The Federal Reserve System moved to cut the cost of borrowing money by businessmen. It did this by approving a reduction in the discount rate to 3% from 3-1/2% in four Federal Reserve districts—New York, Atlanta, St. Louis and Richmond. The discount rate had been raised 1/2-point to the 3-1/2% level just last August. The lowering of rates halted a 2-1/2-year upward march. The Reserve Board had approved seven discount rate increases since April 1955. The Board's policy of credit restraint had been under heavy fire from Congressional Democrats, but Board spokesmen defended it as necessary in a period of booming business expansion, especially in view of rising prices. Chairman William McChesney Martin, Jr., and other Reserve Board members had promised repeatedly, however, to ease the policy whenever they felt such action was justified. A Reserve Board spokesman said approval of the lower rate was "an attempt to adapt to current conditions" in business. He conceded the move "does tend to ease credit" but called it a "normal" development. (Wall St. J., 11/15 p.3)

The reduction in the discount rate last week dissipated almost immediately the atmosphere of heaviness and uncertainty that had been hanging over the financial markets. The use of the discount rate to signal a shift in credit policy came as a surprise. In the past, open market operations by the Federal Reserve System have generally been the forerunner to any change. Stock prices rose sharply, but the overnight improvement in the bond market was probably even more significant. Treasury bonds scored their greatest price rises of record for a single day. In the market for local government bonds, syndicate books were closed on upwards of seventy issues involving more than $190 million of slow-moving securities. The spreading soft spots in the economy were the dominant considerations in moving the Reserve to take

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action. The latest statistics on bank loans of major cities and on the rate of industrial production probably clinched the decision. (Heffernan. N. Y. Times, 11/17 III p.1)

CORPORATE ISSUE Corporations selling securities issues this week will get significantly higher prices. The effect of the official money-easing step on the bond markets was almost dramatic; the stock market also advanced. American Telephone & Telegraph Co.'s massive $250 million debenture issue, of which 60% was still unsold, "cleaned out" immediately on the heels of the announcement. Other recent issues running unsold balances also went quickly. The result: underwriters' shelves again are almost completely bare of inventories in corporate bonds or stocks. (Wall St. J., 11/18 p.17)

INDUSTRIAL OUTPUT Declines further A Federal Reserve Board statistical report provided an indication that the much-discussed recession in the economy was already under way. The Board reported that over-all industrial production in October fell two points from September to the lowest level since the 1956 steel strike. The seasonally-adjusted index for October was 142. (The average of 1947-49 is counted as 100.) The dip in industrial production was a major reason for the action by the Federal Reserve System in lowering the discount rate from 3-1/2% to 3%. The report on declining industrial production coincided with a series of other reports indicating a slackening in activity. Broad measures such as non-farm employment, retail sales, and personal income have dipped in the last two months after a steady rise. Such other indicators as bank loans to business, new orders for durable goods, steel operations and commodity prices started down earlier. However, there are convincing indications that Government spending will rise from present levels, though the amount of the increase is still a mystery. Furthermore, the Federal Reserve discount rate reduction, by easing credit restraints, might release expansionist forces. (Dale. N. Y. Times, 11/16 p.1)

PERSONAL INCOME Continues drop Personal income declined in October for the second straight month. It was the first two-month decline since late 1953 and early 1954, when income fell for several months in the middle of a mild business recession. The Department of Commerce reported that personal income in October had been at a rate of $345.6 billion a year, after allowing for normal seasonal factors. This was $1 billion lower than in September. The October decline was concentrated primarily in payrolls in manufacturing industries. Wage rates in manufacturing held at their record levels, but employment fell and so did hours worked in a week. (N. Y. Times, 11/18 p.1)
PRESIDENT MAY SEEK DEBT LIMIT INCREASE

Indication now is that President Eisenhower will appeal directly to Congress for permission to raise the national debt limit above the $275 billion ceiling now set by law. The first Congressional reaction was mixed but it appeared that the President's request will be granted if he makes it. The purpose would be to provide means of permitting the Treasury to raise funds for possible increases in defense requirements necessitated by the Russian space satellites and missiles, as well as to make funds available for business and economic needs should they arise. (Amer. Bkr., 11/13 p.1)

PRESIDENT PROPOSES STRONGER DEFENSES

President Eisenhower has proposed "a very considerable" increase in future defense spending to meet the challenge of scientific advances by the Soviet Union. He declared his "clear conclusion" that "entire categories" of present Federal activities must be cut off or deferred so that the nation's security needs would be met first. He did not specify in any way what present Federal expenditures might be eliminated. This was his second speech in a series designed to reassure the United States that it was not lagging behind the Soviet Union. The implication was that the budget he sends to the Congress in January will be out of balance, requiring deficit financing and a rise in the present $275 billion national debt limit. (Lawrence. N. Y. Times, 11/14 p.1)

HOUSING STARTS

An unusually large volume of public housing in October pushed the annual rate of housing starts back up to the million mark, the Department of Labor has reported. The seasonally-adjusted annual rate in October went up from the 990,000 of September even though private home building slipped slightly during the period. The actual number of both public and private starts for October was 95,000. This was above the 90,000 of September, and was the result of "an unusually large volume of public housing" supported by a firm level of private starts. The report said this was the first month of 1957 in which total starts were higher than in the comparable month of 1956. (Wall St. J., 11/15 p.2)

OUTPUT OF STEEL LOW IN OCTOBER

Steel production last month was well below the level of October last year, the American Iron and Steel Institute reported. Output for the first ten months this year, however, was at a record high. The industry operated its steel-making facilities at an average rate of 81.1% of rated capacity last month. That compared with September, when the rate averaged 81.3%. Production for the ten months through October 31 this year totaled 96,900,000 net tons, and represented operations of 87.2% of capacity for that period. In the ten months last year,
when output was reduced by a five-week strike during July and August, production was 93,800,000 net tons. (N. Y. Times, 11/14 p.55)

STEEL OUTPUT

Early forecasts on 1958 steel production are indicating a growing belief that output will drop about 5% from this year's expected total of close to 115 million tons. United States Steel Corp. last week predicted that while steel consumption in 1958 will approach the record use of 1957, production will slip because of inventory reduction by consumers. That would place the figure at 109 million tons, a tonnage earlier predicted for next year by Republic Steel Corp. Another big producer recently forecast a 1958 first half production at an annual rate of 105 million to 112 million tons. So far this quarter, steel production has been running at an annual rate of about 106 million tons, but the year's total will wind up nearly 9 million tons higher than that. (Lally. Wall St. J., 11/18 p.22)

LAKE ORE SHIPS

With steel demand lagging, operators of Great Lakes iron ore fleets are putting their long, box-shaped vessels in winter mothballs. A check with major operators indicates the ore-hauling season probably will be wound up earlier this year than at any time since the end of World War II. Most companies, too, report their customers' inventories of the steel-making raw material are on the high side. Probably no more than 125 ore boats are still in operation, about half the total Lakes ore fleet of 251 vessels. A month ago there were 235 boats afloat. (Wall St. J., 11/15 p.7)

FREIGHT LOADINGS

Loadings of revenue freight for the week ended November 9, totaled 675,273 cars, the Association of American Railroads has announced. This was 5.4% fewer than in the preceding week, and 12.6% fewer than in the corresponding week of last year. Officials said the decline last week reflected the closing of the navigation season on the upper Great Lakes, general business conditions, and the fact that rail workers in some states had time off for the November 5 election. (N. Y. Times, 11/15 p.39)

KENTUCKY PLACES

The State of Kentucky, in a rare trip to the money mart, sold $35 million of highway bonds to an underwriting syndicate. The interest cost levied on the general obligation borrowing was 2.9676%. Syndicate sources said this was the first general obligation bond flotation made by Kentucky since the adoption of the present state constitution in 1891. (Wall St. J., 11/13 p.21)