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Royal Bank Report States Steady Progress Being Made Along Road to Prosperity

ROYAL BANK OF CANADA NEWS LETTER

Disturbed political conditions, both national and international, are more usually symptoms of depression than the cause of depression. Rightly or wrongly, it is human nature to blame the government for bad times. In those countries where it has been impossible to unseat the government by ballots, this protest took the form of revolution and governments have been overthrown wholesale. Yet a semblance of resource avails the government; if it can but create a plausible case against a foreign "enemy", it can distract attention and by this cheap, but usually effective political device unite its following and stave off that overthrow which otherwise seems inevitable. It is not coincidence that rumors of war and revolution are common at the bottom of a depression. As conditions begin to improve, the bitterness of discontent is modified; irreconcilable foes, both from within and without the country, find new formulas for compromise and with the threat of war no longer a necessity in order to prolong the life of government, it ceases to be a necessary element in the politician's bag of tricks. As the discontent gradually passes away, even governments less able than those now in power could win support buoyed up by a tide of prosperity.

At this moment, when rumors of wars and revolutions have become an added impediment to the recovery of confidence, the governments of the world must realize that economic reconstruction has made further headway than is popularly appreciated. If diplomacy can hold off war but a little longer, the fabric to hold together the economic and financial tissue will have been re-knit and the necessity for bitterness will disappear. It is the progress which has already been made toward reconstruction which should be the focus of attention.

The upturn in business has become general throughout the world. The extent of the improvement in Great Britain, the United States, France and Latin America will be discussed in detail. In Japan, war activities and absolute inflation, have produced extraordinary activity in business. In addition to the improvement which has taken place in the countries mentioned, a recent report of the League of Nations lists an upturn in the trade of Sweden, Italy, Austria, Belgium, Czechoslovakia ad Poland. In fact, there is no country of major importance in which this new trend is not a factor. Well to the fore in this general upward movement will be found the countries constituting the British Commonwealth of Nations, and certainly there is no other group of countries which is closer to pre-depression volume of production and consumption. Throughout the world, production is increasing, prices for the principal commodities are higher and unemployment has begun to decrease.

In Great Britain the improvement has been rapid since the beginning of the year. Iron and steel and textiles have greatly increased their production, but the most important gains have been in minor industries, manufacturing goods for the home market. The relative importance of iron and steel, textiles and shipbuilding has decreased in recent years and it is not upon the conditions in these industries that the general situation in Great Britain should be judged. At the end of August the number of unemployed had decreased by 500,000 as compared with the number at the end of August, 1932. While there was, proportionately, more unemployment in Great Britain in 1929 than in the United States, the depression only doubled unemployment in Great Britain and increased it in the United States by many millions. At the maximum, the unemployed in Great Britain numbered 2,947,000 in August, 1932, and a decrease of 500,000 in that total has brought Great Britain much closer to pre-depression normality than have the more spectacular gains that have been registered in the United States.

Perhaps the index if production published by the London and Cambridge Economic Service, with a base of 100 for the year 1924, constitutes the best record of general conditions in that country. In the second quarter of 1929 this index reached a high of 111 and in the third quarter of 1932, at the low point in the depression, it fell to 77.8. In the first quarter of 1932, it rose to 88 and it is now slightly over 90. In comparison with this record, that portrayed by the index of industrial production of the United States as compiled by the Federal Reserve Board, constitutes a remarkable contrast. This latter index, based upon 100 for 1923-25, reached a high of 126 in May, 1929; it fell to a low of 56 in July, 1932, rose again to 100 this past July, fell to 92 in August and to 85 in September. The contrast between these indices suggests the violence of the rise and fall of the business tide in the United States and the relative stability which has prevailed in Great Britain.

Without doubt the new policy of protection has stimulated activity in Great Britain in recent months. Imported machinery, vehicles, textiles and foodstuffs have been replaced by the consumption of home-manufactured and home-grown products. There are new sections of London filled with plants which have been erected since the imposition of the new tariffs. Yet foreign trade has not been affected to the extent that might have been anticipated. Fluctuations in the value of the pound have made direct comparisons of values difficult, but the following table of tonnage entered and cleared from British ports from January to July, 1932 and 1933, indicates a slight increase in both imports and exports. This impression is also justified by a close study of the values of imports and exports during the two periods. This is particularly encouraging in view of the fact that the main increases in production have been for internal trade. This is a supplementary movement which holds out promise of better conditions in other countries.

The latest statistics from France reveal that unemployment has decreased by 32,000 as compared with the corresponding date last year, and the volume of production has been increasing steadily ever since May, 1932. The index of French production, published by the London and Cambridge Economic Service, rose from 107 in April to 109 in May and 112 in June. In the light of the fact that prices in France reached a new level in August, this continued improvement in the French volume of production is the more remarkable.

In Germany, Poland, Russia and many other European countries the rise in the volume of production since the last months of 1932 has been 10 points or more on a scale of 100. Since this comparison is with that of the volume of the previous year, it is not a seasonal factor, but an outright gain of more than 10 per cent. In a like manner the developments of the past few months in South Africa, Australia, and particularly in Japan, have also been favorable.

It might have been anticipated that an upturn in Latin American could not occur until there had been a pronounced improvement in buying power in other parts of the world, yet reports from many parts of Latin America are increasingly optimistic. For the most part, the improvement is due to increased activity in newly protected local manufacturing industries. To an increasing extent the countries of Latin America are producing goods to fit their own reguirements and the newly protected industries are working at a large percentage of capacity. As yet the expansion in building has been on a very small scale and is due almost entirely to programmes of public works. Local stock exchanges report increased volume of security business and higher prices. The improvement in world prices for base metals has led to a resumption of mining activity on a small scale in Peru. Gold production in Columbia has shown rapid expansion and there is increased activity in prospecting in several other countries. In Chile a large number of unemployed have become occupied in placer mining. In general, petroleum production has been maintained at the same levels as last year. As yet foreign trade figures do not show a strong upward trend. Exports of coffee, however, from Brazil and Columbia

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