

BABSON GIVES REASONS FOR A STOCK DECLINE

Country Can Produce More Steel Than it Consumes or Exports Says Statistician.

Wellesley Hills, November 11th, 1922. Since the recent excitement of the steel mergers this class of stocks has disappointed most people, in fact those who consider the steel industry as a barometer of American business are decidedly upset. Roger W. Babson who forecast the failure of the recent merger schemes in these columns explains the action of these stocks rather satisfactorily.

"Steel prices" he says, "have recently shown signs of weakening, a generally expected tendency. A survey shows that surface conditions indicate strength, but the underlying situation which is the most important, tells a totally different story. You will remember that six months ago the trend of production of steel as well as other commodities, was distinctly upward. Steel output has recovered from the domestic 1921 slump when only 20,000,000 tons of steel were produced, which was 50% under the previous year's output. With the increasing supply, there was no scarcity. Unfilled tonnage was increasing only moderately and transportation conditions were not considered critical. Prices of steel billets at that time were ruling 20% over the pre-war average.

"Suddenly the picture changed. The pinch of the diminishing coal supply became more effective and the advent of the rail strike brought additional apprehension. The buyer began purchasing ahead to protect deliveries. Orders were pyramided—a fact that is reflected by unfilled tonnage, which jumped from 5,776,000 tons in July to 5,950,000 tons in August but in September jumped to 6,691,000 tons. The wave of heavy buying, due to artificial elements, is

now passing. The outlook is again changing. The coal and railroad strikes are events of the past and as artificial tendencies are ironed out and eliminated, there is a strong possibility of a weakening in the price structure. This does not mean immediately for the question of delivery over the winter months is very important. Steel billets today rule 38% over the low point of this year and 65% over the pre-war average. This level is high enough for we are not on the eve of a boom in steel or commodity prices in general.

"We should not forget that there are several important phases to consider on the bear side. The steel producing capacity of this country as it stands today is much greater than our ability to consume and export. In 1913, the actual output of steel aggregated 31,000,000 tons while producing capacity was estimated at 35,000,000 tons. In 1920 we produced 40,000,000 tons, last year 20,000,000 tons and this year probably 30,000,000 tons, but the main point is, if called upon, we could produce steel at the rate of 55,000,000 tons annually. 1923 is bound to be a year of keen competition. Fundamental conditions indicate that we are not entering a prolonged period of over-expansion and any stimulation in consumption will prove gradual and of a limited character. Producing costs, particularly fuel, transportation and labor, are high enough and the next major move, in conjunction with the law of action and reaction should be downward. Certain-

ly this is not the time to be bullish on steel. Protection over the winter months is the prime buying incentive.

"It is questionable whether the steel industry is fully readjusted. It did not conform fully with the contraction of the economic cycle in 1920 and 1921 and this is one of the reasons why I am not partial to steel stocks. The underlying structure of steel stocks is not over-strong although of course individual stocks may show independent strength in sympathy with the action of the stock market."

General business as reflected in the index figure of the Babsonchart is holding its own. Activity is 5% below normal—the same as last week. (All Rights Reserved)

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