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CONFIDENTIAL (FR)

# CURRENT ECONOMIC
# and
# FINANCIAL CONDITIONS

**Prepared for the**
**Federal Open Market Committee**


*By the Staff*

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM


June 10, 1964

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## IN BROAD REVIEW

Information becoming available recently indicates that the domestic economy has remained firmly on its expansion course without stimulating any widespread advance in prices. Read literally, the drop in unemployment from the February-April level of 5.4 per cent to the May figure of 5.1 would suggest a breakthrough, but this improvement resulted partly from lack of increase in the labor force and may not be sustained. Industrial production, which rose a full point in April, apparently showed little change in May, but this development also may not be of great significance.

Improvement was shown by retail sales which rose in May to a level above the February high, following some hesitation in March and April. Similarly, the stepped-up rate of inventory accumulation in April and manufacturers' plans for a higher rate of accumulation in the second and third quarters were indications of strengthening demands.

The official June survey of business plans for new plant and equipment outlays raised the estimate for the year to 12 per cent, as an unofficial survey had reported in April; the survey reported a higher first quarter level than indicated earlier, but the rise for the remainder of the year was not so rapid.

In the financial area, bank credit expansion in May was somewhat greater than in earlier months this year, perhaps reflecting in part the rise noted in inventory buying. The private money supply declined in May, but time deposit growth was a little larger than in March and April. For the first five months of this year, the rate of monetary growth was barely half that in late 1963. Time deposit expansion also has been less rapid than in late 1963. Free reserves declined sharply in May to $85 million, as member bank borrowing increased. The May average was slightly below that of February-March. Interest rates have generally shown little change with the key 3-month Treasury bill rate continuing below the discount rate.

The decline in stock market prices after mid-May may have been a moderating influence on financial expectations, although most analysts have interpreted the drop as a technical correction following the sharp rise from late November to mid-May.

The U. S. balance of payments deficit for the year to date has apparently been around $1-3/4 billion, seasonally adjusted annual rate. The annual rate of trade surplus in April was $6 billion, compared to $7 billion in the first quarter.

Capital outflows on new foreign security issues, including some arranged a year ago, were larger in April and May than in earlier months.

The leveling of U. S. exports in recent months has paralleled a leveling--perhaps temporary--in total imports of leading foreign countries. In March-April, imports of France and Italy were somewhat reduced from the peaks they reached in January-February, in contrast to continuing import expansion in Germany and the Netherlands, as well as in the United States.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally Adjusted)

| | Latest Period | Amount | | | % Change from:3/ | |
|---|---|---|---|---|---|---|
| | | Latest Period | Preceding Period | Year Ago | Year Ago | 2 Years Ago |
| Civilian labor force (mil.) | May '64 | 74.6 | 74.6 | 73.0 | 2.2 | 3.8 |
| Unemployment (mil.) | " | 3.8 | 4.0 | 4.3 | -10.7 | -3.0 |
| Unemployment (per cent) | " | 5.1 | 5.4 | 5.9 | -- | -- |
| Nonfarm employment, payroll (mil.) | Apr.'64 | 58.5 | 58.3 | 56.9 | 2.8 | 5.0 |
| Manufacturing | " | 17.3 | 17.2 | 17.0 | 1.5 | 2.1 |
| Other industrial | " | 7.7 | 7.7 | 7.5 | 2.1 | 2.6 |
| Nonindustrial | " | 33.5 | 33.3 | 32.3 | 3.7 | 7.1 |
| Industrial production (57-59=100) | " | 129.2 | 128.2 | 122.5 | 5.5 | 9.7 |
| Final products | " | 129.1 | 128.2 | 122.1 | 5.7 | 9.2 |
| Materials | " | 129.3 | 128.2 | 122.9 | 5.2 | 10.3 |
| Wholesale prices (57-59=100)1/ | " | 100.3 | 100.4 | 99.7 | 0.6 | -0.1 |
| Industrial commodities | " | 100.8 | 100.8 | 100.2 | 0.6 | 0.0 |
| Sensitive materials | " | 99.4 | 98.9 | 96.5 | 3.0 | 1.6 |
| Farm products and foods | " | 97.8 | 98.2 | 97.6 | 0.2 | -0.9 |
| Consumer prices (57-59=100)1/ | " | 107.8 | 107.7 | 106.2 | 1.5 | 2.5 |
| Commodities except food | " | 104.3 | 104.3 | 103.1 | 1.2 | 1.6 |
| Food | " | 105.7 | 105.7 | 104.3 | 1.3 | 2.2 |
| Services | " | 114.8 | 114.5 | 112.5 | 2.0 | 3.9 |
| Hourly earnings, mfg. ($) | " | 2.51 | 2.50 | 2.43 | 3.3 | 5.0 |
| Weekly earnings, mfg. ($) | " | 102.22 | 101.60 | 97.75 | 4.6 | 5.3 |
| Personal income ($ bil.)2/ | " | 483.1 | 480.9 | 457.4 | 5.6 | 9.9 |
| Retail sales, total ($ bil.) | " | 21.4 | 21.3 | 20.3 | 5.5 | 10.4 |
| Autos (million units)2/ | May '64 | 7.8 | 7.7 | 7.2 | 8.0 | 17.7 |
| GAAF ($ bil.) | Apr.'64 | 4.9 | 4.8 | 4.4 | 11.2 | 13.3 |
| Selected leading indicators | | | | | | |
| Housing starts, pvt. (thous.)2/ | " | 1,558 | 1,665 | 1,618 | -3.7 | 3.1 |
| Factory workweek (hours) | " | 40.6 | 40.7 | 40.1 | 1.2 | 0.0 |
| New orders, dur. goods ($ bil.) | " | 20.4 | 19.3 | 19.0 | 7.2 | 20.0 |
| New orders, nonel. mach. ($ bil.) | " | 2.9 | 2.8 | 2.6 | 12.2 | 21.4 |
| Common stock prices (1941-43=10) | May '64 | 80.72 | 79.94 | 70.14 | 15.1 | 28.1 |
| Inventories, book val. ($ bil.) | " | 105.4 | 105.0 | 101.2 | 4.2 | 8.4 |
| Gross national product ($ bil.)2/ | Q.I '64 | 608.0 | 600.1 | 571.8 | 6.3 | 11.7 |
| Real GNP ($ bil., 1963 prices)2/ | " | 600.6 | 595.4 | 575.7 | 4.3 | 8.2 |

1/ Not seasonally adjusted. 2/ Annual rate. 3/ Based on unrounded data.

SELECTED DOMESTIC FINANCIAL SERIES

| Indicators | Week ended June 6 | Four Week Average 1/ | Last six months High | Last six months Low |
|---|---|---|---|---|
| Money Market (N.S.A.) | | | | |
| Federal funds (%) | 3.50 | 3.49 | 3.50 | 2.00 |
| Treasury bills 3 mo., yield (%) | 3.47 | 3.47 | 3.60 | 3.44 |
| Net free reserves 2/ (Mil. $) | 74 | 100 | 239 | 18 |
| Member bank borrowings 2/ (mil. $) | 264 | 271 | 558 | 115 |
| Security Markets (N.S.A.) | | | | |
| 5-year Government securities | 4.03 | 4.03 | 4.21 | 4.01 |
| 20-year Government securities | 4.18 | 4.19 | 4.26 | 4.16 |
| Corporate new issues, Aaa (%) | 4.45 | 4.45 | 4.53 | 4.30 |
| Corporate seasoned, Aaa (%) | 4.41 | 4.41 | 4.41 | 4.32 |
| Municipal seasoned, Aaa (%) | 3.08 | 3.08 | 3.18 | 3.07 |
| FHA home mortgages, market yield (%) | n.a. | n.a. | 5.44 | 5.43 |
| Common stocks - S&P composite | | | | |
| Prices, closing (1941-43=10) | 79.02 | 80.28 | 81.01 | 69.41 |
| Dividend yield (%) | 3.10 | 3.04 | 3.20 | 2.96 |

| | Change in May | Average change-- last 3 mos. | Annual rate of change (%) 3 mos. | Annual rate of change (%) 1 year |
|---|---|---|---|---|
| Banking (S.A., mil. $) | | | | |
| Total reserves | -27 | 46 | 2.7 | 2.8 |
| Bank loans and investments: 3/ | | | | |
| Total | 1,700 | 1,700 | 8.2 | 7.7 |
| Business loans | 400 | 300 | 6.8 | 10.5 |
| Other loans | 1,400 | 1,500 | 18.6 | 14.0 |
| U.S. Government securities | -400 | -300 | -5.9 | -5.9 |
| Other securities | 300 | 200 | 5.6 | 12.9 |
| Money and liquid assets: 3/ | | | | |
| Demand dep. & currency | -200 | 200 | 1.8 | 3.3 |
| Time and savings dep. | 1,000 | 800 | 8.0 | 13.3 |
| Nonbank liquid assets 4/ | 1,400 | 1,600 | 8.0 | 8.0 |

N.S.A.--not seasonally adjusted. S.A.--seasonally adjusted. n.a.--not available.
1/ Average of daily figures. 2/ Averages for statement week ending June 3.
3/ Changes in all items except business loans are based on newly revised seasonally adjusted data. 4/ April figure.

U.S. BALANCE OF PAYMENTS

| | 1964 | | | | 1963 | | 1962 |
|---|---|---|---|---|---|---|---|
| | Apr. | Mar. | Feb. | Q-I | Q-IV | Year | Year |
| Seasonally adjusted annual rates, in billions of dollars | | | | | | | |
| Balance on regular trans. | | | | - .54 | - 1.8 | - 3.3 | - 3.6 |
| Exports 1/ | 24.2 | 24.5 | 23.9 | 24.3 | 23.6 | 21.9 | 20.5 |
| Imports 1/ | -18.3 | -18.1 | -17.1 | -17.4 | -17.5 | -16.9 | -16.1 |
| Trade balance 1/ | 5.8 | 6.5 | 6.8 | 6.9 | 6.1 | 5.0 | 4.3 |
| Unadjusted monthly averages, in millions of dollars | | | | | | | |
| Balance on regular trans. | -474 | 370 | - 10 | 37 | -146 | -275 | -298 |
| Trade balance 1/ | 542 | 518 | 640 | 583 | 529 | 413 | 361 |
| Securities transactions | -104 | - 2 | - 83 | - 9 | 19 | - 69 | - 80 |
| Bank-reported claims 2/ | -159 | -239 | -176 | -209 | -263 | -117 | - 39 |
| Other | -753 | 93 | -391 | -328 | -431 | -502 | -540 |
| Financing, total | 474 | -370 | 10 | - 37 | 146 | 275 | 298 |
| Special receipts 3/ | 0 | 42 | 0 | 50 | 88 | 57 | 95 |
| Liabilities increase: | | | | | | | |
| To nonofficial 4/ | 684 | -166 | 32 | 91 | 10 | 50 | 17 |
| To official | -204 | -123 | -132 | -160 | 50 | 136 | 59 |
| Monetary reserves decrease | - 6 | -123 | 110 | - 17 | - 2 | 32 | 128 |
| of which: Gold sales | (-178) | (- 32) | (22) | (15) | (13) | (38) | (74) |

1/ Balance of payments basis; differs a little from Census basis.
2/ Adjusted for changes in coverage and for long-term claims taken over from nonfinancial concerns.
3/ Other than nonmarketable bonds, which are included in liabilities to official. Advances on military exports are assumed as zero for individual months in absence of information.
4/ Including international institutions (except IMF), commercial banks and private nonbank.

## THE DOMESTIC ECONOMY

Industrial production. Calculation of the May index is not yet complete but available data--including production worker manhours--indicate little change from the record April level of 129 per cent of the 1957-59 average.

Auto assemblies in May were at the record April level of 160 per cent of the 1957-59 average and production schedules for June call for another month of high output. Truck production continued at advanced levels in May. Steel ingot output was maintained and production of paperboard and electric power remained at record rates.

Sales of new domestic autos in May were at a seasonally adjusted annual rate of 7.8 million compared with 7.7 million in April and 7.2 million a year ago. Stocks declined slightly and on May 31 totaled 1.2 million, one-fourth above a year earlier. Sales of used cars changed little and were 3 per cent above last year. Used car prices, an indicator of the strength of demand for new cars, were at advanced levels and in April were 5 per cent above a year earlier.

Labor market. The labor market strengthened somewhat further in May but probably not as much as suggested by the decline in the unemployment rate to 5.1 per cent from 5.4 per cent in the three preceding months. Employment showed a moderate increase, of which three-fifths was in agriculture and of little cyclical significance. The labor force changed little. In contrast both employment and the labor force rose sharply in April.

Major age-sex groups showed different patterns of change in May. For adult men the unemployment rate declined to 3.6 per cent from 3.8 per cent in April as employment rose and the labor force was relatively stable. Among women unemployment was reduced, to 5.0 per cent from 5.4 per cent, because of withdrawals from the labor force, following a sharp increase in April. Unemployment for younger workers, however, remained at 16 per cent and both employment and the labor force increased somewhat. Growth in the number of youths in the labor force was smaller than anticipated.

CHANGES IN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
(April-May, seasonally adjusted, in thousands of persons)

| | Labor Force | Employment | Unemployment |
|---|---|---|---|
| Men, 20 years and over | 29 | 117 | -88 |
| Women, 20 years and over | -145 | -52 | -93 |
| Both sexes 14-19 | 128 | 130 | -2 |
| Total | 12 | 195 | -183 |

All of the May decline in unemployment was among the short-term unemployed. Longer-term unemployment, 15 weeks and longer, totaled 935,000, about the same as in the preceding month, but 180,000 fewer than a year ago. With the increased growth of younger workers in the labor force over the past year, youths account for a larger proportion of the long-term unemployed.

The civilian labor force in May was 1.6 million larger than a year earlier, with most of the increase taking place since December. The rise over the year compares with a projected growth of 1.2 million. According to this Census household series, nonagricultural employment increased 2.2 million from May of last year. This was a substantially larger rise than shown by the establishment (payroll) series. A large part of the difference is attributable to a rise in the number of youths and women reported working part-time in self-employment and domestic service activities not included in the establishment count.

Consumer spending. On the basis of sales data through May, consumer purchases of goods and services are estimated to show a further sizable advance in the second quarter. Expenditures for both durable and nondurable goods, as well as for services, appear to be up. The rise is unlikely, however, to equal the $8 billion annual rate of increase in the first quarter, unless June spending is very strong. The rise is also unlikely to match the sharp rise in consumer after-tax incomes, and--as generally anticipated--the saving rate will increase.

On a monthly basis, retail sales in May renewed their advance after some hesitation in March and April. After allowance for seasonal influences, sales probably exceeded the February peak. Both durable and nondurable goods sales in May were up from April. The April-May average is more than 1 per cent higher than the first quarter, with sales up at both durable and nondurable goods stores.

Revisions in sales data were negligible for March but the original April estimate was raised by about 1 per cent. As a result, April now shows an increase of 0.6 per cent from March rather than a slight decline.

<u>Consumer credit</u>. Extensions of consumer instalment credit in April, at an annual rate of $64-1/2 billion, were close to the record highs of recent months. Extensions were a little lower relative to sales in the principal lines concerned. An expected increase in automotive credit extensions failed to materialize despite the rise in automotive sales; dollar volume of nonautomotive sales financing dipped although sales were generally well maintained at department, furniture and appliance stores. It is not yet clear whether the marked strength in autos and soft goods indicated for May was reflected in a speed-up of new consumer borrowing.

Repayments on instalment debt continued in April at the record annual rate of almost $60 billion and outstandings rose at an annual rate of about $5 billion, somewhat less than the average increase over the past year.

<u>Business plans for fixed capital outlays</u>. The new Commerce-SEC quarterly survey, with most questionnaires returned in May, shows a planned increase of 12 per cent in business spending on plant and equipment in 1964. This compares with a rise of 10 per cent reported by Commerce-SEC in March and is about the same as the McGraw-Hill estimate reported in April. Total spending for the year is now anticipated to be $43.9 billion, compared with the earlier figure of $43.2 billion. (Confidential until release)

Much of the upping of plans for the year reflects larger actual expenditures than had been anticipated earlier for the first quarter, as may be seen in the table. The levels for the second quarter and for the second half of the year are also raised, but by progressively smaller amounts, and the increase from first to fourth quarters implied by the new figures is smaller than that implied earlier.

SPENDING PLANS FOR NEW PLANT AND EQUIPMENT
(Seasonally adjusted annual rates in billions of dollars)

| | | Indicated by Survey released: March 1964 | Indicated by Survey released: June 1964 |
|---|---|---|---|
| 1963 | 4th quarter | 41.20 1/ | |
| 1964 | 1st quarter | 41.25 | 42.55 1/ |
| | 2nd | 42.70 | 43.35 |
| | 3rd) | 44.45 | 44.30 ) 44.85 |
| | 4th) | | 45.40 2/) |

1/ Actual spending. 2/ Implied.

The raising of plans for 1964 has been widespread among major industries, as may be seen in the table.

PLANNED OUTLAYS ON PLANT AND EQUIPMENT
Percentage increase 1963 to 1964

| | Commerce-SEC March 1/ | Commerce-SEC June 1/ | McGraw-Hill April 1/ |
|---|---|---|---|
| Nonfarm industry, total | 10 | 12 | 12 |
| Manufacturing | 13 | 16 | 18 |
| Durable | 14 | 15 | n.a. |
| Iron and steel | 26 | 25 | 48 |
| Motor vehicles | 21 | 32 | 52 |
| Nondurable | 12 | 17 | n.a. |
| Mining | -1 | 5 | 11 |
| Railroads | 25 | 31 | 29 |
| Public utilities | 6 | 7 | 13 |
| Other 2/ | 8 | 9 | 6 |

1/ Most questionnaires are received during the month prior to that in which the data are released.
2/ Includes other transportation, communications, commercial, and miscellaneous.

Most notable is manufacturing, for which a rise of 16 per cent is now indicated for the year, with increases planned in each quarter, compared with 13 per cent in the preceding survey. Within manufacturing, prospective spending in nondurable goods industries has been increased considerably, mainly in chemicals and petroleum which now show prospective increases of 14 and 20 per cent, respectively. The over-all change in durable goods is small: motor vehicles now show a planned rise of 32 per cent, above the March survey but still well below McGraw-Hill. Nonelectrical machinery has also been revised up, with a prospective increase of 14 per cent. So has electrical machinery, but indicated spending here is still below the 1963 level.

The higher level of spending shown in the new Commerce-SEC survey is generally in line with the Newsweek-National Industrial Conference Board, May survey of new capital appropriations by manufacturers. Appropriations in the first quarter of this year were only a little less than the relatively large amounts in the third and fourth quarters of last year. (The fourth quarter appropriations shown by the February survey were revised up sharply.) Significantly, the greatest strength in the first quarter appropriations was in nondurable goods industries, particularly chemicals, rubber, and oil, whereas strength earlier had been in durable goods industries.

Business inventories. Expansion in business inventories stepped-up to nearly $450 million in April. The rise compares with an average monthly increase of less than $200 million in the first quarter. Business sales also increased more rapidly in April and the over-all stock sales ratio remained at the unusually low first quarter level.

The rise of $200 million in factory stocks in April was about the same as the average monthly increase during 1963, and it consisted of moderate gains in work-in-process and finished goods, mainly in durable goods industries. Stocks of materials and supplies declined somewhat in both durable and nondurable goods industries. Steel inventories held by steel consuming manufacturers edged down in April to the December level and was otherwise the lowest since March 1963. Mill stocks of finished steel were unchanged in April at an unusually high level.

The April rise of $250 million in retail inventories followed two months of little over-all change. From January to March stocks of durable goods had increased, mainly because of autos, while nondurable goods stocks had drifted off. In April, auto stocks showed little further rise while nondurable goods stocks recovered the earlier decline and were about the same as in January.

Inventory anticipations. According to the latest Commerce quarterly survey conducted in May, manufacturers are still pursuing conservative inventory policies. They anticipate a total inventory increase of $400 million in the second quarter and $700 million in the third quarter. Most of the expansion is planned for the durable goods sector. These increases are well above the unusually low first quarter rise of about $150 million and compare with the average quarterly increase of $600 million in 1963.

Manufacturers expect sales to continue to increase. Durable goods sales are estimated to rise at a rate of 2 per cent a quarter and nondurable goods sales, at a rate of 1.3 per cent a quarter, from the first to the third quarter. With such increases, manufacturers' inventory-sales ratios would decline somewhat further from the low first-quarter levels.

Construction activity. New construction put in place in May continued unchanged from the record rate established in March. Over this period, both private and public construction activity remained at levels only moderately different from earlier highs reached toward the end of last year.

NEW CONSTRUCTION PUT IN PLACE

| | May (billion) 1/ | Per cent increase from: | | |
|---|---|---|---|---|
| | | Month Ago | Year Ago | 2 Years Ago |
| Total | $66.7 | -- | 10 | 14 |
| Private | 46.6 | -- | 8 | 12 |
| Residential | 27.3 | -- | 7 | 12 |
| Nonresidential | 19.2 | +1 | 9 | 12 |
| Business | 13.6 | -- | 10 | 13 |
| Public | 20.1 | -- | 16 | 17 |

1/ Seasonally adjusted annual rate; preliminary.

Seasonally adjusted construction contracts, as measured by F. W. Dodge Corporation, tended down further in April from the record December rate. The April rate was a tenth above a year earlier, however, and, based on the unusually large volume of contracts accumulated in recent months, Dodge expects that the high spring rate of construction expenditures will at least be maintained through this year.

Mortgage markets. Mortgage funds have continued ample in recent months, but pressure to acquire mortgage holdings has been less intense than a year earlier when the rate of savings inflows to financial institutions was higher. As a result, purchases from FNMA have continued far below last year's record level and some lenders have become more restrictive, particularly on loans for marginal types of apartments and other income properties.

Delinquency rates on home mortgages moved downward from the fourth quarter of 1963 to the first quarter of this year, according to the regular survey of the Mortgage Bankers Association. Delinquency rates on conventional loans held or serviced by reporters in this survey were slightly above a year earlier, however, as can be seen in the table.

HOME-LOAN DELINQUENCIES OF 60 DAYS OR MORE 1/
(Per cent of loans surveyed)

| | FHA | VA | Conventional |
|---|---|---|---|
| 1959 first quarter | .46 | .86 | .47 |
| 1962 " | .80 | .89 | .42 |
| 1963 " | .96 | 1.01 | .45 |
| 1964 " | .96 | 1.01 | .49 |

1/ Excludes loans in process of foreclosure.

Based on a recent survey of real estate appraisers by the Chase Manhattan Bank, 36 per cent of the respondents did not consider the rate of foreclosures on residential property to be a problem; 54 per cent considered it only a minor problem, and 10 per cent ranked it as a major problem. About 74 per cent of the appraisers considered market values for real estate to be either basically sound or undervalued.

Prices. In May and early June the wholesale commodity price index and the broad components for industrial commodities and foodstuffs continued essentially stable. The total index has shown little net change this year and has remained within its narrow range of the past 6 years. Prices of foodstuffs are slightly lower than at the end of 1963 and the average for industrial commodities is unchanged. The current level for industrial commodities--100.8 per cent of the 1957-59 average--is 1/2 per cent higher than in early 1963, about the same as in early 1961, when activity was at a recession low, and 1/2 per cent lower than at the cyclical peak in early 1960.

Prices of most basic or sensitive commodities also have changed little in recent weeks. Although industrial demand for copper remains strong, prices in the London market have declined moderately, following a sharp rise, and the Chilean Government reportedly no longer is pressing for an increase in the price quoted by producers. The expiration of many labor contracts at midyear still is a source of major uncertainty in copper markets. At the end of May list prices for a wide range of aluminum sheet and plate were reduced to reflect actual transactions prices. Subsequently, the aluminum ingot price was raised 1/2 per cent, or 2 per cent. There were rumors that prices of sheets, plates, and other products were now being raised to reflect the higher ingot price. In another metals area, one producer of stainless steel has initiated a 5 per cent reduction in published prices for standard grades of sheets and plates.

Among foodstuffs, winter wheat has declined in anticipation of the lower Federal loan rate that takes effect July 1. Sugar has declined, falling almost to the levels prior to the sharp rise a year ago, as supply prospects have improved. Livestock prices, on the average, have been unusually stable in recent months. Prices are about a tenth lower than a year ago, reflecting a substantial expansion in market supplies.

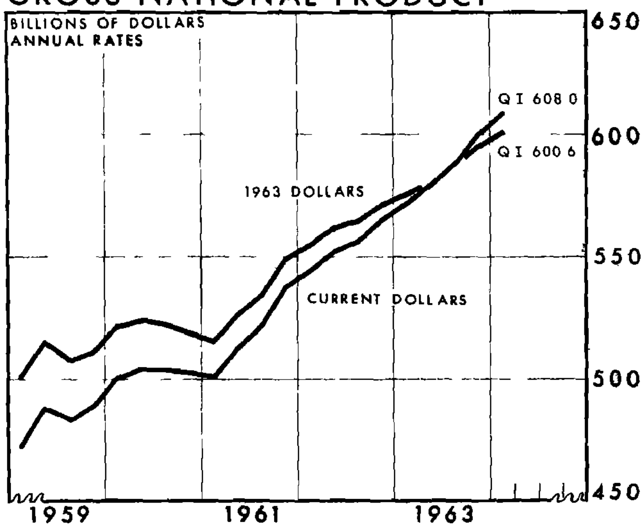
The consumer price index increased .1 per cent in April, and was up 1.5 per cent from a year earlier. Average prices of foods and of nonfood commodities were unchanged in April, but the index for services rose somewhat, reflecting increases for golf green fees, movie admissions, auto insurance, and medical care.

From December to April, the CPI showed a net increase of .2 per cent--a little less than in the first four months of last year and considerably less than two years ago. The difference reflects mainly the behavior of food prices, which showed less than the usual seasonal rise this year, after a less than the usual decline last autumn.

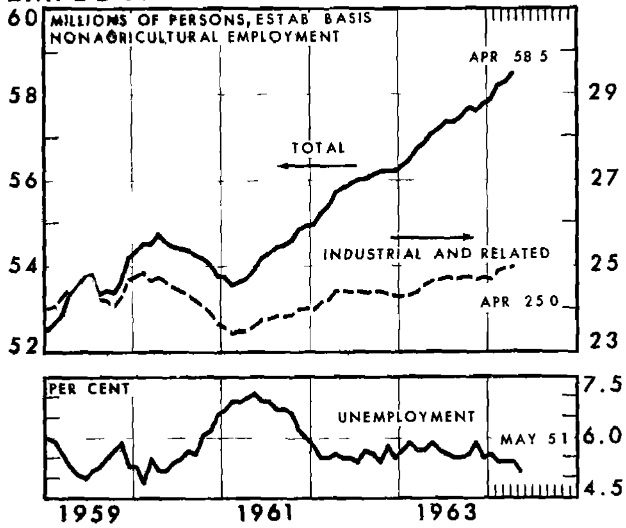
# ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

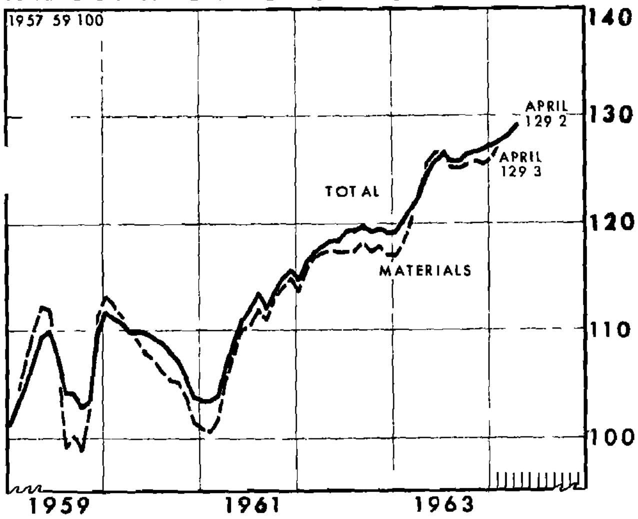
## GROSS NATIONAL PRODUCT



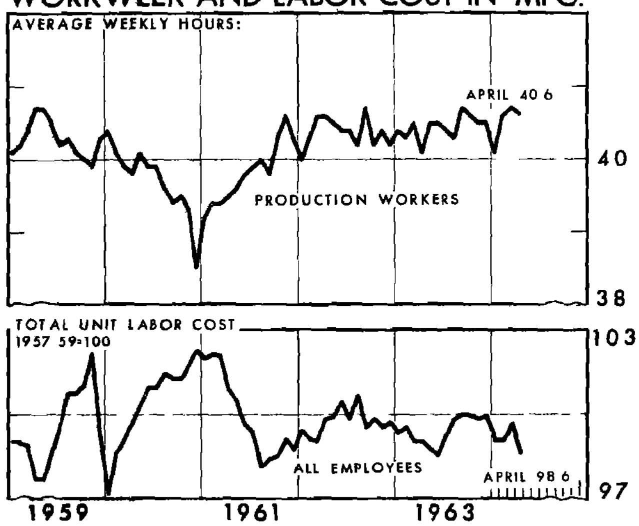

## EMPLOYMENT AND UNEMPLOYMENT



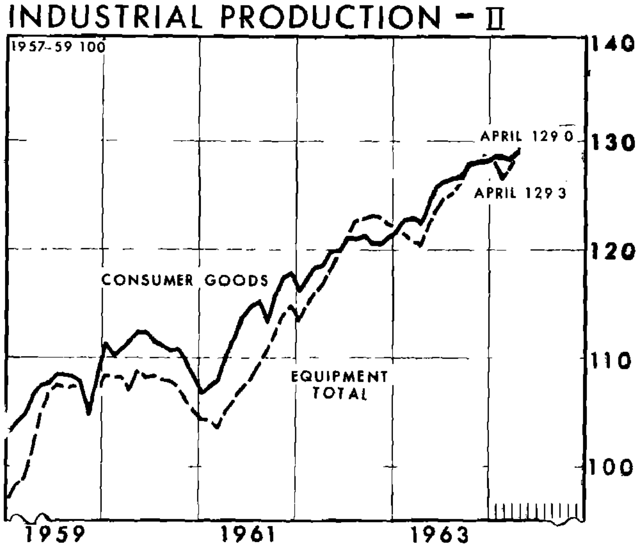

## INDUSTRIAL PRODUCTION - I



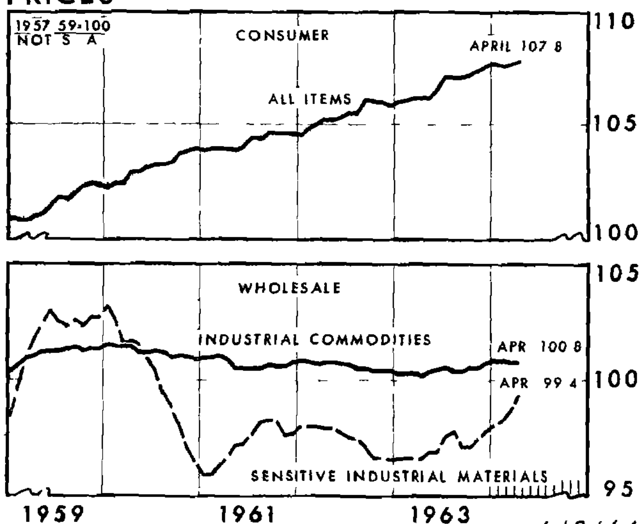

## WORKWEEK AND LABOR COST IN MFG.




## INDUSTRIAL PRODUCTION – II




## PRICES

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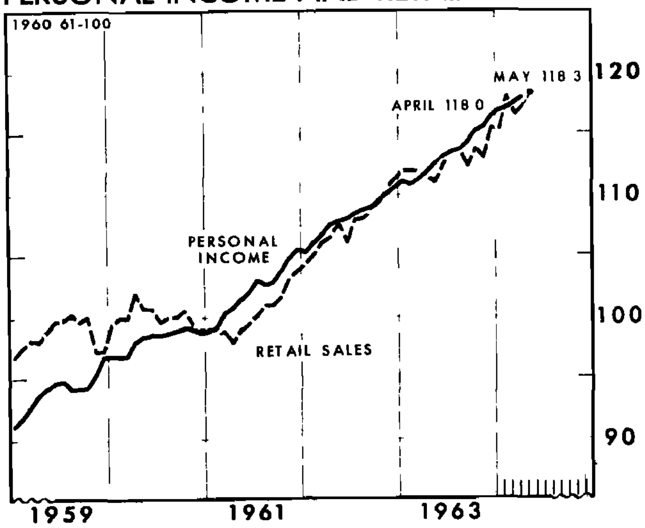
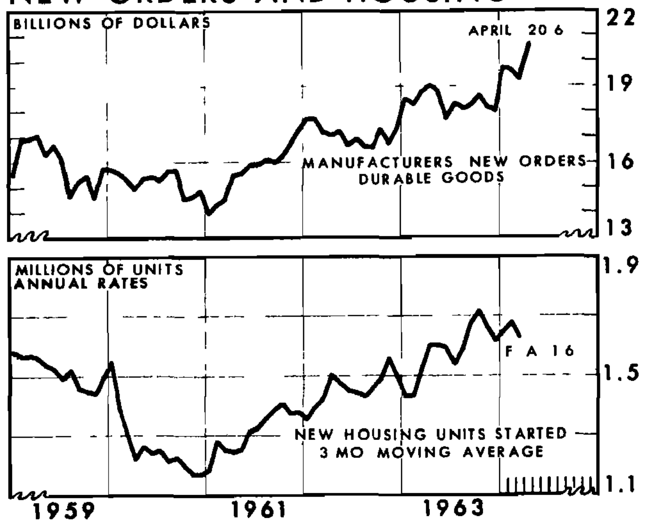
# ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

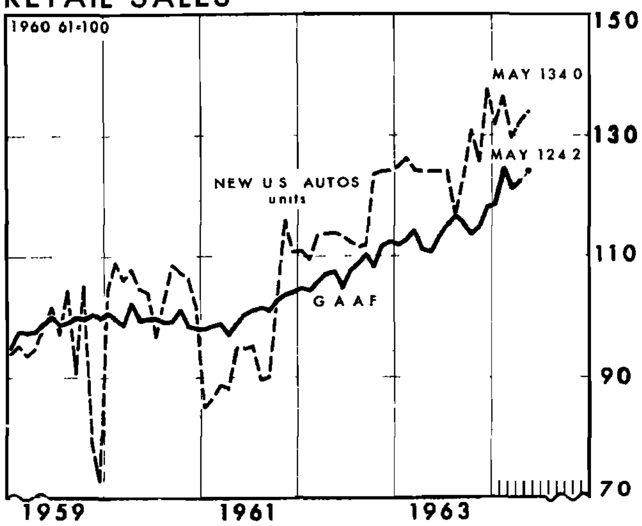
## PERSONAL INCOME AND RETAIL SALES



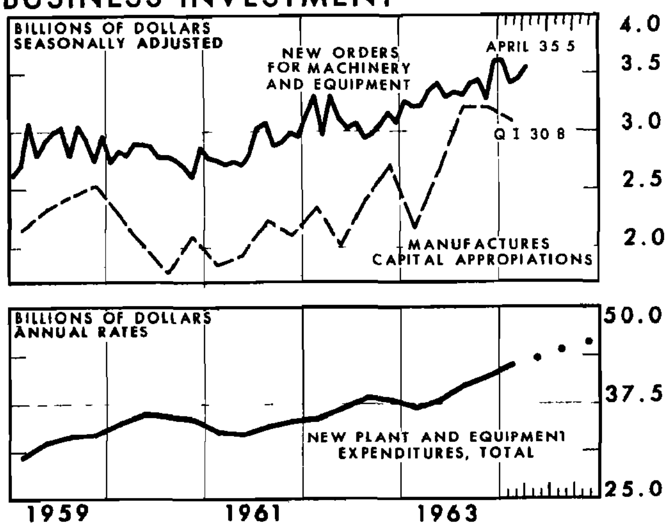

## NEW ORDERS AND HOUSING



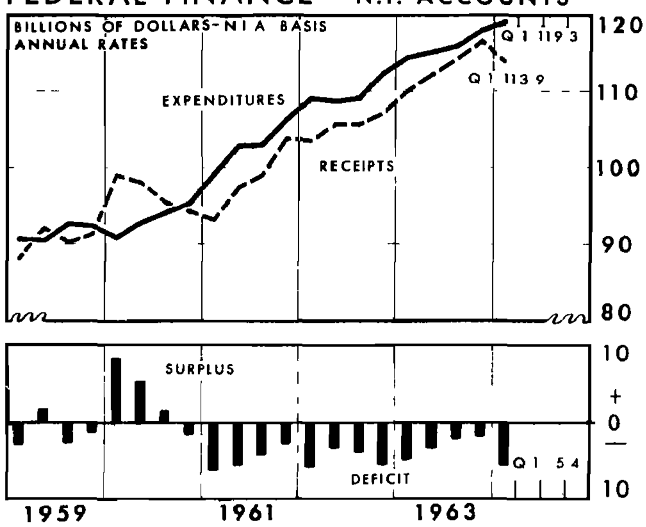

## RETAIL SALES



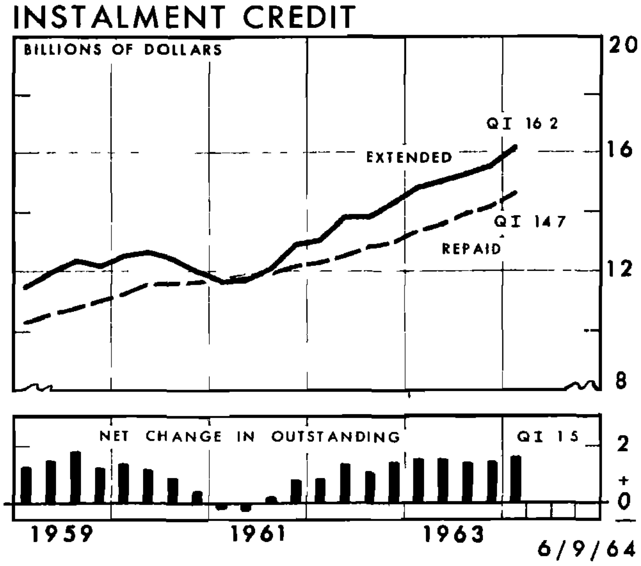

## BUSINESS INVESTMENT




## FEDERAL FINANCE - N.I. ACCOUNTS




## INSTALMENT CREDIT

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## DOMESTIC FINANCIAL SITUATION

Bank credit. On the basis of the new seasonal adjustment factors total loans and investments at all commercial banks increased $1.7 billion in May, after declining somewhat in April. Growth in May was above the average monthly increase earlier this year and brought the annual rate so far this year to 6.6 per cent, somewhat below the 8 per cent expansion in 1963, as shown in the table below.

Total loans increased $1.8 billion in May, also above the average earlier this year. While the loan growth rate of 12.7 per cent through May was somewhat faster than in late 1963, this difference largely reflected the temporary decline in seasonally adjusted security loans in December.

NET CHANGE IN COMMERCIAL BANK CREDIT
Revised seasonally adjusted data (unpublished)

| | Dollar amount (billions) | | Annual rate (per cent) | | | |
|---|---|---|---|---|---|---|
| | May 1964 | Average first four months of 1964 | First 5 months of 1964 | Year 1963 | First 5 months of 1963 | Last 5 months of 1963 |
| Total loans & investments | 1.7 | 1.3 | 6.6 | 8.0 | 7.3 | 8.1 |
| Total loans | 1.8 | 1.5 | 12.7 | 11.6 | 10.0 | 11.3 |
| U. S. Govt. securities | -0.4 | -0.4 | -7.7 | -4.5 | -4.8 | -3.4 |
| Other securities | 0.3 | 0.2 | 6.2 | 19.8 | 21.4 | 16.1 |
| Business loans | 0.4 | 0.3 | 6.9 | 9.4 | 4.5 | 15.1 |

Holdings of U. S. Government securities, after allowance for seasonal changes, declined slightly further in May. So far this year, liquidation of these holdings has been somewhat faster than in 1963. Banks acquired about half of the $1 billion Treasury bill issue on May 6, but at city banks bill sales over the month more than offset new acquisitions. All holdings under 1 year increased, however, as the volume of maturing securities exchanged for longer-term issues was more than offset by substantial passage-of-time portfolio shifts. Holdings of municipal and Federal agency issues increased at about the same moderate rate as earlier in the year but sharply below the reduced rate of late 1963.

Business loans at all commercial banks, seasonally adjusted, increased $400 million in May, slightly more than the average monthly increase earlier in 1964 but much less than in late 1963. In recent weeks, loan demand appears to have strengthened appreciably in the metals, miscellaneous manufacturing and mining, and trade categories, possibly reflecting in part some acceleration in inventory accumulation. Also, borrowing by the construction industry has accelerated somewhat.

Seasonally adjusted real estate and consumer loans continued to increase through May at about the same pace as in other recent months. This was slightly less rapid, however, than the expansion over the year 1963 and in the case of consumer loans considerably slower than in the early months of that year. Loans to nonbank financial institutions showed little further change in May and have increased only slightly so far this year.

Money supply, deposit turnover and time deposits. The seasonally adjusted money supply declined $200 million in May (based on the new unpublished seasonals) following a $900 million expansion in March and April. A reduction in the first half of the month was offset in part by an increase in the second half, and a further rise is expected for the first half of June, on the basis of preliminary data. Through May the annual rate of growth was about 2 per cent, a little less than half as much as the average rate in the last half of 1963. The increase in U. S. Government deposits in May was about the same as in May of other recent years.

Turnover of demand deposits at 343 centers outside New York declined to 35.4 (preliminary) in May from the recent peak of 36.1 in April. The May rate, however, was higher than in any other month preceding April; turnover had shown little net change between July 1963 and March 1964. Over the past two months turnover averaged 7-1/2 per cent higher than in the corresponding months last year.

Seasonally adjusted time deposits at all commercial banks, on the basis of the new seasonals, increased $1 billion in May, somewhat more than the increases in March and April but less than the $1.3 billion average over the previous six months. Through May, growth in these deposits was at an annual rate of 10.9 per cent compared with 14.7 per cent over the year 1963.

At city banks over the four weeks ending May 27, growth in both savings deposits and in other time deposits was comparable with that in the corresponding four weeks last year. This contrasted with earlier months this year when expansion in savings deposits had been below the 1963 rate while growth in other time deposits had been faster.

Bank reserves. Free reserves averaged $85 million in May, considerably below the $160 million level in April but only slightly below the February and March averages. Excess reserves reached a new postwar low of $340 million and borrowings averaged $255 million, somewhat more than in April but less than the average of most other recent months. The effective rate on Federal funds fell below 3-1/2 per cent on only one day during May and early June and transactions below this level occurred on only three days.

Seasonally adjusted reserves against private demand deposits after a sharp rise in the week ending May 6, declined substantially over the succeeding three weeks. They rose again in the week ending June 3, but still remained below their peak level in the week of April 22. Reserves required against U. S. Government deposits rose substantially over this entire period, as is usual.

<u>Corporate and municipal bond markets</u>. The recent rally in corporate and municipal bond prices petered out near the end of May. Since then prices and yields have stabilized, with yield series on State and local government issues holding close to their yearly lows. Yields on new corporate bonds, on the other hand--which had risen to new highs for the year early in May under the stimulus of an expanded calendar of public offerings--are currently well above their 1964 lows. Spreads between yields on long-term corporate, and State and local and U. S. Government bonds have thus increased--the latter to 27 basis points, the widest margin of the year.

BOND YIELDS
(Per cent per annum)

| | Corporate Aaa | | State and Local Government | |
|---|---|---|---|---|
| | New | Seasoned | Moody's Aaa | Bond Buyer (Mixed qualities) |
| 1964 Low | 4.30(2/21) | 4.35(2/28) | 3.07(5/22) | 3.16(5/29) |
| Pre-rally high | 4.53(5/8) | 4.41(4/24) | 3.16(3/27) | 3.32(3/27) |
| Weeks ending | | | | |
| May 22 | 4.43 | 4.41 | 3.07 | 3.18 |
| May 29 | 4.45 | 4.41 | 3.08 | 3.16 |
| June 5 | 4.45 | 4.41 | 3.08 | 3.16 |

The average yield on new issues of corporate bonds turned up slightly at the end of May, when a number of utility offerings that had been aggressively priced by underwriters during the May rally failed to attract much investor demand. Last week, syndicates on several of these slow-moving issues were terminated, and unsold balances were distributed at yields only slightly above those prevailing on more recent offerings. Some overhang of unsold supply persists, however, and the market is currently marking time, awaiting the results of this week's $150 million GMAC offering. The total volume of new corporate security offerings expected in June is substantially larger than in May, but the increase is wholly attributable to private placements and stock issues. Public offerings of bonds are likely to be in smaller volume, and the calendar beyond June for all new corporate securities so far promises to show its usual summer lull.

In the State and local government securities market, aggressive pricing of recent offerings has also led to investor resistance, and dealers' advertised inventories of unsold issues have again swelled to more than $600 million. With new issue volume in June also scheduled to be up from May, municipal dealers are suggesting that prices may show a little near-term weakness.

NEW CAPITAL SECURITY FINANCING
(In millions of dollars)

| | Corporate | | | State & local | | |
|---|---|---|---|---|---|---|
| | 1964 | 1963 | 1962 | 1964 | 1963 | 1962 |
| First Quarter | 2,369 | 2,351 | 2,229 | p/2,505 | 2,454 | 2,637 |
| Second Quarter e/ | 4,450 | 2,847 | 3,056 | e/2,350 | 2,665 | 2,571 |
| May e/ | 950 | 904 | 771 | 600 | 866 | 912 |
| June e/ | 1,400 | 1,013 | 1,132 | 750 | 930 | 786 |

Stock market. Common stock prices, as measured by Standard and Poor's composite index of 500 stocks, have declined 2-1/2 per cent on balance from the record high reached at mid-May to 79.14 on June 9. Over the same period, trading activity has slackened, averaging about 4.5 million shares a day.

The bulk of the recent stock price decline has occurred since May 22, the end of the six months capital gains holding period for investors who bought stock during the market break following President Kennedy's assassination. Many technicians had been anticipating a technical market reaction in view of the 18 per cent stock price advance from late November to mid-May, and the earlier tendency for the market to over-discount the expected economic effects of the Federal tax cut. Further selling was triggered late last week when the Dow-Jones industrial average broke through the low end of the range within which it had fluctuated for two months. Some analysts interpreted this decline as a signal that the Dow-Jones average was likely to drop below 800 before a new base would develop.

Many observers are assuming that the recent stock price decline will be short-lived. This view seems to be based on the recent performance of business, an expectation that tax-cut effects will cumulate as the year progresses, and a resultant anticipation of further increase in corporate profits.

U. S. Government finance. The Treasury's cash balance has continued to run above projections, largely reflecting continued moderation in expenditures. The balance could build up from a June 9 level of $5.6 billion to $9 billion or more at the end of the fiscal year.

The indicated large balance will help the Treasury finance in July a seasonal cash drain of around $5 billion and $2.0 billion of 1-year bill maturities. Net cash borrowing for July may be in the order of $3 to $3.5 billion, or even less if the balance builds up beyond current expectations. Market observers generally expect the Treasury to auction a March tax anticipation bill in early July to meet the bulk of this need, although some observers have not ruled out the possibility of some coupon financing. The Treasury is also expected to continue its weekly bill auction of $2.1 billion during July, thereby raising a total of $300 million in three successive auctions when $2.0 billion weekly bills mature.

YIELDS ON U. S. GOVERNMENT SECURITIES
(Constant maturity series)

| Date (closing bids) | 3-month bills | 6-month bills | 3 years | 5 years | 10 years | 20 years |
|---|---|---|---|---|---|---|
| 1963 | | | | | | |
| June 28 | 2.99 | 3.06 | 3.61 | 3.82 | 4.00 | 4.03 |
| Dec. 31 | 3.51 | 3.64 | 4.05 | 4.06 | 4.14 | 4.19 |
| 1964 | | | | | | |
| Apr. 30 | 3.45 | 3.59 | 4.10 | 4.13 | 4.22 | 4.24 |
| May 15 | 3.47 | 3.59 | 4.00 | 4.02 | 4.19 | 4.20 |
| 26 | 3.46 | 3.58 | 4.03 | 4.03 | 4.19 | 4.18 |
| June 9 | 3.46 | 3.56 | 4.00 | 4.00 | 4.17 | 4.17 |

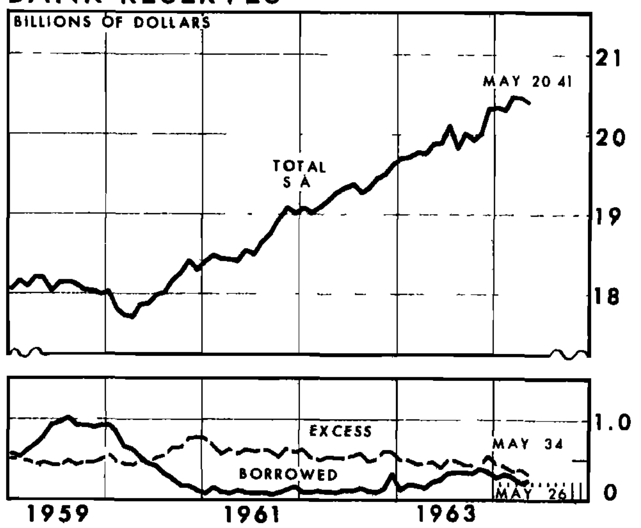
N.B. Yields on notes and bonds taken from yield curve shown to high coupon issues.

Going into the period of seasonal cash need, the Treasury note and bond market has been quiet. Following its recent rally in the first half of May, the market has continued to display a firm undertone, however, reflecting a moderate amount of investment demand offset by relatively limited retail selling. Some selling has appeared on investment switches into the new 4-1/4's of May 1964, but this market supply has been readily absorbed by dealers and other investors.

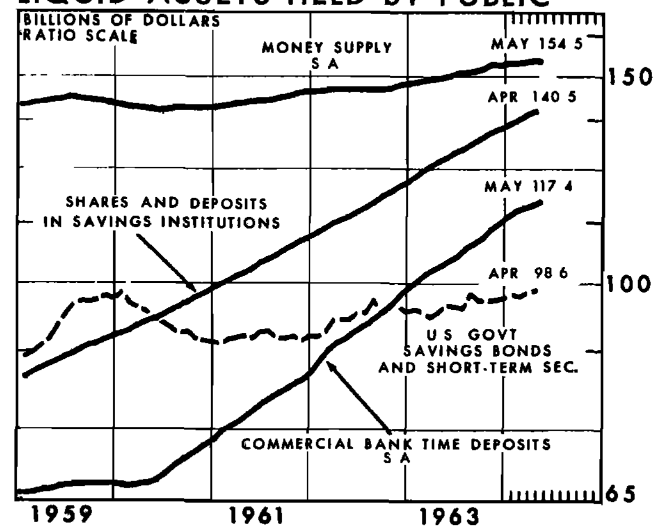
The key 3-month bill rate has fluctuated in a very narrow range since early May, holding between 3.46 and 3.49 per cent bid. The yield on 6-month bills has declined, however, reducing the spread between 3- and 6-month bill rates to about 10 basis points. The spread between these issues was around 15 points in early May and about 20 points in the first half of April. In part, the recent declines in 6-month bill rates appear to reflect a conviction among market participants that short-term rates may not rise very much--if at all--in the near future. Thus these investors have been more willing to reach out for even slightly higher yields on longer bill maturities.

# FINANCIAL DEVELOPMENTS - UNITED STATES

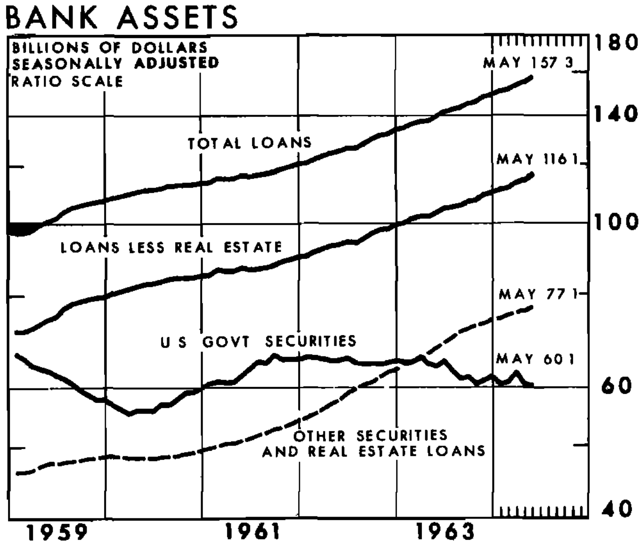
## BANK RESERVES



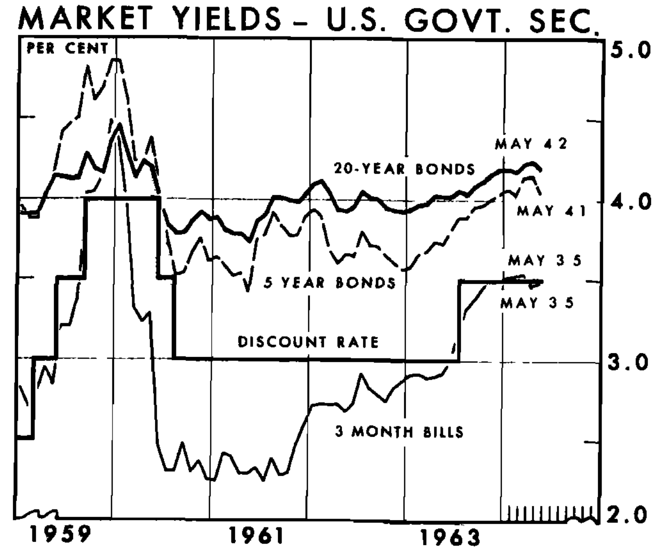

## LIQUID ASSETS HELD BY PUBLIC



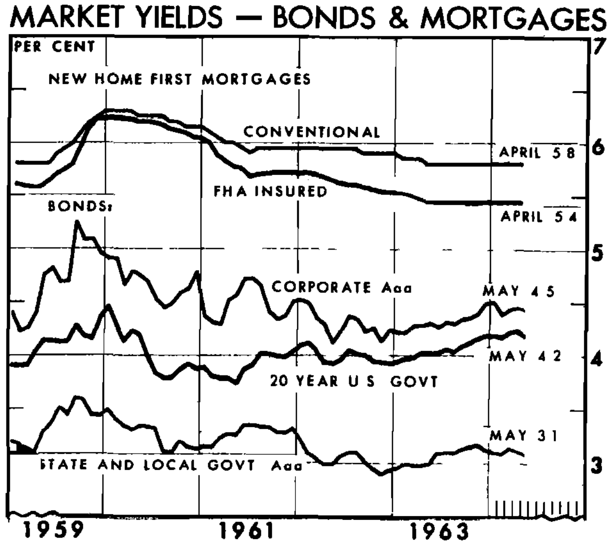

## BANK ASSETS



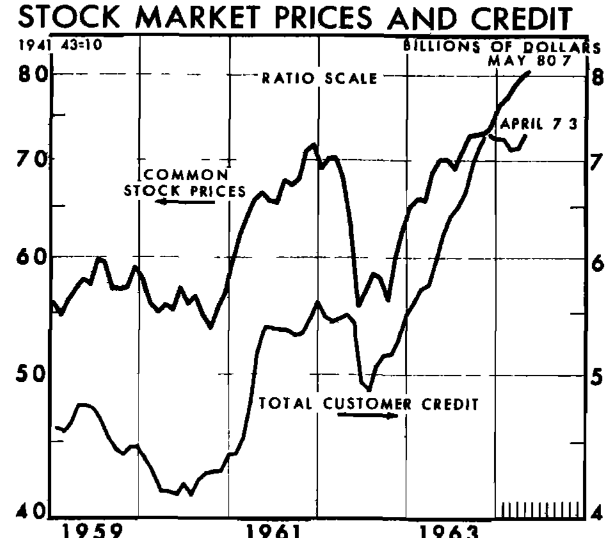

## MARKET YIELDS – U.S. GOVT. SEC.




## MARKET YIELDS — BONDS & MORTGAGES




## STOCK MARKET PRICES AND CREDIT

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## INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. The U.S. deficit on regular transactions for 1964 to date (through the first few days of June) is estimated at around a $1-3/4 billion annual rate, seasonally adjusted. Among factors contributing to the widening of the deficit since the first quarter have been a decline in the monthly trade surplus, which had reached a peak in January, and a pickup in capital outflow for new foreign security issues in April and May. The estimate for the year to date is based on unadjusted deficits of $475 million for April (revised) and $65 million for May and early June (highly tentative), and it assumes a $100 million upward seasonal adjustment for these two periods combined.

In April the trade surplus declined to a $6 billion annual rate, which compares with about $7 billion in the first quarter. Exports declined slightly in April, and were back to the average level of the preceding four months. Imports, which had risen sharply in March, increased a little further. In March-April, imports averaged about 5 per cent above the plateau of the second half of last year; the rise reflects primarily higher purchases of finished manufactures and semi-finished materials.

U.S. private capital outflows continued large through April -- apart from direct investment, for which data are not available -- with some shifts in composition of the outflow. The outflow on new foreign issues, mainly Canadian, rose from $30 million per month in the first quarter to more than $100 million in each of April and May. This included takedowns on issues arranged a year earlier. But the outflow on long-term bank loans declined in April, from a first-quarter monthly average of $70 million to $30 million.

The composition of outflows represented by short-term claims on foreigners also altered. The outflow of bank loans and acceptance credits has declined since January, and in March-April this outflow was only about half the very high rate that persisted from October through February. Net short-term bank credit outflow to Japan, which had fallen substantially in March, dwindled further in April.

Offsetting the decline in bank credit outflows, there was a pickup in outflow of liquid funds of U.S. banks and others. The net outflow of this sort in April was almost entirely into U.S. dollar-denominated deposits in Canada. (Only partial information is available on the outflows reported by nonfinancial concerns.)

International trade. In contrast to the recent pickup in U.S. imports, imports of other leading industrial countries appear to have leveled off -- but perhaps only temporarily -- this spring. At a seasonally adjusted annual rate of nearly $69 million[1/] in March-April, the total imports of the seven countries listed in table on p. IV-4, were virtually unchanged from their first-quarter average, as increases in Germany and the Netherlands were offset by decreases in France and Italy. There was little change in imports of Britain, Canada, and Japan. However, British imports of manufactures and semimanufactures were continuing to rise, the general trend of Canadian imports was probably still upward, and a resumption of the rise in Japanese imports interrupted since January may now be occurring.

1/ Includes freight and insurance for all but Canada.

The divergent developments in trade in recent months can be related to the French and Italian stabilization programs and to the continuing growth of domestic demands in other countries, which in some cases is at a more moderate pace than during 1963. In Germany, the trend of domestic demand is clearly expansive. New orders received by Germany industry made a new high in April, and the March-April average was 2 per cent above January-February, with a rise especially in domestic orders. Given the continuing expansion in demand, no great significance attaches to the fact that industrial production in March-April averaged 1 per cent under the preceding pair of months. In the Netherlands, an upward adjustment of wages and prices has been taking place, following the breakdown of Dutch wage policy last October. By January prices of manufactured goods had risen 5 per cent. In France and Italy, on the other hand, current evidence continued to point to success of efforts to restore economic balance. But for Italy, in particular, wage restraint will be a key problem in the months ahead. Through the first quarter of 1964 there was still no slowing in the rise of wage rates, typified by a 15 per cent rise of wage rates in industry from 1962 to 1963 (annual averages).

In Britain, demand is continuing to expand. Industrial production at 127 (1959 = 100) in March (preliminary) was equal to February's which has been revised up and now shows a 1 point rise over January. Auto production rose sharply in April, to a new high. Prices and wage rates rose more rapidly in April than earlier this year; compared to April 1963, wage rates were up 4 per cent, prices of manufactured products sold domestically 3 per cent, and retail prices 2 per cent. In Japan, industrial production picked up in April, after its dip in March. Japanese imports, which had eased off from their peak in January, increased in April.

IMPORTS OF LEADING INDUSTRIAL COUNTRIES
(Billions of dollars, seasonally adjusted annual rates)

| | March-April | Q-I 1964 | Percentage increase to Q-I | |
|---|---|---|---|---|
| | | | From Q-IV 1963 | From Q-IV 1962 |
| United Kingdom | 15.3 | 15.2 | 7 | 21 |
| Germany | 14.2 | 13.7 | 9 | 11 |
| France | 9.9 | 10.2 | 5 | 29 |
| Italy | 8.0* | 8.3 | 3 | 23 |
| Netherlands | 7.1 | 6.8 | 7 | 28 |
| Japan | 7.9 | 7.9 | 2 | 42 |
| Canada | 6.6* | 6.7 | 3 | 19 |
| Total | 68.8 | 68.8 | 6 | 23 |

Source: OECD; except Japan, Federal Reserve seasonal adjustment. March 1964 seasonal adjustment for Canada estimated. Discrepancies in adding to totals due to rounding.
* March alone.

Before the recent leveling, imports of the seven countries had risen 6 per cent from the fourth quarter of last year to the January-March quarter. Expansion of imports was particularly rapid at that time in Germany, Britain, and the Netherlands. Also, among smaller industrial countries not included in the table, Belgium, Sweden, and Denmark had sharp import increases in the first quarter.

Over the interval of fifteen months from the final quarter of 1962, imports of the seven leading countries rose by 23 per cent. This rise included an 19 per cent increase in imports of the five leading European countries from outside Western Europe. While this rapid rise in imports of other industrial countries facilitated the 13 per cent rise in U.S. exports from late 1962 to the first quarter of 1964, even more significant for the improvement of the U.S. balance of payments has been the deterioration in the balance of trade of Western Europe with the rest of the world in recent years.

A relevant comparison is with the first half of 1960, when the European business cycle was in a phase similar to the present. As may be seen in the bottom pair of charts following p. IV-6, Western Europe's exports to countries outside the area declined slightly from the first half of 1960 through the latter part of 1962 while imports increased, and since then the increase in such exports has failed to match the further increase in imports. Rough adjustment of the data to exclude the freight and insurance element contained in the European import statistics leads to the conclusion that the total worsening of Western Europe's trade balance between the first half of 1960 and the first quarter of 1964 was about $6 billion at a seasonally adjusted annual rate.

Worsening also occurred in Japan's balance of trade over this period. With imports adjusted from the c.i.f. to f.o.b. basis, this deterioration amounted to about $1 billion, all of which developed in the past year and a half.

Within the complex structure of world trade, counterparts to the worsening of European and Japanese trade balances can be found in export gains exceeding import increases since early 1960 for Canada and Australia (about $1-1/2 billion for the two combined), for petroleum producing countries (somewhat less than $1 billion), for other primary producing countries (apparently less than $1 billion net, with a deterioration through 1962 partly financed by increasing economic aid, followed by improvement in 1963), and finally for the United States (about $3-1/2 billion).

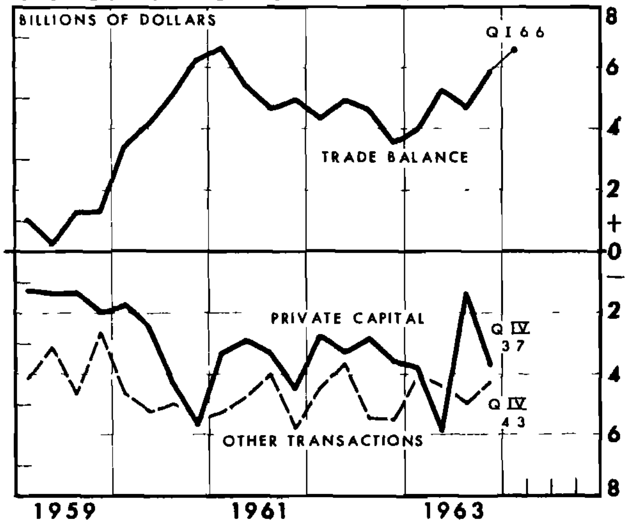
Further improvement in the U.S. trade balance in the year ahead obviously depends either on a further worsening of net European and Japanese trade balances -- on the whole now looking rather unlikely -- or on successful competition by United States with the other industrial countries for a share of whatever increases in import balances may occur in the rest of the world.

Exchange market developments. Exchange market rumors of a possible revaluation produced a substantial movement into German marks in early June, and the Bundesbank took in about $125 million through exchange market operations. Spot sterling dropped sharply in early June, with some outflows from sterling into Euro-dollars on a covered basis contributing to a decline in the discount on the forward pound; since late May the sterling spot rate has fallen about 1/2 cent. The increase in the Netherlands Bank discount rate last week produced only a very temporary strengthening of the guilder, and by June 9 the guilder had reached the lowest rate in more than a year.

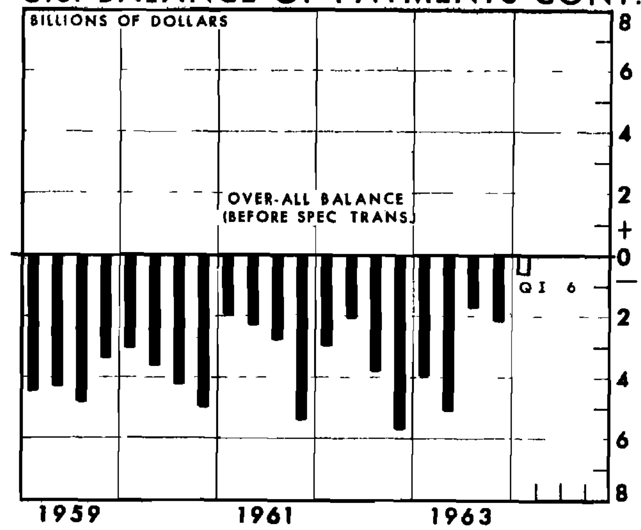
# ECONOMIC DEVELOPMENTS - U.S. AND INTERNATIONAL

SEASONALLY ADJUSTED, ANNUAL RATES

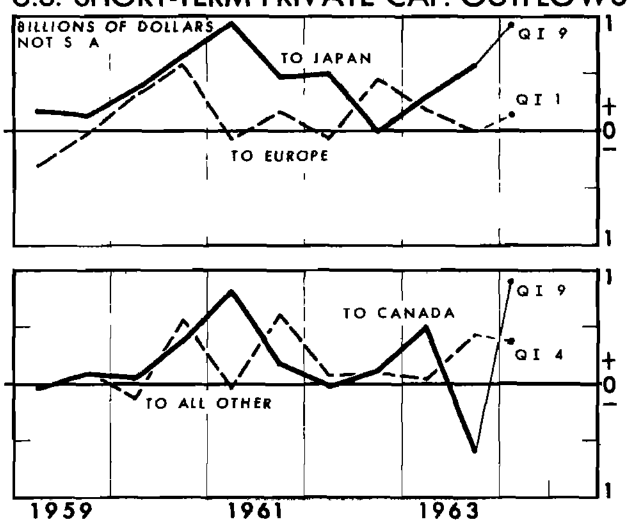
## U.S. BALANCE OF PAYMENTS



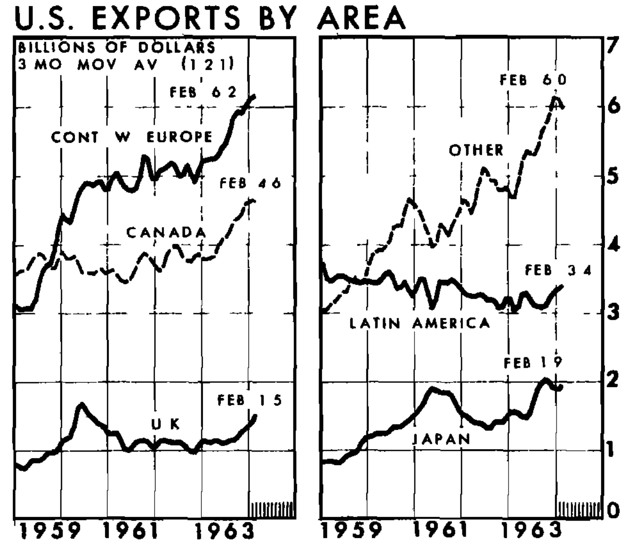

## U.S. BALANCE OF PAYMENTS-CONT.



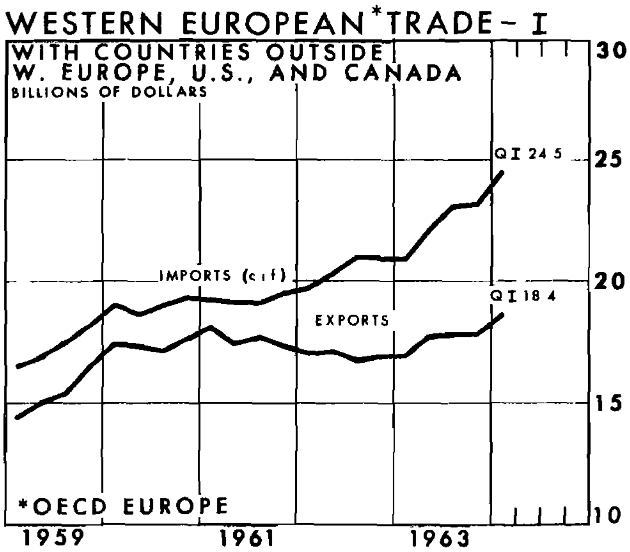

## U.S. SHORT-TERM PRIVATE CAP. OUTFLOWS



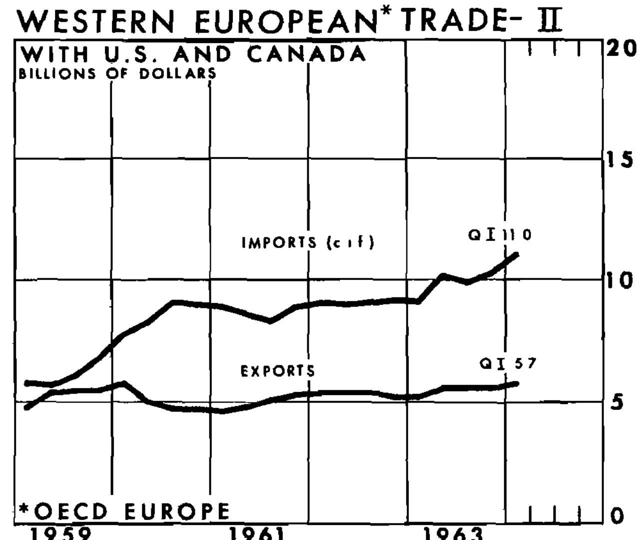

## U.S. EXPORTS BY AREA




## WESTERN EUROPEAN*TRADE - I




## WESTERN EUROPEAN* TRADE- II

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## APPENDIX A: A BRIEF REVIEW OF THE POSTWAR RECORD OF THE LEADING INDICATORS

The relationship of movements in the leading indicators to aggregate economic activity is shown in this chart for the four most recent cycles. The leading indicators are represented by the confidential Census weighted composite index for 8 NBER leading series, and aggregate economic activity is represented by the corresponding Census index for 6 NBER roughly coincident series.

In this chart these indexes have been segmented for each cycle measured from peak to peak, starting from the initial peak as 100. Thus, October 1948 is used as the base for the 1948-53 cycle; July 1953, for the 1953-57 cycle; August 1957, for the 1957-60 cycle; and May 1960, for the current cycle.

The leading indicators, in the words of Julius Shiskin, "foreshadow turning points in the business cycle.... They are - in a manner of speaking - signals of things to come." A quick look at the chart tends broadly to confirm this characterization, but a closer look reveals that the leading indicators have behaved with considerable ambiguity at critical times and that, by and large, their "signal" --both for upturn and downturn--has shown a very short lead.

During that phase of expansion periods when the leading indicators first level off or decline there has been a fairly close coincidental slowdown in the rate of increase in aggregate economic activity. Either development--the behavior of the leading indicators or the behavior of the coincident indicators--could be taken as the "signal of things to come." However, these initial declines in the leading indicators, which show up fairly conspicuously on the chart and which in the past were accepted as the first signal of the subsequent recession, are now fairly generally considered "false signals." The sharp break in 1951 and the moderate 1962 decline are cases in point. The declines in 1956 and 1959 are less clear. These are appropriately regarded as false signals: In each expansion period, after the initial decline in the leading indicators, aggregate economic activity continued to move up and the leading indicators themselves began to rise again. Once the leading indicators stopped declining, and started rising again, in effect their preceding signal was nullified or, at least, held in abeyance until the scope of the rise under way was revealed.

In the current expansion, the secondary rise in the leading indicators has continued to the present, carrying them to new peaks. In contrast, in each of the three preceding upswings the secondary rise topped out at a level below the initial peak and was followed by some decline; this development occurred quite late in the expansion period and presumably constituted the recession "signal" by these indicators. Unfortunately, this signal was obscured somewhat at the very end of each expansion period when this set of leading indicators leveled off or rose. The clearest and most unambiguous decline took place for the leading indicators after the recession began.

A brief look at the details of the behavior of the leading indicators in each expansion period is given below.

In the 1949-53 expansion the record of the leading indicators was quite ambiguous, as the chart shows. The initial decline (rated as a false signal) extended from early 1951 to the spring of 1952. This was followed by a brief rise and then stability from September 1952 to March 1953. This leaves the brief but rather sharp decline from March to June as the warning signal of the 1953-54 recession, and perhaps it can be accepted as such despite the fact that it was temporarily reversed by an abrupt pick-up in the month of the cyclical peak, July 1953.

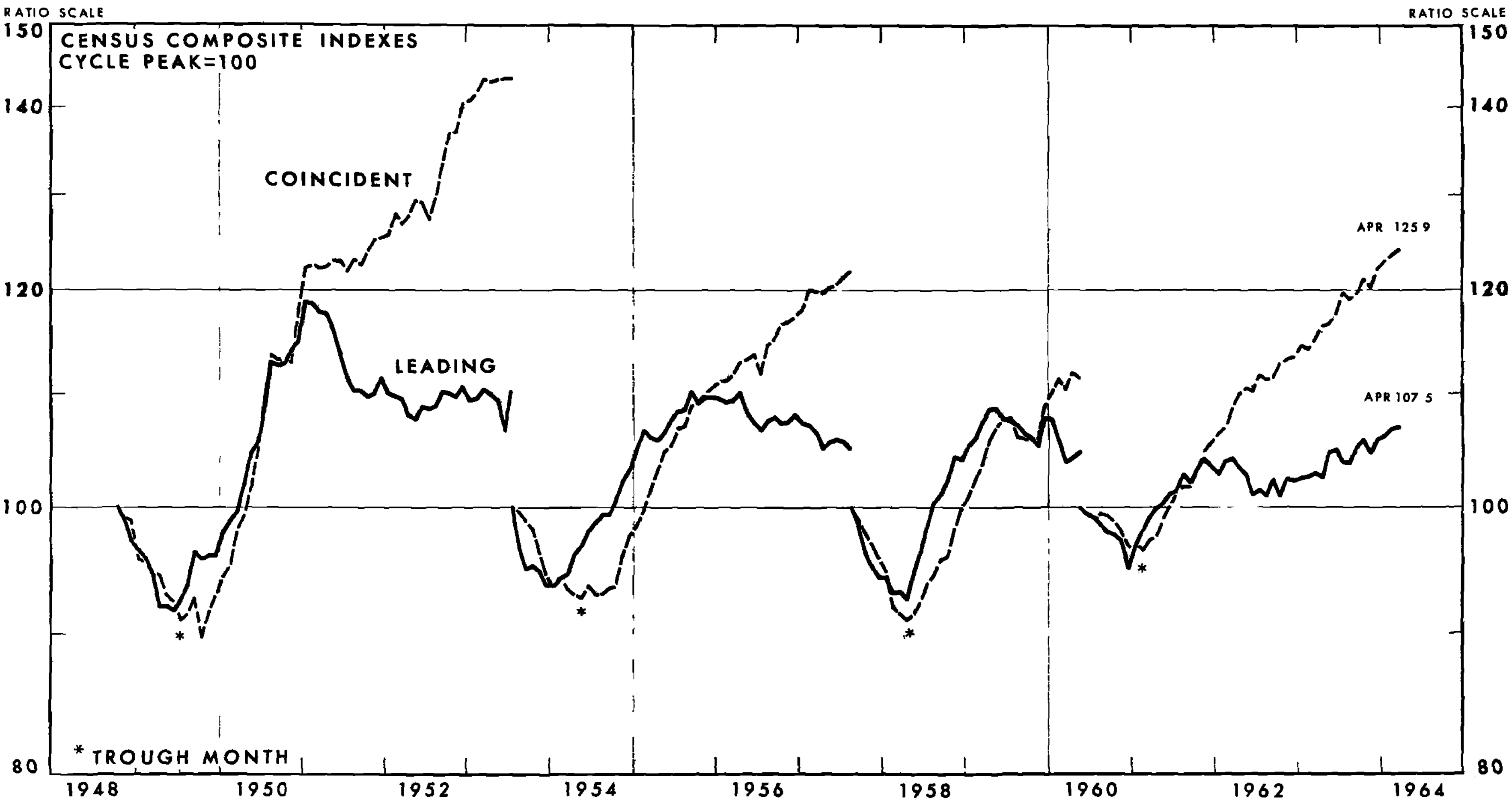
In 1954-57, this index of leading indicators reached a peak in September 1955 and again in April 1956. The decline from April to July 1956 marked the "recession scare" of that period, during the course of which industrial production first edged off and then, in July with the help of the steel strike, dropped by a fair amount. Industrial production rose to new highs in late 1956, and the leading index recovered moderately, in effect cancelling the signal of the earlier decline. The leading index then declined in early 1957 and this would seem to be the signal of the 1957-58 recession, although the signal was subsequently obscured when the leading index stabilized in the last few months of the expansion. As Julius Shiskin commented in his book, "Signals of Recession and Recovery," "Just before the [1957-58] contraction did start, the signs of it [i.e., the evidence of the indicators], were no more decisive than they had been about a year earlier ...."

In the 1958-60 upswing, the leading--as well as the coincident--indicators were considerably influenced by the anticipation, actuality, and aftermath of the protracted 1959 steel strike. The leading indicators reached a peak in late spring of 1959 at the height of the anticipatory build-up and then declined, in effect, "signaling" the steel strike. The end of the strike brought a secondary peak for the leading indicators. Between January and March 1960, the index declined, and this would presumably be the decline related to the 1960-61 recession. Here again, however, the record was somewhat confused when the index leveled off in April and May just before the recession began.

The leading indicators gave the current upswing a very poor send-off, showing the smallest initial rise of the postwar period and this modest rise turned unusually promptly into an appreciable decline in the second quarter of 1962. This decline and the subsequent several months of little change were associated with a slow-down in the rate of increase in over-all economic activity, and a protracted leveling off of industrial production, and this combination of events generated widespread expectations of a recession. Recession failed to materialize, marking another false signal for the indicators. From late 1962 to date the leading indicators have been rising.

CONFIDENTIAL

# NBER LEADING AND ROUGHLY COINCIDENT INDICATORS



## APPENDIX B: NET BUDGET EXPENDITURE ON AGRICULTURE

It now appears that projected reductions in net budget expenditures for agriculture in fiscal 1964 will not be realized. In the Budget Document, spending on agriculture was expected to be held to $7.0 billion in 1963-64 and to $5.8 billion in 1964-65 as compared with an actual expenditure in 1962-63 of $7.7 billion. Most of the cuts were expected to be in price stabilization activities of the CCC.

Net expenditures in 1963-64 are now expected to be about $8.0 billion, $1 billion higher than the earlier estimate, with most of the difference accounted for by CCC expenditures. Gross outlays by CCC are running close to expectations but receipts from sales of CCC stocks of wheat and feed grains are lower than expected and bank investment in CCC certificates of interest is about $450 million below the estimated figure.

It now looks as if CCC receipts from 1963-64 sales of wheat for export will fall short of expectations by about $200 million. Sales of feed grains in domestic markets from the pool of feed grains representing emergency acreage retirement certificates will also be short about $300 million. In the case of feed grains the CCC is priced out of the domestic market by a statute setting the minimum sale price at the loan rate plus carrying charges. These and other smaller drains had reduced CCC borrowing authority of $14.5 billion to $131 million by June 4, 1964. This means that the CCC will be pinched for funds until the beginning of the next fiscal year on July 1, 1964.

In fiscal 1964-65, it appears that estimates of net farm expenditures will have to be raised above the budget estimates to take into account larger expenditure on cotton and feed grain stabilization programs, and possibly smaller bank investment in certificates of interest.