

Transition

The untimely death of President Kennedy is a grim reminder of the uncertainties of life, and the continual necessity for individuals as well as nations to be ready to adapt to new conditions and changing circumstances.

When a national leader of Mr. Kennedy's stature passes on and a new leader takes his place, even if the new man is of the same political party and has diligently sought to further the plans and attain the objectives of his predecessor, the course of events inevitably will change. To some extent at least, that course is certain to be re-directed from what it otherwise would have been, if for no other reason than differences in the temperaments and personalities of the two individuals.

Few people expect from President Johnson any sudden or marked digressions from President Kennedy's plans and intentions. This was borne out, soon after the assassination, in the remarks of competent reporters and news analysts and in the headlines of newspapers; for example, "New Chief Seen Keeping Kennedy Policies," and "Johnson Record Points to Continuity of Policy."

The assassination was in no way an attempt at a *coup d'etat*, as it might well have been in one or another of the Latin American countries. Instead of triggering revolution, or even stimulating opposition to the party in power, the tragedy evoked humane sentiments of grief and pity that tended to unify the American people rather than divide them. During a transition of the kind that the Nation has been experiencing, political differences seem of less than usual importance to many people.

Since the sudden tragedy, probably a majority of Americans have become more clearly aware of the stability inherent in their political institutions, particularly those related to the succession to the presidency and the continuity of governmental functions. Once again we perceive large in the background of events the beneficent influence of the Constitution, through the institutions and traditions that it has fostered. Of this influence an editorial in the *Wall Street Journal* of November 25 said:

"The institutions have survived, and so kept us free, not only because they are so well grounded in a wise fundamental law. Among the blessings we have inherited were men wise enough to write that law; they had that wisdom through their own high intellectuality, their sweep of history, their understanding of the prevalence of tyranny and the fragility of freedom."

In this basic way the country was prepared for the assassination of its President. The Vice President too was prepared. Mr. Johnson, like his predecessor in that office, Mr. Nixon, had been given many assignments and some responsibilities in acting for the President and in

representing him, especially in foreign countries. He was conversant with the problems that the President had to deal with, and apparently he was kept as fully informed as possible on plans and developments both domestic and foreign. Thus, not only was Mr. Johnson largely in accord with Mr. Kennedy, he also understood Mr. Kennedy's methods and purposes; and presumably he stood ready to continue them.

Nevertheless, no matter how intent the new President might prove to be in following the course set by the one now gone, he is a different individual. Mr. Johnson could not conceivably react identically to all situations and all new developments in the ways that Mr. Kennedy would have reacted. His personality, background, and training are different; he is to some extent conditioned by a geographically different culture and tradition. Yet the responsibilities of the Presidency are now entirely his, and undoubtedly he knows that he must meet them in his own best way. He has been criticized for being an astute politician, but his political skills could prove to be a national asset when adapted and applied to the Nation's international relationships.

Probably President Johnson will make as few changes as possible in high level personnel within the Government. With a presidential election less than a year away, in which presumably he will be a candidate, maintenance of the *status quo* as far as political appointments are concerned would probably be to his, and also to his party's, greater advantage.

Thus, although few major changes and new departures probably will be initiated by the new President, there are aspects of the national situation that are, for a time at least, beyond his influence. The event that brought him into office could have a depressing psychological effect that may result in postponement of purchases by some consumers and delay in contemplated expansion of businesses. Reinforcing these possible effects would be the general uncertainty that is understandably present to some degree when a new President takes office. Of further significance is the fact that the economy is now well along in the expansion phase of the business cycle, with only a slim majority of the leading indicators forecasting its continuance.

President Johnson's as yet not clearly known attitude toward the business community may restrict the confidence of its leaders. He is considered by some observers to be less liberal than his predecessor. However, although as a senator he favored balanced budgets during periods of expanding business activity, he endorsed the use of New Deal types of monetary pump priming during recessions. He is believed to have a distrust of intellectuals and to be impatient with discussions of

theory. It is to be hoped that this impatience will be extended to the theoretical panaceas offered by his inherited Council of Economic Advisers.

The possible adverse effects of recent events on the stability of the U.S. dollar abroad is a serious consideration. The Federal Reserve Bank of New York issued a statement on the afternoon of the assassination expressing confidence that close cooperation among central banks would be maintained in order to thwart any international speculation adverse to the dollar. Numerous transatlantic messages were received from foreign central banks expressing a desire to cooperate. Up to the time that this article was written the danger of a precipitous "run" on the dollar due to the assassination seemed to have passed. Whether the threat to the dollar that has been developing for some time because of long continuing large balance-of-payments deficits will be decreased or augmented will be unknown until the President's attitude toward that situation becomes more clearly apparent.

One possible test of the new President's attitude toward the monetary policy of the Federal Reserve System will come when, before the end of January, he appoints a Governor of the Federal Reserve Board to fill a vacancy then to occur. As we have pointed out before, whether or not there will be further inflation depends to a considerable extent on the composition of the Board of Governors of the Federal Reserve System. At present, a majority of the Board, even allowing for the possible appointment of a so-called "liberal" member in January, inclines toward a noninflationary policy. The rumored prospective appointment by President Kennedy of Professor Seymour Harris of Harvard, a well-known exponent of Keynesian doctrine, would have placed on the Board an individual inclined toward a marked expansion in the money-credit supply. If President Johnson were to appoint some other person, or perhaps reappoint the present member, Governor Robertson, a somewhat "liberal" member of the Board whose term is expiring, this might be a sign at least of moderation on the part of the new President in money-credit matters, for it seems improbable that any of the possible candidates for this appointment would be more "liberal" than Professor Harris.

Because as Vice President Mr. Johnson had fully espoused President Kennedy's whole legislative program, it is not surprising that the new President's views on new major legislative proposals have not changed. Apparently President Johnson will press urgently for early passage of the "Big Two" bills now before Congress, those concerned with tax reduction and civil rights.

Just how disruptive to the economy the death of President Kennedy and the necessary administrative transition will be remains to be seen. Opinions of various prominent economists interviewed by the *New York Times* ranged from optimistic to apprehensive. Dr. Arthur F. Burns, who was Chairman of the Council of Economic Advisers under President Eisenhower, said, "In view of President Kennedy's death, some economic uncertainty and confusion are inevitable." He stressed, however, that "the good sense and resilience of the American people" could be expected to prevail. "Once this becomes clear, as I think it soon will, economic trends across the country should resume their earlier course." A different view was expressed by Robert W. Mathieson, economist for the International Telephone and Telegraph Corporation: "Unless President Johnson brings the country quickly out of its state of shock, a serious downward

economic adjustment would occur. The stock market and retail sales will be the indicators to watch."

To these we add the thought that the shock and the increased uncertainties for businessmen and financial leaders may test the underlying soundness or unsoundness of the economic and financial situation. Offsetting these influences to some extent is widespread confidence in the new President. Nevertheless, the expansion phase of the present business cycle is now in its 34th month; so that, regardless of recent untoward events, a general downturn in business activity would be increasingly probable. It seems to us that at present caution rather than wishful optimism is the wiser attitude.

What the Indicators Say

Among the leading indicators, new orders for durable goods and the number of houses started both increased in October, but the average workweek decreased.

Among the lagging indicators, wages and salary cost per unit of manufacturing output increased in October.

Further expansion is indicated by a slim majority of the leading series.

SUPPLY

New Consumer Goods Per Capita

Our index of new consumer goods produced per capita reached a record high in October, when it was 0.6 percent more than that for September and nearly 6 percent more than the index for October 1962.

This index provides a measure of that portion of the Nation's industrial output that is available for consumption by individuals. Such output comprises about one-third of total industrial production; it excludes the production of intermediate materials, capital goods, and defense equipment.

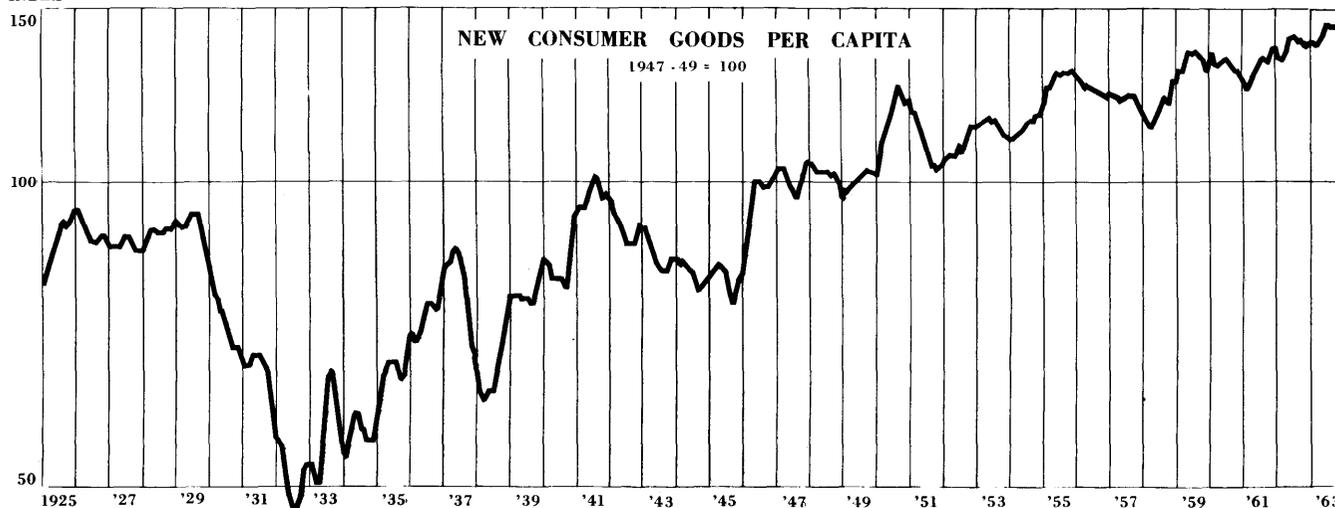
The population of the United States including armed forces abroad exceeded 190,000,000 in late September. Before adjustment for population changes, seasonally adjusted consumer goods production in October was 0.7 percent more than that in September and 7 percent more than that in October 1962.

A marked increase in the production of consumer automotive products is the most noteworthy aspect of consumer goods production in October. The output of automobiles in that month was 9 percent greater than that in September and 10.5 percent greater than that in October 1962. October production of home goods and apparel, including major appliances, was 0.6 percent more than that in September and 6 percent more than that in October last year. Production of consumer staples, including foods, beverages, fuel, and toiletries, remained unchanged during August, September, and October, but was nearly 6 percent greater than that in October 1962. Staples comprise nearly one-half of the index of new consumer goods production. Residential construction in October was practically unchanged from the September level but was 10 percent greater than that in October last year.

The combined index of consumer durable goods production, comprising automotive and home goods, increased 2.5 percent from September to October and was 8 percent more than the index of a year earlier. This series, which is significant for the business cycle because of its volatility, exceeded the record level reached in June after decreasing in July and August.

The October combined index of consumer nondurable goods production, comprising apparel and staples, was 0.4 percent more than that for September and was nearly

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6 percent more than the index for October 1962.

In summary, the October increase in new consumer goods production was confined largely to automotive, home goods, and apparel products, which together comprise about one-third of such production. Although automobile sales have continued at a rapid rate recently, the rate of department-store sales in October decreased sharply from that in September. Thus, the outlook for new consumer goods production in the immediate future is not clear.

We expect no marked change in the index of new consumer goods produced per capita for the remainder of the year.

Industrial Production

Production of steel, automobiles, electric power, and lumber (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:

Steel	1929	1932	1956	1960	1962	1963
Ingots—million tons						
1 week: November 23	0.98	0.27	2.46	1.37	1.84	2.00
4 weeks: November 23	4.17	1.17	9.88	5.80	7.20	7.88
Automobiles						
Vehicles—thousands*						
1 week: November 23	38	11	147	136	166	236p
4 weeks: November 23	222	45	620	654	774	920p
Electric Power						
Kilowatt-hours—billions						
1 week: November 23	1.8	1.5	11.4	13.5	16.1	17.7
4 weeks: November 23	7.2	6.1	46.0	55.6	65.3	70.4
Lumber						
New York Times Index						
1 week: November 16	115	33	124	111	113	115
4 weeks: November 16	496	144	494	434	448	449

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

DEMAND

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 November 23	n.a.
Four weeks ended November 23	n.a.
Year to date	+4

n.a. Not available.

BUSINESS

Business Failures

Liabilities of business failures in October totaled \$91,834,000, or about 7 percent more than those in September

but 23 percent less than those in October 1962. Our 6-month moving average of seasonally adjusted failure liabilities, centered at the end of July, was \$99,870,000, or 1 percent higher than that centered at the end of June and 8 percent less than that centered at the end of July 1962.

The proportion of failure liabilities in the various divisions of industry and trade, expressed as percentages of monthly totals, changed from September to October as follows: mining and manufacturing, up from 33 to 36; wholesale trade, down from 16 to 13; retail trade, up from 18 to 26; construction, down from 25 to 14; and commercial service, up from 8 to 12.

Failure liabilities in October in the categories listed above changed from their amounts in October 1962 by the following percentages: mining and manufacturing, -33; wholesale trade, +6; retail trade, -12; construction, -47; and commercial service, +41. Liabilities per failure averaged \$72,770 in October, compared with \$81,750 in September and with \$84,462 in October 1962.

The number of failures in October was 1,262, or about 20 percent more than the total in September but 10 percent less than that in October 1962. In October the number of failures increased from the number in September in all five categories. The largest increases occurred in mining and manufacturing and retail trade.

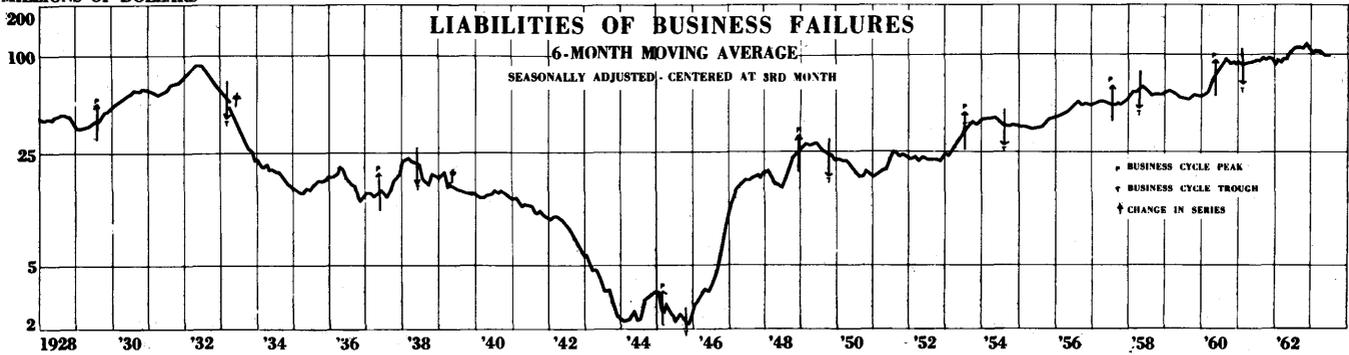
The number of failures in the 4 weeks ended November 14 was 1,104, or 8 percent less than the number in the corresponding period last year. Dun's Failure Index, seasonally adjusted and expressed as an annual rate per 10,000 active enterprises, was 59.6 in October, compared with 59.4 in September and with 66.3 in October 1962.

The accompanying chart showing our 6-month moving average of seasonally adjusted failure liabilities minimizes the influence of random irregularities and reflects principally the combined cyclical fluctuations and long-term trend of the series.

The number of business failures with liabilities of \$100,000 and more, which accounts for the large irregular increases in 1962 and 1963 in total failure liabilities, increased greatly over the count for both August and September as the total for October reached 206.

The October increase in business failures is not of sufficient magnitude to have much significance. Also, early reports for November do not indicate that the adverse developments will continue for two successive

MILLIONS OF DOLLARS



**BUSINESS FAILURES: NUMBER AND LIABILITIES
By TYPE OF BUSINESS
October 1962 and 1963**

Businesses	Number			Liabilities*		
	October 1962	October 1963	Change	October 1962	October 1963	Change
Mining & mfg.	244	217	-11	48.8	32.8	-33
Wholesale trade	152	127	-16	11.0	11.7	+ 6
Retail trade	672	578	-14	26.9	23.6	-12
Construction	231	207	-10	24.7	13.0	-47
Com. service	111	133	+20	7.6	10.8	+41
All businesses	1,410	1,262	-10	119.1	91.8	-23

* In millions of dollars.

months.

The somewhat smaller total of business-failure liabilities suggests that the current business expansion may continue in the near future.

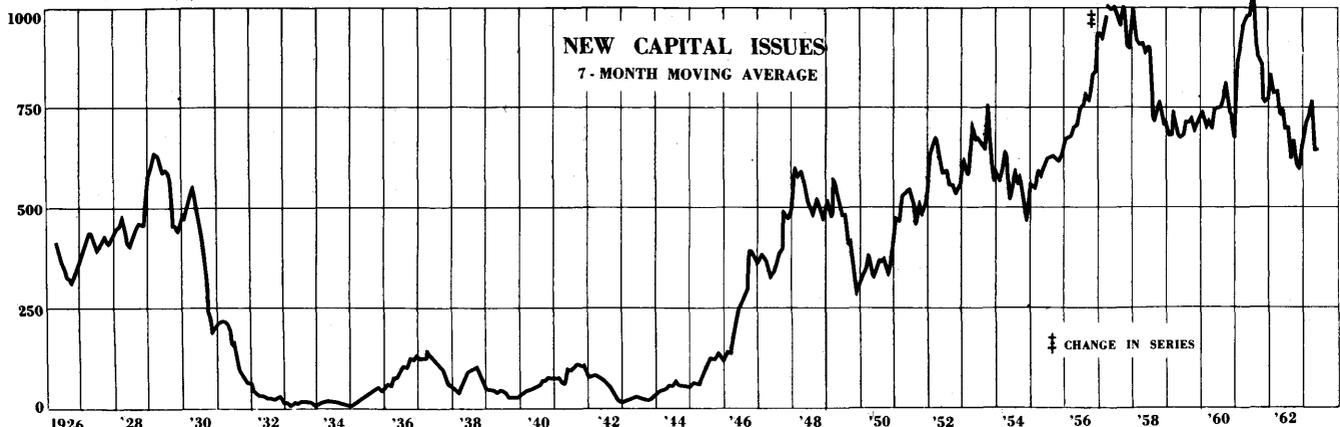
FINANCE

New Capital Issues*

Net proceeds of new capital issues during the first 8 months of 1963 totaled \$5,074 million, or 13 percent less than those during the corresponding period of 1962 and 32 percent less than those during the corresponding period of 1962 and 32 percent less than those during the period of 1961. Our 7-month moving average of new issues, centered in the fourth month, advanced sharply from a trough late in 1962 to a peak in March from which it has now decreased about 16 percent.

*These include substantially all new corporate offerings in the United States of more than \$100,000, whether placed publicly or privately with institutions such as insurance companies or with trust funds; they exclude refundings and issues of investment companies. (Issues of investment trusts, holding companies, and similar organizations are omitted because the proceeds are used for the purchase of securities that have been included previously in the total of new capital issues.)

MILLIONS OF DOLLARS



During the first 8 months of this year the proportion of new issue proceeds devoted to plant and equipment acquisitions was about 72 percent, compared with about 70 percent for the first 8 months of 1962. In absolute amounts, the total decrease of \$655 million in net new money issues during the first 8 months of 1963, compared with the corresponding period of 1962, was the result of a decrease of \$388 million in capital for plant and equipment and \$267 million in working capital.

Manufacturing enterprises obtained 37 percent of the total gross proceeds of new corporate issues during the first 8 months of 1963, compared with 28 percent during the corresponding months of 1962. Financial and real estate enterprises absorbed 15 percent of the total proceeds in the 1963 period, compared with nearly 20 percent in the 1962 period. The proportion absorbed by communications firms was about the same in both years, namely 13 percent in 1962 and 12 percent in 1963. The fourth and other large category, utilities, took about 25 percent of the gross proceeds in the 1963 period versus 27 percent during the 1962 period.

Present indications are that although the amount of new capital issues may increase from present levels it almost certainly will not soon return to the levels of 1961.

PRICES

Commodity Prices

Index	1962		1963
	Nov. 25	Nov. 18	Nov. 25
Spot-market, 22 commodities	247	255	252
Commodity-futures	302	328	324
Steel-scrap	\$23.83	\$26.50	\$26.50

Note: The indexes are, respectively, those of the U.S. Bureau of Labor Statistics, Dow-Jones, and *Iron Age*. The spot-market and futures indexes are converted so that their August 1939 daily averages equal 100. The steel-scrap index is a composite price for No. 1 heavy melting scrap.