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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Statistical Indicators of Business-Cycle Changes

Changes in the statistical indicators since the last monthly bulletin do not alter the predominantly favorable outlook previously reported. There seems to be little reason to attribute particular significance to 4 *downs* among the 7 of these most recent changes reported for the 8 leading indicators. In May of this year 6 of the currently reported changes were *down;* in June the number was 2, and last month it was 2. Neither of the 2 *downs* reported last month was for any of the 4 indicators for which the most recent data are *down.* The latest reported change and the status of each indicator are given in the accompanying table; the monthly data for the leading indicators are plotted on the accompanying chart.*

Latest Data: Leading Indicators

During July liabilities of business failures decreased thereby causing our inverted index to increase to its level for May; the number of new incorporations decreased about 8 percent; the total of contract awards for residential building, as measured in floor space, is estimated to have increased nearly 5 percent; the total contract awards for commercial and industrial building is estimated to have increased 7 percent; there was no change in the average number of hours worked per week in manufacturing.

The Dow-Jones daily index of 30 industrial stock prices moved counter to its upward trend and decreased about 1 percent during the first 15 trading days of August.

The apparent recent trends of this group remain unchanged with 5 indicators classified *up,* 2 *level,* and 1 *down.* The cyclical statuses of the group are the same as those for last month, except that one *up* (?) has been changed to *up,* making 6 indicators in this category. One indicator is classified *down* (?); another, *up* (?).

Latest Data: Roughly Coincident Indicators

Freight carloadings increased about 1 percent in July; employment in nonagricultural establishments increased slightly in July; wholesale prices excluding farm products and foods increased slightly in August; corporation profits after taxes increased about 4 percent in the second quarter.

The apparent recent trends of this group remain unchanged, with 7 indicators *up* and 1 *level.* The cyclical statuses of all indicators in the group remain *up.*

Latest Data: Lagging Indicators

Retail sales increased about 1 percent in July; bank rates on business loans increased slightly in the second quarter.

The apparent recent trend of bank rates has been changed from *up* (?) to *up.* After this change, the apparent recent trends of 4 indicators in this group are *up* and the trend of one is *level.* The cyclical status of manufacturers' inventories has been changed from ? to *up;* that of bank rates from *up* (?) to *up,* making the cyclical statuses of all indicators in this group *up.*

Conclusion

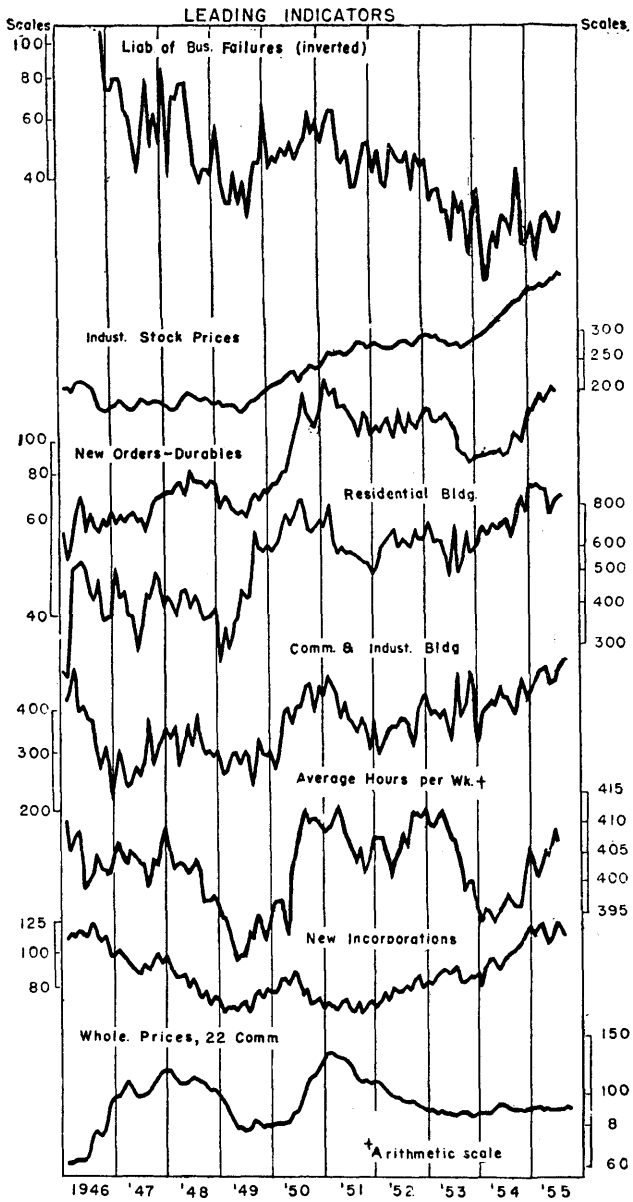
The overall position of the indicators remains strongly favorable. Until at least a few of the leading indicators turn downward, further expansion of business activity will be probable.

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	Up(July)	Up
Industrial stock prices	Up	Down(Aug.)	Up
New orders—durable goods	Up	Down(June)	Up
Residential building	Down	Up(July)	Down(?)
Com. and industrial bldg.	Up	Up(July)	Up
Avg. hours worked	Up	None(July)	Up
New incorporations	Level	Down(July)	Up
Whole. prices, 22 commod.	Level	Down(Aug.)	Up(?)
Roughly Coincident			
Freight carloadings	Up	Up(July)	Up
Employment in nonagri. estab.	Up	Up(July)	Up
Unemployment*	Up	Up(July)	Up
Bank debits outside N. Y. C.	Up	Down(July)	Up
Industrial production	Up	Up(July)	Up
Whole. prices excl. farm prod. and foods	Level	Up(Aug.)	Up
Gross national product	Up	Up(2'55)	Up
Corp. prof. after taxes	Up	Up(2'55)	Up
Lagging			
Personal income	Up	None(June)	Up
Manufacturers' inventories	Level	Up(June)	Up
Retail sales	Up	Up(July)	Up
Bank rates	Up	Up(2'55)	Up
Consumer install. debt	Up	Up(June)	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; all latest data are preliminary.



DEMAND

The Harwood Index of Inflation

We estimate the Harwood Index of Inflation for August at 202.

In the regular discussion of this index last month and in the special article, "Inflation From Concealed Sources," two weeks ago we indicated that upward revisions of the index for recent months would be necessary. The revised figures are shown tentatively as a broken line on the accompanying chart. Until all computations incidental to the revisions become final, we shall continue to show the revised data by a broken line.

The trends of the revised and unrevised lines are similar except during the last few months. Obviously, the extent of the inflation from early 1953 to late 1954 was even greater than our first estimates had indicated. Moreover, in the last few months the index has reached new high levels. Without doubt, these money-credit developments have made possible the rapidity and extent of the upturn in business that apparently still continues.

The commercial banks have disposed of Government securities on a very large scale since last December, when a peak, about $70,000,000,000, was reached. As of mid-August, we estimate that such holdings totaled only $62,500,000,000. During the same period, the Federal Reserve banks reduced their holdings of Government securities by nearly $1,000,000,000. Had there not been counterbalancing developments, such an extensive liquidation of their security holdings by the commercial banks would have resulted in marked deflation.

Incidentally, in spite of the great reduction in the Government security holdings of the commercial banks, such assets still total about $4,300,000,000 more than the figure for May 1953, the postwar low. Thus the large purchases that accompanied the Federal Reserve Board's easy-money policies adopted in mid-1953 have been about two-thirds liquidated. Also of interest in this connection is the fact that the commercial banks now have only two-thirds the total of Government securities held at the alltime peak reached in February 1946.

The counterbalancing factors within the commercial banking system that have resulted in more inflation rather than some deflation during recent months (since last December) have been the following:

1. Additions to the banks' investment-type assets consisting of:
   a. An increase of $2,200,000,000 in real-estate loans.
   b. An increase of nearly $2,300,000,000 in "other loans," largely loans to consumers.
   c. An increase of nearly $1,000,000,000 in loans to finance companies; that is, in indirect loans to consumers.
2. A decrease of about $4,400,000,000 (based on preliminary estimates) in the purchasing media hoarded either in the form of hoarded currency or idle demand deposits.

The increase in the investment-type assets plus withdrawals from hoards (as listed above) totals almost $10,000,000,000 and is about $2,400,000,000 more than the decrease in the banks' holdings of Government securities. During the same period there was an increase of only $300,000,000 in the savings-type liabilities (primarily reflecting funds placed with the banks as time deposits). Consequently, more than $2,000,000,000 of the increase in the investment-type assets, etc., resulted in an increase of that amount in the inflationary purchasing media.

Unfortunately, we have little basis for estimating how much more of the purchasing media still held idle may be used during the next several months. A continuation of the withdrawals from hoarding seen during the past eight months (see item 4, above) seems improbable but presumably is not impossible.

Moreover, we have no clue as to whether or not the commercial banks will continue to reduce their holdings of Government issues. Although the Federal Reserve banks increased their holdings of Government securities by nearly $600,000,000 during July, about $160,000,000 worth were released in the first two weeks of August. Present indications are that the Federal Reserve banks will make additional purchases during the next several weeks in order to prevent a serious credit pinch during the seasonal peak of demand, but the commercial banks apparently still will be under some pressure to sell their Government issues in order to reduce their borrowings from the Federal Reserve banks.

The Treasury's cash receipts will be augmented substantially this fall, as compared with last year's figures, by the taxes withheld on payrolls increased by wage raises and greater employment. In addition, 10 percent, perhaps $2,000,000,000, more or less of taxes on 1955 corporate incomes will be payable in two installments, in September and December. We assume that the Treasury's cash deficit will be much less in the last 4 months of 1955 than it was in the corresponding months of 1954. Then it was nearly $4,000,000,000, but this year it may be more nearly $1,000,000,000. Consequently, little or no additional inflation is probable during the remainder of this year as a result of Treasury operations.

Any additional inflation during the remaining months of 1955 presumably will be derived from increases in the 4 items enumerated above plus purchases or minus sales of Government securities by the commercial banks. We still expect some additional inflation during the remainder of 1955, but it may not be substantial.

Especially important is the possibility that the upward trend in both real-estate and installment lending may "taper off" next winter and spring at a time when the Treasury presumably will have a large cash surplus for several months. Unless increasing speculation in stocks or in business inventories serves as a new source of inflationary purchasing media, marked deflation may occur early in 1956. That could be the beginning of the most severe deflationary readjustment since 1937.

Department-Store Sales

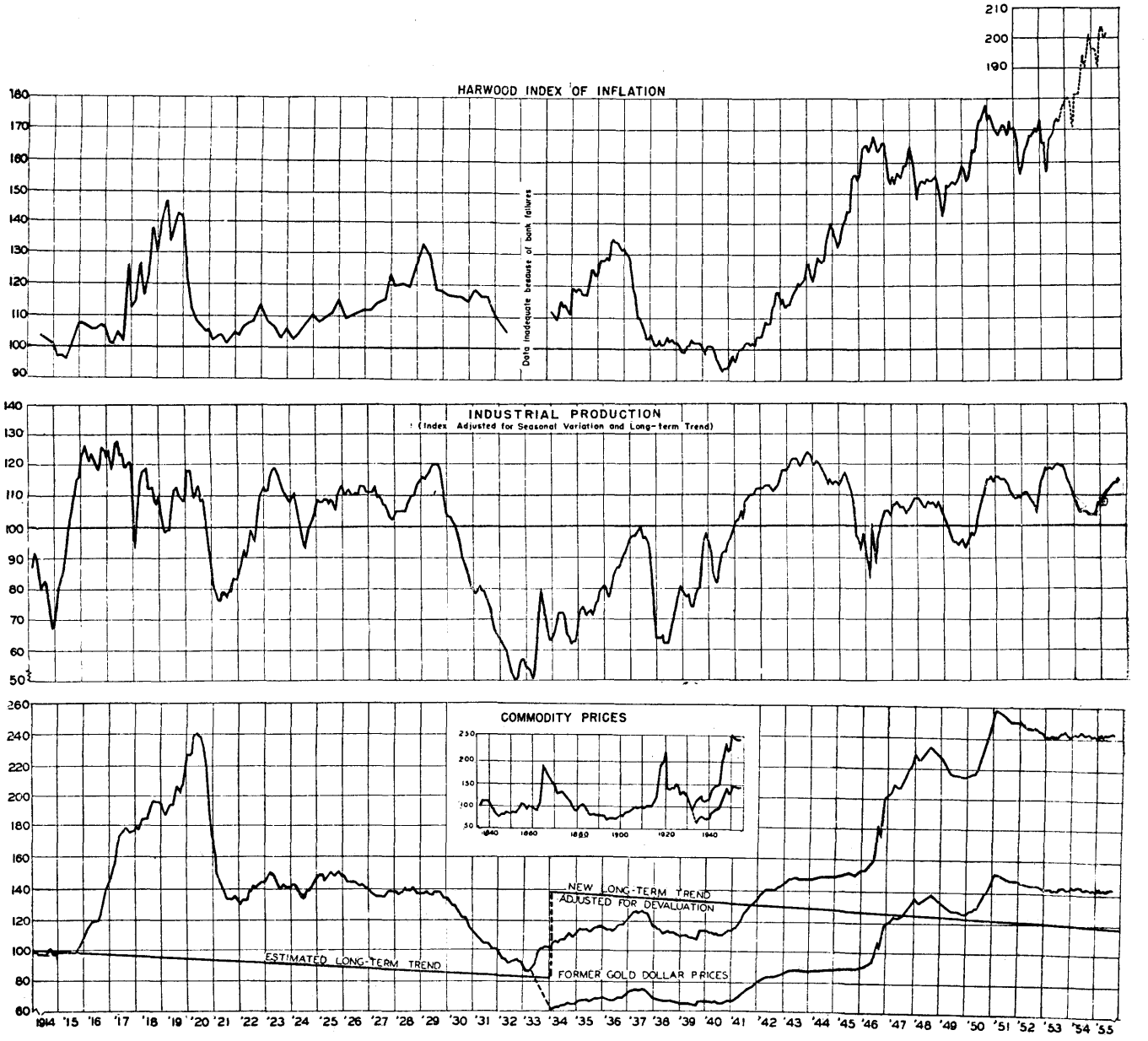
Sales of the 325 department stores reporting to the Federal Reserve Board compare with those of correspond periods a year ago as follows:

Period	*Percent Change*
Week ended August 20	+6
Four week ended August 20	+7
Year to date	+6

SUPPLY

Industrial Production

We estimate the index of industrial production adjusted for seasonal variation and long-term trend, to be



115 for August, compared with 114 (revised) for July and 104 for August 1954.

Unadjusted for long-term trend, but adjusted for seasonal variation, the index for August is estimated to be 261, compared with 259 (revised) for July and 228 for August 1954.

In the accompanying table we show the components of the Federal Reserve Board's index of industrial production for June and July 1955. The table reveals that during July the manufactures component of the index increased 2 points, but that the minerals component decreased 1 point. Strikes in the copper industry decreased production of the primary form of this metal in July to about one-third of its production in June. Thus the smaller output of primary copper in July was an important factor in the 1-point decrease in the minerals component of the index and the 8-point decrease in the subcomponent, metal, stone, and earth minerals.

In the manufactures component, changes in the nondurable-manufactures group were mixed; only chemicals and petroleum products, which increased, changed as much as 2 points. The increase in the durable manufactures group reflected primarily the increase in the metal fabricating component of the index. According to preliminary data, production of automobiles and automobile parts accounted largely for the increase in the component metal fabricating. Thus the gain in the index of industrial production for July is attributable largely to the production of automobile and automobile parts.

Although we estimate that the index of industrial production will increase one point in August, the index appears to be reflecting some hesitation in industrial activity more or less usual at this time of the year. However, we still believe that the index will register further gains before the end of the year.

Latest Weekly Data: Selected Items

Steel-ingot production of 2,206,000 tons during the week ended August 27, as indicated by operations scheduled at 91.4 percent of capacity, compares with 2,176,000 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 112.6 for the week ended August 13, compared with 108.2 a week earlier and 63.6 for the corresponding week last year.

Electric-power production of 10,812,000,000 kilowatt-hours during the week ended August 20 compares with 10,729,000,000 kilowatt-hours for the previous week and 9,210,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 169,100 vehicles for the week ended August 20, compares with a total of 175,800 for the previous week and 122,100 for the corresponding week last year.

These data compare with those of corresponding weeks of earlier years as follows:

	1929	*1932*	*1948*	*1949*	*1954*	*1955*
Steel						
Operating rate—percent cap.	90	15	96	85	64	91*p*
Ingot prodn.—million tons	1.24	.23	1.73	1.56	1.52	2.21
Lumber						
New York Times Index	131	36	96	87	64	113
Electric Power						
Kilowatt-hours—billions	1.73	1.43	5.39	5.58	9.21	10.81
Automobiles						
Vehicles—thousands	116	25	113	149	122	169*p*

***p* Preliminary**

COMPONENTS: FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION*

June and July 1955

Component	*1955 June*	*1955 July*
All Components	139	140
Manufactures	141	143
Durable manufactures	*155*	*157*
Primary metals	142	139
Metal fabricating	163	168
Clay, glass, lumber	142	143
Furniture and misc. products	134	135
Nondurable manufactures	*127*	*128*
Textiles and apparel	112	111
Rubber and leather products	126	125
Paper and printing	138	138
Chemicals and petroleum products	160	162
Foods, beverages, tobacco	109	109
Minerals	123	122
Mineral fuels	123	124
Metal, stone, and earth minerals	123	115

*Seasonally adjusted; 1947-49=100.

PRICES

Commodities at Wholesale

The Bureau of Labor Statistics index of wholesale prices is estimated to have decreased slightly during August to a figure a little below that for August 1954.

We estimate that the farm-products component of the index decreased nearly 2 percent between mid-July and mid-August, that the processed-foods component decreased 1½ percent, and that the component of the index that includes all other commodities increased slightly. Primarily responsible for the decrease in the farm-products component were decreases in the prices of cocoa, corn, and hogs; primarily responsible for the decrease in the processed-foods component were lower average prices for meats. Higher prices for copper and steel scrap and for rubber more than offset lower prices for textile products, especially wool tops, among the remaining components of the index.

The Bureau's daily index of spot-market prices of 22 basic commodities and the Dow-Jones daily index of commodity futures both receded 2½ percent between mid-July and mid-August.

Prices received by farmers decreased 2 percent from mid-June to mid-July; prices paid by farmers decreased slightly. The parity-price ratio was reported at 84, two points less than that for June and four points less than that for August 1954.

Higher prices for certain basic metals, (notably steel scrap, finished steel and copper), and other materials may more than counterbalance the effect of expected decreases in prices for farm and food products, and probable strong pressures for lower prices reflecting intense retail competition for the consumer's dollar.

Latest Daily Indexes

Index	*1954 Aug. 24*	*1955 Aug. 17*	*1955 Aug. 24*
Spot-market, 22 commodities	281	274	274
Commodity futures	369	319	321

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.

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