basic business
NEWS
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VAULT CASH IN NEW ROLE Banks with particularly large holdings of cash in their vaults will be permitted to count part of that cash in the reserves they are required to maintain, beginning this week, the Federal Reserve Board announced today. The Board estimated that this would have the effect of making as much as $230,000,000 of reserves available, permitting additional credit of several times that amount. It said that "no change in the System's general monetary or credit policy is involved"--rather, that this was a part of the easing that the System did every year at this time, to meet heavy seasonal demands for credit. The action will affect about half of the 6,250 banks that are members of the Reserve System --that is, those whose vault cash holdings are largest in relation to their deposits. A country bank with vault cash holdings greater than 4% of its demand deposits may count the excess as part of its reserves. Central reserve city and reserve city banks with vault cash holdings greater than 2% of their demand deposits may count the excess as reserves. The counting of vault cash as part of a bank's reserves was authorized by a law enacted this year. (Mooney. N.Y. Times, 12/1 p.55)

FED SUPPLIES SEASONAL CREDIT The Reserve banks entered the Government securities market in a big way this week to provide seasonal aid over and above the relief afforded by counting of a portion of vault cash as reserve by country banks under the Board's new rule. The new Reserve aid just about compensated for seasonal strains. The purchase of $350 million of Treasury bills by the System was the largest since the week of December 3, 1958, and it boosted total Reserve holdings of Treasury securities to a record level. The obvious purpose was to offset a seasonal rise of money in circulation, which averaged $175 million higher, and a drop in credit against uncollected checks, which amounted to $225 million. (J. of Comm., 12/4 p.1)

STOCK PRICES PUSHING UPWARD

Institutional buying of investment quality stocks, and replacement purchases growing out of stock sales to establish tax losses, pushed prices up last week. In fact, the advancing market led some traders to believe the usual year-end rally was starting earlier than usual. They said some potential buyers had become restless as the market firmed, fearing that some stocks they had been watching would get expensive. This sentiment, they noted, was especially strong regarding oil shares which have been in a bear market for nearly two years. Institutional buying also was evident in some leading railroad shares last week and more is expected before the end of the year. The carriers represent another group which has been under heavy selling for tax purposes. As the market advances, chartists look for more resistance to new highs in the industrial average. They expect selling to become particularly heavy if and when the average gets to the 1959 high of 678.10, the close on August 3. (Gingold, ed. Wall St. J., 12/7 p.25)

BOND YIELDS RETAIN SPREAD OVER STOCKS

The unusually wide spread of bond over stock yields is acting as a restraining influence upon the stock market. Corporate bonds offer yields, as measured by Moody's indices, more than 50% in excess of industrial stock yields. For October, the bond yield average was 4.87% and that of industrial stocks 3.14%. For new issues of corporate bonds, the yield spread is even wider. Standard and Poor's average of municipal bond yields has been as much as 100 basis points higher than the industrial stock yield average, despite the great tax advantage that investors in the higher income brackets derive from tax-exempt income. Opinion in the financial community is divided over whether bond yields are likely to remain so far above stock yields over any extended period of time. (J.I.B. J. of Comm., 12/1 p.1)

WALL STREET ATTRACTS FOREIGN FUNDS

The British Treasury announced the sterling area's gold and convertible currency reserves dropped $50.4 million in November. At about the same time, Britain's pound sterling slipped below its $2.80 parity level for the first time since December 1958 in New York and London foreign exchange dealings. Money market men in both centers said the two developments reflected a rising demand for dollars in Britain and other sterling area lands--partly because of commercial needs, and partly because of the appeal of current high interest rates in the U.S. to foreign investors. Foreign exchange dealers in London said the sudden weakness of the pound and strength of the dollar also reflected the pull of international funds from London to New York, stimulated by this week's rise of the U.S. Treasury bill rate above 4.5%. That rate, they noted, is a full percentage-point above the equivalent London rate. (Wall St. J., 12/3 p.12)

INSTALMENT DEBT AT NEW PEAK Instalment buying reached another peak in October, apparently undeterred by the steel strike and possibly even spurred by it. The Federal Reserve Board reported today that the volume of instalment credit outstanding rose a half-billion dollars during the month. On October 31, it was $38,421,000,000, or $512,000,000 higher than on September 30, allowing for the normal month-to-month trend. The increase matched the average for the preceding three months. (Mooney. N.Y. Times, 12/3 p.55)

NOVEMBER CAR OUTPUT REACHES 18-YEAR LOW Auto production in November fell to a peacetime low for the month since 1941. With General Motors' 23 assembly plants closed down, output for the industry as a whole declined to 254,472 cars--only half the October total and a still smaller percentage of the units turned out in November 1958. G.M. announced yesterday that it will resume building some makes December 9, five days earlier than originally forecast. Nevertheless, December auto production may not rise much above 400,000 cars, which would be the industry's lowest volume since 1951. (Wall St. J., 12/2 p.1)

6.7 MILLION AUTOS IN '60 Auto production heads for "the highest rate in the history of the industry through the first half of 1960--assuming that steel is available." This view was expressed by the Department of Commerce, which forecast that auto assemblies for the full year 1960 would reach 6.7 million cars, a gain of 21.8% over the 5.5 million expected this year. The record was 7.9 million in 1955. (Wall St. J., 12/7 p.1)

CONSTRUCTION TO EQUAL '59 RECORD The physical volume of building in 1960 will match the 1959 record, providing a stabilizing force in the economy, the Department of Commerce forecast. Home and highway building will be down next year, but schools and commercial and industrial projects should show increases. In a generally favorable outlook report, construction dollar outlays would rise in 1960, about 2% above the record estimated for 1959. However, the increase will reflect higher prices, not a physical rise in construction. (N.Y. Times, 12/2 p.65)

DOCKWORKERS' DEADLOCK SETTLED The International Longshoremen's Association and representatives of the maritime industry in New York have reached agreement on a new contract ending months of deadlocked negotiations. The union will vote on December 10 whether to accept the contract. The agreement calls for a 41¢-per-hour money package, of which 21¢ will be paid in wages over a three-year period. The settlement came after several months of negotiations which started last August and which resulted in a week-long strike in October when the old contract ran out. (Arundel. J. of Comm., 12/2 p.1)

B-70 BOMBER PROGRAM CUT The B-70 heavy-bomber program, on which a half-billion dollars has been spent, was practically eliminated today by the Air Force. Instead of going ahead with plans to build the big bomber as a replacement for the present B-52, the Air Force said that it was going to turn out only one or two test models of the B-70, which is designed to fly about 2,000 miles an hour. A desire to cut defense costs and the development of intercontinental ballistic missiles were seen as major causes of the Air Force's decision. The Air Force estimated it would save about $85,000,000 in next year's budget by trimming the B-70 program. (N.Y. Times, 12/2 p.22)

PARITY RATIO AT 19-YEAR LOW Farm prices slipped again between mid-October and mid-November, falling to the lowest level in more than 19 years in relation to prices farmers pay for goods and services. The Department of Agriculture reported that its mid-November parity ratio fell to 77, down two points from the month before and seven points below a year ago. It was even with the 1940 low of 77, achieved in August of that year and not equaled since. The parity ratio's decline was caused by a simultaneous drop in aggregate farm prices, and a rise in prices for things farmers buy. Reduced prices for meat animals were mainly responsible, reflecting heavy November market shipments by farmers. (Wall St. J., 12/1 p.24)

BRITAIN'S INDUSTRIAL PRODUCTION UP 9% Britain announced today that its booming industrial production jumped by 9% in a year. Automobiles and steel are in the forefront of the advance. The increase was shown in production figures for September and October issued by the Government's Central Statistical Office. It is the biggest jump Britain has ever made over a one-year period in peacetime. Experts have said that Britain would need to expand at the rate of 2.7% a year in order to double its standard of living in twenty-five years. Britain's output of cars is more than 10% over that of 1958. Steel companies are producing at 90% of capacity, compared with 70% a year ago. (N.Y. Times, 12/2 p.68)

JAPAN RAISES DISCOUNT RATE The Bank of Japan raised bank discount rates today in a "preventive measure" designed to cut the threat of a year-end inflation. The new discount rate will be two sen a day or 7.3% a year on commercial drafts. There was some grumbling from foreign trade concerns and manufacturers who complained that the action was taken "too soon," but the general reaction was one of approval. (N.Y. Times, 12/3 p.52)