



Business Trends

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THE NEW HIGHS IN BUSINESS ACTIVITY

The months of May and June of this year will probably go down in business annals as the time when business activity in this country finally caught up with its previous postwar peak, and in some respects even reached new highs.

It is important to get the May-and-June record straight before recollection is blurred. Business performance during these two months is likely to provide the springboard for one of three possible courses of business behavior, depending on the trend of military and political affairs in the Far East.

In case the conflict in Asia is held within bounds and settled with a minimum of repercussions, then domestic business in this country has at least a sporting chance of maintaining genuine prosperity without inflation, although a new recession is not excluded if domestic demand should lag or if the credit boom should be punctured. In case, however, the Far Eastern conflict hangs on and deepens, without actually turning into a World War, then business is likely to be entering an inflationary period, where military demands make heavy inroads on American production, civilian consumption is squeezed, and incomes as well as prices are high as a result of stepped-up deficit spending by the government. May and

June, just past, would provide a different sort of a landmark in such a situation. Finally, in case the international situation should deteriorate into World War, the business economy would be in for a complete transformation, with government controls paramount; May and June of 1950 would then become the peace-time springboard for measuring the economic magnitudes of the war economy.

While May and June can be considered as months when business in general caught up with its previous postwar peak, it should be noted that not all of the business indicators reached new highs in the past eight weeks. Furthermore, while the previous peak for the economy as a whole can be dated roughly as October 1948, many particular phases of business reached their own previous highs either earlier or later than October 1948. With this qualification in mind, it is possible to make a rather broad comparison between current levels of business and those of October 1948.

The physical volume of industrial production was almost the same in May 1950 as it was in October 1948, and by June it was fully as high. In the intervening period, of course, production had fallen and then recovered, along with the typical pattern of business as a whole. Total

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personal income in the United States likewise is running approximately the same as in October 1948, which was near the time of its previous peak.

Retails sales were up 3% in May of this year as compared with October 1948, and the June trade reports will probably be equally good. Inventories, as is well known, have recently shifted back to an accumulation phase. However, the total value of business inventories of all kinds was about 5% lower at the end of May 1950 than at the end of October 1948.

The employment and unemployment picture at present is not quite so favorable as the other indicators just mentioned. While the total number of employed stood at very high levels in June, nevertheless the number of unemployed was estimated at 3.4 million, as compared with the 1.6 million unemployed in October 1948. However, it should be recalled that the 3.4 million figure for unemployment in June was substantially less than the number of unemployed earlier this year, and furthermore this number is generally regarded as being not very much higher than a normal or so-called "frictional" volume of unemployment.

It is noteworthy also that in spite of recent price increases, average commodity prices are still below their previous high levels. Thus, wholesale prices in general, in May of this year, averaged 6% below the October 1948 position. Average prices of 28 basic commodities, frequently used as an indicator of sensitive prices, stood in May at a position 15% below the October 1948 level, despite the much publicized advance in prices this Spring. Even since the Korean war news stimulated raw materials prices, average prices of the 28 basic commodities have been running about 12% below the October 1948 position. Turning to consumers' prices, or the so-called cost-of-living index, the record shows that these prices in May averaged 3% below the October 1948 position.

In contrast to commodity prices, security prices have tended to be higher than in October 1948. Even after the late June break in the stock market, partly stemming from the Korean news, average prices of common stocks have been running about 10% higher than in October 1948.

One very striking fact about the general position of business at this time as compared with October of 1948 is the overshadowing role played both by the automobile and the construction industries in the current peak figures. While most business indicators are not far above or below the October 1948 position, as has already been shown, all figures which are closely related to the auto or construction industries show exceptionally large rises since that date.

Thus, for example, the June production of passenger cars in the United States was 87% above the number produced in October 1948. In the case of retail sales, the seasonally adjusted index of auto sales stood 32% higher in May 1950 than in October 1948, while *total* retail sales showed a gain of only 3%, and department store sales were down 7%. The volume of instalment credit outstanding, which reflects time purchase of autos as well as of other lines such as housefurnishings, rose 42% between October 1948 and May 1950.

Construction activity has also reached an entirely new high. In June, the value of construction contracts reported by F. W. Dodge for 37 Eastern states was more than 60% above the level of October 1948, even after adjustment for seasonal variation. Outstanding real estate loans by commercial banks in June 1950 stood at a level about 16% above that of October 1948, whereas business loans, including commercial, agricultural and industrial loans, were down about 12%. (This latter figure, however, reflects some seasonal influences.) On the price front, building materials prices in May 1950 were less than 3% below their position in October 1948, while all wholesale prices averaged 6% down, and the prices of farm products and of food averaged 10% down in each case.

When it is recalled that the auto and construction industries played a large role in the postwar boom even *before* the first peak in general activity which occurred in October 1948, then the recent supporting and accelerating influence of these two sectors of economic activity is all the more noteworthy. By the same token, the economy as a whole is increasingly vulnerable to any setback which might conceivably appear in autos or construction.

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