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Statistical Indicators of Business-Cycle Changes

The accompanying table shows the latest change in each of the statistical indicators and our appraisals of their cyclical statuses in the current and 3 preceding months. Appraisals for the second and third preceding months are derived by the National Bureau of Economic Research method; appraisals for the current and first preceding months are derived by the American Institute for Economic Research method. The former involves the use of moving averages and for this reason has the disadvantage of yielding delayed results for some of the series. The latter, based partly on preliminary and estimated data, involves interpretative judgment but has the advantage of affording more nearly current results.

Movements of the leading, coincident, and lagging indicators since 1946 appear on the accompanying charts. All series except industrial stock prices and bank rates for business loans are seasonally adjusted.

N.B.E.R. Method

The percentage of leading indicators expanding in October was unchanged from 29 in September (revised), as the doubtful status of residential construction floor area offset the tentative small increase in the moving average of liabilities of business failures in October. Stock prices, average weekly hours, and prices of basic commodities continued to trend downward.

Among the roughly coincident indicators, the moving

MOVEMENT AND STATUS OF THE INDICATORS

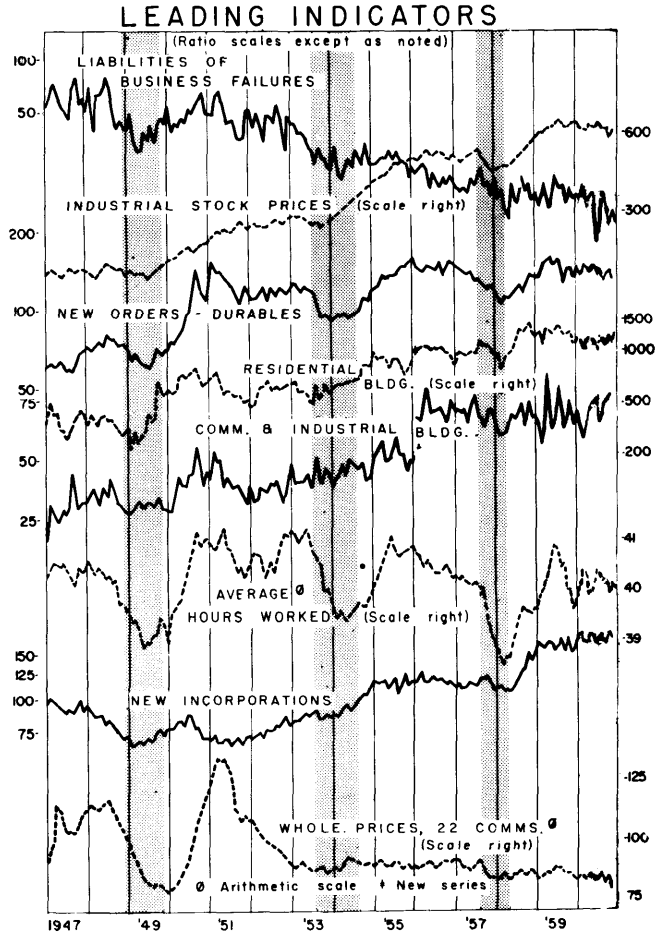
Group and Series	Latest Mo. or Quar. Change	Cyclical Status NBER Method Sept.	Oct.	AIER Method Nov.	Dec.
Leading					
Liab. of business failures*	−Nov.	−	+?	−	−
Industrial stock prices	+Nov.	−	−	−	−?
New orders—durable goods	−Oct.	−	?	−?	−?
Residential building	+Oct.	+	?	?	?
Com. and industrial bldg.	+Oct.	+?	+?	+	+
Avg. hours worked	−Nov.	−	−	−	−?
New incorporations		(temporarily omitted)			
Whole. prices, 22 commod.	−Dec.	−	−	−	−
Percent expanding		29	29	14	14
Roughly Coincident					
Freight carloadings	−Nov.	−	−	−	−?
Employment in nonagr. estab.	−Nov.	−	−	−	−?
Unemployment*	+Nov.	−	−	−	−?
Bank debits outside N.Y.C.	+Nov.	+	−	+	+?
Industrial production	−Nov.	−	−	−	−?
Whole. prices exc. farm & food	−Nov.	−	−	−	−?
Gross national product	−3rd	−	−e	−e	−e
Corp. prof. after taxes	−3rd	−	−e	−e	−e
Percent expanding		12½	0	12½	12½
Lagging					
Personal income	ncNov.	+	+	?	?
Manufacturers' inventories	−Oct.	−	−	−?	−?
Retail sales	−Nov.	+	+	+?	?
Bank rates	−3rd	−	−e	−e	−e
Consumer install. debt	+Oct.	+	+	+	+?
Percent expanding		60	60	40	20

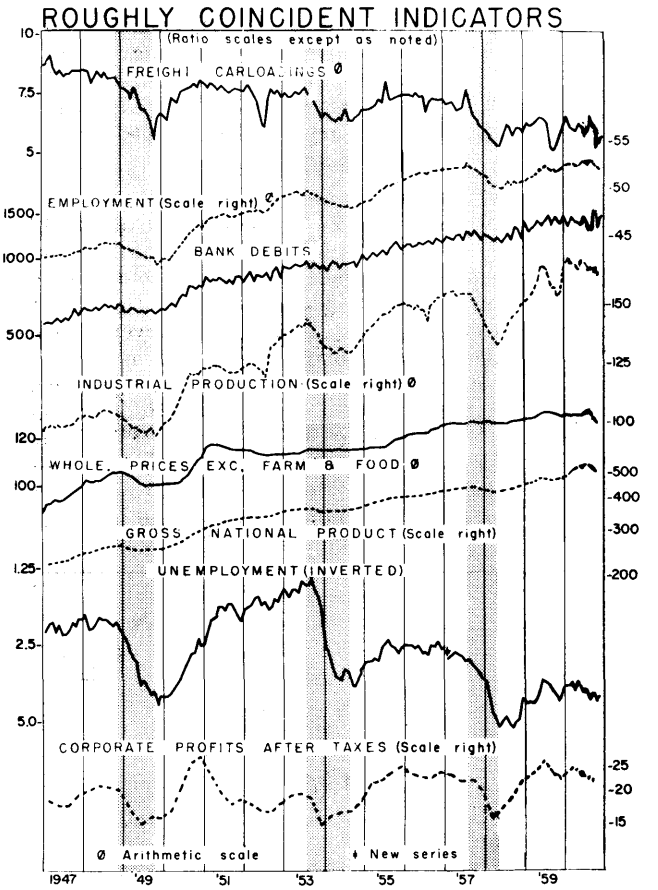
e Estimated.
nc No change.

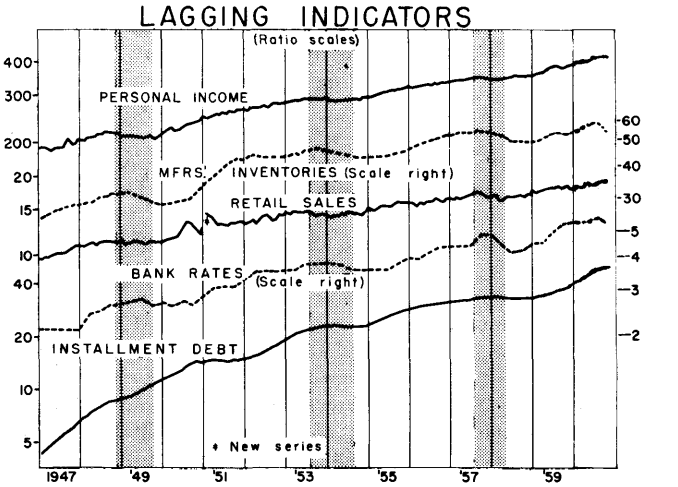
Note: A plus sign in the first column signifies an increase and, in the other columns, expansion in recent months; a minus sign, a decrease or contraction. The columns "Cyclical Status" show whether a series has been expanding, as determined by the National Bureau of Economic Research and the American Institute for Economic Research methods.

An asterisk signifies that the series is inverted. (A series that usually moves in a direction opposite to that of the prevailing business trend can be compared more readily with the other series if inverted so that its movements have a significance similar to that of corresponding movements of the other series.)

A question mark following a plus or minus sign indicates that the classification is doubtful; a question mark alone indicates that the status has not been determined.







average of the last of the 8 series, bank debits outside New York City, turned down in October, and the percentage of coincident indicators expanding decreased to 0. Three lagging series continued to expand in October, and the percentage of this group expanding remained unchanged at 60.

A.I.E.R. Method

The percentage of leading indicators expanding was unchanged at 14 from November to December, subject to possible later revisions. The roughly coincident indicators also remained unchanged at 12½, but an estimated decrease in personal income caused the percentage of lagging indicators expanding to decrease from 40 in November to 20 in December.

According to both methods of interpretation, the coincident indicators still portray the existence of a recession and the leading indicators still forecast its continuance.

* * * * *

The *Iron Age* composite price of No. 1 heavy melting steel scrap, not one of the indicators, was $28.50 per ton on December 20, unchanged from that on December 13.

PRICES

Commodities at Wholesale

The Bureau of Labor Statistics Index of Wholesale Prices for December is estimated at 262.9 (converted to 1913 base), slightly less than the index for November but one-half of 1 percent more than that for December 1959. Of the three components of the index, farm products decreased a little more than 1 percent, processed foods increased slightly, and nonagricultural commodities remained unchanged.

The Bureau's daily index of spot-market prices of 22 basic commodities, one of the leading indicators of business-cycle changes, was 1.5 percent less at mid-December than it was in mid-November and 2.7 percent less than it was a year earlier. The seasonally adjusted index decreased 1.9 percent between mid-November and mid-December. The Dow-Jones index of commodity futures decreased 1.4 percent between mid-November and mid-December to a level 5 percent below that of a year earlier.

On December 16 the index of 22 commodities decreased to the lowest level reached since March 22, 1950. This reflects worldwide price weakness in nearly all basic commodities. Increased supplies of lead and zinc resulting from the settlement of a prolonged strike contributed to decreases in the prices of those metals. The supply of most agricultural commodities would be excessive even under boom conditions. Moreover, the few commodities, such as jute, which are relatively scarce are facing increasing competition from synthetic substitutes. Increased supplies of mining and agricultural products of underdeveloped countries seeking industrial development are becoming increasingly important market influences. Furthermore, a slackening of business activity in Europe is tending to intensify foreign competition in the United States. This tendency has been noted in steel markets where prices of foreign steels are said to range from 10 to 30 percent less than those of American-made steels. Although price cutting in the form of discounts has been reported to be widespread among steel warehouses, as yet none has been reported at the mill level.

Further slackening in the rate of business activity probably will be accompanied by a spreading of price weakness from basic commodities to an increasing number of manufactured products.

Latest Daily Indexes

Index	*1959* *Dec. 21*	*1960* *Dec. 14*	*1960* *Dec. 21*
Spot-market, 22 commodities	254	250	250
Commodity futures	312	297	297

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.

DEMAND

The Harwood Index of Inflation

We estimate the Harwood Index of Inflation for December at 218, or 1 point more than the revised index for November. At this level the index would be 3 points more than that for December 1959.

INVESTMENT-TYPE ASSETS OF
THE COMMERCIAL BANKING SYSTEM
As of November 30, 1960
(Billions of dollars)

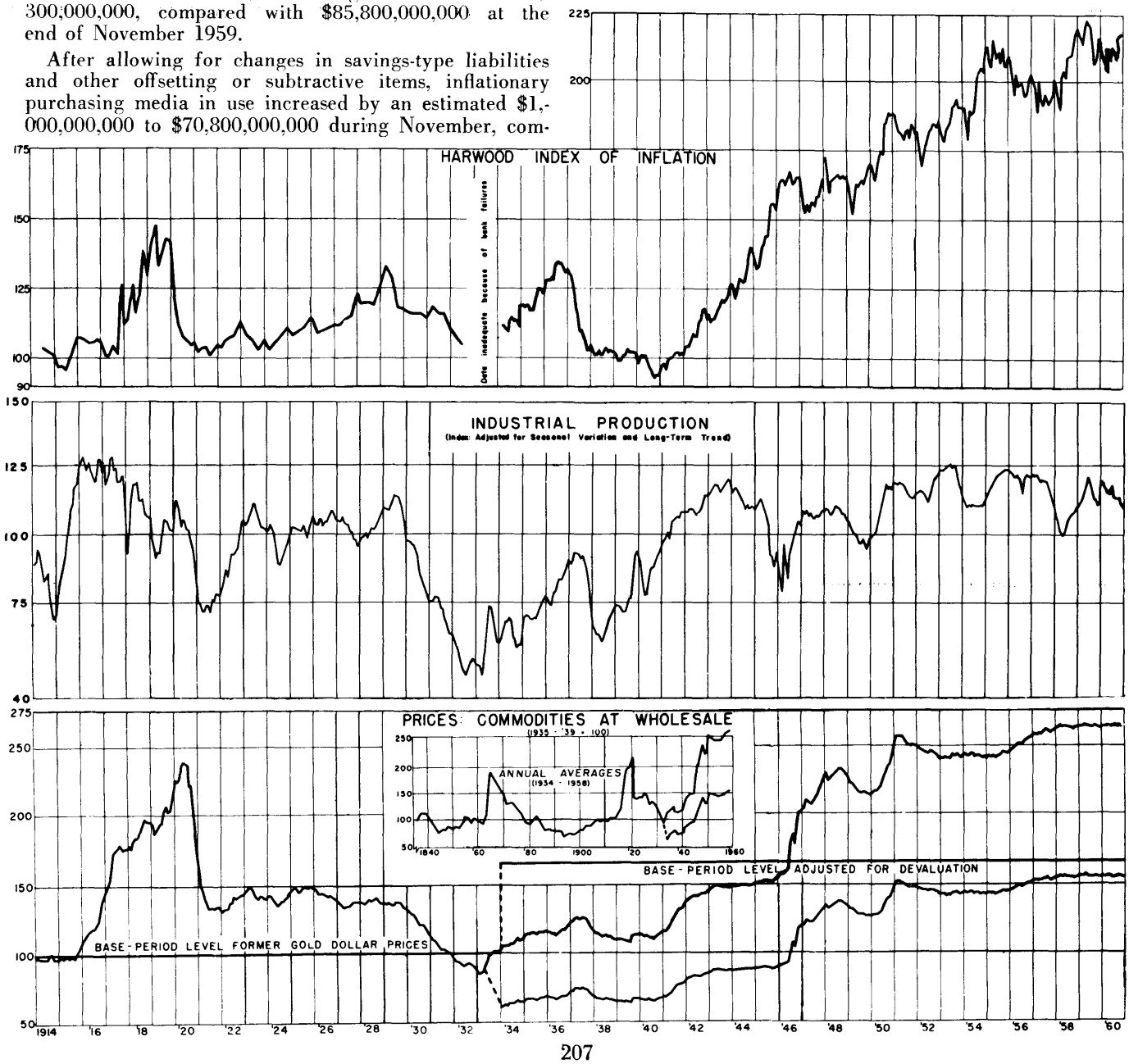
Classification	Amount Of Assets	Amount of Change Latest Month	Amount of Change Latest 12 Months
Government securities	87.5	+0.1	+2.4
Other securities	20.2	−0.2	−0.1
Real estate loans	28.0	0.0	+0.2
Security loans	4.2	0.0	0.0
Consumption loans	34.9	+0.2	+2.1
All other	4.0	0.0	+0.3
Total	178.8	+0.1	+4.9

During November, investment-type assets of the commercial banking system increased $100,000,000 to a total of $178,800,000,000, compared with $173,900,000,000 a year earlier.

Savings-type liabilities of the commercial banking system increased $200,000,000 during November to $92,300,000,000, compared with $85,800,000,000 at the end of November 1959.

After allowing for changes in savings-type liabilities and other offsetting or subtractive items, inflationary purchasing media in use increased by an estimated $1,000,000,000 to $70,800,000,000 during November, compared with $68,200,000,000 at the end of November last year. The effect on the index of the month's increase in inflationary purchasing media was augmented by a decrease of $900,000,000 in noninflationary purchasing media. (The index is the ratio of all active purchasing media to all noninflationary purchasing media.)

The possibility of a Federal deficit for the fiscal year 1961 was recently acknowledged by the Director of the Budget. Last January a $4,200,000,000 surplus had been anticipated. The developing recession, however, has decreased recent and prospective revenue, and that either the Government's spending will be reduced or that taxes will be increased seems unlikely. However, inasmuch as receipts from taxes during the next 6 months almost surely will exceed expenditures, deficit spending financed by further monetization of Government debt is improbable before the latter part of this year. If the present recession continues, deflation in the private sector of the economy is probable. As inflationary borrowings are repaid, the amount of inflationary purchasing media in use



could decrease far more than the increase of inflationary purchasing media due to possible Government deficit financing.

The usual tax-payment deflation early in 1961 may be augmented by liquidation of private debt previously monetized.

Department-Store Sales

Sales of department stores reporting to the Federal Reserve banks compare with those of corresponding periods a year earlier as follows:

Period	*Percent Change*
Week ended December 17	−4
Four weeks ended December 17	−3
Year to date	+1

SUPPLY

Industrial Production

We estimate the index of industrial production for December, after adjustment for seasonal variation and long-term trend, to be 109.* The estimated index is 1 point less than the index for November; it is 9 points less than the index for December 1959.

Industrial production in November was nearly 2 percent less than that in October; this decrease was the greatest of any month since the recession began. Production of both durable and nondurable goods, which accounts for about seven-eighths of all industrial production, was about 2 percent less in November than that in October. The rate of output of the mining industries and utilities remain unchanged from October to November. Decreases in production were general throughout the economy in all areas except business equipment and fuels, where rates of production were unchanged. Output of consumer goods decreased 1.5 percent, partly because of a decrease of 8 percent in the production of automotive products.

*The index is that of the Federal Reserve Board adjusted by the Institute for long-term trend; it should not be confused with the Board's index based on 1957=100. Thus adjusted, it is reported for the current and preceding months in the table at the bottom of the last page of this bulletin. For a discussion of United States industrial production, its measurement, and the method of estimating its long-term trend, see *Current Economic Trends*, pp. 14-17 ($1).

INDUSTRIAL PRODUCTION
FEDERAL RESERVE BOARD INDEXES
(Seasonally Adjusted: 1947-49=100)

Industry	*1959* *Nov.*	*1960* *Oct.*	*Nov. p*
INDUSTRIAL PRODUCTION—Total	156	162	159
Manufactures—Total	154	160	157
Durable	*156*	*165*	*161*
Nondurable	*157*	*159*	*158*
Mining	126	126	126
Utilities	274	295	295

p Preliminary.

Of the basic industries, the steel industry is perhaps the most depressed. Steel operations as a percent of capacity were projected for the last week of December at the lowest rate since the 1930's for a nonstrike period. Although some recovery from such a depressed rate seems probable in January and February, the rate of incoming orders for steel provides little indication of an early revival of industrial production generally.

We find no basis for expecting an early reversal of the downward trend of industrial production.

Latest Weekly Data: Selected Items

Production of steel, automobiles, lumber, and electric power (1) in the 1- and 4-week periods ended on the indicated dates in the current year and (2) in the corresponding periods of earlier years was as follows:

	1929	*1932*	*1957*	*1958*	*1959*	*1960*
Steel						
Ingots—million tons						
1 week: December 24	0.88	0.18	1.74	1.85	2.65	1.34*p*
4 weeks: December 24	3.64	0.87	7.19	7.87	10.78	5.53*p*
Automobiles						
Vehicles—thousands*						
1 week: December 17	33	33	175	168	182	164*p*
4 weeks: December 17	130	78	669	671	416	633*p*
Lumber						
New York Times Index						
1 week: December 10	130	35	118	136	142	118
4 weeks: December 10	123	35	117	130	139	114
Electric Power						
Kilowatt-hours—billions						
1 week: December 17	1.8	1.6	12.6	13.5	14.2	15.0
4 weeks: December 17	7.2	6.1	48.6	52.3	55.4	57.5

p Preliminary.
* Cars and trucks in the United States and Canada.

BOOK REVIEW

The Powerful Consumer by George Katona
McGraw Hill Book Company, Incorporated, 330 West Forty-second Street, New York 36, New York ($6.50)

This book analyzes the nature of consumer attitudes and expectations and postulates a causal relationship between these and changes in economic activity. Data collected by interviews made by the Survey Research Center of the University of Michigan since World War II provided the basis for the study.

The author contends that the influence of consumer sentiment on economic activity has been neglected. He believes that changes in consumer attitudes and expectations result in changes in willingness to buy, and therefore alter the direction of changes in demand. That the consumer's willingness to buy may diminish during a boom more or less independently of other factors controlling the business cycle and usher in a recession is a major thesis of the book. The author discusses the measurement of psychological tendencies and the conclusions that may be drawn from them.

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Indexes of Production, Inflation, and Prices

	1959	*1960*											
	Dec.	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*	*Dec.*
Industrial Production	118	120	118	117	117	118	117	116	115	113	113*	110*	109*
Harwood Index of Inflation†	215	216	212	206	213	208	204	212	211	207	213	217	218
Commodities at Wholesale	262	262	262	264	264	263	263	263	262	262	263	263*	263*
Commodities at Wholesale§	155	155	155	156	156	156	156	156	155	155	156	156*	156*

* Preliminary.
† All data reported are preliminary.
§ In terms of former gold dollars.