

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 27, 1937.To Chairman EcclesSubject: Forecasting in 1937jm Lauchlin Currie*LAC*

I understand that at a Board meeting yesterday the forecasting record of the Division received some attention. Since I was not there I do not know all that was said. I should like to indicate very briefly my own record. Considering that nearly all of my time was devoted to other things, I do not think it was so bad.

On December 16, 1936 I wrote you a memo calling attention to the dangers of the price movement that had got under way. I said that "There is danger, therefore, that the recent movement may lead to inventory buying and stocking." I remarked that such a movement "may lead to a 3-4 months' recession, while the inventories are being worked off, or it may generate more buying and more price rises and eventually a 6-12 months' recession to work off inventories."

Along in May you asked me for an appraisal of the current situation. My conclusion was that "The prospects, therefore, are for continued and modest gains in production and income unless a net reduction of inventories occurs which, for a few months, could cause a decline in production. Such a reduction, however, if it is to occur at all, should be taking place now as an aftermath of the cessation of the period of rapid price advances. It may, of course, be that a slackening of orders will only show itself after industry has caught up with the orders placed this spring. At this juncture, therefore, the prospects for the remainder of the year depend largely on the movement of inventories. If they remain stationary, a modest advance in production is possible; if they decline we may experience a minor recession."

I was led somewhat astray here by relying upon the opinion of building experts that the advance in costs would not retard building activity. I recall, however, that you were fearful about the effects of such cost advances at that time.

When I got back from my vacation in the middle of September there was another request from you for an appraisal of the situation. I stated then that "the disturbed conditions in the security markets and the adverse psychological reactions arising therefrom may even result in some recession in plant and equipment expenditures from current levels." "There is a serious question whether the inflowing orders will be sufficient to maintain production at its present rate in the next three or four months".

With reference to Government expenditures I stated that the "broader conclusion seems warranted that a major factor in the recovery from June 1936 to June 1937 will be very substantially reduced in the present fiscal year. On this scale we may expect the rate of recovery to be diminished."

With reference to housing I said, "The immediate prospects are not encouraging in one of the most important fields on which we have to rely for recovery." I concluded that "My hunch, for what it is worth, is that the final quarter will witness some recession". I disagreed with a memorandum that was forwarded from the Division at the same time which concluded that "altogether it seems likely that although the long-term outlook is for further substantial recovery, there may be little change in the volume of industrial production, employment, commodity prices and trade during the next few months."

A week or so later, at a meeting of Government forecasters, I disagreed even more sharply with my colleagues in the Division, who were still looking for little change in the remainder of the year and an average index of production for 1938 of 120.