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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

September 23, 1964

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Money markets have continued somewhat firmer in recent weeks with the 3-month Treasury bill rate at or slightly below 3.55 per cent and free reserves averaging around $60 million. The Government bond market strengthened after mid-September, however, as dealers worked down their positions and as investors became more confident about the current level of long-term interest rates. Corporate and municipal bond markets have reflected this change in investor sentiment only in recent days in part because these markets were characterized by heavy new financing by both businesses and State and local governments after Labor Day.

Bank credit growth was substantial in September, reflecting in part larger demands for funds by nonfinancial businesses over the dividend and tax dates. Money supply growth in the first half of September slackened further from the rapid rate in June and July, although the increase since the first of the year continues at about a 4 per cent seasonally adjusted annual rate.

The third quarter balance of payments deficit now appears to have been little different from that of the second quarter. Preliminary figures show much smaller deficits in August and early September following the very large July deficit.

Abroad, the sterling exchange rate has fallen further and has had to be heavily supported. The British trade deficit, seasonally adjusted, remained large in August.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest period	Amount			Per cent change: 3/	
		Latest period	Preceding period	Year ago	Year ago	2 years ago
Civilian labor force (mil.)	Aug. '64	74.3	74.2	73.0	1.8	2.8
Unemployment (mil.)	"	3.8	3.6	4.0	-5.4	-7.8
Unemployment (per cent)	"	5.1	4.9	5.5	-	-
Nonfarm employment, payroll (mil.)	"	58.9	58.9	57.3	2.8	5.2
Manufacturing	"	17.4	17.4	17.0	1.9	2.9
Other industrial	"	7.8	7.8	7.7	2.0	4.1
Nonindustrial	"	33.8	33.7	32.7	3.4	6.7
Industrial production (57-59=100)	"	133.5	132.7	125.4	6.5	12.2
Final products	"	132.7	131.9	126.0	5.3	9.6
Materials	"	134.6	133.6	124.9	7.8	14.7
Wholesale prices (57-59=100)1/	"	100.3	100.4	100.4	-0.1	- 0.2
Industrial commodities	"	100.8	100.8	100.4	0.4	0.3
Sensitive materials	"	99.4	99.1	97.7	1.7	2.2
Farm products and foods	"	97.8	98.1	98.9	-1.1	- 2.0
Consumer prices (57-59=100)1/	July '64	108.3	108.0	107.1	1.1	2.7
Commodities except food	"	104.3	104.3	103.5	0.8	1.7
Food	"	107.2	106.2	106.2	0.9	3.3
Services	"	115.3	115.1	113.1	1.9	3.8
Hourly earnings, mfg. ($)	Aug. '64	2.55	2.53	2.46	3.7	6.3
Weekly earnings, mfg. ($)	"	103.59	102.41	98.91	4.7	7.6
Personal income ($ bil.)2/	"	493.9	491.4	466.1	6.0	11.2
Retail sales, total ($ bil.)	"	22.1	22.0	20.7	7.0	12.4
Autos (million units)2/	"	8,012	7,195	6,790	18.0	23.2
GAF ($ bil.)	"	5.2	5.1	4.7	10.1	17.9
Selected leading indicators						
Housing starts, pvt. (thous.)2/	"	1,402	1,488	1,475	-5.0	- 5.7
Factory workweek (hours)	"	40.7	40.5	40.3	1.0	1.2
New orders, dur. goods ($ bil.)	"	19.4	21.3	18.1	7.4	16.9
New orders, nonel. mach. ($ bil.)	"	3.0	3.0	2.5	17.6	28.9
Common stock prices (1941-43=10)	"	82.00	83.22	70.98	15.5	40.1
Inventories, book val. ($ bil.)	July '64	106.6	106.6	102.5	4.0	8.0
Gross national product ($ bil.)2/	Q II '64	618.6	608.8	577.4	7.1	11.8
Real GNP ($ bil., 1963 prices)2/	"	608.5	601.3	578.5	5.2	8.0

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

SELECTED DOMESTIC FINANCIAL SERIES

	Week ended Sept. 18	Four-Week Average	Last six months High	Last six months Low
Money Market 1/ (N.S.A.)				
Federal funds (per cent)	3.45	3.46	3.50	1.50
Treasury bills 3 mo., yield (per cent)	3.54	3.52	3.60	3.44
Net free reserves 2/ (mil. $)	78	80	230	26
Member bank borrowings 2/ (mil. $)	225	337	478	135
Security Markets (N.S.A.)				
Market yields 1/				
5-year Government securities (per cent)	4.08	4.08	4.21	4.00
20-year Government securities	4.22	4.21	4.26	4.15
Corporate new issues, Aaa (per cent)	4.52	4.47	4.53	4.37
Corporate seasoned, Aaa (per cent)	4.42	4.42	4.42	4.39
Municipal seasoned, Aaa (per cent) 3/	3.10	3.09	3.16	3.07
FHA home mortgages-30-year (per cent)	5.44	5.44	5.44	5.44
Common stocks - S&P composite index 4/				
Prices, closing (1941-43=10)	83.48	82.61	84.01	79.02
Dividend yield (per cent)	2.99	3.01	3.10	2.93

	Change in August	Average change--last 3 mos.	Annual rate of change (%) 3 mos.	Annual rate of change (%) 1 year
Banking (S.A., mil. $)				
Total reserves 5/	67	107	6.3	4.3
Bank loans and investments:				
Total	4,200	1,600	7.7	8.0
Business loans	500	400	9.6	11.7
Other loans	1,300	900	10.5	12.6
U.S. Government securities	1,700	- 100	- 2.0	- 3.2
Other securities	700	400	13.4	10.4
Money and liquid assets:				
Demand dep. & currency	500	900	7.0	4.0
Time and savings dep.	1,200	1,100	10.9	12.6
Nonbank liquid assets	3,100	1,000	5.2	6.1

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 September 16.
3/ Latest figure indicated is for month of August. 4/ Data are for weekly closing prices. 5/ Revised since September 2, 1964 FOMC staff memorandum.

U.S. BALANCE OF PAYMENTS

	1964					1963	1962
	Aug.	July	June	Q-II	Q-I	Year	Year
	Seasonally adjusted annual rates, in billions of dollars						
Balance on regular trans.				- 2.7	- .9	- 3.3	- 3.6
Exports 1/		24.9	23.7	24.2	24.4	21.9	20.6
Imports 1/		-18.9	-17.9	-18.3	-17.4	-16.9	-16.1
Trade balance 1/		6.0	5.8	5.9	7.0	5.0	4.4
	Unadjusted monthly averages, in millions of dollars						
Balance on regular trans.	-237	-685	-112	-191	23	-272	- 298
Trade balance 1/		411	419	567	587	416	361
Securities transactions		-62	-10	-64	-9	-69	-80
Bank-reported claims 2/		120	-48	-200	-211	-117	-39
Other		-1154	-173	-494	-344	-502	-540
Financing, total	237	685	112	191	-23	272	298
Special receipts 3/	0	0	0	-14	68	55	95
Liabilities increase							
To nonofficial 4/	)300	543	-341	37	77	49	16
To official	)	178	189	67	-151	136	59
Monetary reserves decrease	-63)	-36	264	101	-17	32	128
of which: Gold sales	(-28)	(-6)	(70)	(-24)	(15)	(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. Continuing the uninterrupted advance that began last December, industrial production expanded further in August by .8 point to 133.5 per cent of the 1957-59 average, a level about 6 per cent above that prevailing in the summer and autumn of last year.

Consumer goods, business equipment, and materials all continued to increase in August, seasonally adjusted. Output of furniture and some other household goods rose further, and auto production--subject to more uncertainties of seasonal adjustment than usual in this model changeover month--increased slightly. Production of industrial and freight and passenger equipment continued to advance.

August gains in output were widespread among both durable and nondurable materials although in the steel industry production changed little (rose only seasonally) from the advanced July level.

In early September, steel ingot production rose somewhat more than seasonally. Although dealers held 30 per cent more new cars in early September than a year ago, as strike protection, auto production schedules indicate further increases in production for September and the fourth quarter--with a fourth quarter average at about 170 per cent of the 1957-59 average, about one-tenth above the last quarter of 1963.

The uninterrupted expansion in total industrial production in the last nine months has reflected widespread and substantial increases among final products and materials, as shown in the following table of seasonally adjusted data.

INDUSTRIAL PRODUCTION
Per cent Change
November 1963 - August 1964

Total index	5.9
Final products	4.5
Consumer goods	4.2
Autos	6.4
Home goods	4.3
Apparel	4.3
Staples	3.7
Business equipment	7.2
Industrial	10.4
Commercial	4.7
Freight and passenger	3.1
Defense equipment	-2.4
Materials	7.1
Durables	9.1
Steel	24.5
Durables excl. steel	5.8
Nondurables	5.1

Output of iron and steel, low last autumn as inventories were being reduced, rose the most--a fourth. Output of other durable materials rose about 6 per cent, nondurable materials 5 per cent. The increase for final products was 4.5 per cent, with changes in the products shown ranging from a small decline for defense equipment to a 10 per cent rise for industrial equipment. (On an annual rate basis all these rates of change would be one-third larger--almost 8 per cent, for example, for the total index.)

Technical note: A recent review of seasonal factors for 75 series in the production index led to minor revisions for most series from 1961 to date and to revisions of considerable importance in a number of lines, such as electric power, textiles and equipment parts. As a result, the course of the total index was modified somewhat, with some dampening of the repetitive increases evident from the end of the year to midyear and some upward revision of changes shown from midyear to the end of the year. The major moves during the 3-1/2-year expansion period since early 1961, however, are similar to those shown before--a rapid initial recovery from early 1961 to late summer; a less rapid increase to mid-1962; little change in the second half of 1962; a further marked advance in the first half of 1963, accentuated by a steel strike threat; little change for a few months as inventories of steel were reduced; and the renewed and widespread advance since last autumn, already uninterrupted for nine months.

Prices. While the index of industrial production has continued to rise lately, the index for prices of industrial commodities has remained stable. The level prevailing in August and the first half of September was the level reached last December, one-half per cent above early 1963 but one-half per cent below the high in early 1960. Prices of foodstuffs in mid-September were up 1 per cent from July-August, reflecting mainly somewhat higher prices for livestock, but they were unchanged from a year ago. The total wholesale index remains within the narrow limits of its fluctuations during the past 6-1/2 years.

The industrial average has remained stable as price changes have continued to be selective, with a few decreases as well as increases. Strong upward pressures have persisted in markets for nonferrous metals, mainly tin and copper. Higher prices have been announced recently for some tires and one type of woodpulp; in both cases, prices had been down from levels in early 1960 and prices remain lower than at that time. Meanwhile, prices of petroleum products have continued to decline and those for lumber and plywood have edged down. Reductions for some types of steel--now reflected in list prices perhaps with some lag--have lowered the index for all finished steel to 102.2 per cent of the 1957-59 average compared with 103.0 per cent in the first half of this year; before last year's increases the index was 101.2 per cent.

Tin prices have risen 30 per cent since early this year and 70 per cent since early last year and are up to about the peak reached early in the Korean War. Free-world production in the 1960's has been well below the mid-1950's and in most recent years has been below consumption. The current deficit is being met by sales, at an average annual rate of 20,000 tons, from the large surplus holdings in the U.S. stockpile. U.S. consumption last year was 78,000 tons, of which 22,500 tons came from scrap.

Short supplies and soaring prices for copper in the "free" markets reflect--in addition to strong world demands and various supply interruptions abroad--the loss of domestic output, equal to about one-half a month's consumption in the U.S., caused by the strikes that have just ended. In a similar situation prices soared to a peak in April 1956 but then fell sharply as supplies caught up. The producers' price for delivery in the U.S. has just been raised 2 cents to 34 cents a pound, and prices of mill products have been increased. The producers' price was 33 cents at the high in 1960 and 46 cents at the high in 1956.

Increases in prices of nonferrous metals are chiefly responsible for the rise--6 per cent since June and 15 per cent from a year ago--in the BLS daily index of 13 raw industrial commodities. Over the past year, increases among the 5 metals in the index have ranged from about 10 per cent (zinc) to more than 50 per cent (tin). Hides have recovered moderately from a very depressed level while rubber and textiles have changed little.

Prices of basic industrial commodities tend to rise with expanding industrial activity, and the rise usually begins early in business upswings. Thus a general advance in industrial prices invariably has been preceded by a rise in basic commodity prices. But not every rise in basic commodity prices has been followed by a general advance in industrial commodity prices. For example, the index of 13 raw industrial materials rose 12 per cent from April to November 1958, and increased somewhat further in 1959, but this rise was not the forerunner of a general advance. On the other hand, the rise of 15 per cent for raw industrials from early 1954 to early 1955 was followed by a widespread advance in industrial prices--and a further 10 per cent rise in raw industrials.

The more comprehensive monthly index of sensitive industrial materials--which includes lumber, plywood, fuel oil, and a long list of textiles and nonferrous mill products as well as the usual list of basic commodities--has changed little since April after rising 3 per cent from last autumn. This index has continued to show less increase than in earlier periods of business expansion because, in contrast with other times, upward price pressures have been limited mainly to the nonferrous metals.

Discussion of the possibility of a widespread advance in industrial prices has followed agreement on new labor contracts in the auto industry, discussed in Appendix A. The settlements, estimated at 4.3 to 4.5 per cent per year--more than two-thirds in pensions and other fringe benefits--were somewhat larger than generally expected. That the industry has characterized the new contract as noninflationary may be taken to mean that prices will not be raised for the 1965 models. But should similar settlements be negotiated in other industries, specifically in steel, they might not be fully offset by reductions in other costs--as through continuing increases in productivity--or by lower profit margins. The steel contract can be reopened as of January 1 with no strike permitted before May 1. A similar settlement there would be above increases of recent years but not much more than half those of the mid-1950's. Meanwhile, at some point inventory demands for steel may be further expanded, a possibility already being discussed in trade papers.

<u>Labor market</u>. Accompanying continued expansion in economic activity, labor market trends continued favorable in August. In trade and service-type industries, employment advanced and in manufacturing the average workweek returned to its high spring level. The number of major labor market areas with substantial unemployment declined to the lowest level since early 1960.

Total nonfarm payroll employment, seasonally adjusted, increased only slightly in August. A similar hesitation in the upward trend was experienced last year, however, and in both years was accounted for by a decline in manufacturing employment. This decline largely reflected the timing of the auto model changeover, not adequately allowed for in the seasonal adjustment. Scattered, small employment declines in some other durable goods industries in August were offset by further increases in fabricated metals and machinery. In soft goods industries, employment declined slightly. Employment gains continued strong in trade, service, transportation and public utilities. In contract construction, employment has remained relatively stable since early this year.

Over the past year, total nonfarm employment has increased by 1.6 million. The services, trade, and State and local government accounted for 1.1 million of the rise and manufacturing for 330,000. Moving against the general trend, employment in major defense-type manufacturing industries declined about 80,000 over the year.

<u>Hours and earnings in manufacturing</u>. Average hours, seasonally adjusted, rose 0.2 of an hour in August, regaining the high level of

40.7 hours maintained from March through May. The August increase reflected substantial lengthening of the workweek (half an hour) in both primary metals and transportation equipment. Very long hours of work have also been maintained in machinery industries since the end of 1963. In contrast, the average workweek was little changed from the month before or the year before in nondurable goods industries.

Average hourly earnings of manufacturing production workers declined 1 cent to $2.52. Weekly earnings increased a little, reflecting the longer workweek, and were $103. Weekly earnings so far this year have averaged 3.7 per cent and hourly earnings 3.2 per cent more than in the comparable period of 1963. The auto settlement, as noted in Appendix A, provides for no increase in wage rates as such until next September.

Major labor market areas. The number of major labor market areas classified as having a substantial labor surplus--6 per cent or more--declined by 3 in August, to 32 out of a total of 150 areas. The number was the lowest since January 1960 and five fewer than a year ago. Pittsburgh, Chattanooga, and San Juan, Puerto Rico moved out of the Group D classification (6-9 per cent unemployment rate) into the moderate labor surplus category, Group C (3-6 per cent). For Pittsburgh, its reclassification meant the first reduction in unemployment below the 6 per cent level since November 1957. Improvement in the steel industry was the major factor in Pittsburgh's reclassification.

Residential building. Since last autumn, despite a generally strong advance in the economy, housing starts have been declining irregularly. In August, according to preliminary indications, seasonally adjusted private housing starts were at the lowest rate since early 1963. On a three-month moving average basis, to allow for the inherent volatility of the series, the rate for the most recent period was 12 per cent below the peak reached in September-November of last year.

Seasonally adjusted residential building permits are also well below the levels prevailing in the latter part of last year, for both single- and multi-family units. In recent months, however, they have shown relatively little change.

PRIVATE HOUSING STARTS AND PERMITS

	June-August (thousands of units)1/	Per cent change from September-November, 1963
Starts (total)	1,500	-12
Permits (total)	1,278	- 8
1-family	699	- 7
2-or-more family	579	- 8

1/ Seasonally adjusted annual rate, three-month moving average, preliminary.

Mortgage markets. Competition for mortgages has continued in recent months, and, in August, the FHA yield series still remained at the reduced level of 5.46 per cent established in the spring of 1963. Net inflows of loanable funds have generally remained above year earlier levels and mortgage demands associated with new residential construction activity apparently have been declining. Financing of existing properties has continued to increase.

Indications based on data through July continue to point to only a moderate further rise this year--perhaps $2 billion--in the amount of mortgage debt expansion from the record of $29 billion last year. That total reflected a rise of $4 billion from the $85 billion expansion in 1962, which in turn was $6 billion greater than the expansion of a little under $20 billion in 1961.

Among the major financial institutions, mutual savings banks and life insurance companies so far this year have substantially exceeded their year-earlier expansion rates for mortgage holdings. Savings and loan associations have remained below last year's highs, despite improved inflows in share accounts recently. At commercial banks, increases have about matched the rise in the first three quarters of 1963. Meanwhile, total holdings by government agencies have edged upward somewhat. Last year, when net sales of mortgages by the Federal National Mortgage Association were at an unusually advanced rate, such holdings were still declining.

Consumers. Available data continue to indicate a large rise in consumer spending in the third quarter, in the vicinity of $7 to $8 billion annual rate, or nearly 2 per cent. Purchases of nondurable goods are showing another large gain; purchases of durable goods appear to be up only a little.

The increase in disposable income in the third quarter is probably about $5 billion, or 1-1/4 per cent. If these estimates are approximately realized, the saving rate for the third quarter will be 7.5 per cent or possibly less. This would compare with the unusually high rate of 8.2 in the previous quarter--the first following the tax cut--and with an average of about 7 per cent over the past decade. The sharp initial rise in the saving rate and the subsequent marked decline have been in line with general expectations concerning developments most likely to be associated with the tax cut. As consumers work their way closer to the 7 per cent saving rate, the chances increase that consumer spending will about keep pace with after-tax incomes rather than rising faster.

In the first two weeks of September, seasonally adjusted retail sales apparently were maintained at the record August level, with changes small for both durable and undurable goods. August sales had topped July by nearly 1 per cent. Retail sales this quarter are running about 2 per cent above the second quarter. Nondurable goods sales are up about 2.5 per cent, although the change since July is small. Durable goods sales are up about 1 per cent, with automobile outlets showing some further rise and sales at furniture and appliance stores little changed.

On a unit basis, sales of new automobiles in the first ten days of September were a fifth below a month earlier--about the usual seasonal decline--and a sixth above a year earlier.

Personal income advanced $2.5 billion in August to a seasonally adjusted annual rate of $494 billion. Most of the increase ($2.2 billion) was in wages and salaries. Wages in private industry rose at about the rate prevailing since late 1963. A rise of $1 billion in government payrolls was mainly attributable to the Federal civilian employee pay raise; close to half of the $700 million rise in Federal payrolls, however, represented a retroactive payment for July. Most other types of income were up slightly in August.

Consumer credit. Reflecting a variety of influences, including the tax cut last March, instalment credit in the first seven months of this year expanded at an average annual rate of 10 per cent. This was somewhat below the 12 per cent in last year's corresponding period and well below the advanced rates of 1959 and 1955.

As in most other years, the pace of expansion has been quite uneven from one month to another. After a rather moderate increase in January, February saw the largest rise in almost five years and March was not far behind. The rate of expansion promptly fell in April and since then has followed a see-saw pattern.

In July, a rising volume of personal and nonauto consumer goods loans carried net new borrowings to a $5.8 billion seasonally adjusted annual rate, a pace a little above the average for the year to date. It seems doubtful that this rate was maintained in August, from the sketchy information so far available.

Repayments on instalment debt moved up to new highs in March and again in May; changes in June and July were not significant. Extensions have shown considerable variability throughout the period, reflecting changes in sales of durable goods and varying intensity in the use of credit to purchase these goods.

Orders for durable goods. New orders for durable manufacturers, which tend to move ahead of production and sales but at times fluctuate sharply from month to month, advanced 7 per cent in July and then declined 9 per cent in August. While most of these large moves reflected sharp changes for defense products, new orders for civilian products in August were down moderately after rising in July.

Averaging of the July and August figures reveals that the level of new orders for those two months was slightly above the second quarter average. As shown in the table below the small increase over this period reflected a rise in defense orders, which may prove temporary; new orders for most types of civilian products showed little change from the advanced second quarter rate.

NEW ORDERS FOR DURABLE GOODS

Per cent change from second quarter to July-August

Durable, total	1
Defense products	12
Civilian products	0
Machinery & equipment	-1
Metals	-1
Other durables	0

Shipments of durable goods also declined in August from the pronounced July peak, and new orders, despite their precipitous drop, remained above shipments. Thus the value of unfilled orders expanded somewhat further. The August increase in the order backlog was mainly in producers' equipment industries; those industries showed a gain of 13 per cent from the end of 1963 to August 31 while the total durable order backlog was rising 10 per cent. The level of unfilled orders in relation to new orders and sales continues well below the levels of the mid-1950's.

Business inventories. The seasonally adjusted book value of business inventories, which had shown very small increases in May and June, was about unchanged in July at a level of $106.6 billion. Over the period from April to July--particularly in July--business sales increased substantially and stock-sales ratios declined generally.

Stability in inventories in July stemmed from a slight decline at retail which about offset very small increases in stocks at manufacturers and wholesalers. The decline in retail stocks occurred at durable goods stores; inventories of nondurable goods edged up further.

The increase in business inventories for the first 7 months of the year totaled $1.5 billion, which was considerably less than had been indicated by surveys of anticipations and one-third less than the $2.2 billion reported in the corresponding period of 1963.

According to the latest Commerce Department quarterly survey of inventory and sales anticipations, factory stocks are expected to show increases of $400 million in the third quarter and $700 million in the fourth, as compared with reported increases of only $200 million in the first quarter and $100 million in the second. Manufacturers expect a sales increase of a little over 2 per cent from the second to the fourth quarter, which would be about in line with the expected rise in inventories. Stock-sales ratios would therefore show little change from the low second quarter level.

Agriculture. Dry weather during most of August lowered crop prospects and reduced grazing capacity of pastures over most of the Corn Belt and the North Atlantic States. Weather was more favorable in the Southeast and the Western States and crop and pasture conditions in these areas ranged from good to excellent. Since late August, rains have revived pastures in some areas, particularly in the Western Corn Belt, but probably have had little effect on crop yields.

On September 1 the index of crop production was estimated to be 2 per cent below the August forecast and 3 per cent below the record output of 1963. The corn and soybean crops were among those hardest hit by drought and yields of both were estimated to be 6 per cent below August 1 expectations. The corn crop of 3.64 billion bushels now in prospect is 11 per cent below that of 1963 but the soybean crop of 704 million bushels is only slightly below that of 1963.

Nationally, farmers' cash receipts from sales of crops will probably be reduced only moderately by the drought. Net income may not be changed at all from earlier estimates because of lower outlays than estimated for hired labor and some other major items of production expense such as feeder cattle.

Farm debt. Debts of farmers amounted to $36.4 billion in mid-1964, 11 per cent more than a year earlier. Farm real estate debt, about half of the total, rose 12 per cent, continuing the accelerated rate of increase of the previous two years. Demand for land for farm enlargement continues to be strong and loanable funds are apparently available to finance sales.

All the principal lenders expanded holdings of farm mortgages in the year ending on June 30. Member bank loans were up 15 per cent, insurance companies 14 per cent, and Federal land banks 10 per cent. Some of the increase in member bank loans probably reflects expanded investment in insured farm mortgages of the Farmers Home Administration. Ratios of size of loan to purchase price of farm are increasing. In 1963, the ratio averaged 70 per cent for the principal lenders as compared to 64 per cent in 1959. However, repayments are holding up well and delinquency rates are low.

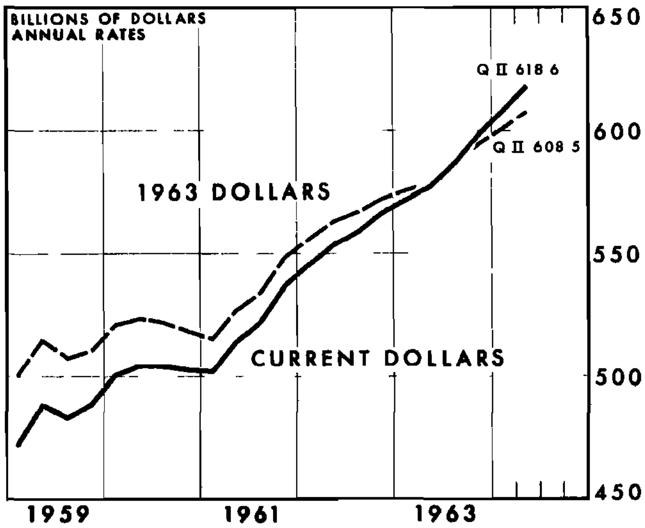
Non-real-estate debt reported by the principal lending institutions has tended so far in 1964 to rise at a slackening pace, particularly in the Corn Belt. Less investment in hog production and cattle feeding, because of low prices, is probably a factor.

Technical note: Non-real-estate debt owed by farmers to nonreporting creditors probably amounted to about $7.5 billion at mid-year on the basis of the new USDA benchmark data, as compared with $10.8 billion for reporting credit groups. These recently published data indicate that older estimates for nonreporting creditors understated the amount of this credit by a third.

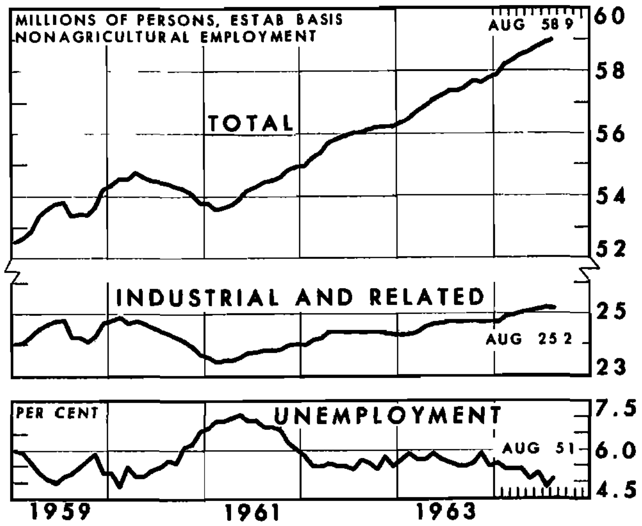
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

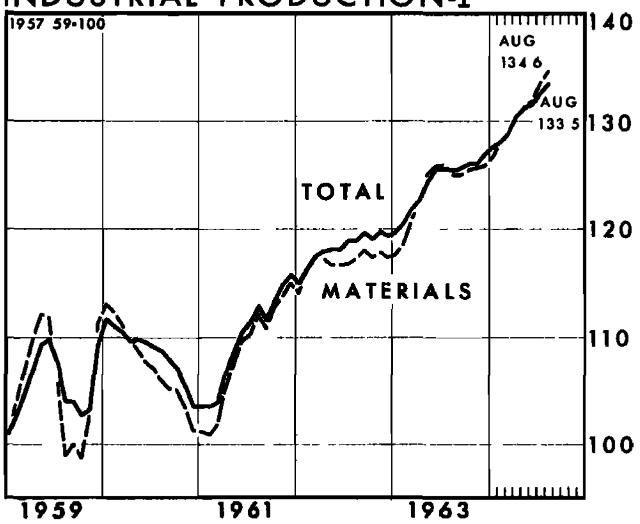
GROSS NATIONAL PRODUCT



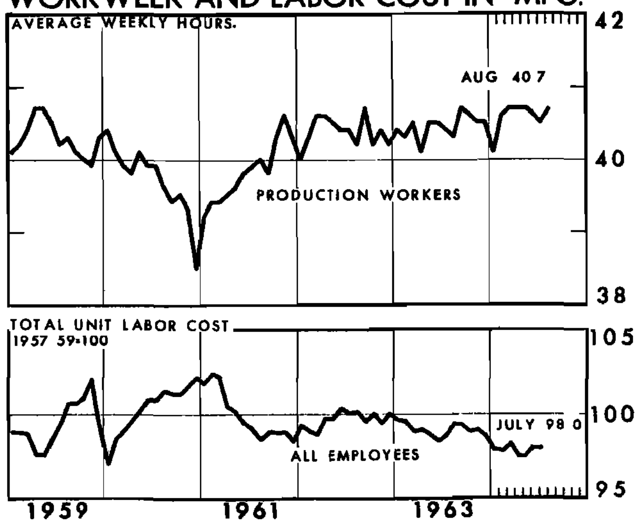
EMPLOYMENT AND UNEMPLOYMENT



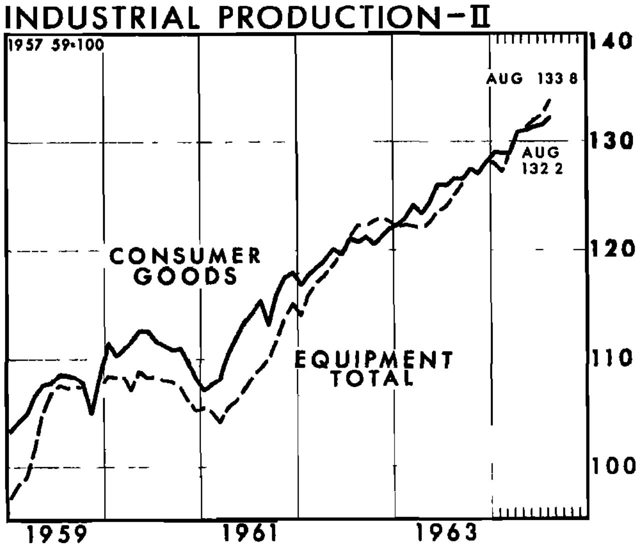
INDUSTRIAL PRODUCTION-I



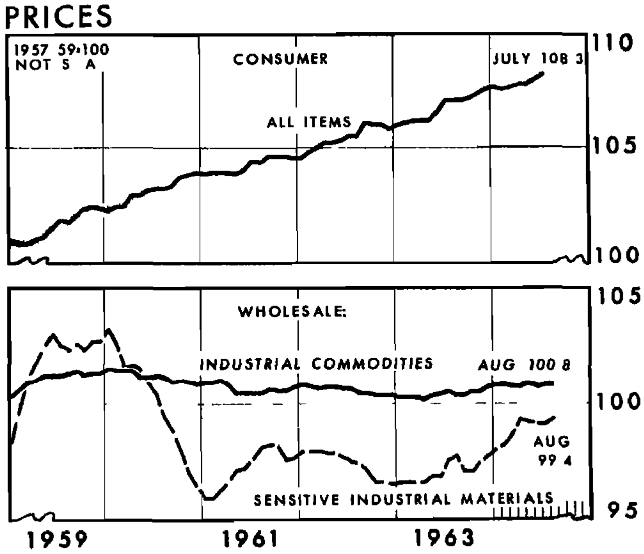
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



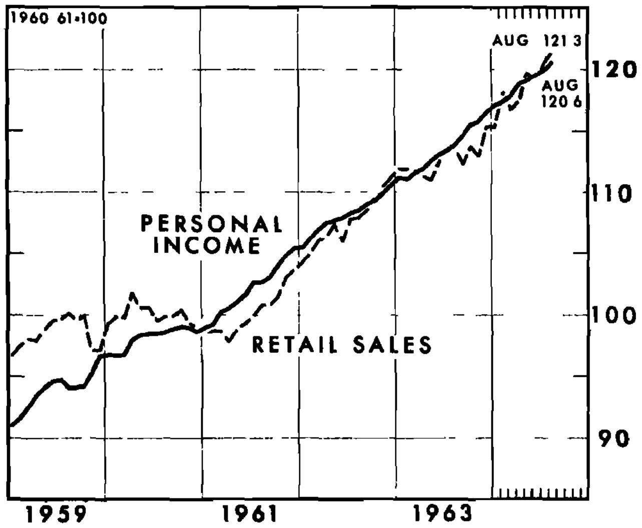
PRICES



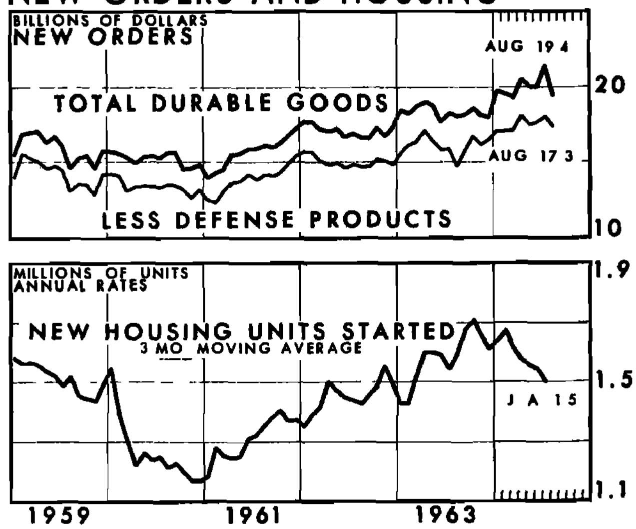
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

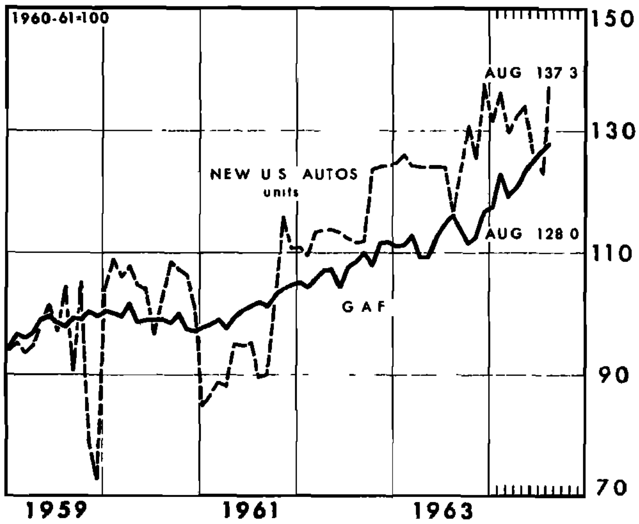
PERSONAL INCOME AND RETAIL SALES



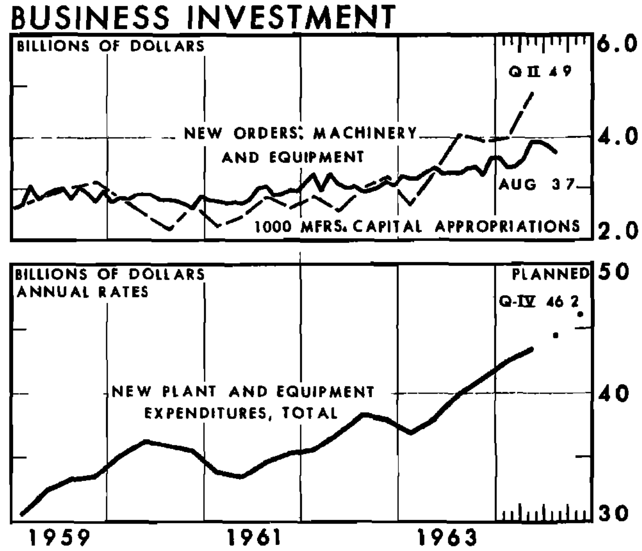
NEW ORDERS AND HOUSING



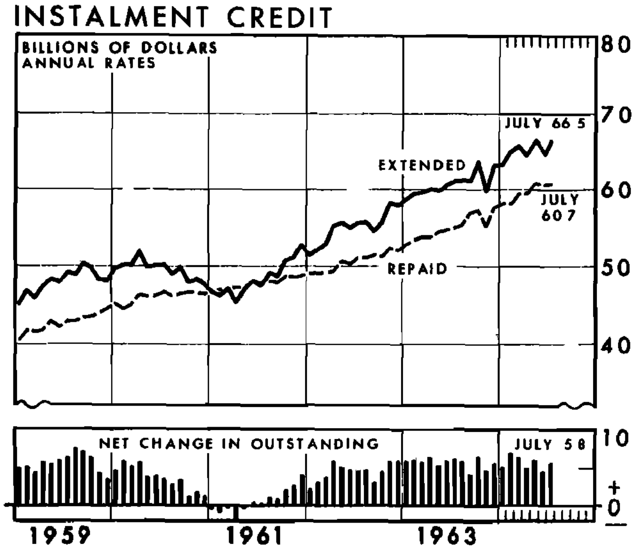
RETAIL SALES



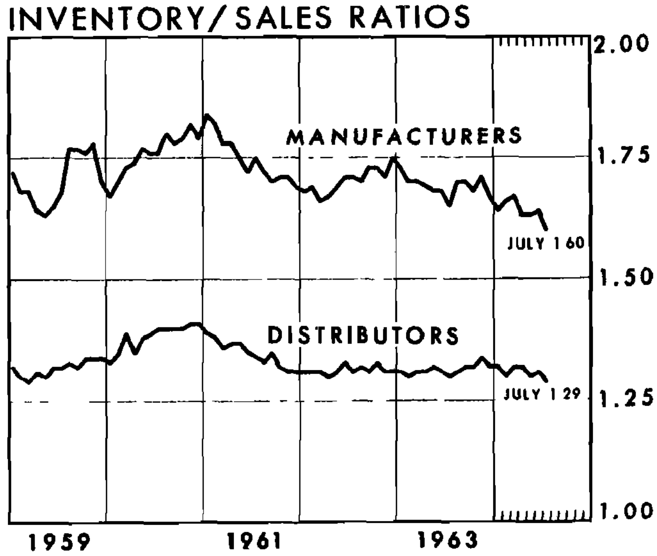
BUSINESS INVESTMENT



INSTALMENT CREDIT



INVENTORY/SALES RATIOS



DOMESTIC FINANCIAL SITUATION

U. S. Government finance. Yields on Treasury notes and bonds rose further from the last week of August to mid-September, but more recently those rate advances have been in large part erased. Heavy dealer inventories of Treasury notes and bonds and relatively light investor demand contributed to the earlier yield increases, as did a growing conviction among active market participants that the System was moving to a less easy monetary policy. The market improved around mid-month, as press stories noted that only a slight shift probably had occurred in System policy, one aimed primarily at bolstering short-term rates.

The earlier rise in yields was also contained by the improving technical condition in the market. Dealers made substantial further progress in distributing the issues they acquired in the July advance refunding and the August refinancing. On September 21 the dealers held about $300 million of 1-5 year issues and $235 million of over 5 year bonds, down from holdings of $550 million and $525 million respectively on August 31.

Official account purchases, which were sizable in the first two weeks of the month, contributed substantially to this progress. Some public demand for longer-term Government securities was also stimulated in the first half of September as their prices declined. The market improvement after mid-September was not accompanied by any significant expansion in public demand, but reflected mainly a change in dealer sentiment.

Another factor tending to limit the rise in bond yields was the outlook for Treasury financing--with no financing outside the short-term area anticipated for the remainder of the year. A small routine refinancing is scheduled for November, and it is unlikely that new securities will be offered much beyond the 18-month to 2-year area.

The Treasury is in a fairly strong cash position, with its cash balance expected to rise to about $9 billion by the end of September. Thus, most of the seasonal October cash deficit of around $6 billion could be financed with only relatively small additional borrowing. These funds, together with additional cash needed to meet the much smaller November deficit, will probably be raised in the bill area.

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 30	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						
July 8 1/	3.50	3.56	3.93	4.00	4.15	4.15
Aug. 24	3.50	3.63	3.93	4.06	4.19	4.19
Sept. 8	3.51	3.66	4.03	4.09	4.22	4.21
Sept.15	3.54	3.69	4.06	4.09	4.22	4.23
Sept.22	3.54	3.69	3.98	4.04	4.19	4.20

1/ Treasury advance refunding announced after market's close.

Treasury bill rates have edged higher since early September, reflecting in part seasonal pressures associated with the fall dividend and tax dates. The key 3-month bill, which was most recently auctioned at an average rate of 3.54 per cent, is currently at its highest level since early spring. Additions by the Treasury of $100 million to four weekly bill auctions have contributed to the advance. In addition, the System has not made any outright purchases of bills from dealers since August 21, a period in which free reserves have also declined somewhat. In this period System purchases of coupon issues have totaled $378 million.

Corporate and municipal bond markets. With the September calendar of new corporate and municipal bonds up substantially from the seasonally low August volume, yields in both markets have advanced. The average yield on new corporate bonds adjusted to an Aaa basis rose 15 basis points from late August through the third week of September, and the various yield series on seasoned municipal bonds advanced 2-7 basis points in the two weeks after Labor Day. Very recently, however, demand for corporate bonds has strengthened, and new issues are being offered this week at yields 3-5 basis points below those set on comparably rated issues a week ago.

BOND YIELDS

	Corporate Aaa		State & local governments	
	New	Seasoned	Moody's Aaa	Bond Buyer (mixed qualities)
1964 - High	4.53(5/8)	4.42(9/18)	3.16(3/26)	3.32(4/21)
Low	4.30(2/21)	4.35(2/28)	3.07(7/16)	3.13(1/20)
Summer Low	4.37	4.40	3.07	3.16
August 28	4.40	4.41	3.08	3.19
September 4	4.48	4.42	3.08	3.19
September 18	4.52	4.42	3.10	3.26

The yield advance on new corporate bonds over the four weeks ended September 18 reflected, in addition to larger current offerings, the increased uncertainty about near-term interest rate changes which crept into all bond markets at the end of the summer. In response to this uncertainty corporate underwriters raised reoffering yields on new issues and quickly terminated restrictions on earlier offerings still in syndicate. These tactics undoubtedly exaggerated the abruptness of the yield advance but they also kept underwriters' inventories from rising appreciably. With the more recent general improvement of bond markets, dealers have bid a little more aggressively for new issues, and investors have quickly absorbed bonds offered at slightly higher yields.

Responding to the larger calendar of September offerings, dealers in municipal securities also raised yields on new offerings, and offered concessions on unsold balances of old. However, these adjustments were smaller and slower to develop than those made by corporate underwriters, and dealers' advertised inventories of unsold municipal issues rose from about $600 million at the end of August to around $700 million currently.

BOND OFFERINGS 1/
(Millions of dollars)

	Corporate				State & local govt.	
	Public offerings		Private placements			
	1964	1963	1964	1963	1964	1963
Jan.-June avg.	389	416	477	521	935	975
July	234	279	434	431	925e/	928
August	190e/	336	340e/	318	750e/	764
September	380e/	283	450e/	501	900e/	480

1/ Includes refundings--data are gross proceeds for corporate offerings and principal amounts for State and local government issues.

Looking beyond September, offerings of new corporate bonds definitely scheduled for October are relatively light, but the recent addition of a $100 million State of California bond to the early October calendar suggests that the supply of municipal bond offerings may be maintained in the period immediately ahead at close to the September volume.

Question has been raised whether presently anticipated increases in plant and equipment expenditures are likely to require a larger future volume of external corporate financing--if not in October, at least before the end of the fourth quarter.

Present estimates for all of 1964 indicate that on an accrual basis corporate internal funds are likely to run about one-eighth above the 1963 level, the same increase as presently anticipated for plant and equipment expenditures. Such a development would mean that the unusually favorable spread between internal funds and capital outlays, which has persisted since 1961, would be maintained for the year as a whole.

A large part of the expected year-to-year growth in internal funds, however, occurred in the first quarter, with the step-up in undistributed profits because of the tax cut. Undistributed profits increased only slightly in the second quarter and seem unlikely to rise any further over the remainder of the year, as a continued rise in dividend payments is expected to offset moderate further increases in after-tax profits.

While the depreciation component of internal funds will maintain its long-term upward trend, the spread between total internal funds and capital outlays is likely to have narrowed significantly by the fourth quarter. The fact that this prospective development does not as yet seem to have been reflected in corporate plans for increased capital market financing may be due in part to the second reduction of 2 percentage points in corporate Federal income tax rates, scheduled for the start of 1965. This will undoubtedly result in another step-up of undistributed profits.

Stock prices. The further general advance of stock prices since late summer has carried the popular Dow-Jones industrial average to a new record high above 872, nearly 2-1/2 per cent higher than the previous peak reached in mid-July. Standard and Poor's composite index of 500 stocks, while also up on balance in recent weeks, has simply returned to the record mid-July high of 84. To some extent, this less spectacular recent performance of Standard and Poor's index reflects the fact that it rose more sharply than the Dow average during the earlier summer advance. More generally, different rates of change in the two series are attributable to the broader representation of industry groups in the Standard and Poor's index and to the fact that prices of individual issues are weighted by the number of shares outstanding, rather than by price alone as in the Dow average.

During September the further advance of stock prices has occurred on average trading of 5 million shares a day. This rate of activity is nearly 30 per cent higher than the seasonally low volume prevailing in August.

Bank credit. Total credit at New York City and Chicago weekly reporting banks increased $1.1 billion during the two weeks encompassing the September tax and dividend period, somewhat less than in the comparable 1963 period.

TAX AND DIVIDEND PERIOD FINANCING
New York City and Chicago Reporting Banks
(Two mid-September weeks)
(In millions of dollars)

	1964	1963	1962
Corporate tax payments	3,800 1/	3,600	3,500
Tax anticipation securities outstanding	none	none	1,800
Net changes in selected bank balance sheet items:			
Total loans and investments	+1,067	+1,437	+ 911
U.S. Government securities	- 39	+ 99	- 453
Other securities	+ 157	- 1	+ 28
Loans	+ 949	+1,339	+1,336
Business loans	+ 390	+ 271	+ 237
Treasury bills	+ 111	+ 202	- 376
Loans to U.S. Government securities dealers	+ 184	+ 505	+ 947
Loans to finance companies	+ 191	+ 378	- 41
Negotiable CD's	- 311	- 181	+ 23

1/ Estimated.

Credit extended by banks directly to nonfinancial businesses over this two-week period was much greater than in the corresponding weeks of the two preceding years. Borrowing by metals companies and public utilities, which usually account for the bulk of the tax-period rise, was only moderately heavier than usual, but that by retail and wholesale trade concerns was much larger than in other recent years.

Funds provided to business indirectly--through the acquisition of Treasury bills, loans to U.S. Government securities dealers, and loans to finance companies--over these two weeks were about $600 million less than in 1963 and $50 million less than in 1962. In both earlier periods Treasury advance refundings had occurred. Although the corporate liquidation of RP's with Government securities dealers was about the same this year as in the comparable period of other recent years, dealer needs for bank financing remained moderate as they were able to cover a substantial part of these run-offs through liquidation of their large trading positions in longer-term coupon issues.

As reported earlier, the August 19 survey of CD maturities suggested that corporations were planning to meet a larger share of their tax and dividend period needs for funds this September through run-offs of CD's. At banks in New York and Chicago, the decline in outstanding CD's over the two weeks ending September 16 was $311 million, compared with scheduled maturities at these banks of $380 million on the tax and dividend dates. Last year, when these scheduled maturities were $345 million, outstandings at New York and Chicago banks declined only $181 million.

Combined data for all weekly reporting banks through September 9, and for New York and Chicago banks for the week ending September 16 indicate that credit expansion this September is running below that of 1963 but above that of 1962. Loan expansion has been somewhat less than in the previous two years, but holdings of U.S. Government and other securities are up more.

Money supply and time deposits. Preliminary data for the first half of September show an increase of $200 million in the seasonally adjusted money supply indicating some further slackening from the rapid growth in June and July. The annual rate of growth for 1964 remains at 4.0 per cent, the rate prevailing through August. U.S. Government deposits declined somewhat more than usual over the first half of September, but the projected rise for the second half is larger than usual.

Seasonally adjusted time and savings deposits at commercial banks grew $700 million in the first half of September according to preliminary estimates. This expansion was slightly above the average semi-monthly increase in other recent months. The annual rate of growth for 1964 through mid-September was 11.4 per cent, 3.3 per cent below that of 1963.

The moderate acceleration of inflow to savings deposits at city banks which developed in August appears to have continued in early September. A substantial rise in other time deposits also occurred in the first two reporting weeks of September but was more than offset by a large decline in the week of the 16th, mainly reflecting the run-off of CD's on the tax date. Over the three weeks ending September 16, total time and savings deposits at city banks declined much more than in the comparable weeks last year.

The seasonally adjusted annual rate of turnover of demand deposits at banks outside New York City declined to 35.0 in August, the same as the June rate and close to the average so far this year. Over the past three months, turnover has averaged about 5.4 per cent above the level of a year earlier.

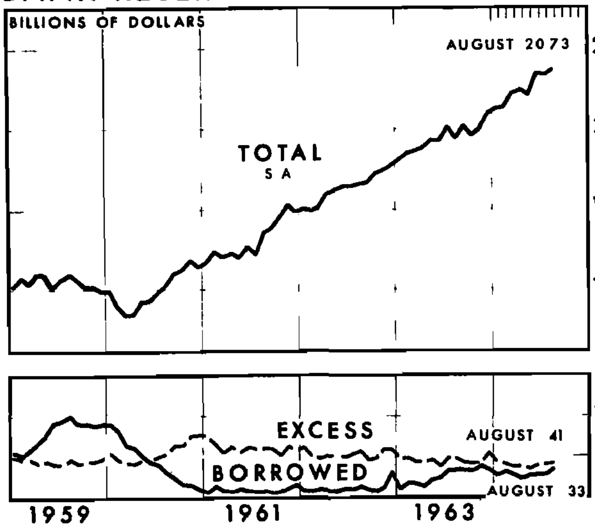
Bank reserves. Over the three weeks ending September 16, free reserves at all member banks averaged $60 million, substantially below the $119 million average of July and August.[1/] Excess reserves at $399 million remained at the same level, but borrowings at $339 million were well above the level of the previous two months. Over the three-week period from August 27 through September 16, the effective rate on Federal funds dropped below 3-1/2 per cent on two days and some transactions took place at a lower rate on three other days.

Total required reserves, unadjusted for seasonal variation, rose much less than usual between August 27 and September 16, largely reflecting a more than seasonal decline in reserves required against U.S. Government deposits. On the other hand, reserves required against private demand and time deposits increased more than seasonally.

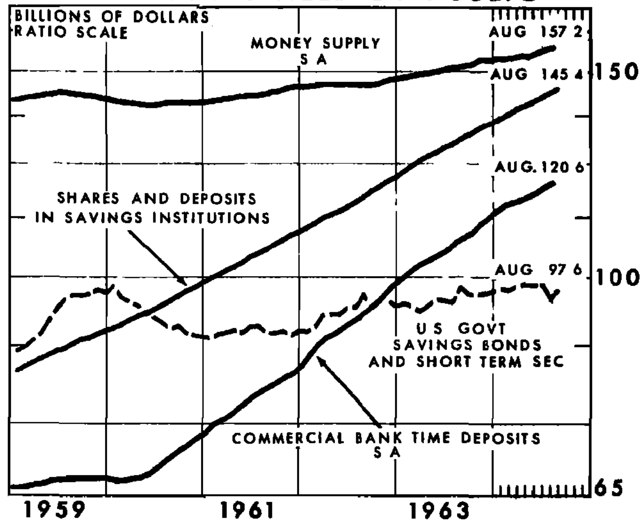
1/ Based on the average of daily figures for all of the reserve weeks ending in the month as used in the reserve memorandum to the FOMC, rather than an average of all days in the calendar month.

FINANCIAL DEVELOPMENTS - UNITED STATES

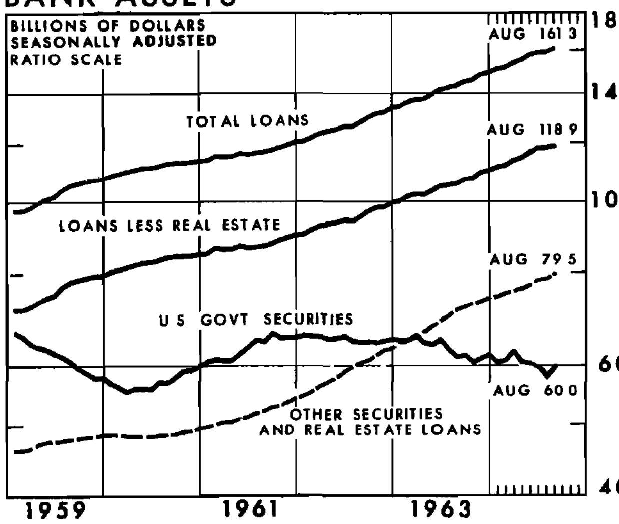
BANK RESERVES



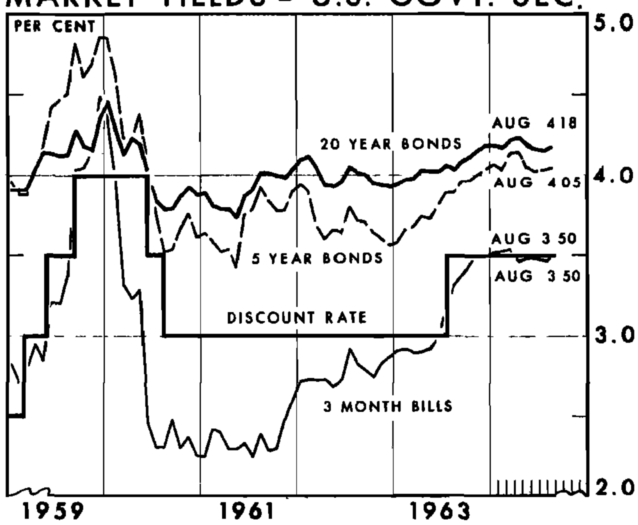
LIQUID ASSETS HELD BY PUBLIC



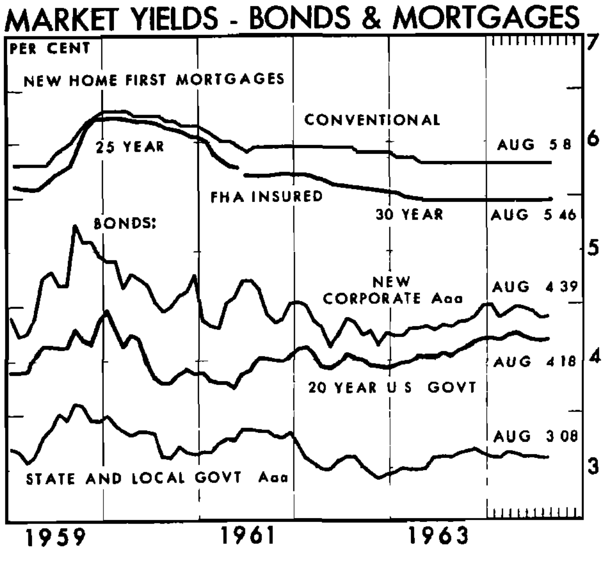
BANK ASSETS



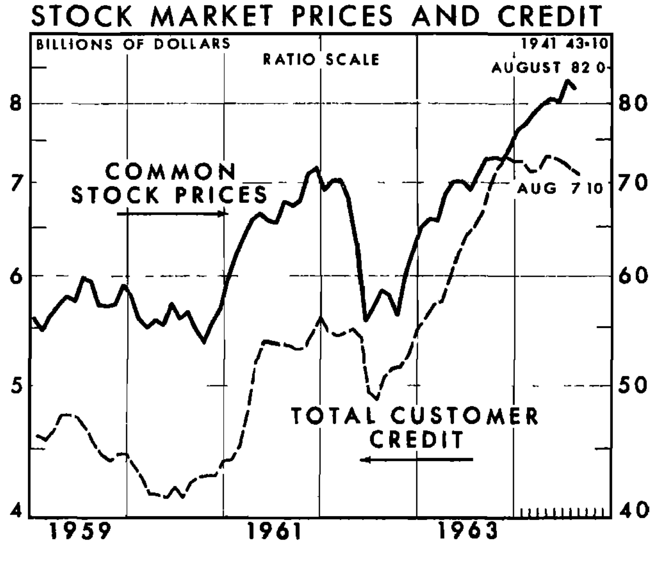
MARKET YIELDS – U.S. GOVT. SEC.



MARKET YIELDS - BONDS & MORTGAGES



STOCK MARKET PRICES AND CREDIT



INTERNATIONAL DEVELOPMENTS

U. S. balance of payments. The over-all payments deficit on "regular transactions" in the third quarter may now be estimated, from preliminary data through mid-September, at about $1-1/4 million before seasonal adjustment. A large deficit in July was followed by much smaller deficits in August and in early September. Transactions in September included inflows of funds which presumably reflected as in 1962 and 1963 some temporary repatriation of short-term investments from abroad to meet tax payments, and one transaction involving a large outflow of capital to Canada.

After seasonal adjustment, the third quarter deficit at an annual rate was probably not substantially different from the $2.7 billion second quarter deficit.

In September, a $254 million payment was made by a group of U.S. public utilities to the Government of British Columbia for water control on the Columbia river. Of this amount, about $50 million is to be used to repay outstanding short-term debts in New York, while the Canadian dollar proceeds received by the Government of British Columbia have been lent pending later use to other Canadian provincial authorities and financial institutions who otherwise might have sought to borrow funds in the United States. However, the $200 million in U.S. dollars which was sold to the Canadian Treasury has been invested in nonmarketable, nonconvertible U.S. Government securities with maturities ranging from 14 months to 7 years; these securities will not be included in Canada's official reserves. The Department of Commerce is currently planning to treat this Canadian purchase of special U.S. government securities as a foreign long-term investment in the U.S.; with this treatment, the deficit balance on regular transactions would be $200 million less than indicated above.

Business and financial developments abroad. Sterling has been under further heavy pressure in the last three weeks in foreign exchange markets and has received substantial support from the British authorities. In Europe generally, industrial output appears to have been level into the early summer. Recent data on Canada confirm a pause in the rise in activity in the spring and early summer but also include indications of renewed expansion getting underway.

Britain's continued large payments deficit led to a further weakening in the spot exchange rate this month and to some widening of the discount on forward sterling. On September 22, spot sterling was quoted at 278.36 cents, down .07 cents from early in the month. British authorities have provided heavy support to the rate.

Through August, British reserve losses this year had totaled only about $70 million despite the large over-all payments deficit. This was due mainly to the fact that, through June, there was a rise of $360 million in sterling liabilities, principally as a result of improved payments positions in the overseas sterling area.

In August the seasonally adjusted trade deficit remained at the high rate of the previous seven months; both exports and imports were up from the levels of earlier months. Retail prices increased further and were about 3 per cent above the first quarter average.

The level of domestic activity continues to show little change. In July, industrial production and the volume of retail sales were the same as in June and as in the early months of the year. Employment rose somewhat more slowly in August than in earlier months. Recently released data show that, through the second quarter, domestic private capital expenditures were still rising strongly, both in manufacturing and in the distributive and service industries. Also additions to manufacturers' inventories, particularly of finished goods, were again very large in the second quarter.

In France, there are additional indications of a leveling off of demand. In recent weeks there have been further cuts in working hours among automobile manufacturers and auto sales in the last half of the year are now expected to be 6 per cent below 1963 levels. According to recent surveys of business expectations, manufacturers were generally less optimistic about production prospects in June and July than in earlier months. Survey respondents noted that order backogs in consumer goods industries had continued to drop while those in the equipment industries had failed to increase further.

The budget for the current year is now expected to be in approximate balance compared to a deficit of over 8 billion francs in 1963. The draft budget for 1965, which was released last week, is also balanced. It provides for a much smaller increase in expenditures than in other recent years and for a slight reduction in personal income tax rates. The budget also includes provisions for reducing taxation on income from stocks and bonds in an effort to encourage the development of the domestic capital market.

The German industrial production index rose in July but for June and July together averaged the same as in April-May. Increases in output over this period were noticeable only in consumer goods industries. New orders in June-July, however, were up 7 per cent from the two preceding months; the largest gains were again in the consumer goods sector but substantial additions were also made to the already heavy backlog of domestic orders for capital goods.

Official reserves fell by $26 million in August and there was reportedly no appreciable net movement of short-term capital funds. Official reserves had declined by $109 million in July when the trade surplus diminished sharply, and when high seasonal outpayments for services and some net outflow of short-term capital occurred. Both in July and August, there were reported inflows of foreign funds into German equities.

Japanese industrial production was unchanged in July after rising 4 per cent in June. The trade deficit in August remained close to the reduced July level, less than half the average monthly deficit of the second quarter; imports continued to fall. In the first two weeks of September, the yen appreciated against the dollar by 1/4 per cent, the first significant change in the rate in five months.

Canadian economic indicators for June show somewhat lower levels of activity compared to early spring. Manufacturing output and retail sales were down 3 and 2 per cent respectively.

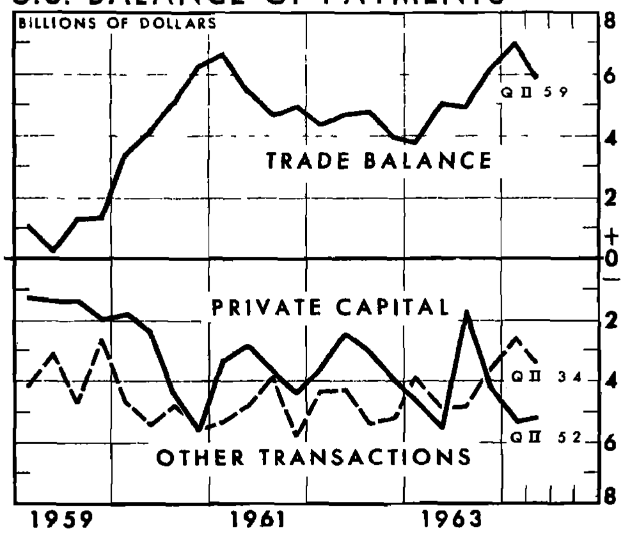
Renewed increases in activity in the second half of the year are still anticipated, mainly because of the large planned expansion of capital expenditures for the year. Recent indicators lend support to this view.

In June, unfilled orders in manufacturing were up nearly 5 per cent from March. Seasonally adjusted exports showed a further increase in July, despite the completion in June of wheat shipments to the Soviet Union, and were 6 per cent above the second quarter average. The unemployment rate declined in July and in August after rising in the late spring.

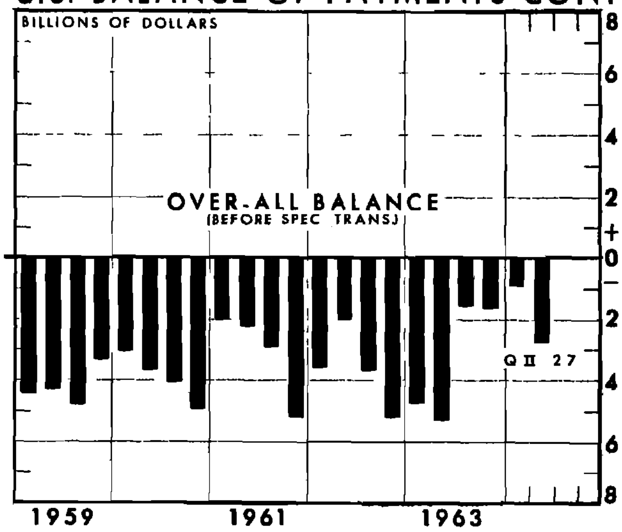
U.S. AND INTERNATIONAL - ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED ANNUAL RATES

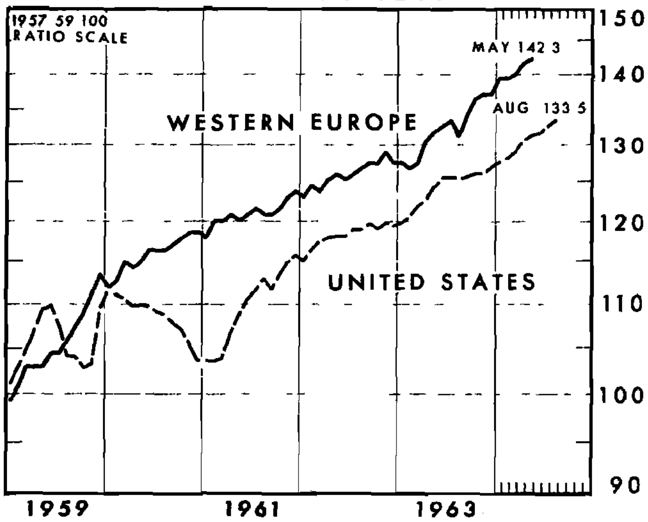
U.S. BALANCE OF PAYMENTS



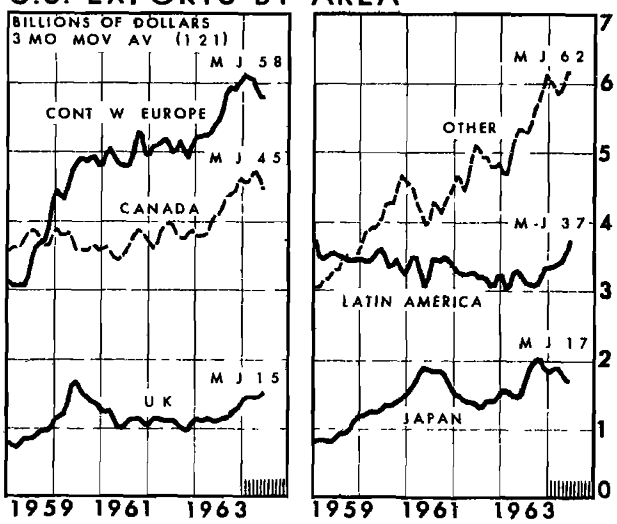
U.S. BALANCE OF PAYMENTS-CONT.



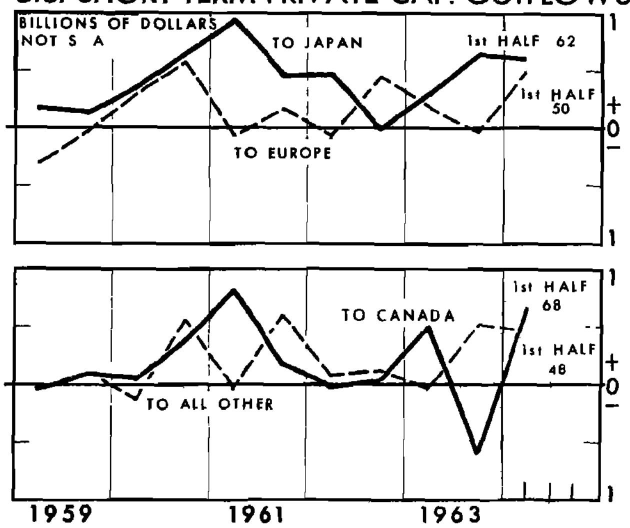
INDUSTRIAL PRODUCTION



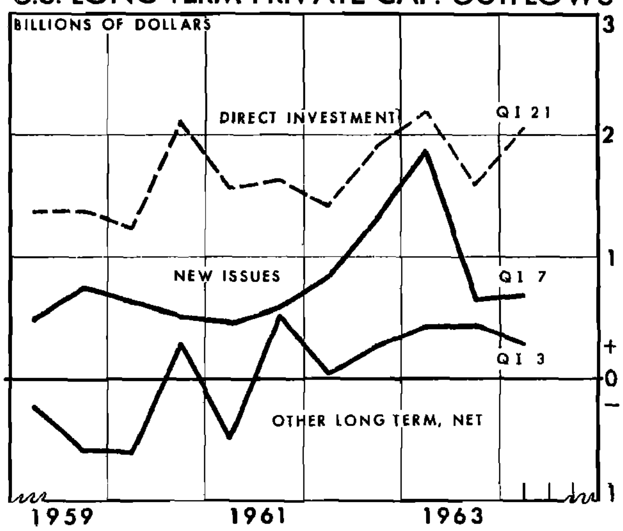
U.S. EXPORTS BY AREA



U.S. SHORT-TERM PRIVATE CAP. OUTFLOWS



U.S. LONG-TERM PRIVATE CAP. OUTFLOWS



APPENDIX A: THE CHRYSLER - UAW SETTLEMENT

The Chrysler and the United Automobile Workers agreement of September 9, 1964, has been accepted by Ford, and General Motors is expected to approve generally similar terms. The new 3-year Chrysler contract grants fairly sizable gains to its employees and reflects a concerted and successful effort by the union to vastly improve benefits to older and retired workers, reduce working time and provide production workers with more of the prerequisites and security generally associated with white collar or salary employment. To obtain these large nonwage benefits the union gave up a 2.5 per cent or 7.5 cents improvement factor which would have been effective September 1, 1964, and a 2-cent cost-of-living adjustment accruing to employees in early September under the cost-of-living formula. Both wage increases have been included in the companies original offer to the union in mid-August. As an additional concession the union also agreed to reduce the number of company paid union representatives (stewards and committeemen) in each bargaining unit.

Published estimates of the value of the new contract have varied widely, in part, because the company and unions differ in their estimates of the cost of some provisions and also use a different base of total wage costs to determine the average annual rate of increase over the three-year contract period. The calculations in the attached table, for each of the major items, are based on information obtained from various sources--neither the union nor the companies have issued any official breakdown of the package.

Staff estimates of the major provisions of the contract add up to between 52.3-55.4 cents per hour over the three-year period (see Table 1 following). Chrysler reported average hourly wages, including fringes, of production workers prior to the new contract were $4.05 per hour. The union estimate of the total hourly wage is somewhat lower, about $3.80 per hour, but they exclude employer contributions to social security funds, relief time and other items from their calculation of the wage base. Using the company estimate of $4.05 per hour, the average annual rise in wages and fringe benefits amounts to 4.3-4.5 per cent per year. This is larger than the more than 3 per cent per year increase estimated in the 1961 and 1958 settlements but below the almost 6 per cent annual rise agreed to in the 1955 contract. The 1955 contract was valued at about 45 cents for three years but the wage base was substantially lower then.

A major feature of the settlement is the relatively high proportion of added costs for nonwage items. Increased pensions and early retirement provisions alone account for almost two-fifths of the total. Reductions in work time, including increased relief

TABLE 1

COST OF CHRYSLER - UAW SETTLEMENT
September 1, 1964 - September 1, 1967

	Estimated Cost Per Hour (cents)
1. Improved pension and early retirement	18-20
Increase in pensions to $4.25 per month per year of service, effective January 1, 1965	
Workers who voluntarily retire at age 60 and 30 years of service will receive 70 per cent of base pay up to a maximum of $400 a month, effective September 1, 1965	
2. Reduction in work time	10.3-11.4
Increase in relief time assembly workers from 24-36 minutes	2.2-3.3
Added week of vacation, effective May 1, 1965	5.8
Two additional holidays	2.3
3. Wages	16
2.5 per cent increase September 1, 1965, and 2.8 per cent increase September 1, 1966	
4. Life, sickness and accident insurance	8
Company assumes full cost of insurance	3
Increased medical and other benefits, effective September 1, 1966	5
5. Improved supplemental unemployment benefits and severance pay	0
(Company contribution to SUB fund not increased)	
Total cost	52.3-55.4
Average annual cost	17.4-18.5
Average rate of increase (per cent)	4.3- 4.5

time, one added week of vacation and the two extra holidays are estimated as an additional one-fifth and accident insurance and medical benefits as another one-tenth.

New supplementary unemployment benefits are not included as an additional cost since employer contributions into SUB funds were not increased but will continue at 5 cents an hour. Estimates of pension improvements are based on probable number of retirees, future employment levels, mortality of current pension recipients, etc. However, the amount of employer contributions into the pension fund is determined by the trustees and is not part of the collective bargaining agreement. In the past, employer contributions have often differed from estimated costs in respect to amount and timing, reflecting the size or change in asset value of the funds, accuracy of the estimates, etc. In recent years, for instance, General Motors has been able to increase benefits considerably without significantly increasing contributions.

Direct wage rate increases, which total 16 cents, are less both in relative and absolute terms than in the three earlier contracts. Because there is no wage increase in the first year, additions to workers' money income are limited to the elimination of a 3-cent per hour employee contribution for insurance and possible quarterly cost-of-living adjustments starting December 1, 1964.

The strong emphasis on nonwage items can be largely explained by recent trends in employment and age structure in the automobile industry and the union's firm conviction that automation will continue to erode job opportunities in the future. Production worker employment in the industry has been rising since 1961, but the number now employed is only slightly higher than in 1960 and well below the 1953, 1956 peaks. The average age of production workers in the automobile industry has been rising rapidly and the older workers have increasingly been able to influence union policy. Their distaste for the assembly line and desire for increased leisure, adequately compensated, is well known to union leaders and sociologists. The younger worker, who traditionally gave high priority to gains in current income, now also gives greater emphasis to efforts to reduce work time and the age of retirement as a way of protecting his job and his long-term income potential.

Some Implications of the Chrysler Settlement

Total labor compensation in the auto industry, including nonwage items, can be reasonably estimated to rise at a rate of from 4.3 to 4.5 per cent per year under the new contract, which establishes the increase as above the noninflationary 3.2 per cent guidepost figure used by the Council of Economic Advisers. However, evaluation of the impact of this particular contract on the industry or the economy is complex and deserves more sophisticated analysis than merely subtracting the estimated cost of the contract from the guidepost calculation.

There are at least three aspects of the Chrysler settlement which require some critical attention: a) the direct impact on the automobile company's prices and on workers' income; b) pattern setting implication for other unions; and c) increased expectations of price inflation by business, investors and those concerned with economic policy.

The direct impact of the settlement appears to be very limited. The general expectation is that the automobile companies will not raise prices. The prospective increase in labor compensation is believed to be below productivity gains in recent years in the industry.

With no wage increases to be paid in the first year of the contract, additions to the income stream will be relatively minor, and the settlement can not be thought of as contributing in the year ahead to any significant increases in consumption expenditures by auto workers. For comparative purposes it might be worth noting that a year ago September the auto workers received an increase of 8-9 cents in hourly earnings, mostly because of the improvement factor and a small rise in the cost-of-living adjustment. Also, many of the new fringe benefits are phased over the three-year period and add little immediately to income. Retired workers will not receive added income until the beginning of next year while earlier retirement benefits do not become available until September 1, 1965. Additional holiday time cannot be taken until May 1965 and most improvements in insurance become effective in 1966.

The auto agreement set two major targets for other unions to shoot at: the size of the package, and the very favorable pension and retirement provisions. However, the contract offers no support to other unions for large direct wage increases. This will undoubtedly tend to firm up demands of other unions, but the size and nature of their settlements will depend on prevailing economic conditions in the country and in the industries when the new contracts are negotiated.

Since the mid-fifties a number of developments in collective bargaining have tended to reduce the pattern effect of a major settlement. There has been a steady increase in the number of long-term contracts and as a consequence any major advance in wages and fringes takes a relatively long time to diffuse through the wage structure. There also has been a growing tendency over the years for unions and management to establish closer and continuing relationships and to provide important institutional arrangements which gear collective bargaining much more closely to specific conditions in individual companies or industries than to "a pattern setter". Substantial differences have occurred among industries with respect to length of contract, cost of contract, and other terms. It is very difficult to determine from individual collective bargaining agreements what the wage pattern is these days, except, in very broad and not always meaningful terms.

The automobile workers are at or close to the top of the range among factory workers in the amount of their weekly earnings and the value of their fringe benefits. Their settlements have generally been well above the average for manufacturing industries and closer to those of the teamster and building trades. Many other unions may have wished to duplicate the automobile contracts, but they generally have settled for less and it has taken them much longer to obtain the fringe benefits received by the auto workers. Most unions, for example, do not have cost-of-living escalators or have been forced to eliminate them in recent years. Supplementary unemployment benefits, the big breakthrough for the automobile workers in 1955, have not yet been adopted by most industries. The copper mining companies have just set up, in negotiations concluded this month, a fund for supplementary unemployment benefits--9 years after the automobile industry.

Recent negotiations in other industries have not so far reflected any special upward wage pressure. The copper settlement provided for wage and fringe gains estimated at 30 cents per hour over 3 years, relatively less than in autos and within the guideposts. The Michigan Bell agreement, which tends to set a pattern for the entire Bell System, provided for a wage increase averaging 10 to 11 cents per hour this year but no changes were negotiated in fringes. Percentage-wise, this increase in wages of a little more than 3 per cent is in line with settlements for other recent years in the telephone industry. In rubber and meat packing, settlements were also "noninflationary."

Another factor limiting the spread of the auto contract terms is the relatively small number of major negotiations scheduled for this year or early next year. Negotiations will begin shortly in the agricultural implements industry. The UAW represents the workers here and is expected to obtain an automobile-type agreement, but the package is not expected to be as large. Contracts will also expire for most automobile parts companies in the next few months. The union has practiced a good deal of wage differentiation among the auto suppliers depending on size, profitability, and employment prospects in each company. It is highly unlikely that average wage and fringe gains in these companies will come up to those achieved in the auto settlement; they never have in the past. Prices for most of the products are very competitive in these companies since a large part of this output is purchased by the major automobile companies. Demands by the union have been kept relatively low to prevent plant shut-downs and loss of jobs. The major issues in the current railroad and longshoremen negotiations involve special problems and relate to automation and job security.

The wage reopening scheduled in the steel industry early next year is the most important labor negotiation in prospect. The steel workers are likely to gain larger wage and fringe increases than in other recent years but well below the very high settlements of the mid-1950's. The union is sure to point to rising output and profits and to a consumer price advance of almost 5 per cent since the last wage increase in 1961. But there is real union concern with the generally declining trend in steel employment and union fear of further inroads in steel output from international competition. These factors may have a restraining influence on union demands.

In 1962 and 1963, unfavorable conditions in the steel industry led to relatively low settlements of 2.5 and 2.0 per cent per year, significantly below the average for manufacturing industries. The last wage increase was in October 1961. At that time the cost-of-living clause was also eliminated. Rumors that the Human Relations Committee has been meeting and hopes to work out a settlement before the end of the year have not been verified. However, in 1963, an agreement was reached well before the strike deadline, without a formal reopening and with the help of the Human Relations Committee. In 1962, the announcement of an agreement also occurred before the contract expired. An early settlement in steel would tend to limit the amount of potential inventory accumulation and subsequent liquidation. Glass, paper, and rubber are other industries which will be engaged in collective bargaining in the first half of next year.

Expectation of any immediate and widespread general rise in prices directly traceable to a general rise in unit labor costs seems to be unwarranted. Average increases in labor compensation in other industries are likely to be below those in the automotive industry and more in line with the guideposts. The very nature of current collective bargaining assures that impact of labor cost increases will be diffused and spread over a long period. Productivity increases have been high and if continued at current rates would tend to offset a large part or the whole of the higher labor compensation. There still are excess supplies of available labor which have and will continue to limit union demands, especially for direct wage increases. However, firming of union demands is likely to lead to selective price increases in some industries, either because the wage gain is higher than gains in productivity or demand is strong enough to support a higher price level for some products.