basic business

NEWS

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RESERVE BANKS RAISE RATE The Federal Reserve Board approved an increase in the discount rate to 4% from 3-1/2% at eight Federal Reserve banks, effective September 11. The increase had been widely anticipated following last week's boost in the "prime" or basic lending rate of the nation's major commercial banks to 5% from 4-1/2%, along with a general rise in interest rates. The new 4% discount rate, which is the highest since the early 1930's, was announced for Federal Reserve banks at New York, Cleveland, Richmond, Chicago, St. Louis, Dallas, Kansas City and San Francisco. The last time the discount rate touched 4% was in 1932. The record discount rate was 7% during 1920 and 1921. (Wall St. J., 9/11 p.3)

Higher rediscount rates, which came to pass, were so thoroughly discounted in advance that few repercussions appear likely so far as the businessman is concerned. One immediate repercussion was a fractional hike in bankers acceptances, which might have come anyway. One of the impressions that is quite general is that nothing more in the way of tight money news may happen before the year is out; after January 1, seasonal liquidation of credit makes things temporarily easier. (J. of Comm., 9/11 p.1)

TIGHT MONEY BOOSTS MERCHANTS' BILL MARKET The commercial paper market, now averaging the highest volume of outstandings in 40 years, may be in for a new period of expanded use now that money rates are at new peaks and banks are hard put to find new lendable funds. For the merchants' bill market not only is the cheapest place where big corporations of established credit may borrow, but commercial paper sales, to other than bank buyers, create no new additions to credit. Today non-bank buyers account for over 60% of all commercial paper bought; banks buy less than 40%. The market for commercial paper is about 150 years old in this country and always has been supplemental to direct bank loans. (Tyng. J. of Comm., 9/9 p.4)

CONSUMER RATES BOOSTED First National City Bank of New York is boosting the interest rate it charges on consumer loans, effective September 15. The increase lifts First National City's lending rate on consumer loans secured by collateral such as autos and securities to $4.25 a year per $100 of face amount of the loan from $3.75, and to $4.75 per $100 from $4.25 on personal unsecured loans. The charges are collected in advance. The big New York City bank's "retail" rate increase--its second in nearly four years--was expected to touch off in a matter of days a similar boost by most other banks in the city. Banks in other metropolitan centers around the country, notably Chicago and Boston, indicated that they are also considering an increase in their retail lending rates, possibly soon. (Wall St. J., 9/14 p.28)

MARKET UNDER RENEWED PRESSURE Traders returned from their Labor Day holiday last week with no change of heart about the stock market. Selling pressure was renewed as stocks recorded the second widest break of the year. Prices were pushed back to June levels in the second successive weekly decline. Several reasons were offered for the market's action. Disappointment over the failure of negotiations to end the prolonged steel strike, uncertainty as to its effect on the general economy in the fourth quarter and nervousness regarding money conditions all served to dull enthusiasm for equities. (Forrest. N.Y. Times, 9/13 III p.1)

INCREASED CAPITAL OUTLAYS FOR 1959 Businessmen now expect to spend almost $33.3 billion on new plant and equipment this year--some $700 million more than they estimated just three months ago, the Government reported. Businessmen apparently are not curtailing spending plans because of the steel strike, although there was no specific mention of the strike in the report on the survey of business' capital spending plans taken in late July and August. The survey is made quarterly by the Department of Commerce and the Securities and Exchange Commission. Government economists expect the strong uptrend in capital outlays that has been developing this year to run at least into mid-1960. It may continue beyond that, one specialist concedes, "but that is as far ahead as anyone can safely look now." (Wall St. J., 9/11 p.2)

POST-STRIKE INFLATION FIGHT PLANNED The Government is bracing itself to prevent a dangerously inflationary upsurge in business activity after the steel strike ends. Business boomed and prices soared after the last steel strike was settled in the fall of 1956. The Government does not want the same thing to happen again. High officials are worrying about post-strike developments because they fear that the steel settlement may create a mood of optimism that could touch off a wave of excessive spending and borrowing among businessmen, consumers and speculators. The steel companies and their customers will want to borrow heavily to rebuild depleted inventories. Their loan demands will be added to huge loan demands that have placed the banks under heavy pressure during recent weeks and that have led to a continuing rise in interest rates. (Slevin. N.Y. Herald Trib., 9/9 III p.7)

DROP IN JOBLESS CURBED BY STRIKE The steel strike and the shutdown of auto assembly lines for model changeovers resulted in less than the usual reduction in unemployment last month, the Department of Labor reported. The number of workers without jobs declined by 318,000 between mid-July and mid-August, the report estimated. The mid-August unemployment total was 3,426,000. Because the decline was less than normal for this time of year, the seasonally adjusted rate of unemployment rose to 5-1/2%. Employment, which usually improves in August, declined by 353,000. Despite the reduction, the employment total set an August record of 67,241,000. (Mooney. N.Y. Times, 9/11 p.1)

STEEL RESERVES NEAR EXHAUSTION The longest steel strike in the country's history has carried thousands of factories past the peril point in steel supplies. A survey by correspondents of The New York Times in sixteen major industrial centers disclosed that many steel users were within two or three weeks of exhausting their reserves. Many more are running into trouble because of spot shortages of particular types of metal. This means that even if the nine-week-old shutdown were to end in the next few days, these users would be obliged to suspend operations and lay off large numbers of employes. It will take at least three weeks after the back-to-work signal is given before any steel is ready for shipment. It will be twice that long before volume deliveries are made in the full normal range. (Raskin. N.Y. Times, 9/13 p.1)

STRIKE HITS GLASS CONTAINER INDUSTRY Food processors may feel the effects shortly of a strike of 2,000 AFL-CIO Glass Workers which hit most of the nation's glass container manufacturers at noon, September 13. The walkout stemmed from a dispute over wage increases to be provided by new contracts. Some 47,000 other employes were expected to honor picket lines, crippling operations at as many as 88 container plants. Industry sources said some food-packing concerns may be forced to curtail since the bulky nature of glass jars and bottles precludes large inventories. (Wall St. J., 9/14 p.1)

PORT STRIKE THREATENS

Faced with the possibility that ports on the U.S. Atlantic and Gulf coasts may be tied up by a longshoremen's strike next month, importers of a wide range of foreign commodities are attempting to have shipments speeded up in order not to be caught short if the water front is closed down. Deliveries during July and August were well above those of the previous year. The threat of a pier strike has been a major factor behind the recent advances in copper prices on the world market. (J. of Comm., 9/10 p.1)

CONTESTS BOOSTED AUGUST NEW CAR SALES

New car sales, spurred by factory contests to get rid of 1959 models, totaled 485,000 U.S.-built units in August, industry sources reported. This topped July by 7%, was 50% ahead of the like month last year, and was the best August since 1955. Inventories dropped from 965,000 on August 1 to 725,000 on September 1. In the wake of last week's boost in the "prime" lending rate by commercial banks to 5% from 4-1/2%, major sales finance companies increased the rates they charge automobile dealers to finance cars in inventory to 5-1/2% from 5%. (Wall St. J., 9/8 p.1)

CONGRESS OVERRIDES PRESIDENT'S VETO

Congress overrode President Eisenhower's second veto of the public works bill (September 10). Thus, for the first time during his tenure, a bill becomes law without his signature. The amount of money in dispute between the White House and Congress was relatively small by Federal spending standards. The bill provides a total of $1,185 million for construction projects throughout the nation. (Baker. N.Y. Times, 9/11 p.1)

FIRST U.S. INSURED SHIPBUILDING BONDS

The week of September 14 will mark some kind of a milestone in both finance and shipping, for it will mark the first offering of Government guaranteed ship construction bonds which will finance ships while building as contrasted with ships already built. The guarantee is unique among Government agency bonds in that the bondholder, in the event of unfortunate circumstances, gets cash on the barrelhead instead of some kind of a bond he has to sell, if he can sell it, below par. Financing of this type over the next ten years may aggregate $1 billion, based upon probable ship construction and private and Government outlays that will supplement the publicly sold bonds. Seemingly, the bondholders will be exceptionally well protected, and at the same time the Government appears to be assuming no undue risks. (J. of Comm., 9/10 p.1)