CURRENT BUSINESS CONDITIONS

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The upward trend of industrial activity has continued during the past month, and in nearly all important lines is reported close to capacity or restricted only by the labor supply. The present output of construction materials, transportation equipment and manufactured goods generally has never been surpassed. Moreover, it is worthy of note that the activity of 1917, the year with the previous greatest production record, was brought about by expanded upon war equipment and supplies. The output of iron and steel was then being largely used for shells, while now it is going into building material, railroad equipment, automobiles and machinery. The output of the textile industries was going largely at that time to clothe the armies, while today it is going to supply the general trade demands. The use to which things are put has a bearing on the long run upon the level of prices. The present level is chiefly due to the fact that for several years our industries were busy upon production that added nothing to the necessary equipment of the country. We were not building dwelling houses or railroad equipment to meet the growing needs of the country and now we are trying to catch up. Only the things which, from products, are not such as that a level as other things is that the demand for farm products is not cumulative. The fact that consumption is attained in one year does not make a larger demand in the next year; people do their eating for each year in that year.

Prosperity the Result of Balanced Industry

We have constantly emphasized the equilibrium in industry as the fundamental condition of prosperity. It is safely maintained in full degree only for long periods, we are usually either adding to it or falling away from it. This is because the industrial organization is a dynamic one, in which everybody is free to make his own policies, and the business community is prone to go one way or the other with a rush. The movement of prices is largely a matter of psychology; if the time gets abroad that prices will rise, buying sets in for a while that may carry them beyond all reason, and on the other hand if the idea spreads that a decline has set in the market may be overweighted on the selling side to such an extent as will carry them far too low. These swings of sentiment as to prices affect production, employment and consumption.

During the war we had the great swing of prices upward under such pressure for more power than nearly all products and services rose higher and more nearly together, and so long as the equilibrium was fairly well maintained, we had the appearance of prosperity, although in fact it was a false appearance, because so much of the industrial effort was being wasted. That waste was bound to make itself felt eventually. It could not be always covered up by the advancing wages and prices. The situation was steadily getting out of balance, and eventually collapsed.

If everything had come down together, so that the equilibrium would have been maintained, or a lower level established, a quick recovery would have followed, because there would have been buying power in the market equal to full production. Some of the industries, however, successfully resisted deflation and found themselves caught in the air for a year or more with orders at a limited demand for their products or services. Moreover, on the falling market, buying was abnormally curtailed and inventories were pulled in fines. Years of shortage actually existed as in consequence work of various kinds, house-building should have gone along on an upward level ever since the war, the steel industry should have been operating at capacity instead of falling in 1921 to 53 per cent of the output of 1920. When, however, the deflation spread, the prices were so low as to make it impossible to go at least for the time being, the prospect of needed construction and replenishing supplies to many lines forced a resumption of buying and the revival began. As prices began to rise, confidence grew and expenditures increased, until the country has reached the full swing of expanding activity and higher prices. It is working now not only to supply present needs, but to make up the deficit inherited from the past and the demand of 1921 and provide for anticipated needs.

For the time being the situation is fairly well balanced, for while deficiency is not back fully to line as a whole, the accumulation of demands in other quarters for the present makes good the shortage in that quarter.

The Outlook

How long will the equilibrium be maintained? The outlook for business at this time is very good. If industrial conditions and the general level of prices could be held where they are, there is every reason to believe that this prosperity might be maintained at least through the present year, perhaps longer, moreover, with some modifications, such as naturally would occur if not met with organized resistance, the period of prosperity might be extended indefinitely.

The check will come as the relationships between various groups of producers are altered, affecting the basis upon which they exchange services. The farmers received in 1920 a part of what they lost in 1921, but in January, 1923, farm products had but 68 per cent of the purchasing power over other things that they had in 1913. The tendency now, as other things are rising, is against them. The producers of hours, mostly but most of the foodstuffs are supplying them to the wage-earners of the other industries, upon an exchange basis that is unfair to the farmer. Moreover, the farmers are not the only people being placed at a disadvantage. A great number of the wage-earners will not be able to get their pay increased to correspond with the rises that are noted of in some of the favored industries. As prices rise all those whose incomes are fixed suffer a disadvantage, because the wage-earners are increased in equal proportion will have to shortly expect increases in prices.

Rapid Prices Lag Behind Production

As yet these rising prices are only slightly reflected in retail prices, they are in advance in the process of manufacture. The woolen goods manufacturers in New England have generally granted an advance of 15 per cent on the falling market, buying was abnormally curtailed and inventories were pulled in fines. Years of shortage actually existed as in consequence work of various kinds