

Wholesale Commodity Prices 1929-34

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PRICES tie together—or keep apart—the multitudinous elements in our complex economic life, if one includes in the category of prices not only the prices of commodities but also security prices, wage and interest rates, rents, royalties, commissions, and other similar payments. Within the complex relationships of our economic society, certain forces tend to produce price relationships that will promote or maintain prosperity while others tend to induce or prolong depressions. Which of these groups is in the ascendancy at any particular period of time depends on the peculiar circumstances that prevail, and the ensuing results are of grave importance in terms of economic welfare.

The price relationships that prevailed in the latter part of the decade of the 1920's were such that prosperity could not continue and various aspects of "bad" business became increasingly apparent in the latter part of 1929. Instead of the imbalance that prevailed being corrected, maladjustments became more and more pronounced during the following 3 years. These maladjustments prevailed throughout the entire price structure and a full description and analysis thereof would be very timely. Limitations of space, however, confine this article to a summary statement of the price movements of commodities at wholesale as reported each month by the Bureau of Labor Statistics of the United States Department of Labor. These

series of 784 items are combined into an index and, also, are classified, or grouped, into various divisions for which indexes are computed.

These indexes are subject to the limitations that are necessarily involved in making a selection of items to be included, and of the weights to be assigned to each one. Further, the price data may not in some cases be strictly accurate because of discounts allowed on reported prices, and changes in the quality of the articles included. The data may, however, be accepted as indicating the trends of wholesale prices. These indexes are computed on the basis of the corresponding prices in 1926 being equal to 100, but since the present purpose is to review price movements during the 5 years, 1930-34, the indexes have been shifted to a 1929 base.

The Decline from 1929 to the Spring of 1933

The outstanding fact in the price history of the 3½ years following the summer of 1929 is the almost unbroken decline month after month. There were only 5 months in the 44-month period, July 1929 to February 1933, inclusive, in which the composite wholesale price index did not decline, and only 3 of these, July-September 1932, were consecutive months. The index at the close of this period was 38 percent below its position at the beginning. Certain commodity prices, however, and many noncommodity

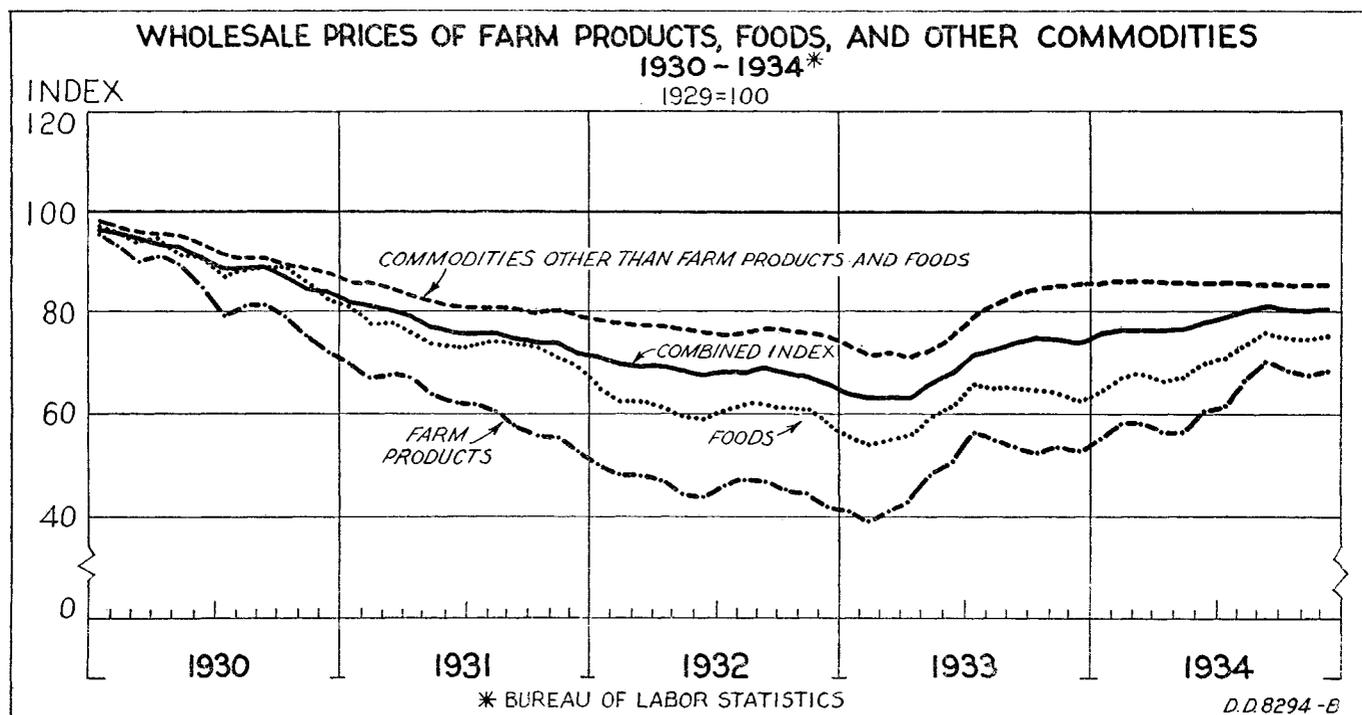


Chart 1

prices, fell but little and in some cases actually advanced, which undoubtedly contributed to the general decline by intensifying the degree of imbalance in the price structure.

Chart 1 gives a graphic presentation of the movement of the index of the 784 price series and of the 3 indexes of farm products, foods, and other commodities. The declines of these 3 group indexes were approximately 60 percent, 46 percent, and 28 percent, respectively, from the 1929 average to February 1933. These same data combined into 3 classes, raw materials, semimanufactures, and finished products, chart 2, show declines for the period under review of approximately, 50 percent, 40 percent, and 30 percent, respectively.

Another classification of the Bureau of Labor Statistics series is given in chart 3, showing the 10 commodity groups arranged according to the degree of decline in the different groups. As shown therein, the prices of three groups, metals and metal products, house furnishings, and chemicals and drugs, declined slightly less than 25 percent from 1929 to the lows which were reached in the early part of 1933, and the prices of building materials only a little more than 25 percent, while the prices of farm products as already noted fell about 60 percent, and food prices more than 45 percent. This chart also indicates that while the depression low was reached in February by the combined commodities and by 5 of the groups, the low for the other 5 groups was reached somewhat later.

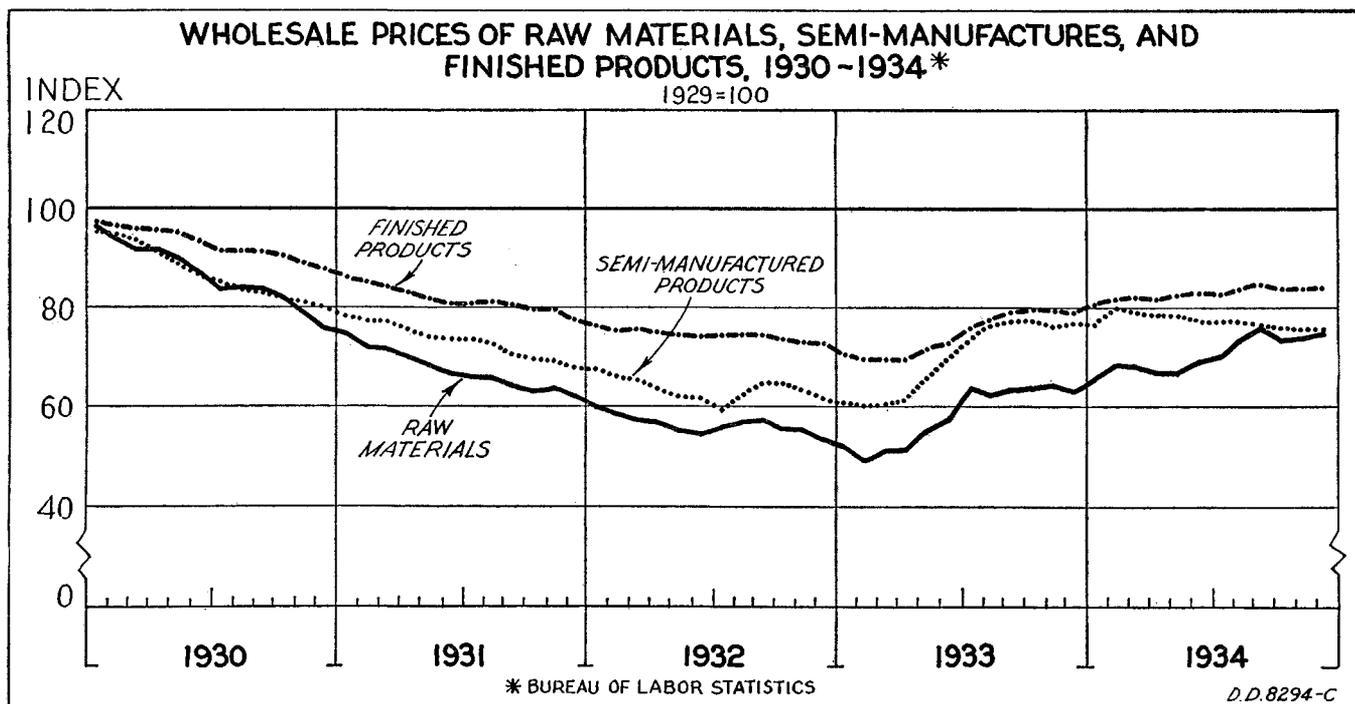
The disparities that have been noted in the classes and groups of commodities were also pronounced within the groups as is shown in the accompanying

table, which was compiled by the Bureau of Labor Statistics. The prices of 27 of the 784 items increased during the period indicated, 42 were unchanged (were the same at the close as at the beginning of the period), and 48 were down less than 10 percent, while 78 items were from 60 to 90 percent below their June 1929 levels in February 1933.

The distribution by groups of the 42 items with no change in price over this period shows 14 to be in the chemicals and drugs group, 13 in the metals and metal products group, 7 in the building materials group, and 4 in the house-furnishings group. Among these 42 items whose prices were the same at the close as at the beginning of this period, several were unchanged in price during every one of the 44 months included, while for some items, prices had not changed since 1921. This was true of augers and of bone black. Other items in the group with unvarying prices during the time of the general decline are chisels, carvers, bar iron, corn pickers, wrapping paper, plaster board, snuff, carbon dioxide, calcium carbide, and corn flakes.

Thirteen of the 27 items whose prices advanced from June 1929 to February 1933 were in the chemical group and 4 were in the metals and metal products group. Two farm products were in this class, hops and New York white potatoes, and one food item, bread, in San Francisco.

The behavior of the chemical prices is especially noteworthy. Of the 89 items included in the index of chemical and drug products, the prices of 27, or almost one-third of the total, either advanced or remained unchanged, and the prices of 21 fell only from 10 to 20 percent during this period. Prices of metals and



* BUREAU OF LABOR STATISTICS

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Chart 2

metal products were also relatively rigid during the general price decline. Thirteen of the 130 items were unchanged in price, 4 advanced, and 59 declined less than 20 percent.

Number of Articles, by Groups of Commodities, Changing Each Specified Percent from June 1929 to February 1933¹

Percentage change	Farm products	Foods	Hides and leather products	Textile products	Fuel and lighting	Metals and metal products
Decrease:						
Under 10 percent.....	1	6	4		5	21
10 percent and under 20 percent.....		8	6	7	2	38
20 percent and under 30 percent.....	3	6	7	8	2	24
30 percent and under 40 percent.....		16	9	21	6	9
40 percent and under 50 percent.....	8	30	6	31	1	8
50 percent and under 60 percent.....	31	39	4	31	1	9
60 percent and under 70 percent.....	13	12	3	9	1	3
70 percent and under 80 percent.....	7	2	2	4	4	1
80 percent and under 90 percent.....	2	1				
No change.....		1				13
Increase.....	2	1		1	2	4
Total.....	67	122	41	112	24	130

Percentage change	Building materials	Chemicals and drugs	House-furnishing goods	Miscellaneous	Total
Decrease:					
Under 10 percent.....	4		7		48
10 percent and under 20 percent.....	21	21	11	9	123
20 percent and under 30 percent.....	20	5	20	13	108
30 percent and under 40 percent.....	16	20	13	10	120
40 percent and under 50 percent.....	7	10	4	5	110
50 percent and under 60 percent.....	5	2	2	4	128
60 percent and under 70 percent.....	3	4		3	51
70 percent and under 80 percent.....					20
80 percent and under 90 percent.....	1			3	7
No change.....	7	14	4	3	42
Increase.....	2	13		2	27
Total.....	86	89	61	52	784

¹ Bureau of Labor Statistics, Report No. 132.

Combining the items that increased in price during this period with those whose prices were unchanged, it is found that of the 69 items in this category 27 were chemicals or drugs, 17 metals or metal products, and 9 building materials. The items in these 3 groups thus represent almost 80 percent of the items whose price behavior was in sharp contrast with the general trend during the 44-month period under review.

The Volume of Production

A fundamental reason for the relatively greater decline in agricultural prices than in the prices of finished goods is that the volume of production in the one field was curtailed but little, while it was greatly reduced in the other. The Bureau of Agricultural Economics estimates that the physical quantity of agricultural output of the country in 1929 was 9 percent above the average output for the years 1919-27, 12 percent above that average in 1931, and 4 percent above that level in 1932. In sharp contrast to this trend of agricultural production, the physical volume of manufacturing output, according to the Federal Reserve Board's index, fell from 119 percent of the 1923-25 average in 1929 to 63 percent of that average in 1932.

Whereas, in agriculture the physical output in 1932 was approximately the same as in 1929, in manufacturing the physical output in 1932 was only a little

more than half of the output 3 years earlier. If attention is directed to certain lines of manufacture the contrast with agriculture becomes far more pronounced. The output of automobiles, iron and steel, cement, and lumber in 1932 was 74 percent, 76 percent, 55 percent, and 73 percent, respectively, below that in 1929. The self-employed farmer and his family maintained the agricultural output of the country near the peak levels during the 3 years, 1930-32, while the manufacturer dismissed large numbers of his employees and greatly reduced his output.

The Price Recovery

The rise which began in the general list of prices in March 1933 has been almost continuous during the 22 months ended December 1934, there having been only 4 months in which the combined index did not advance. The gain during this time represented a rise of 29 percent from the February 1933 low. During the first 8 months of this period the rise was especially pronounced, the index advancing approximately 20 percent, or two-thirds of the gain for the entire period.

Prices of farm products rose more sharply than did the prices of other products, the increase amounting to 76 percent. The prices of foods rose 40 percent during the period under review and the prices of commodities other than farm products and foods 20 percent. The prices of metals and metal products and of chemicals and drugs, 2 of the 3 groups that showed the least decline, rose about 10 percent. The three economic classes, raw materials, semimanufactures, and finished goods registered price gains of approximately 50 percent, 25 percent, and 20 percent, respectively, during these 22 months.

An interesting situation is observed if the recovery in prices is measured in terms of the percentage of the decline that had been regained by December 1934, as is indicated on chart 3. Commodities, other than farm products and foods, and the two groups, farm products and textile products, had recovered approximately 50 percent of their price declines by that month. This was also true of the two classes, raw materials and finished products. Building materials and the fuel and lighting group were at the bottom of the list in this classification, having recovered only about 40 percent of their decline and chemicals and drug prices were at the top of the list having recovered 70 percent of the decline which they experienced from 1929 to the depression low.

The price movement in the three classes, raw materials, semimanufactures, and finished goods, during the recovery period shows an interesting divergence as respects semimanufactures, as is indicated in chart 2. The percentage increases of raw material and semimanufactures were practically identical from the February 1933 low to September 1933. Since then the prices of semimanufactures have declined almost

continuously while the other two series in this classification have advanced. The 1934 rise in prices of raw materials is largely attributable to the increase in the prices of farm products.

Factors Influencing the Price Rise

In analyzing the factors that contributed to the price rise from February 1933 through December 1934 attention should be called to the two periods, March to October 1933, and the subsequent 14 months. During the earlier of these two periods, the price advance was not limited to any of the groups, but during the later period combined index for commodities of other than farm products and foods remained practically unchanged.

The sharp and general rise in the 8 months, March–October 1933 is one aspect of, and may be partly attributed to, the marked improvement in business which took place during that period and the accompanying and resulting purchase of goods. The unadjusted index of industrial production, as compiled by the Federal Reserve Board, rose from 60 in March to 78 in October, a gain of 30 percent, having reached 95 in July, and pay-roll disbursements in factories, without adjustment for the usual seasonal variations, as reported by the Bureau of Labor Statistics, increased during this period from 37.1 to 59.4 of the 1923–25 average, a rise of 60 percent. The National Industrial Recovery Administration influenced the business improvement during this period, and especially encouraged the sharp rise which culminated in July, as business men speeded up production in anticipation of an increase in wages. Many of the codes also contributed to price increases or, at least, to the maintenance of established prices.

The emphasis of the administration on an increase in prices and the ensuing belief that monetary inflation would be undertaken stimulated speculative buying and hastened the price rise. The suspension of gold payments in March 1933 and the decline in the foreign exchange value of the dollar in April and the following months contributed directly to a rise in the prices of imports and of raw material exports and may be expected to have had some effect on the prices of closely related products. The policy of Government expenditure for relief and recovery, and the resulting increase in buying power, tended further to augment the price increase.

The rise in the general index since October 1933, which is accounted for by the rise in the prices of farm products and foods, if all the other groups are combined, is largely attributable to the policy of crop curtailment, including the imposition of processing taxes and marketing agreements and to the severe drought of the summer of 1934. Another factor has been the liberal crop-lending policy of the Government. The relief policy and expenditure for public

works has also been a factor in raising these prices and in sustaining the prices in the combined groups of other than farm products and foods.

Present Price Disparities

It is apparent, from a glance at the charts, that the marked disparities in the price structure in the early part of 1933 have been substantially lessened. Considerable disparities still exist, however. As compared with 1929, building material prices were in December only approximately 10 percent below the 1929 levels, while farm products prices were more than 30 percent below that level. As related to the 1926 base, as shown on page 5 of this issue of the SURVEY, the prices of these groups were much more uniform in December 1934 than if compared with the 1929 prices. On that base, the prices of farm products were above the prices of textiles and miscellaneous products and were only slightly below the prices of fuel and lighting items. The group

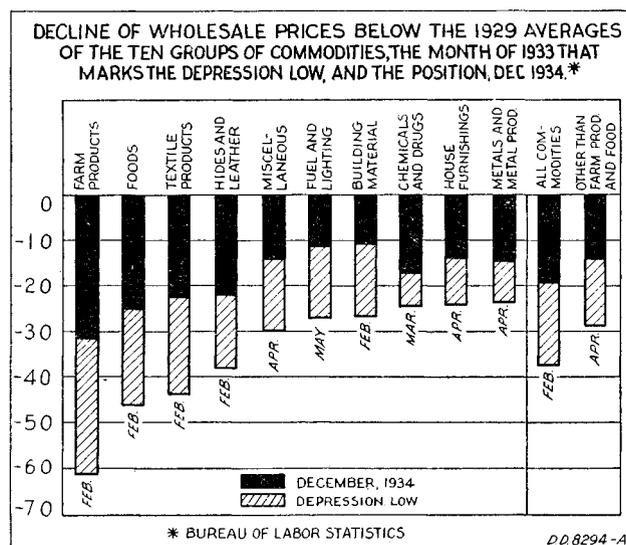


Chart 3

with the highest prices as compared with 1926 was metals and metal products at 85.9 percent of that base and textile prices were the lowest at 70 percent.

The price relationships as they prevailed in 1926, 1929, or at any other date, are not necessarily the relationships that should be restored. This is especially apparent in respect to the 1929 prices, since price relationships at that time, using the term broadly, were such that prosperity could not be maintained, and since then changes in technique have undoubtedly been so altered that price relationships which would have permitted full utilization of our economic resources at that date would not now secure that result. The desirable balance within the price structure can be determined only by trial and error. It seems apparent, however, that the prices of certain of the commodity groups are still such as to prevent the degree of coordination that is so essential among the various elements in the economic society.