basic business NEWS

Published Weekly by the FEDERAL RESERVE BANK of CLEVELAND

June 24, 1958 to June 30, 1958

MAY'S PRICE INDEX AT RECORD LEVEL

The Government's consumer price index registered a 0.1% rise in May, although average food prices remained unchanged for the first time since last November, the Department of Labor reported. The Department attributed the increase over April--the smallest rise this year--to higher hospitalization insurance premiums, and used car and gasoline price boosts. These and other urban living cost factors brought the index to a record 123.6% of the 1947-49 average, 3.3% higher than a year earlier. The Department estimated that 850,000 workers will get automatic wage boosts as a result of the latest index increase. Most of them--750,000 in the steel, aluminum and can-making industries--will get an increase of 4¢ an hour. (Wall St. J., 6/25 p.7)

ECONOMISTS ASK PRICE STABILITY

A group of economists argued price stability will have to become a basic objective of Government policy if the long-term threat of inflation is to be licked. The way to do this, most of them argued, is to amend the Employment Act of 1946 to make stabilization of the price level a goal along with full employment and production. As another means of coping with future inflationary pressures, the economists suggested better coordination among Government fiscal and monetary agencies, and some called for a national commission to oversee wage and price policy. Their comments were released by Chairman Byrd of the Senate Finance Committee in the fifth group of replies to questionnaires on the long-range economic outlook. (Wall St. J., 6/25 p.11)

STEEL PRICE RISE TO BE DELAYED

Barring last minute and unexpected price action, steel producers will start absorbing one of their costliest post-war wage boosts tomorrow--reluctantly. How long the industry will hold back from the price increases that all steel makers insist they need apparently depends on United States Steel Corporation. No. 1 producer and price leader, U.S. Steel is sitting tight pending "clarification" of competitive and economic factors, and other big steel companies won't move, they say, until U.S. Steel does. The cost increases that steel companies face tomorrow come from the third instalment of wage boosts and improved fringe benefits in the three-year labor contracts signed in August 1956. They're estimated by various companies at 20¢ to 25¢ an hour, exclusive of a 5-cent-an-hour cost-of-living wage increase that went into effect last January and was absorbed without a price advance. (Lally. Wall St. J., 6/30 p.3)

DEFICIT ABOVE $10 BILLION PREDICTED FOR FISCAL '59 Budget experts say zooming Federal spending and slumping revenue will produce a deficit of over $10 billion for the new 1959 fiscal year. This would be on top of a deficit still estimated at about $3 billion for the year ending today. A deficit of over $10 billion would be the biggest deficit the country's ever had when it wasn't actually engaged in military fighting, and would be larger even than the deficits during the Korean War, when the peak deficit was $9.5 billion. (Wall St. J., 6/30 p.2)

REPEAL 3% TAX ON FREIGHT SHIPMENTS The 3% Federal excise tax on freight transportation will be repealed effective August 1. This was assured when it was agreed to by Senate-House tax conferees. The Senate immediately approved the conference agreement and the House is expected to do the same, sending the tax measure to the White House. The conferees, however, decided to continue the present 10% tax on passenger transportation. The freight tax repeal is an amendment to a basic Administration bill continuing for another year the present 52% corporate tax and present excise rates on autos, auto parts, cigarets and liquor. The decision actually repeals not only the 3% tax on freight transportation but also the 4-cents-a-ton tax on hauling coal and the 4-1/2% tax on transportation of oil by pipelines. Repeal of these three taxes would cost the Treasury about $485 million a year. (Wall St. J., 6/27 p.3)

The House of Representatives accepted repeal of the 3% Federal tax on freight transportation and sent to the White House a one-year extension of all other corporation and excise taxes. (Baker. N.Y. Times, 6/28 p.18)

CALIFORNIA STANDARD PUTS OFF ISSUE SALE Standard Oil Company of California put off its proposed $150 million of 25-year sinking fund debentures "due to market conditions." The big offering--representing a large part of all new corporate debt securities slated to come into a congested bond market this week--had been down for public distribution on June 25. No new sale date was set for the issue, but a spokesman for the underwriters said the registration statement covering it will remain on file with the Securities and Exchange Commission. California Standard wanted the debenture money to pay $50 million bank loans and for general corporate purposes. The postponement by the big oil unit came at a time when bond prices had been declining and underwriters were faced with heavy losses on other debt securities placed on their shelves in recent weeks. (Wall St. J., 6/24 p.17)

BUILDING AWARDS SET MAY RECORD Construction contracts in May rose to a monthly record of $3.4 billion, F.W. Dodge Corporation said. The May total slightly exceeded the previous high set in May 1957. Responsible for much of the increase in building activity last month were higher housing contract awards and a sharp rise in publicly financed projects ranging from highways to hospitals. But major types of privately financed buildings, such as commercial and industrial structures and utilities, fell in May. May contracts brought the dollar volume for the first five months of 1958 to $13 billion, or 5% below the similar period last year. Residential building contracts last month rose 4% from a year earlier to $1.3 billion. The number of dwelling units put under contract rose 2% over May last year to 104,048, the highest monthly total in two years. Continuing a year-long trend, manufacturing buildings fell 32%, and for the first five months of this year, were 38% below the similar period of 1957. (Wall St. J., 6/30 p.7)

U.S. STEEL'S CAPITAL SPENDING PROGRAM U.S. Steel Corporation's program of capital expenditures currently totals more than one billion dollars, the highest point in its history, it was disclosed by Roger M. Blough, chairman. This record sum is about $400 million more than the $640 million in authorized projects for additions to, and replacement of, facilities reported by U.S. Steel as of March 31, 1958. Since the end of World War II and up to the end of 1957, "Big Steel" has spent about $3.5 billion in its program of expansion and replacement of old facilities. The additional capital expenditures were revealed by Mr. Blough on June 24, in announcing that the corporation's directors had authorized the borrowing of $300 million through a public offering of 25-year sinking fund debentures. The new offering--ranking as one of the largest underwritten debt issues for an industrial company in history--will be "Big Steel's" first public financing since 1954. (Wall St. J., 6/26 p.22)

REPLACEMENT TIRE SALES ROSE IN MAY Manufacturers' shipments of passenger car tires for the replacement trade rose 8% in May, from a year ago, reaching a new record for the month. Coming on top of a record April, shipments for May pushed the industry's five-month total this year a slender 1% ahead of the like 1957 period. Sales last month reinforce the belief of tire makers that another record high in replacement passenger tire shipments will be attained in 1958. This rebound also is helping major rubber firms absorb some of the beating they're taking from their biggest individual customers, the automobile companies. (Wall St. J., 6/26 p.22)

FARM PRICES FALL ENDING 6-MONTH RISE The Department of Agriculture reported that farm prices declined about 3-1/2% in the month ended June 15. The decline ended a six-month rise, but prices were 5% above the levels of a year earlier. The downturn largely reflected declines in prices for vegetables, wheat, cattle and potatoes. Much of the decline reflected a seasonal increase in supplies of some commodities, particularly vegetables. Prices of these products had climbed to abnormally high levels after severe freezes in the South had greatly reduced late winter supplies. (N.Y. Times, 6/28 p.21)

FARM BLOC BILL BURIED BY HOUSE A coalition of Republicans and big-city Democrats dealt the House farm bloc a severe defeat and gave the Administration a victory. The new coalition was behind a 214-171 vote by which the House of Representatives peremptorily rejected a catch-all farm bill that contained "sweeteners" for most major crops. The vote came on the question of taking up the bill, before debate had even begun. (N.Y. Times, 6/27 p.1)

CASH WHEAT LOWEST SINCE '46 Cash wheat broke on June 27 to the lowest level since the OPA days of 1946 at the important Kansas City terminal as the threat of a record winter wheat crop hangs over the market. No. 2 ordinary hard wheat, an important flour milling grade, was quoted at $1.85-1/2 a bushel. A year earlier it was $2.21-1/4. The price of flour also has been affected. A common type of bakery flour is now selling at $5.32 a hundred-pound sack. That is 71¢ under a month earlier and compares with $6.14 a year earlier. (Wall St. J., 6/25 p.18)

COTTON YARN PICTURE BRIGHTENS Indications that the cotton yarn market, whose volume approaches $1 billion annually, is beginning to shake off its recession, or at least is on the threshold of a revival, are becoming more evident. Positive signs in this direction include an improvement in sales backlogs, a slight widening in manufacturing margins, and a more apparent stabilizing of price structures. Negatively, however, inventories in spinners' hands have mounted substantially compared to last year and are acting to prevent any real price strengthening. The most significant factor behind the improved side of the picture in the cotton yarn market is the thriving children's wear industry, which anticipates another record-breaking sales year. (Lee. J. of Comm., 6/26 p.1)