Rising Market in Local Stocks

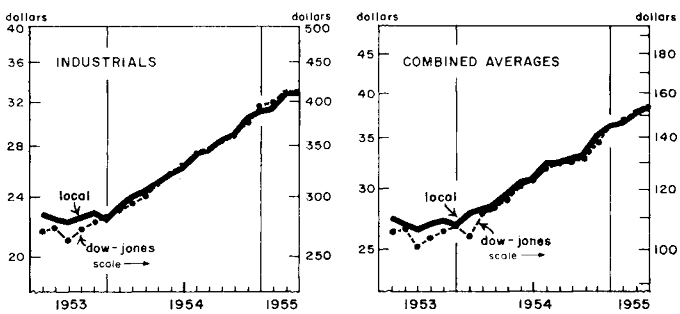
Changes in Prices of Locals Parallel Changes in Leading Nationals

So much discussion has been directed toward national stock prices that the substantial increase in prices of stocks of smaller firms in District states has gone almost unnoticed. Local stock prices have risen less in the last year and a half than the Dow-Jones average prices of stocks of large national firms, but some types of locals have matched the national increase or exceeded it.

Local industrial stocks have risen at about the same rate as Dow-Jones industrials, but public-utility stocks have increased faster than in the nation. Since September 1953 the market value of local stocks has increased 50 percent and the rise in industrial and public-utility stocks has been even greater. The strong market for local stocks has important implications in the District, not only for corporations but also for bankers, who provide them with funds, and for investors, who risk their funds by buying stock.

Data on local stock prices are based on average prices of common stocks of 52 corporations located in District states. These firms were divided into three groups—industrials, public utilities, and railroads—the same classifications used in the Dow-Jones averages. The industrial companies ranged from the Ludman Corporation with assets of 2.4 million dollars in 1953 to Wesson Oil and Snowdrift Company with assets of 93.9 million. Although stocks of a few District corporations are traded on organized exchanges, most local shares are bought and sold through dealers in the much larger "over-the-counter" market.

Prices of local and national stocks have risen almost continuously since September 1953.



Local stock prices are end-of-month quotations by the National Association of Security Dealers.

The current upward trend in prices of both local and national common stocks began in September 1953. The rise continued until February 1955, when prices leveled off. By the end of October 1954, local stock prices had risen about 25 percent above the September 1953 level; the Dow-Jones averages rose somewhat more. In November 1954, the rise gained momentum and since the end of October local share prices have advanced 11 percent and national prices slightly more. At the end of March 1955, local stock prices averaged 44 percent higher than at the end of September 1953.

The extent of the price climb in common stocks is perhaps best measured by the movement of industrial prices. Between September 1953 and March 1955 local industrials increased 47 percent. They lagged behind Dow-Jones industrial averages in the last quarter of 1953, but since then the rate of growth in both has been about the same. Prices of local public-utility stocks have outpaced national utilities, rising 45 percent from September 1953 to March 1955, compared with a national increase of only 30 percent. Local railroad shares have failed to keep pace with the national averages, although they increased in price by 42 percent between September 1953 and the end of March 1955.

The steady rise in stock prices during the last year and a half has produced a marked effect on common stock yields, as measured by the ratio of dividends to stock prices. Yields of industrial stocks included in the Dow-Jones averages dropped from an average of 5.7 percent in 1953 to 5.0 percent in 1954, a decline of about 12 percent. Dividends paid increased somewhat in the fourth quarter of 1954, but since the rise in prices was greater, yields continued to decline. In the District the yield on 27 industrial stocks averaged 5.4 percent in 1954, compared with 6.4 percent in 1953, a decline of 16 percent. The yield rose somewhat in the last quarter of 1954, as increased dividend payments more than offset the rise in stock prices, but has since slipped further.

The immediate significance of the strong market in equity securities is that some local corporations have found that raising ownership capital is less costly and funds are more available. Thus the financial condition of many of them has no doubt been benefited by increased equity capital.

To bankers the effect of these developments in local stocks has undoubtedly been two-fold. Probably commercial banks are not as pressed to make loans for purposes that should be financed by ownership capital. On the other hand, with the improved financial condition of District corporations, some firms needing short-term funds can now meet the necessary bank credit standards, which should tend to increase short-term lending by commercial banks.

Finally, District savers have surely been affected by the changes in returns on various types of investments as well as by changes in prospects for future earnings and prices, factors which have been both a cause and effect of the present stock market ebullience. As yet any change in the savings and investment habits of District citizens that may be attributed to the present condition in the capital markets is not recognizable in the general tide of economic activity.

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