

AMERICAN INSTITUTE for ECONOMIC RESEARCH

GREAT BARRINGTON

MASSACHUSETTS

WEEKLY
BULLETIN

July 18

1955

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Treasury Financing Second Half of 1955

It is expected that in the 6 months ending December 31, 1955, the Treasury will have to borrow about \$9,000,000,000 of new money. Moreover, during this period the Treasury will have to refund an even larger amount exclusive of (1) its 91-day bills, which mature at a rate of about \$1,500,000,000 weekly, and (2) its several series of savings obligations which are being sold in amounts approximating those at which these issues are maturing. The manner in which this new-money financing is handled will have an effect on the supply of purchasing media. In general, the greater the reliance of the Treasury on the commercial banking system for Treasury borrowing, the larger will be the total of bank deposits and the greater the inflationary pressure.

The Treasury's new-money borrowing is largely of a seasonal nature because of the concentration of tax receipts in the first half of the calendar year. And because the total national debt subject to limit was only about \$1,500,000,000 less than the \$275,000,000,000 on July 1, either (1) current new borrowing has to be done largely under the \$6,000,000,000 higher ceiling extended one year by Congress on June 30, which means that such borrowing must be repaid by June 30, 1956, or (2) the Treasury must plan for retirement of outstanding debt maturing in the first 6 months of calendar 1956, equal in amount to that borrowed in excess of the \$275,000,000,000 limit.

The Treasury announced, July 5, plans for borrowing \$2,750,000,000 of new money. This amount, supplemented by proceeds of sale of additional bills weekly (see below), is expected to meet the Treasury's needs until September or October.* The plan involves the sale of \$2,000,000,000 17/8 percent tax-anticipation certificates, maturing next March 22, and an additional issue of the 40-year 3-percent bonds offered last February.

In addition to funds raised under the program, the Treasury has increased its weekly borrowing through the sale of 91-day bills from \$1,500,000,000 to \$1,600,000,000. If this rate of bill borrowing is maintained, the

*In addition to this financing the Treasury will have to refinance nearly \$8,500,000,000 of 1 1/8-percent certificates of indebtedness maturing August 15.

Treasury will, in the course of the next 3 months, have borrowed about \$1,300,000,000 of new money through larger weekly offerings of bills, leaving in the neighborhood of \$5,000,000,000 of new money to be borrowed in the fourth quarter of the year—assuming \$9,000,000,000 of Treasury borrowing of new money in the second half of 1955.

It is too early to know what part of the current new-money financing of the Treasury will be placed outside the commercial banks and will therefore be noninflationary. It has been estimated, however, that from \$1,500,000,000 to \$2,000,000,000 of new-money loans would be so placed. In order to encourage investors to take part in this financing the Treasury has "sweetened" the certificates with a feature permitting their use at par value plus accrued interest to maturity in payment of taxes one week before their maturity date. In offering \$750,000,000 of 40-year 3-percent bonds, the Treasury is appealing directly to long-term investors, rather than the commercial banks. According to *The New York Times*, buyers of the bonds are being permitted to pay for them in installments due July 20, September 1, and October 3 in order to encourage subscriptions from savings-type investors such as pension and retirement funds and savings institutions.

Moreover, the Secretary of the Treasury is quoted as expressly reserving the right to handle the subscription in such a way as "to avoid excessive allotment of bonds to nonsaving-type investors."

If the treasury succeeds in placing between \$1,500,000,000 and \$2,000,000,000 of its current borrowing with savings-type investors and the remaining amount is placed with commercial banks as additions to their holdings of Government securities, the latter amount would of itself add about 2 points to the index of inflation.†

The Treasury's announced program for borrowing in the second half of calendar year 1955 (including increased weekly sales of Treasury bills) follow the general lines indicated by the overall debt and monetary circumstances. The program is expected to have a comparatively limited effect on the economy. However, it is

†This assumption makes no allowance for any part of the indicated increased borrowing by issue of Treasury bills that the commercial banks may take. Whatever this amount may be, it will be a source of additional inflationary purchasing media.

Notice to Annual Sustaining Members:

Copies of the 1955 edition of *Current Economic Trends (Where Are We Going?)* have been mailed to all members. Please let us know if your copy does not reach you.

expected (1) to result in some additional inflation; (2) to further stiffen interest rates somewhat; (3) to absorb a relatively small amount of investment funds. Recent purchases of Treasury bills by the Federal Reserve Banks suggest that more of the bills to be issued will be taken by these banks and that the net effect of the program as a whole will be mildly inflationary.

What the Indicators Say‡

The latest data for the statistical indicators reveal that gross national product is estimated to have increased about 1 percent during the second quarter of 1955.

During June:

1. The average of the Dow-Jones daily index of common-stock prices of 30 industrials increased 4½ percent.
2. The average number of hours worked per week in manufacturing industries decreased one-half of 1 percent.
3. The average of the Bureau of Labor Statistics daily index of wholesale prices of 22 basic commodities increased 1 percent.
4. The number of persons employed in nonagricultural establishments increased slightly.
5. Unemployment decreased 8 percent, causing our inverted series to increase.
6. Retail sales remained virtually unchanged.

During May:

1. New orders for durable goods increased 12 percent.
2. Manufacturers' inventories increased one-half of 1 percent.

The *Iron Age* composite price of No. 1 heavy melting steel scrap for the week ended July 5 was \$37.17, compared with \$36.50 for the preceding week and \$26.75 for the corresponding week last year.

These data support our expectations of further gains in business activity during the summer and fall months.

SUPPLY

Industrial Production

Steel-ingot production of 2,233,000 tons during the week ended July 16, as indicated by operations scheduled at 92.5 percent of capacity, compares with 2,073,000 tons during the preceding week and 1,520,000 tons during the corresponding week last year.

The *New York Times* seasonally adjusted index of lumber production was 100.1 for the week ended July 2,

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

compared with 123.3 a week earlier and 50.8 for the corresponding week last year.

Electric-power production of 9,759,000,000 kilowatt-hours during the week ended July 9 compares with 10,138,000,000 kilowatt-hours for the previous week and 8,180,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 175,100 vehicles for the week ended July 9, compares with a total of 194,900 for the previous week and 106,100 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.	93	16	91	78	64	92 _p
Ingot prodn.—million tons	1.28	.24	1.64	1.44	1.52	2.22
<i>Lumber</i>						
<i>New York Times</i> Index	130	38	78	71	51	100
<i>Electric Power</i>						
Kilowatt-hours—billions	1.59*	1.34*	4.76*	4.98*	8.18*	9.76
<i>Automobiles</i>						
Vehicles—thousands	99*	41*	99*	119*	106*	175* _p

_p Preliminary; *Holiday week

Residential Construction

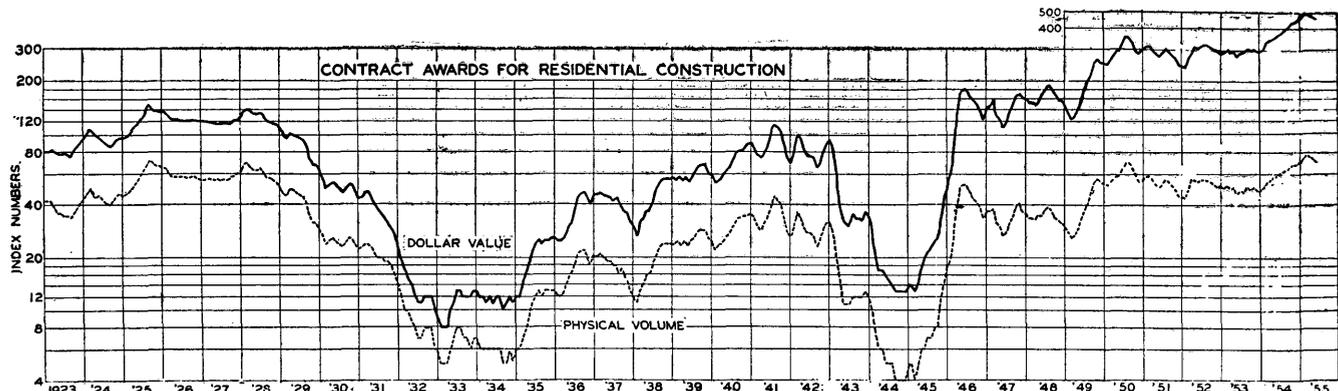
The May index of the dollar value of residential-construction contract awards, seasonally adjusted, decreased 3 percent, but it is still larger than that of any previous May. The index for May was 31 percent larger than that for May 1954 and 70 percent larger than that for May 1953.

The *Engineering News-Record* index of construction costs increased less than ½ percent in May and is 6 percent larger than that of a year ago. Since May 1950, the cost of construction, as reflected in this index, has increased nearly 30 percent.

Our index of physical volume for May is 2 percent smaller than that for April, but it is 38 percent larger than that for May 1954.

The number of houses started in the first 5 months of this year, seasonally adjusted, was at an annual rate of 1,306,000, compared with 1,220,000 and 1,396,000 as the number of houses started in 1954 and the record year 1950 respectively.

Government-underwritten credit in residential construction is widely recognized as an important factor in the present boom in residential construction. In the first 5 months of 1955, half of all new houses started were financed with Government-backed credit. This compares with 41 and 35 percent for the corresponding periods of 1954 and 1953 respectively. The gain is at-



tributable entirely to an increase in the percentage of VA-guaranteed loans.

Different factors are contributing to the present activity in building. Factors reflecting recent socio-economic developments are the trends toward suburban living, and an increasing proportion of the population in the middle-income groups. Increased availability of credit, and the replacement of slum areas are also contributing to the demand for houses.

There is evidence that the crest of the boom in residential building has been reached. The FHA is not insuring additional mortgages in 26 surplus housing areas, and spot checks indicate an increase in the size and number of newspaper ads offering new houses.

Housing vacancies have increased from 3½ percent in May of last year to 5 percent in May of this year. If the present rate of construction continues, it is estimated that the vacancy rate will reach 6 percent by the end of 1955.

We believe that the seasonally adjusted level of residential construction will trend downward for several months more at least and that the total number of new houses started in 1955 will approximate that for 1954.

DEMAND

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 July 9	+13
Four weeks ended July 9	+6
Year to date	+6

PRICES

Commodities at Wholesale

Index	1954		1955	
	July 13	July 6	July 13	July 13
Spot-market, 22 commodities	281	280	280	
Commodity futures	379	327	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 average equals 100.

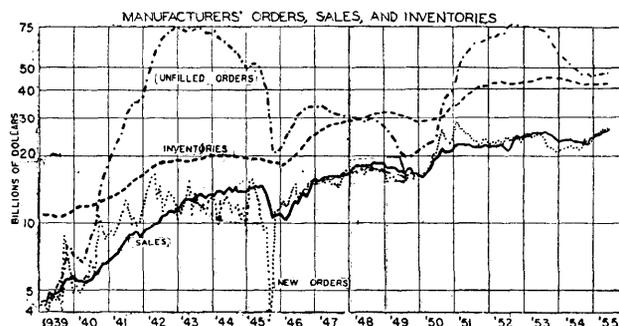
BUSINESS

Manufacturers' Orders, Sales, and Inventories

New orders received by manufacturers, seasonally adjusted, increased 6 percent during May to \$27,700,000,000 and were 26 and 10 percent larger than those of May 1954 and 1953 respectively. § The May total is an all-time record except for the scare-buying month of January 1951.

New orders for durable goods, one of the eight leading indicators, increased 12 percent (seasonally adjusted) during May after having decreased 4 percent in April. The May total of \$14,400,000,000 is 50 and 15

§All series used in this article reflect revisions just completed by the Department of Commerce and reported in the *Survey of Current Business* for May and June 1955. The revisions do not go back beyond January 1951 and affect principally subdivisions of the aggregates used in this article. None of the revised aggregates is changed more than 1 percent.



percent larger than those for May 1954 and May 1953 respectively. New orders for nondurable goods, seasonally adjusted, increased nearly 11½ percent in both April and May, to a total of \$13,300,000,000, which was 8 and 5 percent, respectively, larger than the totals for May 1954 and May 1953.

Manufacturers' sales (shipments) seasonally adjusted, after remaining unchanged in April, increased 2 percent to \$26,500,000,000 in May and were 14 and 4 percent larger than those for May 1954 and May 1953, respectively. Sales in May, which were equally divided between durable- and nondurable-goods, were record totals. Durable-goods sales exceeded those in May 1954 and May 1953 by 19 and 6 percent respectively. Nondurable-goods sales exceeded those in May 1954 and May 1953 by 10 and 16 percent respectively.

Manufacturers' unfilled orders (not seasonally adjusted) increased about 1 percent during May to \$48,500,000,000 but were 3 percent smaller than those of May 1954. Unfilled orders for durable goods were 1 percent larger than those for April but were 5 percent smaller than those for May 1954. Unfilled orders for nondurable goods were unchanged from those for April but were 3 percent larger than those for April 1954.

Unfilled orders are the largest since July, (when many large defense contracts placed in previous years were finally terminated.) The present backlog of unfilled orders is large enough to keep manufacturers, on the average, busy for 3½ months.

Manufacturers' inventories, seasonally adjusted, have fluctuated within a range of slightly less than 1 percent since last August and at the end of May were 2 percent smaller than those at the close of May 1954. Both the durable and nondurable inventories are smaller than those of a year ago.

The ratio of manufacturers' inventories to sales (both

MANUFACTURERS' INVENTORIES BY STAGE OF FABRICATION APRIL 1953, 1954, AND 1955

(billions of dollars—seasonally adjusted)

Inventory	End of April		
	1953	1954	1955
Total inventory	44.8	44.5	43.3
Purchased material	15.9	15.0	14.1
Goods in process	13.5	12.7	12.7
Finished goods	15.4	16.8	16.5
Durable goods	25.4	25.1	24.2
Purchased material	7.5	7.1	6.5
Goods in process	10.6	9.9	9.9
Finished goods	7.3	8.1	7.8
Nondurable goods	19.4	19.4	19.1
Purchased material	8.4	7.9	7.6
Goods in process	2.9	2.8	2.8
Finished goods	8.1	8.7	8.7

Source: Department of Commerce

seasonally adjusted) decreased 1 percent to 1.65. In May 1954 the ratio was 1.91. This ratio for durable goods was 1.89 at the end of May, compared with 1.83 a year earlier; for the nondurable-goods industries at corresponding dates the ratio was 1.45.

The accompanying chart shows inventories in different stages of fabrication at the end of April 1953, 1954, and 1955. Only inventories of finished goods were larger in 1955 as compared with those for the corresponding date of 1953. This comparison was the same for both durable and nondurable goods.

The latest data for manufacturers' orders, sales, and inventories suggest that the overall statistical position of manufacturing industry remains well balanced. If manufacturers' new orders continue at recent high levels, as seems probable for the next several months, some additional increases in production are probable during the next several months.

Employment and Unemployment

Overall employment conditions improved further in the second quarter of 1955. Employment in nonagricultural establishments increased 1 percent, after having increased 1 percent in the first quarter.¶ Unemployment decreased 14 percent, after having decreased 8 percent in the first quarter. There has been little change in the average number of hours worked per week since last December.¶¶

Employment in nonagricultural establishments, seasonally adjusted, is reported as 49,300,000 in June, compared with 48,020,000, the smallest 1954 total, reached in August, and 48,170,000 in June 1954.

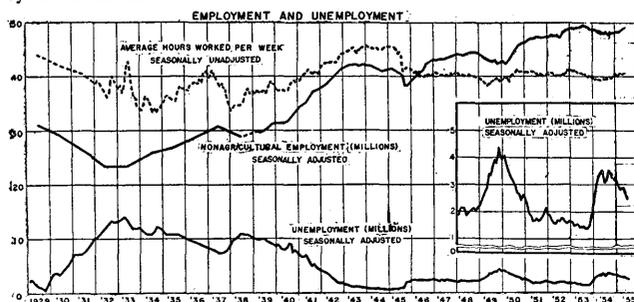
The number of unemployed, seasonally adjusted, at mid-June is reported as 2,458,000, the smallest number since December 1953. In June 1954 the number unemployed was 3,070,000. The unemployed as a percentage of the civilian labor force was 4.0 in June 1955, compared with 5.1 in June 1954 and 2.4 in June 1953. Additions to the civilian labor force between June 1953 and June 1955 totaled 1,961,000, compared with 844,000 as the number of new jobs added in this period.

¶Employment in nonagricultural establishments excludes agricultural workers, unemployed, self-employed, domestics, family operations, and accounts for about 85 percent of the civilian work force.

¶¶Employment in nonagricultural establishments (seasonally adjusted) is one of the roughly coincident indicators of cyclical changes in business activity; movements of the series usually have coincided with cyclical peaks of business but have led cyclical troughs by an average of 3.3 months.

Unemployment (seasonally adjusted) is one of the roughly coincident indicators of cyclical changes in business activity. The average lead or lag of this series has not been determined.

Average hours worked per week (seasonally adjusted) is one of the leading indicators of cyclical changes in business activity; the series has led cyclical peaks by 3.8 months and cyclical troughs by 2.6 months.



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	955	32,789	38,494	34,714
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	

The average number of hours worked per week by production workers in June 1955 was 40.7, compared with 39.5 for June 1954 and 40.7 for June 1953. Man-days lost as a result of work stoppages were 5,170,000 in the first 4 months of 1955, compared with 4,250,000 and 5,850,000 in the corresponding periods of 1954 and 1953 respectively.

The accompanying table shows the employment in nonagricultural establishments for May 1953, 1954, and 1955. The table reveals that although the total number working was about the same in May 1955 as that in May 1953, in May 1955 fewer were employed in manufacturing, mining, transportation, and utilities, but more were employed in contract construction, trade, finance, insurance, real estate, service, and government.

We expect that employment will exceed that of 1954 and at least be equal to that of 1953 throughout the remainder of 1955; that unemployment will continue to be less than that for 1954 but that it will not reach the low levels of 1953; that the average workweek will change little.

EMPLOYEES IN NONAGRICULTURAL ESTABLISHMENTS MAY 1953, 1954 AND 1955

(thousands—seasonally adjusted)

Type of Establishment	1953	1954	1955
Total	49,297	48,183	49,184
Manufacturing	17,276	15,985	16,531
Mining	833	769	747
Contract construction	2,484	2,542	2,537
Transportation, utilities	4,282	3,996	3,990
Wholesale, retail trade	10,466	10,470	10,640
Finance, insurance, real estate	2,015	2,103	2,172
Service and miscellaneous	5,304	5,616	5,675
Government	6,637	6,702	6,892

Source: Survey of Current Business

BOOK REVIEW

Applied General Statistics (Second Edition) by Frederick E. Croxton and Dudley J. Cowden
Prentice-Hall, Inc., 70 Fifth Avenue, New York 11, New York (\$9)

The first edition of this book, which appeared in 1939, won wide acceptance as a college text and general introduction to statistical methods and techniques.

In their preface the authors say that, although the second edition "has been largely rewritten, the objective is the same as that of the first edition: to describe the more commonly used statistical methods and to illustrate their application in many fields."