



## AMERICAN AIRLINES

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To: The Directors

Mr. W. L. McMillen, Economic Planning, recently attended the sessions of the National Industrial Conference Board, New York. His summarized report is interesting and I send it to you for your information for the reason that it bears on the general business situation.

C. R. Smith

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To: Mr. Wm. J. Hogan

From: Director of Economic Planning

National Industrial Conference Board -  
Outlook for (a) Security Prices, and (b) Business

As you know, I attended both the afternoon and the evening sessions of the National Industrial Conference Board on the above subjects. I will try to put in abbreviated form the general opinions expressed there. In general, there was much more bullish than bearish thinking. Even the bears do not expect an immediate down-turn and do not seem too definite about their position.

It was emphasized that the Stock Market no longer forecasts business activity. The decline of the Stock Market as a barometer started with the Federal Reserve Act about 1914 and was hastened by the Securities Exchange Act and the high income tax levels, especially in regard to capital gains.

In regard to the stock market, there was considerable discussion as to why it had remained so low and moved only in a side-wise position for so long. It was felt that stock could sell considerably higher on even lower earnings if there was confidence. Following are some of the views as to why the confidence does not exist:

- A. People expected an early postwar recession similar to 1921, and since the end of the war have been looking for the impending doom.
- B. The high cost under which industry is operating.
- C. Feeling that the present profits are transitory and not solid.
- D. Government and CIO propaganda which undermines business confidence.
- E. A general cynicism - a neurotic psychology where it seems that no one trusts his own or anyone else's judgment on the business outlook.
- F. International clouds. It seems that, of all the factors in the picture, the impending struggle with Russia was considered the most important. This, plus the fact that during the entire Nineteenth Century democracy, as we know it, spread throughout the world; yet, in the Twentieth Century, in the space of a couple of decades, it has been practically eliminated except in the Western Hemisphere. The thinking also was that as we accept Russia's challenge under conditions which point toward success, a big damper will be removed from the outlook.

As for the outlook in the future, those who are bullish give the following reasons:

- A. The government has a vested interest in high level of income, both from an immediate political viewpoint and from the viewpoint of the high public debt.
- B. There is a giant new postwar industry which previously did not exist in peace time. This new industry is the armaments and military machine and is bigger than any other industry in the country.
- C. The possibility that the primary and secondary postwar boom has been telescoped into a single longer one. It was pointed out that there were 8-9 years of prosperity after 1921.

- D. The inventory boom has come and gone.
- E. There is still a great backlog of demand. In the past twenty years there has been an increase of twenty million in the population. ~~There has~~ There has also been an enormous increase in the standard of living; there was also a big surplus of savings available as a result of the war.
- F. We are still in a war economy - in fact, we are now engaged in a serious economic war.
- G. Just as in the Nineteenth Century, we have again become the breadbasket of Europe and will remain so for a long time because the food growing areas in Europe are separated by the Iron Curtain from the manufacturing areas in the west. (A disturbing note is that in the Nineteenth Century we needed manufactured goods badly and now we do not need them.)
- H. New inflationary forces are shaping up. (Cashing of GI Bonds and lifting of credit restrictions.)
- I. There are no signals which indicate a down-trend and people have, for so long, been looking for the impending doom that they are not over-extended.
- J. The present situation differs from that in 1921 in that, at that time, money was tight, speculation was great, and Europe's buying powers suddenly ended. (It is expected that the Marshall Plan will hold the export level reasonably high.)

Those who were bearish were somewhat vague and seemed to be not too sure of themselves. Some of their reasons were:

- A. The economic climate is ripe for a down-trend inasmuch as everything is at the top.
- B. Business is operating at such a high break-even point.
- C. The labor situation is not conducive to confidence. It was pointed out that in many cases youthful, inexperienced, and untrained labor leaders have more power than the presidents of their corporations.
- D. The business structure of Europe is on the brink.
- E. The bears' most hopeful prediction was that security prices would hold at the present levels. The only one that placed a time on the coming adjustment stated that it should be within 1-2 years.

Again all speakers gave our struggle with Russia as the most significant political and economic fact. Most predicted that, in the long run, we would win in this struggle. All expressed a belief that there would not be a shooting war soon and even some of the bears felt that, as a definite successful trend is established in the Russian struggle, both the securities and the business outlook would be bullish.

Note: In spite of all the above, I believe we should do well if we are prepared in our thinking for some kind of business recession in the next twelve months or so.