

basic business NEWS

Published Weekly by the FEDERAL RESERVE BANK of CLEVELAND

May 20, 1958 to May 26, 1958

CONSUMER PRICE INDEX REACHES NEW HIGH

The consumer price index rose again in April, to set another record, but the Government's leading expert on the subject believes "the big rises are over." Ewan Clague, chief of the Bureau of Labor Statistics, told reporters that, while "it would be rash to say there won't be some small increases...there is no question about it, the big rises are over... It won't go up as it has." The April increase was 0.2 points from the March level and took the index to 123.5% of the 1947-49 base period. The entire rise during April was a result of higher food prices, as contrasted with March when one-fifth of the rise was in non-foods, and with February, when non-food items accounted for one-fourth of the jump. (J. of Comm., 5/23 p.1)

COMMODITY INDICES TURN UPWARD AGAIN

Sensitive price indices, based on spot or cash prices of a small number of primary commodities or materials, recently have been moving upward rather sharply. Early this month, they had dipped to the lowest levels since early 1950. And, interestingly enough, the rise in sensitive spot indices has concurred with gradual easing of "industrial commodities," i.e., commodities other than farm products and foods. (J.R.W. J. of Comm., 5/21 p.1)

STEEL PRICE BOOST SEEN

The nation's top steel leaders formed a uniform front in forecasting a boost in basic steel prices July 1, the day higher wage costs take effect. Labor costs will rise an estimated 24¢ an hour for steel producers at mid-year under terms of the three-year pact signed in 1956. Last July 1, companies boosted prices an average of \$6 a ton after wage costs rose 21¢ an hour, followed by an additional increase of several cents and hour at the start of this year. (Vartan. N.Y. Herald Trib., 5/22 III p.6)

Selection of these items does not imply this bank's guaranty of their accuracy,
nor agreement with the views expressed.

STEEL OUTPUT Steel production was expected to show a further rise
RISE CONTINUES to almost 55% of capacity in the week ended May 24,
the American Iron and Steel Institute reported. It
is the third gain in a row since the low of 47.1% was reached in the
week of April 29. Operations would be at 54.9% of capacity, based
on 140,742,570 net tons annual basis. This rate is calculated to
produce 1,481,000 net tons of ingots and steel for castings. (N.Y.
Herald Trib., 5/20 III p.4)

METAL OUTPUT Further cutbacks in the production of copper and alu-
CUTS SLATED minum were announced by two major producers. The
Phelps Dodge Corporation, second-largest domestic cop-
per miner, said it was reducing production in Arizona an additional
20%--its fifth curtailment in eighteen months. The Kaiser Aluminum
and Chemical Corporation announced it would close down one series of
electrolytic reduction cells at the nation's largest aluminum smelt-
ing plant on May 31. The reduction will be slightly more than 10%
at the big Chalmette, Louisiana, plant. Robert G. Page, president of
Phelps Dodge, said that owing to overproduction, copper inventories
had increased and the corporation had enough stocks on hand to take
care of any upsurge in demand. Kaiser said its latest aluminum cur-
tailment was necessary in order to bring primary aluminum production
more closely into line with demand. (N.Y. Times, 5/21 p.47)

MACHINE TOOL New orders for machine tools tumbled last month. They
ORDERS FALL had been on an upgrade since December. Net new book-
ings less cancellations in April slipped to \$22.8 mil-
lion, according to the National Machine Tool Builders Association.
This figure about equaled the February total, but was 23% below March,
and was 56% under April of last year. A slight increase in orders
from abroad helped keep the April order figure from dropping even
lower, the association noted. Trade sources credit this relatively
high buying to European auto makers, whose tool orders have held at
a relatively high level most of the year. (Wall St. J., 5/23 p.5)

MONEY SUPPLY Banking statistics show that the Federal Reserve Sys-
EXPANDING tem, after a slow start, is now assuring an ample money
supply to the economy to combat current recession and
deflation tendencies. In the six months that have elapsed since Fed-
eral Reserve policy was reversed last November, the reporting member
banks of the Federal Reserve System have added almost \$6 billion to
their holdings of Government securities. They have increased their
holdings of other securities by almost \$1.4 billion. This is a peace-
time record for rapid expansion of bank security holdings. The in-
crease in bank investments has been several times as large as the

decline in loans brought about during this period by the recession.
(Editorial. J. of Comm., 5/21 p.8)

MUNICIPAL MARKET Once again the market for tax-exempts has demonstrated its truly amazing capacity to absorb large new financings literally by the dozens. Almost all grades and ratings of municipals were represented in the week's fare. Top-notch bonds were more plentiful than is usually the case, but these also moved. Commercial banks were eager underwriters and also large buyers for their own accounts. The enormous volume of new financing is, however, leaving marks which must be noted as cautionary signals. The amount of bonds in the hands of underwriters and dealers is heavy and, for much of the week, on the increase. Some of the large new issues were helped substantially by pension or sinking fund buying by the issuers themselves, but even such assistance did not serve to solve the problem entirely. Price averages improved a little, despite the large volume of new issues. (Wanders. Amer. Bkr., 5/20 p.2)

DIVIDENDS STEADY AS PROFITS DROP Corporate dividend payments in the first quarter were down less than 2% from the 1957 level, despite a decline of 25% or more in aggregate corporate profits. This remarkable stability of dividend payments has contributed in large measure to the noteworthy firmness of stock prices this year. It is usual for dividend payments to be maintained during brief recessions. A more sustained decline in profits, however, necessarily results in a substantial contraction of dividend payments. Moreover, preliminary figures indicate that dividend disbursements in the first quarter of 1958 were in the neighborhood of 75% of aggregate net profits of corporations. This is the highest proportion of profits paid out since before World War II. (J.I.B. J. of Comm., 5/20 p.1)

SHORT INTEREST AT 27-YEAR HIGH The outstanding number of shares sold short on the New York Stock Exchange jumped for the fourth straight month on May 15, to a 27-year high of 5,472,027 shares. The new total was the second highest ever made public by the Exchange, the highest coming on May 25, 1931, when short interest figures were first given out publicly. At that time, the total was 5,589,700. A short sale is the sale of borrowed stock made in expectation of buying it back at a lower price. (Wall St. J., 5/21 p.4)

ENGLAND CUTS DISCOUNT RATE The British Government cut the Bank of England's discount rate to 5-1/2% from 6%, just nine weeks after cutting the rate to 6% from 7%. Although the lower rate will permit slightly cheaper credit, it was emphasized in

official quarters that the move should not be taken as any relaxation of the Government's monetary policy. "This policy is to keep a tight anti-inflationary rein on credit and discourage excessive spending by industry, business and state-run industries and will vigorously be maintained," a Treasury official emphasized. The Government's action brings interest rates in Britain more in line with those of other main financial centers of the world. Even so, at 5-1/2%, the London rate is still high compared with the 1-3/4% discount rate in the U.S. Federal Reserve banks and Germany's 3-1/2%. (Wall St. J., 5/23 p.6)

FRENCH FRANC REMAINS STEADY The French political crisis has had remarkably few financial repercussions thus far. In the Paris free market, the franc was quoted at 449 to the dollar on May 12, the day before Pierre Pflimlin was approved as Premier by the National Assembly. The net loss from May 12 onward amounted to only nine francs. In April, when the Government of Felix Gaillard fell over the Tunisian dispute, the rate dropped 11 francs per dollar in one day. (Oelbaum. J. of Comm., 5/21 p.1)

FARM CASH INCOME UP The Department of Agriculture reported that higher prices for many commodities helped push farmers' cash income up 8% in the first four months of 1958. Earnings from the sale of farm products added up to \$9.1 billion in the January-April period. This compared with cash receipts of \$8.4 billion during the like period a year ago. (Wall St. J., 5/23 p.12)

ATOM MERCHANT SHIP STARTED American shipping companies, after standing on the shore for several years, now are wading into a strange new sea: nuclear power. These concerns and the rest of the maritime industry will be watching closely as the keel is laid for the Government vessel N.S. Savannah, expected to be the world's first atomic merchant ship, at New York Shipbuilding Corporation, Camden, New Jersey. (Jones. Wall St. J., 5/22 p.24)

POSTAL BILL TO PRESIDENT Congress handed the Administration its long-sought postal rate increase, including the first boost for regular first class stamps in 25 years. Under the bill sent to the White House May 22 by a 379 to 0 House vote, first class stamps would cost 4¢; airmail stamps, 7¢; post cards, 3¢; and air post cards, 5¢. Estimated extra revenue for the deficit-ridden Post Office Department is more than \$550 million annually after step increases take effect over three years. Most of the increases will take effect August 1, provided the President signs the measure as expected. A possible stumbling block to approval, although not regarded as serious, is a postal pay increase of some \$265 million more annually in addition to \$97 million in retroactive pay to the first of the year. (Wall St. J., 5/23 p.8)