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## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *Statistical Indicators of Business-Cycle Changes*

Since our last monthly bulletin only one change has been made in either the apparent recent trends or current cyclical statuses of the statistical indicators. The apparent recent trend of a leading indicator, commercial and industrial building, was changed from *up* to *up* (?).\*

#### *The Leading Indicators*

Liabilities of business failures, as reported by Dun and Bradstreet, decreased during September, with the result that our *inverted* index increased to 29 from 26. This compares with a September 1954 index of 26. Contract awards for residential building, as measured by floor space, are estimated to have decreased about 1 percent, after having decreased about 15 percent during August. Contract awards for commercial and industrial building increased about 14 percent, after having decreased about 25 percent during August. The number of new incorporations changed little from that reported for August.

#### *The Roughly Coincident Indicators*

The Bureau of Labor Statistics index of wholesale prices of commodities other than farm products and foods increased during September to 118 from 117 for August and is estimated to be unchanged for October. The annual rate of gross national product increased nearly 2 percent during the third quarter of this year to a record total, after having increased 2½ percent during the preceding quarter.

#### *The Lagging Indicators*

No data more recent than those already reported in our weekly bulletins have become available for any of the lagging indicators.

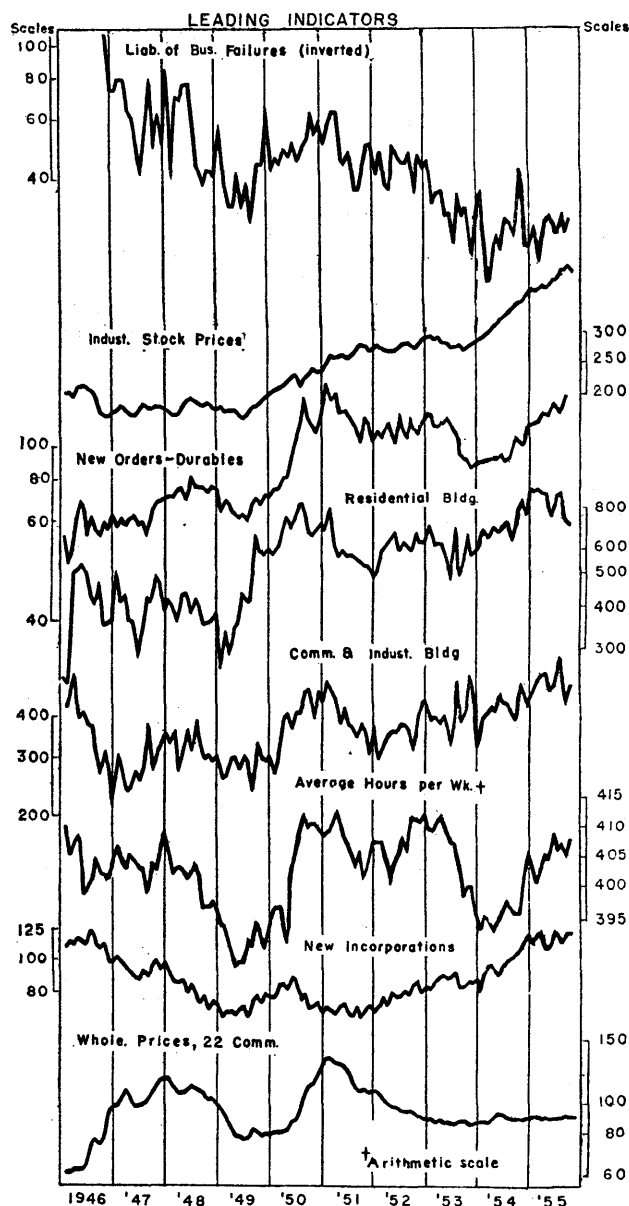
#### *Steel Scrap*

The *Iron Age* composite price of No. 1 heavy melting steel scrap for the week ended October 18 was unchanged from that for the preceding 3 weeks at \$44.83, compared with \$33.00 for the corresponding week last year.

#### *Conclusion*

*The bringing into question of the apparent recent trend of commercial and industrial building as the only change since last month in either the apparent recent*

*trends or the current cyclical statuses of the indicators does not seem to alter the outlook they suggest. Accordingly we repeat our conclusion of last month, "we see no indication of a reversal of the current upward trend of business activity for several months, at least."*



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

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(Sept.)	Up
Industrial stock prices	Up	Down(Oct.)	Up
New orders—durable goods	Up	Up(Aug.)	Up
Residential building	Down	Down(Sept.)	Down
Com. and industrial bldg.	Up(?)	Up(Sept.)	Up
Avg. hours worked	Up	Up(Sept.)	Up
New incorporations	Level	None(Sept.)	Up
Whole. prices, 22 commod.	Level	None(Oct.)	Up(?)
<i>Roughly Coincident</i>			
Freight carloadings	Up	None(Sept.)	Up
Employment in nonagri. estab.	Up	Up(Sept.)	Up
Unemployment*	Up	Up(Sept.)	Up
Bank debits outside N.Y.C.	Up	Down(Sept.)	Up
Industrial production	Up	Up(Sept.)	Up
Whole. prices excl. farm prod. and foods	Up	None(Oct.)	Up
Gross national product.	Up	Up(3'55)	Up
Corp. prof. after taxes	Up	Up(2'55)	Up
<i>Lagging</i>			
Personal income	Up	None(Aug.)	Up
Manufacturers' inventories	Up	Up(Aug.)	Up
Retail sales	Up	Up(Sept.)	Up
Bank rates	Up	Up(2'55)	Up
Consumer install. debt	Up	Up(Aug.)	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.

SUPPLY

Industrial Production

We estimate the index of industrial production, adjusted for seasonal variation and long-term trend, to be 115 for October, unchanged from that for September. (The September index was revised upward one point.) In October 1954 and 1953 the average was 105 and 114 respectively. It is expected that industrial production during 1955 adjusted for long-term trend will have been exceeded only by that of 1929 and of the war years 1916-17 and 1943-44.

The October index unadjusted for long-term trend but adjusted for seasonal variation, is estimated at 263 (1935-39=100), compared with 261 for September and 233 for October 1954.

COMPONENTS: FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION\*

September 1954 and August and September 1955

Component	Sept. '54	Aug. '55	Sept. '55
All components	124	140	141
Manufactures	126	142	143
Durable manufactures	137	158	160
Primary metals	105	139	146
Metal fabricating	149	170	171
Clay, glass, lumber	124	140	141
Furniture and misc. pro.	123	136	136
Nondurable manufactures	115	125	125
Textiles and apparel	98	108	107
Rubber and leather prod.	103	119	119
Paper and printing	127	138	138
Chemicals and petroleum products	144	159	160
Food, beverages, tobacco	105	106	106
Minerals	108	120	121
Mineral fuels	109	121	120
Metal, stone, earth minerals	102	118	126

\*Seasonally adjusted; 1947-49=100.

The accompanying table compares the principal components of the index of production for September with those of August 1955 and September 1954. Most conspicuous of the changes revealed in the table is the gain in primary metals production and metal mining. The increased activity in these basic industries suggests that production in industries comprising other components of the index will be increased.

The *New York Times* of October 17, 1955, reports that a recent "spot check in the steel industry and among steel consumers \* \* \* uncovered no evidence of an industrial slow-up or hesitation." Steel ingot production is expected to exceed 10,000,000 tons this month breaking all previous records. Steel products continue to be generally in short supply and the concensus of opinion is that this condition will continue for some months at least. However, certain steel officials are reported to believe that automobile demand will not equal that expected by the automobile industry with the result that the supply of flat-rolled steel products will become less tight after the first of the year.

*The absence of any appreciable accumulation of industrial inventories, the large rate of new orders, the high level of consumer income, and generally favorable expectations among business men, seem to assure further gains in industrial production extending into 1956.*

Latest Weekly Data: Selected Items

Steel-ingot production of 2,370,000 tons during the week ended October 29, as indicated by operations scheduled at 98.2 percent of capacity, compares with 2,386,000 tons during the preceding week and 1,760,000 tons during the corresponding week last year.

The *New York Times* seasonally adjusted index of lumber production was 114.4 for the week ended October 15, compared with 100.2 a week earlier and 116.6 for the corresponding week last year.

Electric-power production of 10,644,000,000 kilowatt-hours during the week ended October 22, compares with 10,599,000,000 kilowatt-hours for the previous week and 9,030,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 165,880 vehicles for the week ended October 22, compares with a total of 130,780 for the previous week and 62,400 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.	80	20	99	9	74	98 <sub>p</sub>
Ingot prod.—million tons	1.10	.30	1.78	.16	1.76	2.37
<i>Lumber</i>						
<i>New York Times</i> Index	121	38	92	94	117	114
<i>Electric Power</i>						
Kilowatt-hours—billions	1.80	1.53	5.56	5.32	9.03	10.64
<i>Automobiles</i>						
Vehicles—thousands	82	10	123	143	62	166 <sub>p</sub>

DEMAND

The Harwood Index of Inflation

We estimate the Harwood Index of Inflation for October at 200. At this level the index is 3 points more than either the revised index for September or the index for October last year.

The estimated increase in the index during October is principally the result of seasonal financing operations

of the Treasury, announced September 29. This financing involved \$2,970,000,000 of 2¼ tax notes, dated October 11 and maturing June 22. Interim data indicate that a large part of the issue was absorbed, at least temporarily, by the commercial banks.

Although there has been no announced change in monetary policy of the Federal Reserve, and certainly there has been no reversal of policy, there have been suggestions in the last half of October that the Board may be "resting on the oars" of its tight-money policy. In any event, the Board chose to retain the 2¼-percent discount rate in mid-October, when the rate on 91-day Treasury bills increased to 2.33 percent.‡ Whatever may have been the Board's reason for not increasing the discount rate, almost immediately thereafter the bill rate decreased. Reflecting this decrease, bills offered by the Treasury on October 24 were sold at an average rate of 2.239 percent.

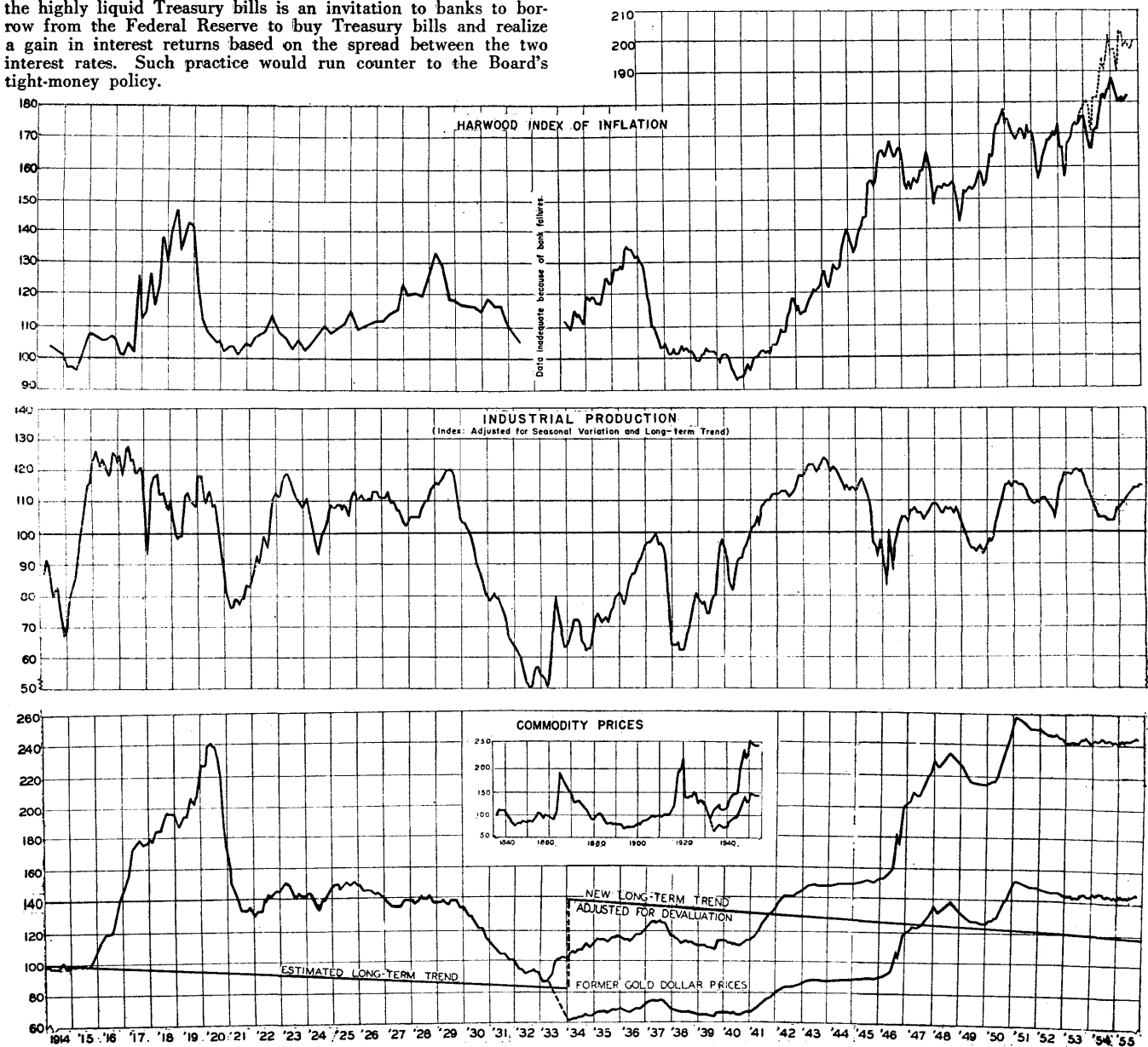
Coincident with the banks' purchases of a major portion of the October issue of tax notes was an interruption

‡A Federal Reserve bank discount rate less than the yield on the highly liquid Treasury bills is an invitation to banks to borrow from the Federal Reserve to buy Treasury bills and realize a gain in interest returns based on the spread between the two interest rates. Such practice would run counter to the Board's tight-money policy.

in the recent upward trend of real-estate loans. Real-estate loans of the commercial banks, which reached \$21,200,000,000 on September 27, decreased to \$20,500,000,000 on October 5 but increased slightly the following week. It is too early to tell what part of this decrease was effected in order to facilitate purchases of the October tax notes offered by the Treasury and what part if any was in response to the Federal Reserve's tight-money policy. In the 4 weeks ended October 12 the decrease in real-estate loans was \$480,000,000.

During this 4-week period loans of commercial banks on securities increased \$340,000,000 to \$4,600,000,000; "other loans" of the banks increased \$340,000,000 to \$1,775,000,000; Government security holdings increased \$1,818,000,000 to \$63,100,000,000. (Commercial bank holdings of Government securities a year earlier were \$70,100,000,000.)

*The index of inflation is expected to increase somewhat more as the Treasury's deposit balances, not counted in the total of purchasing media and still enlarged from the Treasury's October financing, are further re-*



duced, thereby adding correspondingly to the total purchasing media. Moreover, if the recent interruptions in either or both of the upward trends in bank loans on real estate and to finance companies prove to be short-lived, it is probable that the index will be at a record level by the year-end.

Note: The broken line on the accompanying chart shows the index computed with adjustments for both bank loans to finance companies and the latest changes in idle purchasing media.

For the period prior to that covered by the broken line, the solid line shows the index adjusted for idle purchasing media only; for the period subsequent to the introduction of the broken line, the solid line reflects the index without adjustment for either loans to finance companies or the latest changes in idle purchasing media.

### Mail-Order and Chain-Store Sales

September sales of 43 chain-store and mail-order firms exceeded those of the corresponding month a year earlier for the thirteenth consecutive month, and the gain was the largest for any month this year.

The September sales of these organizations was in excess of \$1,200,000,000 and equal to about 8 percent of the Nation's retail sales.

Sales of the first 9 months were more than 9 percent greater than those of the corresponding period 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 October 22	+8
Four weeks ended October 22	+9
Year to date	+7

## PRICES

### Commodities at Wholesale

The Bureau of Labor Statistics index of wholesale prices for October is estimated to have decreased slightly from the revised index for September to a figure nevertheless 1½ percent more than that for October 1954.

We estimate that the farm-products component of the index decreased about 2½ percent between mid-September and mid-October, that the processed-foods component decreased 1½ percent, but 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 coffee, corn, steers, and especially hogs; for the decrease in the processed-foods component, lower average prices for meats. By late October, hog prices were lower than they had been in 13 years. Price increases among the commodities in the remaining component offset price decreases.

The Bureau's daily index of spot-market prices of 22

basic commodities advanced one-half of 1 percent between mid-September and mid-October.† The Dow-Jones daily index of commodity futures receded 1½ percent.

Prices received by farmers increased 1 percent between mid-August and mid-September; prices paid by farmers decreased one-half of 1 percent. The parity-price ratio was reported at 85, one point more than that for August, but three points less than that for September 1954.

Statements of industrial leaders and others remind us that there are economic ceilings on prices. In commenting on the "easiness in some industrial materials," *The Journal of Commerce*, in its Weekly Commodity Report of October 26, said, "This is the first easiness in industrial materials in many, many months and is noteworthy for that reason if for no other. World demand for certain industrial materials appears to be leveling off after many months of steadily rising demand."

Copper and rubber stand out as commodities whose prices reacted in October after sharp advances in September. From 50 cents per pound in September, the highest in 80 years, copper prices have dropped to 43 cents. Similarly rubber prices, which advanced to 49⅞ cents per pound, have dropped to 44¼ cents.

In a speech given in early October before the Pennsylvania Newspaper Publishers' Association in Pittsburgh, Benjamin F. Fairless, Chairman of the Board of the United States Steel Corporation, pointed to the consideration given buyer reaction in setting prices of steel products. After explaining that prices were not arrived at simply by "adding up all costs, plus a markup for whatever profit the manufacturer wants," Mr. Fairless pointed out that "the all-important" and final question is "Will the customer buy our products at the prices we have in mind?"

*There are indications that prices of industrial products may have reached a temporary plateau. Moreover, many farm-product prices now reflect the impact of the 1955 crops, which suggests that farm-product prices have largely adjusted to the year's favorable harvests. Thus the outlook for all wholesale prices seems still to be for relatively little overall change as the rates of change in the opposing price trends of farm and industrial products diminish.*

### Latest Daily Indexes

Index	1954		1955	
	Oct. 26	Oct. 19	Oct. 26	Oct. 19
Spot-market, 22 commodities	278	275	271	
Commodity futures	357	319	318	

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											
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.		
Industrial Production	105	108	108	109	110	112	112	113	114	114*	114*	115*	115*		
Inflation (Ratio Form)	197*	202*	197*	196*	196*	190*	203*	202*	198*	200*	198*	197*	200*		
Commodity-Prices	241	242	241	242	243	242	243	242	243	243*	244*	245*	245*		
Commodity-Prices§	143	143	142	143	144	143	144	143	144	144*	144*	145*	145*		

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