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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Statistical Indicators of Business-Cycle Changes

Although we are doubtful about the cyclical status of one of the eight leading statistical indicators, changes among the 21 indicators generally continue to reflect improving 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

The average of the Dow-Jones daily index of the prices of 30 industrial stocks decreased during the first half of May, after having increased 3½ percent during April.

Contract awards for residential buildings, as measured by floor-space data, are estimated to have decreased during April about 1 percent from the revised figure for March. We have changed the apparent recent trend of this series from *Level* to *Down(?)* and the current cyclical status from *Up(?)* to *indeterminate*.

Contract awards for commercial and industrial buildings are estimated to have decreased during April about 12 percent from the revised figure for March. We have not changed the recent trend or the cyclical status of this series.

The number of new incorporations decreased nearly 11 percent during April. Therefore, we have changed the apparent recent trend of the 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 decreased 1 percent during the first half of May, but we have not changed the recent trend or the cyclical status of this indicator.

The Roughly Coincident Indicators

The Federal Reserve Board index of freight carloadings increased nearly 1 percent during April. We have left the recent trend and the cyclical status of the series unchanged from those of last month, when both were *Up*.

According to preliminary data, there was no change in the number of employees in nonagricultural establishments during April. We have not changed the recent trend or the cyclical status of this series.

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

Corporate profits after taxes, a quarterly series, increased 8½ percent during the first quarter of 1955.

The Lagging Indicators

The only change among the lagging indicators that we have not already reported is a decrease in the quarterly series of bank rates on business loans. This series decreased slightly during the first quarter of the year, after having been decreasing gradually during most of 1954. We have changed both the apparent recent trend and the current cyclical status of this series from *Up* to *indeterminate*.

Steel Scrap

The *Iron Age* composite price of No. 1 heavy-melting scrap for the week ended May 17 was \$34.33, compared with \$34.67 for the preceding week and \$28.08 for the corresponding week last year.

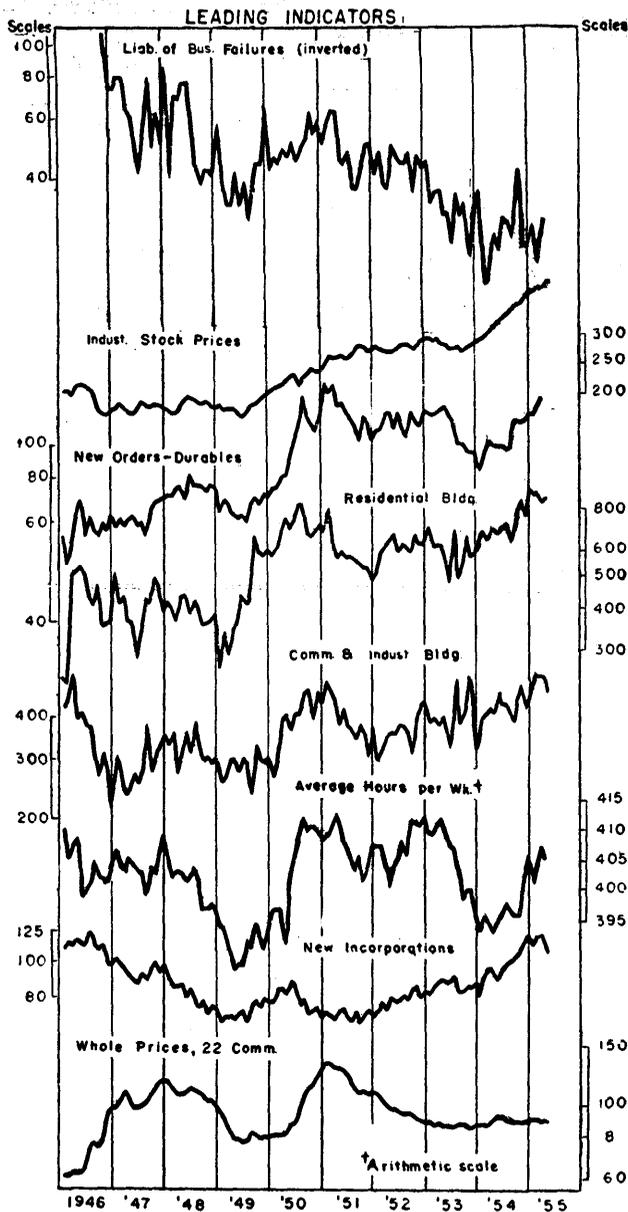
Conclusion

Although some adverse changes have been recognized in the classifications of the indicators, they do not yet cast serious doubt on the general business outlook. Accordingly, we still believe that our earlier expectations of further increases in general business activity during the next several months will be realized.

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(Apr.)	Up
Industrial stock prices	Up	Down(May)	Up
New orders—durable goods	Up	Up(Mar.)	Up
Residential building	Down(?)	Down(Apr.)	?
Com. and industrial bldg.	Up	Down(Apr.)	Up
Avg. hours worked	Up	Down(Apr.)	Up
New incorporations	Level	Down(Apr.)	Up(?)
Whole. prices, 22 commod.	Level	Down(May)	Up(?)
<i>Roughly Coincident</i>			
Freight carloadings	Up	Up(Apr.)	Up
Employment in nonagri. estab.	Up	None(Apr.)	Up
Bank debits outside N. Y. C.	Up	Down(Apr.)	Up
Industrial production	Up	Up(Apr.)	Up
Whole. prices excl. farm prod. and foods	Level	None(May)	Up(?)
Gross national product	Up	Up('55)	Up
Unemployment*	Up(?)	Down(Apr.)	Up(?)
Corp. prof. after taxes	Up	Up('55)	Up
<i>Lagging</i>			
Personal income	Up	Up(Mar.)	Up
Manufacturers' inventories	Level(?)	None(Mar.)	?
Retail sales	Up	Up(Apr.)	Up
Bank rates	?	Down('55)	?
Consumer install. debt	Up	Up(Mar.)	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 the index of industrial production adjusted for seasonal variation and long-term trend at 113, 1 percent larger than that for April and 8 percent larger than that for May 1954.

Unadjusted for long-term trend, but adjusted for seasonal variation, the index is estimated at 255, a postwar record and 11 percent larger than that for April 1954. The index has increased consecutively for 9 months to a figure estimated to be slightly larger than the previous postwar record of April through July 1953.

The Federal Reserve Board index divides industrial production into *manufactures* and *minerals*. The accompanying table of index components reveals that, although the index of production in April had returned to its near-record level of April 1953, (1) manufacturing was still 1 index point less than that of April 1953 (2) the production of minerals (including fuels) was 6 index points greater. Reference to the chart shows that

the manufacture of durable goods in April was nearly 3 percent less than that in April 1953; the manufacture of nondurable goods was 2½ percent more.

The components metal fabricating and furniture and miscellaneous products are the two subcomponents of durable manufactures that were smaller than they were in April 1953. The subcomponent, clay, glass, and lumber, was the durable-manufactures component that increased most. Production of all metals except lead included under primary metals increased substantially compared with output in 1953.

Of the major nondurable components of the index all are larger than they were in the comparable period in 1953 except the component, textile and apparel, which is 3½ percent smaller. The production of synthetic fabrics is substantially more than that of spring 1953, but the gain is not sufficient to offset the decreases in the production of cotton and wool textiles and knit goods.

Shoe production for the first 4 months of 1955 approximated 200,000,000 pairs, and the industry anticipates a record production in excess of 600,000,000 pairs for the entire year.

The gain in the production of chemicals and petroleum products is largely in the subcomponent, industrial chemicals, production of which is 20 percent larger than it was in April of either 1953 or 1954.

The high rate of motor-vehicle production continues; the four millionth vehicle of 1955 is scheduled to leave the assembly line this month. The indicated automotive output for May is 861,000 units, compared with 883,000 in April.

If serious strikes are avoided this summer, we believe that the present high level of industrial production (allowing for seasonal adjustment) will continue until the early fall, at least.

Components: Federal Reserve Board Index of Industrial Production*
April 1953, 1954 and 1955

Components	1953	1954	1955
All Components	136	123	136
Manufactures—Total	138	125	137
Durable manufactures—Total	155	134	151
Primary metals	136	103	139
Metal fabricating	169	147	160
Clay, glass, lumber	127	121	136
Furniture and misc. products	134	117	126
Nondurable manufactures—Total	121	115	124
Textiles and apparel	113	101	109
Rubber and leather products	120	103	124
Paper and printing	125	125	133
Chemical and petroleum	144	140	154
Foods, beverages, tobacco	108	106	109
Minerals—Total	115	109	121
Mineral fuels	114	111	122
Metal, stone, earth, minerals	121	99	117

*Seasonally adjusted 1947-49=100

Latest Weekly Data: Selected Items

Steel-ingot production of 2,324,000 tons during the week ended May 28, as indicated by operations scheduled at 96.3 percent of capacity, compares with 2,338,000 tons during the preceding week and 1,690,000 tons during the corresponding week last year.

The New York Times seasonally adjusted index of

lumber production was 113.1 for the week ended May 14, compared with 108.2 a week earlier and 111.2 for the corresponding week last year.

Electric-power production of 9,730,000,000 kilowatt-hours during the week ended May 21 compares with 9,673,000,000 kilowatt-hours for the previous week and 8,370,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 220,400 vehicles for the week ended May 21, compares with a total of 221,700 for the previous week and 158,000 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	97	94	71	96
Ingot prodn.—Million tons	1.32	.35	1.74	1.73	1.69	2.32
<i>Lumber</i>						
New York Times Index	124	41	79	88	111	113
<i>Electric Power</i>						
Kilowatt-hours—billions	1.70	1.44	5.09	5.26	8.37	9.73
<i>Automobiles</i>						
Vehicles—thousands	139	45	91	117	158	220

p Preliminary

DEMAND

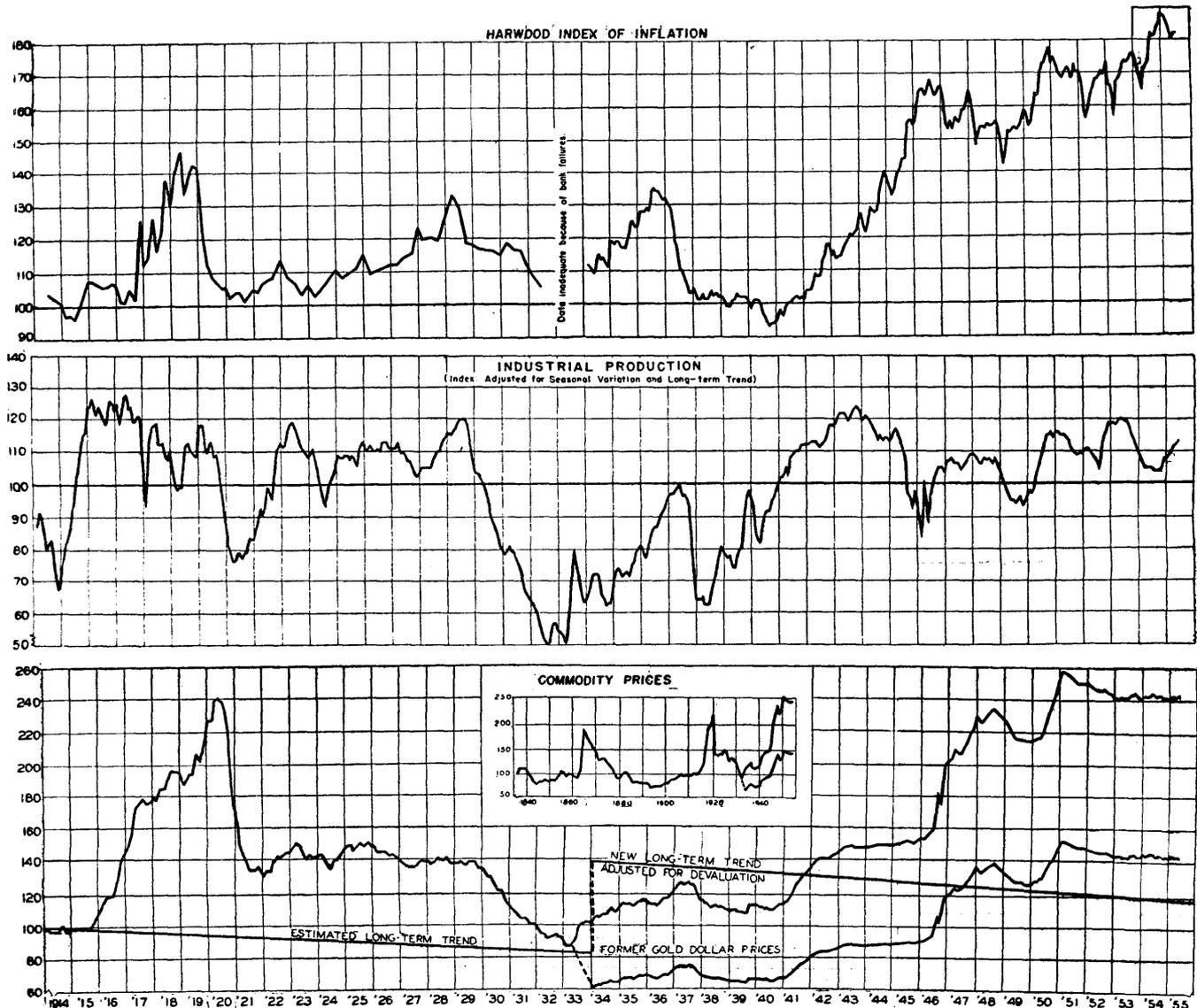
The Harwood Index of Inflation

We estimate the Harwood Index of Inflation for May at 182. At this level the index is unchanged from that for April but it is 10 points more than that for May 1954.

Preliminary data indicate that the inflationary impact of Treasury spending in excess of receipts during May approximately offset the deflationary effect of shifts in the loans and investments of the commercial banks.

The principal changes in the investment-type assets of the banking system were decreases of approximately \$900,000,000 and \$300,000,000 in the system's holdings of Government and "other" securities respectively, an increase of \$160,000,000 in loans on real estate, and an increase of a like amount in "other" loans. These changes appear to reflect the banks' adjustment to a moderately tighter money market as commercial, industrial, and agricultural loans begin a seasonal increase that is expected to add between \$5,000,000,000 and \$10,000,000,000 to this class of loan.

In recent weeks the Reserve banks have added moderately to the supply of purchasing media through purchases of relatively small amounts of Government security



ties and through purchases of smaller amounts of bankers' acceptances. Purchases of bankers' acceptances by the Reserve banks reflect a new policy on the part of the Federal Reserve. The Federal Reserve Bank of New York reports that "the new program was adopted primarily to encourage a broadening of the bankers' acceptance market and to increase its usefulness in financing international trade."

In addition to the seasonal expansion of commercial loans, the banking system apparently will be called upon to help finance Treasury deficits during the last 6 months of this year. The Treasury has indicated that it will need additional funds in the amount of \$9,600,000,000, aside from refunding operations, from July through December. No doubt, much of this can be obtained by means of tax-anticipation notes or certificates that will be purchased by many businesses, but we assume that the Federal Reserve and commercial banks will take part of the new issues.

In view of the continuing marked increase in real-estate and installment loans and the probability that the commercial banking system will finance part of the expected Treasury deficits, more inflation during the remainder of 1955 now seems probable. Only if the Federal Reserve authorities refuse to facilitate a seasonal credit expansion, contrary to their practice in recent years, would we expect deflation rather than more inflation in the months ahead.

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 May 21	+8
Four weeks ended May 21	+9
Year to date	+7

PRICES

Commodities at Wholesale

The Bureau of Labor Statistics index of wholesale prices is estimated to have decreased slightly in May to a point one-half of 1 percent less than the index for May 1954.

The farm-products component of the index decreased 3½ percent between mid-April and mid-May. Prices of processed foods advanced about one-half of 1 percent. Prices of all other commodities were virtually unchanged, with price increases offsetting decreases.

In the farm-product component of the index, the largest decreases were in the prices of steers, coffee, and barley, decreases of about 8, 6, and 3 percent respectively. The largest increase was in the price of hogs, which increased about 3½ percent. In the processed-foods component, price increases were nearly offset by decreases. In the component "all commodities other than farm products and foods," the greatest changes were decreases in

the prices of steel scrap, hides, and rubber of approximately 10, 7, and 2 percent, respectively. These decreases were offset by price increases among such other subcomponents as cotton, lead scrap, print cloth, and tin.

The Bureau's daily index of the spot-market prices of 22 basic commodities receded about 1 percent between mid-April and mid-May.†

The Dow-Jones daily index of commodity futures decreased about one-half of 1 percent during that period.

Prices received by farmers increased 1 percent during April; prices paid by farmers were virtually unchanged. The parity price ratio was reported at 87, one point higher than that for March but four points lower than that for April 1954.

Tremendous supplies, both actual and potential, appear to have been important factors in the recent weakness in some of the more sensitive wholesale prices. In discussing this weakness, *The Journal of Commerce* wrote, "it is a bit unusual for prices of such important industrial materials to decline when industry is booming."

Some further easing in the composite of wholesale prices is believed to be more probable than increases during the next several months.

Latest Daily Indexes

Index	1954		1955
	May 25	May 18	May 25
Spot-market, 22 commodities	286	277	274
Commodity futures	381	330	324

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 FAILURES: NUMBER AND LIABILITIES

Month	Number			Liabilities (000 omitted)		
	1953	1954	1955	1953	1954	1955
January	647	867	939	\$23,309	\$29,592	\$37,872
February	691	926	877	27,273	47,774	42,056
March	739	1,102	1,038	31,082	57,280	41,209
April	693	975	903	27,520	42,512	35,968
May	697	943		32,789	38,494	
June	817	965		32,379	41,613	
July	724	856		39,830	32,230	
August	700	912		28,529	32,582	
September	686	819		33,817	36,381	
October	840	871		37,076	29,000	
November	815	933		36,795	35,067	
December	813	917		43,754	40,103	
Total	8,862	11,086		\$394,153	\$462,628	

BOOK REVIEW

The Theory of Money and Credit by Ludwig von Mises
Yale University Press, New Haven, Connecticut (\$5)

This is the second revised edition of a well-known book on money and banking written by the distinguished Austrian economist, Ludwig von Mises, one of the most prominent representatives of the so-called monetary theory of business cycles.

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

Indexes of Production, Inflation, and Prices

	1954					1955							
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
Industrial Production	105	105	104	104	104	105	108	108	109	110*	112*	112*	113*
Inflation (Ratio Form)	172*	173*	179*	182*	181*	184*	185*	188*	187*	184*	180*	182*	182*
Commodity-Prices	244	242	243	243	242	241	242	241	242	243*	242*	243*	242*
Commodity-Prices§	144	143	144	144	143	143	143	142	143	144*	143*	144*	143*

§In terms of former gold dollars; *preliminary.