basic business NEWS

Published Weekly by the FEDERAL RESERVE BANK of CLEVELAND

May 21, 1957 to May 27, 1957

**CONSUMER PRICES SET RECORD AGAIN** Consumer prices climbed in April for the eighth month in a row, setting another record, the Bureau of Labor Statistics has reported. Rising food prices were a major factor in the increase. The index for mid-April was 119.3, using average prices in the years 1947-49 as a comparison base of 100. The increase from mid-March was 0.3%, and from April 1956, it was 3.8%. This meant that a typical family paid $1.03-4/5 in April for the goods and services that cost $1.00 in April last year. The April increase means a 2-cent increase in hourly pay for some 1,400,000 factory workers whose wages are tied to the index by escalator clauses in their wage contracts. More than 1,000,000 of these workers are in the auto industry, the rest working in farm machinery and electrical equipment. These wage increases will start June 1. The index measures price changes in a specific selection of goods and services commonly bought by city wage earners and clerical workers. (N. Y. Times, 5/25 p.1)

**FEDERAL RESERVE BARS CREDIT CURB** The Federal Reserve Board has recommended that it should not be given stand-by controls over consumer credit in peacetime. In calling stand-by controls "not now advisable", the Board said it felt "the broad public interest is better served if potentially unstabilizing credit developments are restrained by the use of general monetary measures and the application of sound public and private fiscal policies." The issue of the need for control over consumer credit arose after the huge expansion in 1955 of this credit, mostly for automobiles. The staff of the Reserve Board made an extensive study of the question and published the six volumes of results earlier this year. (N. Y. Times, 5/25 p.13)

President Eisenhower and key Congressmen agreed no action is needed on stand-by consumer credit controls. The White House officially announced that the President will not ask the lawmakers for authority to impose such curbs whenever needed, as he had suggested in January 1956. (Wall St. J., 5/27 p.3)

**CAPITAL SPENDING JITTERS FADE**

Businessmen seem to be shaking off the early 1957 jitters over the near-term outlook for capital spending. While there are no signs of an early resumption of the upward climb in the total rate of capital spending, the fears of an actual drop during the latter part of the year are diminishing. There are two chief reasons for the improvement in sentiment. First, the profit-squeeze seems to be developing more slowly than had been anticipated. The Council of Economic Advisers has just issued an upward revision in aggregate corporate profits both for the year 1956 and the first quarter of 1957. Second, new appropriations for capital outlays during the first quarter of 1957 turned out much better than had been anticipated. They were nearly as large as during the first quarter of 1956 in contrast to the two preceding quarters when the rate dropped quite substantially behind the corresponding periods of a year earlier. (Luedicke. J. of Comm., 5/22 p.1)

**HOPES FOR TAX REDUCTION DIMMED**

Tax reduction sentiment on Capitol Hill was dampened by a Congressional staff prediction that the Government will spend $1.2 billion more in fiscal 1958 than President Eisenhower has proposed. The forecast was issued about the same time that the House Appropriations Committee was voting a $2.6 billion reduction in the defense budget for the coming fiscal year. Congressional experts said in their report, however, that all cuts in appropriations being made by the House and Senate won't keep spending from soaring beyond the President's estimate of $71.8 billion. (Wall St. J., 5/22 p.1)

President Eisenhower and House Speaker Rayburn pushed the prospect of tax-cutting action farther into the future. After an overnight switch of opinion, the Democratic Speaker said he considered it unlikely the House would vote on tax relief this year. The Speaker reiterated his view that tax relief would be effective next January 1. However, he said he thought final House action would be delayed until next year, rather than this year as he had indicated earlier. (Wall St. J., 5/23 p.5)

**CORPORATE PROFITS SHOW SLIGHT DIP**

Corporate profits declined just a bit in the first quarter of this year, according to preliminary estimates made by the Council of Economic Advisers. Total profits before taxes are estimated at a seasonally adjusted annual rate of $46.5 billion, as compared with $46.7 billion in the fourth quarter of last year. Total corporate profits actually showed an increase from the fourth quarter to the first when the change in the value of inventory is eliminated from the figures. On that basis, fourth quarter (1956) profits stood at $43.4 billion and first quarter (1957) at $43.9 billion at seasonally adjusted annual rates. (J. of Comm., 5/21 p.4)

TREASURY BILL YIELD 3.122% Uncle Sam's short-term borrowing costs went up, halting the downward trend of the last four weeks. Investors who bought the Treasury's latest issue of short-term bills will get an average yield of 3.122%. This compared with 2.894% the week before, which had marked the fourth successive drop in the rate from mid-April. Officials attributed the interest rate increase to the fact that the latest issue was for $1.8 billion in order to refund a like amount coming due at this time, while last week's offering "rolled over" only $1.7 billion. Other factors affecting this latest offering included an "upward movement" in the money market during last week as well as the scheduled offering on Wednesday of $1.5 billion in 119-day tax anticipation bills. (Wall St. J., 5/22 p.16)

MACHINE TOOL ORDERS SLACKEN Machine tool makers' incoming business in April fell to the lowest level in two years; shipments held near the three-year high attained in March. New orders last month totaled $51 million--down 12% from March and 35% below April 1956. Trade sources ascribed the decline to lagging demand from the automotive field, and a pause in equipment replacement programs of many other big customers. But a check with leading tool builders revealed a general expectation, based on the present rate of inquiries, that bookings will be on the upgrade in the final half of 1957. (Wall St. J., 5/23 p.1)

STEEL ORDERS UP, PRICE RISE SLATED A reversal of the steel order decline that has been under way for several months was reported by some producers at the opening of the American Iron and Steel Institute's 65th general meeting. The decline has primarily affected light flat-rolled steel products, particularly cold-rolled sheets, which are used in large tonnages by the auto industry. However, despite signs of improvement, a number of executives conceded that the production rate is likely to slip further during the summer vacation season. These officials repeated earlier assertions that steel prices are going up on July 1, and some of them predicted that the rise might be larger than the $5 to $7 a ton that has frequently been conjectured. Some suggested that the increases should be a minimum of $8.50 a ton--to offset the boost in labor costs that are to become effective on that date. An increase of $8.50 a ton would duplicate the 1956 price advance, which amounted to 6-1/4%. (Lally and Keller. Wall St. J., 5/23 p.3)

I.B.M. NEW SHARES TOTAL $231 MILLION International Business Machine Corp., the world's largest maker of business office equipment, today began offering its 34,000 stockholders the right to subscribe to 1,050,223 new common shares at $220 a share, totaling

$231,000,000. It is I.B.M.'s first public financing since 1925, and the second largest offering of new equity shares underwritten by Wall Street since the passage of the Securities Act of 1933. The largest was General Motors' stock offering in 1955 of $328,500,000. The Ford Motor Co. common stock sale in 1956 is counted in Wall Street as a secondary, that is a sale of stock already outstanding, rather than new stock. (Brophy. N. Y. Herald Trib. 5/22 II p.3)

NATIONAL CITY PLANS STOCK INCREASE The directors of the First National City Bank of New York have approved a proposal for increasing capital funds $120,000,000 by sale of 2 million new shares at $60 a share. The increase will raise total capitalization of the bank and City Bank Farmers Trust Co. (its trust affiliate)) to about $722,000,000, not including unallocated reserves. Howard C. Sheperd, FNCB chairman, pointed out that the number of shares of $20 par value would be increased from 10 million to 12 million. A special meeting of stockholders will be held June 24 to vote on the proposed increase. Upon approval, the additional shares will be offered to shareholders pro rata on a basis of one new share for each five shares held as of June 24. (Amer. Bkr., 5/22 p.1)

SHORT INTEREST DROPS; STOCK LOANS GROW Two barometers of investor sentiment, the short interest and debit balances of customers, changed importantly during the past month as stock prices improved. Both sets of figures were reported by the New York Stock Exchange. The short position as of May 15 dropped to 2,964,249, the lowest since February 15. Net debit balances of customers of member firms totaled $2.8 billion at the end of April, an increase of $79 million for the month. The increase in debit balances marked a re-entry of customers into the market, while the decrease in the short position represented a decrease in pessimism and a covering by shorts. (J. of Comm., 5/21 p.5)

ELECTRIC POWER Electric power use posted its biggest weekly gain in four months. Output last week topped 11.5 billion kilowatt hours. This was a gain of 208 million kwh. over the prior week and 5.9% above the year-earlier level. The week-to-week increase was the largest since the week ended January 19 when it amounted to 229 million kwh. (Wall St. J., 5/23 p.1)

FARM CASH MARKETINGS UP The Department of Agriculture has reported that farm cash marketings in the first four months of 1957 totaled $8.4 billion, up 3% from the year earlier figure. Total receipts from cash marketings in April were about $1.9 billion, up 3% from those of April 1956, because of higher average prices. (N. Y. Times, 5/24 p.39)