AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

GREAT BARRINGTON MASSACHUSETTS

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Statistical Indicators of Business-Cycle Changes

Only four changes in current cyclical status have been made among the 21 statistical indicators since our last monthly bulletin. Residential building has been changed from indeterminate to *down* (?); the question marks have been removed from the *up* classifications of two of of the roughly coincident indicators and the classification of one lagging indicator was changed from indeterminate to *up* (?).*

The Leading Indicators

Liabilities of business failures, as reported by Dun and Bradstreet, increased during June, with the result that our inverted index decreased to 26 from 30 in May. This compares with our June 1954 index of 23. Contract awards for residential building, as measured by floor-space data, are estimated to have increased during June about 1 percent; contract awards for commercial and industrial building are estimated to have increased 7 percent. The number of new incorporations increased 6 percent during June.

The Roughly Coincident Indicators

The Federal Reserve Board index of freight carloadings decreased 3 percent during June, according to a preliminary estimate. Bank debits outside New York City increased 1 percent during June. The Federal Reserve Board index of industrial production increased during June to 139 from 138, the index for May.

There was no change during June in the index of wholesale prices excluding farm products. We have not changed the classification of the apparent recent trend of this indicator, *level*, but we have removed the question mark from its current cyclical status, *up*. The annual rate of gross national product was estimated at the second quarter of the year to have increased about 1 percent. The estimates for the first quarter of this year and for the last quarter of 1954 had been revised upward. The *inverted* series unemployment increased during June, and we have removed the question mark from its current cyclical status, *up*.

The Lagging Indicators

Among the five lagging indicators, personal income increased 1 percent during May, bank rates are estimated to have increased during the second quarter of the year, and consumer installment debt increased 2½ percent during May. We have changed the apparent recent trend and the current cyclical status of bank rates from indeterminate to *up* (?).

Steel Scrap

The *Iron Age* composite price of No. 1 heavy melting steel scrap for the week ended July 12 was $38.50, compared with $37.17 for the preceding week and $26.58 for the corresponding week last year.

Conclusion

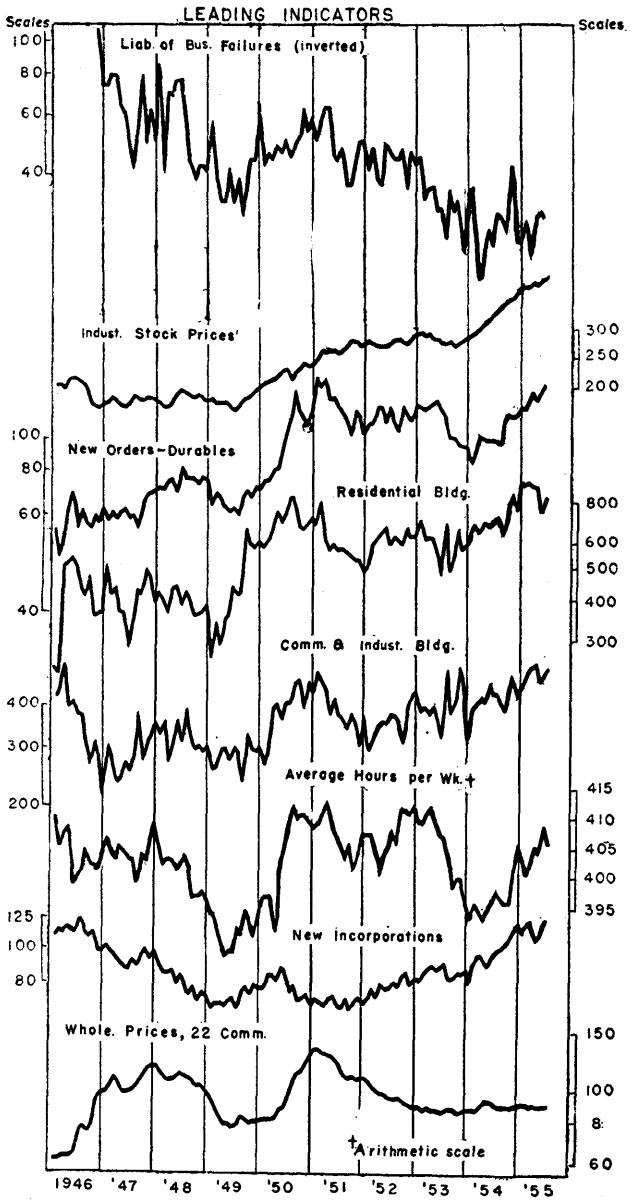
The rather large decrease in the inverted series of business failure liabilities and the decrease in average hours worked in June (the second successive decrease in the latter series) are adverse changes among the leading indicators reported last month. Although future developments could prove these changes to have been early warnings of a change in the trend of business activity, the overall weight of evidence of these indicators seems to point toward further expansion of business activity.

MOVEMENT AND STATUS OF THE INDICATORS

Group and Series	*Apparent Recent Trend*	*Latest Mo. or Quar. Change*	*Current Cyclical Status*
Leading			
Liab. of business Failures*	Up	Down(June)	Up
Industrial stock prices	Up	Up(July)	Up
New orders—durable goods	Up	Up(May)	Up
Residential building	Down	Up(June)	Down(?)
Com. and industrial bldg.	Up	Up(June)	Up
Avg. hours worked	Up	Down(June)	Up
New incorporations	Level	Up(June)	Up(?)
Whole. prices, 22 commod.	Level	Up(July)	Up(?)
Roughly Coincident			
Freight carloadings	Up	Down(June)	Up
Employment in nonagri. estab.	Up	Down(June)	Up
Bank debits outside N. Y. C.	Up	Up(June)	Up
Industrial production	Up	Up(June)	Up
Whole. prices excl. farm prod. and foods	Level	None(July)	Up
Gross national product	Up	Up(2'55)	Up
Unemployment*	Up	Up(June)	Up
Corp. prof. after taxes	Up	Up(1'55)	Up
Lagging			
Personal income	Up	Up(May)	Up
Manufacturers' inventories	Level	Up(May)	?
Retail sales	Up	None(June)	Up
Bank rates	Up?	Up(2'55)	Up?
Consumer install. debt	Up	Up(May)	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.



SUPPLY

Industrial Production

We estimate the July index of industrial production adjusted for seasonal variation and long-term trend to be 115, compared with 114 (revised) for June, 104 for July 1954, and 120 for July 1953. (Defense expenditures in 1953 were at a monthly average rate of more than $1,000,000,000 greater than those for 1955.)

Unadjusted for long-term trend, but adjusted for seasonal variation, the index is estimated at 261 (1935-39=100), compared with 257 (revised) for June and with 228 for July 1954, and 254 for July 1953. The index increased 32 points from September 1954 to its present alltime record.

In the accompanying table we show the major components of the Federal Reserve Board index of industrial production for the months of June 1953, 1954, and 1955. Although the entire index is more than 2 percent larger than that for June 1953, the durable-goods component of the index, influenced by the magnitude of defense expenditures, is nearly 1 percent smaller. Clay, glass, and lumber was the only subcomponent of the durable-goods group that was larger in June 1955 than it was in the corresponding month of 1953. The nondurable-goods component was 6 percent larger in June 1955 than it was in July 1953. None of the subcomponents of this group was smaller for June 1955 than they were for June 1953. The subcomponent, chemicals and petroleum products, increased the most; the subcomponent, textiles and apparel, increased the least. The minerals component is at an alltime record, due principally to the larger production of bituminous coal and natural gas.

A midyear survey of the Commerce Department indicates that all major industries will have a record year. Measuring the trend of industrial production for 1955 is somewhat more difficult because the seasonal patterns in industry appear to be changing more than usual. The change is particularly great in the automobile industry, where annual model changeovers have been advanced about 2 months. This change materially affects production in allied industries.

It appears that the summer decrease in industrial production will be somewhat less than seasonal. The present level of the seasonally adjusted index may be overstated through faulty seasonal factors, in which event the seasonally adjusted index may decrease for some of the remaining months of 1955. However, if the seasonal factors prove to be correct, we should expect the index of industrial production adjusted for seasonal variation to trend slightly higher throughout the remainder of 1955.

COMPONENTS: FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION*
June 1953, 1954, and 1955

Component	*1953*	*1954*	*1955*
All Components	136	124	139
Manufactures	138	125	141
Durable manufactures	*154*	*135*	*153*
Primary metals	137	108	137
Metal fabricating	168	147	163
Clay, glass, lumber	124	118	138
Furniture and misc. products	135	120	132
Nondurable manufactures	*121*	*116*	*128*
Textiles and apparel	113	99	114
Rubber and leather products	113	107	127
Paper and printing	126	126	138
Chemicals and petroleum products	145	142	161
Food, beverages, tobacco	106	108	109
Minerals	119	114	122
Mineral fuels	119	115	122
Metal, stone, earth minerals	121	110	123

*Seasonally adjusted: 1947-49=100.

Latest Weekly Data: Selected Items

Steel-ingot production of 2,276,000 tons during the week ended July 23, as indicated by operations scheduled at 94.3 percent of capacity, compares with 2,202,000 tons during the preceding week and 1,550,000 tons during the corresponding week last year.

The New York Times seasonally adjusted index of lumber production was 101.0 for the week ended July 9, compared with 100.1 a week earlier and 64.1 for the corresponding week last year.

Electric-power production of 10,440,000,000 kilowatt-hours during the week ended July 16 compares with 9,759,000,000 kilowatt-hours for the previous week and 8,950,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 207,900 vehicles for the week ended July 16, compares with a total of 167,300 for the previous week and 130,800 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.	95	17	93	78	65	94*p*
Ingot prodn.—million tons	1.31	.26	1.67	1.44	1.55	2.28
Lumber						
New York Times Index	127*	42*	118*	65*	64*	101*
Electric Power						
Kilowatt-hours—billions	1.71	1.42	5.20	5.34	8.95	10.44
Automobiles						
Vehicles—thousands	113	46	121	156	131	208*p*

p Preliminary; *Holiday week

DEMAND

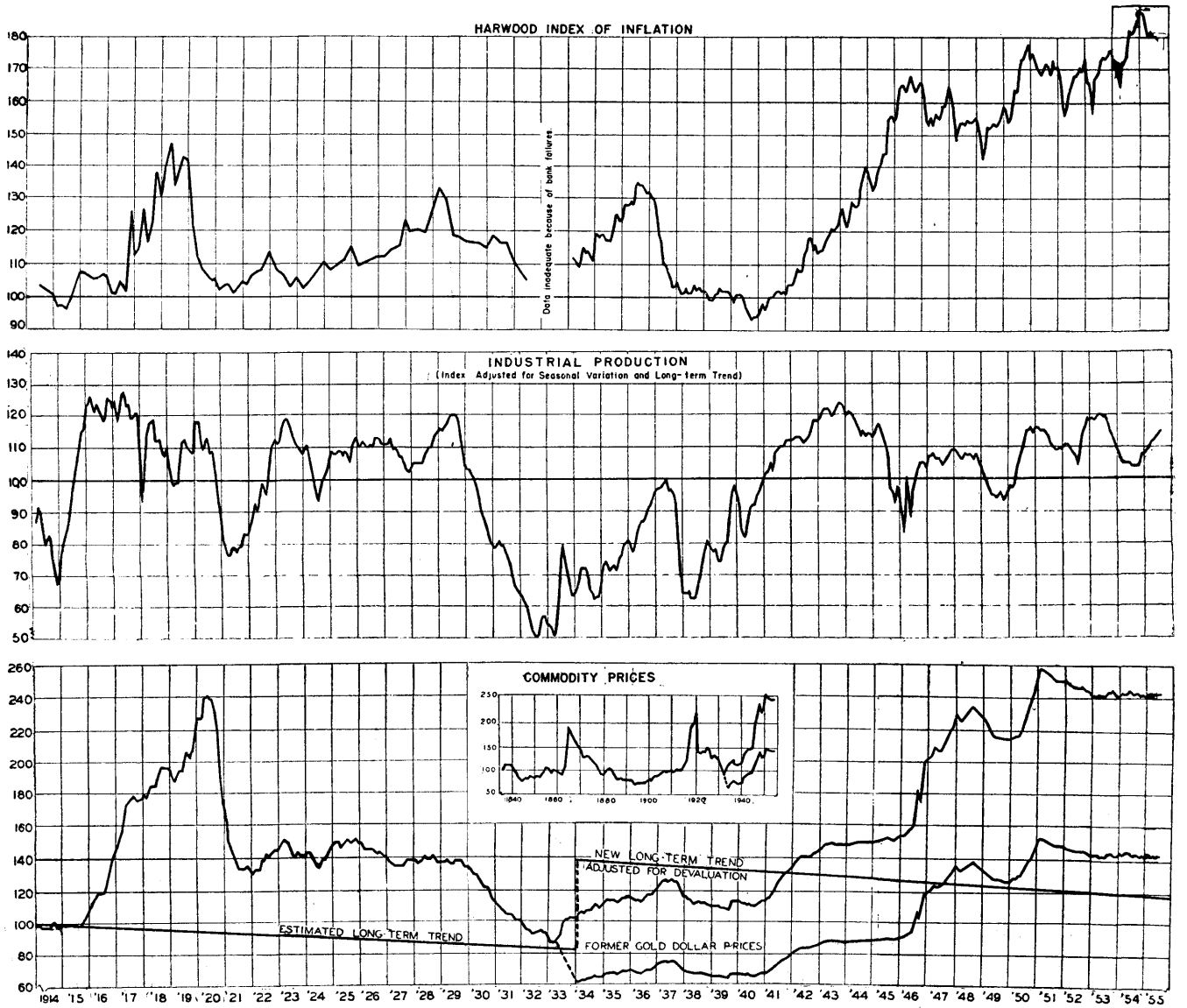
The Harwood Index of Inflation

We estimate the Harwood Index of Inflation for July at 182. At this level the index is 1 point more than the revised index for June and is the same as those for April and May. There is some question as to whether our preliminary figures for the index in recent months will have to be revised upward when we have final data that will enable us to estimate the amounts of currency hoarded and idle demand deposits more accurately. Within a few weeks we shall have a better basis for estimates.

The estimate for July reflects the expectation that, as a result of the Treasury's July financing, Treasury balances with the Federal Reserve and commercial banks will be somewhat larger at the end of the month, reflecting the transfer of bank deposits to the Treasury in payment for the securities.† The estimate is based also on reported results of the offering indicating that only a small part of the new securities has been placed with commercial banks.

Data are not yet available to indicate what part of the current $2,750,000,000 financing of the Treasury was absorbed by the commercial banking system. However, indications are that the amount was not large. The $2,000,000,000 issue of tax-anticipation certificates dated July 18 was, according to reports, bought largely by nonbank investors. And the more than 2-to-1 preference

†Such transfer of deposits causes the index of inflation to decrease, inasmuch as deposit balances of the Treasury with the Federal Reserve and commercial banks are not included in the total of active purchasing media.



given savings-type investors by the Treasury in its allotment of the $750,000,000 issue of 3-percent 40-year bonds indicates that the amount of this issue acquired by the commercial banks was likewise relatively small.

The Treasury's July financing was aided by repayments of certain large business loans and by somewhat larger purchases of Treasury bills by the Federal Reserve banks.

Since early in January, the commercial banks have disposed of $7,000,000,000 worth of Government securities. During the last 12 months the commercial banks have increased their loans on real estate by more than $3,000,000,000 and their "other loans," which category includes installment-credit loans, by nearly $3,000,000,000. These counter-balancing trends, whereby real-estate and installment loans are taking the place of Government securities in the banks' portfolios, have continued in recent weeks.

The trend toward moderately higher interest rates continues. The average rate on Treasury bills dated July 21 and maturing October 20 was 1.620 percent, compared with 1.606 the preceding week and 0.710 as the average rate in July 1954. However, the annual average rate on new issues of Treasury bills in 1953 was 1.931 percent.

Purchases by the Federal Reserve banks have prevented a further rise in the bill rate. Judging by these recent changes, we assume that the Federal Reserve Board has decided to make funds available for the seasonal expansion of loans through open market purchases rather than by means of further reductions in the reserves required.

The Treasury appears to have managed its July financing with a minimum of inflationary effect. Moreover, if the Federal Reserve continues its recent credit policy, the index of inflation probably will change little before the next new financing of the Treasury indicated for September or October. Present indications are that the increase in the index of inflation will be moderate during the remainder of this year, probably substantially less than the 15-point rise in the last 6 months of 1954.

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 16	+10
Four weeks ended July 16	+ 8
Year to date	+ 6

PRICES

Commodities at Wholesale

The Bureau of Labor Statistics index of wholesale prices for July is estimated as virtually unchanged from that for June and slightly less than that for July 1954. It has fluctuated within narrow limits since the end of 1952.

We estimate that the farm-products component of the index decreased 3 percent between mid-June and mid-July, the processed foods component decreased about 1 percent, and the component of the index that includes all other commodities increased one-half of 1 percent. Primarily responsible for the decrease in the farm-products component were decreases in the price of steers and decreases in the price of wheat; primarily responsible for the decrease in the processed-foods component was lower average prices for meats. Higher average prices for various metals, especially steel, were responsible for the rise in the remaining components of the index.

The Bureau's daily index of spot-market prices of 22 basic commodities advanced about 1 percent between mid-June and mid-July.§ The Dow-Jones daily index of commodity futures receded about 1 percent during that period.

Prices received by farmers decreased one-half of 1 percent during June; prices paid by farmers were virtually unchanged. The parity-price ratio was reported at 86, one point less than that for May and two points less than that for June 1954.

Higher wage rates and, increased worker benefits notably in the automobile and steel industries, may result in higher prices for some manufactured goods. However, it is too early yet to appraise the full price effects of this factor. Evidence to date suggests that these effects will differ widely among industries and among products of the same industry. In the steel industry, for example, announced price advances have varied widely among products. Thus demand and competition presumably will be the controlling factors in the extent to which higher wage costs are reflected in higher prices. In some industries, increased efficiency resulting from technological and other gains may tend to offset higher wage rates. One large steel producer has already reduced its recently announced advance in the price of hot-rolled strip from $14 to $10 per ton, giving as the reason for the reduction the failure of smaller producers to advance their prices for the product more than $10.

Apparently during July higher average prices among commodities other than farm products and foods have offset lower average prices for farm products and foods, resulting in an index virtually unchanged from that of June. If, as we now expect, there is some additional inflation this fall, commodity prices may remain near present relatively high levels.

Latest Daily Indexes

	1954	*1955*	
Index	*July 20*	*July 13*	*July 20*
Spotmarket, 22 commodities	281	280	277
Commodity futures	384	327	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.

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

Indexes of Production, Inflation, and Prices

	1954						*1955*						
	July	*Aug.*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*	*June*	*July*
Industrial Production	104	104	104	105	108	108	109	110	112	112*	113*	114*	115*
Inflation (Ratio Form)	179*	182*	181*	184*	185*	188*	187*	184*	180*	182*	180*	181*	182*
Commodity-Prices	243	243	242	241	242	241	242	243	242	243*	242*	243*	243*
Commodity-Prices§	144	144	143	143	143	142	143	144	143	144*	143*	144*	144*

§In terms of former gold dollars; *preliminary.