**Bond Yields and Business Recovery**

Rising prices for high-grade railroad bonds have in the past generally forecast business recovery some months in advance. The length of time since the prices of high-grade railroad bonds reached bottom (September 1929) is already greater than the average lag before the beginning of business recovery.

**Economic Sequences**

The timing of the sequencen of economic factors in the business cycle is almost inevitably somewhat erratic. If this were not true, the cyclical movements would probably long ago have been greatly reduced in amplitude, if not entirely eliminated. However, in the absence of a complete understanding of the relationships of critical movements, a study of the symptoms as revealed in economic occurrences would be fruitless. The economic sequences, as revealed by past history, constitute almost the only means of attempting to predict the future. To be worthy of much consideration, these economic sequences should be concerned with fundamentally important factors. A fall in bond yields is a more important sign of business adversity than a rise in the price of silk.

With a recent exception, the yields of high-grade bonds have been falling since September 1929. Extremely low short interest rates, falling commodity prices and depressed general business sentiment are the chief factors in the increase in the yields of high-grade bonds; merely a temporary in a downward trend whose end is not in sight. Such a downward movement of bond yields is a usual forerunner of business recovery.

**Present Conditions**

While it is not possible to forecast business conditions of the National Bureau to make forecasts of business conditions, it seems entirely proper to summarize the results of our investigations of past experiences. With a very considerable range in the number of actual exceptions as to the general, certain financial facts are very clear. First, a peak is reached in call money rates, then a peak in time money rates, imminent, and the yields in bonds of high-grade, then a peak in the yield of second-grade bonds, then a yield in the third grade.

When this sequence has been completed, business recovery, as measured by bank clearings, pig iron production, etc., is generally not far behind. Sometimes business recovery begins before the above sequence is completed. At present the action of second-grade bonds and commodities in making new lows is in the uncertain element in the situation. On the other hand, if business recovery were to be delayed many very long months, the lag after the peak in the yield of high-grade bonds would be unusually small. As an aid to the understanding and forecast of future economic conditions, the National Bureau presents this index of the yields of high-grade railroad bonds.