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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Peace and Depression?

"There is no reason to fear peace. We are not headed for depression." With these flat assertions, Secretary of the Treasury George M. Humphrey began his recent address to members of the Associated Press.[1] The speech was noteworthy not only for its content but also because it was the first occasion of which we have found any record when Mr. Humphrey has been induced to express his views on future economic conditions in public.

If Mr. Humphrey intended to imply that aside from transition readjustments peace could aid rather than hinder the Nation's economic activity, we agree with him. We believe that peace in the long run probably would tend to enhance the economy's long-term upward trend. Moreover, we have pointed out previously that a given dollar amount in the hands of consumers may buy either more fabricated raw materials or labor, or both, in the form of automobiles, than the same sum in Government hands would buy in the form of Army tanks, for example.[2] Therefore, those funds left in the hands of consumers rather than taken from them by taxes for armament expenditures could demand more raw materials or labor, or both, with a resulting favorable effect on production and employment.[3] These considerations are wholly aside from the fact that the goods produced then add to the standard of living instead of subtract from it.

Rearmament, necessary as some of it may be, probably has resulted in somewhat less efficient production than previously. The trend of our index of industrial production per man-hour, which increased rapidly from 1944 through 1950, has leveled off in the last 2 years. The net result is less production of goods than would otherwise be possible if the same factors of production were employed on nondefense goods. To the extent that factors of production are shifted from consumers'-goods production to armament production, there is diversion of goods from enjoyable forms in the hands of consumers to machinery of destruction in the possession of the Armed Forces.

In short, we agree with Mr. Humphrey if he intended to imply that peace *need* not necessarily result in nor accentuate a "depression." But if Mr. Humphrey meant also that there will be no "depression" in the foreseeable future, we should wish to have a clearer understanding of what he meant by "depression" in that instance.

Subsequent portions of his speech throw more light on what he presumably had in mind. He asserted, "We cannot preserve our way of life through another long deep depression * * * "; and perhaps equally significant was his statement, "There will be readjustments, of course." He also emphasized that correction of the accumulated problems of the past 20 years would require " * * * rigid self-discipline and determined action." These are specifications for coping not with "easier" but with "harder" times.

We assume, therefore, that Mr. Humphrey is laboring under no delusions regarding the probability of "painful" readjustments but that he expects the Administra-

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[1]Address by Secretary of the Treasury George M. Humphrey at the annual luncheon of members of The Associated Press, New York, April 20, 1953.

[2]That is, if the output of tanks is less efficient than automobile production, either less labor or fewer raw materials, or both, are used per dollar of tank than per dollar of automobile. Of course, to the extent that standardized mass production of some military goods results in greater efficiencies than those permissible in the production of stylized consumer goods, the effect is the opposite. On the whole, however, we believe that the military output now under way involves less labor and raw materials per dollar cost of the finished product than is the case for most consumer durables.

[3]To the extent that Government spending for armament is financed by the addition of inflationary purchasing media, a temporarily increased demand results that may draw into production previously idle factors. However, the relatively small cash deficits of the Treasury in recent years have *not* been financed by inflation; therefore, lessening the rearmament program presumably would not be reflected in any change as far as the *Government's* recent contributions to the continuing inflation are concerned. The added inflation from mid-1949 to date resulted from expansion of installment and real-estate loans by the commercial banks, the use of previously idle or hoarded inflationary purchasing media, and the expansion of term loans and loans to finance inventory accumulations of business. In short, the added inflation in 1950 was indirectly traceable to a widespread expectation that rearmament would result in more inflation as the Government financed deficits by bank-credit inflation. Actually, the Government's cash deficits have not been thus financed.

A lessening of the rearmament expenditures may bring earlier and more widespread understanding of the situation with a resulting liquidation of accumulated inventories and possibly an increase in idle or hoarded purchasing media. (Of course, the idle or hoarded purchasing media used in 1950-51 were initially derived from the inflationary financing of Government deficits during World War II. These purchasing media happened to be available during the more recent rearmament boom rather than derived from it.) A readjustment may be precipitated by realization that the Government will not inflate, after all. But the need for such a readjustment has arisen primarily because private credit has been unwisely expanded.

tion to take whatever action is deemed necessary to prevent the indefinite continuation of a severe and prolonged curtailment of activity. Such an assumption suggests that he believes both that ways of preventing a severe depression are known and that they readily can be applied. Now that Dr. Arthur F. Burns is assisting as the President's economic advisor, the leaders of the Administration may soon receive, if they have not already been given, some disillusioning news regarding the competence of economists to prescribe "depression" cures at this stage of the business cycle. Many people have forgotten that there never was less than an average of 7,700,000 unemployed during the decade following 1930 in spite of application of the spend-for-prosperity and easy-money panaceas, but we feel certain that Dr. Burns has not forgotten these facts of the Nation's economic experience.

However, even if we leave aside for the time being the question of the efficacy of various economic medicines, it seems clear that Mr. Humphrey recognizes the danger, even the high probability, that the readjustments to be expected will result in a recession of some magnitude.

Conclusion

In conclusion we emphasize again our belief that peace at this time would be economically constructive and would foster long-term progress. As to the chances that the readjustments Mr. Humphrey expects will be prevented from becoming a "long, deep depression," this aspect of the problem deserves further consideration. In an early issue we shall continue the analysis of Mr. Humphrey's remarks supplemented by a similar analysis of a recent address by Mr. Martin, Chairman of the Federal Reserve Board.[4] In that article, we shall endeavor to explain some of the problems that must be solved if the readjustments ahead are not to precipitate a depression and the solutions that thus far appear to be under consideration by the Administration and the Federal Reserve Board.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 100.3 percent of capacity for the week ended May 2, 1953, was slightly less than that in the preceding week but was substantially more than production in the corresponding week last year, when a short-lived strike occurred.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Percent of Capacity†	101	24	91	32	52	100p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.39	.37	1.37	.49	1.08	2.26

Automobile and truck production in the United States and Canada during the week ended April 25, 1953, was estimated at 191,238 vehicles, compared with a revised total of 162,171 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Vehicles (000 omitted)†	143	37	133	61	134	191p

Electric-power production in the week ended April 25, 1953, decreased to 8,015,707,000 kilowatt-hours from 8,112,969,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Billion Kilowatt-Hours†	1.70	1.47	2.23	2.01	7.13	8.02

Lumber production in the week ended April 18, 1953, increased. *The New York Times* seasonally adjusted index was 3 points above that for the preceding week and was 10 points above that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
The New York Times Index†	135	41	84	91	108	118

†Latest weekly data; corresponding weeks of earlier years
p=preliminary

DEMAND

Department-Store Sales

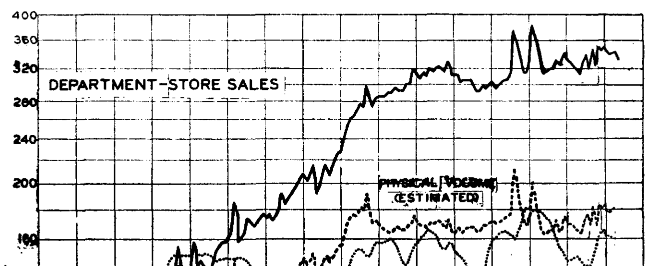
Our preliminary estimate of the seasonally adjusted April index of department-store sales (based on dollar value) decreased nearly 4 percent from the revised March figure (the March figure was 1 percent above that for February and 2 percent above that for January.)[5] Estimated April sales are 9 percent more than those during April last year but have decreased 5 percent since the 1952 high reached in December.

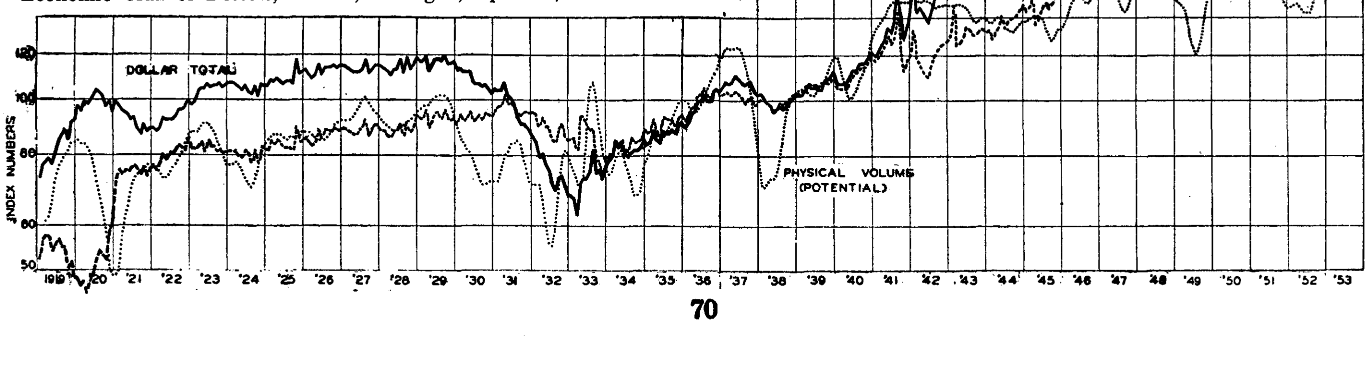
The index of prices of goods sold in department stores increased slightly during March but was 1 percent less than that for March 1952. Since April 1952 these prices have been relatively unchanged.

The index of physical volume of department-store sales (which is calculated by dividing the dollar-value index of sales by the index of prices) increased 1 percent during March to a level 9 percent above that for March last year but was nearly 2 percent below the 1952 high reached in December. Because of the leveling-off of prices during the past year, the trend of our physical-volume index has more or less paralleled that of dollar sales since April 1952.

[4]Address by William McC. Martin, Jr., Chairman of the Board of Governors of the Federal Reserve System, at a meeting of the Economic Club of Detroit, Detroit, Michigan, April 13, 1953.

[5]The calculation of the March and April seasonal adjustments, as we have mentioned at this time each year, is especially difficult because of the different dates on which Easter occurs. Although there is always some question as to whether or not the adjustments made in any particular year are satisfactory, we have found that our preliminary estimates usually have been reliable.





The March data of the index of potential volume of department-store sales are not available as yet. (The potential-volume series, which is based on the production of goods sold in department stores, reflects the estimated physical volume of goods available for sale in department stores.) However, on the basis of preliminary data, we estimate that the index may have decreased slightly.

We have estimated that the increase in sales during the weeks preceding Easter was slightly more this year than the average increase during corresponding pre-Easter periods in past years. However, during the first post-Easter week this year department-store sales decreased somewhat more than usual and during the second week increased somewhat less than expected; as a result, sales during the two post-Easter weeks were somewhat less than the average post-Easter sales during recent years.[6]

In order to help readers interpret more accurately the week-to-week reports that appear in various newspapers and in these bulletins, we have calculated that during May an average *increase* of 4 percent in the comparisons of weekly totals with sales during the corresponding weeks of May 1952 will maintain the seasonally adjusted index at the April level.

In 1952, a sharp decrease in department-store sales during the first 4 months of the year was more than counterbalanced during the remainder of the year. A similar decrease in sales has occurred during the first 4 months of 1953. Because of the relatively greater amount of income taxes paid in the first quarter of last year and this year, the possibility that an inadequate seasonal adjustment is being made in this series should not be ignored in judging these recent movements of the index. Of course, the belief that the downward trend during 1953 is a result of statistical inadequacies is largely conjectural. Nevertheless, in view of the fact that there is little evidence of an immediate decrease of production and employment and in view of the fact that department-store sales usually have lagged major changes in the trend of general business activity, we believe it wise to await further developments before coming to any conclusion about the future trend of sales.

Latest Weekly Data

Department-store sales for the week ended April 25, 1953, were 1 percent less than sales in the preceding week and were 1 percent less than sales in the corresponding week last year.

[6]Sales in the week after Easter usually have decreased substantially below the pre-Easter levels but then have recovered more than half of the first week's decrease during the following week.

PRICES

Consumers' Prices[7]

The Bureau of Labor Statistics' index of prices of goods bought by moderate-income city families increased slightly during the month ended March 15 but did not counterbalance the decrease during February. The March index was 1 percent above that of a year ago and was 11 percent higher than the index in June 1950, when the Korean War started. Since the alltime high reached in August and November 1952, the index has decreased nearly 1 percent.

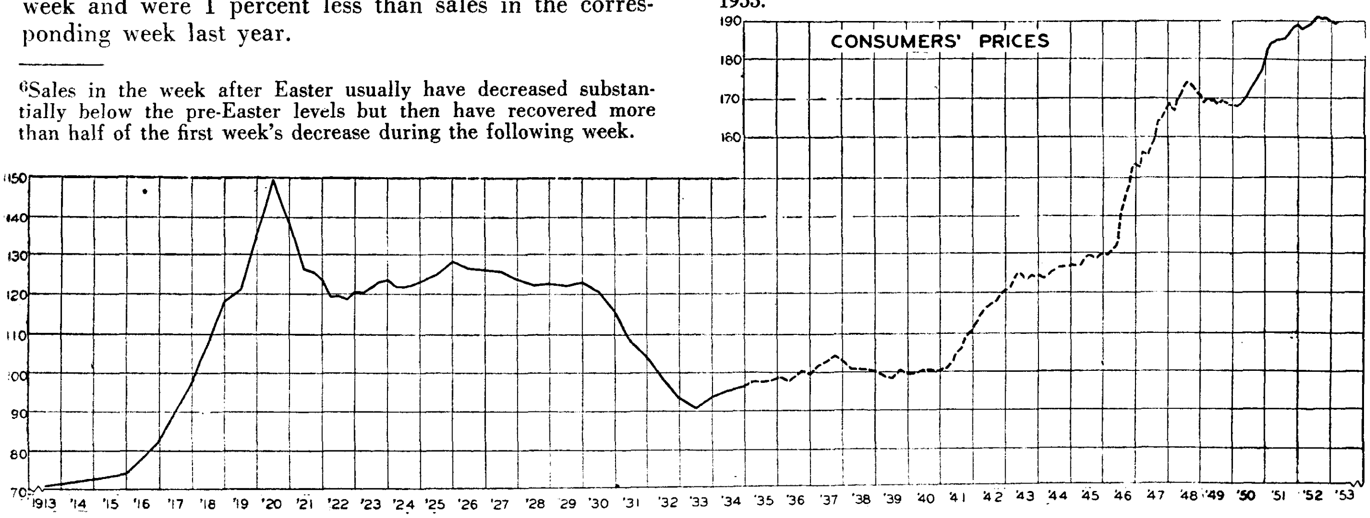
Higher prices for food, apparel, housing, transportation, medical care, reading and recreation, and other goods and services were responsible for the March increase in the overall index. Expenses for personal care (toilet articles, etc.) decreased slightly during the month.

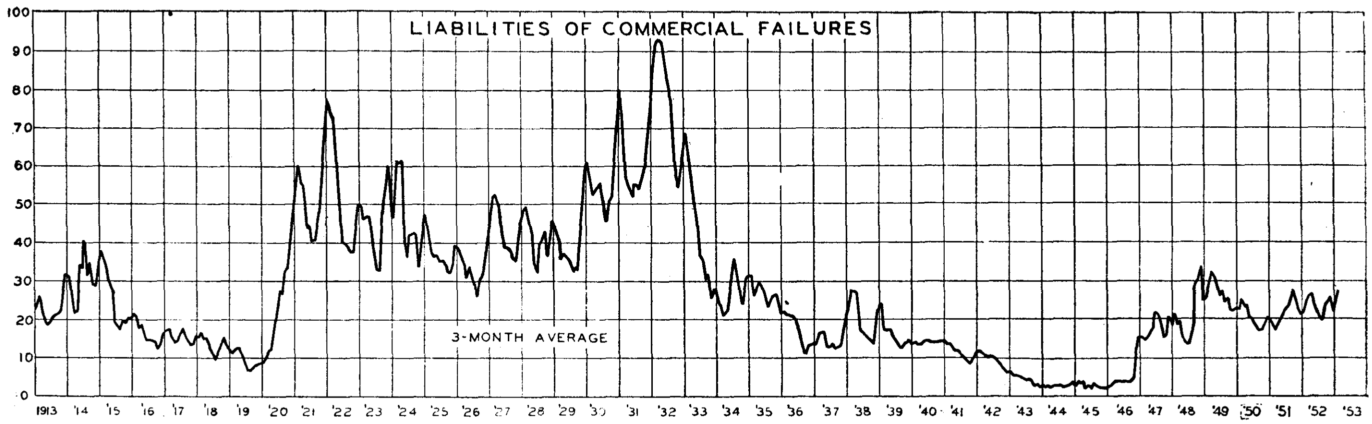
Food prices, which decreased more than 1 percent during February, rose slightly during March, the first increase since August 1952. The gain was attributable largely to higher prices for eggs, coffee, and shortening, which more than counterbalanced slightly lower prices for meats, poultry, fish, dairy products, and fruits and vegetables. March food prices were 1 percent lower than those in March 1952 and were 3 percent below the postwar peak reached in August 1952. The subindex of meat, poultry, and fish prices decreased 10 percent from August 1952 through February 1953.

Apparel prices, which had decreased for five consecutive months, rose somewhat during March but were nearly 2 percent lower than those of a year ago and 4 percent below the peak established in September 1951. The Bureau of Labor Statistics reported that lower prices for men's and boys' clothing and shoes failed to counterbalance entirely the higher prices of women's and girls' clothing. The trend of apparel prices has been generally downward since September 1951.

Housing costs increased slightly during March to an alltime high. The March figure was 2 percent above

[7]In order to remind readers of the discontinuity in the consumer-price index since 1913, we have divided the chart into four periods: 1913-March 1935 (solid line), March 1935-January 1950 (broken line), January 1950-December 1952 (solid line), and December 1952-March 1953 (broken line). During each period a different "market basket" of goods was priced by the Bureau of Labor Statistics in order to calculate the index. Readers will find a more complete discussion of this problem in the Institute article "The New Consumer Price Index," *Research Reports*, March 2, 1953.





that for the corresponding month of 1952. Residential rents, prices for purchases of homes and their repairs, and costs of gas, electricity, and household operations, all increased slightly during the month. Prices of housefurnishings were unchanged during March.

Prices of other goods and services increased more than 1 percent during March to an alltime high. Increased cigarette prices, which were decontrolled on February 25, were largely responsible for the rise.

The slight increase in transportation costs to an all-time high reflected higher gasoline prices and increased automobile-repair prices. Transportation costs increased more than 5 percent during 1952, compared with 7 percent during 1951 and 3 percent during 1950.

The wholesale-price decrease in late March and early April to February levels may be reflected in a similar decrease in retail prices. However, both the spot-market prices of 22 commodities and commodity futures have leveled off since early April. We suspect that a resumption of a downward trend in wholesale prices will precede any decrease in retail prices; consequently no major decrease in retail prices seems probable in the near future. However, in view of the large supply of food crops and other consumers' goods and with no prospect of a major inflation later in the year, we believe that a further decrease in retail prices is somewhat more probable than an increase during the later months of this year.

Commodities at Wholesale

	1952	*1953*	
(August 1939=100)	*Apr. 30*	*Apr. 23*	*Apr. 30*
Spot-Market Prices (22 basic raw materials)	294	270	269
Commodity Futures Prices (Dow-Jones Daily Index)	366	343	342

BUSINESS

The Trend of Commercial Failures[8]

Liabilities of commercial failures, which increased 17 percent during February, increased an additional 14 percent during March. The March increase was slightly greater than the usual seasonal increase during that month.

The liabilities involved in commercial and industrial failures during March totaled $31,082,000, compared with $27,273,000 during the preceding month and $29,232,000 during the corresponding month a year ago. The number of failures in March was 739, compared with 691 in February and 715 in March 1952.

The series shown on the accompanying chart is a 3-month moving average (plotted at the midmonth) of liabilities of commercial failures. The February average increased 11 percent to a level 2 percent above the 1952 high reached in April. The February figure, which is 38 percent above the 1952 low reached in August and only slightly below the Korean War peak of September 1951, is 16 percent below the post-World War II peak reached in March 1949.

Although the series has fluctuated erratically since the high reached in September 1951, recent developments indicate that the general trend may have turned upward. However, confirmation by future developments is necessary before the series can be classified as definitely "up."

The breakdown of failures liabilities into major types of business groups shows that nearly the entire increase in liabilities from February to March ($3,761,000 out of $3,809,000) occurred in the manufacturing industries. Consequently, the proportion of total liabilities represented by this group increased from 31 percent to 39 percent during March. The liabilities of wholesale-trade failures and of construction decreased from 19 to 12 and from 12 to 11 percent respectively. The liabilities of retail trade and commercial services remained unchanged at 34 and 4 percent respectively.

The number of failures reported for the 4 weeks ended April 23 totaled 635, compared with 693 in the corresponding period of March. Although the weekly data for number of failures do not reflect changes in liabilities precisely, at times they provide an early clue to major changes in liabilities.

Conclusions

On the basis of preliminary weekly data for the number of failures, there is little probability that failure liabilities decreased appreciably during April from the relatively high March level. Consequently, we believe that our 3-month moving average will increase during March, as a result of the relatively low January figure being replaced by a somewhat higher April figure. A further increase in liabilities during the next few months would be a significant indication of a downturn in general business activity beginning later in the year or early in 1954.[9]

[8]Failures data are compiled by Dun & Bradstreet, Inc., and include discontinuances following assignment, voluntary or involuntary petition in bankruptcy, attachment, execution, foreclosures, and voluntary withdrawal from business with known losses to creditors.

[9]We have mentioned on previous occasions that the *inverted* seasonally adjusted monthly series of liabilities of commercial and industrial failures is one of the earliest indicators of cyclical changes of business activity; the series usually leads cyclical peaks of general business activity by an average of nearly 11 months and leads cyclical troughs by an average of nearly 8 months.