basic business

NEWS

Published Weekly by the FEDERAL RESERVE BANK of CLEVELAND

November 17, 1959 to November 23, 1959

INDUSTRIAL PRODUCTION DROPPED IN OCTOBER

Industrial production dropped only slightly in October despite the steel strike. The Federal Reserve Board reported that the output of the nation's mines and factories dropped one point last month to 148% of the 1947-49 average. The Board originally had placed the September rate at 148%, but revised this upward to 149% because the outturn of soft goods set a new high in September. In June, before the steel strike began, industrial production had climbed to a record 155%. (Wall St. J., 11/17 p.1)

PERSONAL INCOME STAGES UPTURN

Total personal income staged a strong comeback in September and October, although wage and salary payments remained depressed as a result of the steel strike. Department of Commerce figures showed that personal income in October was at a seasonally adjusted annual rate of $381.9 billion, up $1 billion from the September rate. The pre-strike peak had been $383.8 billion in June and the low was $380.0 billion in August. Thus, total personal income has now regained half the ground it lost in the first two months of the strike. (J. of Comm., 11/20 p.1)

HOUSING STARTS DECLINED SHARPLY

The Government reported a major drop in housing starts for October. Private housing starts, at a seasonally adjusted annual rate of 1,180,000, were 11% below September, the Department of Commerce said. Government housing officials attributed the drop in starts on dwelling units chiefly to the tight supply of mortgage money. They said the shortage of steel due to the strike probably prevented some starts, particularly on large apartment projects requiring more heavy construction than individual homes. For the first 10 months of this year, however, the seasonally adjusted annual rate of private housing starts averaged 1,356,000. (Wall St. J., 11/17 p.3)

TEXAS RAISES OIL ALLOWABLE Texas crude oil production was put on a ten-day basis for December--up from nine days the five preceding months. State authorities set allowable output at 2.9 million barrels daily, 121,200 barrels above the current limit. Recent reductions in crude oil supplies actuated the increase. (Wall St. J., 11/23 p.1)

UNION TURNS DOWN NEW STEEL OFFER Secret negotiations last week-end resulted in a new contract offer by the steel industry and its speedy rejection by the United Steelworkers of America. The developments appeared to leave the dispute where it was two weeks ago, when 500,000 employes went back to work under an eighty-day injunction under the Taft-Hartley law. The industry described the offer as worth about 30¢ an hour over a three-year period. It said it contained a new plan for resolving the troublesome issue of local working conditions, as well as revised improvements in employe benefits. (Levey. N.Y. Times, 11/20 p.1)

SAVINGS BOND EXCHANGE SET The Treasury announced a plan under which the holders of its Series F- and G-savings bonds, which mature next year, will be able to exchange them, on extremely advantageous terms, for 4-3/4% Treasury notes. This is an initial step in what Wall Street calls "Operation Leapfrog." At the same time, the Treasury unveiled its long-pending plan to permit holders of Series E-savings bonds to exchange them, without tax penalty, for Series H-savings bonds, which pay current interest. Such an exchange has long been sought, especially by retired persons, who wish current income from their Government bonds. The E- for H-bond exchange will remain open indefinitely. In addition, the Treasury announced that it will complete its cash financing for this calendar year via the sale of $2 billion worth of 320-day Treasury bills. (Shanahan. J. of Comm., 11/20 p.1)

SUCCESS ASSURED FOR A.T. & T. FINANCING American Telephone & Telegraph Company's $250 million of debenture financing was tabbed as a big success almost from the time the mammoth issue reached the bidding block in Bell System headquarters. As soon as terms of the big offering got out over the news tickers, there were reports of highly active demand from individual investors for the 5-3/8% debentures at 102.25, where the yield to maturity is 5.22%. For A.T. & T., the financing must have brought comfort. The 5.27% annual net interest cost of the money, although the highest for the company since 1925, still was lower than probably would have been required had the issue reached the market at almost any other time in recent months. It was the biggest piece of corporate bond financing on record for 1959. (Wall St. J., 11/18 p.22)

OCTOBER DIVIDENDS AT NEW HIGH

Corporate dividend payments last month were the largest for any October in history. Cash disbursements spurted to $833 million, from $819 million in October 1958, the Department of Commerce reported. Dividend checks are now going out to stockholders at an annual rate of nearly $14 billion, compared with just above $9 billion five years ago. But dividend income, which was 6.7% of total personal income 30 years ago, is only 3.5% today. (Wall St. J., 11/20 p.1)

STOCK MARKET REBOUNDED

After touching a new low since September 23, the stock market rebounded last week, and the recovery erased all of the earlier losses. The quick reversal in trend followed reports of a more hopeful outlook for a negotiated settlement in the steel dispute; an abundance of favorable dividend announcements, and optimistic forecasts for the economy next year. Four consecutive days of declining stock prices were climaxed on Monday by the worst break in the market since August 10. Tax selling and uncertainty regarding labor problems were advanced as reasons for the sinking spell. Prices steadied on Tuesday, setting the stage for a strong rally in mid-week. (Forrest. N.Y. Times, 11/22 III p.1)

FEDERAL RESERVE SYSTEM IN "NEUTRAL"

The makers of Federal Reserve monetary policy, which determines in large measure what everyone pays for his loans, have been static since September when rediscount rates were raised to 4%. Instead of moving energetically to tighten rates further and to make money less available, the Federal Reserve now is lackadaisically moving in purely routine fashion to offset unusual humps and valleys in the money market such as are caused by equally routine expansions and contractions in such things as currency and the reserve credit given automatically against uncollected check volume. Also the "Fed," by accident or design, in recent weeks has been a little easier on member banks' net borrowed reserve positions, which have been allowed to get down to under $450 million from a July high average of above $550 million. While there is definite evidence in the Reserve System's own figures that it is favoring no tighter money, there is as yet little evidence that it has swung to the easier side. In short, it is back in "neutral" and may stay there until after Christmas. (Tyng. J. of Comm., 11/18 p.4)

CORPORATIONS TO SELL U.S. SECURITIES HOLDINGS

Increased capital and inventory spending will cause an erosion of corporate liquidity next year. As a result, corporations can be expected to become substantial sellers of U.S. Government securities in 1960. Large sums will be needed for expansion of inventories and receivables in the coming year, especially following the inventory cutbacks caused by the steel stoppage in the last half of this year. Since the middle of last year, corporate investors have been a mainstay of the market for short-term Treasury issues. Holdings of such securities were increased by over $6 billion during this period. (J.I.B. J. of Comm., 11/17 p.1)

PARCEL POST RATE TO INCREASE 17.1% The Post Office Department received authority today to increase parcel rates by about $88 million a year. There appeared to be no likelihood that the higher charges would affect this year's Christmas mailing rush. The increases, approved by the Interstate Commerce Commission, will average 17.1%. The Department said the question of the effective date was under advisement, and probably would be announced next week. The last parcel rate rise, averaging 36%, occurred in June 1953. (N.Y. Times, 11/21 p.14)

NEW TRADE BLOC FORMED IN EUROPE A second West European preferential trading bloc became a reality last week with disturbing implications for American exporters and foreign investors. The new group, popularly known as the "Outer Seven," took official form as the European Free Trade Association with the signing of a convention in Stockholm on Friday. It consists of Britain, Sweden, Norway, Denmark, Austria, Switzerland and Portugal. Under terms of the Stockholm agreement, the seven nations are to eliminate trade barriers toward each other on a gradual basis designed to bring full free trade by 1970. An initial tariff cut of 20% is to be made next July 1. (Jones. N.Y. Times, 11/22 III p.1)

FRANCE PLANNING BOND ISSUE HERE Bonds bearing the backing of the French Government will be offered soon for the first time since 1930 in the United States public market. The borrower will be Credit Foncier de France, an official corporation of the French Government, principally engaged in the financing of various Government housing programs. A registration statement concerning the issue was filed yesterday with the Securities and Exchange Commission. The proposed issue consists of $50,000,000 of loan bonds due in 1979. They are unconditionally guaranteed by the Republic of France as to principal and interest. The offering is expected to take place about December 9. (N.Y. Times, 11/19 p.59)