MONTHLY
Business Review

NOVEMBER 1952

CONTENTS

FINANCE • INDUSTRY • AGRICULTURE • TRADE
FOURTH FEDERAL RESERVE DISTRICT

Vol. 34—No. 11 | Federal Reserve Bank of Cleveland | Cleveland 1, Ohio

Commodity Prices--Turning Again?

THE DECLINE in basic raw material prices, since early 1951, has been punctuated by two fairly distinct intervals of stability. The first of these intervals, which extended roughly over the last half of 1951, was followed by a wave of contraction during the first quarter of 1952.

The second period of stability began some six months ago and thus far has achieved approximately the same age or length, as its predecessor. This raises the question of whether a third phase of liquidation is imminent, and if so whether it will be as pronounced as the early 1951 and 1952 declines, or whether a level some 7-10 percent above pre-Korea represents a realistic floor, from which prices are more likely to rise than fall.

Some light may be shed on that question by comparing the behavior of individual commodities during the two respective periods of over-all stability, for similarities as well as contrasts.

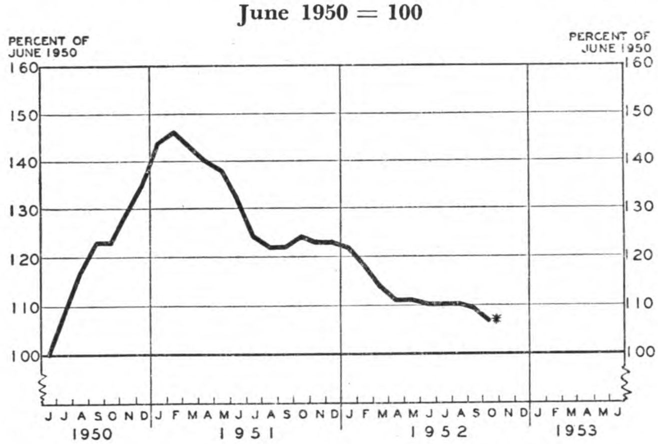
Areas of New Strength

For one thing, several commodities, which shared heavily in the two post-Korean shakeouts, have scored significant gains during recent months.

The decline in the key cotton textile, print cloth, (which began during the first half of 1951) ended in May 1952 with the reaching of the post-Korean low of 14 cents. It may be recalled that the upturn in production of nondurable goods in general and of textiles in particular occurred in June of this year. Strong demand for print cloth prevailed for several weeks and by September, when the price rose above 16 cents per pound, some mills had sold their entire output for the remaining quarter of the year. Slight weakness, however, appeared once again in the print cloth price structure, accompanying the decline in raw cotton during October.

Wool tops also have risen substantially since the termination last April of an almost continuous eleven-month decline during which prices tumbled more than 60 percent from the post-Korean peak. Overproduction of woolens, as in many other fabrics, resulted in excessive inventories, the adjustment of which has now been accomplished. Prices have re-

INDEX OF PRICES OF 28 BASIC COMMODITIES
June 1950 = 100



. . . another period of stability, of roughly six months duration, has occurred in the composite index of 28 basic commodities, at a point roughly 10% above pre-Korea. A similar movement emerged about mid-1951 but at a level nearly 25% above the pre-Korean position.

* Average of Daily Indexes, October 1 to 23.
Source: Derived from Bureau of Labor Statistics Data.

covered to about $2 per pound, or 20 percent above the year's low. The major portion of the nation's wool supply must be imported. Therefore, in view of the fact that quotations in recent overseas auctions have been quite firm at somewhat above the domestic level, it is difficult to visualize any declines in the near future.

Hides, like wool and print cloth, reached their post-Korean low earlier this year (April). Since then the raw material for leather has staged somewhat of a recovery. The future price trend is clouded, however, by the uncertainty of its consumption in shoe-making and by the effect of the increased supply resulting from the expanded cattle slaughter this fall. It appears that shoe manufacturers may have overestimated the demand for their product during August and September and downward adjustment of their output may be in order. On the supply side the number of cattle going to market this fall will exceed last year by roughly 10 percent.

A fourth commodity, cottonseed oil, since mid-April has recovered all the loss of the preceding nine months. Production of oleomargarine, one of the principal uses of cottonseed oil, appears to be headed for a new all-time high. During the first eight months of this year output exceeded a year ago by 21 percent. Last year marked the first time in which a billion pounds were produced in any twelve-month period. The supply of cottonseed oil, on the other hand, should prove to be liberal. Furthermore it must compete with soybean oil which is an almost perfect substitute in many applications.

Areas of New Weakness

Notable among the commodities which have declined during this recent period of aggregate stability in the over-all index is rubber. Beginning in July, free trading in rubber was resumed after an eighteen-month lapse and the final downward adjustment was made, bringing the domestic price into line with world markets. The American synthetic rubber industry, built during World War II, has been reactivated and expanded somewhat. The high price of natural rubber during late 1950 and early 1951 spurred output of that type of rubber. Rather than a shortage, the world is now confronted with the very real possibility of a surplus of rubber. Current quotations are back down to around the June 1950 level. At the end of July, stocks of natural and synthetic rubber in this country were the highest since early 1949.

Perhaps the outstanding reversal in trend has occurred in the case of the two nonferrous metals, lead and zinc. Only last fall the Office of Price Stabilization raised the ceiling prices on each of these metals to help encourage their output and permit the importation of larger quantities. Domestic ceilings at the time were lower than prevailing world prices. Import duties were suspended and substantial quantities of the metals were borrowed from the strategic stockpile to help satisfy the urgent demand.

By the middle of this year a significant reversal had taken place. Supply relative to demand had increased sufficiently to permit the suspension of all restrictions on the use of the two metals; the borrowed tonnages were returned to the stockpile; prices fell sharply below their respective ceilings; and the import duties were reimposed. The steel strike only aggravated the situation in zinc and pushed the price even lower than in June 1950. The setbacks which occurred in lead following the resumption of trading in that metal on the London Metal Exchange as of October 1 were followed by further declines in this country.

A third nonferrous metal, copper, on the other hand, appears to be as strong as ever. The price picture, however, is quite confused. Importers are permitted to pay whatever is necessary to obtain foreign copper, a few high-cost domestic producers are permitted to sell somewhat above ceiling prices, while the vast majority of copper produced in this country can be sold no higher than the ceiling, 24.5 cents. Only this last price enters into the computation of the index of 28 basic commodities. If account also were taken of imported copper, which amounts to about two-fifths of our supply, and which now costs 36.5 cents, the index would be somewhat higher.

Shellac has declined quite sharply to the lowest level in several years. This is another commodity for which this country is greatly dependent upon overseas sources. Fears of a major war which would disrupt supply lines have now largely disappeared as market factors. In addition synthetic resins have replaced shellac in many applications. Although quite low, shellac has been unable to score any gain for several weeks even in the face of higher quotations in India.

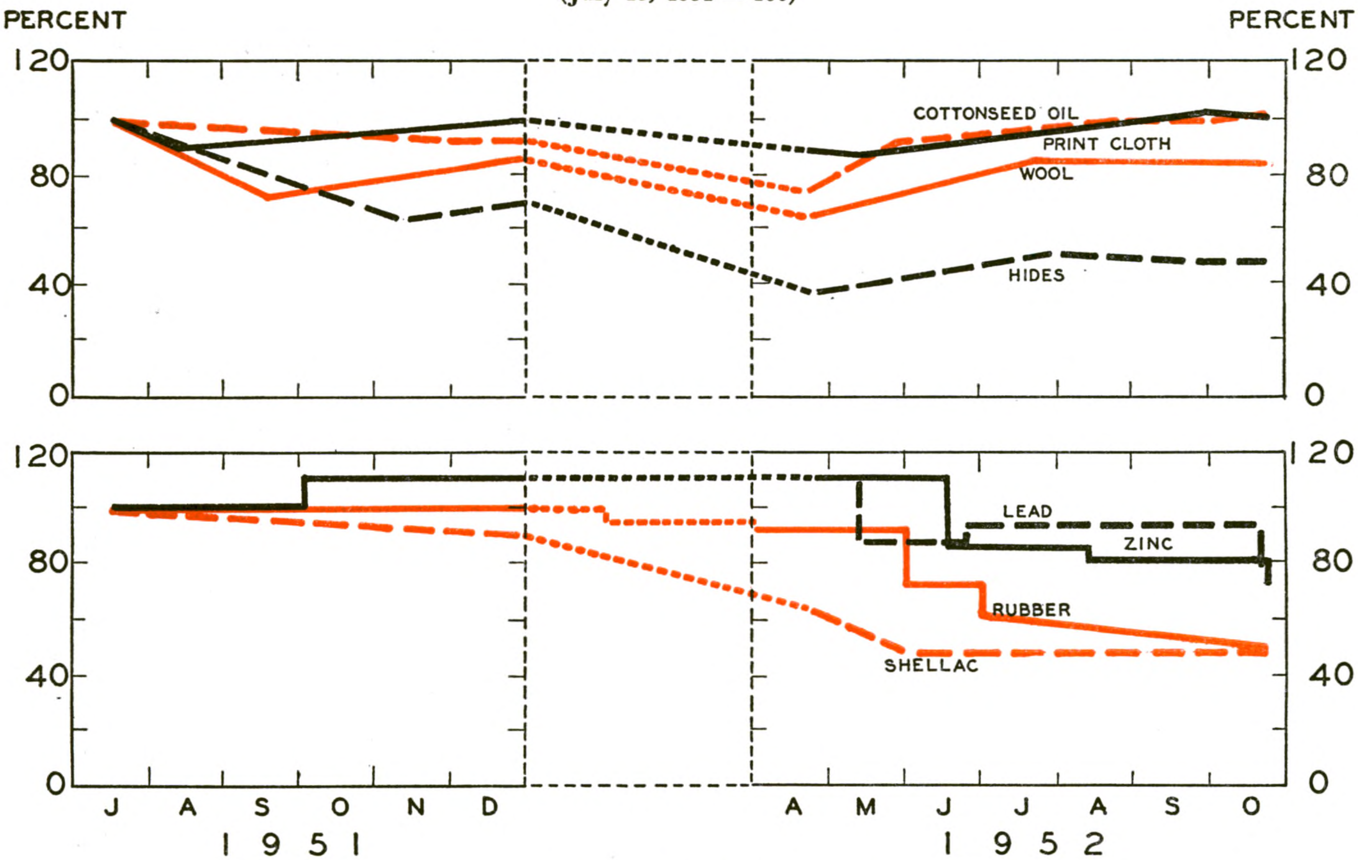
Other Trends

Changes in the prices of some other commodities are governed to a large extent by seasonal influences. Prices of many farm products ordinarily decline during the late summer and autumn as the harvest proceeds and the pressure of the new crops is felt in the market place.

The production of wheat and corn exceeds a year ago by comfortable margins. In the case of wheat this year's crop is the second largest on record. The government price support program is permitting a considerable quantity of wheat to be kept off the market. At the end of September a record (for that date) 262,000,000 bushels of wheat had been placed under government loans. It is still likely that prices will average somewhat below last year in view of this near-record supply.

Corn is the nation's principal feed grain and demand for it is largely dependent on the livestock population. The total number of animals on farms is roughly the same as a year ago and feeding require-

CONTRASTS BETWEEN TWO PERIODS OF STABILITY
Plotted at Significant Intervals*
(July 15, 1951 = 100)



. . . during the most recent period of stability in the over-all index hides, wool, print cloth, etc., have risen in contrast to last year. Conversely, the greatest concessions in recent months occurred in commodities such as rubber, etc., which were elements of strength a year ago.

* Last date plotted is October 23, 1952.
Source: Derived from Bureau of Labor Statistics Data.

ments will therefore remain heavy.

Export sales of the principal grains are not expected to match last year's high volume. European demand for imported grains is being lessened by expanded output and Canada has another bumper wheat crop which is being offered at lower prices than U. S. wheat.

In the case of the two main meat animals, the number of hogs to be marketed this fall is down 9 percent while the number of cattle is about 10 percent greater. A seasonal upturn in hog prices is expected in late November or December. Steer prices should decline seasonally during the remainder of the year but demand for beef tends to be strong during high-income periods.

Lard, like most other fats and oils, has been in the doldrums in recent months. Lard in particular has been hard hit by limited export demand. Stocks rose at the end of August to the highest level since June 1949 and the price fell below 9 cents for the first time since before World War II. Although output during the coming months will be somewhat smaller than a year ago because of the reduced hog slaughter, supplies are likely to remain heavy unless demand strengthens.

Cotton is also the victim, at least in part, of smaller foreign demand. Exports during August and September were almost 50 percent smaller than during the comparable period a year ago. Domestic demand on the other hand, is expected to improve somewhat because of the pickup in cotton textiles. The increase in demand in the domestic sector is unlikely to prove sufficient to offset the decline in exports. Therefore, even with a moderately reduced supply, no squeeze appears imminent. In fact, it now appears that there will be a moderate increase in the carryover at the end of the current crop year next July 31.

By way of summary then, if customary patterns are followed, prices of most agricultural products

(CONTINUED ON PAGE 8)

Recent Trends In Department Store Sales

Current appraisals of business trends in this country have rightly stressed the pickup in the volume of retail trade from the somewhat reduced levels prevailing six months or more ago. Department store sales have shared in this recovery, but they have not paced it. In fact, a close examination indicates that the recovery of department store sales, although genuine, has been in numerous respects rather skimpy. September and July reports were unfavorable; at press time, the early returns for October indicate brisk trade.

Since short-term or even month-to-month changes in sales volume are of primary interest in this connection, a continuous series of monthly indicators (index numbers) of department store sales, after being adjusted for the usual seasonal variation, is preferable to sole reliance on comparisons with the year-ago positions of trade. The information which follows is of such a type. It is limited to the department stores of the Fourth Federal Reserve District although its main outlines would probably be representative, to a considerable degree, of department store sales in the United States as a whole. Breakdowns of total department store sales into specific departments or groups of departments are included to round out the picture.[1]

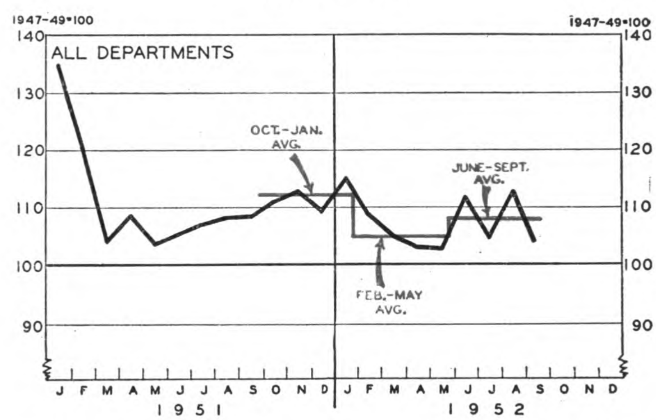
In interpreting the monthly changes in Fourth District department store sales since the beginning of last year, as portrayed in the following charts and table, the observer may notice a pattern of alternate periods of strong and weak sales, with a duration of about four months in each case. This effect is probably entirely fortuitous, and should not be considered in any sense a permanent feature of the behavior of department store sales. Nevertheless, the recurrence of such swings of four months' duration in the very recent past provides a convenient framework for grasping the direction and magnitude of short-term change. The red lines in the charts are designed to bring out this point.

All Departments An accompanying chart shows the seasonally adjusted index of Fourth District department store sales (all departments combined) for each month from January 1951 to September 1952, the last month for which data are available. The black line traces the movement of the adjusted index from the high point during the January 1951 scare-buying period through the reaction and the subsequent moderate recovery during the latter part of 1951. Early this year, a new period of slow sales set in, followed by a somewhat bumpy pickup in adjusted sales during the summer.

For a clearer picture of the shift in sales levels during the past year, a red line has been added to the chart representing the average level of the adjusted sales index during each of the three phases of the past year, i.e. two periods of four months' duration showing relative strength, and one four-month period of weakness. Thus, it may be seen that during the fall-winter shopping season from October 1951 through January 1952, the average adjusted sales level stood at about 113% of the 1947-49 average. During the late winter and early spring season, including the months from February through May of this year, the drop in the average level of the adjusted sales index to about 106 is shown by the red line. The subsequent pickup in adjusted sales during the summer months, June through September, is shown by a rise in the level of the red line to about 109.

How have the various departmental lines contributed to the changes in total store sales described above? As an aid in answering this question, adjusted sales indexes for six groups of departments, which together normally account for approximately 85% of department store sales, have been plotted in the six charts shown on page 6. In order to make these charts comparable with the earlier one

SEASONALLY ADJUSTED SALES
Fourth District Department Stores
1947-49 = 100



. . . total sales by Fourth District department stores, seasonally adjusted, averaged about 3% higher from June through September of this year than they had from February through May, but fell 3% short of the fall-winter season of last year.

(1) The monthly departmental indexes shown in the charts and in the table are based on a recent revision and extension in coverage of the seasonally adjusted departmental indexes which are regularly computed for the Fourth District, and which have been previously published from time to time in this *Review*. Back figures for the revised and extended series beginning with January 1947 are available on request. Inquiries should be addressed to the Research Department, Federal Reserve Bank of Cleveland.

showing total sales, red lines representing average sales levels during each of the four-month periods discussed above have been included. Admittedly, the sales activities of all these departments do not fall conveniently into the same phases as the course of total sales, but as a point of reference, the red lines are useful.

Women's Clothing The two charts shown across the top of page 6 represent the adjusted indexes of sales for two very important groups of departments, the women's and misses' *apparel* group and the women's and misses' *accessories* group. Taken together, these departments account for about one-third of total department store sales, with each group separately comprising about one-sixth of the total.

One of the first impressions obtained from these two charts is the appearance of relative stability of the sales level maintained by the two groups of departments. Such relative stability is important when considered along with the weight these two groups carry in making up the total sales picture. Furthermore, a slight gain by either or both will be felt quite strongly by the total store. Thus, in the case of women's and misses' *apparel* departments, the 4% gain in adjusted sales level during the summer as compared with the early spring contributed substantially toward raising the entire store level. The pickup is even more important in these departments when one considers the fact that the summer level of women's apparel sales was higher than in any previous four-month period since early 1949. Also, the women's apparel departments constitute the only group to show a level of seasonally adjusted summer sales higher than the previous Christmas level.

Women's *accessories* departments, while counting as heavily in the total store volume as women's apparel, did not have so great an effect in raising the summer level of adjusted department store sales. These departments showed a pickup of only 1% between the two periods while total store sales increased by 3%. Even so, it would appear that a large portion of the summer pickup in department store sales may be traced to the two groups of women's wear departments.

Basement Store Sales The third chart on page 6 depicts the movement of seasonally adjusted sales for the basement store. Since basement stores normally account for approximately 15% of the total, they exert considerable influence on department store sales. An important feature of basement-store sales, which is brought out by the chart, is their wide fluctuation from month to month. Broad changes in the average level of basement-store sales show movements somewhat similar to those of the total store. As against a 3% pickup in level for total store sales during the summer, however, basement-store sales showed only a 2% gain.

Piece Goods A group of departments which normally makes up approximately 5% of total annual sales is the piece goods and household textiles group. (This group includes yard goods, linens, towels, blankets, etc.) A chart showing recent sales of these lines is found next to the basement-store chart on page 6. Sales by the piece goods and household textiles departments have tended to fall below the 1947-49 average during the past two years. As shown on the chart, in all but two months the position of the index was below 100 or the 1947-49 average.[2] In spite of the relatively low weight of these departments in the total sales picture, the slowness of sales of such goods must have had a generally adverse effect on the total sales picture. The pickup by this group during the summer period, however, averaged about 4%.

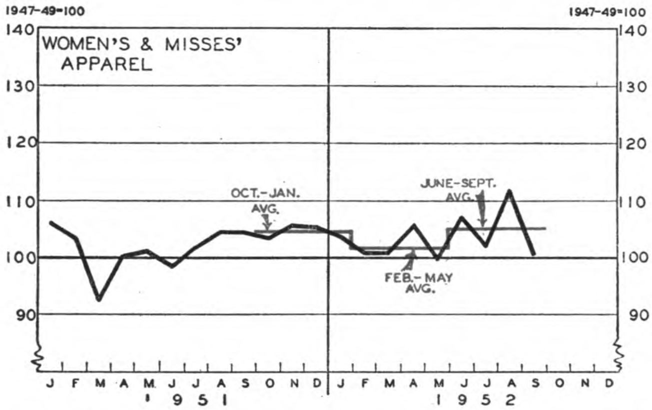
Men's and Boys' Wear The men's and boys' wear group of departments has shown the greatest fluctuations of all the groups depicted here, in respect to the four-months' averages shown by the red lines. Even so, the average adjusted level during each phase remained below that of the total store level. Since this group normally accounts for about 10% of total sales, it would appear that the reduced level of activity of this group has had some adverse effects on total department store sales. Between the Christmas season and the spring season, for example, the level of sales of men's and boys' wear dropped some 10%, accounting for a good share of the 6% drop in total store sales. The recovery by these departments during the summer months, however, was also considerably greater than that of the total store.

On a month-to-month basis, movements of sales by men's and boys' wear departments show considerable correspondence with seasonally adjusted movements of total sales. The heavy increase in sales from May to June, for example, is reflected both in the total sales picture and in the men's and boys' wear group. Likewise the fall in July and the rise in August is common to both movements.

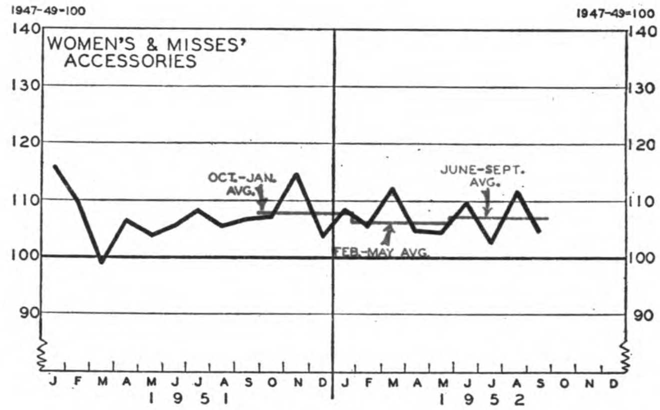
House-furnishings Sales by housefurnishings departments loom large in the total picture. These departments account for over 20% of the total sales by department stores, and are quite capable of shifting the balance of sales for the total

(2) In appraising the significance of fluctuations in *any* of these charts, allowances must be made for the fact that the bottom of the chart is higher than zero. The common practice of "cutting off the bottom," which is followed here for convenience of presentation, has the unfortunate consequence of exaggerating the apparent extent of fluctuation as compared with the total.

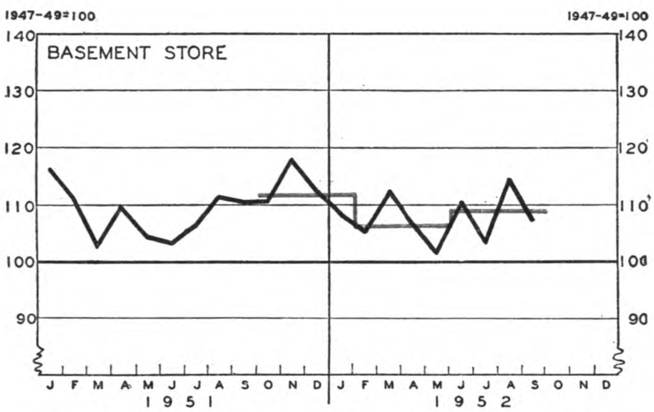
SEASONALLY ADJUSTED SALES BY DEPARTMENTS
Fourth District Department Stores
1947-49 = 100



. . . sales of *women's apparel,* seasonally adjusted, picked up 4% from the average of the February-to-May period to the June-September period, reaching the highest average position of any previous four-months' span since early 1949.

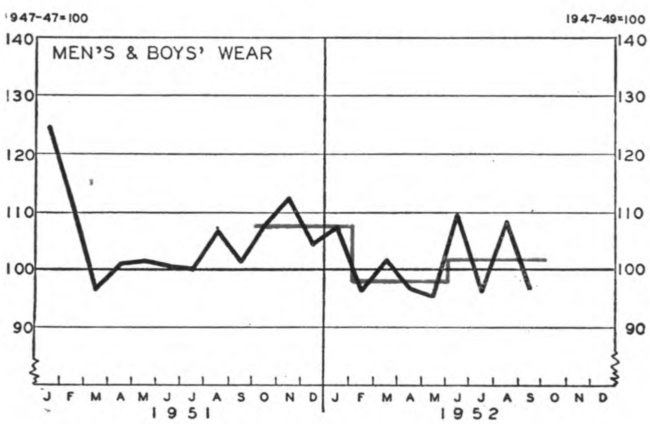


. . . sales of *women's accessories* have shown only minor changes in level over the past year.

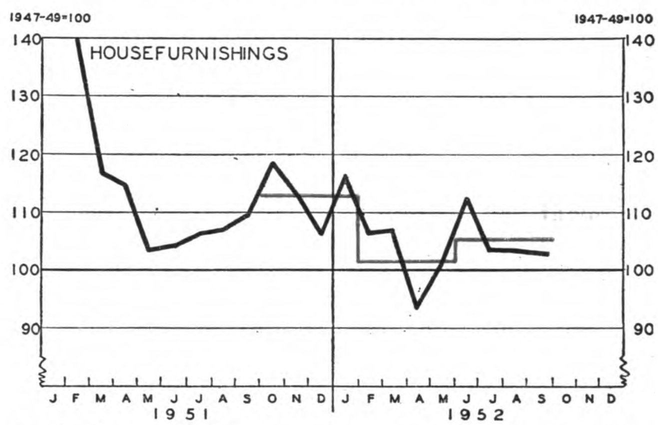


. . . *basement-store* sales averaged slightly better from June through September than in the previous four months, but fell appreciably short of the fall-winter season of last year.

. . . sales of *piece goods and household textiles* have been below the 1947-49 average during most of the past two years; adjusted sales during the summer and early fall of this year were slightly better than in previous months.



. . . sales of *men's and boys' wear* during June through September averaged 5% better than the reduced level of the previous four months' sales.



. . . during the period from June through September sales of the *housefurnishings group* of departments regained a little less than half of the ground lost during the previous four months.

INDEXES OF SALES BY DEPARTMENTS
Seasonally Adjusted, October 1951 – September 1952
Fourth District Department Stores
1947-49 = 100

DEPARTMENT	1951			1952											
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
All Departments	112	114	109	116	108	106	104	103	112	105	113	104			
Women's and Misses' Apparel	103	106	105	104	101	101	106	100	107	102	112	101			
Women's and Misses' Accessories	107	115	104	108	106	112	105	104	110	103	112	105			
Basement Store	111	118	112	108	105	113	107	102	111	104	115	108			
Piece Goods and Household Textiles	93	96	95	105	87	88	84	89	89	88	93	91			
Men's and Boys' Wear	108	113	104	108	97	102	97	95	110	96	109	97			
Housefurnishings Group	119	113	107	116	106	107	94	101	113	104	104	103			
Furniture and Bedding	*118*	*112*	*110*	*126*	*119*	*118*	*102*	*108*	*121*	*113*	*121*	*109*			
Major Household Appliances	*106*	*85*	*74*	*89*	*80*	*81*	*71*	*82*	*98*	*86*	*80*	*81*			
Radios, Phonographs and TV	*229*	*211*	*186*	*200*	*170*	*186*	*131*	*132*	*188*	*161*	*155*	*172*			

NOTE: The last three named departments are subdivisions of the housefurnishings group.
Combined sales of the groups shown above account for approximately 85% of store total.

store. The housefurnishings group show essentially the same pattern of change in average levels for the three phases studied as the total store. During the period from June through September, these departments on the average regained a little less than half the ground lost during the previous four months, after seasonal allowances.

Of special interest within the housefurnishings group are the furniture and bedding department, the major household appliance department, and the department handling radios, phonographs, and television. (See table; the chart series does not show these departments, individually.) Considerable drop in average sales level (after seasonal adjustment) during last winter and the early spring of this year was registered by the appliance and television departments. With the coming of summer, however, the pickup by these departments in seasonally adjusted sales was more pronounced than that of the department-store total. The furniture department, on the other hand, lost less ground during the early spring than the total store, and gained during the summer months about the same as the total store.

Immediate Outlook As stated in the opening of this article, early October reports indicate a substantial improvement over the September pace of Fourth District department store sales. Whether or not the entire month of October will be counted as an extension of the recovery indicated by late spring and summer developments remains to be seen.

With the approach of the Christmas trade season, department store executives are on the alert for a seasonal surge in sales volume, the magnitude of which will go far to make or break the year 1952 from the retailers' standpoint. Repercussions for manufacturers and for the pace of business generally are involved as corollaries.

Most merchants appear now to expect a Christmas volume of trade which will at least equal that of last year. From the charts and analysis presented above (which include a clear showing of the strength of the 1951 Christmas season) it would appear that such an outcome would be tantamount to a distinctly bullish note in the business score; it would signify a strengthening of the recent recovery in retail trade. In fact, if the 1952 Christmas season should tally a sales volume very much in excess of last year's, an approach to the well-known excesses of Korean scare-buying episodes would be entailed, with corresponding inflationary implications. Such an outcome, however, seems hardly probable in view of the relatively calm attitudes which seem to be governing consumer behavior at the moment.

COMMODITY PRICES

(CONTINUED FROM PAGE 3)

should strengthen and begin to rise by the end of the year. But the increase in supplies over last year will probably act as a brake on prices and hold them fairly close to the year-earlier levels.

The Department of Agriculture has encouraged higher sugar prices by limiting the supply. Import quotas were set below estimated requirements. By mid-October supplies were short and the price had risen to within 15 cents of the 27-year peak, $6.80 per 100 pounds, reached in June 1951. While the Department has not specified what is considered to be the "fair" price at which sugar should be selling, it would appear that it is not below the present level, $6.65.

Still shrouded in considerable doubt are the supplies of and demand for several other commodities. Included in this group are cocoa, coffee, and silk, all of which are imports. Estimates of production are hard to secure; conflicting reports are frequently received. In addition, producing countries have introduced various price stabilization schemes which suggest that present prices will be maintained with relatively narrow fluctuations. However, history has demonstrated that some earlier plans for maintaining prices which were instituted by some of the same countries failed when unusual circumstances developed.

Most Recent Trends Frequently in the past, an upsurge in production, such as the one which has occurred since the settlement of the steel strike, has been preceded by a rise in raw material prices. The most recent changes in the index (since October 1) although small in magnitude have been predominantly on the downward side. Why, then, should prices of these commodities, many of which are important industrial raw materials, be weakening when industrial activity is pushing toward new peacetime highs and when potential inflationary forces are still present in the economy?

Tentatively, it becomes a matter of weighing the importance of the strength and recovery of such sensitive commodities as wool, hides, and print cloth, which were quick to forecast the end of the post-Korean buying wave, against the significance of the recent recession in the prices of lead and zinc, for example, as well as the majority of agricultural commodities.

If the latter declines can be explained satisfactorily, largely on the grounds of special circumstances, or of seasonal influences, then the strength in nondurables may be taken as an indicator of underlying trends. The cotton textile, wool, and hide sector will warrant more than the normal share of attention during coming weeks.