basic business NEWS

Published Weekly by the FEDERAL RESERVE BANK of CLEVELAND

September 23, 1958 to September 29, 1958

NEW TREASURY FINANCING The Treasury came up with something new to help raise the $3.5 billion of new money it now needs--an issue of bills with a "predetermined yield" of 3-1/4%. The obvious purpose was to lure some temporary funds of large corporations and other capital funds, particularly money accumulated for next year's tax payments. By utilizing this new device, the Treasury kept in reserve for future financing such things as tax anticipation bills. For those who did not want the new bills due next May, some 13-month paper bearing a 3-1/2% rate was offered. That is a high interest rate, but well under the peak rate paid for one-year money last year. As is customary on the eve of a Treasury financing operation, the Federal Reserve slowed down a bit on its restraint policy, letting go only a modest amount of Treasury bills in a week of wide shifts in the banking figures. (J. of Comm., 9/26 p.1)

TREASURY SEARCHES FOR NEW FINANCING METHODS Secretary of the Treasury Robert B. Anderson has launched an intensive drive to find new ways of financing the public debt. There are widely varying judgments about the course this country should follow. Some experts believe the Treasury should increase the size of its weekly bill offerings. Others urge that a cycle of four-month bills be added to the present three-month maturities, while still others say the answer lies in a new series of six-month bills. Some experts are convinced that the Treasury should offer long-term bonds every three or six months. It has been suggested that these routine bond offerings should include a number of different bonds such as five, ten, twenty and thirty-year maturities. (Slevin. N.Y. Herald Trib., 9/29 III p.6)

STOCK MARKET The performance of the stock market is perhaps the most spectacular aspect of the nation's economy as the critical fourth quarter nears. Stocks have surged forward to new 1958 highs again and again, and are within hailing distance of the record high set in 1956. This, to some, is most irrational behavior. They point out that the "run-away market" simply does not reflect current business conditions. Whatever its state, the economy is not in the midst of a boom. At the very most, Wall Street could be said to be acting in anticipation--anticipation that America once again is heading for best times ever. The upcoming business quarter, traditionally the strongest of the year, should provide a clear indication as to whether the stock market's great expectations are justified. (Rutter. N.Y. Times, 9/28 III p.1)

COMMODITY PRICES; INFLATIONARY TREND — The current wave of inflationary sentiment, interestingly enough, has not been accompanied by any upward trend in the general commodity price structure. Usually, inflationary ideas feed on rising prices. At the present time, however, we have the rather unusual phenomenon of rising inflationary sentiment accompanied by a high degree of general price stability. The Bureau of Labor Statistics' comprehensive Wholesale Price Index has been tending slightly downward for several months. The BLS Consumer Price Index has just ticked off the first decline in many months. (J.R.W. J. of Comm., 9/24 p.1)

BUILDING CONTRACT AWARDS SHARPLY ABOVE '57 — Construction contracts awarded in August rose to $3.4 billion, 23% above the year-earlier level, with housing and public works leading the upturn. F.W. Dodge Corporation said the last four months have been the highest ever reported for such contracts, which afford an index of future building outlays. August housing awards spurted 13% over August 1957, bringing the eight-month total 5% ahead of the like 1957 period. (Wall St. J., 9/29 p.1)

STEEL SURGE SEEN THROUGH OCTOBER — Steel mills are looking forward to a further improvement in order volume and production next month. The consensus is that the rate for the industry should average 75% of capacity in the fourth quarter. The bulk of the improvement should come within the next forty days. Additional support from the auto producers should be a big factor. Last week, highlights were further improvements in miscellaneous orders, an extension in delivery dates for some products, the promise of stronger demand for plates and shapes, and a quickening in demand from agricultural areas. (N.Y. Times, 9/29 p.41)

STEEL OUTPUT RISE SEEN FOR 1959 — Early industry projections on 1959 steel production are ranging anywhere from 20% to 30% above this year's expected output of around 85 million tons. These forecasts are backing up a general opinion among mill men that the worst of the steel recession is behind them and that the gradual improvement currently under way will continue into next year. Predictions that output will rise to between 100 million and 110 million tons in 1959 do not take into account the possibility of a nationwide steel strike, although that is a prospect that no steel producer is losing sight of. The gain in steel operations that has been in progress with only an occasional interruption since last April is not proving spectacular, but it has taken production during that period from about 47% of capacity to a scheduled rate of 66.4% last week. The recovery is moving ahead without any outstanding help from the automotive industry, still cautious because of continuing labor uncertainties and doubts of public reaction to the 1959 cars. (Lally. Wall St. J., 9/29 p.2)

MACHINE TOOL MAKERS' BUSINESS ON RISE

Business in the barometric machine tool industry has taken on a rosier hue. The more optimistic mood of toolmen follows on the heels of the industry's second poorest month in over eight years, as measured by incoming orders. August orders, the National Machine Tool Builders Association reported in Cleveland, fell to $18,950,000, from $20,900,000 in July. The eight-year low was $18,650,000 last December. While reports of improvement in September are not unanimous, the outlook clearly seems brighter. Better business, too, is paving the way for price boosts. (Lawrence. Wall St. J., 9/23 p.26)

MAJOR APPLIANCES SHOW SALES PICKUP

Household appliance sales, which showed signs of perking up in late spring, are now recovering encouragingly from a two-year slump. Leading manufacturers report that rising consumer demand, combined with a sharp dip in dealer inventories, is spurring a sales upturn for such big-ticket items as refrigerators, freezers, ranges, and home laundry equipment. A nationwide survey also showed that many companies are expanding work forces and putting on additional shifts. (Wall St. J., 9/26 p.1)

LEADING RAILROADS' EARNINGS IN BLACK

Rail earnings reflect recent improvement in freight shipments and reductions in costs effected to help offset the past year's downtrend in volume. Two big Eastern roads--the Pennsylvania and New York Central--climbed into the black last month for the first time since late 1957. Pennsylvania not only ended its string of nine straight monthly deficits, but the August earnings topped by a slim margin its dollar net for the corresponding 1957 month. Though freight loadings were still 21.4% under the year-earlier level, belt-tightening accomplished during the recession brought net slightly above August 1957. Central's $274,777 black ink showing for August, the first since last

December, trimmed its eight-month net loss to $10.3 million. (Wall St. J., 9/25 p.1; p.22)

AUTO OUTPUT SCHEDULED TO CLIMB THIS WEEK Automobile output this week will climb to an estimated 51,730 passenger cars, up from last week's 37,460 cars and slightly above the 51,552 turned out in the similar week last year. Even with the increase of production this week, the rash of on-and-off strikes at auto plants is holding down car output--at a time when manufacturers normally would be stepping up production to fill their "pipelines" with the new, 1959 models. (Wall St. J., 9/26 p.18)

CORPORATIONS BOOSTED WORKING CAPITAL U.S. corporations increased their working capital by $1.7 billion from the first to the second quarter and reduced inventories at the sharpest rate yet recorded by the Securities and Exchange Commission. At the end of June, net working capital stood at $116.6 billion, up from $114.8 billion at the end of March. Corporate inventories totaled $78.3 billion at the end of the second quarter, down from the $81.4 billion at the end of the first quarter. The $3.1 billion drop in inventories was the most severe since the SEC began its quarterly working capital reports in 1944. The Agency said corporations invested $6.7 billion in plant and equipment in the second quarter, compared with $6.4 billion in the first quarter of this year. (Wall St. J., 9/23 p.9)

CANNED FRUIT PRICES ADVANCING Consumers will soon find themselves paying as much as 20% more for canned fruits than they did a year ago, as the nation's major fruit producing states have experienced one of their worst seasons in some 15 years. At present, the demand for canned fruits is quiet as buyers are taking goods only as needed. Due to the recent allowances and discounts, the trade covered their requirements for a 30 to 60 day period. When these supplies are exhausted, a good replacement call is expected despite the higher prices, which will be carried right to the consumer, and have already started to appear in retail pricing on some items. (Dodrill. J. of Comm., 9/25 p.1)

TIN CAN COSTS TO INCREASE Tin can costs to food packers will be increased November 1 when tin plate price advances averaging about 3.5% go into effect. American Can Company, largest producer of tin containers, said it will abandon its practices of applying a flat percentage increase uniformly across the board. Instead, it will adjust prices on each type and style of can. Continental Can said it had "not as yet determined the extent of the price increases." (Wall St. J., 9/25 p.1)