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## FEDERAL RESERVE BOARD

## STATEMENT FOR THE PRESS

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The Federal Reserve Bulletin for the month of December devotes much space to a discussion of economic and financial conditions during the year just closing. It says:

Close of a Remarkable Year

The year 1920 has been a period of decided advance in the process of economic readjustment consequent upon the conditions left by the war. Production had been developed to a very high point as a result of war necessities, besides being diverted into channels different from those normal in peace time. It was, therefore, inevitable that a period of readjustment involving some decrease in output, at least temporarily, should ensue. On former occasions, when problems of a similar sort have developed, the process of readjustment from a war to a peace-time level of business has been extremely rigorous. Conditions during the present period of readjustment have by comparison been tolerable. Production during the latter part of the year has, it is true, fallen off in some branches following upon the readjustment of the price structure. Fundamental alterations in the distribution of labor between trades and employments have also been a feature of recent months. In the banking field the advance of the volume of deposits changed during the recent months into a recession, although Federal Reserve note circulation was about \$200,000,000 larger at the close of November than at the end of July. It is also to be noted that there has been a marked change in the composition of bank portfolios resulting from the gradual retirement of long-term or speculative paper and the substitution of

paper based upon bona fide commercial transactions growing out of the actual purchase and sale of goods. In international trade the conditions which led to an excessive development in exporting business have been in process of change, and a return to more normal conditions is now in progress. So far as concerns the European countries the year has been noteworthy in international trade for a decided evidence of increase of productive power which, although interrupted from time to time by internal difficulties of one kind or another, has nevertheless been the dominant feature in the foreign economic movement.

Very sharp reduction in prices coupled with heavy decreases in production, extensive unemployment, and business reaction, often involving bank failures, have been the outstanding features of readjustment in former years. The transition through which the community is now passing, while necessarily uncomfortable, has thus far been accompanied by only a minimum of the unfavorable symptoms developed on other occasions. While the present process is as yet incomplete and while some lines of business may be expected to pass through a still further period of reorganization, there is good reason for believing that with our present strong banking structure the difficulty of the transition will not be much further aggravated and that a normal situation will be restored with far less than usual distress. The fiscal situation both at home and abroad is still uncertain due to the fact that while the war was technically over at the signing of the armistice, it was not over in the financial sense until a long time later, while it has not been possible during the readjustment period to place public finance in any country upon its peace time footing, pending much closer ascertainment of the best method of taxation. The close of the year 1920, however, in spite of the fact

that in some branches of economic and financial life there is still much progress to be made before reaching a definite basis for further growth, must nevertheless be regarded as quite unmistakably a turning point in the process of transition from conditions produced by the war to the normal economic basis of international and industrial life.

#### The Basis of Prosperity.

In thus estimating the position of the economic organization at the close of the year 1920, very large emphasis should undoubtedly be placed upon the volume of production. It is in the quantity of output supplied by a nation that the best test is found of its true position from the economic standpoint. Although the year 1920 shows a downward movement in some branches of production and trade and a lessening of the activity with which credit media are employed, a gratifying aspect of the year is seen in the fact that the changes thus far reported have been so small, especially when the great activity of production and the great extension of credit which occurred during the war period are borne in mind. Considering the year 1920 in comparison with similar periods, reaction shown by the indexes representing the chief lines of business activity, as already stated, is in most cases relatively minor as compared with the volume of production and trade when at its high point. While much is said of changes in prices and particularly of declines of prices as an indication of economic retrogression, it is to be remembered that the real income of the community is the quantity of goods available for consumption and not the money value of the goods thus produced. The fundamental test of the degree in which conditions which make for prosperity

have been regained and former industry restored is found in the indexes which exhibit actual volume of output. Of primary importance are statistics showing the yield of agricultural and manufacturing industries. Next to these are indexes showing the actual movement of goods from producer to consumer. The latter may be best derived from statistics of freight movement, figures showing the activity of money and credit, and data reflecting activity of wholesale and retail trade. Prices play an important part as a factor in the process of distribution, and the price level is of first significance to the student of business conditions because it aids in definitely determining the profit-making position of the various economic factors of the community as measured in terms of money. It is true that reductions in wholesale prices in 1920 have greatly lowered the general levels. It should be remembered, however, that far too great stress may be placed upon the level of prices in connection with national conditions, since prices are expressions of relative value and hence of much greater interest to the individual than to the community at large.

The Volume of Production.

Viewed from the standpoint of the volume of commodities rendered available for consumption, the year 1920 has been one of unusual success. As is well known, the output of primary wealth - the product of the farms and, in general, of agricultural enterprise - has been of more than average size. Preliminary estimates have already been furnished for this output in former months. The figures of the Department of Agriculture, made available at the opening of November, are substantially the same as those which have already been published for October 1 and, as pointed out in past issues, exhibit in most lines a substantial advance above the average of recent years, and in some important crops constitute the largest output ever produced. In the case of corn, the only product for which the November estimates differ from those of October, the estimated output, although showing a decline of about 17,000,000 bushels, still remains the largest on record.

While the situation as to agriculture is practically beyond question, the work of the year in respect to manufacturing is less clear. According to some investigators, however, the output of the country, whether as measured in the aggregate or per capita, was probably close to high-water mark at the close of spring. The facts would indicate that in the more distinctly manufacturing and industrial lines there had been subsequent to the heavy war production a natural decrease in and readjustment of output which became evident shortly after the opening of 1919 and which continued for several months thereafter. The requirements of buyers did not dominate market conditions, but there subsequently developed shortages in various lines. Of this situation the final result was a considerable increase in productive activity, although in some lines, such as those of textile production, a so-called "sellers' market" eventually developed. That this situation had not become well established until the spring of 1920 was far advanced is not singular. This period

of higher production was apparently reaching its peak during the early months of 1920. Since the late spring of the year 1920, however, there has been in progress a certain decrease in output. The condition of different industries in this regard is by no means uniform, although it may be seen most clearly in textiles. Shipbuilding and very recently the iron and steel industries, exhibit an influence of the same kind. The decrease in unfilled orders on the part of the United States Steel Corporation, which has been in progress ever since about the beginning of August, points clearly not only to a relative decrease in the activity of these basic industries but also to a falling off in that of other industries which are practically dependent upon them. Building construction may be ranked as one of the latter.     x x x x x x x x x x

Movement of Goods.

Care should be taken in reviewing conditions at the close of the year 1920 and in comparing them with those existing at previous dates throughout the year to differentiate between production changes and trade changes. In all periods of transition it is the latter that are the more obvious. It should steadily be borne in mind that the year 1920 has been a more disturbed period in connection with the movement of goods to market than in production, and that as a result there has been at times congestion and arrested movement of commodities, while at other times the delivery and consumption of products has been steady and satisfactory. In general, the year may be divided into three periods, the first culminating in the early spring or toward the end of April, at which time a peak of congestion had been reached on the railways as the result of bad weather and lack of satisfactory efficiency of railroad personnel aggravated by the tentative or "outlaw" strikes which had been in progress. Thereafter there ensued a period of fairly steady moving of commodities to points of consumption, assisted by the favorable weather in the spring and summer as well as by the increase in efficiency of the railroads of the country. From about September onward the movement of goods again began to show a decline, this being due in the case of agricultural staples to a tendency to hold products at the points of production, while in the case of manufactured articles it was probably the outcome of a reluctance or unwillingness on the part of distributors to go on receiving consignments. This situation has been noteworthy from time to time not only with respect to the domestic movement of goods but also in relation to exports. It was worthy of note also that in spite of the large yield in agricultural lines the grain movement has been unexpectedly small, partly in consequence of defective transportation at certain times of the year and partly as a result of a disposition on the part of farmers to

hold back their product. Conditions in transportation were reflected in the figures showing the movement of goods last spring and in certain decreases of the same sort for the current autumn, notwithstanding that the ton-mile figures on railways are to-day of large size. x x x x x x x.

An examination of the index numbers for the value of imports and exports leads to the conclusion that, with price fluctuation eliminated, our export volume for 1920 is on a lower level, some of the months for the period being lower than the average monthly figure for 1913. The volume of imports, however, is higher than the 1913 level, a fact which illustrates the statement often made that the reaction subsequent to the war which had been generally predicted by economists is now in progress. The figures for imports and exports, both when measured in volume and when measured in values, have shown an absolute tendency to fall off, although the growth of imports up to the present time has been greater than that of exports when adjusted values are taken as a basis for comparison. The year 1920 must undoubtedly be regarded as a period of transition from war conditions to peace conditions in our foreign trade. These changes are most clearly illustrated when the influence of price fluctuations is eliminated from figures in order to place them on a comparative basis of volume. x x x x x.

Retail Trade.

The activity of retail trade is usually regarded as a direct index of the attitude of consumers with respect to the price level and is looked to by students of the business situation not merely for the purpose of obtaining a test of business conditions from the retail trade standpoint, but also of affording an indirect index of the probable rate at which stocks of goods will pass off through retail trade channels into the hands of consumers. For a good many months past the Board has been developing a retail trade index based upon figures concerning stocks of goods, turnover, and other important items furnished by a specified number of leading retail establish-



ments in the several Federal Reserve Districts. A study of these figures, and especially a comparison of cumulative single percentages designed to embody not only the returns of the current month but also accumulated results of preceding months, point to a decline in sales, which has not, it would seem, gone to very great length thus far, in some districts amounting merely to the curtailment or abolition of a seasonal increase of the volume of business which would otherwise have been expected, the remaining volume being higher than that of the preceding year. The tendency, however, in other districts has been distinctly downward, and at the present time the Board's index points clearly to a limitation of the active buying of consumers which was so noticeable during 1919 and the earlier part of 1920. This bears out the general impression already existing with respect to retail trade conditions as indicated by many reports of a general nature furnished by expert observers in the various branches of trade. The activity of retail trade is of special interest at the present time, because it usually is one of the last elements in the business situation to show the effects of those factors which make for depression or reduction. Curtailment of purchasing power does not usually occur, at least in full measure, until reductions of employment and lowering of prices have resulted in lessening the incomes of buyers who are thereby induced to suspend or limit their purchases. Accordingly, a definite reaction in retail trade seldom presents itself until after readjustment has made considerable progress in manufacturing and even in wholesale activity. This is for the reason that the decline in retail trade makes itself felt in some districts at a date considerably later than that which appears to mark the turning point in production by manufacturers.

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Production and Foreign Exchange

The downward trend of exchange during 1920 appeared to have reached the low point toward the middle of November, when sterling was quoted below 3.30. As may be seen from the graphic representation already published in the last issue (p. 1159), the movement of practically all European exchanges has been steadily downward and practically on parallel lines since early in the year. The sharp depression which was brought about in the early part of November was attributed by experts to the necessity of financing considerable quantities of grain and cotton bills growing out of the shipments of this year's products at a time when, as already pointed out in former issues, there was a very large outstanding indebtedness on the books of foreign banks and business houses, which resulted in creating an overhanging supply of exchange, which was at times "dumped" in the market whenever a slight upward trend suggested the possibility of converting foreign currencies into dollars at even a tolerably favorable rate. This, of course, was a situation primarily applicable only to European exchanges. Nevertheless in relations with South American countries the situation was equally unfavorable, due to conditions already set forth and including depression of prices as well as the disturbance of our foreign trade relationships with those countries. In a general way it may be said that the year 1920 has been a period of practically steady deterioration in exchange conditions, as reflected in the constantly growing open balances in favor of the United States which are being carried in an increasingly large list of foreign nations.

Foreign exchange conditions during the year 1920 throw interesting light upon the bearing of exchange rates on international trade. They show that abnormally low quotations of foreign currencies tends to reduce the export shipments of the nation, particularly when these low quotations are the result of unpaid balances which give rise to a quantity of exchange that may be thrown upon the market at any given moment. The exchange situation is therefore in some measure responsible for the slowing down of the export trade of the United States, and illustrates once more the necessity of action designed to bring about soundness in international financial relations. Another phase of present conditions which deserves particular attention is seen in the fact that as things stand the amount of our exports would seem to be quite closely conditioned upon the amount of our imports. As our banking and mercantile credit situation becomes more and more saturated with foreign credit, or, in other words, reaches a position where it is difficult to extend any more accommodation - certainly no more long-term accommodation - to foreigners, the natural inference would seem to be that current and future shipments of our goods abroad could be paid for in very large measure with contemporary shipments of goods to this country. Such a situation is evidently developing, as is seen in the study of foreign trade already presented. The facts as thus set forth afford a satisfactory explanation of the steady increase in our importations from abroad and furnish a warrant for the opinions of those who have believed that there would be a larger movement of goods into the United States as the result of the extensive credits which have in the past been granted foreign countries.

Prices and Trade.

Price movements have already been incidentally referred to as a factor affecting readjustment. The remarkable changes of 1920, however, require some special attention. In the case of wholesale prices, readjustment has occurred in a more striking fashion than in perhaps any other field. In January prices in the United States stood at 242 per cent of the pre-war level, according to the Federal Reserve Board index number. They continued to advance until April, when the index number stood at 263. May prices were at approximately the same high level, but since that time the decline has been quite considerable. By October the Board's number had fallen to 208, showing a decline of 21 per cent from the peak.

More or less similar readjustments have been made in foreign prices during the same period. British prices reached their peak in April and have been on the decline since then, the reductions in the past two months being especially noteworthy. Canadian prices have shown tendencies very similar to those in the United States. In Japan the drop in prices has been more extreme, the difference between the March and October index numbers amounting to 30 per cent.

France and Italy show somewhat different fluctuations. In both countries prices reached their peak in April of this year, receding from these high points during the next two months, but increasing again recently. But even in these two cases the index numbers are at slightly lower points than last spring. \* \* \* \* \*