ECONOMIC REPORT NOTES

INFLATION THREAT

President Eisenhower told Congress in his annual Economic Report that the Government by itself could not halt inflation without taking measures that would raise "serious obstacles" to continued prosperity. He was cautiously optimistic about the immediate outlook for business. He noted that the Government over the last two years had followed anti-inflationary budget and monetary policies. Despite this, he said, prices began to rise. He argued that if higher taxes and even tighter money were applied more strongly, the restraints "would bear with undue severity on sectors of the economy having little if any responsibility for the movement toward a higher cost-price level, and would court the risk of being excessively restrictive for the economy generally." (Dale, N.Y. Times, 1/24 p.1)

CONSUMER PRICES CONTINUE TO RISE

The Consumer Price Index reached another high in December, it was reported by the Bureau of Labor Statistics. The index reached 118 as of mid-December, a rise of 0.2% in a month, 2.9% over the year, and a 15.9% rise since June 1950. The base figure, 100, represents the 1947-49 price average. (Loftus, N.Y. Times, 1/26 p.1)

ANTI-INFLATIONARY POLICY AFFIRMED BY MR. MARTIN

The best monetary policy for sustaining high employment is one offering resistance to inflation, William McC. Martin, Jr., chairman of the Board of Governors of the Federal Reserve System, said at a meeting of the Association of American Soap and Glycerine Producers. He spoke about the apprehension of mass unemployment that inspired the Employment Act of 1946. Neither then nor since was enough thought given to the need for preventing the value of money from depreciating. "The problem of the past ten years has not

Selection of these items does not imply this bank's guaranty of their accuracy, nor agreement with the views expressed.
been creating jobs, but sustaining jobs," Mr. Martin said. "The goals of the Employment Act of 1946 can be attained by understanding inflation and resisting it. If inflation is allowed to pursue its course, it must inevitably lead to unemployment." (N.Y. Times, 1/25 p.29)

TWO 'FED' CHIEFS BACK CREDIT CURBS

Alfred Hayes, president of the Federal Reserve Bank of New York, and Carl E. Allen, Jr., head of the Federal Reserve Bank of Chicago, in separate speeches agreed that restraint of credit was still necessary. Mr. Hayes told the New York State Bankers Association that "to date the upward tendencies still seem to be clearly dominant so that continued restraint is called for". "But", he added, "we must be ever on the alert for convincing signs of a change". Mr. Allen told the Economic Club in Detroit that credit was neither too scarce nor too tight; the rates paid for it were the cost of orderly economic growth. He noted that small business seemed to have received its share of the huge rise in commercial bank loans. More than 50% of the business loans at large banks are being made to small businesses. (J. of Comm., 1/22 p.1)

RESERVE REQUIREMENT PROGRAM OFFERED BY A.B.A.

The American Bankers Association made public a 5-point program to expand the reserve base of the nation's banking system to meet the growth needs of the economy. The program would require enactment by Congress. (1) Required reserves of Federal Reserve System member banks should be reduced over a period of years from the present average level of 7.5% of net checking account deposits to 10%. (2) As reserve requirements are reduced, member banks should move to a geographically uniform system of reserve requirements. (3) The Reserve Board, under unusual circumstances, should have power to vary reserve requirements from 8% to 12% of net checking account deposits. (4) The 5% legal reserve requirement for time deposits of member banks should be reduced to 2% and fixed at that level. (5) Banks should be permitted to count vault cash as part of their legal reserves. Evan Woollen, Jr., chairman of the commission that formulated the program, said the recommendations could not be separated without destroying the program's twin objectives of reserve reduction and reform. He also said that the program had been worked out in close cooperation with the Federal Reserve, although the recommendations were the A.B.A.'s. (N.Y. Times, 1/25 p.2)

AFTER-TAX INCOME UP

The Commerce Department reported that disposable income of individuals in the final quarter of 1956 rose to a seasonally adjusted annual rate of more than $293 billion, 5 1/2% above a year earlier. (Wall St. J., 1/23 p.7)
STEEL INDUSTRY A testing period looms ahead for individual steel companies as a result of the expected decline in industry operations to around 85% of capacity in the third quarter. Temporarily, steel capacity has outrun the demand. Accumulation of inventories by consumers and some switching by mills from light to heavy products—such as plates, structural shapes and tubular products which are still in short supply—may delay a downward readjustment of operations. But not later than the third quarter, and possibly sooner, the production rate of the industry is expected to ease off from present capacity levels to a rate that is in line with that of consuming industries. By mid-year, the industry's capacity should be around 136 million tons, or 10% more than on January 1, 1954. (Fish, J. of Comm., 1/22 p.2)

GM DELAYS PLANT AT LORDSTOWN General Motors Corporation announced an indefinite delay of construction of a huge assembly plant, to be built at Lordstown, Ohio. A delay was also ordered for a plant in Sunnyvale, California. Plans for the multi-million dollar assembly plant in Lordstown have been in the making for months. It would have had capacity for approximately 100 cars and trucks per hour. In Detroit, a General Motors spokesman said that problems concerning the size of the Lordstown plant and required utilities have had to be reconsidered and were delaying initial construction. (Cleve. Plain Dealer, 1/22 p.27)

Harlow H. Curtice, president of General Motors Corp., said the delay in construction of the two big assembly plants "will have very little effect" on the company's capital expenditures of approximately $1.2 billion in 1957. (Wall St. J., 1/25 p.3)

MACHINE TOOL ORDERS DECLINING Signs of a slowdown in U.S. industrial expansion are showing up in the barometric machine-tool businesses. The rate of machine-tool orders often is a tip-off on the pace of industrial expansion ahead. For nearly two years, producers of these precision tools and machines have been racking up record peacetime sales. Now, new orders, on the decline for the past several months, are far below the record levels of a year ago. Some machine-tool makers expect the downtrend in new orders to continue. The National Machine Tool Builders Association reported new orders in December amounted to $57.1 million, down from $64.2 million in November and 60% below December 1955, when the industry posted a record peacetime monthly total of more than $151 million in new orders. Tool makers do not agree on the causes for the fall-off. Some blame reduced demand from auto companies, others, "tight money" and higher interest rates. Some concede they just don't know. (Byrne, Wall St. J., 1/21 p.1)
The British pound, in terms of American dollars, showed a sharp increase in New York foreign exchange dealings, advancing 3/16 to $2.80 1/16. This is the first time since June that the pound has risen over $2.80. In the midst of the Suez crisis it reached a low of $2.78 3/16. British currency fluctuates within a fairly narrow range, since the British treasury supports it by the purchase of dollars so that it will not drop below $2.78 and, by the sale of dollars, so that it will not rise above $2.82. (Wall St. J., 1/23 p.20)

The Agriculture Department predicted that exports of U.S. farm products during the year ending June 30 will be 25% larger than in the like period a year earlier. Last year's volume itself was the largest in 30 years. In a study on the competitive position of American farm products abroad, the Department said that "world trade in farm products is becoming more competitive". Factors which were said to be encouraging sales at this time include: rising world population, continued improvement in foreign economic activity, rising consumer incomes, and improvement in gold and dollar reserves abroad. The problems of the Middle East will be reflected in this year's export trade. (J. of Comm., 1/23 p.1)

U.S. Government long-term bonds reached new highs in their 1957 recovery on January 22, with gains running nearly a point for the day. At their best, prices were 3 to 4 points above December lows, a substantial rise for these securities. It was the biggest single-day advance since June 1953, when credit policy moved from restraint to ease. While there was no unanimity as to what moved the market higher, the generally accepted explanation credited part of the rise to buying by institutional investors including banks. (J. of Comm., 1/23 p.1)

Anaconda Co. expects to raise about $100 million by offering nearly 1.8 million shares of capital stock to its stockholders. This transaction will be one of the largest single pieces of common-stock financing by an industrial company in U.S. history. (Wall St. J., 1/25 p.10)

Business failures increased to 278 in the week ended January 17 from 256 in the preceding week, reported Dun & Bradstreet, Inc. The toll was the highest in any week since August 16. It exceeded the 269 in the similar week of last year and the 265 in 1955. (J. of Comm., 1/22 p.4)