

AMERICAN INSTITUTE for ECONOMIC RESEARCH

MONTHLY
BULLETIN

June 27

GREAT BARRINGTON

MASSACHUSETTS

1955

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Statistical Indicators of Business-Cycle Changes

Although recent changes in the indicators cannot be said to have resolved all doubts concerning the future outlook for business activity, the changes recorded since our last monthly bulletin are more assuring than the changes recorded last month. The latest change and the status of each indicator are reported in the accompanying table; the monthly data for the indicator are plotted on the accompanying charts.*

The Leading Indicators

The average of the Dow-Jones daily index of the prices of 30 industrial stocks reversed its recent downward trend and increased about 3 percent during the first half of June to an amount 10 percent greater than that at the end of 1954.

Contract awards for residential building, as measured by floor-space data which decreased slightly in April, are estimated to have decreased nearly 16 percent during May. However, contract awards for commercial and industrial buildings are estimated to have increased nearly 3 percent during the month.

The number of new incorporations, which decreased during April, resumed an upward movement and increased about 5 percent during May.

The average of the Bureau of Labor Statistics daily index of wholesale prices of 22 basic commodities, which decreased slightly in May, increased slightly during the first half of June.

No change appears to have occurred in the current cyclical status of any of the leading indicators; the only change in the apparent recent trends of this group was that of removing the question mark following the classification *level* for residential building.

The Roughly Coincident Indicators

The Federal Reserve Board index of freight carloadings increased about 3 percent in May, after having remained unchanged (revised) in April. The May index was about 14 percent more than that for May last year.

The unemployment series inverted, which had decreased for two consecutive months, increased nearly 10 percent during May. We have removed the question mark following the apparent recent trend (*up*) of this series. This is the only change made in the apparent recent trends of this group, and no change has been made in the current cyclical status of any of the series in the

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

group.

Bank debits outside New York City increased nearly 5 percent in May to an amount 17 percent larger than that for May 1954.

The Lagging Indicators

Personal income increased slightly in May to an amount about 4 percent larger than that in May 1954.

Manufacturers' inventories were unchanged during April. We removed the question mark following the apparent-recent-trend classification (*level*) of this series. No other change was made in the apparent recent trend of any of the other series in this group, and no change was made in the current cyclical status of any of the series in the group.

Retail sales were unchanged in May and were about 8 percent more than those for May last year.

Conclusion

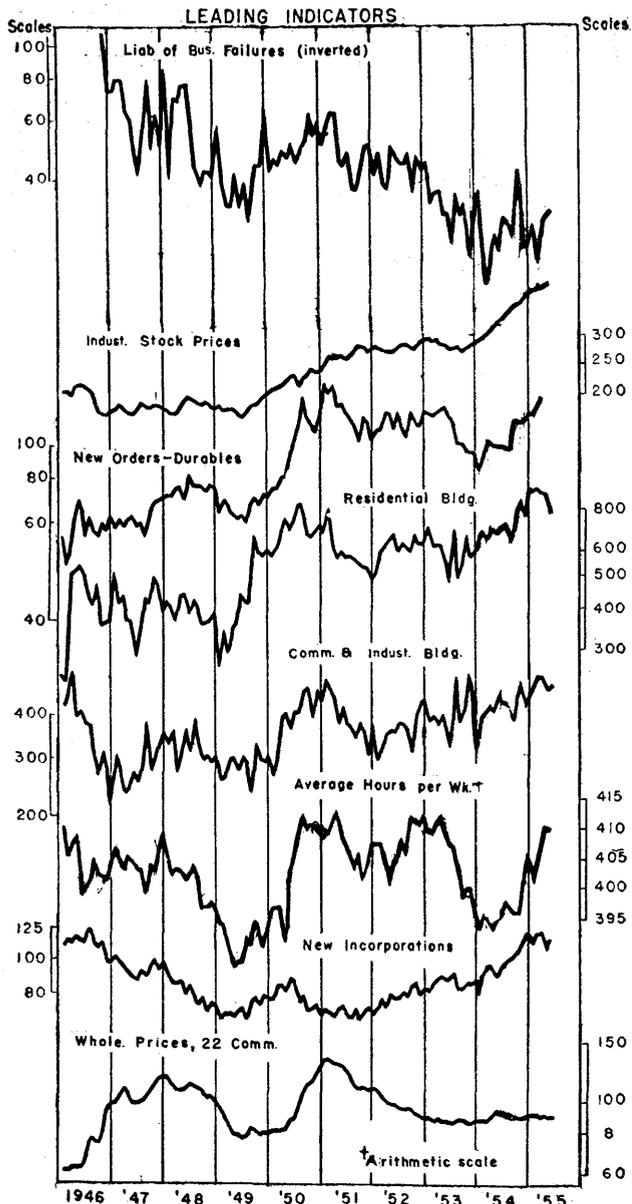
The increase to five (with changes in one series not available this month) from two last month in the number of leading indicators for which increases were reported during the month strengthens the outlook for a

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

**Data for April not reported. The series is in process of revision by the Department of Commerce.



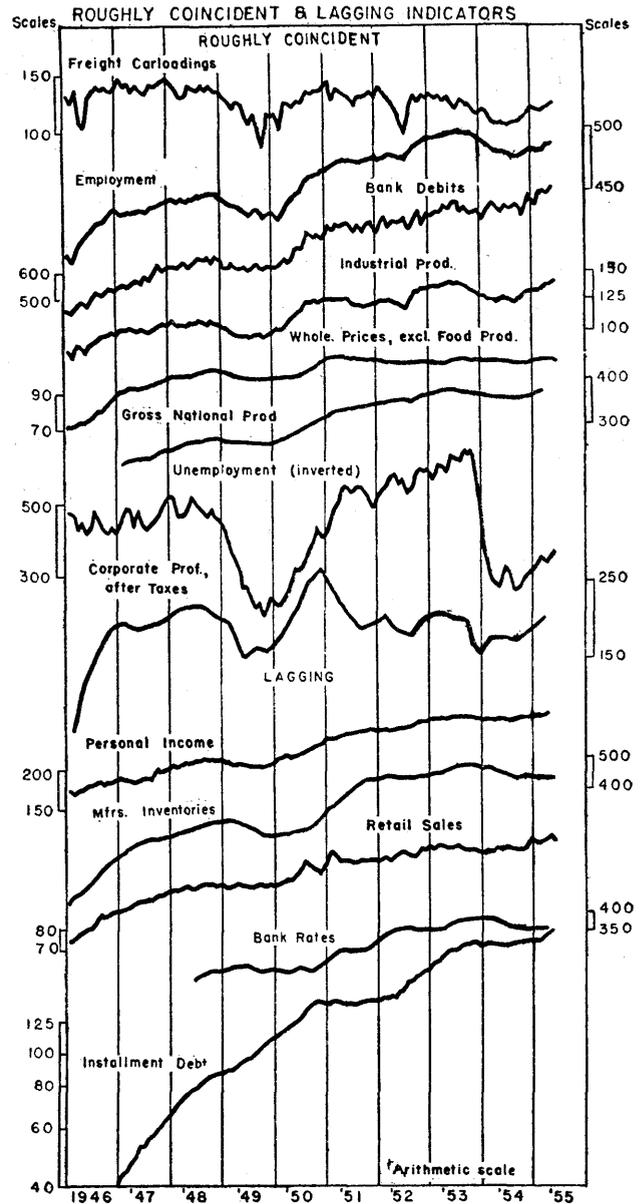
continuation of the present cyclical recovery. Accordingly, our present expectation is that further gains in general business activity will occur during the remainder of the year.

DEMAND

The Harwood Index of Inflation

We estimate the Harwood Index of Inflation for June at 181. At this level the index is 1 point more than the revised index for May and 8 points more than the index for June 1954.

Preliminary data suggest that the slightly deflationary effect of Treasury operations in June will be more than counterbalanced by further inflationary developments in the commercial banking system. Interim Treasury reports indicate that even after allowing for that part of corporate income taxes paid on June 15 through the redemption of tax certificates the Treasury will have increased its cash holdings during June. However, it appears probable that this deflationary influence will have been exceeded somewhat by a continuation of the up-



ward trend of inflationary commercial banking operations.

This marked upward trend, which has increased the index of inflation about 8 points during the past 12 months, prevailed despite a decrease in the inflationary purchasing media derived from Government debt. In the 52 weeks ended June 9 the commercial and Federal Reserve banks decreased their holdings of Government securities by approximately \$1,500,000,000 (only about \$160,000,000 of this decrease is attributable to the commercial banks alone). During this same period the banks increased their investment-type assets by about \$3,500,000,000 more than they increased their saving-type liabilities. Therefore, during the past year the banks have contributed to inflation, not through the monetization of Federal debt, but through the monetization of private debt. (Our midmonth article on purchasing media will discuss the principal sources of this monetized private debt.)

Some apparently temporary easing of money rates has been reported, but the outlook still seems to indicate a firming of interest rates this fall and early next winter.

Early in June some of the major finance companies were reported as paying a rate one-eighth percentage point less on their borrowings in the open market. Moreover, the rate on Treasury bills, which has been trending upward in recent months, decreased slightly the first week in June. However, industrial loans will increase seasonally in the fall, and the general expectations are that these loans will increase somewhat more than seasonally this year with a firming effect on interest rates. Such a tendency may already have begun to appear in the East, at least. *The Journal of Commerce*, reporting on the New York State Bankers Association annual convention held at Lake Placid earlier this month, wrote: "It was generally agreed that even now banks generally were more selective in their credits and were charging more for them when they could."

The index of inflation is expected to increase seasonally during the rest of this year. Whether this increase will be more or less than has been common in recent years will depend partly on the kind of Treasury offerings during the next few months. If the Treasury offers a long-term bond issue later this summer, the increase in the index may be less than the average of recent years; if short-term issues are offered, the increase may be more than the average of recent years.

Department-Store Sales

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

Period	Percent Change
Week ended June 18	+2
Four weeks ended June 18	+5
Year to date	+6

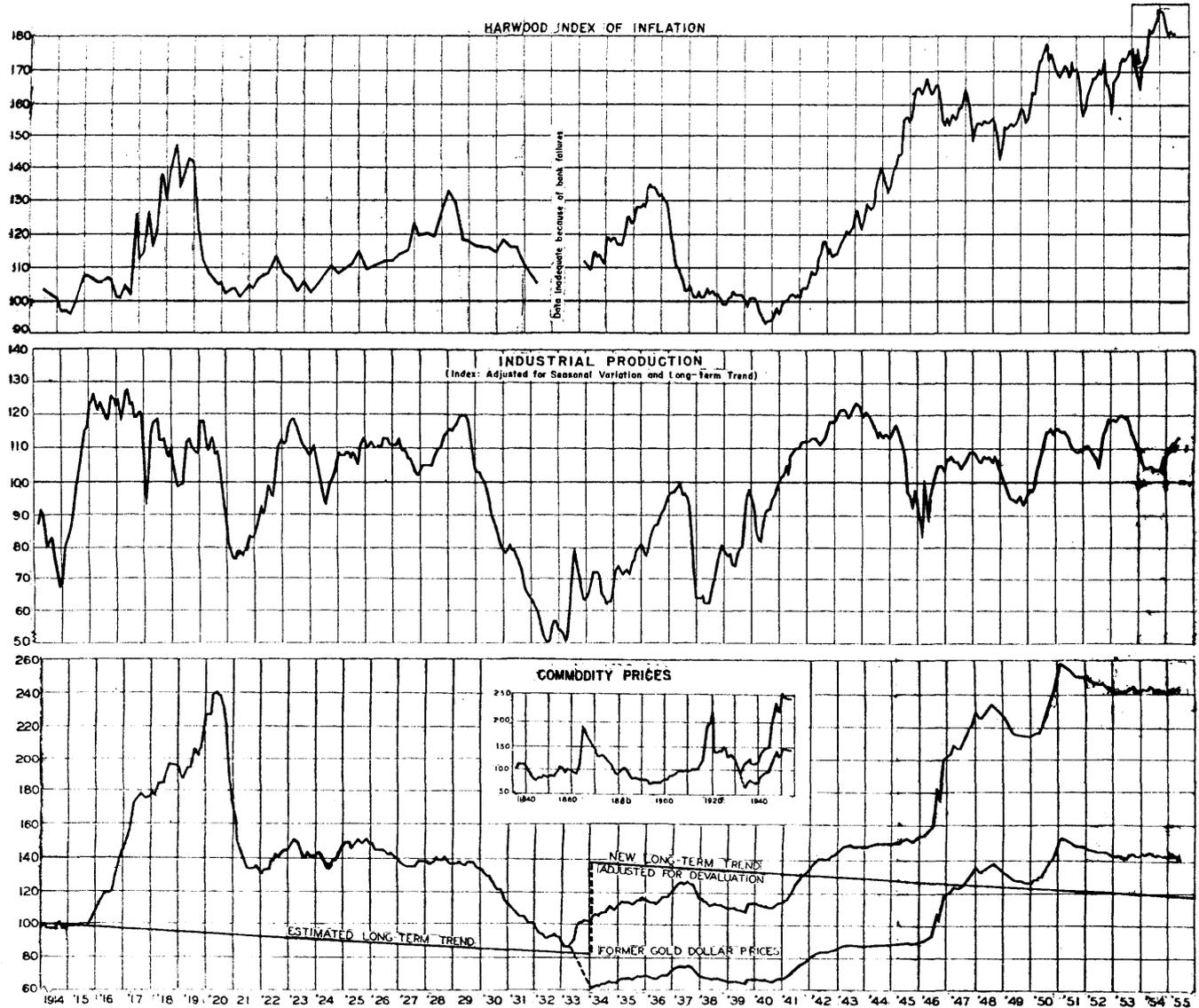
SUPPLY

Industrial Production

We estimate the index of industrial production for June adjusted for seasonal variation and long-term trend to be 113, the same level as that attained in May and 8 percent larger than that of June 1954.

Current physical volume of industrial production is the greatest since the peak war year of 1943, but when allowance is made for increase in productivity and population changes, it is 6 percent less than the previous postwar high of April through July 1953.

Unadjusted for long-term trend but adjusted for seasonal variation the index is estimated at 255 (1935-39=100), the same level as that of May, but 11 percent larger than in 1954 and fractionally larger than in the postwar record months of 1953.



The accompanying table shows the seasonally adjusted Federal Reserve Board index numbers of the major components of industrial production (based on 1947-49=100) for the months of May 1953, 1954, and 1955.

The manufacturing component in May was at its highest point since the war and had increased nearly 3 percent during the month. May is the first month of the current uptrend that began last October in which the manufacturing component has exceeded that of the active production months of the spring of 1953, when durable-goods manufacturers had substantial defense contracts.

The increase in production of primary metals largely reflects greater steel production, which exceeds by more than 4 percent the previous postwar record of May 1953.

Present indications are that the usual seasonal slow-down during the summer will be moderate and that a renewed upturn will occur in the early fall.

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

Components	1953	1954	1955
All Components	137	125	138
Manufactures—Total	139	126	140
Durable manufactures—Total	156	136	153
Primary metals	139	106	144
Metal fabricating	169	148	162
Clay, glass, lumber	127	125	135
Furniture and misc. products	135	118	131
Nondurable manufac.—Total	123	117	126
Textiles and apparel	115	101	113
Rubber and leather products	122	106	121
Paper and printing	126	126	136
Chemical and petroleum	146	142	156
Foods, beverages, tobacco	109	109	110
Minerals—Total	117	111	120
Mineral fuels	116	112	122
Metal, stone, earth, minerals	120	106	113

*Seasonally adjusted; 1947-49=100.

Latest Weekly Data: Selected Items

Steel-ingot production of 2,350,000 tons during the week ended June 25, as indicated by operations scheduled at 97.4 percent of capacity, compares with 2,316,000 tons during the preceding week and 1,710,000 tons during the corresponding week last year.

The *New York Times* seasonally adjusted index of lumber production was 120 for the week ended June 11, compared with 113.7 a week earlier and 113.1 for the corresponding week last year.

Electric-power production of 9,987,000,000 kilowatt-hours during the week ended June 18 compares with 10,041,000,000 kilowatt-hours for the previous week and 8,850,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 183,000 vehicles for the week ended June 18, compares with a total of 172,800 for the previous week and 140,100 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	17	96	84	72	97 ^p
Ingot prodn.—million tons	1.33	.26	1.73	1.55	1.71	2.35
<i>Lumber</i>						
<i>New York Times</i> Index	123	40	81	91	113	120
<i>Electric Power</i>						
Kilowatt-hours—billions	1.70	1.44	5.16	5.37	8.85	9.99
<i>Automobiles</i>						
Vehicles—thousands	126	53	107	146	140	183 ^p

^p Preliminary

PRICES

Commodities at Wholesale

The Bureau of Labor Statistics index of wholesale prices is estimated to have increased slightly during June to a point somewhat above the index for June 1954.

The farm-products component of the index increased about one-half of 1 percent between mid-May and mid-June; the processed-foods component increased 1½ percent. The component of the index that includes all other commodities was virtually unchanged. Primarily responsible for the increase in the farm-products component was higher prices for hogs; primarily responsible for the increase in the processed-foods component was higher average prices for meats. Price increases (especially in prices of rubber) among the commodities other than farm products and foods offset price decreases.

The Bureau's daily index of the spot-market prices of 22 basic commodities advanced 2 percent between mid-May and mid-June.† The Dow-Jones daily index of commodity futures advanced nearly 2 percent during that period.

The Department of Agriculture has announced that the price-support level for next year's wheat crop will be 76 percent of parity, making the guaranteed support price of wheat \$1.81 a bushel, compared with a support price of \$2.06 a bushel this year.

Although recently there have been small advances in the prices of some commodities at wholesale, wage increases recently granted probably have not been reflected in the prices of any important commodities. In spite of the possibility that prices of some industrial products may be increased in an effort by producers to counterbalance higher wages, we expect the general level of wholesale prices to trend downward, with only temporary interruptions, for some time to come.

Latest Daily Indexes

Index	1954		1955
	June 22	June 15	June 22
Spot-market, 22 commodities	282	278	278
Commodity futures	375	330	326

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

\$In terms of former gold dollars; *preliminary.