Published Weekly by
AMERICAN INSTITUTE
for ECONOMIC RESEARCH
Great Barrington, Massachusetts 01230

RESEARCH
REPORTS

April 9, 1973

Statistical Indicators of Business-Cycle Changes

Reports of other important developments have precluded our monthly discussions of the statistical indicators recently. However, little change in their statuses has occurred during the past few months.

All 12 of the primary leading indicators remain appraised as expanding cyclically. That this situation has continued for more than a year is unusual; on previous occasions, unanimous expansion of the primary leaders has lasted for only about half a year following business contractions.

Some primary leading series usually have begun to contract cyclically by the time a business expansion has continued more than 2 years, as the current expansion has. Recent decreases in the moving averages of five primary leaders may prove to have been the beginning of cyclical contractions in these series. They are the average workweek, the index of net business formation, contracts and orders for plant and equipment, housing permits, and the index of 500 common stock prices. However, the probabilities that contractions in these series have begun still are relatively small at this time, and data for at least a few more months are needed before determining what the situation is.

Undoubted cyclical expansion of all of the primary coincident indicators through February reflected continued expansion of general business activity during that month. The moving averages of most of these series have increased steadily during recent months. The unemployment rate increased slightly during February to the December level, with the result that the moving average of the inverted series remained unchanged after four consecutive monthly increases.

All primary lagging indicators also are expanding cyclically.

Further expansion of general business activity seems probable during the next few months.

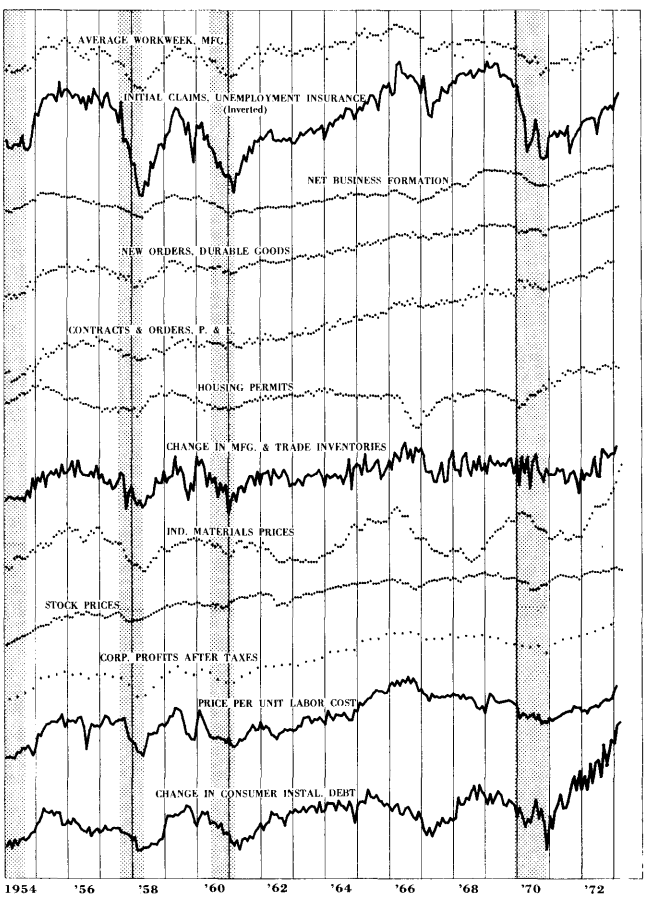
THE STATISTICAL INDICATORS

	Direction of Change					*Apparent Cyclical Status*
Primary Leading	*Nov.*	*Dec.*	*Jan.*	*Feb.*	*Mar.*	
Average workweek, mfg.	+	—	—	+		+?
Initial claims*	+	—	+	+		+
Net business formation	+	—				+
New orders, durable goods	+	—	+	+		+
Contracts & orders, p. & e.	—	+	+	—		+
Housing permits	—	+	—	—		+?
Chg. in mfg. & trade invs.	+	nc	+			+
Ind. materials prices	+	+	+	+	+	+
Stock prices	+	+	+	—	—	+
Corp. profits after taxes	+	+				+
Price/unit labor cost	+	+	+			+
Chg. in cons. instal. debt	+	—	+	+		+
Percent expanding cyclically						100
Primary Roughly Coincident						
Empl'm't. nonagr. estabs.	+	+	+	+		+
Total unemployment rate*	+	+	+	—		+
GNP in constant dollars	+	+				+
Industrial production	+	+	+	+		+
Personal Income	+	+	+	+		+
Mfg. & trade sales	+	+	+			+
Retail sales	—	+	+	—		+
Percent expanding cyclically						100
Primary Lagging						
Unempl. rate, 15+ weeks*	+	+	nc	+		+
Plant & equip. expends.	+	+	+a	+a	+a	+
Mfg. & trade inventories	+	+	+			+
Labor cost/unit of output	+	—	+	+		+
Com'l & industrial loans	+	+	+			+
Bank rates, business loans	+	+	+	+	+	+
Percent expanding cyclically						100

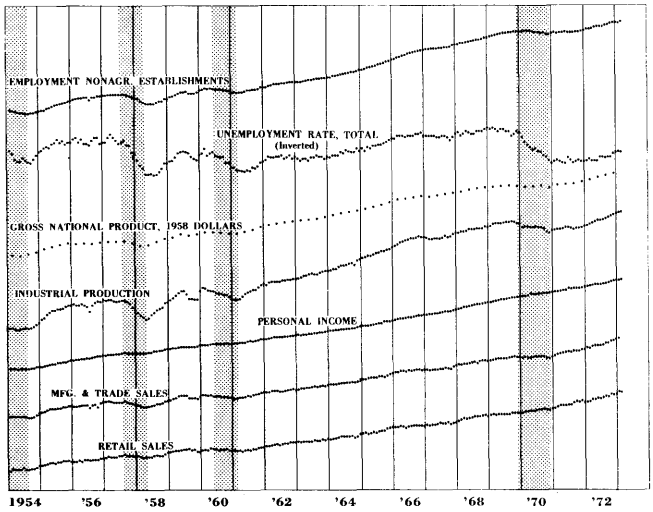
a Anticipated. nc No change. e Estimated. * Inverted.

Plus and minus signs indicate, respectively, increases or decreases in monthly or quarterly data and cyclical expansions or contractions of each series as currently appraised. Blank spaces indicate data not yet available; question marks indicate doubtful or indeterminate statuses of series.

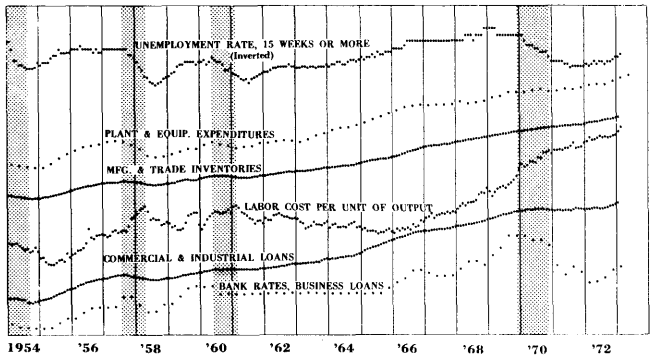
PRIMARY LEADING INDICATORS



PRIMARY ROUGHLY COINCIDENT INDICATORS



PRIMARY LAGGING INDICATORS



MEAT PRICE CEILINGS AND THE CONSUMER BOYCOTT

In an address delivered over nationwide radio and television on March 29, President Nixon ordered the immediate imposition of ceilings on the prices of beef, pork, and lamb. These ceilings affect meat processors, wholesalers, and retailers, but not farmers or other producers of livestock. The ceilings are defined at the retail level as the highest prices at which retailers with annual revenues of $100,000 or more did at least 10 percent of their business in the 30 days through March 28. They will remain in effect as long as Mr. Nixon believes that they are necessary "to do the job" of stopping increases in meat prices. The details of the new regulations specify that meat retailers must post ceiling prices no later than April 9; the Cost of Living Council must have prior notification of and approve all pay adjustments affecting employees in the food industry; and an Internal Revenue Service enforcement network will be established to enforce compliance with new ceiling prices.

According to Mr. Nixon, the war in Viet Nam has been the major source of price increases during recent years. Unfortunately, Mr. Nixon and his advisors have failed to identify inflating (creating of excess purchasing media) as the basic cause of increasing prices. Inflating has fostered increased consumer demand for things, including food. The average per capita consumption of beef, for example, increased 24 percent during the past decade to 118 pounds per year.

Recent large increases in the prices of feed grains reflect restricted domestic supplies resulting from poor weather and substantial feed grain exports to China and the Soviet Union. Increasing prices of feed grains have involved increasing costs for livestock producers that prompted them to increase prices. Thus, recent marked increases in prices of meats were partly the result of the large sales of feed grains to communist-controlled countries.

A predictable result of price ceilings that are less than prices would be in free markets is a curtailed supply of the things involved. If some businesses engaged in processing meats cannot obtain prices sufficient to cover their costs and to afford profits, then these businesses will be forced to discontinue such processing activity. With fewer processors in operation, the supply of processed meats will decrease and shortages will occur. Under such conditions, black market operations will flourish and become particularly attractive to organized crime.

History has shown that attempts to control prices invariably have failed. Such interference with trade frequently has resulted in shortages and in some instances famine. In 1770, the government of Lower Bengal acted to restrain what it termed the monopoly of rice speculation when that crop failed. Speculation in rice was forbidden and the price of rice was strictly controlled. The result was unforeseen; one-third of the population perished. Higher prices would have rationed consumption and would have induced other parts of India and Asia to ship in grain.

Nearly a century later, in 1866, the Bengal Region experienced another crop failure. Rather than try to check speculation, the authorities then did everything in their power to stimulate it. Many merchants entered the grain trade, which the government facilitated by publishing the free-market grain prices in every district to facilitate trade. This made widely available information about where grain was cheapest to buy and dearest to sell. The price of grain advanced much less than the controlled prices at the end of the earlier famine, and virtually nobody died of starvation.

Although these examples are extreme, they nevertheless illustrate the ability of the market place to determine prices more effectively than governments. Consumers tend to purchase goods at the best available price. If the prices of some things become prohibitively high, some consumers will reduce their demand for them and seek substitutes.

The consumer boycott of meats is an example of such an adjustment to demand. If, however, it lasts only a week or two, the boycott will affect prices of meats only temporarily. During the first few days of the boycott, some growers withheld livestock from the markets, some meat processors suspended operations, and many wholesalers and retailers curtailed their ordering of meats. Many retailers reduced prices of meats substantially in attempts to dispose of stock in order to avoid spoilage. If, when the boycott is over, consumers re-stock their supplies of meats and resume their usual meat-buying habits, the situation will be much the same as before the boycott.

The President's decision to impose ceilings on meat prices may have been prompted by fears that Congress would attempt to freeze all prices, or that labor union leaders would demand much larger wage increases for their members. The President and his advisers surely are aware that price ceilings can have adverse economic and social consequences. What they seem not to understand is that the problem of rising prices can be solved only by stopping the inflating and by gradually removing the excess purchasing media from use. All other efforts will be ineffective shadow-boxing.

SUPPLY

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:

	1929	*1932*	*1957*	*1961*	*1972*	*1973*
Steel						
Ingots - million tons						
1 week: March 31	1.31	0.33	2.36	1.63	2.75	2.96
4 weeks: March 31	5.20	1.47	9.57	6.38	10.51	11.84
Automobiles						
Vehicles - thousands						
1 week: March 31	112	34	133	102	150	210p
4 weeks: March 31	436	116	549	355	692	844p
Electric Power						
Kilowatt-hours - billions						
1 week: March 31	1.7	1.5	11.7	14.2	31.4	33.4
4 weeks: March 31	6.8	6.1	46.9	57.1	126.6	134.6
Percent change from 4 weeks a year earlier: + 6.3						
Lumber						
Board feet - billions						
1 week: March 24	0.71	0.20	0.67	0.60	0.72	0.74
4 weeks: March 24	2.88	0.80	2.68	2.40	2.93	3.11

p Preliminary.

DEMAND

RETAIL SALES

Estimates of retail sales for the most recent week and 4 weeks compare with such sales during the corresponding periods a year earlier as follows:

Period	*Percent change*
Week ended March 31	+ 8
Four weeks ended March 31	+ 11

PRICES

COMMODITIES PRICES

	1972	*1973*	
Index	*Mar. 26*	*Mar. 19*	*Mar. 26*
Spot-market, 22 commodities*	300	388	386
Commodity-futures	315	410	409
Steel-scrap	$34.83	$47.83	n.a.

*For the preceding Tuesday. n.a. Not available.

PRICE OF GOLD

	1972	*1973*	
	Apr. 6	*Mar. 29*	*Apr. 5*
Final fixing in London	$48.29	$89.25	$90.90

BUSINESS

STEEL PRODUCTION AND PRICES

During the first quarter of 1973, about 37 million tons of "raw" steel (ingots, castings, and other first-stage forms of steel) were produced in the United States. This volume of production was 17.3 percent more than that during the corresponding period last year, when steel production was restricted as users continued to liquidate larger-than-usual inventories that had been accumulated as a hedge against a possible strike. During the first quarter of this year, weekly production of "raw" steel increased almost steadily to a record annual rate of 155 million tons during each of the weeks ended March 17 and March 24. During the week ended March 31, such production decreased to an annual rate of 144 million tons. The volume of "raw" steel production during March was a record for any month.

The increased volume of steel production during early 1973 primarily reflected increased demand. The demand then for flat-rolled steel products, which are used extensively by the automotive and appliance industries, was particularly large. Moreover, the demand for structural and plate steels used by the construction industry increased during the first quarter, as did the demand for those specialty steels used by capital goods industries. Within the capital-goods industries, the increased demand for steel was attributable partly to increases in the manufacture of machinery. Recent announcements by General Motors Corporation, Ford Motor Company, and other large companies of record capital-spending programs during 1973 suggest that demand for steel by capital-goods industries will increase further during the next several months.

Due to the increased demand for steel during early 1973, many steel mills operated at near-peak capacity then. Some industry analysts believe that such large capacity operation will be necessary during the next few months in order to meet a continuing large demand for steel. During past years, such large capacity operation usually occurred only during relatively short periods of accumulation of strike-hedge inventories. Some analysts believe that the capacity of the industry may constrain the rate of steel production during the next few months. One basis for this belief is the fact that steel producers spent only $1.2 billion on plant and equipment expenditures during 1972, of which $200 million was spent for pollution-reduction devices. According to *Iron Age* magazine, this amount of expenditure was less than that ordinarily required for maintenance and replacement. Most steel-making facilities are believed to be overused, and one coke oven expert stated that "replacements of ovens are urgently needed." One steel company president recently said that ingot output cannot be held at first-quarter levels for a full year due to shortages in the operational capacity of some steel mills.

Some of the increased demand for steel during the first quarter may have reflected price-hedge buying. Previously, the United States Steel Corporation had guaranteed that prices of sheets and strip would be unchanged until April 1. However, following a recent announcement by Allegheny Ludlum Industries, Incorporated that prices of their stainless steel sheets and strip will be increased between 5 and 10 percent on May 1, the United States Steel Corporation similarly stated that prices of their stainless steel sheets and strip will be increased 6 percent on May 1. Such increases, according to one official of Allegheny Ludlum Industries, are necessary "to offset rising costs of energy, of raw materials, like chrome, nickel, and scrap, and of operating and mill supplies."

The index of iron and steel prices increased 0.9 percent during February to a level 3.7 percent more than that a year earlier. This index increased at an annual rate of 16.2 percent during the 2 months ended in February, which was in marked contrast with the 3.4-percent annual rate of increase during 1972. The February index of iron and steel prices was a record, and the increase in the index during that month was the eighth consecutive monthly increase.

Some major steel producers reportedly have attempted to augment production of steel by accumulating stocks of semi-finished materials purchased both in the United States and abroad. This action was in contrast with recent industry-wide attempts to reduce imports of steel. During January, steel imports reached a record for that month of 1.38 million tons. Imports during that month from Japan and the European Economic Community were 17.1 percent more and 25.9 percent more, respectively, than those a year earlier. Imports of steel from all other countries during January were a marked 48.5 percent more than those during January 1972. Within this latter category, the largest increase was in the amount of steel imported from Korea. Imports of steel from Canada, Sweden, Argentina, and Poland also increased during January, but those from

Mexico decreased substantially.

The January increase in imports of steel occurred in spite of the voluntary quota agreements with Japan and the European Economic Community. Still pending is a court decision regarding the lawsuit filed by the Consumers Union, which contended that the import agreements violate the Sherman Anti-Trust Act and the 1962 Trade Expansion Act. During late February, Senator Philip A. Hart, Chairman of the Senate Antitrust and Monopoly Committee, requested the Justice Department to conduct an antitrust investigation of the voluntary restraints and, according to *Iron Age* magazine, "challenged the apparent government position that the President can grant antitrust exemptions." He also requested that his subcommittee be supplied with information concerning the daily workings of the voluntary restraints.

Some industry analysts expressed the belief that the recent devaluation of the dollar and an increasing worldwide demand for steel may reduce U.S. imports. According to the *Wall Street Journal*, some customers who depended on foreign steel during recent years have been attempting to purchase steel produced in the United States. One steel importer recently stated that "there has been a tightening of supply in Europe and steel has become more expensive." According to *Iron Age* magazine, increases in world demand are curtailing the flow of foreign steel to the United States. Furthermore, some companies reported that they were unable to place orders for some foreign specialty steels during the past several months.

Recently, the United Steelworkers of America approved a preliminary agreement with 10 of the major steel producing companies in the United States, including the United States Steel Corporation and Bethlehem Steel Corporation. This agreement, which will remain effective until July 1977, provides for binding arbitration of unresolved issues during the labor negotiations next year when the present contract expires. Furthermore, the agreement prohibits strikes by unions or lockouts by companies in support of their bargaining positions. However, the agreement still permits local unions to strike over local issues, but labor and management representatives agreed that such strikes would exercise little effect on the overall steel industry. Reportedly, the agreement affects 350,000 employees in the steel industry and provides a one-time bonus of $150 for those employees, as well as yearly wage increases of at least 3 percent plus cost-of-living adjustments during 1974, 1975, and 1976. However, Mr. I. W. Abel, President of the United Steelworkers of America, stated that "the 3 percent (wage increase) is the floor and we haven't said that we have agreed to certain limits."

If successful, the new agreement presumably will eliminate strike-hedge buying of steel. Previously, steel labor contracts expired every 3 years and, several months before the expiration date, users of steel usually began accumulating inventories and signing contracts with foreign producers to hedge against a possible strike. Whether or not the strike occurred, production of steel usually would decrease markedly while customers liquidated their inventories and fulfilled their contracts with foreign suppliers. The curtailed production usually resulted in a layoff of many steelworkers, and steel companies were forced to compete with large imports of steel. The new agreement, by eliminating strike-hedge buying of steel, presumably will reduce both the necessity for layoffs and the making of contracts with foreign steel producers. According to the *Wall Street Journal*, "if the plan works, and the signs are hopeful, it could have large benefits not only to steel workers and steel companies but to the public generally."

The composite price of No. 1 heavy melting steel scrap reported by *Iron Age* magazine averaged $49.00 per long ton during February, compared with $47.83 during January and $35.58 during February of last year. These increases in prices of steel scrap probably reflected both a large volume of exports and large domestic demand. The weekly composite price of steel scrap decreased from the most recent peak of $50.83 during the week ended January 29 to $47.83 during the week ended March 19, reflecting, according to *Iron Age* magazine, a decrease in exports. Although such prices decreased during recent weeks, they still were at relatively large levels.

Production of steel probably will be maintained at high levels during the next few months.