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REVIEW OF BUSINESS IN 1929

The year as a whole

The keynote of the industrial record of 1929, as distinct from financial and speculative episodes, was a rapid increase in the output of manufactured goods, which gave rise to a quickening of activity throughout many branches of industry. There was a proportionately larger demand for raw and semifinished materials for fabrication, and production in basic industries represented in the Board's index of industrial production showed an increase of 8 per cent from the year 1928, which in its turn was a record year. The growth in industrial output in 1929 was an acceleration of the rate of growth in production which has characterized the period since 1922, with the exception of the two depression years 1924 and 1927. [This is illustrated by curve 1 in the accompanying chart (Chart I) which gives a tabloid review of business developments on an annual basis since 1922.]

Agriculture, the second important branch of American productive activity, produced a somewhat smaller total volume of products than in the crop year 1927-1928 (see curve 2). In recent years, agricultural output has been comparatively steady in volume, except for an increase in 1926 and a slight decrease in 1927, reflecting fluctuations in the cotton crop. This regularity is in sharp contrast to the continuous increase in industrial production.

The building industry, in contrast to manufacturing and agriculture, experienced a recession of constantly increasing severity throughout the year (see curve 3). The total of contracts awarded for all types of building in the eastern states was 13 per cent smaller than in the preceding

year. This depression in building, which began in the middle of 1928, followed four exceptionally active years. The decline in building in 1929 was confined almost wholly, however, to residential structures, and industrial and commercial building, influenced by increased activity in industry, reached a larger total value than in any other recent year.

Consumption of American goods, both at home and abroad, appears to have increased throughout the year, especially in the first three quarters; and, as products of factories and mines flowed into channels of distribution in larger volume, railroads and other carriers were called upon to handle additional traffic. The volume of freight-car loadings increased in smaller proportion, however, than ~~in~~ the increase in industrial production (see curves 4a and 4b). This is partially attributable to the fact that agricultural shipments were somewhat smaller, and, with a reduced volume of residential building, shipments of heavy freight such as lumber and cement were reduced. Miscellaneous merchandise and freight in less than carload lots, which are commonly assumed to include the bulk of manufactured goods, have increased more rapidly than total carloadings since 1922, and in 1929 were the largest on record. The growing practice of delivery by trucks, especially in the case of automobiles and ^{other} miscellaneous freight, has made freight-car loadings a less satisfactory measure of distribution of goods than in the past.

A larger amount of American products was shipped to foreign markets in 1929 than in any year on record. The chief increase was in manufactured articles, which gained 50 per cent in value in comparison with 1928.

Agricultural shipments were somewhat smaller than a year ago, reflecting primarily reduced foreign purchases of the 1929 crops of American wheat and cotton.

It is almost impossible to determine whether the domestic market, which is the chief reliance of American producers, absorbed commodities at the same increased rate at which they were being turned out during the year. No adequate data on merchandising exist and information on stocks of commodities is scattering. Of the output of farms, however, a larger share was in warehouses and elevators unsold--and on farms--at the end of the year 1929 than at the end of 1928, or for several previous years. This is ascribable to an unsettled price situation, especially in the market for wheat, delayed foreign demand for wheat, and an apparent reduction in both foreign and domestic demand for American cotton.

With regard to inventories of manufactured goods, it is impossible to generalize about the situation for the year as a whole, either in regard to stocks of materials or finished goods at factories; manufactured articles in the hands of dealers, and still less, stocks with regard to durable goods in the possession of the ultimate consumer. Late in the year stocks in a number of industries were larger than at the end of 1928, while a smaller number appeared to have been in reduced volume. These facts, however, can only be interpreted in view of recent developments in individual industries, which are discussed in greater detail in succeeding paragraphs.

One of the factors in the increased demand for goods in the past year was the increase in effective purchasing power of certain important groups of American consumers, which, to be sure, was centered in the first three

quarters of the year. Factory wage earners, numbering about 8,500,000, received payrolls which exceeded by 5 per cent the total wage bill paid in 1928 and were the largest since 1920 (see curve 6). Railroads and coal mines also paid larger wage bills than in 1928, although that year, for coal miners, at least, was hardly one of record earnings. Farmers' income from the crops of the past season is estimated to be about the same as in 1928. Although production in the aggregate was somewhat smaller, prices were higher for certain crops at the time of marketing. This is evidence not only of larger buying power in the year just closed, but is some indication of purchasing power during the early months of 1930, especially in the case of agricultural communities. It is impossible to guess at individual incomes for the year 1929 as a whole, especially in view of the gains supposedly made in the stock market by certain groups early in the year, and losses ^{subsequently} sustained in the stock market collapse.

Earnings of corporations, taken as a group, increased materially in 1929. On the basis of the first nine months the gain over 1928 is estimated at roughly 30 per cent. However, when fourth quarter earnings reports become available, this estimated increase will probably ^{prove to} be somewhat smaller. Large corporate earnings, together with the ability of corporations to float stocks at high prices (or what amounted to borrowing at low rates) put them in possession of funds with which to complete contemplated expansion programs and thus increased the demand for producers' goods.

Fluctuations in industrial production--1928-1929

Unfortunately, annual records, such as those just given, hide the

spectacular and significant aspects of the economic history of 1929. The only phase of business in which calendar year totals are of real significance is corporate earnings.

The economic history of the year just past holds two distinct periods, one might almost say "eras." The first six months were characterized by marked activity at factories and mines, and a rate of output which reached near-boom levels in certain industries. This six-month period was by no means an isolated phenomenon, but rather the continuation of steady expansion throughout the year 1928, that reached a climax in midsummer of 1929.

The magnitude of the expansion is indicated by the Board's index of industrial production, shown on the accompanying chart (Chart II). Measured from the low point of the recession of 1927, when the index was at 99, the volume of production increased by 26 per cent ^{to} in June 1929, when the turning point was reached. Many industries were operating at an unusually rapid pace for June, having experienced only a slight decline from spring levels, whereas a fairly marked reduction of operations is usually the rule. Beginning in July the rate of operations increased less than usual in summer and early autumn, and the Board's index, which makes allowance for usual seasonal fluctuations, showed a gradual decline. After the break in the stock market in late October, output was reduced at a sharply accelerated rate, and the Board's index showed a drop of 9 per cent in November, the most rapid decline recorded in any one month. Production was further curtailed in December, although somewhat less radically than in November. Taking the six months from July to December as a whole, the volume of pro-

duction was reduced 20 per cent, and the index of production reached 100, approximately equal to the lowest level reached in the 1927 recession.

The magnitude of this decline is comparable with that from the peak of the spring in 1923 to midsummer in 1924--21 per cent (Chart II); and its rapidity is similar to that in the ^{months from the} early spring of 1924 to late summer of that year.

The broad upswing in production and its spectacular curtailment in the latter half of the year brought similar changes in greater or less degree in employment, and in distribution of goods. In the last two months wholesale prices were also affected in marked degree.

Employment in factories, shown on chart III, was a necessary condition of the increased volume of output beginning in 1923. The chart shows that employment had been reduced throughout 1927, during the recession in business, and remained in comparatively small volume in the first half of 1928, while production was expanding. During the summer of that year, factories took on more workers and employment increased steadily, except for the usual seasonal variations (which are eliminated from the curve in chart 3) until the summer of 1929, about the time that the peak of production was reached. The autumn increase in employment, as in production, was smaller than usual and in the last quarter the reduction was noticeably more rapid. By December, employment in factories, ^{and factory payrolls} like industrial production, had reached the low level of December 1927.

The chart indicates, however, that this reduction in employment, severe though it was (and it involved the discharge of over 700,000 workers between the time of the seasonal peak in September and December)

did not approach in magnitude the decline in the years 1923 and 1924. The latter appears to have been associated to a greater degree with changes in manufacturing processes, involving the permanent displacement of numbers of workers.

Railroad shipments also followed in general the course of industrial production, although they were affected in greater degree by shipments of agricultural products. The gradual increase in car loadings throughout 1928 reached record levels in the spring of 1929, and then they remained relatively constant, except for variations in crop shipments. In October freight was shipped in smaller volume, and in November and December, the decrease was extremely marked. Like production and employment, freight-car loadings in December were no larger than in December 1927.

Throughout this period of active industry from the early months of 1928 to the middle of 1929, wholesale prices showed comparatively little change in level. It is almost impossible to connect their course in the last three or four years with the course of business activity, except in the last three months of 1929. In the spring of 1927, before a recession in business began, prices reached their lowest point since 1922. From that time on they advanced slowly, while industrial production declined, and by the beginning of 1928, when the upward movement of industrial production was gathering momentum, prices had already recovered substantially. There followed a temporary increase in the early autumn of 1928, a subsequent moderate decline, and a period of comparatively little fluctuation until October 1929.

2. These fluctuations are identified almost wholly with changes in prices of farm products and their manufactures, which are dominated largely by conditions of supply--which are not susceptible to quick alteration with changed conditions of demand. Prices of domestic mineral and forest products and their manufactures, which reflected in larger measure the industrial products represented in the index of production, have changed only moderately during 1928 and 1929, after declining gradually over a period of several years. There was, to be sure, an upward movement in the first six months of 1928, but it was in small proportions and had little effect upon the general price level.

In late October, with the collapse of the security markets, prices of commodities on the organized exchanges, chiefly domestic agricultural products and imported raw materials and foodstuffs, together with certain nonferrous metals, dropped sharply in sympathy with stock prices. During November, despite the fact that production of manufactured goods was sharply curtailed, prices of manufactured articles declined, and this continued into December. Meanwhile, in the last six weeks of the year, agricultural prices recovered some of their lost ground. The reasons for the recent general decline in prices are to be found partly in conditions of oversupply of manufactured goods earlier in the season, but in the main, in conditions of demand--in general hesitancy on the part of buyers in view of the very uncertain future of business. In the last three months of the year almost all prices have decreased. It is the first time this has been true since the rise of prices in 1922-1923, and the subsequent decline in 1924.

In discussing recent business developments, especially the period of depression in the last half of 1929, it is important to consider that a vast share of business activity which does not commonly enter into the discussion of the current business situation is subject to relatively little fluctuation except that of a seasonal nature. In the present situation, agricultural production and income is ^{the} ~~the~~ steady influence (except, perhaps, in the credit field where loans on commodities made at higher prices than those prevailing at the end of the year may become difficult to liquidate except at a severe loss). Purchases of necessities by the "ultimate consumer" continue in about the same volume, and this provides activity for an important share of the population; the vast bulk of railroad traffic goes on as usual; public utilities in general continue their services in the same volume, and even continue their contemplated expansion programs regardless of relatively temporary fluctuations in business activity.