

## Next Year's Business

An Address Before the Board of Directors, The Cleveland Trust Company,  
and the Cleveland Advertising Club

By COL. LEONARD P. AYRES,

Vice-President, The Cleveland Trust Company.

**T**HE tide of business is rising. Evidence of this is apparent on every hand. It does not admit of argument. Without exception every important industry is more active and more profitable in October of 1922 than it was in October of 1921. A year ago every important city had its committees on unemployment which were anxiously seeking methods by which to reduce the want and suffering that could all too plainly be foreseen as we approached the winter season with hundreds of thousands of men and women out of work. This year unemployment has disappeared and newspapers and employment agencies are advertising for workers.

And so men say that the tide of business is rising, and everyone knows what is meant by that phrase. This likening of business movements to the rise and fall of the tides has become common in recent years as we have rapidly increased our knowledge of those great swings of industry and commerce that carry the level of general business from conditions of depression up to prosperity, and down again to depression.

Most of us can easily recall the swings of the business tide during the past 20 years. From a condition of activity in 1902 business and industry fell to the depression of 1903 and 1904. Then followed the recovery and prosperity of 1905 and 1906, succeeded in turn by the severe depression of 1907 and 1908. Recovery carried business back to good activity in 1912, only to be followed by the depression of 1914.

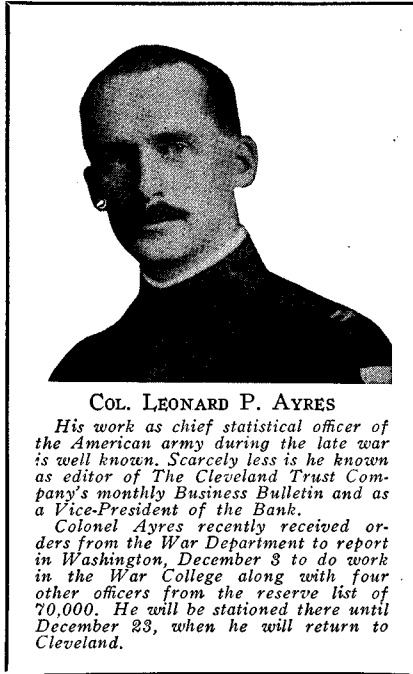
Then came the war boom with the great activity and high profits of 1915 and 1916 followed by a considerable recession in 1917 and 1918. After the war came the high prices, speculative markets, and record breaking wages of the boom years of 1919 and 1920, followed by the great depression of 1921.

This covers a period that most of us can clearly remember, and if we wish to follow the records back through the decades we shall find evidence of similar, well-defined movements of depression, recovery, prosperity, and decline for a hundred years. These movements of the ebb and flow of affairs are clearly marked, but when the student of economic statistics hears them referred to as the movements of the business tide there is

likely to arise in his mind the objection that the figure is inappropriate because the periods of business ebb and flow are irregularly spaced and unpredictable as to time.

Such objections are well taken, for every attempt to establish a regular time table for business swings has failed. Nevertheless the popular phraseology which likens the business swings to the movements of the tide is better justified than would be a similar comparison to either of the two other recurrent changes of nature that we all observe; the constant succession of night and day, or the annual procession of the four seasons of the year.

We have official tables that tell us in advance the hours of high and low tide each day, but they only tell us what to



COL. LEONARD P. AYRES

*His work as chief statistical officer of the American army during the late war is well known. Scarcely less is he known as editor of The Cleveland Trust Company's monthly Business Bulletin and as a Vice-President of the Bank.*

*Colonel Ayres recently received orders from the War Department to report in Washington, December 3 to do work in the War College along with four other officers from the reserve list of 70,000. He will be stationed there until December 23, when he will return to Cleveland.*

LIBRARY

JAN 10 1923

FEDERAL RESERVE BANK  
OF NEW YORK.

expect, and the actual results are often very different from the predictions. When the moon is full, tide movements are abnormally great, and in certain months of the year these variations are larger than at other times. Winds unexpectedly affect tides so that it sometimes happens that in rivers and inlets the rise is twice as great as was to be expected, or perhaps far less than normal. In northern latitudes the presence of ice introduces still other unexpected variations, and sometimes the combined effects of moon, wind, and ice acting together produce results utterly at variance with the predictions both as to amount and to time.

Recently I have been working on a business barometer or forecaster in the endeavor to develop a relatively simple and dependable method for looking at least a little way into the future, and this work has repeatedly brought to mind the reflection that with all uncertainties the movements of business are extraordinarily like those of the tides, but with far greater variations of time and amount.

As one traces from month to month over the past quarter of a century the movements of security prices, industrial production, commodity prices, and interest rates he cannot fail to be deeply impressed by the almost inexorable fidelity with which the movements follow one another in well defined relationships through the years. Even the tremendous events of the war period only distorted these movements, having left them running fundamentally true to form, even though in exaggerated amounts.

During that span of twenty years there were five great business swings which completed their development from depression up to prosperity, and down again to depression. At the present time all the fundamental factors with which I have been working are going through the same sorts of movements, in about the same relationships to each other, that they exhibited in all the other periods of business recovery.

As a part of this work I have traced over the past quarter of a century, month by month, the movements of bond prices, stock prices, the unfilled orders of the United States Steel Corporation, and interest rates. For each series I have estab-

lished a normal line for the entire period, so that it is possible to determine for every month the per cent above or below normal represented by the data of each of the four sets of records.

Now, the interesting feature of this piece of work is that there is a marked regularity of movement in these figures. When a period of recovery gets under way bond prices begin to move up. These are followed by stock prices. A little later the line showing the unfilled orders of the Steel Corporation turns up, and this in turn is followed by the course of interest rates.

As improvement continues, these rising lines cross the normal line in this same order of bonds, stocks, unfilled orders, and interest. As prosperity is reached, they one by one get to the top and turn down in this same order. A little later they cross normal on the way down, still maintaining the sequence of bonds, stocks, orders and interest. Finally they reach bottom and turn up again in the period of depression, and still in their same order.

During the entire period since 1899 there are surprisingly few cases in which the four lines change from their order and most of these exceptions were of short duration. The whole process reminds one forcibly of the swings of the tides which are started by forces so potent that they must carry through their movement up or down, but which may be delayed or accelerated, increased or diminished by numberless combinations of conditioning forces that enter to help determine the outcome.

For more than a year now the four lines on my charts have been acting in very much the same way that they did in the five previous periods of business recovery following depressions. At the present time they exhibit exactly the symptoms that they have shown in previous years when we were just entering a period of prosperity. My own conviction that the business tide is rising is based not only on the reports of current developments, that all of us may read in the financial pages or note in connection with individual firms with which we are in contact. It is based also on the fact that such fundamental series of economic and financial statistics as I have mentioned are now acting just

### Next Year's Business

(Continued from page 6)

about as they previously behaved at times when business recovery was merging into business prosperity.

The upturn of commerce and industry during the past year has largely been due to the attempt of the business world to make good four great shortages. The first of these was the shortage of building construction which had been accumulating during the past six years. This shortage had reached such large proportions by the beginning of 1922 that careful estimates indicate that in our cities it amounted to as much as the total amount of building normally done in two and a half years. This means that the construction industry would have to work at twenty-five per cent above its normal output for ten years to make good the accumulated deficiency. In view of the amount of this shortage and its widespread distribution it seems entirely probable that the building boom of 1922 will continue through 1923, but probably with somewhat diminished vigor.

The second great shortage was one of railroad equipment. It had been accumulating during the war period and since the war, and this year it has made itself felt in an acute demand for locomotives, cars, rails, and repair parts. Railroad earnings are increasing, and even those roads that are in straitened circumstances are placing large orders. There seems to be every probability that the makers of railroad equipment and supplies will continue to be active during 1923. This insures a very considerable bulk of business for the iron and steel industries, for the railroads are their best customers.

The third of these shortages was of automobiles and trucks. Since most of us would not have agreed last year that any shortage existed, it seems strange to call it one. Nevertheless the amazing activity of the motor industry during 1922 shows that there did exist a real and great shortage of cars, for clearly there were some millions of people in this country this year who wanted new automobiles and who had the money with which to satisfy their desires.

During recent months automobile output has been making new high records, altogether in excess of any heretofore

reached in the second half of the year. There are no evidences that demand will suddenly diminish during 1923, and the present prospects are that sales will reach high figures next year. During the present year production capacity has increased, and very great extensions of automobile plants are now nearing completion. One thing that seems certain is that the automobile industry in 1923 will reach an unparalleled pitch of competition. Probably there will be notably fewer competing automobile firms in 1925 than there are in 1922.

The last of these four great shortages was a somewhat general shortage in many lines of the thousands of articles sold in stores. This shortage has been gradually developing since prices broke in the spring of 1920, and started on their long downward course that continued to the early months of 1922. When prices are falling merchants purchase goods in as small amounts as possible, because they do not want to take the losses that would result if the market value of the goods should drop before they could sell them. For nearly two years the wholesale purchasing of the country was done on a short time basis, and much of the ordering was almost on a week to week basis. This gradually produced a condition of distinctly low stocks on hand in thousands of retail establishments.

Since the beginning of this year prices have been rising, and the influences that produced the shortage are now reversed. Present tendencies are for merchants to order enough for present needs and those that probably will rise in the near future, for they fear that if they do not buy now they will have to pay more later. As is the case of the other three shortages, it seems probable that the effects of this one will continue to be felt in 1923, and that they will constitute a stimulating influence on industry and on commerce.

We have considered four great shortages that were largely instrumental in bringing about the present revival of business. In discussing how long that revival is likely to continue we must consider the probable trends of four kinds of prices. First come the prices of securities, the market quotations for bonds and stocks.

It seems likely that bond prices have

about reached their top for the present movement. In times of business revival the prices of bonds tend to rise during all the first part of the general recovery, and then to stop rising and gradually to decline as industry expands to full activity. That characteristic course has been followed so far in this business recovery. It would seem likely that not much further increase should be expected, and that bond prices might probably be somewhat lower at the end of 1923 than they are now.

Stocks have been rising for more than a year in one of the steadiest and most sustained bull markets of which we have any record. It has been the experience of the past that such a market does not terminate until prosperity is general. If present conditions continue that time will come not many months in the future.

The second sort of price movement to be considered is the price of money, the course of interest rate. In the summer of 1920 the interest rates on commercial paper reached a high point of eight per cent. From that peak they fell for two years, until in this August they were below four per cent. Since then they have been rising, and it seems probable that they will tend to rise rather than to fall during the rest of 1922. If industry continues to expand during the early months of 1923, interest rates will probably advance. If they do advance in any marked degree in the early months of next year that upward movement will probably foretell the turning point in the stock market. My personal opinion is that money rates will advance next year.

The third group of prices to be considered is that of general wholesale commodities. They are now rising, and they have been during most of the present year. They are rising because of a short supply of manufactured goods, an abundant supply of credit, and an increasing purchasing power of farmers, miners and industrial workers. These same influences bid fair to carry the advance along for some time to come. An individual forecast would be that they might be expected to turn down some time next fall, perhaps about a year from now.

The last of this group of four kinds of prices is the price of labor, commonly termed wages. These are rising, after

having gone through a long decline. They will probably continue to rise next year, and it would be reasonable to expect that they might advance during all of 1923, for the turning points of wages ordinarily come somewhat later than those of the prices of goods or of securities.

At this point it is appropriate to consider what influence or influences will probably call a halt on the expansion of business when the time comes for it to turn the corner, and begin the slowing down process. In the past the turning point from prosperity to business decline has characteristically come when expanding commerce and industry have made such great demands for money as to cause a shortage or a stringency of credit. When that has happened interest rates have risen so high as to discourage further business expansion, and to result in a general slowing down of activity.

At present no such prospect is in sight. Banks throughout the country have great amounts of loanable funds. They have far greater investments than ever before, and these could readily be converted into loanable funds. The Federal Reserve System has immense gold holdings which might form the basis of an almost unlimited amount of credit. If the present expansion of business were to go forward until halted by a shortage of credit we might well look forward to a very great business boom.

It seems probable that the present business expansion will be halted, not by a shortage of credit, but by a shortage of labor complicated by a shortage of railroad transportation, and it seems further probable that those two shortages are already well on the way toward becoming serious. During the peak of the boom in the spring of 1920 manufacturing firms began an active and aggressive competition for labor and when that happened manufacturing costs ran up and profits disappeared.

Already shortages of labor will take place, wages will go up, efficiency will decline, and business expansion will probably halt. While this is going on the existing shortage of railroad transportation will probably continue to be serious, and that in turn will increase expenses and discourage enterprise.

(Concluded on page 18)

### Next Year's Business

(Concluded from Page 16)

In summarizing the prospects for next year's business it may be said that it now appears probable that 1923 will be a year of business prosperity that will culminate and begin to slow down before the end of the year. Among the statistical measures of business and industry there are some that will probably advance, some that may be expected to decline, and some that will in all likelihood both advance and decline.

Among those that will probably advance are the following:

Interest rates, wages, railroad car loadings, automobile output, money in circulation, cost of living, unfilled orders of the steel corporation, bank loans, iron and steel production, traffic on the Great Lakes, rediscounts with the Federal Reserve banks.

Among those that will probably decline are the following:

The price of bonds, the number of failures, building construction, the gold reserve ratio, bank investments.

Among those that will probably rise first and then fall are the following:

Stock prices, wholesale commodity prices, the volume of manufacturers, the volume of employment.

To the foregoing it might be added that there will probably be during 1923 an increased number of marriages, an increased number of divorces, and decreased number of suicides, for these are regular accompaniments of a period of prosperity.

A great poet has said "There is a tide in the affairs of men, that taken at its flood, leads on to fortune." He was wrong. The tides of business lead on to fortune when taken at their ebb, not at their flood. It is now too late to take this present business tide at its ebb, for that came in August more than a year ago. The tide is now about half way in and rapidly rising toward its flood. There is still time to ride up with it to its flood, and when it gets there those who are prudent and watchful will be able to step off on the pier or on the beach and not be carried out to sea when it ebbs as in time it surely will.

Page eighteen

### Tales of Teller Thrift

(Concluded from page 9)

The first thrift period is held by State Street School of Painesville, where 93% of the children are saving Automatic Teller stamps.

All of which is in vain unless Mary Louise and Johnny find that Neighborhood B. Teller is on the job when they present their thrift folders. That "same welcome to the \$1.00 and \$100.00 depositor" means a proud, happy youngster, owning a bank book "all his own," and growing into that thrifty, industrious citizen upon whom depends much for the future progress and welfare of these United States.

### Watch Your Foot

(Concluded from page 17)

School Superintendent R. G. Jones has said this work must go on; it can not be stopped. He is a firm believer in the practicability of safety education.

The value of a traffic policeman to a community can not be overestimated. Take, for instance, November, 1921, when traffic police were detailed to strike duty. The deaths that month reached the almost unprecedented total of twenty-four, nearly doubling October's figures.

The accompanying chart illustrates the reaction as reflected in traffic accidents, to such things as heavy snows, strikes, imposition of jail sentences and safety campaigns.

The Cleveland police force needs more motorcycle men. Lieut. Blecke showed what he could do when he was given twenty-five new motorcycles last spring. It needs, also, a separate squad of highly trained men for investigation and preparation of evidence in traffic accidents. Detroit developed this police function and its success has exceeded the expectations of even the most sanguine of its proponents.

The ultimate solution of the traffic problem, and this is based on the conclusions of practical men who have studied the subject thoroughly, is the motorcycle man. Give a community enough trained motorcycle patrolmen, along with other specialized men, and we'll get somewhere.