

TRENDS

WEEKLY ANALYSIS OF ECONOMIC DEVELOPMENTS
AND TENDENCIES PREPARED BY THE STAFF OF
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PUMP-PRIMING: Against the insistent clamor from many Democrats in Congress that the Federal Government immediately undertake pump-priming on a large scale to reverse the downtrend in business, Administration leaders have been citing the record of the 1930s, when pump-priming was undertaken by the Federal Government at huge cost. The statistical record shows that unemployment was reduced only temporarily by these measures between 1933 and 1938. It rose again in 1938 and persisted until World War II brought a war economy.

There is agreement among thoughtful leaders of both parties that pump-priming now could be only a temporary palliative, but President Eisenhower already has charted pump-priming on a small scale and the likelihood is seen that Congress will go further in that direction.

Some say the real problem is that wages have gone up too fast, with the effect of halting business expansion and slowing consumer buying by pricing goods out of the market. Those who espouse this theory say the solution lies in tempering the power of labor unions by eliminating their immunity to the anti-trust laws—but no move to do this has been able to gain much support from the ranks of either party in Congress.

In the view of many observers, the President has gone out on a limb in predicting economic improvement in March. If the employment picture does not improve in March as the President has predicted, the Administration is expected to be under heavy pressure to implement the remainder of the President's statement, namely that "if other measures are needed they will be proposed—and in time."

FOREIGN TRADE: It is being predicted that Congress will make substantial alterations in the foreign trade legislation which President Eisenhower has sent to Capitol Hill. The President has asked for a 5-year extension of the Reciprocal Trade Law, with Presidential authority to cut tariffs 5 per cent a year during that period. What the Administration may get, according to current predictions, is a 2-year extension at best; virtually no new tariff-cutting authority, and amendments giving domestic industries in general and certain specified industries in particular increased protection against import competition. Some observers say President Eisenhower may get a measure more to his liking if he fights hard to bring lawmakers of his own party into line.

DEBT LIMIT: Congress is expected to move soon—possibly this week—to enact a \$5 billion boost in the national debt limit. This action is seen as necessary to tide the Treasury over until the March-April period when income tax payments start coming in, first from corporations and then from individuals.

Foreign



THE PROPOSED SUMMIT MEETING: Now that Secretary of State Dulles has stated that a meeting of Foreign Ministers is not a necessary preliminary to an East-West summit conference, most observers take it for granted that such a parley will be held this year, with agenda preparation left to diplomats at the Ambassadorial level.

There is much less confidence that the meeting of heads of government will produce any agreement on major issues. Apparently one of the principal Soviet proposals will be the Polish-Russian plan for creating a nuclear-free zone in Central Europe, to be followed by a gradual mutual withdrawal of Soviet and NATO troops. This idea, opposed by the U. S. on the ground that it is a communist device to neutralize Germany and get American military forces out of Europe, has nevertheless appealed to many Europeans who have thought it might guarantee that any warfare in Europe would be fought with conventional weapons. This hope was weakened last week when the British government, in a report prepared by Defense Minister Duncan Sandys, said that any Soviet attack in Europe, even if launched with conventional arms, would be answered with strategic nuclear bombardment. Sandys said the British government feels that European bases for intermediate range missiles with nuclear warheads constitute the West's best safeguard against Soviet aggression. It appears likely, then, that positions of East and West on creation of a nuclear-free zone already have been stated, and that the same positions will be taken at a summit meeting.

Up to now, there has been no decision on the question of what nations will be represented at the summit conference, if one is held. In the past week, Red China has been trying, apparently, to get an invitation. Premier Chou En-lai called for a mutual troop withdrawal from Korea. He said this would be a useful first step toward Korean unification. The U. S. position on that matter has been that unification of Korea is desirable if it is based on free

elections. Up to now, Peiping has been just as much opposed to free elections in Korea as the Russians have been to free elections in Germany. There has been some speculation that Red China, extremely desirous of attaining the prestige attendant to the presence of Mao-Tse-tung at a summit parley, will lean closer to the Western position on free elections to improve her chances of being invited.

INDONESIA: Among numerous leaders and at the grass roots in Indonesia there has been growing concern over the drift of President Sukarno's government toward communist control. Anti-Red feelings found on the outer islands have had little expression on the island of Java, where Sukarno's regime has its capital at Jakarta and where 52 million of Indonesia's 82 million inhabitants live. However, concern has grown in the so-called "outer islands"—Sumatra, Borneo and the Celebes. These are the strongholds of the conservative Moslem and Christian parties, which not only have opposed the drift toward communism but have complained that the Sukarno regime discriminates against them economically. Among them the outer islands bring in 83 per cent of Indonesia's foreign exchange, against Java's 17 per cent.

Last week, from Padang in West Sumatra, a group of conservative dissidents sent a 5-day ultimatum to Jakarta, demanding a new central government free of communist influence. President Sukarno was out of the country, visiting Japan. His Premier, Djuanda, rejected the ultimatum. Saturday the 5-day period expired and the rebels proclaimed a provisional anti-communist government for all Indonesia. This could mean a prolonged civil war, but most observers felt this week that it would not. Sukarno was expected to work out a compromise with the rebels, possibly giving them representation in the government to dilute the growing influence of communists.

MIDDLE EAST: The situation remains fluid in the Middle East, with the union of Iraq and Jordan following the Egypt-Syria merger. The ultimate effect of these events on the Baghdad Pact will be watched.

Finance



NEW OFFERINGS: The corporate new financing calendar was more active this week.

Debt issues: \$150 million debentures of General Motors Acceptance Corporation, \$25 million bonds of New York State Electric & Gas, \$8 million bonds of Gulf Power, \$1.5 million convertible debentures of Southern Oxygen Co., \$3.9 million equipment certificates of Norfolk & Western Railway and \$1.2 million certificates of Wisconsin Central Railroad.

Preferred: 250,000 shares (\$100 par) of Niagara Mohawk Power Co., 100,000 shares (\$100 par) of Northern Illinois Gas Co. and 75,000 shares (\$100 par) of Gulf States Utilities Co.

These offerings came to a market which late last week was rapidly becoming free of inventories of unsold portions of older issues.

MUNICIPALS: The tax-exempt bond calendar was heavy this week. Issues listed for offering aggregated about \$288 million, according to "The Daily Bond Buyer." The total included major issues of some 40 local government bodies.

Prices dipped last week for the third week in a row. At the close of trading, the average yield for general obligations was .98 per cent, down from 2.97 per cent the week before and from 2.82 per cent as recently as January 27.

According to "The Blue List," the backlog of advertised unsold bonds rose last week to more than \$350.7 million, a figure close to the all-time record high.

In addition to this supply of older bonds, the market looks to heavy offerings in the weeks ahead. The 30-day visible supply stands at \$523 million.

Investors have been quickly snapping up shorter-term maturities but showing less interest, at prevailing prices, in the tax-

exempt bonds bearing longer maturities. It is these, for the most part, which have been going into inventory.

STOCK MARKET: Although, despite late rallies, all three averages lost ground this week, it was noted that trading volume dwindled on the downside—and numerous stocks rose to new 1957-58 highs. Trading shows great selectivity.

Commodities



PRICES: The Government's index of wholesale commodity prices rose 0.2 in the latest week to 118.8 per cent of the 1947-49 average. The increase was attributable to higher prices for farm products and processed foods. Industrial commodities were unchanged on the week.

CATTLE: For two years, the cattle population of the U. S. has been declining—from a record 96.8 million head at the start of 1956. During 1956 there was a drop of more than 2 million. Last year, cattle numbers declined 535,000—a drop considerably under most of the forecasts. At the start of this year, according to the Department of Agriculture, there were almost 94 million head of cattle on farms and ranches, as against an average population of 86.6 million head in the period from 1947 through 1956.

According to the Department's calculations, the cattle population at the start of this year, although smaller numerically than a year before, had a gross value of \$14.2 billion, up 31 per cent from 12 months earlier.

FEED GRAINS: It is estimated that the total acreage planted to feed grains this year will be under the 1957 level. Big expanses of land which southwestern farmers devoted to grain sorghums last year will be producing winter wheat instead.

Business



ACTIVITY: The level of basic production activity inched upward in the latest week as a result of increases in output of paperboard and electric power. These rises more than offset dips in production of steel and lumber, and in carloadings.

OUTLOOK: The past week or so has brought numerous business predictions, some putting the date of the expected economic upturn as early as March, others looking to a later month. Most optimistic of the prophets last week was President Eisenhower, who said the nation definitely is not facing a prolonged recession and that the month of March will bring a "pick-up in job opportunities." The Presidential forecast was promptly backed up by Secretary of Labor Mitchell. However, few of the economists who have been predicting a mid-year upturn were able to find themselves in immediate agreement with the President and the Secretary of Labor. Some, it should be noted, are skeptical of even a mid-year upturn. A prediction of Commerce Secretary Weeks that the nation will be prosperous by November was challenged last week by five economists.

STATISTICAL BACKGROUND: The story of the business slowdown now is available in cold figures. The Federal Reserve Board reports that industrial production dipped in January for the fifth successive month to 133 per cent of the 1947-49 average. The drop in the index from December to January was 3 points. At 133, the index stood 14 points (or 9½ per cent) below the record peak of December, 1956. The decline since last August was 8¼ per cent. This dip in the nation's economic activity has been accompanied by substantial increases in unemployment. From mid-December to mid-January, the number of unemployed increased 1,120,000—the largest increase for any month since the Government began keeping such statistics in 1941. The normal seasonal increase at this time of year is 500,000 to 600,000. The total number

out of work reached the highest level since 1950.

Federal Reserve Board figures show that, in the current decline, production of durables has fallen more than 14 per cent, output of non-durables has fallen 4½ per cent and minerals production has slumped 8 per cent.

RETAIL: In general, retail business is holding up well, trade sources report. Chain stores and mail order houses did 6 per cent more business in January than in the like month of 1957. Drug stores beat their January 1957 volume by 14 per cent. Automotive accessory and supply stores went 11 per cent over a year ago. Grocery chains beat their January 1957 volume by 13 per cent. On the other hand, the sales volume of furniture chains was down 14 per cent and sales at men's wear stores were off almost 10 per cent. In comparison with 1957 figures, department stores have been lagging behind the chain and mail order houses. In the latest week, when shoppers may have been deterred by severe winter weather in many areas, sales of department stores across the nation were 8 per cent below the like 1957 week, according to the Federal Reserve Board. Department store sales from January 1 to date, according to the same agency, are 1 per cent under the like period of 1957.

PAPER: The American Pulp and Paper Association held its 81st annual convention in New York this week, with some 2,000 executives attending. Discussion concentrated on problems of expanding markets to utilize greatly increased productive capacity, slowing a steady rise in costs—and stopping the current trend of declining profits.

MINE ENGINEERS: The American Institute of Mining, Metallurgical and Petroleum Engineers held its annual meeting in New York this week. Thousands of engineers, geologists, executives and equipment salesmen got together to discuss technical and marketing problems in a period of reduced demand for the industry's products.

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