Economy Has Not Fully Recovered

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by GEORGE HATCH
Financial Times Contributor

In my last economic forecast in March, I noted that a real decline in the money base between December 1974 and December 1975 meant the rise of the stock market in early 1976 was based on election year expectations.

The general economic recovery, measured by gross national product, would thus be blunted. Recovery in the long run was still a problem because of the work ethic and currency problems.

Let us examine whether the basic expansionary forces needed for long-term growth are any less inhibited now than they were in March. Specifically, has it been possible, despite the danger of inflation, for the Federal Reserve to expand the money supply?

Then let us examine the performance of the economy and determine whether it has recovered from the recession of early 1975.

In recent months, the financial media has been speculating about whether the Federal Reserve is actually intending from one week to the next to expand or contract the money supply. One would assume from the headlines that the purchase and sale of U.S. government securities through the Fed's open market committee was being done without much decisiveness.

Within a few weeks, the *Wall Street Journal* said the Federal Reserve was rapidly expanding the money supply (April 23) and then warned of a contraction in the supply (May 11). The Fed is accused of doing that by shifting billions of dollars in and out of the banking system.

In both cases of expanding the money supply and contracting it, the Fed gets blamed for raising interest rates. The journalistic wailing is due to a failure to analyze the cooperation between the Federal Reserve and the U.S. Department of the Treasury today and to a failure to analyze the banking data.

While increasing Federal Reserve holdings of U.S. government securities expand the money supply, increasing Treasury deposits with Federal Reserve Banks decrease the money supply.

For example, when the holdings of U.S. securities varies from $85.5 billion Feb. 11 to $90.2 billion Feb. 26, it does not mean the banks have had a credit expansion of $4.7 billion in two weeks.

The reason is that Treasury deposits with Federal Reserve banks increased, at the same time, from $7 billion to $10.8 billion, decreasing reserves by $3.8 billion. Thus, the net expansion was less than $1 billion.

During the last two months, the net amount of U.S. securities holdings by the Federal Reserve and U.S. Treasury deposits with the Fed has varied week-to-week from $80.6 billion to $82.1 billion, or by $1.5 billion. To smooth out weekly fluctuations, one can use a three-week moving average which in this case shows that the variations around a mean of $81.55 billion are only $0.25 billion, or $250 million.

In other words, it seems that uncontrollable or unforseen factors which cause some variation one week are compensated for in the next week by coordinated Federal Treasury action.

Moreover, a comparison between Federal Reserve open market operations and U.S. Treasury deposits with the Fed in the first five months of this year suggest that the net effect on the money supply has been small.

For, in fact, the $80.5 billion at the end of the first reporting week in January is little changed from the $82 billion on May 19. The increase is only 1.9%.

Meanwhile, the consumer price index from December 1975 to April 1976 has increased from 166.3 to 168.2, or 1.1%. Thus, the real increase in the money supply due to combined Federal Reserve and Treasury operations is, in terms of real dollars, less than 1%.

This increase is greater than the net decline between December 1974 and December 1975 of 1.3% in real money, to which I pointed out in my last article. However, it is so small, and there are so many variables and opportunities for statistical variation due to error, we can conclude generally that money expansion in the U.S. this year has been negligible.

In my judgement, that is good in terms of maintaining economic stability and political integrity. Despite the temptation during an election year, the U.S. government has not irrepsonsibly expanded the money base and, thus, enhanced the threat of inflation.

The increase in interest rates has been due to the increased economic activity and expansion. It has not been due to the maneuvering of the Federal Reserve. The Fed has sought to maintain the integrity of the dollar and avoid over-issuing the currency and, thus, avoid encouraging run-away inflation.

The media should stress the failure of the congress to provide a major tax-cut this year, like the tax cut last year. In my opinion, such a step is the only one that will keep the expansion rolling. Issuing more money is not feasible because of the threat of inflation.

Before concluding this article let us see how the economy has performed since the beginning of the year. Two commonly used indices to measure economic performance are gross national product and the unemployment rate.

In the fourth quarter of 1974, GNP was $1,441.3 billion; in the first quarter of 1975, $1,433.6 billion; and in the fourth quarter of 1975, $1,573.2 billion. For the first quarter of 1976, it was $1,616 billion.

To realize the real growth in the economy these figures should be adjusted for the effects of inflation. Though maybe not the best, the consumer price index is readily available. In terms of the base 100 = $967, it was 138.5 in December 1974, 157.8 in March 1975 and 166.3 December 1975. The April 1976 figure is 168.2.

Thus, the GNP in terms of constant 1967 dollars has been $1,040.6 billion in December 1974, $908.5 billion in

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Hanes Sets $.25 Dividend

WINSTON-SALEM — The board of directors of Hanes Corp have announced an increase in the quarterly dividend from 19 cents to 25 cents per share on a common stock outstanding.

The dividend will be payable Sept. 10 to shareowners of record Aug. 18.

Robert E. Elberson, Hanes president and chief executive officer, said the 31% increase was in recognition of higher level of earnings in the last quarter of 1975 and the first quarter of 1976.

He said that earnings for the second quarter of 1976 are also expected to be higher than the same quarter of 1975. Second-quarter 1976 earnings will be announced around July 20.

Noland Okays 2-1 Stock Split

NEWPORT NEWS, Va. — Noland Co. stockholders have approved a two-for-one split of Noland common stock, reducing its par value from $20 per share to $10.

The split, effective June 15, increased the number of outstanding shares to nearly 2.5 million.

Closing quotes are the previous Wednesday quote.

Selected New York Exchange Quotes

	LAST WEEK VOLUME	THIS WEEK VOLUME	YEAR'S HIGH	YEAR'S LOW	LAST WEEK CLOSE	WEEK'S HIGH	WEEK'S LOW	CLOSE
ADAMS-MILLIS	6,800	6,300	6¼	2 1/8	4-3/8	5	4½	4-7/8
AKZONA	25,100	73,800	25¾	10½	17½	18	17-3/8	17-7/8
BLUE BELL	73,700	63,600	48¼	12½	43¾	45-1/8	44¼	44¼
BURLINGTON	102,800	229,900	33 5/8	14 7/8	24¼	26½	26	26
C-BIG	5,100	5,600	3¾	1	2	2-1/8	1-7/8	2-1/8
CAROLINA FR.C.	1,900	4,800	7 3/8	4½	5-5/8	5-5/8	5¼	5¼
CP&L	83,800	108,800	28½	11	19	20	19-3/8	20
CONE MILLS	28,900	40,800	56	15¾	45-7/8	45-7/8	42¾	43
DUKE POWER	103,600	184,100	20½	10¾	18-5/8	18¾	18-1/8	18-1/8
ECKERD DRUGS	3,700	6,000	21 7/8	6 5/8	17¾	18-1/8	17-7/8	17-7/8
FIELDCREST MILLS	19,100	62,100	22 5/8	7¾	18¼	19½	18-5/8	19½
HANES	26,900	48,300	26 7/8	6¼	23	24½	22¾	24-3/8
HARDEE'S FOOD SYSTEMS	9,300	20,400	9 1/8	3	7½	7¾	7-3/8	7½
HATTERAS INCOME SEC.	5,300	7,100	17 7/8	14 5/8	16½	16¾	16¼	16¾
HUYCK	20,200	36,400	19 5/8	11 7/8	12-7/8	12-7/8	12¼	12¼
INTEGON	15,000	10,100	9½	4 1/8	7½	7¾	7-3/8	7¾
JEFFERSON-PILOT	54,600	68,800	38¾	24¾	25-5/8	26-5/8	25¾	26-5/8
LIGGETT & MYERS	24,800	29,800	36	25 7/8	31½	32-5/8	31-3/8	32-5/8
McLEAN TRUCKING	13,300	8,900	56¾	16	52-5/8	52½	52	52
NUCOR	16,900	10,700	30½	10 7/8	29	29¾	29-1/8	29-1/8
PIEDMONT NAT. GAS	5,200	8,000	17¾	9¼	15¼	15¼	15	15
R.J. REYNOLDS IND.	215,600	181,900	73	49½	[illegible]	60½	58-7/8	58-7/8
TEXFI IND.	[illegible]	16,900	9½	2¾	5¼	5½	4-7/8	4-7/8
UNITED GUARANTY	17,500	23,000	13	5 5/8	10-1/8	10-7/8	10¼	10¼
WACHOVIA	40,700	40,700	26¾	12¼	20	21½	20½	21½

Selected American Stock Exchange Quotes

	LAST WEEK VOLUME	THIS WEEK VOLUME	YEAR'S HIGH	YEAR'S LOW	LAST WEEK CLOSE	WEEK'S HIGH	WEEK'S LOW	CLOSE
ALBA-WALDENSIAN	3,500	1,400	3¾	7/8	2¾	2-7/8	2-5/8	2-5/8
AMIC	47,500	45,300	17 5/8	4 3/8	10-1/8	12	11½	11¾
BRAD RAGAN	4,000	6,100	25½	7 7/8	11-1/8	11¾	11¼	11¼
FAMILY DOLLAR STORES	3,800	1,800	8 3/8	1½	5-5/8	5-7/8	5-7/8	5-7/8
GUILFORD MILLS	2,500	5,300	7½	2	5½	5-3/8	5	5¼
HAMPTON INDUSTRIES	5,700	4,100	8¾	1 1/8	6-7/8	6-7/8	6½	6½
KEY COMPANY	300	300	3¼	1	2	1-7/8	1-7/8	1-7/8
OAKWOOD HOMES	2,700	2,500	13 1/8	3 3/8	9-7/8	10-5/8	10-1/8	10-1/8
PIC 'N PAY	1,800	4,900	11 1/8	2 1/8	8-7/8	9¼	8-5/8	8¾
RUDDICK	8,900	2,000	4-1/8	3	4	4-1/8	4	4
SKY CITY STORES	3,300	1,000	10¼	3 1/8	8-5/8	8-5/8	8-5/8	8-5/8
SPEIZMAN IND.	6,200	3,500	2 7/8	¾	1	1-1/8	7/8	1-1/8
WELLCO ENTERPR.	2,700	2,000	5½	2½	5¼	5¼	5-1/8	5-1/8