

Technical Market Action

Below is a reprint of the Business Outlook column of The Journal of Commerce, issue of May 26th. It is an excellent factual article and ties in closely with the present technical market pattern.

"Business news is far better than business sentiment. Pessimists will soon have to revise their predictions about the severity of the business recession or postpone their timing of the main decline to a later date.

"The fact is that business activity is holding quite close to the peak level of the postwar boom through the current quarter. Despite difficulties experienced in some lines and the widespread belief that a recession will be in full swing before the end of the year, both output and trade are well sustained on an over-all basis.

"The index of industrial production of the Federal Reserve Board reached a postwar high of 189 in March. A decline of only 2 or 3 points from this peak is indicated for April and May. It now appears doubtful that June will show much more of a drop.

"Retail trade similarly nearly or actually is holding its own. True, department store sales are registering a smaller rise over a year ago, than retail prices, which would ordinarily mean that a decline has taken place in unit sales. But there is a general tendency among retailers to offer more lower-priced goods. Taking such substitution of lower-priced merchandise into account, we must conclude that unit sales are close to the 1946 level, and are larger in some lines.

"Durable goods industries are chiefly responsible for business holding up so well. Outstanding is the record of the automobile industry, which will not be able to satisfy the backlog of demand that exists for cars this year, and may not even be able to do so if it continues to operate at present capacity through next year. But the steel industry, the electrical industry and others also have sufficient orders on hand to keep going at or near their current practical capacity through most or all of the rest of 1947 and into 1948.

"Even building activity holds at a high level while new contract awards have dropped. There is always a lag of several months between the rate of building and of contracts let. This lag was notable in April, when contract awards fell while actual expenditure upon new construction for the month was 20 per cent higher than in April, 1946, according to the Department of Commerce.

"If new contracts stay down, building activity naturally will turn down soon. But should contracts register a gain from the recent level, construction may not register anything like the decline that pessimists have been predicting.

"There are soft spots in the business picture, of course. Retailers are buying very cautiously, which has many manufacturers worried. In textiles, in foods and some other fields there has been real inventory liquidation, with price declines and pressure to curtail production. But the high over-all business indices show that these trouble spots are only a small part of the over-all picture.

"Furthermore, the prevailing caution hastens the clearing up of these trouble spots before they can get out of hand. Thus, the fur trade is reviving on a sounder and safer price and inventory basis, following last year's shake out. In canned and frozen foods and in fats and oils similarly, price declines and speculative inventory liquidation have been going on while business generally remains prosperous. Reduced retailer buying is correcting the store outstanding order and inventory picture.

"Such corrections are bound to moderate and shorten whatever recession business has yet to undergo."

Continue to believe that the 170-160 area in the Dow-Jones industrial average is a broad long range buying area. In individual issues continue to like the action of Pepsi-Cola and Cities Service. Advise their purchase on minor price weakness.

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SHIELDS & COMPANY