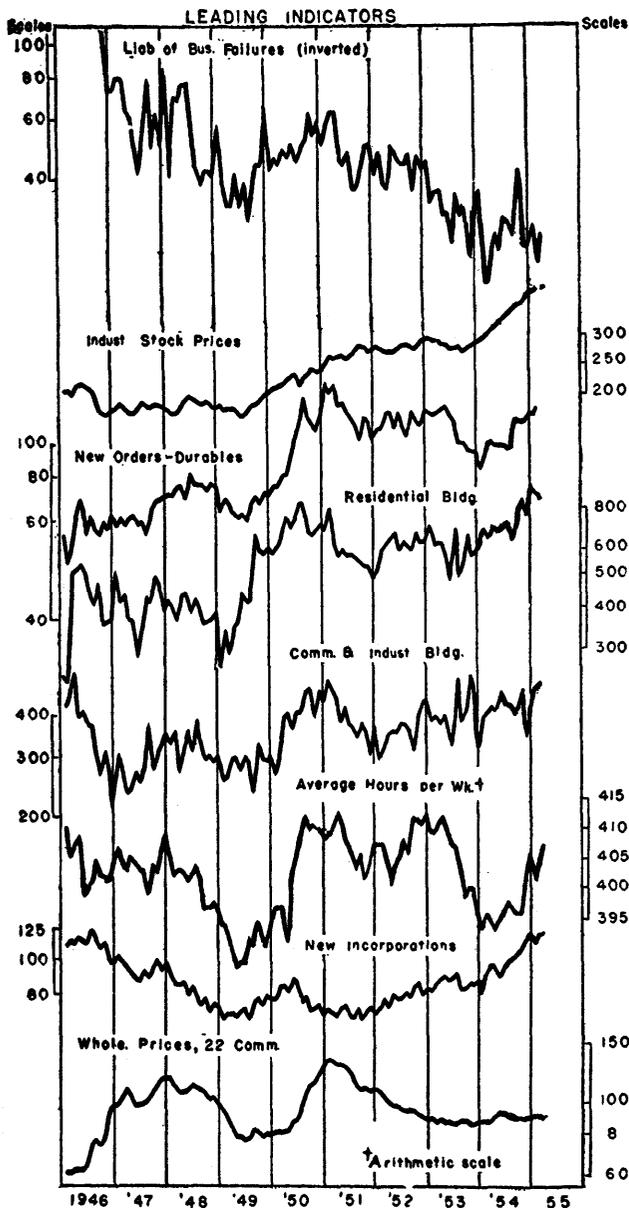
Although we believe that further increases in business

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(Mar.)	Up
Industrial stock prices	Up	Up(Apr.)	Up
New orders—durable goods	Up	Up(Feb.)	Up
Residential building	Level	Down(Mar.)	Up(?)
Com. and industrial bldg.	Up	Up(Mar.)	Up
Avg. hours worked	Up	Up(Mar.)	Up
New incorporations	Up	Up(Mar.)	Up
Whole. prices, 22 commod.	Level	Up(Apr.)	Up(?)
<i>Roughly Coincident</i>			
Freight carloadings	Up	Up(Mar.)	Up
Employment in nonagri. estab.	Up	None(Mar.)	Up
Bank debits outside N. Y. C.	Up	Up(Mar.)	Up
Industrial production	Up	Up(Mar.)	Up
Whole. prices excl. farm prod. and foods	Level	None(Apr.)	Up(?)
Gross national product	Up	Up(1'55)	Up
Unemployment*	Up	Down(March)	Up(?)
Corp. prof. after taxes	Up	Up(4'54)	Up
<i>Lagging</i>			
Personal income	Up	Up(Feb.)	Up
Manufacturers' inventories	Level(?)	None(Feb.)	?
Retail sales	Up	Up(Mar.)	Up
Bank rates	Up	Down(4'54)	Up
Consumer install. debt	Up	Up(Feb)	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.

*All the indicators are seasonally adjusted except bank rates, corporate profits, and the three price series.



activity will be at the reduced rate of the past couple of months, present indications are that general business activity will trend upward for the next several months, at least.

SUPPLY

Industrial Production

We estimate the April index of industrial production adjusted for seasonal variation and long-term trend to be $\frac{1}{2}$ percent larger than that for March and 7 percent larger than that for April 1954. Adjusted for long-term trend, the estimated index is 7 percent less than that of April 1953.

Unadjusted for long-term trend but adjusted for seasonal variation, the index is estimated as being $\frac{1}{2}$ percent larger than that for March and 10 percent larger than that for April 1954. The index has increased for the eighth consecutive month and is the largest it has been since July 1953.

The accompanying table compares the major components of the index of industrial production for March

1955 and March 1953, two months when the index was at 135. The manufactured-goods component of the index was 1 point smaller for March 1955, but the minerals component which includes fuels was 8 points larger. Within the manufactures group, the component for durable goods was 1 point smaller in March of this year but the component for nondurable goods was 3 points larger. The decrease in the durable-goods component was due mainly to a decrease in the component, metal fabricating, a component affected especially by cutbacks in production of military equipment.

The *New York Times* estimates that 45 percent of the increase in the index between September 1954 and March 1955 is due to the increase in "transportation equipment and metals industries." Even this gain, however, has not compensated for the curtailment of defense production since 1953. Metal fabricating, in which this production centers and which accounts for 28.5 percent of the total index and 63.7 percent of the durable index, is 9 points less than it was in March 1953.

The index of nondurable manufactures is at its post-war high. Production of the chemical and paper industries was considerably greater in March 1955 than that in March 1953. These gains together with smaller gains in leather and rubber production more than offset the smaller production of March 1955 in the textile and food components.

Production in the mineral group is at an alltime record.

We believe that the index for the second quarter of 1955 will equal or slightly exceed that for the second quarter of 1953. The increase in production has broadened out since the initial impetus was supplied by the automotive industry, and gains in other industries are expected to compensate for any curtailment in automobile production that may occur before the end of the second quarter.

Components: Federal Reserve Board Index of Industrial Production in March 1955 and 1953†

Components	1955	1953
All Components	135	135
Manufactures—Total	136	137
Durable manufactures—Total	150	155
Primary metals	136	136
Metal fabricating	159	168
Clay, glass, lumber	138	127
Furniture and misc. products	126	131
Nondurable manufactures—Total	122	119
Textiles and apparel	107	110
Rubber and leather products	121	119
Paper and printing	132	125
Chemical and petroleum	151	140
Foods, beverages, tobacco	107	108
Minerals—Total	123	115
Mineral fuels	122	113
Metal, stone, earth, minerals	124	121

†Seasonally adjusted, 1947-49=100.

Latest Weekly Data: Selected Items

Steel-ingot production of 2,305,000 tons during the week ended April 23, as indicated by operations scheduled at 95.5 percent of capacity, compares with 2,284,000 tons during the preceding week and 1,640,000 tons during the corresponding week last year.

The *New York Times* seasonally adjusted index of

lumber production was 113.9 for the week ended April 9, compared with 116.8 a week earlier and 111.1 for the corresponding week last year.

Electric-power production of 9,602,000,000 kilowatt-hours during the week ended April 16 compares with 9,633,000,000 kilowatt-hours for the previous week and 8,340,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 219,300 vehicles for the week ended April 16, compares with a total of 207,100 for the previous week and 148,600 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.	96	23	80	98	69	96
Ingot prodn.—million tons	1.32	.35	1.44	1.80	1.64	2.30
<i>Lumber</i>						
New York Times Index	142	41	95	91	111	114
<i>Electric Power</i>						
Kilowatt-hours—billions	1.70	1.48	5.09	5.34	8.34	9.60
<i>Automobiles</i>						
Vehicles—thousands	140	36	105	132	149	219 ^p

^p Preliminary

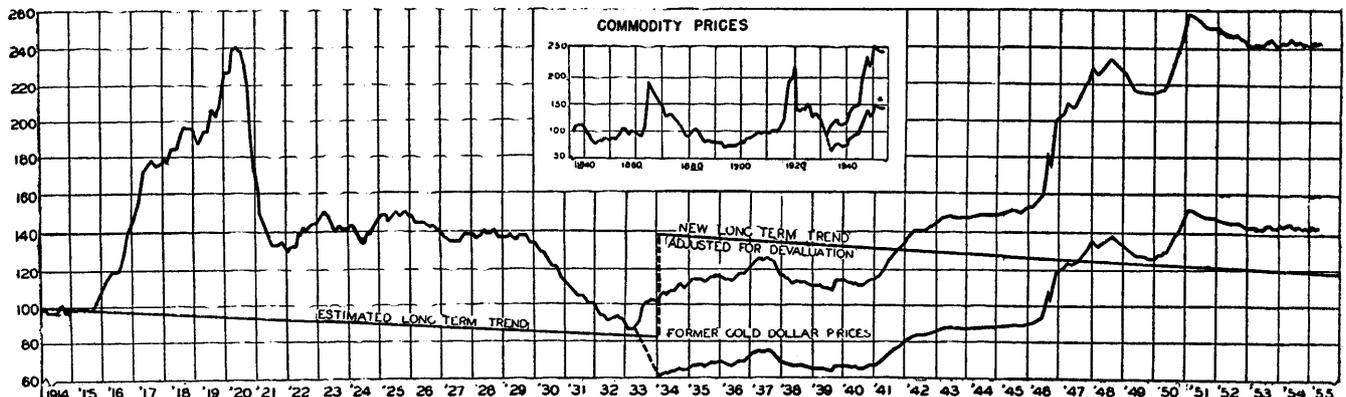
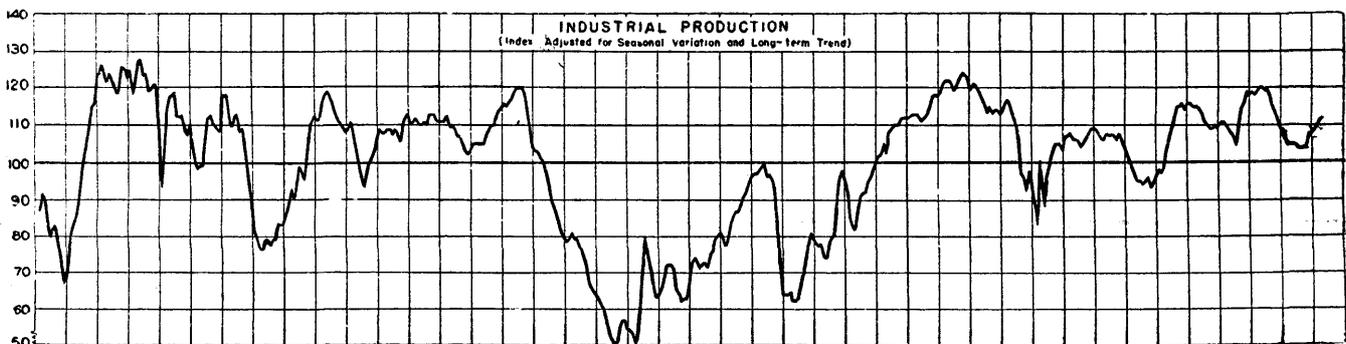
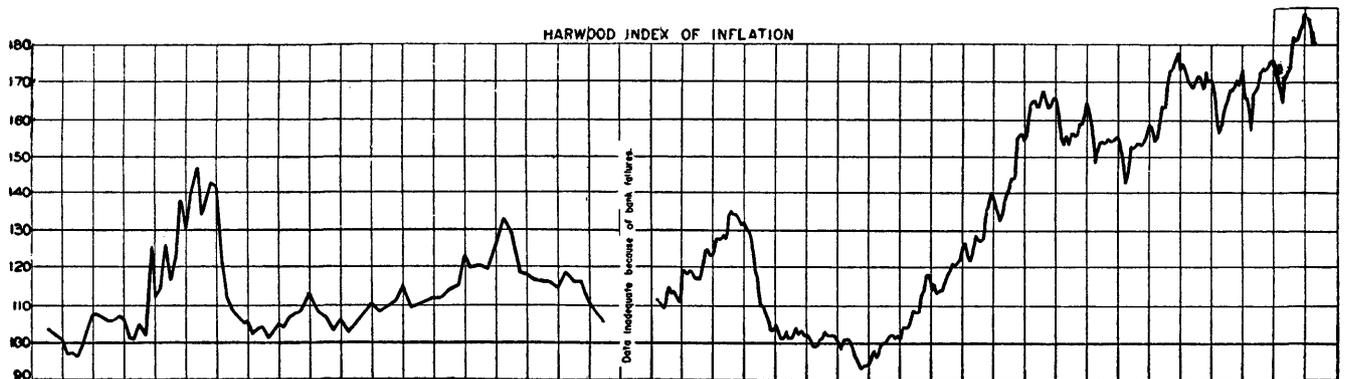
DEMAND

The Harwood Index of Inflation

The Harwood Index of Inflation for April at 182 (estimated) compares with 180 for March and 171 for April 1954.

Extension of the period of income-tax payments to April 15 accounts for the changed pattern of the index this year. This change has largely counteracted the usual dip of several points in the index for March, leaving it at the February level.

As of April 6, prior to the deflationary impact of last-minute tax payments, the index reached 190, reflecting the purchase by the commercial banks of the greater part of a little more than \$3,000,000,000 worth of tax-anticipation certificates. These certificates were issued April 1 by the Treasury to replenish its cash position following repayment on March 22 of \$3,750,000,000 of tax-anticipation notes. However, by the end of April a large part of these certificates presumably will have been sold by the banks to nonbank investors who have accumulated cash for tax payments due in June. (The certificates may be tendered for the payment of taxes in June.) Thus the expected sale of a part of these certificates will



have the effect of depressing the index of inflation as purchasing media (demand deposits of nonbank buyers of certificates) are canceled in exchange for certificates purchased from the banks.

Short-term credit became tighter in April as evidenced by (1) the increase in the Federal Reserve discount rate from 1½ to 1¾ percent, (2) further advances in the rate on 91-day Treasury bills to the highest level since September 1953, and (3) higher rates on commercial paper—the medium of short-term open-market borrowing by large companies having prime credit ratings.

The reliance of the Treasury upon the commercial banks for its borrowings as evidenced by the sale to the banks of such a large part of its April 1 tax certificates apparently is a temporary expedient and, therefore, probably will not have a permanent inflationary effect. Nevertheless, present indications are that the index of inflation will increase moderately during the next 3 or 4 months and that it may increase more rapidly thereafter if the present rate of expansion of real-estate and installment lending continues.

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 16	-13
Week after Easter‡	+ 2
Four weeks ended April 16	+ 2
Year to date	+ 6

‡In order to compare weeks of corresponding relationship to Easter, we compare sales of the week ended April 16 this year with sales of the week ended April 24 last year under "Week After Easter."

PRICES

Commodities at Wholesale

The Bureau of Labor Statistics index of wholesale prices is estimated to have increased nearly one-half of 1 percent in April to a point about one-half of 1 percent less than the index for April 1954.

Higher prices for farm products and for processed foods, especially meats, were responsible for the increase. Prices of farm products advanced 2 percent between mid-March and mid-April, reflecting primarily higher prices for hogs. Prices of processed foods advanced 1 percent, reflecting principally higher prices for meats. Prices of all other commodities were virtually unchanged, with price increases offsetting decreases.

Recently the Bureau revised its system of weighting the various commodities that comprise the index so that it would more accurately reflect the current pattern of transactions in primary markets. The relative importance of farm products, processed foods, and hides was decreased; the relative importance of chemicals, machin-

ery and equipment, paper and products, and fuel other than coal was increased. The revision does not affect the comparability of the index figures, however.

The bureau's daily index of the spot-market prices of 22 basic commodities advanced 1½ percent between mid-March and mid-April.§ The Dow-Jones daily index of commodity futures virtually leveled off during that period.

Prices received by farmers decreased slightly during March, but prices paid by farmers increased slightly. The parity-price ratio was reported at 86, one point lower than that for February and four points lower than that for March 1954.

The declining ratio may have less significance in terms of farm demand for nonfarm products than is suggested in the decline. According to *The Wall Street Journal*, which has recently conducted a spot check in rural communities, the loss in farmer purchasing power, as measured by the parity-price ratio, may be more apparent than real. The *Journal* reports that "much bigger production with much less manpower has expanded their per-capita cash income from marketings nearly sixfold in 15 years—compared with a threefold expansion in non-farm per-capita personal income."

In addition to the effect of increased productivity on the long-term trend of commodity prices, one should consider the major influences affecting prices over periods longer than the usual business cycle but that are not of indefinite duration. The fact that we believe commodity prices generally are far above a stable relationship, given the present weight of the gold dollar, implies that, in the absence of inflation, such prices would be following a prolonged downward trend. As long as prices remain nearly level or at least do not decline as rapidly as we should expect them to in the absence of continuing inflation, we should consider the cyclical trend to be upward. Observers who overlooked those considerations during the 1920's reached seriously erroneous conclusions about subsequent price trends and the degree of inflation that then existed.

Although the index of wholesale prices appears to be continuing the series of narrow-range fluctuations begun at the end of 1952, large supplies of most of the basic commodities probably will have a mildly depressing influence on the trend of commodity prices during the next several months.

Latest Daily Indexes

Index	1954		1955	
	Apr. 20	Apr. 13	Apr. 20	Apr. 13
Spot-market, 22 commodities	286	277	277	277
Commodity futures	377	327	328	328

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.

Indexes of Production, Inflation, and Prices

	1954					1955							
	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
Industrial Production	105	105	105	104	104	104	105	108	108	109*	110*	112*	112*
Inflation (Ratio Form)	170*	172*	173*	179*	182*	181*	184*	185*	188*	187*	184*	180*	182*
Commodity-Prices	244	244	242	243	243	242	241	242	241	242*	243*	242*	243*
Commodity-Prices§	144	144	143	144	144	143	143	143	142	143*	144*	143*	144*

§In terms of former gold dollars; *preliminary.