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<sup>1</sup> In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

June 11, 1965

## SUPPLEMENTAL NOTES

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### The Domestic Economy

Retail sales rose 2.5 per cent in May, according to the advance Commerce estimate, and slightly exceeded the February peak. Expansion was most pronounced in nondurable goods sales which were up 3 per cent from April and also from February. Sales at durable goods stores increased 1 per cent, but were below the February high because of appreciably lower volume of auto sales.

Total retail sales in April and May averaged 1 per cent higher than in the first quarter. Sales at nondurable goods stores were up 2.6 per cent, reflecting substantial gains at food stores and eating establishments, general merchandise stores, and gasoline service stations.

### The Domestic Financial Situation

Underwriters of the \$250 million Chase Manhattan Bank issue -- priced to yield 4.60 per cent -- have thus far been able to distribute only about one-half of these bonds. However, because of what many considered the "rich" pricing of this issue, this week's two investment-grade offerings have been very well received by investors. Yields on these issues -- adjusted to an Aaa basis -- averaged 4.60 per cent, 5 basis points higher than the average new issue yield in late May, the last time any eligible issues were offered. Meanwhile in the municipal market, yields on seasoned, Aaa-rated bonds rose 7 basis points to 3.16 per cent following fourteen consecutive weeks of stability.

June 11, 1965

Errata Sheet

Page II - 7, replace with attached pages II - 7 and 7a.

Page I - T-3. The balance on regular transactions for 1965-QI should read -2.8.

Page IV - 1. In last column of table, lines 2 and 3 should read -420 and 370, respectively.

Common stock prices declined further this week. Closing at 84.73 on June 10, Standard and Poor's 500 stock price index was 6.1 per cent below its all-time high reached on May 13.

International Developments

In April, U.S. merchandise exports and imports both declined from the record high in March. The decline was larger for exports than for imports. However, both export and import movements in April continued to be swollen by the catching up of shipments following the January-February dock strike. The catching up process does not seem to have been completed by the end of April, particularly in the case of exports; in the period December-April, exports still averaged much below earlier levels as shown in the table. In the case of imports, the heavy movement in March and April brought the 5-month average up above last autumn's average. It seems likely that the underlying movement of imports has been up while exports have been relatively flat apart from the dock strike effects. A more precise estimate of these trends will be impossible for another month or two.

U.S. FOREIGN TRADE  
(billions of dollars, annual rates)

	Sept.-Nov. Avg.	Dec.-April Avg.	April
Exports	26.3	24.7	28.6
Imports	<u>19.2</u>	<u>19.6</u>	<u>22.0</u>
Trade surplus	7.1	5.1	6.6

realized in the first quarter because of the special developments in steel and autos. Nondurable goods manufacturers in May anticipated a rise of 2 per cent in the second quarter, compared to 1 per cent expected earlier, and they look for a further rise of 2 per cent in the third quarter. These anticipated increases are about in line with actual increases over the last year.

Plant and equipment. Business expenditures on new plant and equipment will rise throughout this year and total \$50.4 billion, 12.2 per cent more than last year, according to the Commerce-S.E.C. survey conducted in May. This is a little more than indicated in the February survey, reflecting a slight upward revision in outlays planned for the second half of the year. It is below the 15 per cent increase indicated by the McGraw-Hill survey taken in late March and April. The difference is presumably due to the smaller McGraw-Hill sample which includes only the larger companies in each industry and has a more limited coverage of the "commercial and other" group.

The latest survey indicates that capital outlays will rise more rapidly in the second half of the year than in the first. As is shown in the table, however, the quarterly increases in prospect this year are considerably smaller than last year. Outlays in the fourth quarter of 1965 are indicated to be 9 per cent above a year earlier; spending in the fourth quarter of 1964 was 16 per cent above a year earlier.

NEW PLANT AND EQUIPMENT EXPENDITURES

	Quarter-to-quarter increases			
	1965		1964	
	Dollars <sup>1/</sup>	Per cent	Dollars <sup>1/</sup>	Per cent
1st quarter	1.25	2.6	1.35	3.3
2nd quarter	.60*	1.2	.95	2.2
3rd quarter	1.20*	2.4	2.15	4.9
4th quarter	1.30*	2.6	2.10	4.6

\* Planned.

<sup>1/</sup>In billions of dollars, seasonally adjusted annual rates.

Increases in expenditures for new plant and equipment this year are planned by all major industry groups, as shown in the following table.