

1922-1923. A REVIEW AND FORECAST

1922 Saw the Opening of a New Period of Real Trade Revival and Better Business Health Throughout the Entire United States.

By ROBERT E. SMITH, President Lumbermen Trust Co. Bank, Portland.

John Moody, national authority on economics, has published a pamphlet which he titles "1922-1923, A Review and Forecast" which surpasses everything else we have read along the same lines, and we think we cannot do better than to quote this article freely. Mr. Moody says:

"Looking backward through 1922 and earlier, one is impressed by the fact that the action of the financial markets has been steadily more and more affected by developments and trends in the international situation. A year ago the United States was just beginning to emerge from the extreme unsettlement and depression brought about by the intense deflation movement which set in during 1920. The shock of the earlier period was beginning to spend its force; business men were slowly emerging from their financial difficulties; new efforts at efficiency of production were being set in motion; wholesale prices, after their precipitate slump of the previous year, were becoming stabilized; labor costs were tending to decline. Altogether, at the opening of 1922, it was safe to say that we were entering a new period of real trade revival and better business health throughout the entire United States.

"And the financial markets very concretely reflected these facts. Steadily throughout the last half of 1921, the strain on the money markets relaxed; interest rates continued to show greater and greater ease as the months went by; bank reserves rose; loans and discounts dropped and the steady flow of commercial failures, week by week, indicated that the weak spots in the general business situation were being slowly corrected. Accompanying these developments, the bond and stock markets in the summer of 1921 began that long upward trend which continued almost uninterruptedly until the late months of the year just closed. With unerring accuracy, in 1922, the business trend was reflected in the security market trend—at least until the autumn months.

"But beginning with October, a noticeable change took place in the security markets. Hesitancy first developed in the bond market; then pronounced weakness. This was accompanied by hesitancy and then extreme weakness in the stock market; by a flood of liquidation which carried stock prices one-third back to the low levels of 1921. In the meantime, most trade reports continued to be as optimistic as ever; captains of industry gave out their usual optimistic interviews; the motor and other luxury industries maintained their activities at high levels; the building boom continued to expand; retail trade seemed at its maximum.

"These are the days in which business prospects abound; the business of 'forecasting business conditions' has become such an exact science and has so captivated the public mind that a multitude of otherwise sane business men and investors have unbounded faith in barometers and charts which undertake to point out, with unerring accuracy, coming events in business, finance and politics a year or more ahead. But the trouble with this mechanical forecasting profession is that, about seven times out of ten it doesn't work. It doesn't work for two reasons: first, because the prophets so often do not understand the relationship of cause

and effect; and second, because no prophet can forecast 'accidents'. Shortly after the armistice in 1918, most of the business prophets foresaw nothing but depression in 1919; again at the beginning of 1920 they foresaw nothing but a continuance of the inflation boom for a period of two years or more. Throughout 1922, they have, for the most part, been predicting that the present business revival is bound to continue another twelve months, and perhaps a great deal longer.

"But it is noticeable that during the past sixty days some of the 'prophesying' profession are clearly puzzled. Somehow, their charts are not working right; events are not unfolding as they logically should; Wall Street is not responding the way it ought to. Stocks have not been going up very fast if at all; bonds have entirely discontinued their long recovery from the low levels of eight or ten months ago. What is the matter? Has economic law broken down; has Wall Street lost its cunning as a forerunner of coming events?

"By no means has economic law broken down; by no means has Wall Street this year failed to reflect real trends in the business and economic world. As stated in the opening of this article, the action of the financial markets this past year, and very recently, has been a direct (unusually direct) reflection of fundamental influences. For by far the most fundamental influence of American trade and American economic and social conditions at this time is the unsettled foreign problem.

"It is still asserted by many people who live in the Eastern industrial and commercial sections of the United States, that it matters not to America what happens in Europe. But such people do not know their America. They do not know that the industry of agriculture in this land supports more than one-third of our population, and that, normally, it produces more than a third of our total annual wealth production. They do not realize that unless the American farmer is reasonably prosperous, the country as a whole cannot for long be prosperous. They do not understand the interrelations of agricultural with other forms of wealth production. They forget that the farming population of over 35,000,000 souls are consumers as well as producers and that their purchasing power, at any given time, is the biggest single measure of business health and prosperity throughout the nation. The greatest prosperity for our railroads is seen, not when we happen to have bumper crops, but when the prices received by the farmer for these crops give him adequate purchasing power to consume the necessities and luxuries that he wants. Then we see our railroad tonnage increased and general prosperity spread itself throughout the country.

"But the recovery in American business during the year 1922, while marked and genuine to a large degree, has not yet been fully shared in by the great agricultural industry of the United States. The American farmer was defeated flat in 1920 and 1921; in some sections of the country his position was a desperate one. His liabilities were extended like towers at any given time, his credit position underwent an enormous strain, and he labored under many difficulties in financing himself that were not at all known in many industrial and commercial lines. The 'come-back' during 1922 in general business, however, did not reach the farmer simply because the farmer's markets (which largely govern the prices of his products) were limited and general prosperity was limited by the abnormal international situation. Only in the cotton-raising industry have we seen American agriculture thus far share to any reasonable extent in the recovery from the depressed conditions of 1920 and 1921.

"Up to very recently the average purchasing power of the American farmer figured out at only about 64 per cent of his 1918 purchasing power, while that of union labor in the industrial districts is averaging from

90 to 130 per cent of 1918. Obviously, the American revival of prosperity is top-sided so far; it is too unevenly distributed. It must become more evenly distributed if we are to have confidence in a healthy expansion of business during and after 1923.

"Under normal conditions, with full employment and production, American agricultural products must find large and healthy markets outside the United States for from 10 per cent to 25 per cent of their annual totals. Cotton must normally go abroad to the extent of from 30 per cent to 60 per cent of the total average crop. There are other basic products which must find large foreign markets at all times, such as copper and other metals. With these foreign markets completely eliminated, depression and privation would prevail from Maine to California; with these foreign markets sharply curtailed, we have been in modern times known a real period of prosperity.

"On the other hand, when foreign nations are buying from us freely, under normal credit conditions, the effect on this country has always been far-reaching and profound. What pulled us out of the worst phases of the panic of 1893? Heavy buying of American wheat and cotton in the fall of that year. What saved us from impending disaster and chaos of free silver legislation in 1896? A short wheat crop in Russia and Argentina, which put up the price of wheat in the United States and started the country on the road to a new era of prosperity for agriculture and general industry alike. What caused the tremendous American prosperity during the war period? The enormous and insistent demand from Europe for our products. And what is causing the present uncertainties and the limitations of this current revival and logical rebound from the deflation depression of 1920 and 1921? Obviously, the doubts and uncertainties regarding the European situation and outlook.

"Thus, any consideration of American business conditions; any examination of the prospects for the American farmer; in fact, any intelligent interpretation of the American business or financial trend of the present, or any forecast of probable developments for 1923 and after, leads us directly to a study of the European problem. This is why some of the professional chart makers and business prophets are finding it so difficult to make their formulas fit the facts; why they hesitate and fumble and have so little confidence in their own predictions. The European sit-

uation is too abnormal to be 'charted'." The foregoing is about one-third of the article, all of which is intensely interesting, logical in its reasoning and authentic as to its facts.

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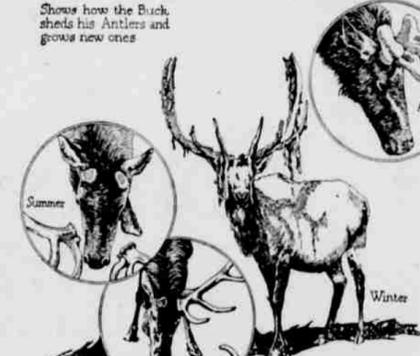
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