Business Enters a New Year

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A Statistical Inventory

JANUARY is a period of inventory taking for a great block of business enterprises. Wholesale and retail stores in particular find it a good time to take stock following the heavy holiday selling season. It is not inappropriate to adapt this time-honored business practice to the field of business statistics. In so doing, a business forecast for the New Year is not intended. It has been pointed out recently by a leading analyst that a forecast requires the fulfillment of four essential conditions. These are, "first, a thorough knowledge of business behavior in the past; second, a broad and true picture of the present; third, an uneasy recollection of one's past errors; and fourth, a vigorous skepticism and doubt about all judgments as to the future." [2]

Complete statistical data are not available to give a foundation for knowledge of the past and without that knowledge a broad and true picture of the present is impossible. But business cannot postpone action for lack of data. Decisions must be made. It is essential in formulating these judgments that foresight be guided by the best information available. At the same time we must not rest content with the statistics of industry, finance, and trade currently at hand but must constantly work to extend the boundaries of business information.

The analysis which follows is confined to a brief examination or inventory of business conditions during the past year with some discussion of the current situation at the close of the year when the Survey of Current Business goes to press. Just as a merchandise inventory may be useful as an aid to future buying and sales policy, so an inventory of the business statistics that are available may prove helpful as an aid to business judgment, policy, and strategy, provided, of course, the limitations of the data are ever kept in mind.

1937 Retrospect

The National Income.

The end product of a year's work by a nation is the new wealth, both commodities and services, produced during the period by the people of that nation. This end product is known to economists and statisticians as the *National Income Produced*. Although the final 1937 income estimates of the Department of Commerce will not be ready for some months, the best evidence at this time indicates that total national income produced during the year 1937 will show a 10 percent gain over 1936 and will approximate 70 billion dollars in value. Of this total about 68.5 billion dollars will be paid out or distributed. At this level the national income would be about 12 percent lower than in 1929. These are dollar figures, however, and must be used with caution as indicators of welfare or economic conditions. Two additional factors, prices and population, need be taken into account.

In lieu of all-inclusive price measures, a rough approximation of *real* income, or quantity of goods and services produced, may be had by using the Bureau of Labor Statistics wholesale price index which in 1937 was about 10 percent below the 1929 level. Thus, real income in 1937 was close to 1929 level. If population increases of more than 6 percent are taken into account, however, *per capita* real income remained substantially below that in 1929.

Labor income (the compensation of employees) has been increasing proportionately and steadily. In 1929 employees received 65.5 percent of the total national income paid out. By 1936 this ratio had reached 66.5 percent and there is reason to believe that the upward trend of the recovery period has continued through 1937 with every indication that some 46 billion dollars was distributed to employees last year. Dividend payments were also larger in 1937. Interest payments continued to decline in relative importance.

Agriculture also showed an increased contribution to national income during the past year. Total agricultural income (including $380,000,000 of benefit payments) is estimated at 8½ billion dollars for last year, an increase of 635 million dollars over 1936.

Production Factors.

The goods and services which comprise the end product included in the national income are the result of the intricate network of production and distribution which utilizes the services of our people, the national resources of our continent, our capital accumulations, and our trade opportunities with other nations. Only a few of the many diversified elements of the economy have been subjected to the statistician's technique of objective measurement. Among the more important indexes deserving attention in an inventory of the economy is that of industrial production. The index of physical volume of production, compiled by the Board of Governors of the Federal Reserve System, reveals the fact that productive activity from the fourth quarter of 1936 through the summer of 1937, was maintained at the highest level of the recovery movement. In September, however, a recession in activity commenced and in the final quarter of the year production fell to

[1] Prepared with the cooperation of the research staff of the Divisions of Economic Research, Finance, Foreign Trade Statistics, and Marketing Research.

[2] Thorp, Willard L., Dun's Review, December 1937, p. 48.

an average of 93 percent of the 1923–25 base, the lowest level since the third quarter of 1935. For the entire year the index of industrial production averaged 110 (1923–25=100) or 5 points above 1936.

An examination of related business indicators shows that the recession in activity during the closing months of the year was due in large measure to maladjustments that had developed during the extremely rapid advance in 1936. An exhaustive list of these maladjustments would be impossible but a few that are outstanding are worthy of comment. Accompanying the sharp increase in business activity in the fall of 1936, and under the influence of the short crops resulting from the drought, the prices of raw and semifinished commodities advanced sharply. The belief on the part of many business men that these prices would go higher led to forward buying. This movement toward advance buying was accelerated by rising labor costs and the fear that deliveries could not be made because of potential strikes and labor troubles. Speculative buying and the increase in costs and prices continued well into the spring of 1937. At that time buying by fabricators and distributors was reduced, and in April the prices of raw materials and semimanufactures began to drop. Heavy backlogs of orders made it possible to maintain activity in many lines throughout the summer, but the eventual depletion of these backlogs and the failure of new buying to appear necessitated a general curtailment in production.

Of the two divisions in the total production index, manufactures and minerals, manufacturing output was above that in 1936 during each month from January through August, but in the closing months of the year activity dropped below 1936. The production of minerals each month exceeded that of the corresponding month in 1936 until November. As may be seen in the accompanying chart, the movement of durable and nondurable manufactures has not been parallel. Output of nondurable goods, adjusted for seasonal variation, reached a peak in December 1936 from which point it receded steadily through 1937. Particularly rapid curtailment was experienced at woolen mills and shoe factories, while cotton consumption and rayon deliveries (not a component of the index) fell off only moderately until October when they dropped sharply. Meat packing activity increased somewhat in recent months but remained at a relatively low level, reflecting the effects of the drought in 1936. In contrast with the declining activity in these lines, output of petroleum products continued to mount throughout the year and the production of tobacco products was in larger volume than in the corresponding months of 1936.

The adjusted index of the production of durable goods, continuing the almost uninterrupted rise that had been in evidence since 1934, reached a new recovery peak in August 1937 but dropped sharply thereafter. The adjusted indexes of iron and steel, automobiles, lumber, cement, and plate glass production all fell during the later months of the year following peak production in earlier months. The recession in activity in the iron and steel industry was outstanding. Steel mill operations, which were scheduled at about 90 percent of capacity in March, April, and May and had operated at about 85 percent of capacity in August, experienced during the months that followed one of the most abrupt contractions in the history of the industry, closing the year with activity near 25 percent of capacity.

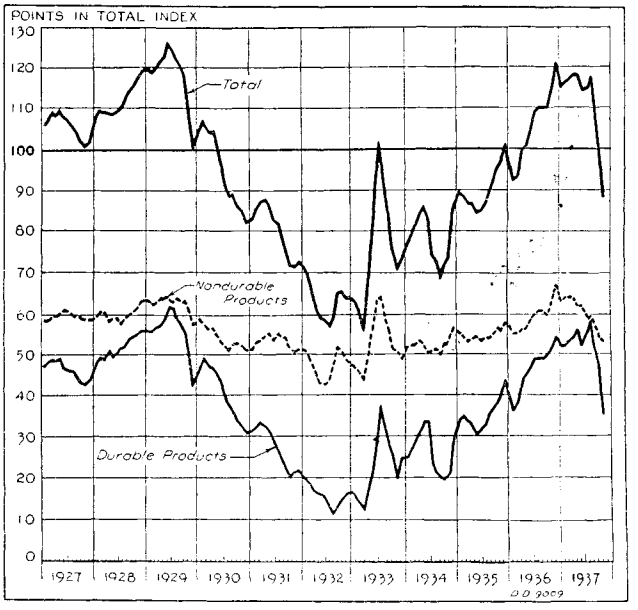

Figure 1.—Indexes of Manufacturing Production, Durable Products and Nondurable Products Expressed in Terms of Points in the Total Index 1927–37 (Board of Governors of the Federal Reserve System).

NOTE.—Data are based on daily average physical volume and are adjusted for seasonal variations. The sum of the 2 components equals the total index, for which the 1923–25 average is taken as 100. Durable goods include iron and steel, automobiles, lumber, shipbuilding, locomotives, nonferrous metals, cement, polished plate glass, and coke; nondurable goods include textiles, leather and products, foods, tobacco products, paper and printing, petroleum refining, and automobile tires and tubes.

Electric power production which has been relatively well maintained during the depression and had been increasing spectacularly and continuously throughout the recovery period showed further progress throughout 1937, although evidences of a reaction took place toward the end of the year. For the first 10 months of 1937 production averaged 201.7 (1923–25=100) as compared with 186 for the corresponding 1936 period.

Factory employment held up quite well as did factory pay rolls until November, indexes for these factors compiled by the Bureau of Labor Statistics revealing substantial improvement over 1936 for the first 10 months of 1937. While employment and pay rolls experienced a sharp contraction in the last 2 months of the year, there is evidence that business was reluctant to add to the existing unemployment burden and consequently did not reduce staffs until sometime after production dropped. The generally recognized scarcity of skilled labor has no doubt been a factor in keeping

men on the pay rolls, and there was a general tendency to spread the work by staggering hours rather than by resorting to outright dismissals.

Heavy agricultural production during the past year did much to relieve the drought shortage of recent years. Production of 53 crops during 1937 was more than 40 percent above output in 1936. The cotton crop was 50 percent above that in 1936 with 18,746,000 bales, the largest crop on record. The grain crops, hay, and fruits and vegetables also showed larger than average production. Consumers have generally benefited from reduced prices for basic commodities, and yet, as noted before, the larger output has yielded the farmer increased income.

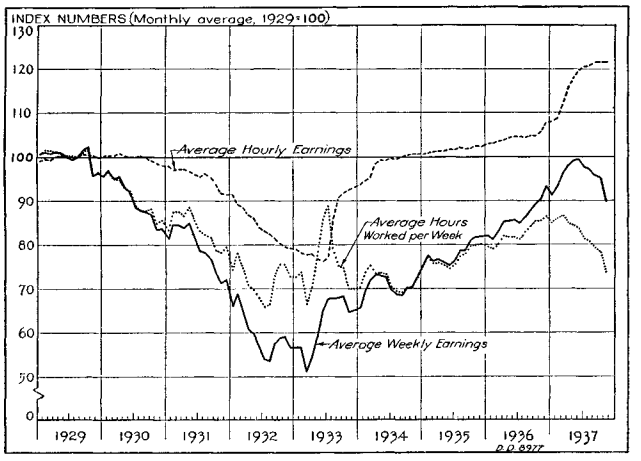

Figure 2.—Indexes of Average Hourly and Weekly Earnings, and Hours Worked per Week in 25 Manufacturing Industries, 1929–37.

NOTE.—Computed from the original data of the National Industrial Conference Board, using 1929 as a base.

Construction and Housing.

The construction and building industry continues to be the dark sector in our economy. The volume of business in this industry ranked with agriculture in predepression days, when the dollar volume of construction was more than 12 billions annually and employment was provided directly and indirectly for 6 or 7 million people. Although some progress has been made from the depression depths, this industry showed an increase of a little more than 9 percent in the dollar volume of construction contracts awarded during the first 11 months of last year over the corresponding months of 1936, and the monthly average remained only about one-half that in 1928–29, according to F. W. Dodge Corporation reports. Total contracts awarded, moreover, dropped below the 1936 level during the months of September, October, and November. Residential building activity for the first 11 months of 1937 made a somewhat better showing with an increase of 17 percent over the preceding year. Commercial and factory building with corresponding increases of 38 and 67 percent, respectively, registered even greater progress, although the level in 1937 continued far below the predepression peak.

A number of reasons may be advanced for the slow recovery of the construction industry. The sharp rise in the cost of building materials and of building labor during the early part of the year tended to retard activity. The price index for building materials for the first quarter of 1937 was 2 percent below the 1929 level in contrast with an average for all wholesale prices in the first quarter of 9 percent below 1929 according to the Bureau of Labor Statistics indexes. Curtailment due to high costs was accelerated after September by the general recession in business activity.

In particular, construction work and equipment buying by the railroads were abruptly reduced in the closing months of the year as a result of unfavorable earning prospects which in turn were an outgrowth of reduced traffic and high operating expenses. Net railway operating income was 19 percent below that in 1936 during the 4-month period ended in October 1937. Construction activity in the electric utilities during the year was much above that in 1936, but, as the accompanying chart indicates, the volume of building was considerably below the level of the 1920's when the annual increase in production of electricity was at about the same rate as in 1936–37.

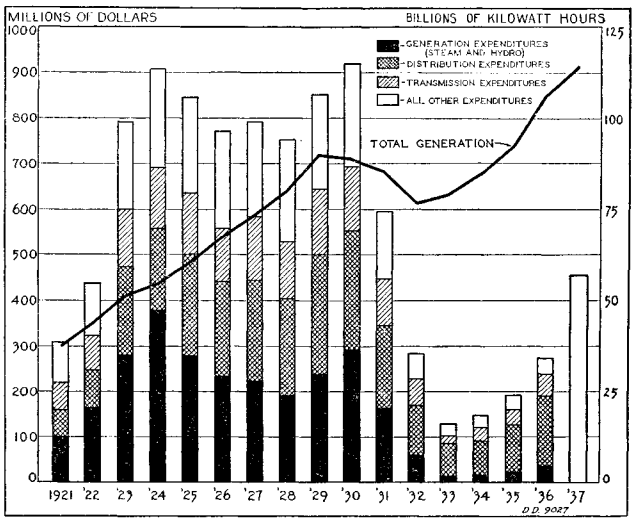

Figure 3.—Construction Expenditures of the Electric Light and Power Industry, Excluding Federal Projects, Compared With Total Generation, 1921–37 (Edison Electric Institute).

The residential building field offers greatest potential hope for the revival of the building industry. In addition to increased materials and labor costs, this part of the industry has also suffered from financing difficulties. While loanable funds in general are plentiful, money for residential building purchases is still difficult to obtain in many cities at rates sufficiently low to stimulate active demand. Studies conducted in the Bureau indicate, for example, that a reduction in interest rates and amortization terms from 6½ percent over 20 years to 4½ percent over 30 years would enable approximately 5 million more families to support the ownership of a minimum-priced home.[3]

[3] Estimated by Lowell J. Chawner, in charge of Economic Research Division.

There is reason to believe from recent estimates that another difficulty arises from the failure of the building industry to turn its attention seriously to the market for houses built to sell below $5,000. Saturation is indicated for higher priced houses, whereas a very substantial market is apparent for the low-priced home. To tap this market, however, costs and profits must be pared to the bone and large turn-over relied upon to make the venture profitable.

Domestic Trade.[4]

Wholesale trade in 1937 should attain a volume almost 10 percent above that of 1936 despite the downward trend during the last quarter. Wholesalers' sales during the early part of 1937 showed heavy gains from the previous year's level, but they failed to hold the pace set in the first 4 months of the year, a slackening having been noted as early as May. Dollar sales during the first 6 months of 1937 were 18 to 19 percent above the corresponding period of 1936, while in the third quarter the increase was reduced to about 5 or 6 percent. During October and November, declines of 4 percent and 3 percent, respectviely, were recorded.

Preliminary estimates of retail trade for 1937 were tentatively placed at $40,388,000,000 or 6.5 percent above the 1936 total of $37,940,000,000, which was the largest dollar value for any year of the recovery period. This increase is not altogether indicative of the gain in physical volume, however, since the general advance in retail prices from a year ago suggests that a similar increase was not recorded for the volume of goods sold.

Dollar volume of retail sales for the first 4 months of the year increased more than 12 percent over the corresponding months of 1936, while sales for the first 6 months of the year recorded an increase of 10 percent. The year-to-year percentage gains during the latter months of this period, however, were lower than those shown in the earlier months. Retail purchasing continued at an even pace throughout the summer, but by the end of the third quarter, the gain over a year ago, when the trend of sales was upward, had been further reduced for the 9-month period to about 8 percent. In November the general recession in industry began to affect consumer purchasing to a significant degree. Christmas buying fell below expectations and sales during the last quarter of the year were about equal to or, in some regions, slightly below the 1936 level. However, since 1936 was a year of unusually high activity, consumer purchasing, with only a slight gain in 1937, was still at a relatively high level.

Sales by kinds of business for the entire year are as yet incomplete, but according to retail information reported to the Bureau by independent merchants in 14 States and now available for the first 11 months of the year, the largest gain for that period as compared with the same period of 1936 was recorded for sales made by jewelry stores, which showed increases of about 16 percent, and the smallest, less than 5 percent, for grocery store sales. For other major lines of business increases ranged from 8 to 13 percent.

Consumer purchasing in both urban and rural areas showed about the same relative gain, as measured by department store and rural general merchandise sales. However, the increases varied as to urban and rural distribution in different parts of the country.

Sales of independent merchants in those regions represented by 14 States covered by the Bureau's service during the 11-month period of 1937 and 1936 showed gains for all of the regions so represented. The changes varied, however, among the individual States and ranged from a gain of over 10 percent to a slight loss.

In the chain store field, three of the more important lines, variety, grocery, and drug stores, increased their sales by less than 5 percent for the first 11 months of 1937 over 1936. Independent grocery and drug stores sales for the sample covered by the Bureau recorded a somewhat higher increase for the periods compared than was shown for chain organizations in the same trades.

Preliminary information on department store collections both upon an open account and an installment basis indicates that payments for the year 1937 were lower than for 1936.

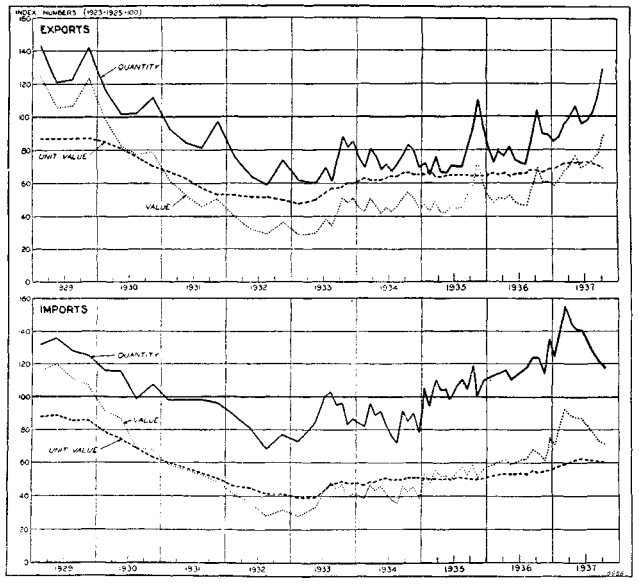

Figure 4.—Changes in Quantity, Unit Value (Price), and Total Value of Exports and Imports, 1929–37.

Foreign Trade.

Combined export and import trade in commodities for 1937 showed a marked increase over the preceding year with an estimated total of $6,400,000,000, which was approximately 30 percent above that of 1936. For the 10 months ended in October merchandise exports,

[4] This section was prepared by the Marketing Research Division.

including reexports, reached a total value of $2,712,000,000, an increase of 36 percent over 1936. Our import trade for the same period outstripped 1936 by 34 percent, with a total of $2,652,000,000. These figures, it must be recalled, are for merchandise only. When such service items as insurance, freight, foreign travel, remittances, and capital movements and service charges are included the total is increased. Unfortunately, estimates on all of the items which enter into our international trade are not so quickly available as are the merchandise statistics, hence it is impossible to strike off the balance of international trade and payments until later in the year.

The increase in the value of our export trade did not show a corresponding increase in quantity due to the higher prices of the items exported. Similarly our imports showed a lower quantity gain for the period.

Of our total exports for the first 10 months of 1937, agricultural products constituted 22½ percent and amounted to $600,000,000, an increase of about $40,000,000 over 1936. Raw cotton exports of 2,205,264,000 pounds accounted for $278,000,000 of this total with a gain over 1936 of more than 52,000,000 pounds and over $10,000,000. Marked increases were shown in our exports of wheat, barley, milled rice, and flour milled from domestic wheat.

Nonagricultural products accounted for 77½ percent of our exports, an increase in the proportion made up of these products of 6 points over the corresponding 1936 period. Outstanding gains over 1936 were made in crude petroleum and petroleum products, wood pulp, iron and steel manufactures and semimanufactures, copper ingots, plates and rods, paper and paper manufactures, industrial machinery, agricultural machinery, automotive products, and aircraft.

A number of influences were responsible for the increase in imports. Owing to the drought of 1936 imports of agricultural products were large, especially during the first 7 months of 1937. As new crops replenished domestic supplies such imports declined, but nevertheless, the value of total imports of grains, feeds, animal products, especially meats, vegetable oils, and oilseeds amounted to $343,000,000 in the first 10 months of 1937, a gain of $115,000,000 over imports of these items in the first 10 months of 1936.

The demands of domestic industry, particularly in the early months of the year, for increased amounts of crude rubber, raw silk, raw wool, hides and skins, tin, and copper (at higher prices this year) also accounted for a considerable part of the increase in imports. The value of the above-mentioned crude materials including other less important textile fibers and metals amounted to more than $700,000,000 in the first 10 months of 1937, an increase in imports of these products of $200,000,000 over that in the first 10 months of 1936.

The increase in imports reflects also the changes in demand for tropical and subtropical fruits, for such luxury items as diamonds and furs, for paper and paper materials, and for other commodities.

Banking and Credit.[5]

Federal Reserve banking policy during 1937 was in general directed toward "keeping the reserve position of the member banks currently in close adjustment to credit needs" and toward maintaining a condition of monetary ease. The first few of a series of steps designed to attain these broad objectives had been inaugurated during August and December of the preceding year, and were followed on January 30, 1937, by the announcement by the Board of Governors of the Federal Reserve System of an increase of 33⅓ percent in member bank reserve requirements, effective in two equal portions on March 1 and May 1. The excess reserves of the member banks, which had stood at $2,010,000,000 at the beginning of the year, were subsequently reduced as member banks undertook to readjust their portfolios for the purpose of meeting the new requirements and were reported at $890,000,000 during the first week of May. As a result the Federal Reserve System was brought more closely in contact with the money market and was placed in a position where its open-market operations tended to influence credit conditions more strictly in accordance with the needs of commerce, industry, and agriculture.

After having risen to $930,000,000 in June excess reserves of member banks fell to $700,000,000 by the early part of August. This decline was particularly sharp for the New York City and Chicago member banks. As a result of a reduction in rediscount rates by the Reserve Banks and the release by the Treasury of $300,000,000 from its inactive account, excess reserves rose sharply to $1,020,000,000 by September 22. Also, during September the regulations covering discounts and advances were broadened to include the paper of commission merchants and finance companies. In line with an announcement made early in September by the Federal Open Market Committee the Federal Reserve banks purchased $38,000,000 of short-term Government securities during November, thus contributing to other influences which combined to raise excess reserves of member banks to $1,140,000,000 by the end of November

In the process of portfolio readjustment following the increase in reserve requirements early in the year various banks, especially those in New York and Chicago, were unable to meet the new requirements without the liquidation of some of their investments. The sale of securities by these banks was intensified by the withdrawal of balances from city institutions by the country banks as the latter drew down their balances to meet the increased reserve requirements. In line with a statement issued on April 4 by the Board of Governors of the Federal Reserve System, the

[5] The financial summary was prepared by Amos E. Taylor, Assistant Chief, Finance Division.

Reserve banks purchased during that month $96,000,000 of Government obligations in order to offset the resulting weakness in the bond market and to aid the money market. As a result of subsequent purchases the year's net increase of approximately $134,000,000 in Federal Reserve holdings of Government securities represented the first important net purchase since 1934. On the other hand, the holdings of Government and Government-guaranteed obligations by the reporting member banks declined approximately $1,300,000,000 during the year.

Loans, Investments, and Deposits.

The liquidation of member-bank holdings of Government securities is reflected in the loans and investments of the reporting member banks in 101 leading cities which fell $1,451,000,000 from December 30, 1936, to December 22, 1937, after having increased by over $2,000,000,000 in the preceding year. Holdings by these banks of Government obligations dropped steadily during the first 9 months of the year, while the volume of commercial, industrial, and agricultural loans expanded. The decline in the former was greater than the increase in the latter, thus contributing to the steady decrease in the total of loans and investments. During early October, as the seasonal demand for business credit began to decrease, the banks as a group began purchasing Government securities for the first time during the year in an effort to find an outlet for their funds. The ratio of direct and fully guaranteed United States Government obligations held by these banks to their total loans and investments fell from 45.6 percent on December 30, 1936, to 41.1 percent on October 13, 1937, and rose to 42.4 percent by December 8.

The increase of $320,000,000 in total loans from the beginning of the year to December 8 was accompanied by a decrease of $864,000,000 in adjusted demand deposits. This unusual development was largely explained by the fact that the holders of these deposits bought some of the Government bonds sold by the banks during the year, while a portion of these deposits was shifted to time deposits which showed an increase of $116,000,000 to December 8.

Security Markets and Money Markets.

Stock prices tended upward during the first 2 months of the year as may be seen in the accompanying chart and, after reaching a point in March which proved to be the year's high, receded gradually to the end of June. After rising sharply during the succeeding weeks share prices began a sharp decline which was featured during September and October by several very severe breaks. The average price of the 420 stocks employed by the Standard Statistics Company in its stock price index fell 30 percent from the end of 1936 to December 11, 1937. Rail prices fell 38 percent, industrial stock prices declined 31 percent, while utility stocks receded 26 percent. During the same period loans to brokers and dealers by the reporting member banks declined $343,000,000. As a result of the severe decline in stock market prices, the Board of Governors of the

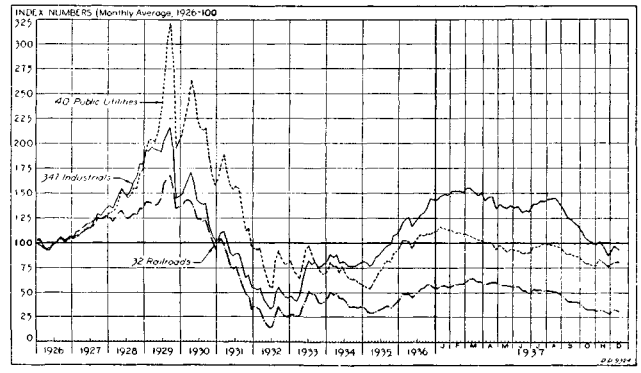

Figure 5.—Movement of Stock Prices by Major Groups, 1926–37 (Standard Statistics Co., Inc.).

Federal Reserve System announced a reduction from 55 to 40 percent in the margin requirements for carrying registered stocks, and placed the margin requirements on short sales at 50 percent of current market value.

Although United States Government bond prices experienced a period of marked weakness during the first half of the year, the net decline of 2.9 percent from the end of 1936 to the middle of November was exceeded by the drop in quotations on long-term corporate issues.

The upward readjustment of yields on both long-term and short-term Government securities during the first 4 months of 1937 was accompanied by increases in the open-market rates on bankers' acceptances and commercial paper and in the yields on corporate bonds. Thereafter short-term rates tended to become easier, especially after the reduction in Federal Reserve rediscount rates. The yields on Treasury bonds showed little change after May.

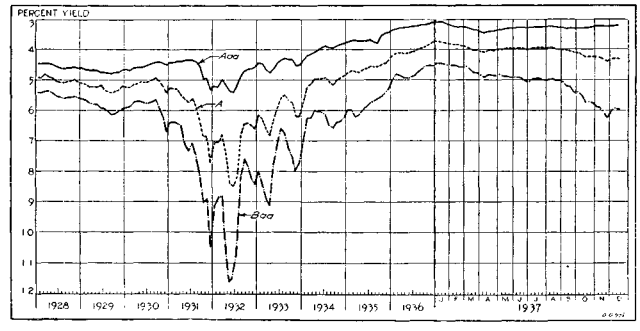

Figure 6.—Yield of 120 Corporate Bonds by Ratings, 1928–37 (Moody's Investors Service).

NOTE.—In the rating classification followed by Moody's Investor Service, *Aaa* indicates bonds which are and may be expected to remain the most conservative type of investment. Such bonds will tend to fluctuate in price with fluctuations of the prevailing long-term interest rates. Bonds rated *A* have distinct investment qualities, but do not have the elements of strength which would necessarily prevent their intrinsic worth being affected by some special development; while those rated *Baa* have definitely less of an investment and more of a speculative character.

The flotation of total capital issues (new and refunding) during 1937 was seriously hampered by the decline in bond prices during the year, but the value of total

new issues during the first 11 months of 1937 aggregated $1,113,772,947 as compared with $983,744,526 during the corresponding period of 1936.

Gold and Capital Movements.

Net gold imports into the United States during 1937 exceeded $1,500,000,000. From the end of March to the first week in July $775,000,000 of gold was received from abroad largely as a result of dishoarding in Europe and of the French financial crisis. Receipts from Japan were also a substantial element in the total. After the peak of the movement in late June, the inward flow of gold gradually diminished. The net inflow of capital into this country during the second quarter of the year was almost double that of the first quarter although net foreign purchases of securities were much smaller. As a result of the action of the Treasury on December 21, 1936, placing purchases of newly-mined gold and further imports of gold in an "inactive" account, $1,243,000,000 of gold was in that account on December 31, 1937, even after allowing for the release of $300,000,000 in September.

The dollar was strong against the pound during the first quarter of the year, and was generally weak throughout the balance of the year. On the other hand, the dollar showed persistent strength against the French franc throughout the year, especially after the franc was permitted to seek its own exchange level at the end of June. During November the dollar was generally weak, and the gold exports that followed, chiefly to England and France, were the first of any consequence since February 1936.

Public Finance.

Although the fiscal position of the Government during the first 11 months of 1937 showed material improvement over that of the same period in the preceding year, receipts continued to lag behind expenditures. Receipts were $5,446,000,000 as compared with $3,855,000,000 in the preceding year, while expenditures were $7,642,000,000 compared with $7,984,000,000 in the first 11 months of 1936. The resultant deficit, including public-debt retirement, was $2,196,000,000 as compared with $4,129,000,000 in the preceding year. The public debt on November 30, 1937, stood at $37,094,000,000 as compared with $33,794,000,000 on November 30, 1936. Income taxes in the first 11 months of 1937 increased by $831,000,000 to total $2,123,000,000, and customs receipts rose $77,000,000 to total $453,000,000. Expenditures on recovery and relief, although showing increases in some items, aggregated $447,000,000 less than in the preceding year. The proportion of the Federal debt in the form of Treasury notes, certificates of indebtedness, and bills, was 39 percent on November 30, 1937, as compared with 41 percent on November 30, 1936.[6]

Prices and Inventories.

No inventory of the business situation would be complete which omitted an examination of prices. The general level of wholesale prices compiled by the Bureau of Labor Statistics showed a continuation of the upward trend through the first 3 months of 1937. From early April to September the level was fairly even at about 87.5 percent of the 1926 average. From early October through November prices dropped sharply, but during the first 3 weeks of December some firmness was noted. Individual price series reflect in varying degrees the impact of the recession on the price structure. Finished goods, for example, maintained an almost uninterrupted advance through September, but since that time have experienced a sizeable decline. In sharp contrast, the index of raw material prices turned downward in early April, and, showing successive losses each month, declined 17 per cent to 75.2 the third week in December. The prices of semifinished manufactures follow the price trend of raw material prices. The general nature of these changes is shown in the chart on page 2.

A discussion of prices seems inadequate without a consideration of stocks of merchandise. Inventory data are very fragmentary or altogether lacking. The few available data afford at best an inadequate basis for studying business fluctuations. And yet, if inventory data were available for points of production, for wholesale warehouses, and for points of retail distribution, they would provide one of the best gages of business relationships. Some data are available on domestic commodity stocks of manufactured goods and of raw materials as well as end-of-month stocks of department stores. The index of raw-material inventories was lower every month from January through August 1937 than in the corresponding 1936 months. Sharp increases, however, occurred in September, October, and November. Raw-material prices dropped

[6] Several bills affecting the monetary and financial situation were enacted during the year. On January 23, 1937, a bill was approved extending until June 30, 1939, the powers conferred upon the President by the Gold Reserve Act of 1934 which granted him authority to reduce the gold content of the dollar by not more than 50 percent as originally provided for by an amendment to the Emergency Farm Relief Act of 1933. The bill also provided for a similar extension of sec. 10 of the Gold Reserve Act of 1934 which provided for the establishment of a stabilization fund of $2,000,000,000 by the Secretary of the Treasury. On January 26, 1937, a bill was approved extending until June 30, 1939, the period during which the Reconstruction Finance Corporation may perform its functions as authorized by previous legislation.

The London Silver Agreement, signed in London July 22, 1933, expired December 31, 1937. Accordingly the President's proclamation of April 24, 1935, providing for the payment by the Treasury of 77.5757 cents an ounce to domestic silver producers expired on the same date since this proclamation was issued under the terms of the ratification proclamation of December 21, 1933.

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quite sharply in October, hence the inverse correlation which might be expected appeared at this point.

Department store inventory data are meager and throw little additional light on the general subject of merchandise stocks. Beginning 1937 on a considerably higher plane than 1936, the adjusted end-of-month stocks for department stores remained relatively constant throughout the year. End of the year information pointed to a normal situation in department store inventories brought about by aggressive selling even to the extent of advancing to late November and December some of the customary January sales.

Apparently advance buying of a substantial nature led to long inventory positions by manufacturers during the early months of 1937. Subsequent reaction and recession in business followed a realization of this situation. Thereupon buying practically ceased and business continued on a reduced basis, living off the inventories so to speak. Retail trade, department stores, mail-order houses, and chains seemed to have worked off any excessive inventories quite satisfactorily by the close of the year.

Evaluation of the Business Situation.

For the year just completed, the upward trend of national income was continued, production as a whole exceeded the previous year despite the last quarter recession, construction and building, particularly housing continued to trail the recovery procession, wholesale and retail trade held up well and even exceed 1936. Our foreign trade expanded much more than most other significant parts of our economy. Our financial situation generally continued to improve, our banking structure continues sound, and our credit reserves are increasing. Our price structure as a whole shows improvement although a few series are out of line, notably the prices of building materials. Inventories were improving toward the close of the year with the exception of a few industries which were still handicapped by heavy stocks. The security market, after the rapid decline from mid-August to late November, showed some signs of strength toward the close of the year. Long term capital commitments, however, continued at a low level, and constitute a major weakness of our economic position.

Unemployment continues as a cloud over the business horizon. The unemployment load was substantially lower during the first three quarters than at any time in the recovery movement, but the recession in the last quarter has added considerably to the ranks of the unemployed. As one looks through the door into the new year, the scene presents many elements of strength and weakness. Although there are many intangible psychological and political factors which it is impossible to take into account, it is the consensus of a substantial block of economists that the recession in activity which began late in 1937 is temporary rather than of long duration, and that 1938 will show a resumption of the upward trend of economic activity.