

# DON SEES PROGRESS HERE

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"Without intimating bad faith in the issue of real estate securities, it may reasonably be said that in a time of general speculative excesses like the present it would be easy for building loans to float on an unreliable basis of security. The public is necessarily uninformed and, to a much higher degree than is generally understood, quite uncritical—it might be added also largely incapable of critical appraisal, of the securities offered to it. The coming six months will very probably give some indication of how far there has been unsoundness in building financing such as will have serious reactions."

The other industry which during 1925 has stood next to building as the support of general business activity, the automobile, is now obviously confronted with problems which make its immediate future one of considerable doubt. Production has been accelerated to an intensity which has already given evidence of overloading the market. The highly competitive conditions within the industry itself are self-evident.

One of the largest manufacturers has already announced a sweeping price reduction to be specified early in January. Competitors will be forced by some means to meet the offer. In the meantime the advance in tire prices has finally reached the manufacturer.

Automotive industries is authority for the statement that the average profit per car on the basis of the business for 1925 has been just about equal to this increase in tire cost. Throughout the industry, production costs have been reduced about to the limit, profit margins have been narrowed, terms of sale have been made extravagantly liberal, and purchases have been very largely financed by the banks. This process cannot go much farther without the elimination of some of the producers; in other words, combinations which will mean a reorganization of the business on a more conservative basis, with a considerable narrowing of the support which the industry has this year given to general business activity.

## Day of Reckoning

Thus the two industries which have contributed most to the abundant prosperity of 1925 seem to be approaching a day of reckoning. How depressing the consequences will be to general business can only be guessed, but the situation is one that must be soberly reckoned with in undertaking any forecast of the future.

The burden of taxation is still a serious drag on industry. For while the Federal Government is doing everything in its power to reduce this burden, the State governments have on the average more than doubled their routine operating costs in the past seven years, leaving out of account entirely the enormous expenditures for hard roads, schools and other so-called permanent improvements. The bonded debt for these improvements is being increased at the rate of a billion dollars a year. This mortgaging of the future cannot go on at this rate, even in a country as rich as the United States, without serious results.

The orgy of spending and going into debt is not confined to Governmental agencies. The people themselves are doing the same thing. With one-twelfth of the national income mortgaged to meet installment purchases of things that ought to be bought out of savings, we have a situation that is full of potential grief unless we put the brakes on. The flow of gold into this country

# New Hotel Shows Trend of Business Northward



Hotel Wesley

Illustrative of the northward trend of business is the six story Hotel Wesley, almost ready for occupancy at Sixteenth St. and Capitol Ave. It will contain 101 rooms, each with bath.

The building was erected by the Ostrom Realty Company, and the owner is the Riley Realty Com-

pany. It is of brick, with stone trimming, and is of fire-proof construction. The cost was \$250,000. The hotel will be run on the European plan. It will have a cafe, barber shop, drug store and maid service on the first floor, and will be an important addition to the growing business section around Illinois and Sixteenth Sts.

is apparently checked. If so the condition of extreme credit ease may be expected to change. As a matter of fact money rates, while still comfortable, are already stiffening. The movement of the money curve should be watched with care during the months ahead as it is one of the most important factors in determining the probable beginning of the next important industrial decline. Bearing on the probable nearness of this change, it is interesting to note that the number of blast furnaces in operation is approaching 80 per cent, the level which Col. Leonard Ayres' theory indicates is the turning point in the basic iron and steel industry. The fact that this peak is nearly three months ahead of the time it should occur according to the graph of ingot production over a period of years, is probably a reflection of the extreme activity in the building and automobile industries and may indicate that the interval between the present peak and the next one will be longer than the normal with whatever that may imply as to the severity of the next business depression.

During the past three years busi-

ness conditions have been unusually mixed and baffling. The trend of affairs in general trade, has been directed by some purely temporary influences. Unusual conditions have produced a long period of ease in the money market. But in spite of this extreme credit ease, business in general has been conducted conservatively, probably because the disastrous experiences of 1920-21, have still been so fresh in mind. Any commercial banker will tell you that the liquidation of those years is not all back of us yet. "Hand-to-mouth buying" has become the catch phrase to characterize the business of these three years. Consequently the business recessions of this period have been quickly controlled, and may now be recognized as only temporary interruptions in the forward movement of business.

The fact that industry, trade and commodity prices have still moved deliberately and conservatively during the recent period of Wall Street extravaganzas is reassuring. There are other factors which also lend encouragement; the absence of unemployment except in the hard coal section; the enlarged purchasing power of the farmer

and the adjustment of prices for what he sells to prices for what he buys; the sound position of general credit; the efficiency of the railroads; and, finally, the restraint which has still kept production in practically all lines of manufacture within the limits of visible consumption.

The list is not new; all observant merchants, manufacturers and bankers have these considerations in mind in seeking to gauge the immediate future.

The fact that business has fluctuated within such narrow range since the spring of 1923 has led some to believe that we are not likely to see again the violent swings of the business cycle of other days.

The Federal Reserve influence of the Federal Reserve system in the administration of credit, the more systematic collection and wider dissemination of business data by Governmental and other agencies, the ever increasing program of education in business economics, can scarcely fail to broaden the perspective of business men and operate to temper enterprise at critical points. But despite all these constructive influences, and despite the severe lessons of the none too recent past, two stubborn facts remain, the natural optimism of the majority of human beings and the impossibility of determining future market demands with anything like precision.

They combine to produce from time to time a dislocated relationship between production and consumption, and when the optimism is particularly strong and the market judgment particularly bad we shall doubtless see again severe upward and downward swings of the economic cycle. Just now when our industry is more closely related to world markets than ever before, and when the complexity of the economic mechanism we have to control is largely increased thereby, the difficulty of estimating trends is enormously increased.

## Time for Conservatism

All considerations taken into account, it is a time for conservatism in making future plans, if we desire a continuance of prosperous conditions. Any one of several things which can happen would cast a speedy pall over the present rosy prospect. If we exercise a reasonable degree of self control, the next downward swing may be kept within the same narrow range which characterized the last two, and business continue on a fairly satisfactory level. But if we lose sight of the fact that there are certain elements in the situation that may cause drastic liquidation if overexpansion runs its course, we may be in for a repetition of the painful experience of 1910-11 and 1920-21.



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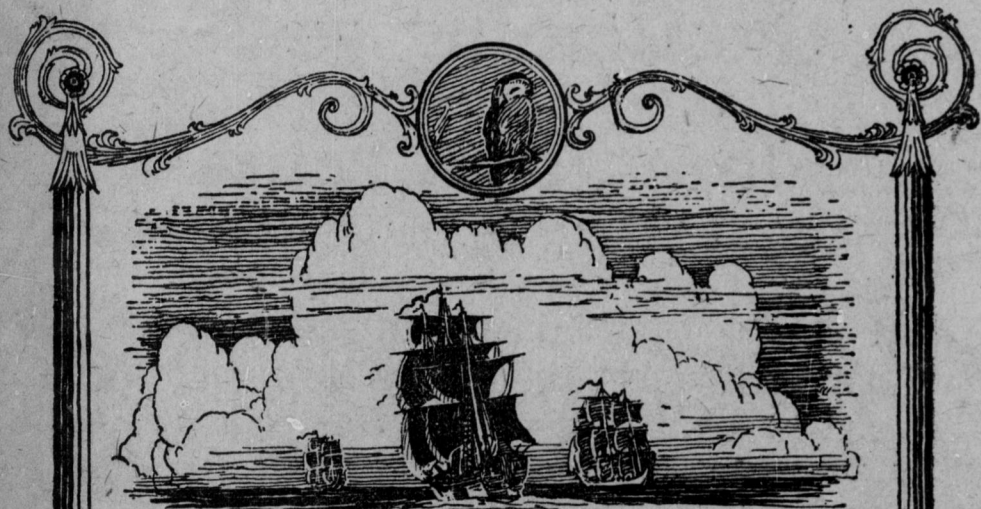
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# THE HOTEL SEVERIN



May the Argosies of Business that sail forth under your colors during 1926, return to port deeply laden with Success!—George & Gordon Mess.

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