BUSINESS REVIVAL SHOWS SIGNS OF DEVELOPING PROSPERITY

INDUSTRY AWAKENS TO REVIVAL IN 1922

Employment Is Full, Industries Operating at High Rate and Money Still Is Plentiful as Year Comes to Close.

By F. Schneider, Jr.
Financial Editor New York Evening Post.

F 1920 was the year of deflation and 1921 that of depression, 1922 aptly may be termed the year of revival. Such simple classifications cannot, of course, be exact; they are, nevertheless, approximate and significant. Industrially speaking, the depth of depression was touched in the summer of 1921; recovery began in the following autumn. Not until 1922, however, did the revival take on an unmistakable vigor, nor did the money market reach and pass its bottom. The last several months have seen, furthermore, a rather general recovery of profit-making ability among industrial companies. As the year closes, employment is full, industries are operating at a high rate, money is still plentiful, commodity prices are firm, order books are fairly well filled, and cheerfulness prevails. By all outward appearances the revival of 1922 promises to develop into prosperity during 1922.

What are the forces behind this revival? Will they endure? If not, will their places be taken by others? Relief of certain war-created shortages clearly has been one of the chief stimulating influences. The building of a great number of living houses, construction of which was suspended by war restrictions, has enormously increased employment, has created an insistent demand for all kinds of building materials, and has swollen the volume of traffic offered to the railroads. A related factor is embodied in heavy State expenditures for road building.

A second major source of industrial activity is the deficit in railroad maintenance accumulated during the war. Both with regard to roadway and equipment, the carriers were returned to their owners in a condition demanding rehabilitation. The resulting orders have contributed greatly to the business of companies manufacturing steel and machinery. One other outstanding influence is the surprising and extraordinary demand for automobiles. While the question as to whether a shortage of automobiles really existed can be argued, it is clear that the ultimate result was the same. The actual buying which developed exceeded all expectations; it stimulated a vast number of allied industries and created a very great volume of employment.

Contrasts During Year.

In the revival of the past year a striking contrast has been apparent between the cities and the country, between industry and agriculture, between the East and West. The several shortages enumerated above have been concentrated in the industrial East. The purchasing power of the latter region has been markedly higher. In a sense the industrial East has prospered off itself. The revival has proceeded without the proportionate assistance of the farmer, although the latter represents two-fifths of the country's purchasing power. How long this condition can persist is, perhaps, open to question. Still, it must be noted that the year's sharp rally in cotton prices greatly improved conditions in the agricultural and business South, and that the disparity between the price of farm products and manufactured goods is less as the year ends than when it began.

A similar question arises when it is recalled that the revival has developed with little aid from Europe, where the situation remains troubled. Politics, intertwined with the great problems of reparations and international debts, continue to hold European trade in a condition of suspended animation. Germany has yet to balance even her domestic budget and to go through the painful process which probably will accompany the stoppage of inflation. Political troubles still are numerous, and the exchanges fluctuate in such a manner as to restrict commercial enterprise. At the same time it has been demonstrated conclusively that the world has reached a stage of economic development at which the condition of world business affects that in any particular country. Our farmers cannot expect to receive satisfactory prices for their farm products until Europe is able to buy these products freely. Nearly one-third of our wheat must be sold abroad, and as the price of wheat is determined in the world market, it follows that our farmers suffer when Europe is depressed. Notwithstanding this state of affairs, our Government is making the recovery of European calling for payment of the war debts, purchasing power more difficult by by erecting a tariff wall, and by attempting to take away a substantial part of the ocean-carrying trade which our debtor countries formerly possessed. Such factors must, of course, be considered unfavorable.

Confronted With Labor Shortage.

Another situation, and this one purely domestic, serves to raise misgivings. Even with the existing volume of industrial activity, the country is confronted with a labor shortage. The condition is endowed with a certain degree of permanence, furthermore, by the existing restrictions on immigration. Bidding for the available supply of labor already had become a disturbing factor during the latter half of the past year. An exaggeration of this tendency during the coming year will diminish labor's efficiency, create unrest, and increase production costs. This in turn might extinguish profits if consumers continue their resistance to higher prices, or might provoke an unhealthy inflation if consumers bought recklessly. There is besides the real possibility of another coal strike. Very likely, a large part of the troubles which may be conjured up in this connection will not materialize; it must be admitted, however, that the country's labor supply is uncomfortably short.

For the rest, possible unfavorable developments at home threaten chiefly from the domain of politics. If the administration should weaken before partisan pressure and permit unfair treatment of the railroads, so that the earnings of the latter should be further diminished, the effect would be most unfortunate. Lower purchasing power for the carriers inevitably would react on the steel and equipment companies. Or if the Congress were to pass and sustain a bonus bill, or were to interfere with the sound management of the country's banking system, or were to formulate uneconomic taxation measures, business would suffer. These contingencies are, however, improbable of fulfillment. The administration was, it is true, badly shaken by the fall election; its ability to carry out its own legislative program admittedly is impaired. It is equally clear, however, that the administration is in a position to block any legislation which is fundamentally dangerous.

Prospects Are Favorable.

Taking everything together, the prospects remain favorable. A healthy business revival already is under way and gives every indication of continuing during, at least, the next six months. The chief stimulating influences seem likely to retain most of their strength. If a certain slackening comes in the construction of high-priced houses and of roads, the loss probably will be made good by increased building of medium-cost homes, of commercial buildings, and of schoolhouses. Railroad earnings are not wholly satisfactory; but they should improve as the effects of the strike wear off and as the volume of traffic grows. In any event, the equipment companies already have booked sufficient business to keep them running at a high rate for a considerable part of the year. More equipment undoubtedly will be built during 1923 than during 1922. And the automobile industry is well booked ahead and sees no falling off in demand. Employment is full and industrial and city purchasing power is high.

Meanwhile the farmer's position is improving. His income is growing, his indebtedness is decreasing, and his buying is more liberal, as witness the larger sales of the mail-order houses. It would be foolish to pretend that the situation is satisfactory as yet in the agricultural districts; it is materially better, however, than a year ago, and the outlook is not devoid of promise. Given good crops and fair prices, the return of generous prosperity will be in a fair way of assurance.

Similarly is the case of the European situation, the past twelve months show slower progress, but, nevertheless, an advance towards the eventual removal of the existing obstacles to recovery. Political animosities gradually are softening. Relations between England and France are materially improved; a common and reasonable front towards Germany is a growing probability. Settlement of the reparations on a definite basis is now a distinct possibility. Time will be required to bring these things to pass; a quick recovery of European purchasing power is not to be expected. Still, the situation is materially improved as compared with a year ago, and our own business probably can run along fairly well a while longer without the normal stimulus from abroad. If, however, the reparations should be cleared up by next fall and Europe's credit should be correspondingly raised, the effect on the crucial matter of our farmers' purchasing power would be most important.

A year ago a moderate revival of business with some restoration of profit making seemed to be on the cards. Actual results have exceeded expectations. This year, with a healthy revival in full swing, the chances for prosperity seem good. Granted wise management, the situation is propitious. A rational attitude in Europe, and in this country towards Europe; forbearance on the part of labor; willingness to name reasonable prices and take fair profits on the part of business men; and conservative management of our banking system should prevent the revival from slipping back into depression or from developing into an unsound and abortive boom. In short, the situation is such that prudence and self-control should give the country what it really wants—a sound and enduring prosperity.

(C., 1922, by N. Y. Evening Post, Inc.)

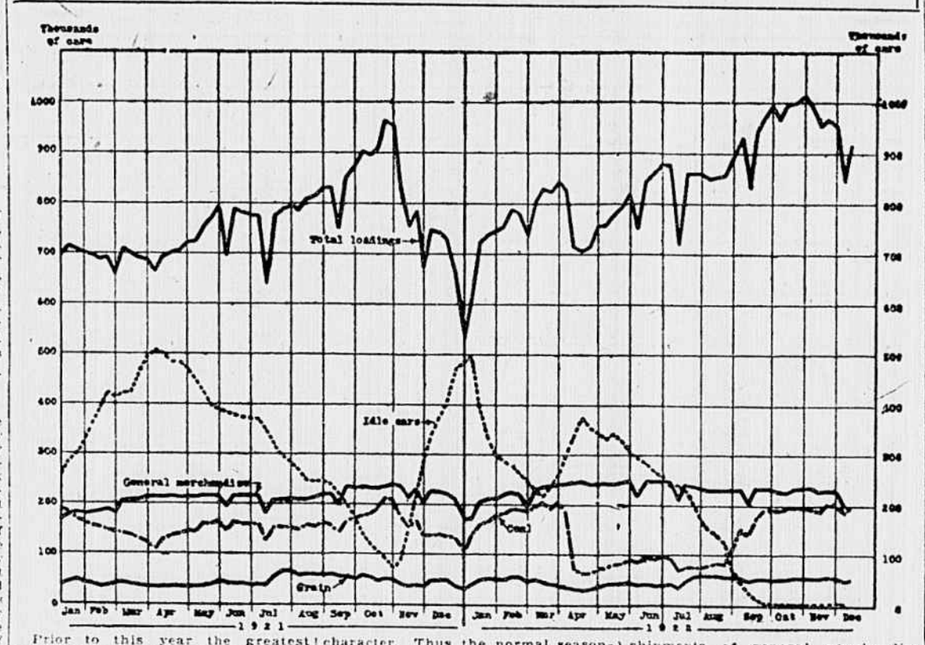
INVESTIGATE PACKERS

Republican Proposes Trade Commission Look into Charter.

[By Associated Press.]

WASHINGTON, Dec. 30.—Investigation by the Federal Trade Commission of the recently organized corporation to be known as Armour and Company, of Delaware, and of the projected combination of Armour and Company with Morris and Company with Morris and Company through purchase of the latter by the Armour interests was proposed in a resolution introduced today by Senator Norris, Republican, Nebraska.

RAILROAD LOADINGS MAKE HISTORY



Prior to this year the greatest performance of the country's railroads in moving freight was that in the fall of 1920. While the movement during the past autumn did not produce a single week that quite touched the best week of 1920, it was remarkable for its sustained character. Thus the normal seasonal slackening in November and December was much smaller than usually is the case. The performance during these two months exceeded all records, and not merely because of the heavy coal movement, since shipments of general merchandise and miscellaneous freight were extraordinary. The demonstration of carrying ability was the more remarkable in view of the after-effects of the shopmen's strike.

(C., 1922, by N. Y. Evening Post, Inc.)

RECOVERY ADVANCES IN NORMAL MANNER

Further Expansion in 1923 Assured—Self-Control May Be Needed to Prevent an Abortive Boom. Europe Is a Drag.

By Wesley C. Mitchell,
Author of "Business Cycles."

The revival of business activity which began in 1921 has made gradual but incontestable progress in 1922. According to the November reports relatively few wage-earners remain unemployed, wage rates are advancing, the factories are busy, wholesale and retail trade active, the price level is rising, and business sentiment is optimistic, but not reckless.

Revival Usually Continues.

When a revival has been under way for more than a year and attained such proportions as these reports indicate, it usually develops into full-blown prosperity—usually but not invariably. At least two exceptions to the rule have occurred in the recent history of American business. The revival which began in 1891 and gained momentum in 1892 ended disastrously in 1893; the revival which started late in 1908 and ran through 1909 ended ingloriously in the recession of 1910. Before we forecast a boom in 1923 we should inquire whether there is reason to fear that the present revival may prove another exception to the highly irregular rule.

Is there any factor in the present business situation, domestic or foreign, or is there any factor from outside the realm of business which threatens to check purchasing or to undermine confidence? To answer this question it is necessary to canvass the salient features of the revival itself and note the peculiar conditions to which business must adjust itself in the near future.

The revival consists of a series of changes in business activities which began at different dates and have proceeded at different rates. According to the indexes of the Harvard economic service, the manufacture of consumers' goods began to increase in February, 1921, and the manufacture of basic materials began to increase in the following August.

Bond prices began to rise in June, railway stocks in July, and industrial stocks in September. According to the Federal Reserve Board's indexes, the wholesale prices of raw materials turned upward in September, 1921, the prices of consumers' goods in February, 1922, and the prices of manufactured producers' goods in April. The commercial loans of the 800 leading "member" banks ended their long decline last August, and in September the cost of living (as estimated by the chief statistician of the American Telephone and Telegraph Company) began to advance. Bond prices turned downward again in October—another sign that activity was becoming general.

Present Recovery Normal.

This succession of developments is not far out of line with expectations based on past business cycles. Nor has the pace at which various factors have advanced shown disquieting discrepancies. Though security prices have been moving upward for more than a year, there has developed no such feverish speculation on the Stock Exchange as marked 1919. We are told that even yet merchants are not buying far in advance of current needs. The liquidation in 1920-21 seems to have been thorough, at least in the commercial and industrial districts, so that no serious check need be feared from delayed bankruptcies.

Not only was the financial snarl disentangled, but the stocks of merchandise and raw materials carried over from the preceding boom were gradually worked off. The vitality of the revival proved sufficient to withstand the strain of the great coal and railroad strikes of last summer and to dispense with support from foreign sources. All this favors the view that business will continue to expand in 1923.

Yet the situation presents several features which make for uncertainty. First, the rise in the wholesale price level has been very rapid. Bradstreet's index, though by no means the best measure of the price level, is the best forecaster among our general index numbers. It advanced far more in 1921-22 than in 1908-09, and the advance in the earlier case was thought to have been overrapid. An upward rush of prices may put an early end to a revival in two opposite ways; it may check the increase of purchasing and so undermine the expansion of production and distribution on which the whole movement rests, or it may stimulate speculation in commodities and produce an intense but short-lived boom.

If we were living in pre-war times one or the other of these results would seem probable. But the whole business community has become accustomed since 1914 to price gyrations of extreme amplitude. A more violent rise than the present one accompanied the revival of 1915-16 and did not prevent the development of a long period of prosperity. Nevertheless, there is danger that the rise of commodity prices may be pushed at a dangerous rate. From this viewpoint the slight drop in the Bureau of Labor statistics index number in September is reassuring. Bradstreet's index, however, did not drop then and in October it scored a considerable rise.

Sound Banking Policy Needed.

The danger of an over-rapid advance of commodity prices is the more menacing because of the peculiar banking situation. Dull business and huge gold imports have given our banks a stupendous reserve of lending power. They could readily finance a speculative boom on the grandest scale. And while the hard lessons of 1920 are all fresh in the minds of many bankers and business men ,the Federal reserve officials may hesitate to advance discount rates because of the unfriendly temper of the public. If the expansion of business assumes greater proportions early in the next year, good banking policy will demand prompt and decisive action. Unless such action is taken the later history of the revival may be exciting, but it is likely to be brief and unpleasant.

As a partial offset to the danger of renewed speculation in commodities we may count the continued depression of agriculture. Every business man knows that the expansion of trade has been far more marked in those sections of the country where finance, commerce and manufacturers are highly developed than in the sections which depend primarily upon farming. This year crop yields have been larger than last year and farm prices are higher, though perhaps not higher in comparison with the general price level.

Moreover, the sales of mail order houses have been running a little larger than in the corresponding months of 1921, and wholesale merchants report a gratifying increase of business with consumers in the West, Middle West and South. It seems, in short, that the farmers are not so badly off as they were a year ago. But it is also clear that they cannot give much support to a boom in 1923. The importance of this factor in limiting expansion may be gauged from the estimates of the National Bureau of Economic Research, which indicate that in the decade 1910-1919 farmers received on the average one-seventh of the national income.

Europe a Drag.

The present and prospective condition of Europe is another limiting factor, though a factor of less consequence and less certainty than agricultural depression. What the future has in store for European business and so far American business with Europe is a matter in which opinions vary. Recent statistics suggest slow recuperation in England, Western Europe and Russi. On the other hand, there is reason to fear a collapse in Germany. Moreover, we have done the best we could by a high tariff and a policy of isolation to present ourselves from profiting by a revival in the rest of the world. Still the prospects are that this highly unfavorable factor in the business outlook will on the whole not become more unfavorable—barring wars and the rumors of wars.

Another matter of large consequence is the outlook for the building trades. In most revivals the expansion of general business has been re-enforced at an early stage by the letting of large contracts for new construction. In the present revival this factor has played a conspicuous role. We have already had a great building boom—a boom so great as to raise the question whether the construction factor has not already shot its bolt. Will further expansion in 1923 have the support which most periods of prosperity receive from a growing demand for building materials of all sorts and from the disbursement of increased sums in wages and profits? We do not know.

To sum up: it seems certain that 1923 will begin as a year of prosperity. How long that prosperity will last and what heights it will attain are problematical. If the business public and the banks lack self-control and courage we may have a sudden boom ending before the year is out in another great crisis. As safeguards against that danger we may count not only the fresh recollections of 1920, but also the various factors which limit expansion—hard times among the farmers depression and uncertainty in Europe, and a possible recession of building.

Prudence Essential.

Seldom has there been a time in which the fortunes of business depended more largely upon the collective wisdom of business men. They cannot control the weather, they cannot control the tides of political feeling, they are quite as much servants as they are masters of the money economy. But for all that, the behavior of business men is the most potent single factor in the business cycle, for business man can make good or ill use of what information they have about their collective activities; they can be prudent or rash in their financial commitments; they can make allowances for the uncertainties of the crops and of politics, domestic and foreign, or they can take chances.

How American business will prosper in the latter part of 1923 will depend partly on the profitableness of the crops to the farmers, on the economic recuperation of Europe and the progress toward the settlement of international problems. It will depend quite as much on the prudence with which business men manage their affairs in the first half of the year, when they will be profiting by large sales. All in all, I think it probable that trade will continue to expand for the next six to nine months without running into wild excesses. If that happens the business community should find itself ready to meet without disaster whatever conditions the latter part of the year may bring.

(C., 1922, by N. Y. Evening Post, Inc.)

Vogue Motor Company Assigns.

TOLEDO, OHIO, Dec. 30.—Voluntary petition in bankruptcy was filed in court here today by the Vogue Motor Car Company, of Tiffen. Liabilities were listed at $62,581.29 and assets at $35,241. According to the petition, the unsecured claims against the company amount to 339,241 and the secured claims to $15,640. The company owes the Federal government taxes to the amount of $5,502 and other taxes amounting to $2,192.94, the petition states.

SHORTAGE OF EQUIPMENT MUST BE MADE GOOD

Rail Facilities Far Behind Country's Growth—Enough Business in Sight to Keep Car and Engine Builders Busy for Years.

By Robert P. Lamont,
President American Steel Foundries.

Within the next sixty or ninety days, profit and loss statements and balance sheets will tell the story of the railway equipment and supply business for 1922. It is pretty safe to predict in the meantime that the results of the year's operations will, generally speaking, be unsatisfactory. This prediction is made in spite of the fact that purchases of freight cars have been the largest in five years, and, in fact, well up to the twenty-year average. Purchases of locomotives and passenger cars, furthermore, have also been fairly large, as may be seen from the appended charts, which show the purchases of the several items by years since 1900.

This apparent anomaly is explained by the fact that large orders are not immediately reflected in plant operations and profits. Between the placing of orders and the actual delivery of the materials and supplies from the plants, there is a lapse of several months to a year. This feature of the equipment business is brought out clearly in the accompanying charts.

Repair business last year also was large, due to accumulated undermaintenance of previous years and to the strike of the railway shopmen. Here again, however, operating conditions have seriously restricted output and the final results will not be any more satisfactory than those of the manufacture of new equipment and supplies.

Off to Poor Start.

The year 1921 was a bad one for the equipment and supply business as it was for most lines of industry. Orders carried over for construction in the early months of 1922 were small and the prices in many cases were below cost. Plants were hungry for work, however, and competition was excessive for the first orders that came into the market. Then came the coal strike in the beginning of the second quarter and the railroad strike in the third quarter. These developments did not help matters, although the railroads continued to purchase cars in considerable quantities, as the following statement of monthly purchases shows:

Month.	No. of cars.
January	9,800
February	14,100
March	6,000
April	23,348
May	14,140
June	16,623
July	13,395
August	950
September	13,557
October	8,860
November	20,350
Total	140,223

Throughout the year there was a shortage of labor. The opening up of plants which had been shut down not only in the equipment business, but in many other lines brought about a competition for labor which raised wages, increased the turnover, and made operating conditions generally unsatisfactory. The low output of the plants increased overhead charges, so that when orders taken in the early months of the year based on the hope of full operations were turned out the estimated costs were not realized and red ink figures were the result.

The difficulties throughout almost the entire year in getting raw materials, particularly lumber and steel, also seriously cut down the output of the plants and further increased costs. It is significant of the transportation situation in the country today, that the shortage of railway equipment is largely responsible for the difficulties and delays in supplying the new equipment so badly needed at this time.

Foreign Buying Disappears.

During the war years foreign purchases of cars and locomotives helped materially to make up for the small buying in this country. In fact, foreign purchases of cars for several years past made up a very considerable percentage of the total business. The important part played by for-

(Continued on Page Twelve.)

DOMESTIC AND FOREIGN PURCHASES OF FREIGHT CARS

Year	Domestic	Canadian	Foreign	Total.
1915	109,792	.....	18,222	128,014
1916	170,054	.....	35,314	205,368
1917	97,367	.....	53,191	132,558
1918	114,113	9,657	53,547	177,317
1919	22,062	3,827	3,994	29,893
1920	81,207	12,406	9,056	103,669
1921	23,319	30	4,982	28,358
1922 (to December 1)	110,228	.....	*.....	110,223

*For the year 1922 the foreign buying was practically nil.

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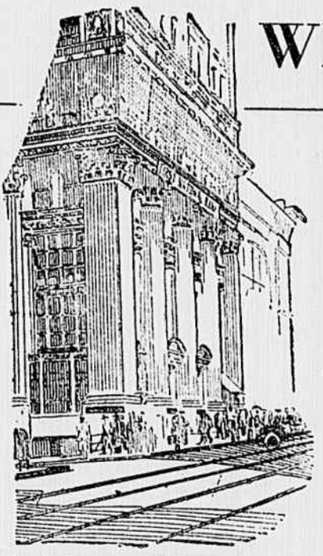
1922 IS HISTORY.

WHAT OF 1923?



TO us the outlook for 1923 is encouraging, with every indication of good business for months to come. But we must plan our operations within the bounds of safety, for those who keep their affairs well in hand in prosperous times are the ones best able to protect themselves in times of depression. Intelligent, steady work and economy should bring us to the close of 1923 in much improved conditions.

To our many friends and customers we offer our thanks and appreciation, and wish them

A Very Happy and Prosperous New Year

To those individuals, firms and corporations who contemplate new or additional banking connections for 1923 we extend a cordial invitation to talk the matter over with our officers.

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