basic business NEWS

Published Weekly by the FEDERAL RESERVE BANK of CLEVELAND

November 10, 1959 to November 16, 1959

STEEL OUTPUT JUMPS TO 45.9%

Production of the nation's steel mills will average 45.9% of capacity this week and will turn out 1,300,000 tons of steel, the American Iron and Steel Institute estimated yesterday. These figures were viewed by trade sources as notably higher than had been expected earlier in the week. Meanwhile, steel officials continued to keep a watchful eye on the giant furnaces to detect possible damage resulting from the long shutdown. (N.Y. Times, 11/13 p.41)

RETAIL TRADE FLOURISHES IN OCTOBER

Retail trade flourished last month despite the steel shutdown. Volume, which never before had exceeded $18 billion in October, climbed slightly above $19 billion, 9% greater than a year ago, the Department of Commerce reported. This achievement bolstered prospects that retail business for all 1959 will be the largest in history--well above the $200 billion level. That figure has been barely reached only twice--an even $200 billion in 1957 and $200.3 billion last year. Booming auto sales in October gave a big boost to the durables group. (Wall St. J., 11/11 p.1; p.3)

STRIKE HURTS GNP

The steel strike took a bigger bite out of the nation's economy than Government economists estimated a month ago. The Department of Commerce reported the gross national product ran at a seasonally adjusted annual rate of $478.6 billion for the third quarter, a drop from the record second quarter rate of $484.5 billion. Some Government economists expect enough of a fourth quarter improvement to put the gross national product for all 1959 at around $480 billion. The $500 billion mark once predicted for 1959 is out of the question. Whether the economy will reach this figure early in 1960 depends in large degree on whether the steel strike is settled or is renewed. (Wall St. J., 11/16 p.3)

DOCK STRIKE AGAIN A THREAT — Congress faces the threat of a new strike emergency even before the steel tieup could resume. The court order halting the East Coast dock strike runs out December 27. Chances for settlement look dark. There is no sign of progress yet. The threatened pinch on food and fuel shipments would speed Congress' search for new strike remedies. (Wall St. J., 11/13 p.1)

FIRST COPPER PACT — Phelps Dodge Corporation and a group of craft unions agreed on a new two-year contract calling for a package increase of 15.7¢ an hour. But two unions representing the bulk of copper production workers on strike--including those at Phelps Dodge--called the agreement unsatisfactory and moved to put pressure on craft union workers involved not to ratify the pact by the deadline tomorrow. The pact is the first major agreement with any union since the walkouts began in August, shutting down about 80% of U.S. mine output. If the pact were ratified, production at the Arizona facilities could not be resumed because the striking Mine-Mill union represents 2,300 of the 5,000 workers there. (Keller. Wall St. J., 11/16 p.5)

UNEMPLOYMENT UP IN OCTOBER — Secretary of Labor James P. Mitchell announced today that unemployment in October rose to 3,272,000. He blamed the higher than predicted unemployment "entirely" on the effects of the 116-day steel strike rather than any weakness in the economy. Department of Labor experts said the jobless total for the month would have been 2,800,000 except for the steel strike. The 500,000 steel strikers were not counted as unemployed in the October figures. (N.Y. Herald Trib., 11/13 p.1)

TREASURY BOND MARKET STEADY — The bond markets marked time last week. U.S. Government issues, although slightly higher on Friday, generally showed narrow and mixed changes for the week. A big supply of new issues scheduled for bidding this week in both the corporate and municipal sectors apparently had much to do with the general lack of enthusiasm among investors for bonds of all types last week. American Telephone & Telegraph Company has slated $250 million of debentures for public bidding tomorrow--the week's only scheduled competitive offering of investment grade corporate bonds--while about $202 million of new municipal offerings are scheduled for award. (Wall St. J., 11/16 p.19)

CAPITAL OUTLAYS IN '60 TO TOP 1959 SPENDING — Business spending for new plant and equipment in 1960 will be 10% larger than this year, according to the new McGraw-Hill survey of business intentions. The big increase in projected capital expenditures for next year is due in part to the effects of the steel strike, which have resulted in sharp changes in business programming between 1959 and 1960. Some of the expenditures previously programmed for this year will be carried over into 1960. In view of this and the fact that projected capital spending programs for 1961 already are at high levels, the steel strike is likely to have resulted in stretching the capital spending boom over a longer period. All this will take money, lots of it. According to the survey, external funds needed for financing capital expenditures in 1960 will aggregate $6.4 billion as compared with estimated needs of $5.8 billion this year. Thus, an additional strain is indicated on the already tight money situation. (Wallace. J. of Comm., 11/13 p.1)

N.Y. BANKS WANT HIGHER CEILING Increasingly concerned over the continued seepage of their foreign deposits into the investment market where higher interest rates are to be had, New York banks are making new representations to the Federal Reserve Board to hike the 3% ceiling of interest the banks are allowed to pay on foreign banks' funds here. Since March 25, when time funds in New York banks reached a peak of $5.2 billion, the time deposit loss through November 4 has been $672 million, the total now being $4.5 billion. Most of this loss has been in foreign deposits, since the trend of personal savings deposits, until the Treasury recently offered some 5% notes, has been moderately upward. (Tyng. J. of Comm. 11/13 p.1)

MORTGAGE MONEY SUPPLY LIMITED The shortage of loanable funds is becoming more severe and restrictive in the mortgage market than in any other sector of the nation's financial structure. That applies both to home and industrial lending. This shortage results from a smaller volume of funds available for mortgage loans while a record volume of loans is being sought to finance the largest total of private construction ever undertaken. The full impact of the shortage has not been reflected in building activity yet, as so much of the construction now under way or being started is financed by loans for which commitments were made some time ago. A downturn in building must be considered inevitable for next year, however, since funds are not in sight to finance anything like the volume of construction that was started in 1959. (J.I.B. J. of Comm., 11/10 p.1)

PAPER PRODUCERS' POSITION STRONG Strong market conditions prevail in the paper and paperboard industry, with continued strength looked for by industry executives in months ahead. Despite the impact of the steel strike on the general business situation, virtually all major segments of the paper and paperboard industry have been enjoying a high level of orders. This includes packaging papers, "cultural" papers, and tissues. The improved level of business has been accompanied by a firmer undertone in the price structure, although list prices have not as yet been raised for most grades. (Morgenbesser. J. of Comm., 11/12 p.1)

PRESIDENT BACKS NEW FARM POLICY The Eisenhower Administration disclosed today that it would present to the next session of Congress proposals for a permanent solution of the farm problem. A White House announcement on "the essential aspects of a sound farm program" suggested new legislation on two points. The first would provide for an expanded program of voluntary acreage retirement for the next five to ten years under a conservation reserve. The second would establish price supports on storable commodities, particularly wheat, related to average market prices in the preceding three years. Acreage controls and marketing quotas would be discontinued as ineffective. (Belair, Jr. N.Y. Times, 11/11 p.1)

FARM CROPS AT RECORD BUT INCOME DECLINES The Department of Agriculture reported that a bumper corn crop is setting the pace for another record harvest this year, but that net farm income will be down 15%. The Department said in its next-to-last production report of the year that over-all harvest will equal last year's record high. With livestock output expected to top 1958, that would mean an all-time high in total U.S. farm output. (J. of Comm., 11/12 p.2)

MACHINES REDUCE RURAL LABOR NEEDS U.S. farmers will spend about 15% more for mechanized equipment this year than in 1958. These machines will help trim labor requirements even though 1959 crop production is expected to equal the record set last year and livestock output will show a gain. In 1958, only 11.1 billion man-hours were spent to produce crops and livestock, a record low. As recently as 1950, over 15 billion were needed; in 1920, it took 24 billion. Each farm worker now grows enough food, fiber, and tobacco to supply himself and 23 others; the Civil War farmer supported only four others. (Wall St. J., 11/10 p.1)

POTATOES EYE HIGHER PRICES Potato prices were the highest for any November in seven years last week and there is no indication of a price drop in the near future. Using the futures market as an indicator, the housewife would find the situation even worse next spring. One of the reasons for the higher prices in this country is a smaller crop than anticipated. The Department of Agriculture estimated last week that fall potato production would be 16,585,400 pounds. The latest prediction is 9% lower than the 1958 harvest. (Auerbach. N.Y. Times, 11/15 III p.1)