Happy New Year

COL. LEONARD P. AYERS TELLS YOU

WHAT 1929 WILL MEAN TO U.S. BUSINESS

Sees Good Times for Half Year; Second Half Uncertain, May Bring a Recession

By NEA Service

CLEVELAND, O., Dec. 27.—Very good business for the first three months of 1929, probably continuing throughout the first half of the year, and followed by a period which now looks uncertain and which may prove a time of business recession—

That is the forecast for 1929 made by Col. Leonard P. Ayres, vice president of the Cleveland Trust Co., and one of the best known and most autheriative business prophets in the country.

Outstanding among the elements that will go to shape business conditions in 1929, as Colonel Ayres sees it, is an extremely heavy competition in the automobile industry. It is partly this element that, to his viewpoint, causes uncertainty about the outlook for the last half of the year.

"A few years ago," Colonel Ayres points out, "the Ford plants were producing almost half of all the automobiles made in the world. Then they were closed down to prepare for the new model and they remained closed so long that the manufacturing capacity of other companies was increased sufficiently to produce all the cars that this country uses, and to take care of the rapidly growing export trade as well.

Price Cutting Ahead

"Now the Ford plants have come back into production with a larger capacity than before. The contests for supremacy and for survival will be under way in the next few months. New high records for output will almost surely be established in the early months of the year, and it seems likely that they will be followed by a period of price cutting, lower profits per car, greater difficulty in selling used cars, and smaller margins of profit for firms supplying parts and materials. It does not seem likely that the stocks of automobile companies will be market leaders in 1929."

This, Colonel Ayres remarks, probably will mean a degree of keen competition such as the automobile world has never yet experienced.

Fully as important, however, if not more so, is the credit situation.

"Most of this discussion," says Colonel Ayres, "may be summarized in the statement that the continuation of prosperity in 1929 is dependent on the continuation of credit expansion, which appears to depend in turn on progressive increases in loans made to brokers by corporations and individuals, for in the absence of such increase the tendency of bank credit will almost surely be to contract, with consequences adverse to business.

"The fact is that interest rates are now so high, and they will probably be so high in 1929, as to raise doubts concerning the continuation of business expansion through all of next year. Because of the prevailing high interest rates there has this year been a sharp decline in the volume of new bond issues through which corporations commonly secure the funds for new construction and the purchase of new equipment. There has been, moreover, a decline in the volume of new mortgages which furnish funds for the construction of new residences and of many business buildings. Moreover, many corporations are keeping funds in the call market which should normally be employed in additions and betterments to their plants."

Eleven Predictions

Then Colonel Ayres swings into a series of 11 definite predictions for the coming year.

"Business conditions are now good, and they will be good in the opening months of the new year," he says. "But credit conditions, on which business depends, are not equally favorable, and it seems probable that they will pass through important readjustments involving some contraction in 1929. Because of these prospects, the following forecasts seem justified:

"1—Short-term interest rates will probably be higher in the first part of 1929 than they were in the first part of 1928, and lower in the closing months of the year than they were in the closing months of 1928.

"2—Automobile output will almost surely be greater in the early months of 1929 than in the corresponding months of this year, but less in the closing months of next year than in the closing months of this year.

"3—The total value of new building permits is likely to be somewhat less in 1929 than in 1928.

"4—The total tonnage of iron and steel produced in 1929 will probably not exceed that of 1928.

"5—The average price of common stocks as measured by the index of the Standard Statistics Co., will probably be lower at the end of November in 1929 than it was at the end of November in 1928.

"6—It is not likely that the cost of living will change much in 1929.

"7—The average price of non-agricultural commodities, as measured by the wholesale price index of the department of labor will probably not differ in December of 1928 by more than 5 per cent from its level in January, 1929.

"8—There will probably be less employment in the opening months of 1929 than there was in the early months of 1928, but more unemployment in the closing months of 1929 than in the closing months of 1928.

"9—The average wage rate of factory workers for 1929, as measured by the index of the National Industrial Conference board, will probably not differ from the per cent.

"10—The trend of the cost of the banks. Thus there has been a kind of inflation that was quite building during 1929 will probably be a declining one.

"11—The net profits of industrial corporations as compiled by the Federal Reserve Bank of Cleveland will probably be less in 1929 than in 1928."

In discussing the stock market, Colonel Ayres takes occasion to explain a curious development that 1928 brought the financial world.

In times of prosperity, he points out, many goods are being bought and sold, which means that greater volumes of bank credit are used. But in 1928, with rising prosperity and with a terrific amount of speculating on the stock exchange, bank statements show that there was very little expansion of bank credit.

What happened was that the tremendous increase in credit came through loans made to brokers by corporations and individuals. It was out of the control of outside the purview of the usual banking safeguards.

Affects Stock Prices

Now, Colonel Ayres says, the course of stock prices for the next few months, and the course of general business through most of 1929, will probably be determined by the manner in which these brokers' loans increase or decrease. The recent sharp break in stock market prices he traces directly to the fact that these loans did not increase, in late November and early December, as they had been increasing previously. If this condition continues, he predicts, it will be very difficult for stock prices to have any extended recovery.

If this expanding credit does stop, and prevent a sustained resumption of the advance in stock market prices, says Colonel Ayres, the results will be adverse to general business in two ways. First, the increase purchasing power that always goes hand in hand with a rising market will be cut off; and second, corporations and industries will curtail new financing, and a little later on the new construction and the purchasing of new equipment witht the funds coming from such new financing will decline in volume.

ALL BUT ONE OF AYRES' PREDICTIONS FOR 1928 WERE PROVED RIGHT

In his annual business and industrial forecast issued a year ago, Col. Leonard P. Ayres of Cleveland made 14 specific predictions about conditions in 1928. Of these, exactly 13 were proved correct.

The predictions that proved accurate were these:

1—That interest rates would be low early in 1928 and high at the end of the year.

2—That average prices of common stocks would rise to new highs.

3—That the volume of new construction would exceed that of 1927.

4—That costs of building construction would have an advancing trend.

5—That employment conditions would improve as 1928 advanced.

6—That industrial wages would remain firm, with an advancing tendency.

7—That the cost of living would not change much either way.

8—That the trend of wholesale prices would be an advancing one.

9—That the iron and steel output would be greater than in 1927.

10—That prices in the steel industry would be stabilized and improved.

11—That the output of automobiles would set a new high record.

12—That the output of automobile tires would set a new high record.

13—That the total of industrial profits would be greater than in 1927.

All of these predictions were borne out by facts. The one prediction that was not correct was to the effect that the average prices of high-grade bonds would probably advance during a majority of the months of 1928. Records now show that such prices advanced during only five months of the year and declined during seven.

The proven accuracy of Colonel Ayres' forecasts adds especial value to his list of predictions for 1929.

Keep Prosperity

Charles M. Schwab Lays Down 10 Rules For Permanency.

Charles M. Schwab

BY CHARLES M. SCHWAB

(President, American Iron and Steel Institute.)

NEW YORK, Jan. 1.—We have reached in this country an amazing degree of general prosperity. American business on the whole no longer faces an up-hill climb. The problem today is an entirely new one. It is what to do to make prosperity permanent.

No one, of course, has any patent rights to continuing business success, but I venture to suggest a few fundamental considerations which all of us may find helpful to keep in mind. These 10 rules seem to me to hold the key to lasting prosperity:

1. Pay labor the highest possible wages. Prosperity is intimately related to a liberal wage scale.

2. Treat labor as a business partner. Successful industry depends more on human relations than upon the organization of money and machines.

3. Conduct business in the full light of day. Public confidence and public suspicion may be separated only by a door.

4. Remember that the law of supply and demand is inexorable. It would also be well to remember that there is no necessity for producing an excess.

5. Live and help live. Even prosperous industries cannot afford to have the backward industries too far behind the procession. Prosperity to be permanent must be equably distributed.

6. Welcome new ideas. To establish permanent institutions we must always be prepared for change.

7. Never be satisfied that what has been achieved is sufficient. Smugness and complacency do not promote progress.

8. Operate business on the most economical basis. Price-cutting, over-expansion, uneconomical methods of distribution are just as harmful to business and to the public as price-fixing, monopolies and rebates.

9. Look ahead and think ahead. It is easier to avoid depressions than it is to cure them.

10. Smile, be cheerful and work upon the basis that the fundamental purpose of business is to promote the happiness of human beings.

A Cartoon Review of Events in 1928