

AMERICAN INSTITUTE for ECONOMIC RESEARCH

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MASSACHUSETTS

WEEKLY
BULLETIN

August 8

1955

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Money Credit Restraints

During the past week, the Federal Housing Administration has reduced the maximum mortgage loan period from 30 to 25 years and has increased the required down payment on FHA mortgages slightly. In addition, several of the Federal Reserve banks have raised the rediscount rate to 2 percent from $1\frac{3}{4}$ percent, and one of them has raised its rate to $2\frac{1}{4}$ percent.

The 2-percent rediscount rate was reached last early in 1953 and was continued until early 1954. The 2-percent rate had not been exceeded since 1933, when a succession of half-point reductions had lowered the rate to that level late in the year. The subsequent low was $\frac{1}{2}$ of 1 percent during World War II. However, in earlier prosperous periods, the rediscount rate had ranged from 3 percent upward. The peak in 1920 was 7 percent and in 1929 was 6 percent.

These developments reflect efforts of the Government to restrain the current business boom, presumably in the hope both of prolonging it and of preventing a depression aftermath. However, the two $\frac{1}{4}$ of 1 percent increases since the 1954 low may be compared with three increases of $\frac{1}{2}$ of 1 percent each in 1928 and a further 1-percent boost in 1929. In other words, the raise in two steps from $1\frac{1}{2}$ percent to 2 percent is only one-fifth of the increase found necessary in 1928-29.

We still believe that the Federal Reserve Board has failed to act promptly and vigorously enough to restrain a potentially dangerous business boom. However, a few more months must elapse before we shall know whether or not our belief is well founded.

Congress Adjourns

The first session of the 84th Congress ended with the adjournment of Congress on August 2. Qualitatively, the record of this session is, perhaps, quite typical of congressional records; it is hardly conspicuously good or bad. In foreign and defense matters this Congress has supported the President staunchly; in domestic matters it has supported him qualifiedly in certain areas and opposed him in others.

Beyond the more or less routine appropriation bills, and excepting the controversial draft bill, the principal actions of this session of Congress have been in the realm of foreign relations. Most conspicuous of these actions was that concerning Formosa. Congress passed without opposition the resolution giving the President unqualified support in his discretionary handling of the crisis

that developed in the spring involving Formosa and the nearby offshore islands. The Senate ratified the Paris pacts involving West German sovereignty and the admission of that nation into NATO, the Austrian state treaty restoring Austrian independence, and the mutual defense treaty with the Chinese Nationalist regime. The Congress passed the Administration's bill extending for 3 years the Reciprocal Trade Act and permitting 5-percent reductions in tariffs in each of the years for which the act was extended. In conference the two houses agreed on an appropriation of \$2,703,000,000 for foreign aid. The amount is \$503,000,000 less than that requested by the Administration. According to *The New York Times*, however, "a good part of this will be made up because the Pentagon 'found' some \$302 million of former appropriations not obligated, which had become 'lost' in bookkeeping." Accordingly, Congress granted the Defense Department permission to use for foreign aid these funds that otherwise would have been returned to the Treasury.

Congress passed all regular departmental appropriation bills without drastic cuts. Likewise it passed a \$31,900,000,000 defense appropriation substantially as requested.

The military reserve bill was one of the most controversial bills passed in the last session of Congress, and the general dissatisfaction with the bill suggests that it may require early amendment. In the meanwhile the bill will permit a start toward building an Army combat reserve of 2,000,000 men. The bill proposed by the Administration would have provided for increasing the reserve to 2,900,000.

Congress supported the President by postponing scheduled reductions in corporation and excise taxes and rejected finally a proposed reduction of \$20 in personal income taxes. It went beyond the recommendation of the President in its passage of the \$1.00 minimum hourly wage rate compared with the 90c minimum recommended by the President.

In its final hours the Congress sent to the White House a controversial housing bill authorizing 45,000 new public housing units (the President's program had called for 35,000 units) to be built before July 31, 1956, and making certain changes in the administrative provisions of the Government's housing legislation.

Administration-sponsored legislation not acted upon by the Congress included, in addition to the President's road-building program:

1. His \$1,600,000,000 school-aid program,
2. His broad health program designed to foster private

- health insurance through Federal reinsurance,
 3. His request for statehood for Hawaii,
 4. His request for liberalization of the McCarran-Walter (immigration) Act.

Outstanding of the failures of Congress to implement the Eisenhower program was its failure to enact a highway-construction bill. The President's 10-year road-building program had been referred to in his message on the State of the Union and had been the subject of a special message to Congress on January 27, 1955. Nevertheless, an unresolved controversy in the House centered around the question of the method of financing the program. This controversy blocked more careful consideration of the features of the program itself and has delayed such a program for at least one year.

Conclusion

A long-range building program is of broad economic importance to the Nation, and it is hoped that Congress in its next session will make the development and passage of a soundly conceived and financed road program one of its first orders of business.

What the Indicators Say

The percentages of indicators expanding, as measured by the method of the National Bureau of Economic Research,* are $87\frac{1}{2}$, $87\frac{1}{2}$, and 100 for the leading, roughly coincident, and lagging groups respectively.

The annual rate of corporate profits after taxes is estimated to have increased 4 percent during the second quarter of 1955. Bank rates on business loans increased about one-half of 1 percent during the quarter.

During June new orders for durable goods decreased about 1 percent; consumer installment debt increased 1 percent.

During July the average of the Dow-Jones daily index of common-stock prices of 30 industrials increased nearly 5 percent; the average of the Bureau of Labor Statistics daily index of wholesale prices of 22 basic commodities increased 1 percent.

The *Iron Age* composite price of No. 1 heavy melting scrap for the week ended July 26 was \$41.50, compared with \$40.83 (revised) for the preceding week and \$27.33 for the corresponding week last year.

*This method of summarizing the cyclical status of each of the three groups of indicators was outlined in *Research Reports*, March 1, 1954. All the indicators are seasonally adjusted except corporate profits, bank rates, and the three price series.

The accompanying curves of indicators expanding point strongly toward further increases in general business activity. And, of the latest reported data, only the small decrease in orders for durable goods suggests any reason to question this generally favorable outlook.

SUPPLY *Industrial Production*

Steel-ingot production of 2,278,000 tons during the week ended August 6, as indicated by operations scheduled at 94.4 percent of capacity, compares with 2,190,000 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 109.3 for the week ended July 23, compared with 129.2 a week earlier and 63.7 for the corresponding week last year.

Electric-power production of 10,727,000,000 kilowatt-hours during the week ended July 30 compares with 10,620,000,000 kilowatt-hours for the previous week and 9,140,000,000 kilowatt-hours for the corresponding week last year.

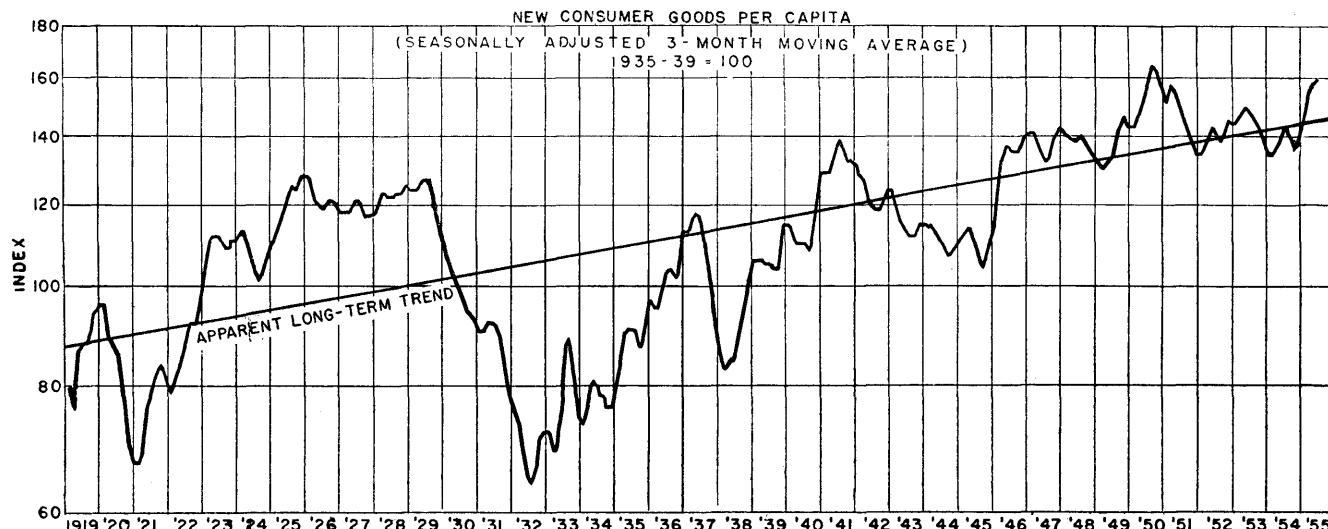
Automobile and truck production in the United States and Canada, estimated at 203,000 vehicles for the week ended July 30, compares with a total of 208,400 for the previous week and 130,500 for the corresponding week last year.

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	15	94	81	64	94p
Ingot prodn.—million tons	1.32	.23	1.69	1.49	1.52	2.28
<i>Lumber</i>						
<i>New York Times</i> Index	135	37	94	90	64	109
<i>Electric Power</i>						
Kilowatt-hours—billions	1.72	1.44	5.35	5.52	9.14	10.73
<i>Automobiles</i>						
Vehicles—thousands	123	34	113	138	130	203p
<i>p Preliminary</i>						

New Consumer Goods Per Capita

Our index of consumers' goods produced per capita increased during June to a point nearly 1 percent larger than the May level. This per capita index is 12 percent larger than that for May 1954 and 7 percent larger than that for June 1953. The index has advanced in each succeeding month for the last 8 months. In each of



these months it has also been higher than it was in the corresponding month of the previous year.

The rate of increase in June was less than the rates of recent months owing partly to a smaller rate of production in the auto industry and also to a smaller rate of increase in the construction of residential housing. The furniture and nondurable components, especially the heavily weighted components, textiles and food, increased slightly.

With the exception of a brief period in 1950 when manufacturers operated overtime to replenish shortages caused by the scare buying of the Korean War, a larger share of manufactures is being produced for the consumer than in any other recent period. Moreover, the consumer's disposition to spend appears to be taking goods off the market with, as yet, little apparent increase in inventories, with the exception of inventories of automobiles. Automobiles in dealers' hands on July 10 totaled 673,000. Although overall production of consumers' goods has not generally outstripped effective demand for these goods, the margin between their production and consumption may be increasing.

Of the major items of consumers' durable goods produced in May 1955, only gas and electric ranges, television sets, and home and personal goods were manufactured at rates less than those of May 1953. Production of washers, driers, and ironers increased more than production of any of the other classes of goods considered, as compared with both May 1954 and May 1953. Production of television sets increased least compared with production during May 1953.

Production of consumers' goods may level off or decrease somewhat during the period of changeover in the automobile industry to the 1956 models, especially if the recent slight tightening of credit terms on new housing has the expected influence. However, present indications are that a new record in the production of consumer goods may be seen before the end of the year.

DEMAND

Department-Store Sales

We estimate the seasonally adjusted July sales of the 325 department stores reporting to the Federal Reserve Board as exceeding those of June (revised) by nearly 2 percent and those of July 1954 by 8 percent. Moreover, sales of these stores in July are estimated to have exceeded by 4 percent those in July 1953, the previous July record. At no time in department-store history have sales been larger except for the two short scare-buying periods during the Korean War.

Department-store sales by weeks to date in 1955 have equaled or exceeded sales of each corresponding week of 1954, comparing Easter sales for weeks in a corresponding relationship to Easter. Beginning in the last quarter of 1954 department-store sales began to increase,

and sales of the first and second quarters of 1955 exceeded those of corresponding quarters in 1954 by 7 and 6 percent respectively. In comparison with results for 1953, a year when business activity and consumer income were comparable with those of 1955, the increases were 1 and 2 percent respectively for the first and second quarters. After July 1953, production started to decrease, and a comparison of the third quarters of 1954 and 1953 reveals little difference. The increasing industrial production of the fall of 1954 was followed by the largest 4th quarter and Christmas department-store sales of all time.

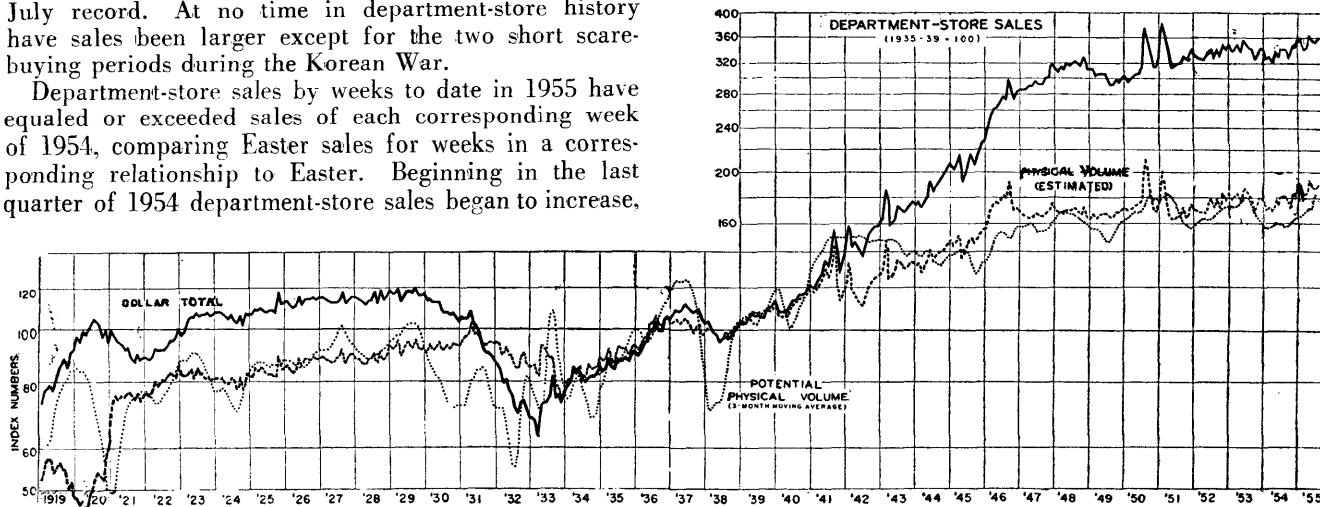
Speaking of prospects for the second half of 1955, Professor McNair, merchandising specialist at the Harvard Business School, is quoted by *The New York Times* as saying: "With increasing consumer income and stable prices, consumer spending is bound to enlarge. Every prospect is for substantially increased retail merchandise sales, probably chalking up a new volume record. Certainly an increase in Christmas business of 4 to 5 percent over last year seems a conservative estimate."

Retail prices of goods sold in department stores, according to our index of department-store prices, declined fractionally from 188 in May to 187 in June, compared with 189 in May 1954. This slight change is accounted for by decreases in retail prices of apparel and certain housefurnishings.

Our index of the physical volume of department-store sales (obtained by dividing the dollar total of sales by the price index) is estimated to have increased 1½ percent during July and is 6 percent larger than those for July of both 1954 and 1953.

Our index of the potential volume of department-store sales (which reflects physical production of goods sold in department stores) increased a little more than 2 points during June and is 13 percent larger than that for June 1954; it is about the same as that for June 1953. A greater increase in the potential volume of sales than in the index of physical volume of sales suggests that inventories of goods sold through department stores are now increasing (or are decreasing less rapidly).

About three-fourths of all goods sold in department stores may be classified as apparel or homefurnishings. The ratio of increase in the sales of homefurnishings, especially of household appliances, furniture, and linoleum, has been larger than that of textiles and apparel.



It is estimated that for the year to date sales of home-furnishings have increased 11 percent as compared with sales of the corresponding period last year; and that sales of all goods have increased about 6 percent.

Formerly department stores made installment credit available only on the higher priced items. Installment selling in department stores now includes items not formerly sold on an installment basis. This increased use of installment credit is reflected in indexes of charge-account and installment credit. From May 1954 to May 1955 the index for charge accounts increased 7 percent; that for installment sales increased 15 percent.

For all the reporting department stores in May 1955 cash sales accounted for 45, charge sales for 44, and installment sales for 11 percent of total sales. In May 1954 these percentages were 47, 43, and 10 respectively.

In view of the large department-store sales in July and the expected high level of industrial production during the next several months, we believe that retail sales of the department stores will be at least 5 percent larger in 1955 than the 1954 total.

Latest Weekly Data

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 30	+13
Four weeks ended July 30	+12
Year to date	+ 7

PRICES

Commodities at Wholesale

Index	1954		1955
	Aug. 3	July 27	Aug. 3
Spot-market, 22 commodities	278	278	277
Commodity futures	383	325	330

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

Manufacturers' Orders, Sales, and Inventories

New orders received by manufacturers, seasonally adjusted, increased less than 1 percent during June, when they were 26 and 13 percent larger than those of June 1954 and 1953 respectively.

The increase in new orders was greatest for nondurable goods. A \$300,000,000 increase more than offset a \$200,000,000 decrease in new orders for durable goods. Although new orders for durable goods (seasonally adjusted) decreased 1½ percent in June, they were still 46 and 16 percent larger than those in June 1954 and June 1953 respectively. New orders for nondurable goods in June were 13 and 10 percent larger than they were in June 1954 and 1953 respectively, and were at an alltime record.

Manufacturers' sales (shipments) seasonally adjusted increased 2 percent during June, when they were 12 and 7 percent larger than those of June 1954 and June 1953 respectively. Durable-goods sales exceeded those of May by 2 percent and were 19 and 5 percent larger than they were in June of 1954 and 1953 respectively. Non-durable-goods sales exceeded those of May by 2½ percent and were 12 and 9 percent larger than those of June 1954 and June 1953 respectively.

Manufacturers' unfilled orders (not seasonally adjusted) increased about 1½ percent during June to \$49,300,000. At this amount they were less than 1 percent smaller than they were in June 1954. Unfilled orders for durable goods were 1 percent more than they were in May and 1½ percent less than they were in June 1954. The backlog of unfilled nondurable-goods orders in June was 10 percent larger than that in May and 10 percent larger than that in June 1954.

Manufacturers' inventories seasonally adjusted equalled \$43,700,000,000 at the end of June. At this level they were practically unchanged from those of the previous month and about 1 and 5 percent less than those of June 1954 and June 1953 respectively. Inventories of both durable and nondurable goods were smaller than they were in June 1954.

The ratio of manufacturers' inventories to sales (both seasonally adjusted) is 1.61, compared with 1.64 (revised) in May. It is the smallest ratio since early in 1951. In June 1954 the ratio was 1.89. The ratio for durable goods decreased from 1.83 to 1.81 during June; that for nondurable goods decreased from 1.44 to 1.42.

The present small ratio of manufacturers' inventories to sales may tend to increase during the next several months. However, we see no indication as yet of a sharp increase in the ratio. The latest data for new orders and unfilled orders suggest that industrial production will increase further in the next few months.

