1933-'34

ECONOMIC SITUATION

REPORTS OF THE ECONOMIC ADVISER
TO THE
EXECUTIVE COUNCIL

July 18, 1933 — July 24, 1934

The Economic Adviser to the
Executive Council
CONFIDENTIAL

July 24, 1934

REVIEW OF THE FIRST HALF OF 1934

Business continues quiet at the lower levels reached after the end of June. The recession appears to be temporary in character, but no substantial pick-up is to be expected during the next month. The volume of industrial production for July as a whole will be well below the level of June, and factory employment will be reduced except in certain seasonally active industries. Retail trade, however, shows no corresponding reduction so far in July, except in drought areas. In the organized markets, prices of farm products have continued strong, reflecting drought conditions. Prices of common stocks have shown marked weakness during the past few days, following a period of extreme dullness.

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Looking back over the past six months as a whole, it appears that industry consolidated many of the gains made in 1933.

The sources of demand for industrial products which either maintained business activity or lifted it to higher levels can be subdivided into three major groups: First, day-to-day items of consumer expenditure such as those for food, clothing, tobacco, gasoline, tires, in which demand remained fairly steady at a relatively high rate; second, consumer outlays for heavier durable commodities such as automobiles, refrigerators, radios. Among these commodities demand continued to advance rapidly from the low levels of two years ago. Third, there are items which are not sold to individual consumers but find their uses in business, such as office equipment, machinery, trucks, transportation equipment, air conditioning units, etc. For these, in the aggregate, there was a moderate increase in demand. In general, it would appear that improved conditions have not been reflected in any great change in the day-to-day habits of consumption, but rather in increased expenditures for durable consumers' items where credit financing is readily available. This type of activity at the present phase of the depression when total volume is low represents a self-multiplying force of considerable importance, not only in the direct employment which it gives, but also in the larger demands for business equipment to which it leads.

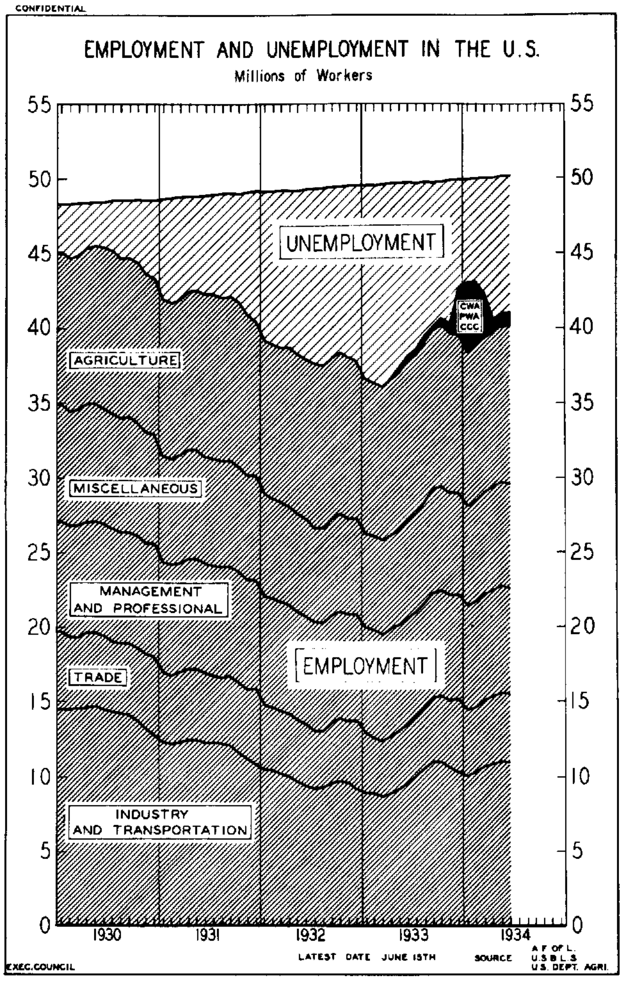
Construction, on the other hand, aside from public works projects, has remained abnormally depressed. How far this reflects difficulties of financing as distinguished from genuine absence of demand, it is impossible to state. It is significant, however, that home construction, although it involves a more substantial financial outlay, falls into much the same category as automobiles and refrigerators that have shown such strength of late. As the new Housing Administration develops financial facilities in this field, home construction will also be in a position to take full advantage of this latent consumer demand.

The past six months have brought relatively little change in the general level of prices following the rapid advances of 1933. The major exception is the rise in farm prices as a consequence of the drought. Prices of manufactured commodities in wholesale markets have not varied greatly except for gradual downward adjustments in textiles and leather, both of which represent commodity groups in which price advances last autumn were exceptionally rapid.

Retail prices have evidenced the same general stability, except for food supplies that are affected by the drought. Wage-earners' cost of living as a whole was reported by the Secretary of Labor as only 1 per cent higher on June 30 than in last December, and 6 per cent higher than the low point last June.

The agricultural outlook is now dominated almost completely by the drought situation. It has reduced or eliminated surpluses overhanging the market and in consequence has raised prices of grains, feeds, cotton and certain fruits. At the same time it has temporarily lowered prices of livestock because of the hurried marketing of cattle from drought areas. In terms of money income, it appears that higher prices in the aggregate will about offset the decreased volume of sales, with the result that total farm income from marketings will vary widely as between regions but for the country as a whole will average about the same as last year. With rental, benefit and drought relief payments included, gross farm income may be 20 per cent in excess of last year.

The charts that follow illustrate in greater detail developments in industry during the first six months of 1934. In general they indicate the depth of the depression as compared with 1929 and the extent of the recovery up to the end of June.



Nearly 2,000,000 more men were at work in June in private industry than at the first of the year. In Federally sponsored emergency agencies, however, there were less than 900,000 on the payrolls as compared with 4,700,000 in January, when CWA was at its height. This does not include the Emergency Works Program of the Federal Emergency Relief Administration which had nearly 1,000,000 persons on its rolls receiving relief in the form of part-time work.

Of the 2,000,000 reemployed in private enterprises and regular government activities in the past six months, more than 1,000,000 were in industry and trade and 350,000 in agriculture. Part of this gain was seasonal.

In June there was little change in the aggregate volume of employment.

MANUFACTURING
1929 = 100

NOTE: The top of the hatched section, reading from left to right, indicates changes in the six months ending June, 1934.

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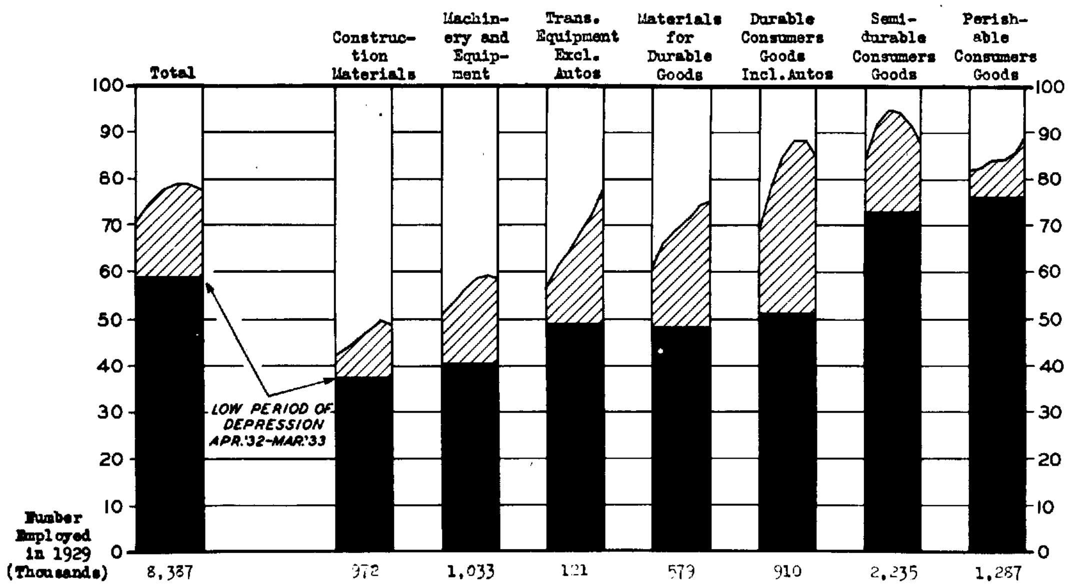
Manufacturing activity had regained a little more than one-third of its depression losses in the second quarter of this year. The increase during recent months, shown on the chart, was concentrated in the durable goods industries. In spite of this advance, however, the output of durable goods remained more than forty per cent below the high point reached in 1929. The production of non-durable goods, which showed little change in the first half of 1934, was within eighteen per cent of 1929 levels.

In part because of the limitation of hours under the NRA, employment was closer to 1929 levels than were either payrolls or output. The fact that payrolls remain small in comparison with 1929 may be accounted for partly by the fewer hours worked and partly by lower wage rates than prevailed at that time.

Last month there were small declines in manufacturing output, employment, and payrolls, concentrated largely in textiles, the principal component of the non-durable goods group.

FACTORY EMPLOYMENT

1929 = 100



NOTE: The top of the hatched section, reading from left to right, indicates changes in the six months ending June, 1934.

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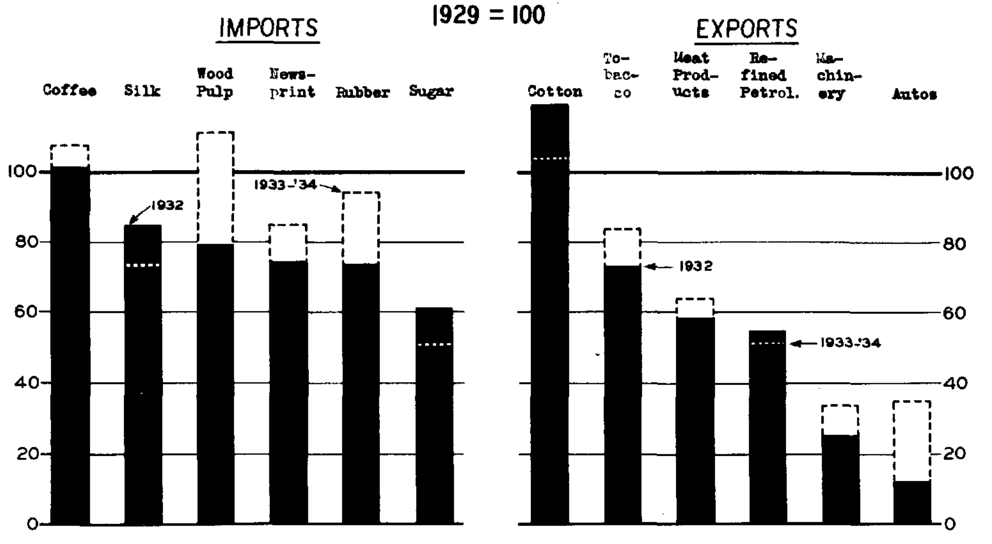
During the depression, factories laid off 40 per cent of the wage-earners who had been on their payrolls in 1929. At the spring peak in May, 1934, after more than a year of recovery, half of that loss had been regained.

Greatest unemployment at the low of the depression was in construction materials, machinery, railway cars, automobiles and other durable goods such as jewelry and furniture. It was smallest in the manufacture of foods, tobacco and semi-durable consumer's goods, such as clothing and tires.

Reemployment is nearest 1929 levels in consumer's goods industries --clothing and automobiles, for example. There has been a steady advance from low levels in the building of machinery and equipment, railway cars, ships, etc., and much less rapid improvement in the construction materials industries.

Declines in June were principally at clothing factories and textile mills; increases in seasonally active food industries.

IMPORTS AND EXPORTS – PHYSICAL VOLUME



NOTE; Annual figures. The solid black bars represent volume in 1932 in relation to 1929. Increases between 1932 and July 1933-June 1934 are shown by the white portions of the bars; decreases by white lines across the black bars.

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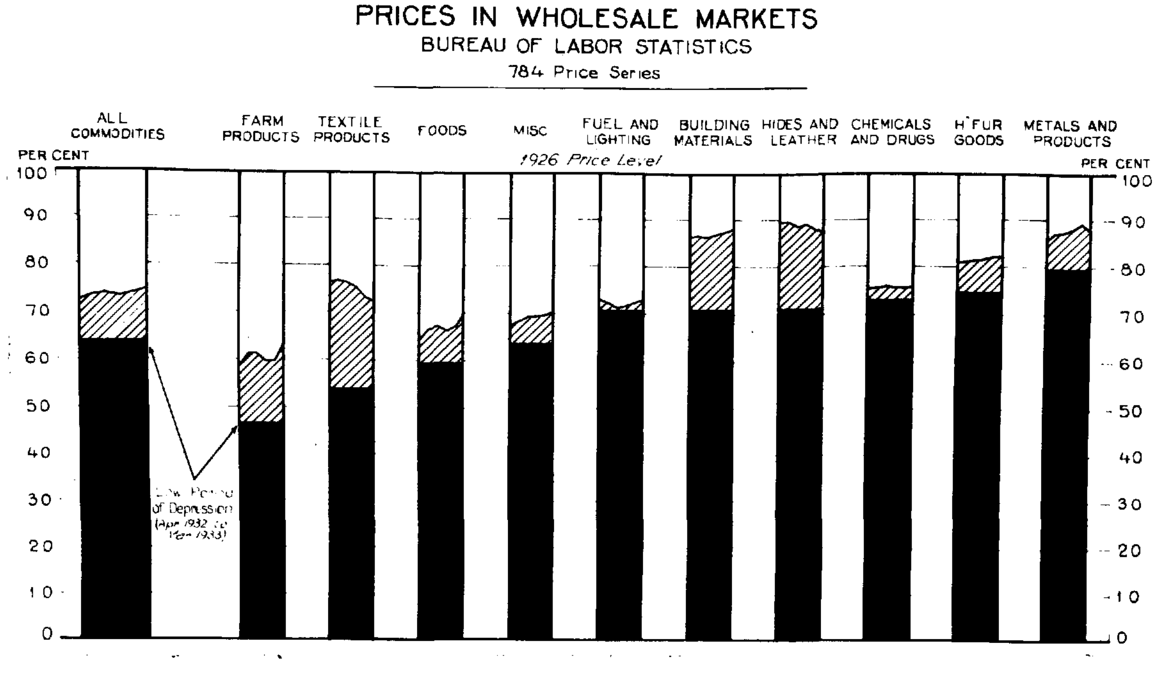
The decrease in the physical volume of our foreign trade between 1929 and 1932 was larger for principal exports than it was for imports. Trade in manufactured products such as automobiles and machinery declined much more sharply than that in foodstuffs and essential raw materials such as cotton and rubber. Exports of automobiles and machinery have recovered relatively more rapidly than raw materials, but are still low.



NOTE: The top of the hatched section, reading from left to right, indicates changes in the six months ending June, 1934.

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Wholesale prices as a whole have regained a third of their decline between 1926 and the low year of the depression. During the first half of 1934, the tendency has been upward with declines confined largely to textiles, and hides and leather products, all of which had risen rapidly in 1933.

Farm products have made a large relative gain from their low levels, but remain depressed in comparison with 1926. Prices of building materials rose further during the first half of the year in spite of the comparatively small demand for these products.

In the month of June prices advanced slightly on the average, largely because of higher prices for farm products and foods, affected by drought.

Th Economic Adviser to the
Executive Council

July 10, 1934

ECONOMIC SITUATION

Summary.

The anticipated midsummer recession in output is under way, signalized by an exceptionally sharp decline in steel operations. This follows a period of nearly six months in which industrial output and employment have increased steadily and were maintained at higher levels than had been anticipated, so that a greater than seasonal decline has been widely forecast. The extent of the decline is difficult to determine at present because much of the curtailment in the Fourth of July week is purely temporary. By mid-July the extent of the recession will be more clearly evident.

This year it appears that a number of plants have taken advantage of the holiday to remain closed for a somewhat longer time than usual. In some cases this represents an attempt to limit output in order to reduce accumulated stocks, or to maintain prices; in others, as demand is dull at this time, it is convenient to make repairs and to take inventory. This holiday closing is always reflected also in the auxiliary service industries--in reduced sales of power and shipments of freight, for example. Accordingly, reports during the coming week will probably show a considerably smaller volume of operations in many branches of industry than in earlier weeks.

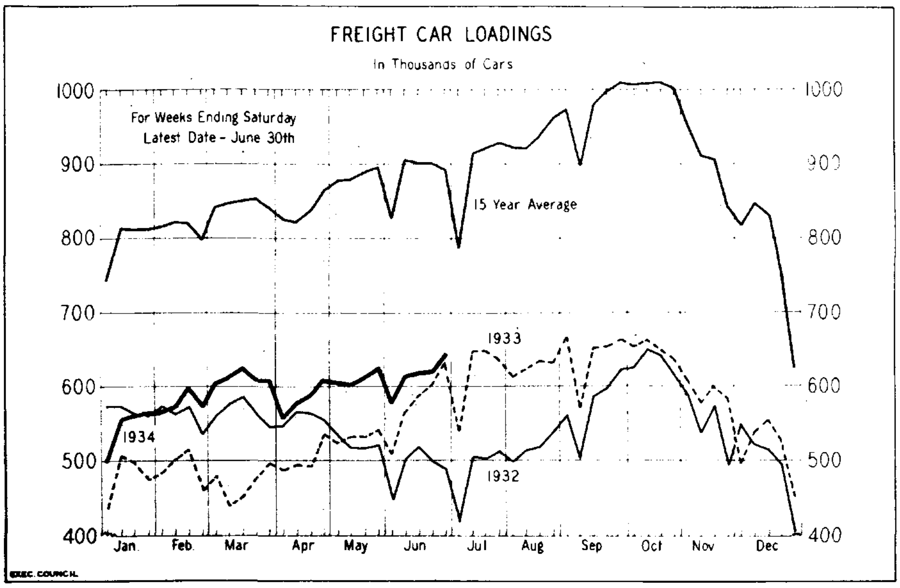
Meantime the speculative markets continue quiet. In the agricultural markets, prior to the July holiday, prices of cotton and corn

continued to increase following a marked advance during the month of May, while wheat prices, once at $1.00, have recently varied around a 90-cent level. Prices of livestock have also receded somewhat.

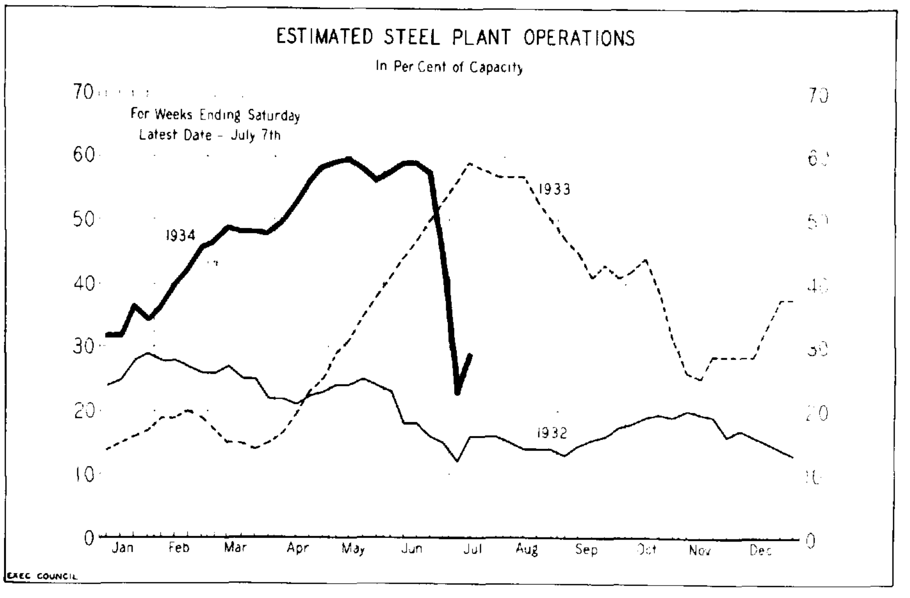
For domestic manufactured products there have recently been price reductions that are significant not so much because of their magnitude but because of the appearance of a policy of adjusting to levels that may result in a larger volume of business. In addition to lower prices for certain steel products and for automobiles, there have been cuts in quotations for such products as lumber, leather and shoes, most of the textiles and gasoline. These declines, together with declining prices for some of the principal imported raw materials, principally silk and rubber, have been reflected in the weekly wholesale price index of the Bureau of Labor Statistics, in which commodities other than farm products and foods have shown a decrease of about one per cent since the end of April at the same time that the index as a whole has risen slightly because of a generally stronger situation in farm products.

Production and Employment.

June reports indicate that there was probably a small net reduction in output and a somewhat greater than seasonal decline in factory employment and payrolls during the month. The reduction in output was accounted for principally by curtailment in textiles, by a smaller production of lumber and coal, and the absence of the usual seasonal increase in meatpacking. Railroads reported about the same volume of freight shipped during the month as a whole, although at the month end shipments were increasing.



In the steel industry production for June as a whole averaged 54 per cent of capacity. Late in the month, however, there was a very sharp drop in operations, and last week output of ingots fell to about 23 per cent of capacity. For the current week operations are estimated at a somewhat higher rate. At the present time the amount of stocks



in the hands of steel consumers is such that relatively few new orders can be expected for the present, and output is likely to continue at a low rate during the balance of July. In recognition of this situation prices have been reduced in the past week on a number of steel products, wiping out about one-half of the advance which had previously been announced on these items for the third quarter.

In the automobile industry, in contrast, sales made an immediate response to price reductions in June, and production was advanced again during the last week in the month. In the week of July 4, because of holiday shut-downs, output was drastically curtailed, but assemblies are unlikely to show much more than the usual seasonal drop for July as a whole. In industries auxiliary to automobiles, production trends have been diverse. Tire companies have unusually large stocks and output has been reduced; while, on the other hand, some activity is again beginning in the tool and die-making plants.

Trade.

Aside from automobiles and a few other similar heavy products, the volume of retail distribution of merchandise to consumers over the country as a whole seems to have declined by slightly more than the usual seasonal amount during June. The reports of two large mail order houses indicate that a noticeable drop occurred in the agricultural regions. However, the sales of department stores and five and ten cent stores, which represent buying by the urban population, were also slightly reduced. Chain grocery stores meanwhile made a better showing than usual at this time of year.

Analysis of department store sales by Federal Reserve districts indicates that the decline in sales volume was concentrated in the Middle West.

Commercial Failures.

Both the number and dollar volume of commercial failures remain low, according to a special report prepared by Dun & Bradstreet. In the month of May fewer firms failed than at any time in 14 years, and in June the number was only slightly larger. The total number of insolvencies during the first six months was about half the total recorded in the corresponding period of 1933.

Geographically there are considerable differences, although generally the situation is much improved. As compared with last year, failures in the South and the Rocky Mountain States are much smaller, while on the Pacific Coast the reduction has been somewhat less. During the past month, however, there was a considerable increase in insolvencies in the West Central States, following a period of exceptionally few failures.

The Economic Adviser to the
Executive Council

June 26, 1934

ECONOMIC SITUATION

<u>Summary</u>.

The level of business activity has been well maintained thus far in June, with a much more moderate decline than was generally anticipated from the spring peak of production reached early in May. This may be attributed in part to the continued accumulation of stocks in certain industries in which prospective price advances or the fear of labor disputes have accelerated activity. In addition, however, it reflects the persistence of the recovery movement, as is indicated by the manner in which retail demand has been maintained. Notwithstanding the end of Civil Works payments, no general decline has appeared in the dollar volume of sales to consumers. After some slackening in April, retail sales as a whole increased during May by the full seasonal amount and even in the drought areas there was little evidence of a substantial drop in business.

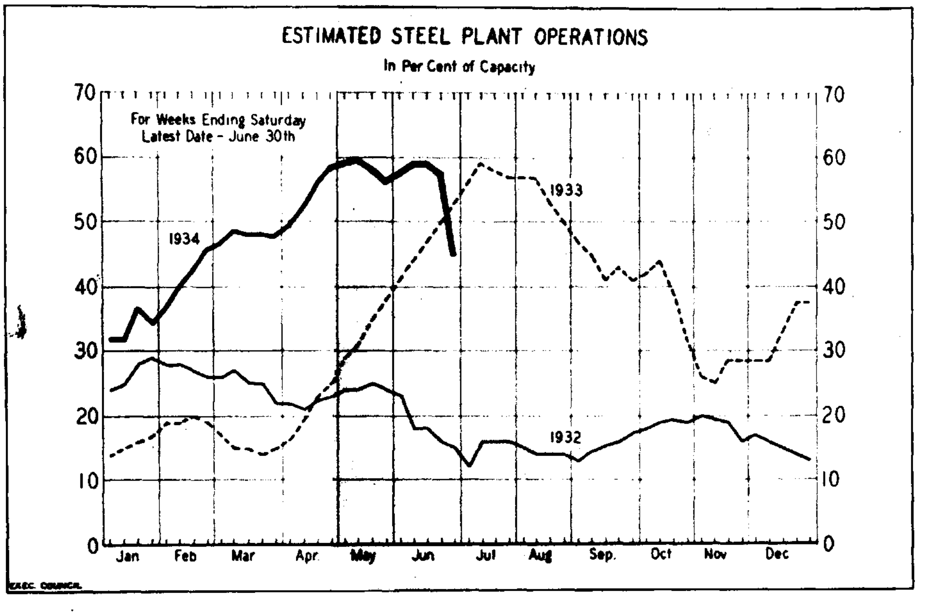
<u>Prices</u>.

Developments in the wholesale commodity markets since the beginning of June have been confined to advances in the prices of several food products and a sharp rise in hog quotations. According to the Secretary of Labor, the Bureau of Labor Statistics index of wholesale prices rose during the week ending June 16 to a point about one per cent higher than the level maintained from March through May. Price movements on the security exchanges have been hesitant and the volume of trading small.

Production.

In manufacturing, a greater than seasonal decline during the summer is still to be expected. Adjustment of supply to the current level of demand is under way in the lumber and textile industries and is now beginning in a number of others, notably steel and tin plate. At the same time, a seasonal growth in construction activity and in agricultural operations will tend to offset the effect of these summer readjustments in manufacturing.

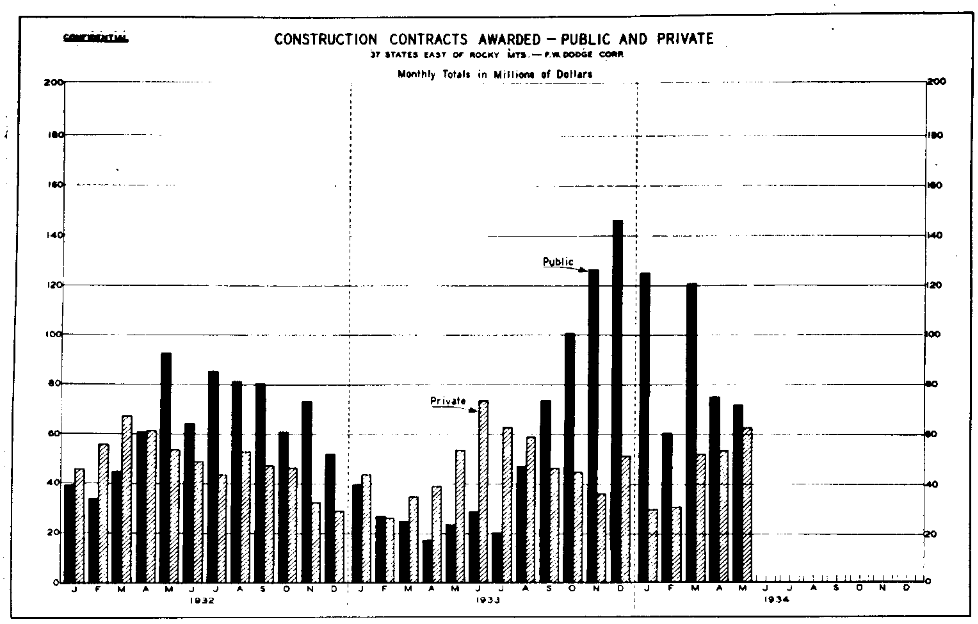
Steel operations persisted at a rate close to that of the spring peak until last week, reflecting a rush on the part of consumers to obtain steel at the more favorable prices posted for second quarter deliveries. This demand has now been met in greater part and steel output is dropping rapidly. For the current week, the rate of production is forecast at 45 per cent of capacity, a drop of more than 12 points from last week. Operations at finishing mills are expected to continue at a high rate until the end of the month.



In the automobile industry, price reductions have been successful in stimulating retail sales, and factory output has held up well during June. Total production for the first six months will approximate 1,700,000 cars and trucks. If output follows a normal seasonal pattern during the last half of the year, the year's total will exceed 2,800,000 cars and trucks, twice as large as 1932 and 40 per cent larger than 1933. There is still a substantial accumulated replacement demand for automobiles which is reflected in the unusually heavy demand for used cars as well as in increased sales of new automobiles. Moreover, the export demand has increased substantially. Last year, according to the Secretary of Commerce, the United States exported over 100,000 motor vehicles. This year foreign shipments in the first five months have already equalled the total for all twelve months of 1933.

Construction.

The total volume of construction continues to be small compared with earlier years, particularly in private building, but the seasonal pick-up now under way is providing additional employment. This increase reflects both larger private construction and an increased rate of activity under contracts previously awarded by PWA. Reports to the Secretary of Labor indicate an increase of one-third in building permits issued in principal cities during May as compared with April. While new contracts for Public Works projects have been diminishing in volume in the past two months, work is now getting under way more rapidly on those jobs for which contracts were awarded during the winter. Many of these are for extensive engineering projects that will require a considerable period of time for completion.



Employment.

It is estimated that over half a million people found work during May, principally as a result of seasonally larger activity in agriculture and in construction, including an increase of 125,000 men on PWA projects. Railroads, mines and quarries expanded their forces more than is usual at this time of year, and factories, as a group, had a few more employees on their payrolls in early May than in April. The maintenance of employment in these fields is significant of considerable underlying strength in the industrial situation.

The Secretary of Labor reports that the recent tendency for the durable goods industries to expand activity and employment continued into May. Factories producing durable goods, as a group, added nearly

60,000 men to their payrolls, and the gains were general in almost all lines. On the other hand, the nondurable goods industries, with the exception of the food group, laid off almost as many workers as the durable goods industries engaged.

If the anticipated summer slump in activity in lumber, steel, automobiles and related activities materializes, a decline in manufacturing employment of greater than seasonal proportions may be expected later in the summer unless it is offset by further advances in the equipment and construction materials industries.

Outside of manufacturing, employment will increase seasonally. It is expected that farmers will employ another 125,000 men in June and that farm employment outside the drought area will continue through the summer and into October at a fairly high level. Public works and other construction activity will also continue to increase until August and possibly into September.

The Economic Adviser to the
Executive Council June 5, 1934

ECONOMIC SITUATION

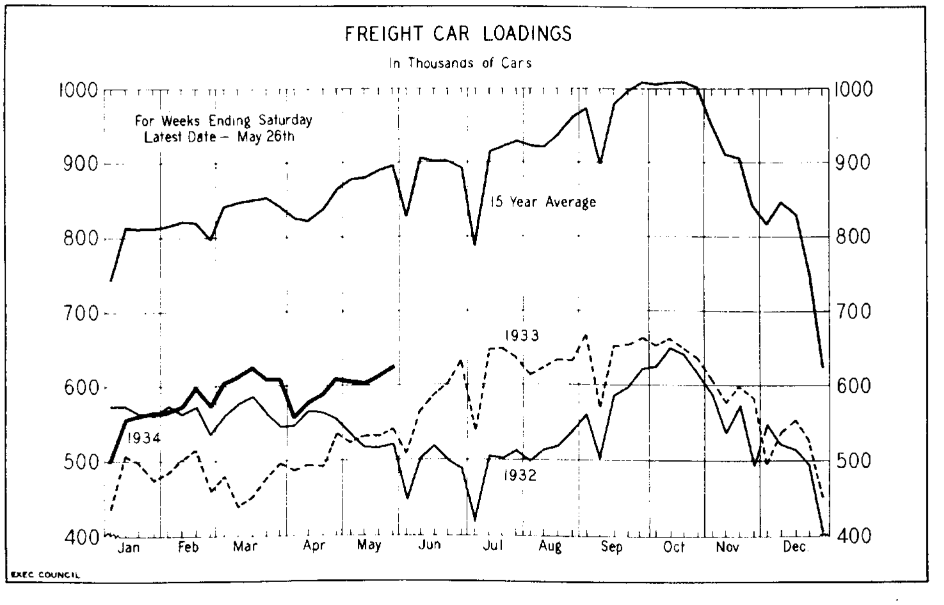
Summary.

Up to the present, the decline in business activity anticipated for the early summer has not been substantial, and for the month of May as a whole output in basic industries will probably show only a slight reduction from April levels. Factory employment and payrolls, according to preliminary reports, were nearly as large in the first half of May as in the previous month, although a reduction in working forces is usual at this time of year. The market situation, however, continues to be dominated by a feeling of uncertainty on the part of the business community, reflected in the dullness of most of the security and commodity markets.

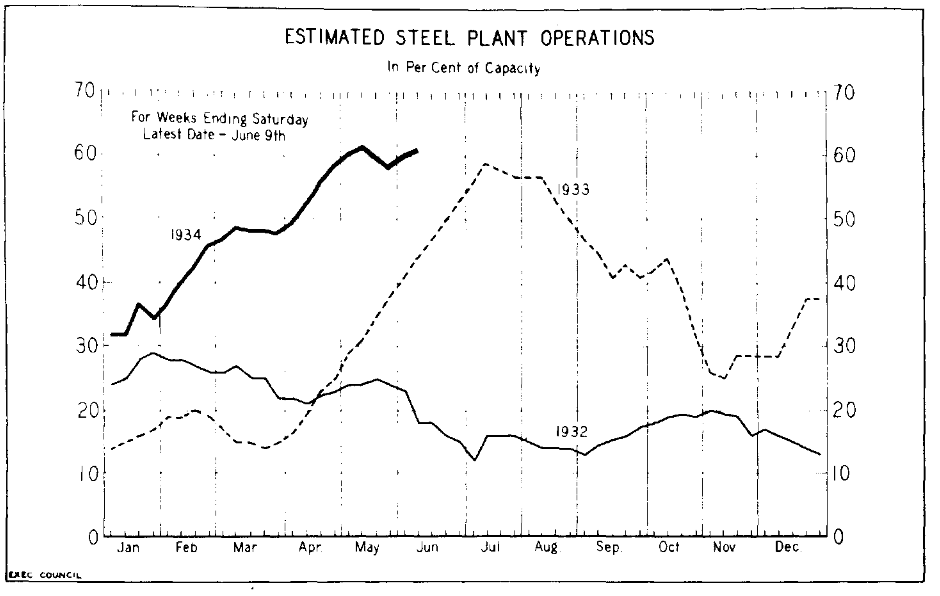
Production.

A somewhat greater than seasonal decline in industrial activity is still to be expected this summer. Readjustment of supply to the level of current demand is under way for some industries and is still ahead for others; and while construction is seasonally larger, it is expanding too slowly to offset completely adjustment in other lines. To these influences have now been added the severe drought and the fear of major industrial disputes. Sustained operations in certain industries, notably steel and tinplate, are attributed in some quarters to the accumulation of goods against the possibility of strikes.

During the past fortnight, industrial activity continued at a fairly even rate. This is indicated by a slight increase in the volume of electric power production and a rise of more than seasonal proportions in freight-car loadings, principally as a result of larger shipments of coal and ore.



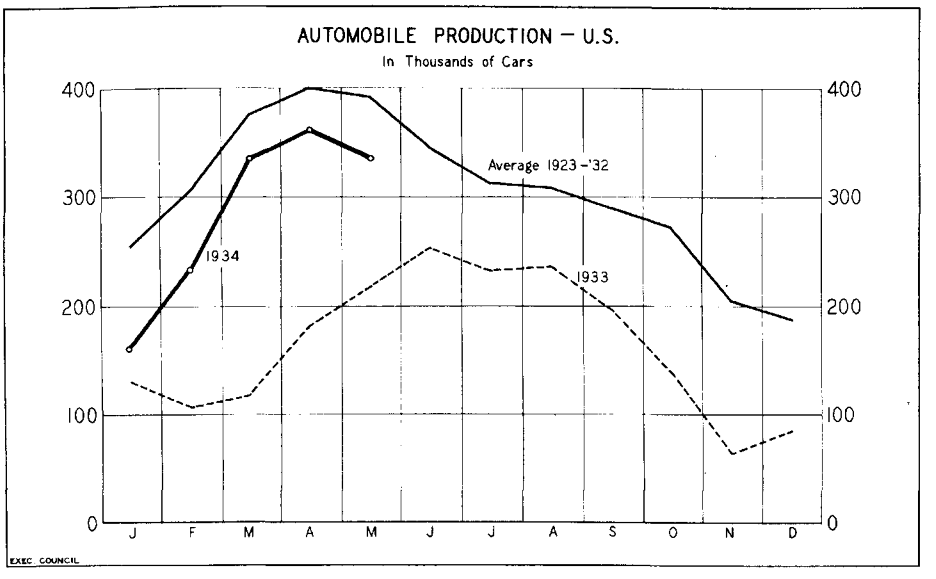
In the iron and steel industry, operations have advanced and the production of steel ingots is now estimated at 61 per cent of capacity, although actual consumption of steel by automobile and farm implement manufacturers is reported to have been decreasing. The movement of



steel into stocks, while still believed to be moderate in amount, has recently expanded somewhat. The outlook for future production is uncertain, but there will undoubtedly be a reduction at the end of the second quarter as a result of the accumulation of stocks.

In the textile industries, which are near the bottom of the seasonal swing, operations are at a much lower level, and aggregate output will probably drop still further during the next two months. Demand for textiles is more or less at a standstill awaiting market developments, but by August the influence of autumn requirements should make itself felt in a rising volume of production.

Automobile output in May amounted to about 335,000 units, a



decline of 25,000 from April. Although sales have maintained a fairly even trend, manufacturers are keeping a close watch on dealers' stocks and many plants took an extended holiday last week. These companies whose sales have declined are now reducing prices to their earlier levels.

In the tire industry, on the other hand, where production is also beginning to taper off, supplies are said to have grown unusually large.

Prices.

There has been little change recently in the wholesale price situation, except for grains, and the index of the Bureau of Labor Statistics remained at practically the same level for the week ended May 26th.

The drought has stimulated heavy speculative activity in the grain markets in the past fortnight, with prices rising 15 to 20 per cent. Wheat went above a dollar last week, and then dropped back slightly. At the close of the market yesterday, September futures were quoted at 97-5/8 cents a bushel. In the industrial field, however, prices for certain products have weakened slightly, and there has also been some reaction in retail prices of manufactured goods during recent weeks, following a steady twelve months' advance.

The Secretary of Labor reports that retail food prices, after a six weeks' recession, moved upward slightly in the first week in May and are about 15 per cent higher than a year ago.

Trade.

Reports from retail merchants afford evidence that consumption goods are moving in well-sustained volume. Sales have thus far been only moderately retarded in the drought areas.

For department stores, preliminary reports indicate that sales for the country as a whole showed the full seasonal increase in dollar volume between April and May. In view of the widespread reports of special "sales" at lower prices, this increase was probably somewhat larger in terms of physical volume.

The volume of export trade in April registered a decline of about the usual seasonal amount, although exports of automobiles and machinery continued to increase. According to the Secretary of Commerce, exports of agricultural machinery were more than 70 per cent larger in the first four months of this year than in 1933. Imports in April decreased more than usual at this time of year.

The Economic Adviser to the
Executive Council

May 22, 1934

ECONOMIC SITUATION

Summary.

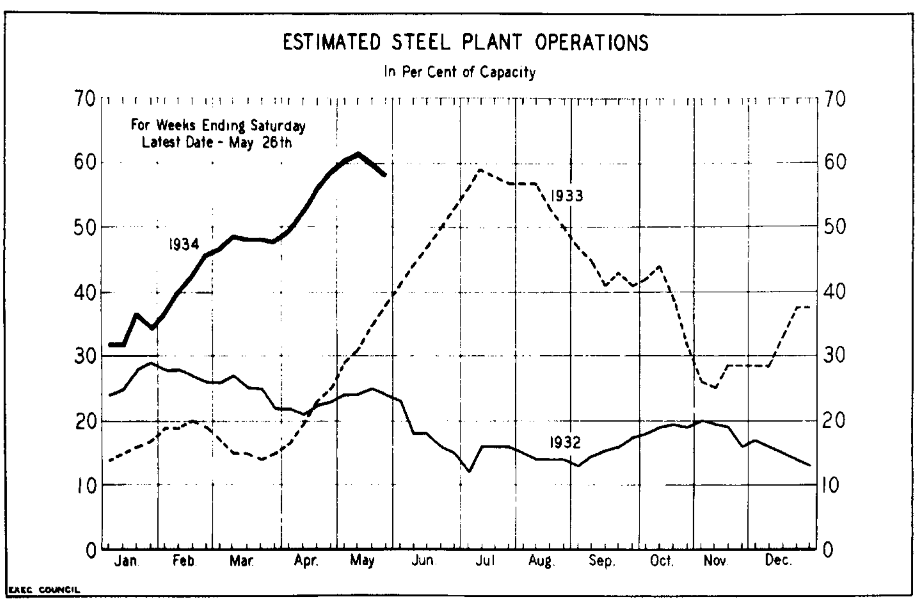
The volume of industrial activity appears to have reached its Spring peak in the last week of April. Business indexes for May as a whole will show a decline of more than seasonal proportions, accompanied by reductions in factory employment and payrolls. Some readjustment is already taking place in those fields where production has run somewhat ahead of demand, and the accumulation of excess stocks is being checked in a number of industries. Retail demand for general merchandise has picked up again in most areas after the post-Easter lull.

In wholesale markets rising prices for farm products have been the principal feature of the past two weeks. This movement is attributable mainly to the effects of the drought. At the same time, there have been moderate declines in the prices of most textiles and of steel scrap, while the stock market has recovered part of its recent losses.

Production.

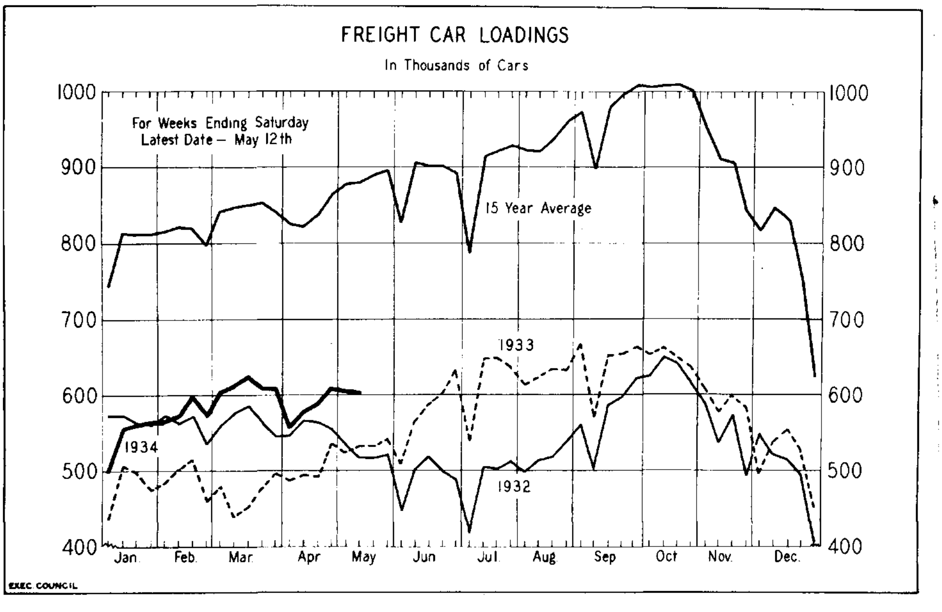
In both the steel and automobile industries, which made the most important gains in industrial activity during April, output has recently been reduced from peak levels. Automobile manufacturers, having made up shortages in dealers' stocks, reduced their output from 100,000 per week at the end of April to 75,000 last week, conforming more nearly to current demand. Although the seasonal increase in sales of cars was smaller than had been expected, partly because of price advances in April, latest reports indicate that sales are holding at even levels.

In the steel industry, the rate of operations has been reduced for two successive weeks, and is now estimated at 58 per cent of capacity. This represents the effect of declining demand for automobile steel, and greater hesitancy on the part of consumers to build up stocks. If the accumulation of stocks is smaller as a result of this reduction in output, a sharp decline is less likely this summer.



Curtailment of production in textiles, where stocks have made some readjustment necessary, is already under way and is likely to continue into early summer, with an adverse effect on employment and payrolls in textile centers.

Declines in these three major industries, as well as in some other lines, are reflected in general business indicators such as the volume of freight car loadings and output of electric power, which show a slightly lower rate of operations in the early part of May.



One important industry that is expanding its operations seasonally is construction. The Secretary of Labor reports more permits issued for private building during April, and work is also progressing more rapidly on PWA projects.

Employment.

The Secretary of Labor reports that final figures for April indicate continued reemployment in private occupations. Additional men were taken on in manufacturing, construction, transportation, agriculture, retail trade and other service industries. Coal mining was the only major industry to reduce its working forces. These changes were in response to seasonal influences except in manufacturing, where an increase of 125,000 wage earners was reported instead of the customary seasonal decline.

From January to mid-April, it is estimated that 1,400,000 men found employment in private industry and agriculture, bringing the total near to the seasonal peak of last autumn. Notwithstanding this large increase, and a substantial addition to PWA and CCC forces during April, it appears that unemployment is much larger than in January, because of the end of the Civil Works program. The fact that private industry has not yet absorbed all of the former Civil Works employees is also indicated by the increase in the number of families receiving public relief.

The Federal Government's payroll in April included some 1,700,000 men, about 650,000 more than in April of last year. Of this increase the largest share is the Civilian Conservation Corps. About one-third is accounted for by PWA, which now employs about

200,000 more men than were at work on Federally sponsored construction a year ago. The executive branches of the Federal service have added about 75,000 people to the payroll, principally as supervisors of the CCC, and on the staff of the Home Owners' Loan Corporation, the Tennessee Valley Authority and the AAA and other emergency organizations.

Agriculture.

In agriculture, cash income from farm products sold in April declined slightly, as is usual at this season. Income is expected to be somewhat larger in May, however, as more fruit, vegetables and dairy products come onto the market. The drought has not yet affected agricultural income as a whole although it has already reduced farmers' purchases in these affected areas. It has also checked the decline in prices of grains, and, if it is not broken in June by good rains, will result in such a reduction in yield that the total wheat crop may not exceed domestic requirements. If this is the case, wheat prices in the United States could be maintained on a high level in relation to world markets for another season. Prices for other grains and for butter will also be strengthened. Somewhat lower livestock prices are likely, however, because of distress selling.

In terms of cash income for the year 1934 as a whole, the drought will probably have little effect, since rising prices will offset reduced acreage. In the states affected the season's cash returns from sales of grain in the market will, of course, be extremely small, although benefit payments from crop reduction programs will provide some additional cash income.

Foreign Trade.

Preliminary foreign trade reports from the Secretary of Commerce indicate a decline in imports between March and April of somewhat more than the usual seasonal proportions.

The Economic Adviser to the
Executive Council

May 5, 1934

ECONOMIC SITUATION

Summary.

The uneven nature of the current business situation has become more pronounced during the past two weeks. Factory production continues to advance, with further increases in employment and payrolls reported during April. Retail trade, on the other hand, is apparently [redacted] less active. In the organized markets, prices of bonds continue strong, especially U. S. Government securities, while prices of leading commodities have shown diverse trends with declines predominating, especially for important farm products, although there has been some recovery during the past few days. The principal element of market weakness has been in prices of common stocks.

In broad perspective, these uneven developments reflect largely the fact that we are at present in a transition period. The current rate of production has now reached a point that in a number of cases is equal to or even slightly in excess of current demand. At the present rate of output, probably as much food and as many shoes, for example, are produced as will be sold to consumers, while in the case of automobiles and textiles, production seems to be at a somewhat higher rate than probable sales. Steel is also reaching that point. Certain readjustments in rates of output as between industries, consequently, appear to be in order during the next two months.

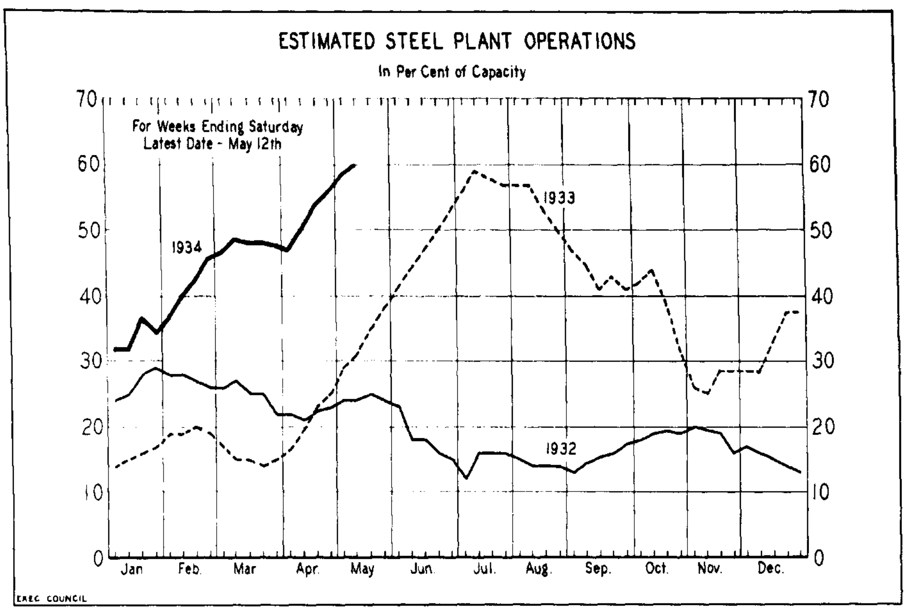
These readjustments may involve more than a seasonal decline in the volume of industrial activity during the summer, although this is not certain. Underlying the whole situation, there is present a latent demand of large proportions for durable goods, including the replacement of worn equipment of all kinds, and the modernization of housing and of industrial facilities. There is also some further demand for new construction which should increase as the year progresses. If the Public Works program and the projected housing program succeed in releasing this potential demand to any appreciable degree, the volume of activity engendered will be more than sufficient to offset the readjustments which appear to be in store for those industries which have contributed most largely to the spring advance.

Pending the development of these new demands, however, there is a certain degree of uncertainty in the situation; some of the markets are hesitant, and more attention is concentrated on the merchandising situation, particularly consumer resistance to price advances.

Production and Employment.

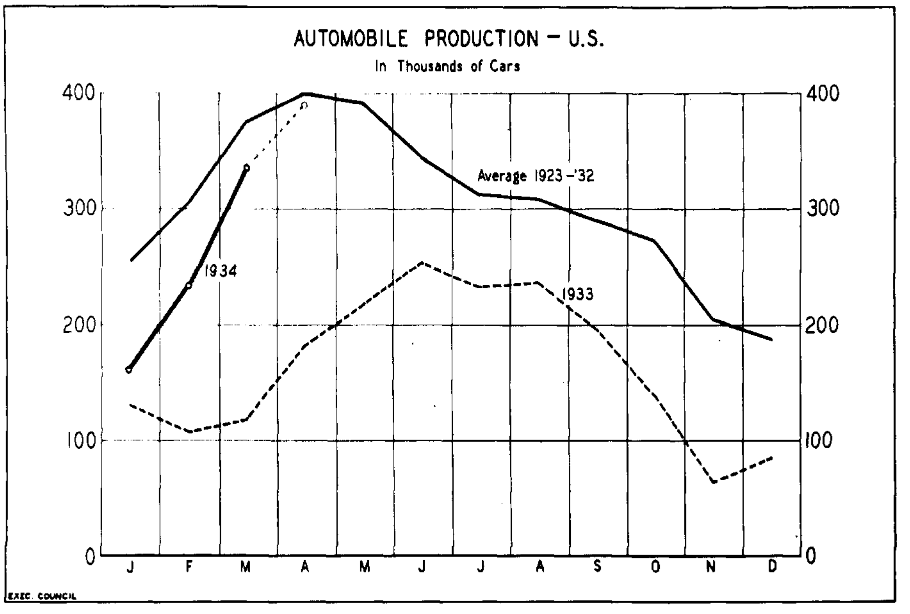
General indexes of productive activity indicate moderately increasing output during April. According to preliminary reports, there was a net gain in factory employment up to mid-April affecting 75,000 - 100,000 workers. Payrolls were also somewhat larger.

One of the important fields in which production increased during the past fortnight was the iron and steel industry. Output this week will probably pass last summer's peak and the building up of stocks should sustain operations at this high level for some time.



By the end of June, when higher prices become effective, it is anticipated that stocks in the hands of major consumers will appreciably reduce demands from these sources.

Automobile production approached 400,000 units in April, but a decline of more than seasonal proportions is anticipated for June.



In the textile industries, production of certain staple goods has run ahead of orders for several weeks and stocks have been accumulating. A consequent curtailment of output is in prospect, and a shut-down of one week has already been arranged by the Silk Code Authority.

Trade.

Preliminary reports on retail volume in April indicate a let-down from the active business of March. The greatest decreases were in sales of 5 and 10 cent variety stores and in apparel sales, which, because of an early Easter, had been unusually good in March. During April, the rapid increase in sales of automobiles was somewhat retarded by price advances.

The Economic Adviser to the
Executive Council

April 25, 1934

ECONOMIC SITUATION

Summary.

Industrial operations are now near the seasonal peak of activity which is customary at this time of the year. During the past four months, this expansion in activity has been much larger than usual, reflecting, in part, the general underlying trend of business revival from the depths of 1932 and the early part of 1933, and, in part, a rebound from the temporary recession of last autumn and winter. At that time factory operations in a wide variety of industries--steel, textiles, shoes and many others--fell off sharply to a level below current consumption demands, largely as a result of over-expansion earlier in the year. By January most of these excesses had been absorbed and operations again increased rapidly. The pick-up was especially rapid in the motor industry where production difficulties in connection with 1934 models had created a deficiency in dealers' stocks. At the present time, some of the factors making for expansion appear to have spent their force, with the result that there is greater diversity in trends as between different industries.

Production, Employment and Income.

During March production in the basic industries expanded quite generally by more than the usual seasonal amount, principally because of added output in the heavy manufacturing industries and in coal. There was also an increase in construction activity and in contracts and permits for new building. In the light industries as a group, there was comparatively little change in the volume of output.

Employment in private industries also increased in March, and the Secretary of Labor reports that our factories are now employing more people than at any time since the latter part of 1930, while the total factory payroll is the largest since the summer of 1931. The additions to working forces in the past three months have been general in all industrial groups, but they have been largest in the durable goods industries. In the automobile industry employment is now back to the level of September 1929; in the principal machinery industries, employment is still low as compared with pre-depression years, but has nevertheless shown a steady growth, reaching levels in many cases from 50 to 100 per cent above last year. There were also increases during March in working forces in agriculture and in other non-manufacturing industries, including construction, where unemployment is especially severe.

Taking into account all of these fields of employment, it appears that the total number of workers, excluding employees of the Federal emergency agencies, increased by 550,000 to 600,000 in March and by 1,000,000 as compared with January 15, not quite two-thirds as many as were laid off by CWA in the same period. Since March there has been a small addition to factory payrolls. Probably a larger number of workers have been taken on in agriculture, construction and other seasonally active lines. The total increase in private employment in recent weeks has not been sufficient, however, to offset dismissals from CWA rolls.

Trade.

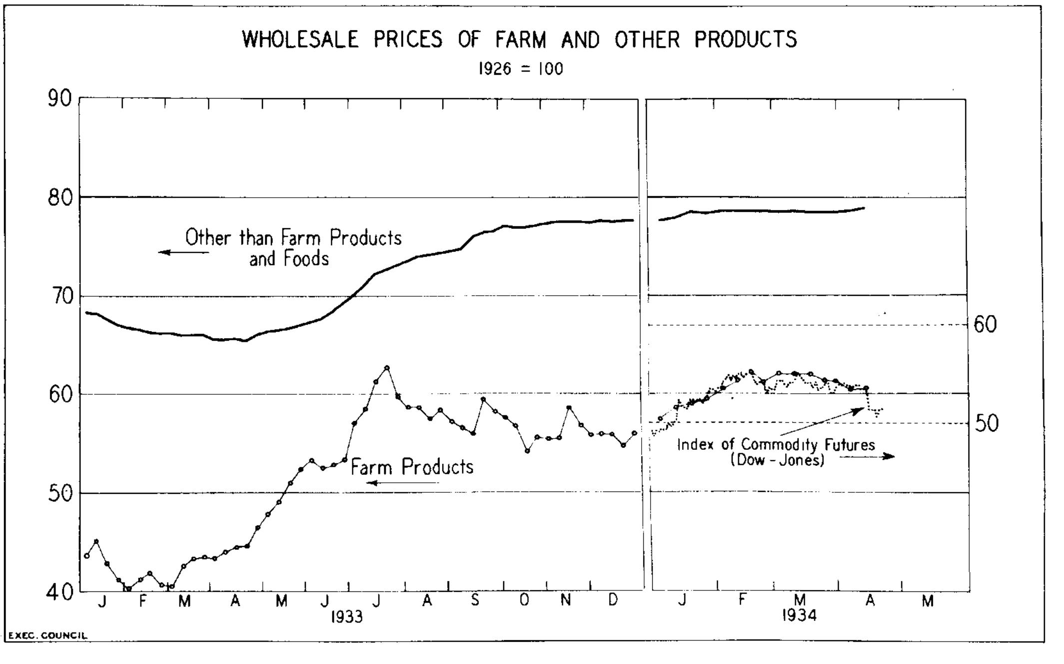
In retail trade, there was a gain of considerably more than ordinary seasonal proportions during March, affecting practically every kind of merchandise. Reports for the first half of April, however, have been less favorable. Comparing the first quarter as a whole with the corresponding period of 1933, the increase in sales has been most pronounced for the heavier types of merchandise such as automobiles and electrical appliances, with only a moderate increase in sales of clothing. In the grocery trade it is doubtful whether the actual physical volume has increased at all. On the basis of a report by the Secretary of Commerce on the increased volume of business of the automobile finance companies, it appears that the proportion of new automobiles sold on credit has not increased since last year.

The Secretary of Commerce further reports that American foreign trade, although still in small volume, showed a further advance during March. Expansion in exports of machinery and automobiles was particularly notable.

Prices.

In wholesale markets, there has been, in recent weeks, a continuation of price advances for fuels and manufactured products, especially steel and certain makes of automobiles, in contrast to easing of prices for agricultural products and certain other raw materials. This latter tendency has been evident since early in March, but with the exceptionally sharp break in the grain markets last week, offset only in part by advancing prices for livestock, the general average of farm prices is now lower than it was six weeks ago.

The Secretary of Labor reports that the general index of wholesale prices compiled by the Bureau of Labor Statistics declined by 1/2 point from its early March peak to April 14. Judging by the course of prices in the organized markets since that date, the Bureau's index will probably show a further decline for the week just past.



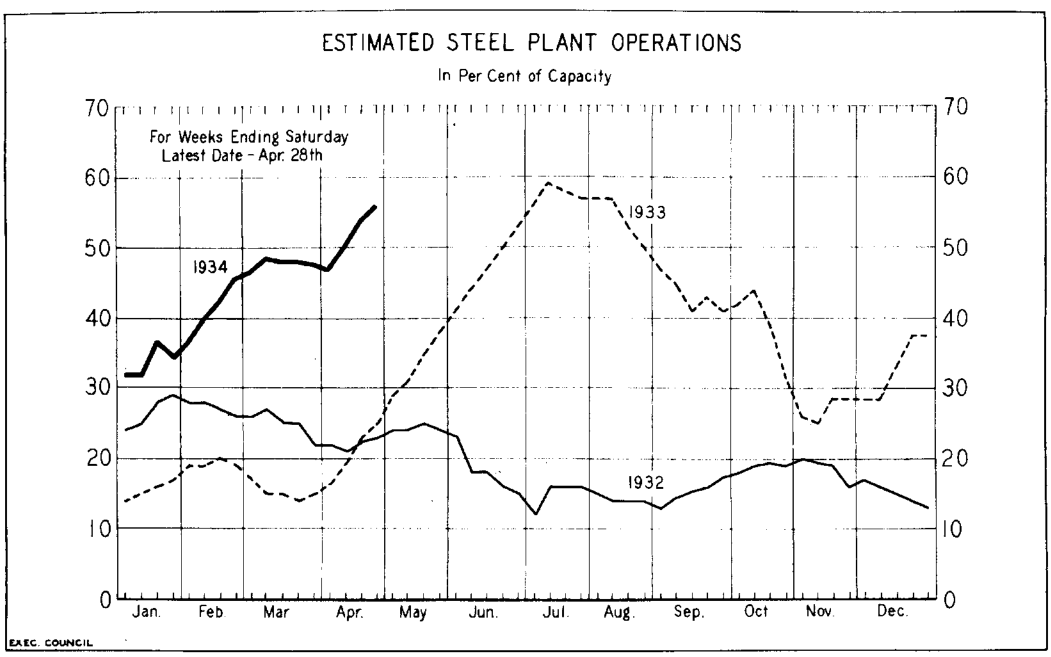
In the stock and bond markets there was a brief reaction on April 16 coincident with the break in grain prices, followed by a fairly steady advance this week, when prices again declined. High-grade corporate bonds, as rated by Moody's, have in recent weeks been quoted at higher prices than have prevailed for a number of years, exceeding in some groups the levels of 1928.

Agricultural Outlook.

In agriculture, as the planting season approaches, it is anticipated by the Department that the combined production of crops and livestock will not be greatly different, in the aggregate, from that of 1933 notwithstanding reductions in some of the basic crops. However, because of the higher price level prevailing for farm products, agricultural income for 1934 is expected to show a gain of moderate proportions over 1933. For the first quarter of 1934 the economic position of the farmer was materially better than last year when prices were exceptionally low. Farm income in the three months just past is reported by the Department of Agriculture to have been 50 per cent larger, including rental and benefit payments, than in the same period of 1933. Excluding these payments, it was about 40 per cent larger.

The Outlook for Industry.

Since the beginning of April, industrial developments have been somewhat uneven. Late in March there was a leveling off in activity, which, with the exception of steel and automobiles, has continued into April, as evidenced by a relatively stable volume of carloadings and electric power production. Automobile output averaged close to 80,000 cars a week in March and is now estimated at over 91,000. This is the highest rate since early 1930, reflecting a final effort to catch up with depleted dealers' stocks as well as current retail demand. It cannot be expected that the motor industry will continue to operate at these peak levels much beyond the middle of May. In the steel industry operations have also expanded rapidly of late--from 48 per cent of capacity in March to about 55 per cent for the current week. This represents immediate demand for steel from the rail and automobile industries, and, in addition, a rush of advance orders following announcements on April 1 of higher steel prices.



While these advance orders will probably push operations to a higher level during the remainder of this quarter, they may cause a corresponding decline in third-quarter shipments. Consequently, it appears that in the third quarter continuing activity will depend less than at present on the motor industry and to a much greater extent on new orders from other sources. Development of the PWA program will be an important factor, as will also the rate at which private industry undertakes to make up deferred maintenance and replacement of worn-out or obsolete equipment.

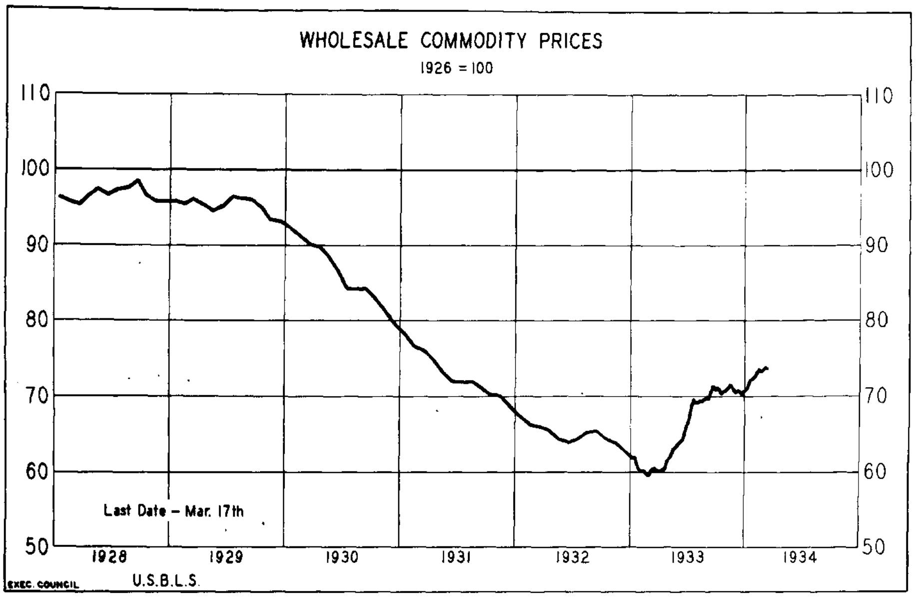
The Economic Adviser to the
Executive Council

March 27, 1934

ECONOMIC SITUATION

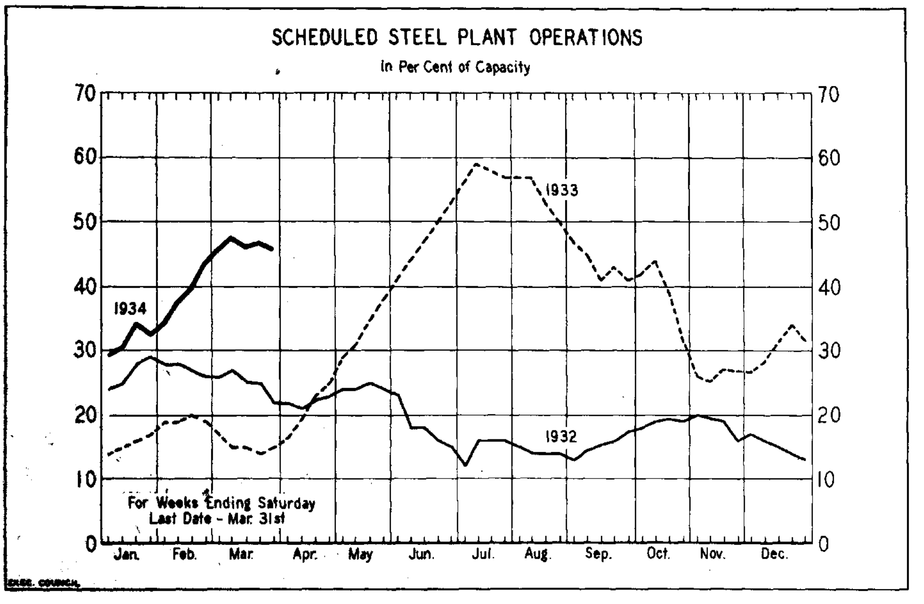
Summary.

Business continues to advance, but the movement has become uneven during the past two weeks, and shows some tendency to level off. This hesitation has reflected in part, at least, apprehension over labor difficulties, and the settlement of the threatened automobile strike removes a major factor of uncertainty in the situation. In the meantime, the organized stock and commodity markets have marked time, with a small volume of speculative trading, and prices somewhat easier as compared with the high levels of mid-February. The extent of the recent speculative price decline has varied in different markets; as of last night's close common stocks were 7 per cent lower than at their high in mid-February, while prices of 1 sensitive commodities had declined 1.3 per cent. Bonds have shown greater underlying strength, both U. S. Government bonds and high-grade corporate issues having reached new high levels during the last two weeks. Outside the organized markets, wholesale com-

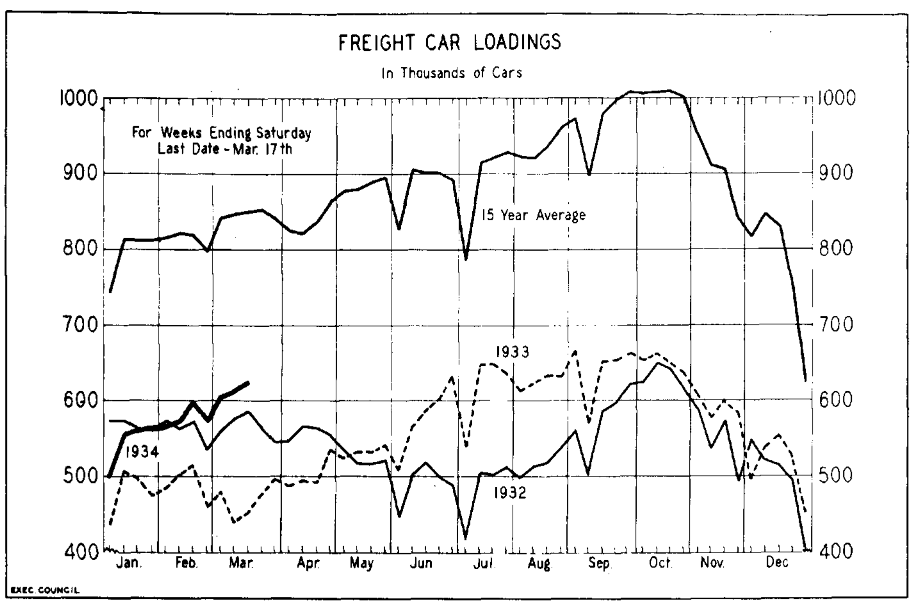


modity prices including the less sensitive commodities, have in general, been well sustained, and the index of the U. S. Bureau of Labor Statistics has fluctuated between 73 and 74 per cent of its 1926 average since the early part of February.

The rate of operations in the steel industry has leveled off during March, after rising 15 points in the space of six weeks to 47 per cent of capacity. The industry is now awaiting a resumption of orders from the automobile manufacturers, and the rate of operations is estimated for the coming week at 45.7 per cent of capacity.



Automobile production has continued to increase at more than the usual seasonal rate, and exceeded 80,000 cars last week. The industry endeavored to place as many cars as possible in the hands of dealers before the threatened strike, but the backlog of orders from dealers is still large and production should continue at a high rate for some time. Shipments of automobiles were probably a factor in the greater-than seasonal increase in railroad traffic, particularly in miscellaneous carloadings. Electric power production has held relatively



steady, compared with a moderate decline at this time in previous years. In the construction industry there was a large percentage increase from February in contracts awarded during the first half of March, particularly in the residential field, but the total volume of private building is still very small. Among the lighter consumption goods industries, especially cotton goods and shoes, operations in March have continued active, responding to the increase in retail trade and the usual Easter demand.

Retail Trade.

Retail trade reports so far in March indicate an increasing volume of business reflecting not only the sustaining effect of CWA disbursements and the recent advance of industrial employment and payrolls, but also the early date of Easter, which is always a stimulant to sales. Even after taking account of the Easter trade, it appears that final reports will show a full seasonal increase for March as compared with earlier months of this year, and may show considerably more, depending on the volume of sales toward the close of the month. Comparisons with March 1933 when sales were cut to a minimum by the bank holiday show extraordinary results. In Boston, for example, sales of department stores for the week of March 10 were 122 per cent above last year.

Increases in retail volume have been most marked in the case of the more durable consumption goods. According to the Secretary of Commerce, February reports showed a rise of 70 per cent over last year in the value of new cars sold by dealers. In the electric refrigerator industry, reports from two large firms indicate record-breaking shipments. Trade reports also note expanding sales for hardware and miscellaneous electric equipment on the part of both manufacturers and wholesalers.

Production, employment and payrolls.

February data which are now becoming available in greater detail, confirm the earlier impression that the recent advance in business activity is much better balanced than that which occurred last year, and, for that reason, gives better promise of being sustained. The marked expansion in output in February occurred almost wholly in the heavy industries where volume is low and where expanding output makes an especially important addition to permanent reemployment. Among these industries, the active retail market for automobiles was by far the largest single factor but there was general demand for a wide variety of heavy products that did not participate in the advance last summer, reflecting small scattered requirements for machinery and durable equipment of all kinds among both industrial and domestic consumers. In the light industries, which were already operating at more nearly normal levels, increases in output in February were almost wholly seasonal in character, and in line with current retail demand.

The Secretary of Labor reports that factory employment increased by six per cent or by about 373,000 persons between early January and early February. At the same time, factory payrolls increased by more than 12 per cent or by $13,000,000 per week. In addition, the railroads took on about 10,000 more men. There was a slight decrease in employment in other lines of industry, however, and the American Federation of Labor estimates the net increase for the month at 350,000, which was approximately offset by the lay-off of 330,000 CWA workers between January 18 and February 15. The same individuals were not affected, of course, since the reductions in CWA were largest in the South and in the agricultural regions, while gains in private employment were largest in the industrial centers of the north. PWA expanded its working forces by about 20,000 men, notwithstanding a smaller amount of road work because of bad weather. As of February 15, the American Federation of Labor's estimate for unemployment, which does not take account of emergency forms of public work under the CWA, the PWA or the CCC stood at 11,375,000 persons. Taking account of these additional forms of employment, the total estimate of unemployment for February 15 would be 7,075,000, or about the same as on January 15.

Since February 15, private employment in factories and in other industrial and mercantile pursuits has again increased, and there has been a seasonal expansion in the demand for agricultural labor. It is doubtful, however, whether these increases have been sufficient to offset the concurrent reduction in forces on public payrolls. Between February 15 and March 15, CWA laid off 1,300,000 men, and by the end of this month, when the new Works Division of FERA replaces CWA in urban and industrial centers, it is expected that there will be from 1,500,000 to 1,750,000 persons on the work rolls, a reduction of more than 2,000,000 since February 15.

The United States Balance of International Payments in 1933 (Preliminary):

The Secretary of Commerce reports that in 1933, the international balance of payments of the country showed a "favorable" balance on account of trade, service and gold items amounting in all to about $425,000,000. This was offset in large part by a net withdrawal of dollar balances previously held in this country for the account of foreigners which is estimated at $412,000,000. Other significant features were, first, a decline of 36 per cent in the estimated expenditures of American tourists in foreign countries; second, a continued reduction--though not as pronounced as in each of the two preceding years--in the volume of foreign investments held in this country; and, third, a record net inflow of United States paper currency estimated at $90,000,000.

Foreign Trade.

The Secretary of Commerce further reports that in February our aggregate foreign trade declined by less than the usual seasonal amount. Exports, including re-exports, were valued at $163,000,000, an amount some $30,000,000 in excess of general imports during the month. (Exports of United States products were $160,000,000 and imports for consumption were $125,000,000.) This represents a 5 per cent decline from January in exports--which is considerably less than the usual January-February recession of eleven per cent. The decline in imports amounted to 2 per cent and was about in line with seasonal expectations.

The Economic Adviser to the
Executive Council

March 13, 1934

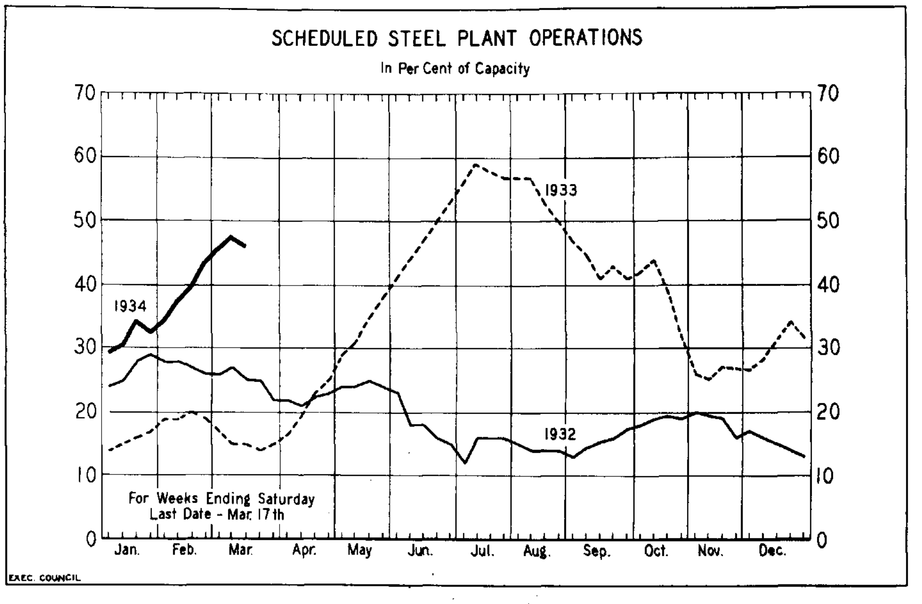
ECONOMIC SITUATION

Summary.

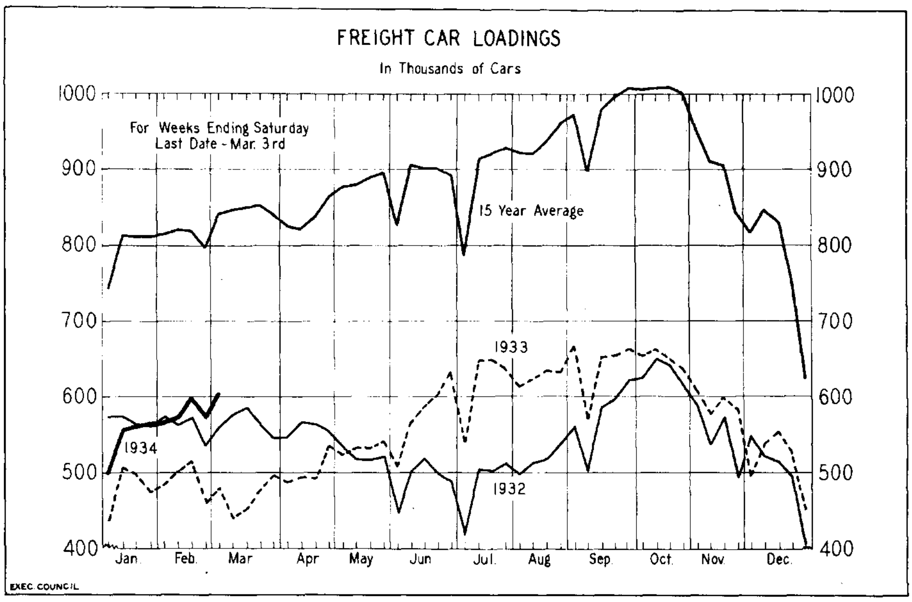
Basic business reports indicate a continuation of the February trend into the early part of March, with some slackening here and there in the rate of advance. In the organized markets, prices of sensitive commodities have been sustained at their comparatively high levels of mid-February, while prices of common stocks have given ground. Corporate bonds have recovered from their recent reaction and U. S. Government bonds have advanced sharply to the highest levels since last autumn.

Production.

Steel mills are operating this week at 46 per cent of capacity, a decline of one and one-half points from last week. Operations are being maintained by demands for steel from tin plate mills, from general miscellaneous sources, and from the automobile industry which is expanding its output, with large blocks of orders still unfilled. Prospective orders for structural and railroad steel are receiving increasing mention in the trade press but do not appear to account for a large proportion



of current output. Coal mining and the coal-carrying railroads profited considerably from cold weather in February. Anthracite mines were more active than at any time in more than three years. On the railroads, a somewhat larger than seasonal gain in traffic during February was attributable almost wholly to shipments of coal and coke; shipments of other goods were at a slightly lower rate for the season than in January. The latest weekly report from the railroads, for the week of March 3, shows a somewhat smaller increase in traffic than in past years.



In the construction industry, contracts awarded in February for private building increased slightly from the exceptionally small volume reported in January, while fewer contracts were awarded for public projects. However, preliminary reports indicate that employment on PWA projects increased in February, except on roadwork which was held up by storms.

Employment.

The Secretary of Labor reports that, with advancing activity in manufactures, there was a better than average increase in factory employment and payrolls in February. The railroads also took on more employees, particularly in their shops and in train service.

Retail Trade.

Retail trade in recent weeks has been in comparatively good volume for the season except where stormy weather has slowed up sales. At department stores in leading cities business was at about the same rate in February as in December and January, after allowance for usual seasonal changes. The rural areas, especially in the South, continue to show relatively greater gains in trade than the cities. A leading mail order house reports that its February mail orders, which come principally from the country, were 80 per cent larger than in 1933 and sales at its city stores were 30 per cent larger. The Secretary of Commerce reports that trade of leading chain stores and mail order houses in rural areas is running more than 40 per cent above last year, approximately the same percentage gain as is shown by farmers' cash incomes estimated by the Department of Agriculture. Throughout the country, an active market for consumers' durable goods, such as automobiles and electric refrigerators, is reported.

The Secretary of Commerce also reports that sales of groceries by chain stores increased more than seasonally in February and, in dollar value, were 9 per cent larger than last year, while the Secretary of Labor reports that prices of staple groceries and meats at shops in leading cities have increased by nearly 20 per cent from last year. The fact that the increase in food prices as compared with last year has been larger than the increase in dollar sales at chain grocery stores would appear to indicate that the physical volume of food sales had decreased. The two indexes are not sufficiently comparable, however, to permit one to say definitely whether there has been an actual increase or decrease during the year in the quantity of groceries sold.

Wholesale Prices.

In wholesale markets the average level of commodity prices has shown little change since the middle of February, following the rapid rise of the preceding two months. Among sensitive commodities, prices of grains and silk have declined and quotations on livestock have eased slightly; cotton prices have been relatively well sustained around their highest levels since last summer; and firmness has developed in markets for some of the metals, in particular copper, tin, and scrap steel, which has often served as a barometer for the steel industry.

At their levels of March 3, prices in the wholesale markets covered by the weekly index of the Bureau of Labor Statistics are reported by the Secretary of Labor to have been nearly 25 per cent above the extreme low level reached in the week of March 4 a year ago. In this recovery, as in the decline, prices of farm products have moved more rapidly than prices of most other commodities. Farm products as a group have gained more than 50 per cent during the year, while prices of other products, principally semi-finished and manufactured goods which are typically not traded in organized markets and which change more gradually, have gained only 20 per cent.

At these levels, prices of farm products are 62 per cent of their 1926 levels and other products 79 per cent. Recently, in the rising markets of January and early February, advances were chiefly in average prices for farm products which are again near the high of last summer.

Farm Income.

The recent increase in prices for agricultural products was reflected in a somewhat larger than seasonal increase in agricultural income in January, when farmers sold products valued at about $424,000,000 in central markets. In addition, they received $60,000,000 in income from rental and benefit payments under the AAA program; including, for cotton growers, loans on options taken last year on government-owned cotton.

The report on agricultural income in January inaugurates a new service by the Department of Agriculture, making available each month comprehensive estimates of the value of the principal farm products that are sold in central markets. The chart gives a record of monthly farm income since the beginning of 1924. The lower area shows income from livestock, meat and dairy products, which comprise a relatively more steady source of income than crops, fruits, and vegetables, receipts from which are shown in the upper area. Rental and benefit payments and other additions to current farm income through operations of the AAA, are shown by the black area. The chart illustrates the wide seasonal variations in farm income, which usually reaches a peak in October, when crops are marketed, and then declines every month until April or May, when it again increases. Livestock and dairy products are marketed much more steadily throughout the year, the peak season ordinarily coming in May or June.

Office of Economic Adviser
to the Executive Council

February 27, 1934

ECONOMIC SITUATION

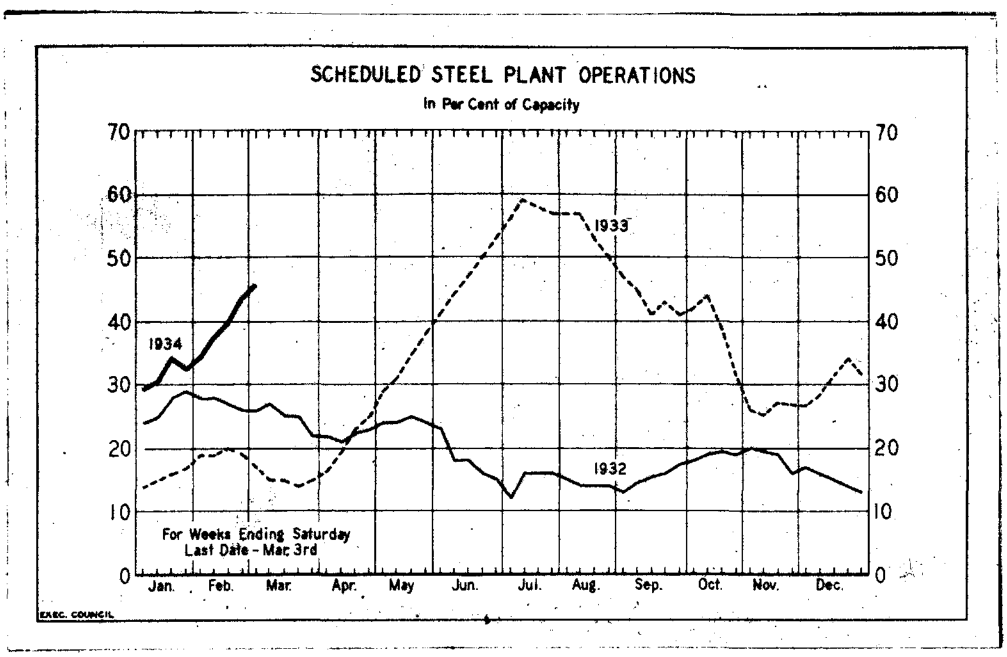
Summary.

Irregularity which developed in the stock market last week was reflected in prices of bonds and sensitive commodities. These movements have been ascribed in the daily press to apprehension over Federal regulation, the possibility of labor disturbances in the automobile industry and other factors. In part, at least, however, they represent a speculative reaction from the recent rapid advance.

Exceptionally severe weather conditions during the past two weeks have affected business activity. While demand for coal and winter apparel has been increased, retail trade in general appears to have been retarded by the storms, which have also interfered with construction and other outdoor activities. Aside from these day-to-day developments, the business news confirms the rapid pace of the current upswing in basic industries, the extent of which cannot be fully measured until more complete reports become available.

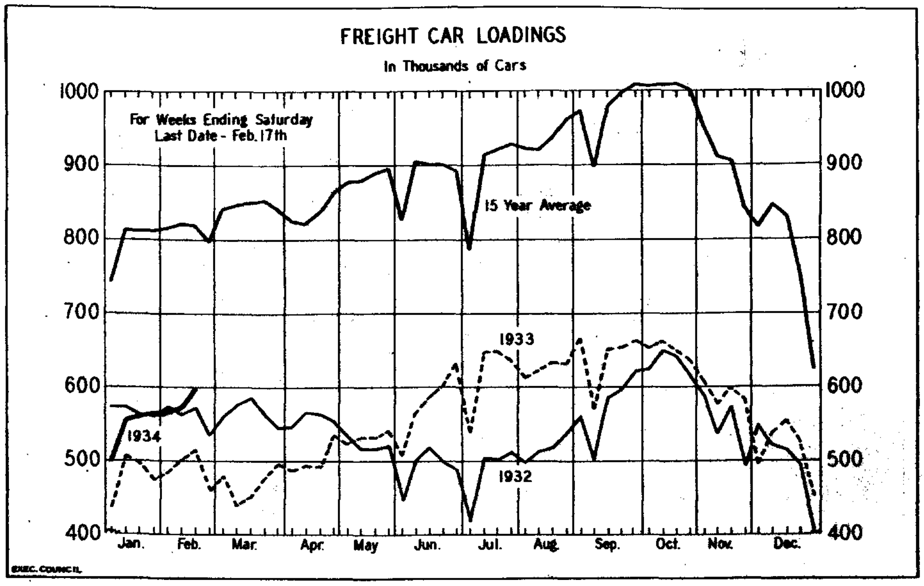
Production.

In the automobile industry 70,000 cars were produced last week as compared with less than half that number in the middle of January, and, while reported labor difficulties in certain automobile centers may slow up production somewhat, it is not unlikely that output in



February will reach 250,000 cars, a rate of 3,000,000 a year. Steel operations continue to advance and during the current week are estimated at 45.7 per cent of capacity, an increase of 13 points since mid-January. Increased activity is also reported in the finished steel industries, which have formerly been less active and in woolen and silk mills and hosiery plants.

Railroad carloadings, which measure in a broad way weekly shipments of both finished goods and fuels and materials for production, show a continued increase and are running well above both last year



and 1932. The latest report, for the week of February 17, is somewhat exceptional because of abnormally large shipments of coal, but after allowance for this, the current movement relative to normal February traffic is at a higher rate than during the peak of operations last summer, when manufacturing output was for a time much larger than at present.

With these advances in production and in freight traffic, factories and railroads should take on more than the usual additional number of workers in February. Confidential preliminary reports from Pennsylvania indicate a considerable increase in factory employment and earnings in that region in the first half of February.

The advance in activity which has been notable during February apparently began at an accelerated pace in the middle of January. This is indicated by a comparison of reports of factory employment for the middle of January with production for the entire month of January. Employment in factories, as reported by the Secretary of Labor, decreased by 1.1 per cent between the middle of December and the middle of January, while weekly factory payrolls were reduced by .8 of 1 per cent. For the month as a whole, however, output in basic manufacturing industries showed an increase of nearly 11 per cent, according to the index compiled by the Federal Reserve Board. Normally there is an increase in output in January, and after allowance is made for expected seasonal changes, the rate of advance appears to have been about 4 per cent. These differences between production and employment are due partly to the fact that the production figures represent mainly semi-finished goods industries, but they also indicate an increased rate of revival during the latter part of the month.

The rapidity of the advance in production naturally raises questions as to whether it will last; whether it is of a character to pile up unsold inventories in certain industries, or whether it is more broadly based and so balanced as to lead to a further generation of employment during the coming months. For an answer to this question, it is necessary to analyze, first, the relation of demand to current output in the light industries which manufacture the bulk of products for consumers; and, second, the present and prospective rate of demand for products of the heavy industries which do not, in the main, sell to the ultimate consumer, but are occupied with construction or production of new equipment or with the replacement of worn out or obsolete machinery.

Taking these problems in their order, in the light industries it appears that the current rate of consumer demand is sufficient to absorb the going rate of output. The textile, leather and food industries curtailed output rapidly in the latter months of last year, after the advance of the summer and early autumn, and although there has recently been a renewed increase, activity in January, after allowance for seasonal changes, was at about the same rate as in 1930-1931. The volume of retail trade indicates that at present these goods are moving in substantial volume into channels of consumption. However, the current rate of output in the light industries is sufficiently high to suggest that, with certain exceptions such as tires, etc., any further substantial advance, other than seasonal, cannot be expected this year. Should such expansion begin, especially if it were rapid, it would merit close attention as to the permanence of demand.

Further progress in reemployment, consequently, rests on a rising tide of demand among the heavy industries and on the regenerative effect of revival in these industries throughout the economic structure. The advance in output during the past month was largely in those industries and, in terms of present market demand, their activity is much more broadly based than it was last June when steel mills, for example, were operating at about the same per cent of capacity as they are at present. The market for consumers' goods of a durable sort, such as automobiles and electric refrigerators, is already active and expanding; the market for machine tools and other types of factory equipment is becoming somewhat broader and will probably show increasing strength as needs for replacement of worn out and obsolete equipment develop. During the coming year, furthermore, the public works program will restore public building to a rate equal to or above the normal volume of public construction to which this country was adjusted before the depression. Demands from our transportation system for heavy equipment ~~for construction~~ are reappearing and are making themselves effective, in part by means of financial aid from the Public Works Administration.

It is impossible to tell how widespread demands of this sort will be during the remainder of the year; for the present they appear more than adequate to account for the persistent increase in activity in the basic heavy industries. ~~and to indicate that so far it is not speculative in nature~~.

New residential construction, on the other hand, is negligible in volume. The absence of activity in this field reflects in part the depth of the depression and the fact that it is even now less than a year since mounting unemployment and decreasing business volume began to be checked. In view of the general oversupply of residential facilities in 1929 and the apparent temporary increase in this oversupply brought about during the depression by the practice of "doubling up" and also of moving back from cities to rural homesteads, it could not be expected that there would be any widespread demand for new private residential construction until after a considerable interval of emergence from depression. Five years of underbuilding have undoubtedly created a shortage which in time will make itself felt, but at present the most promising field for further activity in the heavy industries lies in stimulation of rehabilitation and modernization of existing dwellings. Later a more widespread demand for new construction may be expected to assert itself.

Foreign Trade

According to a statement from Secretary Roper, exports declined by somewhat more than the usual seasonal amount between December and January. Total exports, including re-exports, were valued at $172,000,000 in January against a total value of imports for consumption of $128,500,000. The recession in January from the preceding month was ten per cent in exports as against the usual seasonal decline of four per cent. Imports rose from $124,318,000 in December to $128,500,000 in January. The increase of 3.4 per cent slightly exceeded the usual seasonal increase of about 2 per cent.

Office of Economic Adviser

February 13, 1934

ECONOMIC SITUATION

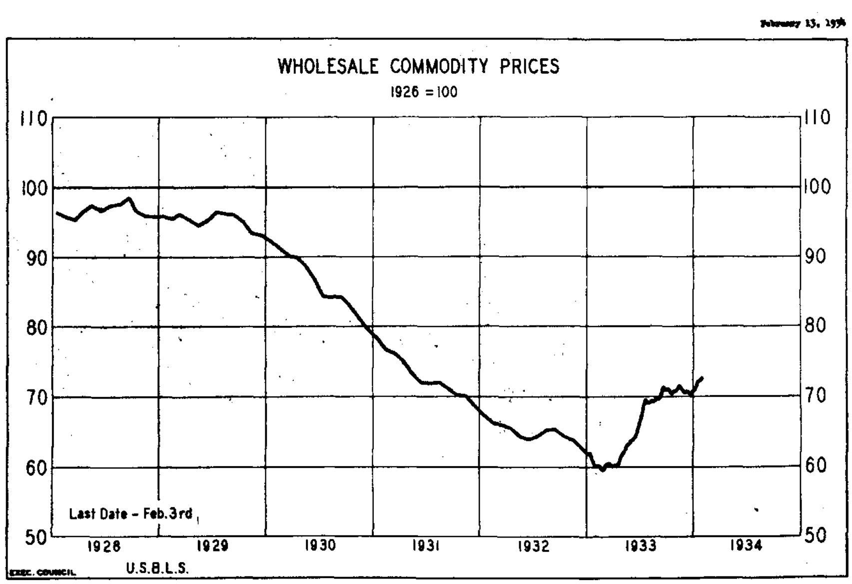
We are now approaching a period when comparisons of business statistics with last year will become increasingly misleading because of the exceptional developments of 1933. During the next few weeks, business statistics are almost certain to show large, sudden increases in comparison with the same weeks in 1933 when activity was nearing a standstill as the banking crisis developed. Beginning with the latter part of March, on the other hand, gains over 1933 will be much smaller because of comparison with a period in which activity was recovering at a phenomenal rate after the reopening of the banks and the beginning of the recovery program. For this reason literal interpretations of routine statistics are to be avoided. It will be desirable to use data which have been corrected for seasonal changes or, when that is impossible, to make comparisons with earlier years when conditions were more nearly normal.

<u>Summary.</u>

The most recent weekly statistics continue to show the same trends that have been noted in earlier reports:--generally rising prices for commodities and securities; production advancing from mid-January levels, especially in the automobile and steel industries; retail trade continuing to gain; public construction at high levels, and private building lagging.

<u>Prices</u>.

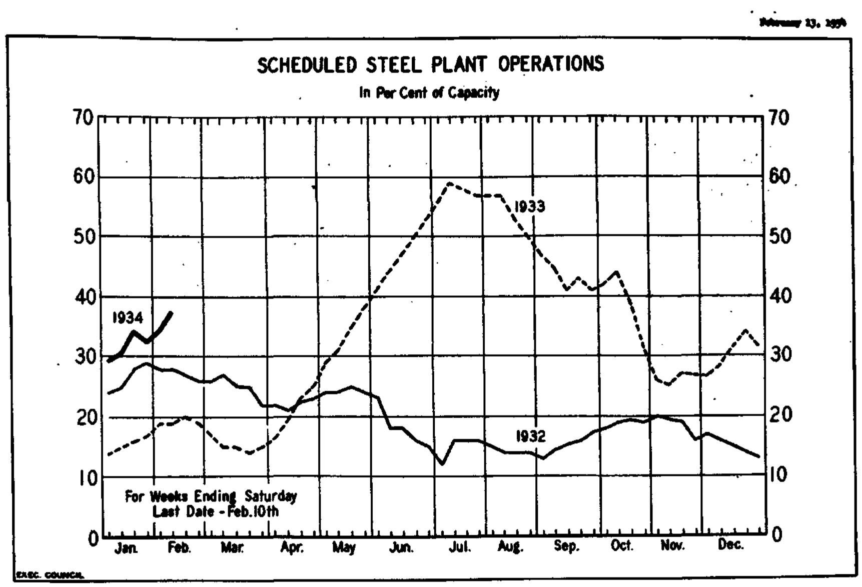
In the security markets, prices advanced vigorously up to the middle of last week when there was a reaction in both bonds and stocks. Among commodities traded in organized markets, there was some irregularity during the week, with prices of grains and silk receding, while many other prices continued to rise, both here and abroad. Price advances were pronounced for cotton and rubber, and markets for sugar, coffee, lard and other products were also strong. Prices of less sensitive commodities have also moved upward, on the average, and the Bureau of Labor Statistics general index of wholesale commodity prices has advanced steadily for six successive weeks.



During the first week in February, the index rose to 72.8 per cent of its 1926 average. This is the highest level in nearly three years, and is 22 per cent above the low point last March and 4-1/2 per cent above the level prevailing during the temporary peak of business activity in mid-July of 1933.

Production.

Industrial production early in February appears to be showing distinctly more than seasonal improvement. Electric power output, which measures a wide variety of productive activity, increased more than seasonally during the early part of February. Automobile production, which had been advanced to about 45,000 cars two weeks ago, continues to increase and was estimated at 65,000 cars during last week. This is the largest output for early February since 1930. Steel operations are also increasing rapidly, and have risen



from 34-1/2 per cent of capacity at the first of the month to a level estimated at about 40 per cent of capacity at the present time. This rise, which is somewhat more than seasonal for this period of the year, reflects a much wider variety of demand than was present during the sharp increase in steel operations last summer, since at that time the railroad and construction industries, customarily among the heaviest takers of steel, were completely out of the market, and orders were confined to the automobile industry, the tin plate industry and to other miscellaneous users of steel.

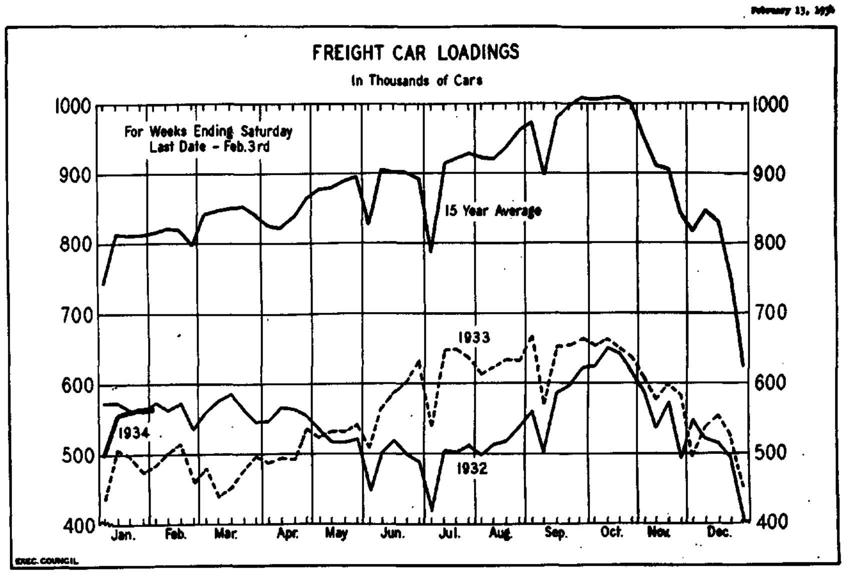
Construction.

In January contracts for construction in the states east of the Rocky Mountains amounted to $190,000,000 according to the F. W. Dodge Corporation, representing a comparatively small decline from December. Nearly four-fifths of the contracts were for public construction. Contracts for private building were about $20,000,000 smaller than in December and near their lowest levels for the depression period.

The Public Works Administration reports that construction contracts of about $80,000,000 were arranged under its auspices in January, a decline of about $20,000,000 from those awarded in December. There was a marked increase, however, in construction work done by workmen hired directly by Federal or state supervising agencies so that in the aggregate there was little reduction in new work begun by PWA. Contracts for PWA projects include a number of important orders, such as those for Naval vessels, which are not classed as construction in the reports of the F. W. Dodge Corporation.

Distribution and Trade.

Railroad freight traffic has been showing more than its usual seasonal increase since the holidays and after seasonal adjustment averaged 64 per cent of its 1923-1925 level in January as compared with 61 per cent in November and 65 per cent last July. The latest figures on car loadings show traffic to be at about the same levels as 1932 and 16 per cent larger than last year.



Trade reports for the first half of February continue to emphasize a strong situation in both wholesale and retail trade. In January, so far as final figures are available, the seasonal decline in retail dollar sales from the holiday peak was about average in the case of department stores and grocery stores, but was much less than usual in the case of variety stores and mail order houses. As compared with last year when trade was restricted and retail prices were considerably lower, average daily sales showed gains of 4 per cent in groceries, 14 per cent in department stores, and 15 per cent in variety stores. Preliminary reports indicate an increase of well over 40 per cent in mail order sales. Recent gains in trade were general throughout the country but were particularly marked in Massachusetts, and also throughout the middle west and south.

PUBLIC RELIEF

In October, 1933, the Federal Emergency Relief Administration took a census of families receiving unemployment relief from public funds and found that nearly 11 per cent of all families in the country were on public relief rolls. They numbered more than 3,175,000 families and included 12-1/2 million persons. A surprisingly large number--forty-six per cent--were children under 18, a group that accounted for only a little more than one-third of the total population. The number of single individuals without dependent families and families of more than 5 persons was also disproportionately large. The rural relief load was heavier than might have been expected. Nine per cent of all rural families were receiving relief, while in cities of over 2,500 population the proportion was 11-1/2 per cent. The relative relief load varied widely among the states, from 27 per cent of all families in Florida and 24 per cent in South Carolina, to 3 per cent in Vermont, Virginia and Wyoming.

This was the relief situation in October. It represented a material improvement over March, 1933--the most severe month of the depression. At that time it is estimated that more than 4,500,000 families and over 13,600,000 persons were receiving public relief.

As this winter came on, there was some increase in the relief load, especially early in November. After the CWA program became active late in November, however, there was a rapid reduction in the number of families receiving relief. In the past four years relief cases have increased from 20-30 per cent between November and December, and 10-20 per cent between December and January. This year the number has decreased in both periods, by 20 per cent in December and 15 per cent in January. Less than half as many families are now receiving relief than in March, 1933, and cash outlays from public funds--Federal, state and local--have been reduced from over $80,000,000 in March to $48,000,000 in January. Since Federal funds became available, relief has been more nearly adequate than in the early months of the year.

While CWA was employing 4,000,000 workers between late November and the middle of January, 1,100,000 families left public relief rolls. Mr. Hopkins reports that in the past two weeks, with curtailment of the CWA program, the number of CWA workers drawing pay in the week of February 1 was about 170,000 less than at its maximum in the week of January 18. Their average weekly earnings had decreased from $15.22 to $11.12, because of a reduction in weekly working hours of urban employees from 30 to 24 per week and of rural workers to 15. Altogether the Civil Works Administration has expended $435,000,000 in wages.

Mr. Riefler

January 30, 1934

ECONOMIC SITUATION

Summary.

Prices in the organized commodity and security markets levelled off last week following a vigorous rise in the preceding week. Yesterday, however, these markets again advanced. In the security markets, price indexes of both bonds and stocks have risen sharply from December and are close to the 1933 high levels reached in July. In the commodity markets, price indexes of sensitive commodities have continued to advance but the rate of increase last week was slower than in the two preceding weeks. Less sensitive commodities have also risen on the average, and the Bureau of Labor Statistics index of wholesale commodity prices covering 784 series, has advanced steadily from 70.4 of its 1926 average in the week preceding Christmas to 72.3 in the week ending January 20. Higher prices for farm products and foods have been the largest factor in this rise, but increases have also occurred in most of the other major groups.

In industry, it now appears that manufacturing production in January as a whole will average about the same in volume as in December. Textile output continues at a somewhat reduced rate, reflecting as in earlier months, compensation for the high rate of activity maintained last summer. In the steel industry, which has been marking time pending releases of specifications on automobiles and public works contracts, operations dropped 1-1/2 points last week to 32.5 per cent of ingot capacity, but are forecast for the present week at 34.4 per cent of capacity. Shipments of finished steel were comparatively small in the first part of January, although makers of farm implements and road-building machinery are reported to be buying in fair quantities. Automobile output increased from 20,000 cars in the first week in January to about 45,000 cars last week. Thus the total for the month will be not far from 150,000 cars, a very substantial increase over the 84,000 produced in December. Certain important plants are still hampered by production difficulties and are not able to go ahead as fast as orders warrant.

Taking a longer view than is indicated by these short term movements, it appears that certain branches of the heavy industries, which felt the brunt of the depression, are gradually coming to life. The current operations in the light industries, that is, textiles, leather goods, food manufactures and miscellaneous items, are running slightly lower than last year or two years ago. Operations in the heavy industries, on the other hand, while they are still small in volume as compared with pre-depression levels, are materially larger than last year and somewhat larger than two years ago. In fact, all of the current gain in production in basic industries as compared with those periods is concentrated in the heavy industries, reflecting principally the resumption of active demand for automobiles, electric refrigerators, and also but to a smaller extent for tools, farm implements, engines, machine tools, and certain other types of mechanical equipment. This is confirmed by Secretary Perkins' report which indicates substantial gains in employment and payrolls in these industries in the month of December.

Construction.

In the construction industry, despite the large increase in contracts awarded in recent months, actual work under way continues relatively low, because of the difficulty of inaugurating large scale construction projects of an engineering type such as road building during the winter months. Contracts awarded through the 22d of January, according to the F. W. Dodge Corporation, were at about the same rate as in December, which represented the largest volume in many months.

Residential construction continues in small volume. According to Secretary Perkins' report there was a decline in December in both number and value of permits issued for new private construction. Permits for additions, alterations and repairs also decreased in number but increased in value in that month.

Retail Trade.

Retail trade figures received during the past week confirm earlier trade reports. Confidential figures on department store sales have shown a higher than seasonal level during the first three weeks of January; this has not been confined to the South and Middle West as in earlier months, but has also penetrated New England. Improvement of sales in New England has also been confirmed by more comprehensive figures covering all principal types of retail trade in Massachusetts, which indicate a trade volume markedly higher than last year, especially in wearing apparel, general merchandise, and miscellaneous items.

Employment.

Employment in factories will probably show a somewhat larger reduction than usual in the middle of January as compared with December. Preliminary confidential figures from Pennsylvania indicate greater than seasonal reductions from early December in employment, payrolls and total number of hours worked by employees. In Detroit, on the other hand, it is reported that more workers were employed last week than at any time in two years.

Secretary Perkins reports that total employment at factories dropped by 1.8 per cent between the middle of November and the middle of December while payrolls declined by 1 per cent. Similar declines between November and December have occurred in 7 of the last 10 years but the decline this year was somewhat greater than average. It is estimated that these changes, taken in conjunction with changes in employment and payrolls in 16 private non-manufacturing industries, resulted in a net decrease of 30,000 workers during the period and a net reduction of $244,000 per week in payroll disbursements. For the most part, declines were concentrated in highly seasonal industries such as private construction, canning and preserving, dyeing and cleaning. In the merchandise field, on the other hand, there was a sharp seasonal increase in employment reflecting the large expansion in Christmas trade.

Secretary Perkins further reports that sixteen industrial disputes involving 6,749 workers directly and 6,051 indirectly were adjusted by the Conciliation Service between January 16 and January 27.

Mr. Riefler

January 16, 1934

ECONOMIC SITUATION

Summary.

A sharp advance in prices on the organized security and commodity markets accompanied publication of the President's message to Congress on monetary policy yesterday. During the preceding three weeks, prices on some of the organized exchanges had shown definite signs of firmness. Prices of cotton and silver had advanced both here and abroad; and in American markets prices of cattle and hogs, of coffee, and, recently, wheat, had increased. Corporate bonds had also shown definite strength. The Dow-Jones average of 40 bonds had recovered to the level of mid-September, 10 per cent above the recent low point reached in November and only 3 per cent below the preceding high point reached in July.

In retail markets, there is some evidence that the advance in retail prices, which had provoked a certain amount of consumer resistance, had come to an end, at least for the time being. The Fairchild index of retail prices quoted by department stores showed no change between December 1 and January 1, while the Bureau of Labor Statistics index of retail food prices registered a further decline during December.

In industry, since the slackening at the year-end, activity has been resumed on a somewhat larger scale than usual. Both power output and railroad carloadings have shown a slow but gradual improvement during the past few weeks, as compared with the same period in other years. Steel mills, which were scheduled to operate at 29.3 per cent capacity during the first week of January, advanced operations by about 1 point last week and are scheduled at 34.2 per cent for the current week. Automobile makers are now rapidly increasing output as production problems on the new models are overcome; output is reported to have expanded from about 20,000 cars in the first week of January to 30,000 during the week just past. Trade reports indicate that makers of supplies and parts are exceptionally busy. The success of the New York Automobile Show is particularly gratifying to the industry.

Sufficiently comprehensive reports on business activity in December have now become available to indicate the general position at the close of the year. In general, the story of factory operations is one of little change, other than seasonal, between November and December. Output in basic manufacturing industries as a whole showed about the usual change. Individual industries were exceptions; steel output increased instead of declining, cotton output was reduced by more than is customary. However, employment and payrolls in factories, for which our figures cover a wider range of finishing industries than do reports on output, declined slightly more between November and December than in past years, according to preliminary reports.

Final reports indicate that retail sales, except for automobiles, gained considerably in December, measured in dollars. Allowing for price changes, physical volume of goods sold appears also to have increased from November, but not from a year ago in the case of those items where price quotations are available. Food sales by chain organizations, which are ordinarily fairly stable, showed an increase in dollar volume for the country as a whole of two per cent over last year. In the merchandise field, department store sales were 12 per cent larger than last year, 5, 10, and 15¢ stores 15 per cent larger, while gains at mail order houses were even greater. As in the previous month, reports indicate that the urban areas of the Northeast and the Pacific Coast States have experienced a smaller pickup in activity than agricultural districts, particularly those in the cotton-growing States. This is illustrated by the sales of department stores in leading cities as reported to the Federal Reserve System. As a whole they increased 12 per cent on a daily basis as compared with December 1932. In the Northeast, that is, in the Boston, New York and Philadelphia Federal reserve districts, this increase ranged from 5 per cent to 9 per cent. Moving West to the Cleveland, Chicago, and Minneapolis districts, the increases ranged from 15 to 17 per cent. To the South, Richmond and St. Louis showed gains of 13 and 15 per cent; while still farther South, in the Atlanta, Kansas City and Dallas districts, increases in sales ranged from 26 to 28 per cent. In the region west of the Rocky Mountains, however, the increase was only 11 per cent.

Department store sales, averaging the country as a whole, do not appear to have been exceptionally large during the first week of January, according to confidential data, but trade comments continue to emphasize a generally strong situation in both wholesale and retail trade.

Cost of living.

Secretary Perkins reports that the cost of living survey made by the Department of Labor showed a decline in the cost of living of 21 per cent between the last half of 1928 and the last half of 1933. In the District of Columbia, the corresponding decline in the cost of living for Federal employees was 14.6 per cent. During the last six months, however, the cost of living has been increasing, by 5 per cent for the United States as a whole and by 6-1/2 per cent in the District. Rent was the only major item in the cost of living which continued to decline during the last six months. Housefurnishings and clothing increased by about 11-1/2 per cent, food by 9 per cent, and fuel and light by 7 per cent. Miscellaneous items showed only small increases in the aggregate .

Construction.

Construction activity has increased materially in the past four months, predominantly because of Federal contracts awarded under the PWA. The reports of the F. W. Dodge Corporation on construction contracts awarded, which include only the 37 states east of the Rocky Mountains, reached their low point in February and March of this year at about $55,000,000 a month, as compared with an average monthly volume of $550,000,000 in the year 1928. By August they were still at a rate of only slightly over $100,000,000. Since that time they have increased rapidly to double that amount, or more than $200,000,000 in December.

Projects are not classified by the F. W. Dodge Corporation according to whether they are awarded under the PWA or not, but public awards, including Federal, State and municipal, are segregated from private contracts. Of the total of $635,000,000 of contracts awarded in these States from September to December, 1933, over 70 per cent were for public projects. These were all largely PWA projects since the present volume of State and municipal construction, excluding contracts on which the PWA is cooperating, is negligible.

The chart compares public and private construction contracts let in these eastern States during the past two years. Public construction contracts were considerably larger than private contracts during the last three quarters of 1932, but subsequently fell to very low levels during the first seven months of 1933. Beginning in August the total of contracts for public construction expanded very rapidly and in December they were about $155,000,000.

Private contracts, shown by the gray bars, declined gradually from the first quarter of 1932 until early in 1933. Since that time, they have shown largely seasonal changes except in December, when they rose sharply against their usual seasonal trend. A substantial proportion of the increase in private construction during the summer months was in small residences, mostly for owner occupancy, but business construction and distilleries also accounted for some of this building activity.

Mr. Riefler

January 4, 1934

ECONOMIC SITUATION

Summary.

Retail trade, which dominates the holiday season, is reported to have made large gains as compared with last year. Holiday sales of the largest mail order house increased 27 per cent as compared with December 1932.

The basic industries showed a continued moderate gain in the rate of activity over the year-end. Railroad freight traffic, perhaps the best general indicator, declined considerably less than usual during the entire holiday season; and more electric power was sold than in past years. Steel plants are beginning the year with operations at 29 per cent of capacity, according to the estimate of the American Iron and Steel Institute. This decline of only 5 points since the third week in December is considerably less than the trade expected. Automobile factories are still largely occupied with tooling up for new models and output in the last week of December was at about half the rate of last December. Present trade expectations are that resumption of output will be slow and irregular in several of the larger plants until late in January or early in February, when the new models are expected to reach a quan-

tity production basis.

Looking back on 1933, total output in light industries as a group--textiles, leather, foods, etc.--recovered to within 15 per cent of the average for the peak year 1929. It does not appear probable, therefore, that these industries will show a further large increase during 1934. In the heavy industries, on the other hand, the year 1934 opens with prospects of a material increase in activity, especially in the automobile industry and in the construction industry. From 1923 to 1930 an average of over 4,000,000 motor cars were produced annually in this country while in 1932 automobile output totalled less than 1,400,000 cars, a decrease of 65 per cent. In the spring of 1933, the automobile market was among the first to show signs of expanding activity, and total output for the year increased to nearly 2,000,000 cars. Even this large increase was probably not sufficient to replace cars that became worn out and were abandoned during the year. With dealers' stocks of cars reported at exceptionally low levels at the present time, it is expected that total 1934 output will make a further material gain over 1933.

In the construction industry, which accounted in the aggregate for about $11,000,000,000 of work in 1929 as compared with about $3,000,000,000 during the past year, activity has persisted at low levels until recently. Contracts for new construction, however, have increased rapidly during the past four months in response to the Public Works program. During the first three weeks of December, total construction contracts awarded in 37 states, according to the F. W. Dodge Corporation, were at a rate nearly three times as large as that at the end of June, and are now up to about one-half their December level in the years 1926, 1927 and 1928 when construction was exceptionally active in this country. Although the greater part of these contracted operations are outside the residential field, residential construction is also showing some increase. Secretary Perkins reports that building permits compiled from 760 cities by the Bureau of Labor Statistics showed an increase of 22 per cent in the number of new residential undertakings in November as compared with October and an increase of 66 per cent in the estimated value of these projects. These figures include repairs as well as new construction.

Secretary Perkins also reports that the Bureau of Labor Statistics index of wholesale commodity prices declined by about one-half of one per cent, from 70.8 to 70.4 per cent of the 1926 average, in the week ending December 23, reflecting marked reductions in the market prices of farm products and manufactured foods.

Secretary Ickes reports that the Purchasing Officer of the Department of the Interior has compiled figures showing the bid prices on certain articles of wearing apparel on the dates of June 1, 1933, and October 1, 1933, the former date being prior to the effective date of any of the codes under the NRA. These figures are based on broad, competitive bidding covering every part of the United States and apply to articles of wearing apparel of a quality and kind used by wage-earners. The quotations given are not exhaustive of this list but are typical of the variations shown.

Quotations received - bids opened	June 1, 1933	Oct. 1, 1933	Percent increase
Women's Lisle Cotton Hose, per dozen pairs	$2.75	$3.11	13
Night Gowns, outing flannel, each	0.71	0.83	17
Overalls, blue denim, per pair	0.65	0.79	22
Pajamas, bleached cotton, each	0.625	0.825	32
Women's Union Suits, light weight ribbed cotton, eac.	0.31	0.41	32
Jackets, blue denim, each	0.59	0.795	35
Women's Union Suits, heavy ribbed cotton, each	0.40	0.55	38
Men's Union Suits, checked nainsook, ea.	0.255	0.355	39
Boys' and Girls' Ribbed Cotton Stockings, per doz. prs.	1.60	2.25	41
Men's Union Suits, heavy ribbed cotton, ea.	0.57	0.82	44
Men's Cotton Socks, per dozen pairs	0.85	1.28	51
Women's Vests, ribbed, each	0.12	0.19	58
Work Suits, blue denim, each	0.85	1.35	59
Corduroy Trousers, per pair	1.28	2.23	74
Khaki Trousers, per pair	0.495	1.17	136
Total	$12.055	$16.955	41

They show that the aggregate cost of the fifteen articles cited was $12.06 on June 1, 1933, and $16.96 on October 1, an aggregate increase of 40 per cent. Increases in the prices submitted on competitive bids to Secretary Ickes range from 13 per cent in the case of women's lisle cotton hose to 136 per cent in the case of khaki trousers. Prices charged for apparel by department stores in leading cities, compiled by Fairchild Publications, show a much smaller increase of 20 per cent between June and October, and 24 per cent from June to December. Other indices of the retail cost of clothing to consumers also show smaller advances in the same period.

Mr. Riefler

December 27, 1933

ECONOMIC SITUATION

Summary.

Current weekly data continue to indicate a distinct tendency toward increased activity. Electric power production increased more than seasonally during the week ending December 16. Freight-car loadings were also larger although a decline in freight traffic is usual at this season. Steel operations advanced from 28.3 to 31.5 per cent of capacity at a time when it is usual to expect a seasonal decline. During the week ending December 23, steel operations advanced still further to 34.2 per cent of capacity, and the American Iron and Steel Institute estimates that they will be 31.6 per cent of capacity during the holiday week, a period when extensive suspensions are usually to be expected. This sharp pickup in steel operations during the last half of December, against the customary seasonal trend, reflects in part at least the desire of consumers to avoid paying higher prices posted on certain types of steel products for next month. It is possible, therefore, that operations will slacken temporarily after the year end until these advance shipments have been absorbed. Automobile production continues to expand moderately but remains well below last year, due to continued difficulties in obtaining volume output on the 1934 models. As a consequence, the total volume of automobile output this month will be near the lowest level for the current year. Construction contracts for the first half of December showed a further sharp increase again reflecting large awards for public works. Trade reports indicate an active holiday shopping season but there are not yet sufficient figures available to summarize the results. The increase of $86,000,000 in money in circulation between December 13 and December 20, however, represented a full seasonal rise for this period of the year.

Production.

As additional data for November are compiled, it becomes increasingly clear that the general recession in business activity levelled off during that month. As compared with October, however, the average for November as a whole showed declines. In output of basic materials this decrease amounted to 7 per cent as compared with a customary seasonal decline of about one per cent. Corresponding to this decline, figures on factory payrolls, which cover a wider range of industrial processes, especially of finished goods, than figures on factory output, declined 4 per cent as compared with a customary seasonal decline of less than 2 per cent, while factory employment declined 6-1/2 per cent as compared with a customary decline of 4 per cent. The highly seasonal canning industry, which is included in these figures, accounts for a large part of the seasonal decline.

This recession was essential to correct an over-rapid expansion in the output of certain basic raw materials and semi-finished goods, especially in the textile, leather, and steel industries, which took place between March and July. It was pointed out in an earlier summary that 67 per cent of the huge increase in factory production between March and July was accounted for by these three industries which expanded temporarily to a rate of operations far beyond the current demand for their products either in the finished goods industries or in retail markets. That a correction of this situation was the main factor in the autumn recession is shown by the fact that these same three industries accounted for 72 per cent of the recession in output between July and November.

At present it looks as if November will mark a point that is close to the low of the autumn recession. The stock-taking of our position shown on the charts is for that reason a conservative one, especially in view of the fact that the Civil Works program and the Public Works program had not yet begun to operate in full volume so far as actual employment or production of construction materials is concerned.

Secretary Perkins reports that retail food prices declined by somewhat more than 1 per cent during the two weeks ending December 5 but on that date were 16-1/2 per cent above the low point in April and 7 per cent higher than in December last year. Decreases were reported from 45 of the 51 cities covered by these figures, Wholesale commodity prices decreased by a very slight amount during the week ending December 16.

The Department of Commerce reports that export trade was well maintained during November while imports decreased rather sharply. The value of exports at $184,000,000 showed a decline of 5 per cent from October as compared with a usual decline of 6 per cent while imports at $128,000,000 showed a decline of 15 per cent from October as compared with a usual decline of about 2 per cent. As a result, the excess of exports increased to $56,000,000 for the month, the largest net export balance since January 1931. As compared with their average value in the period 1923-25, exports in November showed a decrease of 58 per cent while the decrease in imports amounted to 60 per cent.

Mr. Riefler

December 19, 1933

ECONOMIC SITUATION

Summary.

In December, business is dominated more largely by seasonal movements than at any other period of the year. To a certain extent these movements reflect almost solely weather conditions, as instanced by a larger than ordinary movement of coal and fuel, on the one hand, and a tendency toward slowing down in outdoor heavy construction operations on the other. In addition to this weather factor, however, there is the overshadowing fact of the Christmas holiday season accompanied by increased travel and a huge acceleration in retail trade. This provides a natural seasonal division for plant operating schedules. The latter part of December and the early part of January, consequently, is a period in which production is usually curtailed somewhat while inventories are taken, plants are repaired, and production operations on new styles are introduced.

On account of these wide normal movements, it is peculiarly difficult to judge the significance of such current business data as are available. In general, the reports appear to show that changes during recent weeks have been largely seasonal in character. The latest figures on car loadings and electric power production which refer to the week ending December 9 appear to have been

somewhat lower than usual but not by a significant amount. Steel operations, on the other hand, rose in contrast to a customary decline. Steel operations again increased sharply against their usual trend last week, from 28.3 per cent of capacity to 31.5 per cent of capacity. During the present week, they will average 34.2 per cent of capacity according to the estimate of the American Iron and Steel Institute. Production of new 1934 automobile models to stock up dealers prior to the automobile show is still slow in getting under way. This production, which usually falls in November, was delayed this year, first, by the die makers' strike, and more recently, apparently, by difficulties in attaining mass output for the many innovations that are to be incorporated in the 1934 cars. As a result, while automobile output rose further last week, December production will probably not come up to earlier expectations, and much of this activity will carry over into the new year. Holiday shopping has been reflected in an enormous increase in retail trade but it is too early to tell whether this increase is more than seasonal or not. During the week ending December 9, department store sales, according to confidential preliminary figures, were showing about the usual seasonal increase from November.

These seasonal movements at the year end, are reflected sharply in the ebb and flow of the demand for currency. Most large business transactions are paid for by check and their effects are traced through figures showing the volume of check payments. Hand to hand currency, however, is still the principal means of payment in retail trade, and the volume of currency expands enormously in December when Christmas buying dominates the business picture. This is shown in the chart which compares normal month to month changes in the demand for pocket currency with corresponding changes in department store sales, grocery sales, and factory payrolls, three segments of our economic life where currency is used more largely than checks. The figures on this chart do not refer to any particular year, but represent those changes which are perfectly normal and should be expected to occur in any steady business year. Beginning at the bottom of the chart and working up, the lowest line shows changes in factory payrolls from month to month in a normal year, with the average daily payroll throughout the year represented by the zero line. The chart shows that payrolls dip below average by over a million dollars a day in July when many factories shut down for vacations before starting in on their autumn manufacturing schedules. From this low point in July there is usually an abrupt rise in factory payrolls until October when they are nearly $1,000,000 a day larger than average while autumn manufacturing operations are in full swing. This is followed by a moderate drop between October and November and a sharp drop between December and January when plants close down for inventory prior to resuming operations on their spring manufacturing assemblies. The full seasonal drop from early October to the first half of January amounts to about 6 per cent in factory payrolls, 3-1/2 per cent in factory employment. Factory output is at its low point in December when the average for the month as a whole is usually 7 per cent lower than the month of October.

The second line from the bottom shows grocery sales in a normal year. In this case, the lowest month of the year falls in August, when daily sales dip more than $2,500,000 a day below normal. In December, on the other hand, grocery sales reach their peak at nearly $2,000,000 a day more than average, reflecting the effect of Christmas trade.

By far the largest seasonal changes occur in department store sales, which are represented by the third line on the chart. These sales, in a normal year, run $4,000,000 a day below average in August and then rise to $10,500,000 a day above average in December.

The top line in the chart shows how promptly these seasonal movements are reflected in the demand for currency. Ordinarily, the total volume of currency in circulation from February to July runs about $50,000,000 a day below average. Then when harvesting season starts, there is a steady increase until November, and a further very rapid rise in December.

The second chart shows what has been happening to currency this year. This chart is based on weekly figures and the solid line shows those changes that would ordinarily be expected in a normal year, while the broken line shows actual changes during 1933.

The most spectacular movement this year was the tremendous increase in currency hoarding before the bank crisis and the rapid decline in hoarding after March when confidence was restored. Since July, currency has been acting much more normally. It has shown about the usual seasonal changes and is now rising by about the usual seasonal amount. The last date shown on the chart is for December 13 when currency had risen $115,000,000 from Labor Day and $20,000,000 from Thanksgiving. It will probably rise by an additional $150,000,000 to $200,000,000 up to December 24 and will then begin to fall off rapidly until the latter part of January.

The fact that currency movements in the aggregate have been normal in recent months does not mean that the return of currency from hoarding has stopped, but rather that at the present time dehoarding of currency is about offset in the aggregate by increased use of currency for business purposes. This is shown, first, by the fact that in recent months, increases in currency have been more than seasonal in agricultural regions especially in the cotton states. In the big industrial regions, on the other hand, the New York, Philadelphia, Cleveland and Chicago areas, the volume of currency has increased less than usual. This means that the largest increases have occurred in regions where hoarding of currency had been relatively small while the smallest increases are taking place in those areas where currency hoarding was most acute. It is evident, therefore, that the use of currency for business purposes has increased in recent months by an even larger amount than is indicated by the total figures of currency outstanding which include currency in hoards. The dehoarding which is indicated by these seasonal figures is also substantiated by the fact that the circulation of large size bills suitable for hoarding, i. e., $50, $100 and $500 notes, is decreasing, while the circulation of small sized notes, such as are used in retail trade, is increasing.

Mr. Riefler

December 12, 1933

ECONOMIC SITUATION

Summary.

Current figures on the volume of business activity continue to show a fairly level movement during recent weeks. Steel operations averaged about 27 per cent of capacity during November, and around 26 per cent last week. During the current week, the American Iron and Steel Institute estimates they will average 31.5 per cent of capacity. Trade reports indicate that the seasonal decline in steel operations during the latter part of December will be smaller than usual this year. On the basis of average figures for the two weeks ending December 2, both electric power production and railroad car loadings levelled off and showed approximately the same percentage increase over last year as in the week ending November 18. Automobile manufacturers have apparently experienced further delays in perfecting their new models for volume production. Total automobile output last week rose from the Thanksgiving week, but remained relatively low for this period of the year.

Construction contract awards showed an exceptionally large increase during the last part of November which more than offset lower awards earlier in the month. The November total for 37 states, amounting to $162,000,000, was the largest for any month since October, 1931. As contracts on construction are awarded some time before the expenditures involved are reflected in a peak volume of work on the job, the influence of these contracts on general business will not be fully reflected until some time after the holidays.

A sufficient body of data covering retail trade in November is now available to delineate the main lines of the picture. In general, department store sales made the poorest showing. Department store sales for the country as a whole, on a daily average basis, decreased 3 per cent between October and November, as compared with a customary increase of 5 per cent. As compared with November last year, which was a relatively poor month, department store sales showed a gain of 2 per cent. Variety store sales were unchanged from October on a daily basis, but showed an increase of 5.6 per cent, as compared with last year. Preliminary estimates of sales at mail order houses indicate a gain of from 20 to 25 per cent, as compared with November 1932. Geographical differences in trade conditions are reflected in the department store figures where total sales in the Boston, New York and Philadelphia Federal Reserve Districts averaged slightly below last year. In other regions there were increases, which ranged from 1 per cent in the Richmond District to 15 per cent in the Atlanta District. The figures clearly reflected the improved cotton situation in the South.

On the basis of physical volume, after correction for price changes during the last twelve months, it appears that total sales of heavy products, such as automobiles, continue to show increases in contrast to a decrease in the physical volume of sales at department stores.

Secretary Perkins reports that the wholesale commodity price index computed by the Bureau of Labor Statistics fell slightly during the week ending December 2. The index now stands at 70.7 per cent of its 1926 average as compared with 71.7 per cent of its recent high during the week ending November 18. The Bureau of Labor Statistics index of retail food prices rose by 1/10th of one per cent during the two weeks ending November 21, and is now 18 per cent above the low point reached in April and 7-1/2 per cent higher than last year. All cities showed an increase as compared with last year which ranged from 17 per cent in Detroit to less than 2 per cent in Butte, Montana, and Portland, Oregon. The increase in Washington as compared with last year was 8.3 per cent.

Secretary Perkins also reports that during the week ending December 11 the Conciliation Service figured in the settlement of 26 industrial disputes involving 7,673 workers directly and 1,329 indirectly.

Mr. Riefler

December 5, 1933

ECONOMIC SITUATION

Summary.

The advent of Thanksgiving several days later in November this year as compared with 1932 makes it difficult to judge the significance of most of the current statistics which became available during the past week. On the whole, however, the record again seems to confirm the impression noted in the preceding three weeks, namely, that the decline in output which has characterised most of the dominant basic industries since July began to level off during the early part of November. Steel ingot production has remained steady at about 27 per cent of capacity during the past three weeks, and operations during the current week are forecast by the American Iron and Steel Institute at 28.3 per cent of capacity. Electric power production and freight-car loadings both declined slightly during the week ending November 25. In view of the different incidence of the Thanksgiving holiday noted above, it is difficult to state whether this decline was greater or less than should ordinarily have been expected. Among the heavy industries, construction contract awards during the third week of the month showed a rather sharp decline on a daily average basis from the levels reached during preceding weeks. These figures ordinarily fluctuate sharply from week to week, however, and a decline

in one week has frequently little significance with relation to the general trend. The automobile industry began production of new 1934 models during the week ending November 25, but motor output decreased in the final few days of the month reflecting in part the Thanksgiving holiday and in part further delays in starting volume production of new 1934 cars. The delay this year in volume output of new models at a time when retail demand for motors was strong has reduced dealers' inventories of 1933 models to abnormally low levels. December output, consequently, is expected to increase sharply and this increase is expected to carry over at a relatively high rate into the new year.

According to latest reports, retail trade conditions, especially in Eastern cities, were somewhat slower in the last half of November. Preliminary confidential data indicates that department store sales for the month as a whole may show slightly less than the usual seasonal increase from October. They will make a much better showing than November last year, however, when sales dropped between October and November. It is expected that sales of mail order companies and other retail outlets in a position to benefit more directly from the improvement in agricultural conditions will make a relatively better showing than department stores.

Secretary Perkins reports that the Bureau of Labor Statistics wholesale commodity price index covering 784 price series dropped 1 per cent during the week ending November 25. This placed the index at

71 per cent of its 1926 average as compared with the high point of 71.7 per cent reached during the week ending November 18. The fall was due to a general weakening of market prices for widely scattered commodities. The present index is still 19 per cent over the low point for the year reached in March and 11 per cent above the corresponding week of 1932.

Secretary Roper reports that both import and export trade showed an increase in physical quantity as well as in dollar volume during the third quarter of 1933. The physical volume of exports is estimated to have increased about 16 per cent above the third quarter of 1932, which was also the lowest quarter of the depression, while the physical volume of imports showed a corresponding increase of around 40 per cent.

Mr. Riefler

November 28, 1933

ECONOMIC SITUATION

Summary.

Business developments during the past week, on the basis of such data as are available, were small and mixed in character, but, on the whole, again tended to confirm the impression that the decline in output of basic commodities which began in July was levelling off. Trade publications continue to report increased inquiries for steel, reflecting largely the undertaking of actual work on construction projects under the public works program. The American Iron and Steel Institute this morning estimated steel operations at 26.8 per cent of capacity during the current week as compared with operations at about 27 per cent of capacity during the past two weeks. Freight car loadings during the week ending November 18 increased more than seasonally, but electric power production remained unchanged, whereas usually there is a small seasonal advance. Reports on retail trade conditions show considerable variation. Secretary Roper notes that "statistics of retail trade indicate that trade in urban industrial regions has been much less satisfactory than in the major agricultural areas". For example, a leading mail order house reported mail order sales during the week ending November 13 at 70 per cent above

the same week in 1932, whereas sales at the city department stores of this company increased only 23 per cent. Department store sales in October confirmed this observation in that sales in the East ran somewhat below last year whereas sales in western and southern districts ran higher. Preliminary figures indicate that dollar sales of department stores were low during the opening week of November, increased sharply with the advent of cold weather during the second week, and receded somewhat during the third week of the month. A special summary covering a wide variety of retail trade outlets in Massachusetts for the first half of November showed an average increase in dollar volume of about 5 per cent as compared with the corresponding period of last year.

The higher level of this year's retail prices makes it difficult to judge the extent to which a higher dollar volume of sales is moving a larger volume of goods. Retail food prices in October averaged 7 per cent above October 1932, while retail prices at department stores as shown by the Fairchild index were 18 per cent higher than last year. Automobiles constitute the one large field of retail trade in which there has been a very substantial increase in the physical volume of sales. Secretary Roper reports that preliminary estimates of automobile sales in October show an increase in value of 103 per cent over October 1932. Trade reports forecast that November retail sales of motors will decline only 10,000 units from October. This is much less than the usual seasonal decline.

Production, Employment and Payrolls in October.

It was noted in this summary last week that our figures showing changes in factory output are based mainly on the output of semi-finished products whereas our data on factory employment and payrolls cover fairly complete operations in factories producing finished as well as semi-finished goods. These differences in the sources of data may account in part for the divergence in statistics covering production, employment and payrolls between September and October. Factory production of basic materials and also of finished goods, so far as regular data are available, declined by almost 8 per cent after seasonal adjustment between September and October, whereas factory employment and payrolls were maintained in October at about the same rate as in the preceding month. This brings the decline in output since July to about 24 per cent as compared with a concurrent rise of about 12 per cent in factory employment and 16 per cent in factory payrolls. In part, this picture of increased employment and wage payments per unit of output reflects shorter hours and higher wage rates under the codes. It is also probable, however, that output showed less decrease or possibly even some increase in industries for which only employment and payroll data are available. As compared with the low year of the depression, namely, the 12 months ending with March 1933, which we have used on our charts, factory output in October showed an increase of 25 per cent, factory employment of 32 per cent, and factory payrolls of 41 per cent.

Foreign Trade.

Secretary Roper reports that the foreign trade of the country expanded in both volume and value during October. Exports increased 21 per cent over September and 27 per cent over October last year. Imports, on the other hand, were only 3 per cent larger than September but were 43 per cent larger than October last year.

Prices.

Secretary Perkins reports that the index of retail food prices rose from 106.6 per cent of its pre-war level to 106.7 during the two-week period ending November 7. On the latter date retail food prices were still slightly lower than the recent high level reached in the period ending September 6 but were 18 per cent above the low point reached in April.

Secretary Perkins also reports that the Bureau of Labor Statistics index of wholesale commodity prices covering 784 price series rose to 71.7 per cent of its 1926 average in the week ending November 18. This is the highest level reached since March and compares with 71.2 per cent during the preceding week and 71.5 per cent during the middle of September, the highest point reached prior to last week. The index as a whole is now 20 per cent above its low point in March and 12 per cent higher than a year ago. The regular weekly price chart covering this index as a whole and by groups shows that the rise in the index reflected largely a sharp advance during that week in the prices of farm products.

Mr. Riefler

November 20, 1933

ECONOMIC SITUATION

Summary.

Reports of business conditions remained mixed last week but an increasing number of items showed resistance to further declines or a tendency to rise. Preliminary reports on retail trade indicated an increasing gain in dollar volume as compared with last year. Steel operations rose from about 25 per cent of capacity in the week ending November 11 to about 27 per cent of capacity in the week ending November 18. During the current week, the American Iron and Steel Institute estimates that operations will average 26.9 per cent of capacity. During the week ending November 11, electric power production increased more than seasonally, reflecting in part at least colder weather. Freight car loadings declined, but showed a more favorable comparison with last year than in the preceding week. The current low rate of output at automobile plants does not reflect a declining tendency in the demand for automobiles, which remains strong, but rather preparations for production of new 1934 models. It appears, therefore, that the decline in output of basic industries which began toward the end of July is levelling off. The average results for Novem-

ber will be below October but production will probably expand in December as volume production of new models in the motor industry gets under way. Trade reports indicate that the gradual rise of construction contracts in recent months to a level above last year and also the provision for steel rail purchases by the railroads are being reflected currently in larger inquiries for construction materials.

In general the rapid advance in output of basic products between March and July and the subsequent decline from July to November has characterized industries producing semi-finished, storeable goods such as steel ingots, lumber, cotton yarns, etc., to a much greater extent than industries producing finished or style goods for the consumer. This has affected somewhat the statistical picture of the past eight months, since our statistical information, showing changes in output of basic materials, is much more complete than the data showing changes in output of finished commodities ready for the consumer. It is probable, therefore, that production of commodities as a whole, including those for which data is incomplete or missing, did not expand as rapidly between March and July as is indicated by the operations of industries where current data is available. It would, also, follow that the decline in output for industry as a whole since July has been smaller in relative magnitude than is indicated by the available data.

This interpretation of the production situation is confirmed by the figures on payrolls and employment which are compiled by the Department of Labor. These figures, which include comprehensive reports on the volume of employment and payrolls at factories turning out finished, as well as semi-finished, products, continued to rise steadily from March to September. Secretary Perkins states that in October both employment and payrolls at factories maintained the level of September in spite of the drop in output of basic products during the same period. Secretary Perkins also points out that employment in 16 non-manufacturing industries increased somewhat further in October, bringing the total increase in employment since March to 2,800,000 workers in the industries regularly surveyed by the Department of Labor. Secretary Perkins further states that total payrolls in these industries increased by $70,000,000 per week between March and October, making a total increase in pay envelopes at an annual rate of more than $3,000,000,000 per year.

Retail Trade.

Trade reports indicate a relatively sharp pickup in the dollar volume of retail trade since the week ending November 4. Mail order sales have shown the greatest expansion but department store sales appear also to be expanding in dollar volume as compared with last year. The higher level of retail prices makes it difficult to judge the extent to which a greater volume of goods are being moved on the whole as compared with last year. The rise in prices at department stores slowed up materially during October according to the Fairchild index which increased only 1.2 per cent in October as compared with increases of 4.2 per cent in September and 8.4 per cent in August. Trade reports also indicate that during November, retail outlets have stimulated consumer buying by price concessions in some lines.

Secretary Roper reports that the average dollar volume of retail grocery sales in October increased by 3.6 per cent over September and by 1 per cent over October last year. The increase of October over September was larger than last year but smaller than the average in earlier years. Secretary Roper also reports on the basis of preliminary returns that the average dollar volume of sales at chain variety stores in October was 5 per cent above September and 6 per cent above October last year.

Commodity Prices.

The Bureau of Labor Statistics index of wholesale commodity prices covering 784 price series advanced from 70.9 per cent of its 1926 average during the week ending November 4 to 71.2 per cent during the week ending November 11. Secretary Roper's report contains an analysis of price movements in 770 of these price series between March and November 4. During this period, the index covering the 784 series as a whole increased from 60.2 per cent of its 1926 average to 70.9 per cent, or an increase of about 17.8 per cent. Concurrently dollar exchange declined from par to 64.6 per cent of par. To have offset this decline in the exchange value of the dollar, wholesale prices in this country would have had to rise by 54.4 per cent instead of 17.8 per cent. Secretary Roper states, however, that the effect of the decline in the dollar on foreign trade should not be measured by changes in the general index but by changes in the prices of specific commodities. His analysis shows that during this period 64 commodities actually declined in price, 124 commodities showed no change, 456 commodities increased by less than 55 per cent and 126 commodities increased by more than 55 per cent.

Recent movements in wholesale prices as a whole and by groups are shown on the regular charts which have been brought up to date for this meeting. The chart comparing changes in agricultural income with changes in the income of various groups of urban workers has also been brought up to date for October.

(As delivered)

Riefler

November 14, 1933

ECONOMIC SITUATION

Summary.

Such fragmentary data as are available indicate little change in the trend of production during the first two weeks of November. Steel operations dropped sharply at the end of October, but remained relatively constant at about 25 per cent of capacity during the first half of November. This morning the American Iron and Steel Institute estimated that operations would increase slightly to 27 per cent during the current week. Changes in railroad car loadings, as shown by the latest figures for the week ending November 4, were largely seasonal, while electric power production declined more than would be expected at this season of the year. As a result, it is now fairly clear that total figures of production for November, when they appear, will be below October. On the other hand, the rate of decline which has characterized certain industries since July is slowing up. A positive expansion from present levels of productive activity awaits (1) the inauguration by the automobile industry of volume production on the new 1934 models, (2) the increased demands for construction materials which are expected to result from the somewhat higher level of construction awards in recent months and the placing of actual further orders under the public works program, and (3) the final absorption of inventories built up in certain industries which

overexpanded earlier in the year.

Retail Trade.

The retail trade situation for the month of October as a whole, which appeared somewhat confused on the basis of earlier data, has been clarified by additional information which has become available during the past week. Secretary Roper submits a table showing that sales of mail order houses showed very marked improvement over October, 1932, sales of other chain and variety stores showed less marked improvement, while department store sales remained at about the same level as October 1932. These marked divergences in indexes of retail trade conditions which usually show a somewhat greater degree of uniformity may reflect the point, noted last week, namely, that the revival in consumer income since March has been concentrated to a considerable extent among farmers and factory workers, in other words, among those groups who are more likely to patronize the mail order houses and chain stores. Other groups in the population, on the other hand, who trade more largely at department stores, have not had a corresponding increase in their incomes as compared with last year. Trade reports indicate a falling off in retail sales during the first week of November and a sharp pickup last week reflecting the advent of colder weather last week.

Effect of New Gold Policy to Date.

Since the new gold policy was announced on October 22 and first actually put into operation on October 25, it is still too soon to have any wide or comprehensive body of statistical data showing its effects. The available trade data summarized above do not lend themselves to any definite interpretation of the effect of a rising dollar quotation for gold on the current volume of trade. The general wholesale price level also shows no conclusive movement up to November 4, the latest date for which the Bureau of Labor Statistics index is available. The wholesale price chart covering 784 series shows mainly a condition of price stability in the index as a whole during the four weeks ending November 4. There was also relatively little movement in most of the sub-groups from which the index is derived. This stability in both the general index and also in most of the sub-groups during a period of such marked changes in prices in the highly organized markets as characterized the two weeks preceding October 22 and the two weeks following the announcement of the new policy on that date, illustrates the complicated nature of our price system, in which prices of individual commodities frequently move over a wide range but are not reflected in the general index because of offsetting movements in other prices.

To compare changes in the gold value of the dollar with changes in specific prices most likely to be immediately affected by the new policy, two new charts have been prepared. With the exception of the weekly index of the Bureau of Labor Statistics, the series on this chart are plotted on a daily basis from October 1 through November 11, so that movements from day to day can be observed. They have been computed in percentages of their level on October 21, the day before the new policy was announced, that is, October 21 has been taken as equal to 100 in each case. A theoretical case might be made for using October 25, the day the new policy was put into actual operation, as the basis of comparison. This was not adopted, however, since fluctuations in most of the series indicated that the response to the new policy coincided with its announcement. In order to make the comparison clear, the line showing changes in the dollar price of gold has been repeated against each of the other series shown so that the eye can judge the extent to which day to day movements in the series have been comparable.

The first four comparisons are financial comparisons since the new policy operates through the financial mechanism and would naturally show its effect there before it showed its effects upon most commodity prices or upon trade. The remaining comparisons are all commodity comparisons, that is, in each case day to day fluctuations in the dollar value of gold are compared with day to day fluctuations in the prices of specific commodities or groups of commodities.

Thirteen U. S. Government Bond Prices include 3 Liberty Loans of 1932-47 which are 3-1/2 per cent bonds, 4 per cent bonds (converted), 4-1/4 per cent bonds (converted), and 10 Treasury bonds:

	4-1/4	per	cent	bonds	of	1947-52
	4	"	"	"	"	1944-54
	3-3/4	"	"	"	"	1946-56
	3-3/8	"	"	"	"	1943-47
	3-3/8	"	"	"	"	1940-43
	3-3/8	"	"	"	"	1941-43
	3-1/8	"	"	"	"	1946-49
	3	"	"	"	"	1951-55
	3-1/4	"	"	"	"	1941
(New bond on Nov. 1)	4-1/4 - 3-1/4	"	"	"	"	1943-45

Mr Riefl

November 6, 1933

ECONOMIC SITUATION

Summary.

There was little change during the past week in the general relationships noted in the two preceding summaries. With the exception of a continued decline in bond prices and a further drop in steel operations to 26 per cent of capacity, changes in other current indicators such as railroad traffic, electric power production, and prices in the organized commodity and security markets were, for the most part, small and indecisive in character. A continued strong retail demand for automobiles is indicated by trade reports, but new automobile production is relatively low. This is usual at this season of the year when model changes dominate the picture.

Last week, this summary was accompanied by two charts which showed changes in wholesale commodity prices by groups of products, and changes in retail food prices and in prices paid and received by farmers. This week an additional chart has been prepared which compares changes in the money income of farmers from products which usually contribute approximately 83 per cent of their total cash income with changes in payrolls of certain major groups of wage earners. In this chart, the top line represents the level of money income received by these workers in 1929, while the black portion of each bar represents the level to which this income had fallen in the year ending March 1933. The bar at the left shows that during the low year of the depression agricultural cash income averaged about 36 per cent of its 1929 average. The heavy bar in the center section shows that during this period income of factory workers fell to about 39 per cent of its 1929 average, or by almost exactly the same amount as agricultural income. The bar at the extreme right of the chart shows that the aggregate payrolls of workers in the mining, railroad and public utility industries fell to about 53 per cent of its 1929 average.

It should be noted that these figures all reflect general conditions and not the status of any one worker. In agriculture, the cash income of wheat farmers, for example, fell by a very much larger amount than the average cash income of all farmers. In industry, likewise, the loss of income on the part of the unemployed worker was complete, while the loss on the part of the worker who managed to retain his job was generally less than the average decline shown on the chart.

These differences are illustrated to a certain extent in the center section devoted to factory payrolls which shows not only the drop in all factory payrolls, but also compares the relative decline in payrolls of workers at factories which produce heavy or durable goods with the relative decline in payrolls of workers at factories which produce non-durable goods for immediate consumption. This section of the chart shows that the decline in factory payrolls, or workers' buying power, was very much larger in the heavy or durable goods industries, than it was in other factories or even in agriculture as a whole. In fact, during the twelve months ending March 1933 aggregate payrolls in the factories producing durable goods, that is, steel, machinery, automobiles, lumber and lumber products, etc., averaged little more than one-fourth of their 1929 average. This low level reflected not only wage cuts, but the extremely heavy unemployment which was concentrated in those industries. In factories producing light or non-durable goods for immediate consumption, on the other hand, that is, industries such as the textile, leather, tobacco and food industries, the level of payrolls was slightly more than 50 per cent of the 1929 level.

Changes in the incomes of different groups during the four months ending September 1933 are shown by the cross-hatched section at the top of each bar. These changes are not corrected for usual seasonal variations. The hatched portion of the agricultural income bar shows the sharp gain in farm income from June to July, the equally sharp drop in August and the partial recovery in September. It also shows the relative importance of the benefit payment checks mailed in September which raised the total for that month above July. The hatched portions in the center section dealing with factory payrolls show not only the steady increase in factory labor income from June through September, but also the fact that workers in both heavy and light industries shared in this advance. By September, in consequence, aggregate income of factory workers in the light industries had recovered to over 70 per cent of its 1929 level. In spite of the large increase in income of workers in the heavy factory industries, however, the aggregate payroll of these factories was still around 40 per cent of its 1929 level.

The hatched portion of the bar at the extreme right of the chart shows that the aggregate payroll of workers in mining, railroads and public utilities has shared only slightly in these advances and is still practically at the same level as in the depression year ending March 1933.

Mr. Riefler

October 30, 1933

ECONOMIC SITUATION

Summary.

Preliminary data indicate that final figures for October will show a somewhat further decline in factory operations, especially in the output of semi-finished goods. Factory operations as a whole, however, will remain well above the highest levels of last year. The causes of this decline were outlined in the summary prepared on September 2 where it was pointed out, first, that two-thirds of the huge advance in factory output between March and July was concentrated in the textile industry, the leather industry, and the steel industry; second, that all three of these large industries were operating at higher rates than could be sustained in view of the level of market demand for their products, and, third, that there was little prospect of immediate expansion in other industries sufficient to offset a more balanced rate of operations in these industries. The recession in output which has occurred since July, therefore, was to be expected. It does not in itself represent a fundamental downward trend so much as reaction from an over-rapid expansion in particular industries earlier in the year.

The fundamental trend of industry, as contrasted with these month-to-month movements, is determined much more by conditions in the heavy industries where the depression is now concentrated. In canvassing the current prospects in these industries, the break in steel operations from an average of 59 per cent of capacity in July to about 31 per cent of capacity during the fourth week of October should not be overemphasized, since there was no evidence that consuming outlets for steel were operating at a rate sufficient to justify steel making at anything like 59 per cent of capacity in July. So far as we can judge, the trend of final consuming outlets for steel has increased rather than decreased in recent weeks. While construction contracts are still low, they have increased steadily on a daily average basis since March (reflecting largely an increased volume of contracts for public works), and in the first half of October exceeded contracts last year. Demand for machine tools has also continued to rise since the spring reflecting revival in the automobile industry and a scattered demand for improved factory equipment. The recent decline in automobile output is partly seasonal in character and represents preparation for the introduction of new models for 1934 which is expected to show a continuation of the revival in automobile demand which began last spring. Railroad buying has remained low but will improve now that negotiations over the price of steel rails have been successfully concluded. While no great volume of activity in the heavy industries can be expected as long as the mortgage market and the bond market remain stagnant, these facts indicate that there are evidences of revival in the demand for heavy products which were lacking earlier in the year.

Retail Trade.

The expansion in retail trade which was in evidence earlier in the year and became marked in August has apparently subsided to a considerable extent. Automobile sales continue well above last year, but other indicators point to a volume close to last year's levels and in some cases below last year if account is taken of intervening price changes. Even though department stores cater in general to middle-class shoppers and not to factory workers, the recent absence of pickup in department store sales is difficult to reconcile with the widespread gain in factory employment and payrolls. Secretary Roper notes in his report that while September factory payrolls were 37 per cent larger than last year, department store sales were only 2 per cent above September 1932. The gain of only 2 per cent in department store sales over a period in which prices charged at department stores are estimated to have advanced by 17 per cent, indicates that the physical volume of goods sold in department stores in September was substantially lower than in September last year. Preliminary data indicate that department store sales in October have remained close to the September level. Secretary Roper indicates that the failure of trade to measure up to expectations is probably due in large part to the reaction of consumers against higher retail prices. It is also possible that many consumers anticipated higher prices by purchasing their supplies in August.

Foreign Trade.

Secretary Roper reports that United States exports during September were valued at $160,000,000 and imports at $147,000,000, leaving a net balance of merchandise exports of $13,000,000. Exports increased 22 per cent from August as compared with a customary increase of 14 per cent while imports decreased 5 per cent as compared with a customary decrease of 1 per cent. Taking the third quarter of the year as a whole, exports showed an expansion of 25 per cent over last year as compared with an increase of 65 per cent in imports. These large increases reflect higher prices for raw materials which enter heavily into our foreign trade as well as a larger physical movement of goods.

Agriculture.

The interdependence of agriculture and industry are illustrated by the fact that farm income usually corresponds with considerable accuracy with changes in the income of labor, that is, farm income usually increases when manufacturing payrolls increase and usually declines when manufacturing payrolls decline. Secretary Wallace reports that during the current year this correspondence has continued in a broad sense in that farm income and manufacturing payrolls have both advanced, as compared with last winter, but the agreement between the two series has been somewhat less marked than usual. Farm income rose much more rapidly than manufacturing payrolls through July, but declined to much lower levels in August and September when manufacturing payrolls continued to rise. This disparity reflected largely wide variations in different farm prices. Secretary Wallace states that net price gains so far this year are noticeable chiefly in the international commodities, wheat, cotton and wool; while commodities sold chiefly in the domestic markets have experienced moderate net gains, and, in some cases, even net declines from the levels of last spring. Cash income from these farm products consumed chiefly domestically has continued so far this year to depend closely on the course of consumer money incomes, while returns from grains and cotton have been influenced in addition by monetary changes and reductions in supply.

Labor.

Secretary Perkins reports that the increase in average hourly wage rates and the decrease in average hours worked per week which was noted in August, continued in September. Taking the two months together, average hourly wages have increased from 42.7 cents to 51.4 cents, while average hours worked per week have declined concurrently from 42.3 to 36.1. These changes are clearly due to the N. R. A. codes. Secretary Perkins states that the changes in wage rates do not necessarily represent an increase in total average weekly earnings, but they do represent shorter hours with no pay cut at the same time that employment was provided for thousands of additional workers.

The Bureau of Labor Statistics index of retail food prices which is now available for October 10 shows practically no change as compared with two weeks earlier. The Bureau of Labor Statistics index of wholesale commodity prices dropped from 71.1 of its 1926 average to 70.4 during the week ending October 21.

Mr. Riefler.

October 23, 1933

ECONOMIC SITUATION

Summary.

The Bureau of Labor Statistics index of wholesale commodity prices dropped 33 per cent between the year 1929 and the twelve months ending in March 1933 during which the depression reached its lowest levels. From March to July wholesale commodity prices rose rapidly reflecting in part a rapid advance in raw materials used in international trade and dealt in upon organized exchanges. Since July prices of most of these primary commodities have shown a declining tendency, but the general level of commodity prices has continued to rise slowly because rising quotations for many finished commodities have more than offset falling prices for most raw materials. During the week ending October 14th, the latest week for which figures are now available, the index stood at 71.1 per cent of the 1926 average, a recovery of nearly one-fourth of the drop between 1929 and the twelve months ending in March 1933.

The greatest advances have occurred in textile prices which as a whole have recovered about three-fifths of their total decline between 1929 and the twelve months ending March 1933. Prices of finished textile products have shared in this recovery much more than prices of raw textile materials. Prices of farm products declined more drastically than any other group of prices between 1929

and the twelve months ending in March 1933. At present levels these prices show a recovery of nearly one-fifth of the ground lost since 1929.

Prices of building materials have shown great resistance to decline. Although activity has decreased by a greater amount in the construction industry than in any other major industry, prices of building materials as a group declined only 26 per cent between 1929 and the year ending March 1933. Since March, the construction industry has had little share in the general revival, but wholesale prices of building materials have recovered more than one-half of their preceding decline and now average only 12 per cent below the 1929 level.

Riefler

October 16, 1933

ECONOMIC SITUATION

Summary.

During the past two months, the general direction of economic conditions has become obscured by divergent trends in production, employment, prices and purchasing power. Prices in the security markets and in the speculative markets for raw materials have shown a declining tendency, while prices which are reflected in the cost of living, i. e., prices for finished goods and for general commodities at retail have advanced. Available indexes of production, freight traffic, and to some extent retail trade likewise have shown a tendency to level off or decline at the same time that factory employment and payrolls have continued to advance. These divergent trends in various indexes which have usually moved together in the past have confused the outlook and led to a considerable degree of uncertainty in the public mind.

In order to see just where we stand at present, it is proposed in the following paragraphs to compare present conditions, as shown by the latest available data, first with conditions during 1929, and second with conditions during the twelve months ending in March 1933. The twelve months ending with March 1933 are chosen as marking the bottom of the depression, because the long and sharp

decline in production, employment, payrolls, and prices which continued throughout 1930 and 1931 began to slow up toward the middle of 1932. Of the six important indicators of current conditions, two, stock and bond prices, reached their lowest points of the depression in the summer of 1932 and have never again touched those lows, even in the midst of the banking crisis; two others, factory production and factory employment, reached approximately the same lows in March 1933, as in the summer of 1932; while the remaining two, namely, factory payrolls and wholesale prices, reached lower points in the spring of 1933 than in the summer of 1932. Data based on an average of the twelve months ending in March 1933, therefore, affords a fairly satisfactory basis from which to measure the extent to which we have emerged from the depression.

Agriculture.

The farmers' cash income from grains, cotton and livestock dropped 64 per cent between 1929 and the twelve months ending with March 1933. Prices of products which the farmer buys, on the other hand, dropped only one-half of this amount. In the six months between March 1933 and the present, the cash income of farmers on these crops recovered about one-fifth of the decline from 1929 to 1933, reflecting largely the rise in prices of farm products. In September, however, farm income made a much less favorable showing in small part as a result of a lower level of prices for farm products, but in greater part as the result of a smaller volume of farm marketings. At the same time the farmer has been harassed by a rapid rise in the prices of products which he buys. As compared with the twelve months ending March 1933, prices of products which the farmer sells showed an increase of 32 per cent in September whereas prices of products which he buys showed an increase of 11 per cent. The actual volume of farm marketings was smaller than is customary, however, and was reflected in a relatively low September cash income for agriculture.

Manufacturing.

Income of factory workers decreased by 61 per cent, or by almost exactly the same amount as farm income, between 1929 and the twelve months ending March 1933. At the same time factory employment decreased by 40 per cent. The cost of living index decreased by 24 per cent during this period. By September, factory employment had recovered two-fifths of the decline since 1929 and the income of factory workers had recovered one-fourth. That the increase in factory employment and payrolls reflected the effect of the N.R.A. codes as well as the sharp rise in factory output is shown by the increase from 42.7 cents to 51.4 cents in average hourly wage rates between July and September, and the concurrent decline from 42.3 to 36.1 in average hours worked per week. The cost of living in September had risen 9 per cent since March but was still only slightly higher than the average for the twelve months ending in March 1933.

Heavy Industries.

The continued low rate of operations in the heavy industries constitutes one of the most important factors in further recovery. In August, the volume of employment in the light manufacturing industries which normally employ a little over half of our factory workers was only 15 per cent under 1929, whereas employment in our heavy manufacturing industries was still down 42 per cent from 1929 and employment in the construction industry was 66 per cent below 1929. In other words, 6 out of 7 workers normally attached to that half of our industry which specializes in light consumption goods were employed, whereas ~~less than~~ one out of two found employment in that equally important segment of our industry which specializes in producing heavy durable goods.

Clearly, our ability to close this disparity by increasing the demand for heavy products is the key to a further pickup in employment.

October 9, 1933

To: Mr. Walker

From: Mr. Riefler

Subject: Effect of Recovery on Mortgage Foreclosures.

The almost complete breakdown in the mortgage market during the past three years has created a situation in which business recovery may be accompanied by an increase in foreclosures rather than a diminution in pressure on delinquent debtors.

There are at present outstanding about $43,000,000,000 of mortgages, of which $20,000,000,000 are urban home mortgages, $15,000,000,000 urban mortgages on office buildings, hotels, apartments, etc., and somewhat over $8,000,000,000 are mortgages on farms. It is impossible to state the exact volume of these mortgages which are in difficulty but such evidence as is available indicates that delinquency is large in volume and that creditors could foreclose if they chose on about one-half of this indebtedness.

The complete absence of a market for new mortgage money has enormously complicated the debtor problem in recent years. With the exception of mortgages issued by the Federal Land Banks and the Building and Loan Associations, amounting to around $10,000,000,000 in all, most mortgages in this country are written on a three or five-year basis, and have, therefore, either matured already during the depression or are due for maturity during the coming year. Part of these mortgages in good standing have been renewed by the creditors, but part have simply been extended temporarily pending the revival of a mortgage market. Under these circumstances, creditors now have the option of foreclosing not only on mortgages on which the debtor has failed to pay interest, but also on a considerable volume of mortgages which are in good standing as to interest but which have matured during the depression and are being carried on an indeterminate or demand basis.

Up to the present, economic conditions have been such as to discourage creditors from exercising this option to foreclose. The facts, where they are available, show that although foreclosures have been high, they have constituted only a small proportion of delinquencies, and that the greater part by far of delinquent mortgages have not been foreclosed. Property values and rents have been falling, and tenants have been difficult to get, with the result that it has usually paid creditors to cooperate with delinquent debtors rather than to proceed to costly dispossession and foreclosure measures.

Business recovery will tend to change this situation in that rising real estate values and rising rents will provide a market for properties and make it somewhat more profitable for creditors to foreclose on delinquent debtors than to continue the degree of cooperation they have practised up to the present. If recovery is accompanied by a revival in mortgage financing, debtors will be able to protect themselves by refinancing their loans through competing lenders, but if the market for mortgage money remains inactive, recovery of real estate values may be accompanied by an increase in foreclosures. A revival in mortgage financing, therefore, would have the effect of protecting existing debtors as well as of stimulating new construction.

Under conditions of rapid inflation, the forces set in motion to increase foreclosures would be accelerated since, on the one hand, there would be less incentive than at present for investors to lend on fixed interest securities, such as mortgages, while, on the other hand, a rapid rise in property values and rents would tend to increase creditors' profits if they foreclosed and took equity ownership in real estate, wherever they had the right to exercise the option of foreclosure.

Mr Rie .er

October 2, 1933

ECONOMIC SITUATION

Summary.

September closed with a note of apprehension in the air, reflecting in part the levelling off of business activity since July, and, in part the recent emergence into sharper focus of several points of tension in the economic situation. These are (1) the drop in prices of farm products since July, (2) the concurrent advance in the cost of living, and the extremely rapid increase in the prices of certain products at retail, (3) the slowing up of retail trade in September, (4) the increase in strikes and labor difficulties, and (5) the lower level of prices in the security markets, and the complete absence of new issues of either stocks or bonds.

All of these situations merit serious concern but they do not, either individually or in conjunction, warrant extreme pessimism. The most recent facts indicate (1) that employment increased by over 3,000,000 persons between March and August, and that fewer people are unemployed today than at any time since the early spring of 1932, (2) that those who remain unemployed are receiving more adequate relief than last year, (3) that although prices of products farmers buy have risen 16 per cent since March, products farmers sell, even after their recent decline, are 48 per cent higher than in March; aggregate farm income in August, moreover, was around $350,000,000, a drastic decline from July but

still 20 per cent above August last year; (4) that income of wage earners in manufacturing, mining, railroads, public utilities, and construction combined was $792,000,000 in August, 19 per cent above August last year and the highest for any month since the spring of 1932, and (5) that retail trade, though it dropped perceptibly after seasonal adjustment between August and September, was still above the first six months of the current year.

This record of increase since last year is amazingly good in view of the continued inactivity in the construction and other heavy industries, and the stagnation in the bond and mortgage market where the funds which provide employment in the heavy industries are normally raised.

The drop in retail trade, which preliminary reports indicate occurred in September, constitutes a normal reaction on the part of the consumer to recent price advances and indicates the complexities of our price structure in which advances in certain prices tend to increase activity while advances in other prices act as a retarding factor. In this particular instance, manufacturers, wholesalers and retailers have been testing the market to find the most remunerative prices at which they could move goods at a time when both prices and costs were in a considerable degree of flux. The rise in costs due to the labor codes, the processing taxes, and the higher level of raw material prices made some upward revision of retail prices inevitable. It came, moreover, at a time when the depreciation of the dollar acted to lessen foreign competition and when a rapid increase in consumer demand indicated that the retail markets were in a position to support higher prices. Under these circumstances many classes of retail prices appear to have been advanced too far and retail buying has temporarily decreased. In the absence of a considerable degree of collusion, retail competition will tend to reduce those prices which have risen to excessive heights.

September 18, 1933

ECONOMIC SITUATION

Summary.

The increase in factory payrolls and employment from July to August contrasts sharply with the decline in production during the same period. In the case of some industries, notably the cotton textile industry, the maintenance of employment during a period of declining production constitutes a testimonial to the effectiveness of the codes. The divergence, however, is also due in part to the more comprehensive character of the payroll and employment indexes, especially in their coverage of finished goods industries.

There is little data available on September business conditions to date. Steel operations continue to decline and there are fragmentary reports of a sharp drop in consumer purchasing during the second week of September, due in part to weather conditions, and in part to consumer resistance to higher retail prices. The Fairchild composite index of retail prices for general merchandise other than foods, shows an increase of 19 percent between May 1 and September 1. Retail food prices also increased by slightly less than this amount during the period.

The purchasing power of the dollar at wholesale has now shown extraordinary stability for a period of eight weeks. On July 22 the Bureau of Labor Statistics index number of wholesale commodity

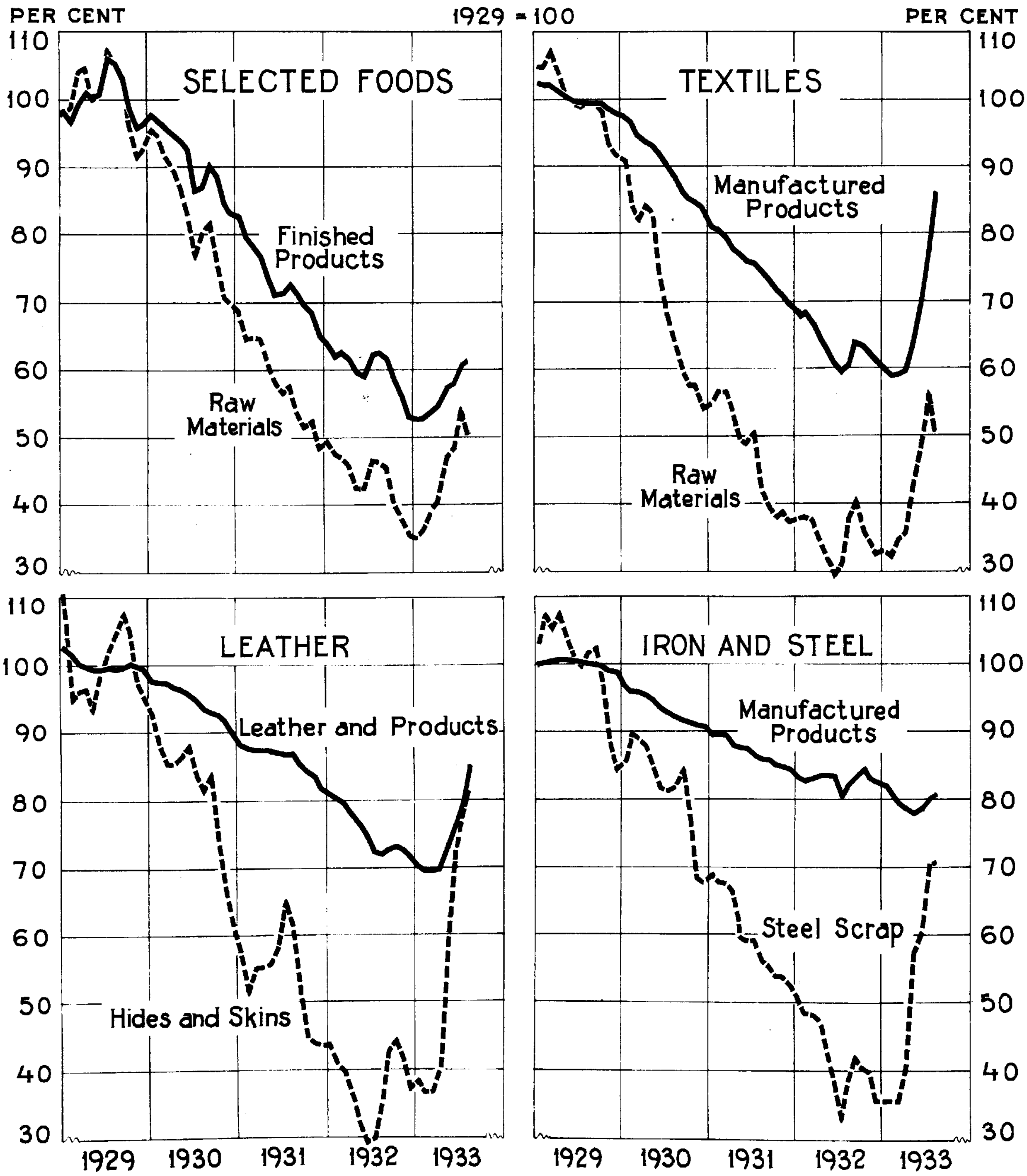
prices, which includes 784 commodities, reached a high level of 69.7 percent of its 1926 average, as compared with a low of 59.6 percent in the week ending March 4. Since July 22 the index has moved within a narrow range, the lowest point being 69.2 percent for the week ending July 29.

This stability has been confined to the average purchasing power of the dollar at wholesale, and has not characterised prices of important individual commodities or groups of commodities which enter the index. During this same period, the price of wheat declined from $1.21 to 85 cents per bushel, and of cotton from 12 cents to 9 cents per pound. Prices of farm products as a whole declined by 10 percent. This sharp drop in price of farm products has been offset in the index by compensating increases in the price of finished goods.

Lower raw material prices since July reflect world conditions as well as conditions within the United States. During the spring when prices of many raw materials were advancing rapidly in this country, there was a supporting advance of lesser magnitude in the gold prices of these same commodities abroad. Since July, gold prices of many of the leading raw materials have declined to the level prevailing in April when the more rapid phase of the price advance began.

The divergent movements of prices of finished goods and raw materials between July and August is illustrated on the chart, which compares wholesale prices of finished products with those of the raw materials from which they are wholly or mainly produced for four different groups of commodities. The groups are selected foods, textiles, leather, and iron and steel products. In each case the comparison is made in terms of index numbers with the average for 1929 as 100. The chart shows that between 1929 and the beginning of 1933, wholesale prices of raw materials in each of these groups declined to a much greater extent than prices of their finished products. Up to July of the present year, on the other hand, prices of raw materials in each of the groups advanced much more rapidly than those of finished products. Between July and August, prices of finished products continued to advance but prices of raw materials in the food and textile groups declined. Since August, there have also been declines in the prices of raw materials in the other two groups.

WHOLESALE PRICE MOVEMENTS
FOUR MAJOR GROUPS



September 11, 1933

ECONOMIC SITUATION

Summary.

There have been no developments during the past week to indicate a change in the immediate economic outlook. Factory output which expanded at an extremely rapid rate between March and July is still showing a tendency to decline. Retail trade, on the other hand, which did not increase so rapidly during the second quarter of the year, continues to expand. According to reports from 219 cities, department store sales in August were 16 percent larger than last year and 6 percent larger than in July, after adjustment for customary seasonal variations. This increase reflected, in part, the rising trend of retail prices, but there was also a distinct increase in the volume of goods moved. Improvement was especially marked at stores located in the Middle West and the South. Consumer demand for automobiles has been exceptionally well maintained in recent weeks.

Incomplete reports indicate that the Federal Reserve Board index of industrial production which reached 98 in July will show a decline of around 8 percent for August, reflecting a sharp drop in operations of textile plants and steel mills, where output previously advanced more rapidly than consumer demand. The movement represents, therefore, a corrective reaction from an unbalanced production situation and is not an occasion for alarm.

Apart from automobiles, there is still little evidence of improved demand for products of the heavy industries. In 1929, the net wholesale value of products of the heavy industries was about $24,000,000,000 as compared with a factory value of about $30,000,000,000 for other factory products. Since 1929, the output of the light industries has shown a relatively small decline, in the aggregate, while the heavy industries have declined by around 60 percent. According to latest estimates, heavy industries alone dropped 3,600,000 workers between 1929 and July 1933, as compared with only 1,500,000 dropped from the payroll at other factories.

September 2, 1933

ECONOMIC SITUATION

Summary

Trade reports and preliminary data all point to an unusual expansion in retail buying during August. Fundamentally this reflects the expansion in payrolls which has continued since March but it is also based in part on the consumer's desire to stock up goods in anticipation of a sharp increase in the cost of living.

The adjusted index of industrial production which stood at 98 per cent of its 1923-1925 average in July, will turn down in August and may continue to show a decline in September. Indexes of factory payrolls and employment, on the other hand, will certainly show a smaller decline than the index of production and may show a small advance. This divergence will reflect in part the effect of the codes which are designed to increase employment and payrolls relative to output. It will also reflect, however, the uneven character of the recovery which has taken place since March.

The decline in production in August will reflect a lower volume of output in certain industries, especially the lighter industries, which overexpanded between March and July, without a counterbalancing increase in other industries, such as the construction industry, which have so far shown only small response to the recovery movement. Of the total increase in output between March

and July which lifted the index of production from 60 to 98 percent of its 1923-1925 average, about 27 percent was due to an enormous increase in output in the textile and leather industries. These industries frequently expand or contract rapidly from month to month in accordance with wholesale market conditions, but changes in their annual average output are much smaller in extent. As a result, sudden large increases in output, such as were experienced this spring, are invariably followed by reduced operations.

About 40 percent of the total increase in the production index between March and July was due to the expansion of steel ingot operations from 16 percent of capacity in March to an average of 59 percent of capacity in July. In part this expansion in steel reflected an increase in inventories and in part a marked pickup in consumer demand for automobiles, electric refrigerators and miscellaneous light steel products such as sheets and cans. There has been little demand, however, from the railroad and construction industries, which are usually two heavy takers of steel products and customarily account for nearly 40 percent of steel output. The recent let-down in steel operations -- to about 47 percent in the current week -- has reflected in part the continued low state of demand from these two industries, and there is little chance of a return to the July levels until the railroad and construction industries purchase steel in volume. Conditions in the textile, leather and steel industries, therefore, which together have accounted for two-thirds of the advance in the production index since March, all point toward lower levels in the immediate future pending revival in the construction and heavy equipment industries. The indexes of payrolls and employment will not decline correspondingly because they are somewhat less sensitive to changes in conditions and are based upon a broader volume of operations.

3 A material further increase in production during the autumn and early winter will depend, in large measure, upon an expansion of demand in the construction and heavy equipment industries. It is these industries where the bulk of unemployment is now concentrated, and a material increase in the purchasing power of workers in these industries will be necessary to maintain the recent rate of expansion in retail trade. Among industries of this type, the outlook is most promising for a continued expansion in automobile operations. Construction operations, on the other hand, which constitute by far the largest single element in the heavy industries are less promising. Construction contracts for public works rose sharply during the first three weeks of August, but the level is still below last year. Residential building, which usually accounts for about one-third of total construction, remains negligible in volume, reflecting both an oversupply of houses in many areas and the un-

availability of mortgage money. A low level of demand from industry for new construction and new factory equipment is also indicated by the low level of recent capital flotations. New domestic corporate flotations, for example, of both stocks and bonds, have averaged only $16,000,000 per month during the current year, as compared with $27,000,000 per month in 1932 and over $300,000,000 per month in 1926.

September 2, 1933

SUGGESTIONS FOR STIMULATION OF

HEAVY INDUSTRIES.

I. Public Works.

Hasten the undertaking of actual construction where public works allotments have been made.

II. Intermediate Capital Goods.

A. Avoid N. R. A. code provisions which might be interpreted to support or permit restriction of plant modernization, relocation of plants, or new plant construction.

B. Stimulate Railroad Equipment Buying.

C. Explore probabilities of financing plant modernization.

III. Private Construction.

A. Avoid N. R. A. code provisions which would raise the cost of construction to the point where new construction is stifled.

B. Form a Federal Committee to coordinate measures to liquify the mortgage market. Such a Committee might include representatives of the Reconstruction Finance Corporation, the Home Loan Board, the Farm Credit Administration, and key representatives of State Insurance and Banking Commissions.

C. Accelerate efforts to open closed banks and fortify open banks.

August 28, 1933

ECONOMIC SITUATION

Summary

Recent data indicate little change in the principal trends which have characterized economic conditions since mid-July. Increased income continues to make itself felt in retail trade, both in the automobile market where sales remain well above last year and in general retail merchandising where reports from chain and department stores indicate an increasingly favorable margin as compared with last year. Such data on production as are available continue to indicate a relatively level movement with some tendency toward decline in those industries where the spring expansion was most marked. In the week ending August 19 there were slight advances in freight-car loadings and electric power output. Steel operations, on the other hand, have continued to decline and are now at 50 percent of capacity as compared with a high for the year of 59 percent in July. Retail prices continue to advance but the Bureau of Labor Statistics index of wholesale commodity prices in the week ending August 19 was practically unchanged at 69.3 percent of its 1926 average. Building contracts expanded sharply in the first half of August under the influence of increased awards for public works but the total remained below the low levels of August last year.

August 21, 1933

ECONOMIC SITUATION

Summary

July and early August -- A great body of data covering operations in July has become available during the past week. Contrary to customary seasonal tendencies, industrial production, aside from construction, advanced 4 percent further, reflecting large operations in the steel, lumber, and coal industries and a sustained volume of output in the automobile, shoe and ~~leather~~ woolen industries. There was a slight decline in cotton textile operations and a sharp reduction in cigarette output. Manufacturing employment and payrolls also advanced, in the face of a customary seasonal decline, by 7 and 8 percent respectively. Freight-car loadings increased 10 percent over June as compared with a usual seasonal increase of less than 2 percent. Department store sales decreased by slightly less than the usual seasonal amount and department store inventories increased somewhat although a decrease is usual in July. Turnover at wholesale was again very large in volume especially in dry goods, groceries, hardware, and shoes.

Retail trade has continued to show distinct improvement during August. Demand for automobiles has remained well in excess of last year, and preliminary figures show an increase of 10 percent over last year in the dollar value of department store sales during the first half of August. Production figures also remain well above last year but continue to show the slight declining tendency which has been in evidence in recent weeks. Steel operations declined last week from 57 to 53 percent of capacity. In the week ending August 12 railroad car loadings increased somewhat but electric power production declined slightly. The index of wholesale commodity prices of the Bureau of Labor Statistics has now remained practically level for four weeks at about 69 1/2 percent of the 1926 average, declines in raw material prices during this period being offset by increases in prices for finished goods. Building operations have remained low.

<u>March-July Increase in Activity</u> -- The leveling off in factory output during recent weeks suggests that the first phase of the recovery movement which started in March has been completed. This movement which was stimulated first by the return of confidence which accompanied the reopening of the banks and later by expectation of higher prices resulting from the suspension of gold exports and the establishment of the National Recovery Administration, was characterized by an unprecedented increase in the rate of output in manufacture of raw materials into semi-finished goods. The manufacture of finished goods for the retail market also increased in many lines but generally by much smaller amounts and in much closer relation to current changes in retail demand. As a result, inventories formerly carried in the form of raw materials have been advanced one stage in the process of production into semi-finished goods. Retail markets have strengthened therefore since larger activity in semi-finished goods has afforded increased income to factory workers without as yet a corresponding increase in finished goods pressing for sale in the retail markets. In addition, retail markets have benefited by an

enormous release of hoarded money, and by improved agricultural buying power. Under these favorable conditions retail prices have advanced somewhat, but not sufficiently to date to restrict the volume of consumer purchases.

Aside from automobiles, operations in the construction and other heavy finished goods industries have remained abnormally low, especially in the case of industries which are not immediately affected by changes in consumer purchasing power but find their market in the decision of corporations and others to undertake permanent long-term improvements. From 1923 to 1929, about $20,000,000,000 was spent annually in this country for the creation and maintenance of heavy durable goods, such as housing, factory equipment, public utility extensions, etc. By 1932, expenditures of this character were reduced by at least two-thirds, and at the present time they are running at a somewhat lower annual rate. The next phase of the recovery movement will depend in considerable part on the extent and rapidity with which the present improvement in the market for light commodities and for some of the more durable products such as automobiles is extended into the market for permanent capital equipment.

August 14, 1933

ECONOMIC SITUATION

Summary

There was little change in the economic situation during the past week. Steel operations remained at 57 percent of capacity. Retail demand for automobiles remains strong for this season of the year, and last week's production of new cars brought total production for 1933 to date up to the full production for the entire year of 1932. Security prices fluctuated in general within the ranges established in the preceding week, and did not appear to be greatly affected by the announcement of a decrease in unfilled orders of U. S. Steel. In the organized commodity markets grains were weaker; cotton also declined but by a relatively small amount in view of the forecast of a 1933 crop materially larger than was expected. In the week ending August 5 the index number of wholesale commodity prices computed by the Bureau of Labor Statistics remained unchanged at 69.2 percent of its 1926 average as compared with 69.7 percent at its high for the year two weeks earlier. Electric power production and freight-car loadings declined but remained well above a year ago. Smaller shipments of coal, resulting from labor difficulties in the coal industry, accounted directly for a large part of the decline in car loadings.

Employment and payrolls increased further in July, and retail trade rose to levels above last year. In the field of general merchandising, July sales of department stores, chain stores, and mail order houses all ran generally ahead of July last year. Outside the field of general merchandising, retail consumer demand for more durable products, such as motor cars and electric refrigerators, was sustained at a level well above last year.

The rise in general activity has now been extended generally throughout the lighter industries and has been reflected both in employment and in consumption of the products of these industries. Many heavier industries on the other hand, such as those which produce railroad equipment and maintenance supplies, machine tools, and heavy construction of all kinds, remain severely depressed. In general a large part of the production of these industries does not reach the retail market and is not bought directly out of consumers income. It is important to watch for the spread of activity to these industries in the interest of economic balance between different sections of the country as well as increased employment and retail consuming power.

August 7, 1933

ECONOMIC SITUATION

Summary

Available data indicate little change in business activity during the past week. There was a slight setback in wholesale commodity prices and in the volume of railroad traffic, but steel output remained unchanged at 57 percent of capacity as compared with a high point of 59 percent in mid-July. New textile business is reported quiet pending response of retailers and consumers to higher prices, and textile activity has apparently receded somewhat further from the extremely high peak in mid-July. Demand for automobiles remains large at a time when fairly heavy seasonal curtailment is usually expected. Building contracts declined more than seasonally in July and construction continues to constitute the most depressed major industry.

Further analysis of payroll data indicates that increased income of wage earners during the second quarter was concentrated in the manufacturing industries where payrolls increased 25 percent from an annual rate of $4,000,000,000 in March to $5,000,000,000 in June. There was practically no change in aggregate wage payments in the construction, railroad, public utility, and miscellaneous service industries for which figures are becoming available, where aggregate payrolls remained at an annual rate of about $3,500,000,000. On the basis of the industries covered by these figures the net increase in wage payments during the second quarter was about 14 percent, an amount sufficient to bring total wages in these industries to about the level of June last year. July figures will show an increase over last year.

According to preliminary figures released today the dollar volume of department store sales decreased no more than seasonally from June to July and in July was somewhat higher than last year. There were slight decreases in New York and Chicago, but sales in other districts were generally above those of last year. Inasmuch as prices charged at department stores in July were somewhat lower than last year, an increase in dollar volume of sales indicates an even larger increase in the physical volume of goods sold.

July 31, 1933

ECONOMIC SITUATION

July 31 1933

Summary

Toward the end of July there appears to have been some slackening in the rapid rise of industrial activity, and security and commodity prices. Steel plant operations, after rising from 14 per cent of capacity in the middle of March to 59 per cent in the middle of July, have receded slightly during the past two weeks to around 57 per cent of capacity. The rate of increase in freight-car loadings and electric power production has also diminished, and there have been reports of some hesitation in textile output toward the end of July. Prices of common stocks and highly sensitive commodities fluctuated at somewhat lower levels during the latter part of July, but bond prices remained firm. The Bureau of Labor Statistics index of wholesale commodity prices again advanced slightly in the third week of July to 69.7 per cent of the 1926 average, an increase of 17 per cent since March. Notwithstanding these movements toward the end of the month, preliminary figures indicate that both industrial activity and prices will average materially higher for July as a whole than for June.

Retail trade of department stores seems to have held its own in July. According to preliminary figures covering the first half of the month, there was a drop in sales from June that was almost wholly seasonal in character, and total sales were at about the same level as in July last year.

Further analysis of production and payrolls data indicates that the rapid advance in manufacturing production, employment, and payrolls during the second quarter of the year was much more highly characteristic of industries fabricating raw materials into semi-finished products than in plants turning out finished products where inventories cannot be accumulated

safely because output is affected by changes in style and must wait definite consumer demand. In those industries where production of semi-finished goods can be compared with the output of finished goods, payrolls of plants engaged in turning out semi-finished manufactures increased 55 per cent between March and June, while payrolls of industries turning out finished goods largely for the retail market advanced 20 per cent. This indicates a larger increase in the volume of goods in process of manufacture as compared with inventories of finished goods than was at first suggested by comparison of relative changes in aggregate production and payrolls.

July 24, 193'

ECONOMIC SITUATION

July 24. 1933

Summary

The sharp reaction in the speculative markets last week followed a period of unusually rapid increase in business activity, and in commodity and security prices. The physical volume of production at factories and mines increased from 60 per cent of the 1923-1925 average in March to 90 per cent in June, reflecting exceptionally heavy output in the textile, shoe, and tobacco industries, and a rapid increase in steel operations ~~and in the output of lumber~~. The increase in steel operations represented heavier sales of automobiles and large takings of steel from miscellaneous sources. Orders from the railroad and construction industries which are usually among the heaviest takers of steel products have so far remained small. Contracts awarded for new construction increased considerably in May and June but activity in the building industry as a whole remained at low levels.

The American Federation of Labor estimates that about 2,000,000 new workers found employment between March and June, and that the present volume of unemployment is around 11,500,000 persons. There was also a large increase in full-time employment of workers formerly employed part time. Factory employment alone increased by about 650,000 workers, or 13 per cent, and there has also been increased employment in the railroad, agricultural, and other seasonal industries.

The sharp rise in production, employment, and prices brought increased income to many classes of the community. Weekly payrolls at factories increased 26 per cent from an average of $76,000,000 per week in March to about $96,000,000 per week in June. In addition to these increases in income resulting from increased production and employment, the level of agricultural income rose rapidly with the rise in prices of farm products. Large profits were also made in the security markets.

Distribution of increased activity

Although practically all lines of business activity increased sharply during the quarter, there were marked variations in the response of different industries to the new conditions. The construction industry, which has felt the depression more severely than any other major industry, is still running well below the lowest levels of 1932 despite increased contract awards in May and June. Automobile output, which increased sharply during the quarter to a level 27 per cent above the second quarter of 1932, was still 28 per cent below the corresponding quarter of 1931. The other heavy industries also remained relatively more depressed than the light industries where output in some cases--notably textiles, shoes, and cigarettes--established new high records for all time in May or June. Dividing industrial output into two main categories of durable goods--such as steel, automobiles, lumber, etc.--on the one hand, and nondurable or lighter goods--such as manufactured food, textiles, leather, and tobacco products--on the other, it appears that each group was responsible for about one-half of the increase in production during the quarter. In the case of durable goods, however, this marked increase restored total output only to the level of the spring of 1931, whereas in the case of the lighter industries total output again reached the high levels of 1929.

These sharp variations in output as between different industries, and especially the extraordinarily high level of output in the lighter industries, such as textiles, shoes, and tobacco, have raised questions as to the nature of the sources of demand for the lighter products. It has been widely felt that the country, with its large volume of totally or partially unemployed workers, was not in a position to consume these products currently at the same rate of consumption as in 1929, and that the high rate of output in consequence must represent in part an increase in demand for inventories stimulated by the prospect of higher prices. There is little organized information on inventories and retail distribution, but such as is available indicates a large turnover at wholesale establishments, a moderate increase in inventories--both at wholesale and retail--and a fair volume of retail sales. The dollar volume of department store sales in June, after adjustment for seasonal variations, was 16 per cent above March, but 4 per cent smaller than in June last year, while sales of 10 chain store and mail order systems in June, without seasonal adjustment, were 30 per cent above March, but only 3½ per cent above June 1932. Sales of 800 hardware retailers also increased since March and were 4 per cent above June last year. Stocks of department stores, after adjustment for seasonal variation, increased only 5 per cent from the end of March to the end of June, but at that time were still 12 per cent below June of last year. Such figures as are available on wholesale trade show that in June there were very large increases in sales of dry goods, furniture, and shoes, as compared with June of last year. Wholesale stocks actually on hand, however, apparently increased only moderately. The discrepancies in these figures may possibly be explained either by increased retail distribution through smaller outlets from which no figures are available, or by large increased ordering of goods which have not yet been delivered, and do not, therefore, register in the most recent figures for inventories.

Commodity prices

Wholesale commodity prices rose 16 per cent from the first week in March up to the reaction last week, according to the index of the Bureau of Labor Statistics. The largest advances occurred in farm products, especially grains, and in other raw materials which have a world market and are traded in the organized exchanges. Prices of manufactured and semi-manufactured products have advanced less rapidly, although there were large increases in manufactured textile, food, and leather products, reflecting both increases in demand and rising costs for raw materials.

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BUSINESS IN JUNE

July 18, 1933

Preliminary confidential reports indicate that the increase between May and June in industrial production (other than construction) amounted to 13 per cent, in factory employment to 7 per cent, and in factory payrolls to 11 per cent. Between March and June factory production increased 51 per cent as compared with increases of 12 per cent and 27 per cent respectively in factory employment and payrolls. The larger percentage increase in factory payrolls as compared with factory employment reflects largely less part-time work in June than in March, while the larger increase in factory output than in either employment or payrolls reflects in part increased activity in the heavy industries such as steel where the number of workers employed to achieve a given volume of output is normally less than in industries where more hand labor is used. The extent of the total increase in output in some lines, particularly textiles, indicates some flow of commodities into stocks, probably in anticipation of higher prices.

I am enclosing a confidential copy of preliminary business indexes for June, prepared by the Division of Research and Statistics of the Federal Reserve Board.