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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 28, 1966

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SUMMARY AND OUTLOOK

Outlook for GNP

Most evidence continues to point to increases in GNP in the \$14-15 billion range in the third and fourth quarters. With price increases absorbing half the dollar gains, real growth would be at the rate of about 4 per cent a year, as compared with 2 per cent in the second quarter and 6 per cent in the first.

Expansion of defense spending continues to dominate the outlook. Such spending appears to have accelerated sharply further since midyear; increases are now estimated at \$3-1/2 to \$4 billion a quarter in the second half of the year, up from \$2.5 billion in the second quarter and an average quarterly increase of about \$2.0 billion over the preceding three quarters.

A further sizable increase in business fixed investment seems likely for the rest of the year, in line with reported business spending plans, the large backlog of orders on hand in machinery and equipment industries, and -- for manufacturers and utilities -- the large carry-over of projects underway at midyear. However, new orders for machinery and equipment declined in August and further declines may be in prospect as a result of the proposed suspension of the investment tax credit. Financial restraint seems also to be an increasingly important limitation; many manufacturers report also finding their internal funds less adequate relative to their spending and their external sources of financing more difficult to tap.

Manufacturers plan some slackening in inventory accumulation in the fourth quarter from the high second -- and probably third -- quarter rates. Such a development would be reinforced by restrained

business lending by banks. Residential construction activity continues to decline sharply, with mortgage funds difficult and costly to obtain. With permits continuing to decline, near-term prospects for any significant rebound in housing activity are dim.

As projected earlier and as confirmed by data through August, disposable personal income and spending have stepped up sharply from the low rate of gain in the second quarter, but rising consumer prices continue to account for a major part of the increase in dollar expenditures. The decline in auto sales in the first 20 days of September is difficult to interpret because of the earlier new model introductions this year. The magnitude of the consumer spending rise in the fourth quarter -- now projected as almost as large as in the third quarter -- will depend in large measure on public reception of the new -- and higher priced -- autos.

The outlook for prices

The pace of the prospective increases in output points to continued expansion at a rate that will maintain pressures on available resources. Although the increase in the industrial production index has been at a less rapid pace in recent months than in the first half of the year, it has nevertheless continued to exceed the estimated rate of growth in capacity, and utilization of manufacturing capacity remains at the highest level since the period of the Korean War.

Pressures on labor resources also are likely to be maintained. With an overall unemployment rate that has hovered around 4 per cent this

year, rates for the various categories of experienced and skilled workers have remained extremely low.

The sharp rise in the consumer price index this year has led to sizable increments in wages in those industries where labor contracts include cost-of-living clauses and is contributing to demands for substantial wage advances in those industries where contracts are being or are soon to be renegotiated.

Wage increases provided for in new contracts will undoubtedly exceed those of recent years and will exceed the rate of improvement in productivity, and labor costs per unit of output are likely to show more of an uptrend than heretofore. The prospects for prices thus are that the upward pull of strong demands will be reinforced by an upward push of costs. The degree of acceleration in wages and costs is difficult to judge, but it may be tempered by growing expectations of tax increases next year; such expectations not only give rise to anticipations for after-tax profits and also increase uncertainties about the strength of demand for some goods and services.

Demand for funds

Business demands for loans from banks in October can be expected to be quite strong in large part because during that month the acceleration of corporate payments of withheld individual income taxes will again increase the cash needs of business. October tax payments will be about \$2.7 billion larger than would have been the case under the old schedule. In addition, continued relatively large business

inventory accumulation expected during the fall will sustain business demands for bank credit in the coming month.

The need for business external financing is likely to be reflected in sizable demand on the corporate bond market, too. Corporate underwriters generally see no reason to expect any significant let-up of continuing business financing pressures on capital markets. However, the September calendar turned out to be about three-fifths of the unusually large August total, which had reflected some acceleration of planned offerings. The volume of offerings thus far scheduled for October is still less than half the August total, but it is already much larger than the supply ultimately marketed in October 1965.

In the municipal market, the volume of new offerings being scheduled is continuing to fall short of a year ago, although if interest rates decline it is possible that demands postponed earlier may return to the market.

Federal Government credit demands will be large during the months immediately ahead, with net cash borrowing during the final quarter of the year estimated to be about 30 per cent more than last year's heavy \$5.7 billion. The great bulk of the borrowing is likely to be in the bill market.

Source of funds

The banking system is likely to remain hard pressed to accommodate loan demands. The more restrictive lending programs already undertaken by banks may be a factor in keeping loan growth below the very

rapid rate of the first eight months of the year. Still, the process of banks losing funds to the market is likely to continue in October -- especially at large banks who rely heavily on negotiable CD's -- and banks may have to make further adjustments in their portfolios, lending terms, or propensity to borrow from the System.

As of yet, only a few banks are showing an increased inclination to make use of the discount window. Thus, it is not clear that banks will choose to borrow rather than to make the portfolio adjustments that would sustain their ability to make loans. With U.S. Government security holdings diminished, bank portfolio adjustments may be principally in the municipal market and perhaps also in reduced mortgage lending.

In the period ahead, banks' ability to obtain consumer-type time deposits -- which have recently been growing less rapidly -- may have been lessened somewhat further because of the new structure of rate ceilings on time and savings accounts at banks and other savings institutions. Savings and loan associations and mutual savings banks particularly in the key California and New York City areas are likely to be the principal beneficiaries of the new rate structure. This influence, together with the increase in FNMA secondary market purchasing authority, will have the effect of adding to the availability of mortgage money. But these two tendencies toward ease are likely to be offset in the period immediately ahead by the competition of prevailing money and capital market yields with savings rates.

Given the rate structure on time and savings accounts, the process of financial disintermediation is likely to continue, with a large part of lendable funds moving directly into the market from individual investors. During recent weeks, individuals have apparently been active buyers at advanced yield levels of municipals -- of both new securities and seasoned issues sold by banks. While bank selling appears to have tapered off recently, market participants are sensitive to the fact that any greater than seasonal build-up in business demands for bank credit this autumn could force a renewal of such bank liquidation.

Heavy reliance on individual investors as a source of funds has often been accompanied by rising long-term interest rates. In recent weeks, the tendency for long-term rates to rise under such conditions has been moderated, and partly reversed, by expectational factors related to Vietnam peace rumors and/or a tax increase. In addition, some of the past credit demand appears to have been anticipatory, and this has also taken some pressure off the market currently.

Over the period ahead, future private credit demands, though they may be somewhat more moderate than in the past, will be joined by strong U.S. Government demands. As a result, over-all demands are likely to press against available supply, and interest rates are likely to rise. The rise may result from pressures generated initially in the short-term market and also from the absence of large institutional demands for securities. If interest rates do not tend to rise -- given the current outlook for the supply of funds and for Government credit demands -- it may be an indication that business expenditures are being cut and credit demands consequently reduced.

Balance of payments

During September money market tightness in this country continued to draw in foreign private liquid funds via the Euro-dollar market. Also U.S. banks may have further reduced their outstanding foreign loans and credits; net reflows of bank credit in July and August were better than seasonal, and new term loan commitments have been running at a reduced rate.

Strength of the dollar in exchange markets during the past month or two reflects private capital movements, and especially the efforts of U.S. banks to draw in funds from abroad. The growth in U.S. banks' short-term liabilities to their branches abroad has amounted to nearly \$1-1/2 billion since midyear. As U.S. short-term liabilities to other commercial banks and to private foreigners other than banks have not been reduced, the impact has fallen entirely on foreign central bank reserves -- which have risen less than seasonal forces and the underlying payments position would have caused them to. Thus the U.S. balance on the official reserve transactions basis during the third quarter has been a large surplus, about \$1 billion after seasonal adjustment and about \$1/2 billion unadjusted.

The underlying payments position remains in deficit. U.S. merchandise imports eased off slightly in August, but the July-August average still showed an increase at an annual rate of about 20 per cent measured either from late 1965 or from early 1966. U.S. merchandise exports failed to

rise further in August. On this account and because of the very high July imports, the trade surplus during July and August was down to an annual rate of less than \$3 billion; this compared with \$4.8 billion in 1965, \$4.5 billion in the first quarter of 1966, and \$3.4 billion in the second quarter.

The marked worsening of the trade balance between the first and second quarters reflected not only the steady rise in U.S. imports, but also a slackening at that time in the pace of U.S. export expansion, related in part to a slowing in the previously rapid rise in Continental European countries' imports. Around midyear U.S. exports moved up to a new plateau, assisted by advancing import demands in Japan, France, and Italy, as well as in non-industrial countries. Current hopes and expectations of a 2nd-half-year trade surplus above a \$3-1/2 billion rate imply a fairly strong rise during the rest of the year in aggregate import demands of foreign countries, as well as a moderation of the growth in U.S. import demand.

Even if these expectations for exports and imports are fulfilled, the over-all payments deficit on the liquidity basis seems likely to be between \$2 and \$2-1/2 billion, annual rate, during the present half year. Preliminary indications for July, August, and a part of September are consistent with this prospect. During this half year the balance is being benefited by Italian and French debt prepayments totalling over \$200 million, of which about \$70 million has been received by September 28. The liquidity deficit would be larger and the official reserve transactions surplus (cited earlier) smaller, in the absence of these prepayments.

SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest Period	Amount		Year Ago	Year Ago*	2 years Ago*
		Latest Period	Preceding Period			
Civilian labor force (mil.)	Aug'66	77.4	77.1	75.8	2.1	4.2
Unemployment (mil.)	"	3.0	3.0	3.4	-10.4	-20.1
Unemployment (per cent)	"	3.9	3.9	4.5	--	--
Nonfarm employment, payroll (mil.)	"	64.3	64.1	61.0	5.4	9.9
Manufacturing	"	19.3	19.1	18.1	6.4	11.3
Other industrial	"	8.0	8.0	7.8	1.8	4.4
Nonindustrial	"	37.0	36.9	35.0	5.6	10.4
Industrial production(57-59=100)	"	158.3	157.4	144.5	9.6	18.1
Final products	"	156.9	156.1	142.3	10.3	17.9
Materials	"	160.0	158.9	146.1	9.5	18.3
Wholesale prices (57-59=100) ^{1/}	"	106.8	106.4	102.9	3.8	6.5
Industrial commodities	"	104.4	104.6	102.3	2.1	3.6
Sensitive materials	"	103.9	106.3	103.1	0.8	4.5
Farm products and foods	"	111.3	109.9	103.3	7.7	13.9
Consumer prices (57-59=100) ^{1/}	"	113.8	113.3	110.0	3.5	5.2
Commodities except food	"	106.6	106.7	104.7	1.8	2.3
Food	"	115.8	114.3	110.1	5.2	8.3
Services	"	123.0	122.6	117.9	4.3	6.6
Hourly earnings, mfg. (\$)	"	2.72	2.71	2.62	3.8	6.7
Weekly earnings, mfg. (\$)	"	112.22	111.60	107.53	4.4	7.9
Personal income (\$ bil.) ^{2/}	"	585.0	580.0	537.8	8.8	16.8
Corporate profit before tax (\$ bil.)	QII'66	82.9	82.7	74.5	11.3	24.1
Retail sales, total (\$ bil.)	Aug'66	25.9	25.5	23.6	9.7	16.4
Autos (million units) ^{2/}	"	8.5	8.3	8.9	- 4.1	2.6
GAF (\$ bil.)	"	6.3	6.1	5.4	15.7	22.8
Selected leading indicators:						
Housing starts, pvt. (thous.) ^{2/}	"	1,057	1,081	1,427	-25.9	-30.1
Factory workweek (hours)	"	41.3	41.1	41.1	0.5	1.0
New orders, dur. goods (\$ bil.)	"	23.1	24.2	21.5	7.4	19.4
New orders, nonel. mach. (\$ bil.)	"	3.7	3.4	3.3	12.1	26.1
Common stock prices (1941-43=10)	"	80.65	85.84	86.49	- 6.8	- 1.6
Manufacturers' inventories						
book val. (\$ bil.)	July'66	72.9	71.9	65.4	11.5	20.6
Gross national product (\$ bil.) ^{2/}	QII'66	732.3	721.2	672.9	8.8	16.7
Real GNP (\$ bil., 1958 prices) ^{2/}	"	643.5	640.5	607.8	5.9	11.3

* Based on unrounded data. ^{1/} Not seasonally adjusted. ^{2/} Annual rates.

SELECTED DOMESTIC FINANCIAL DATA

	Week ended	Four-Week	Last six months	
	Sept. 23	Average	High	Low
Money Market ^{1/} (N.S.A.)				
Federal funds rate (per cent)	4.90	5.45	5.88	3.00
U.S. Treas. bills, 3 mos., yield (per cent)	5.52	5.29	5.09	4.33
Net free reserves ^{2/} (mil. \$)	- 198	- 320	- 94	- 477
Member bank borrowings ^{2/} (mil. \$)	771	775	888	508
Security Markets (N.S.A.)				
Market yields ^{1/} (per cent)				
5-year U.S. Treas. bonds	5.56	5.58	5.89	4.76
20-year U.S. Treas. bonds	4.96	4.97	5.12	4.59
Corporate new bond issues, Aaa	5.69	5.85	5.98	4.84
Corporate seasoned bonds, Aaa	5.49	5.49	5.53	4.74
Municipal seasoned bonds, Aaa	3.89	3.94	4.04	3.42
FHA home mortgages, 30-year ^{3/}	6.58	6.58	6.58	6.00
Common stocks S&P composite index ^{4/}				
Prices closing (1941-43=10)	78.39	77.60	92.42	74.53
Dividend yield (per cent)	3.74	3.75	3.80	3.13
	Change	Average	Annual rate of	
	in	change	change (%)	
	August	Last 3 mos.	3 mos.	1 year
Banking (S.A., mil. \$) ^{5/}				
Total	- 264	- 36	- 2.0	3.2
Bank loans and investments:				
Total	1,600	2,200	8.7	8.7
Business loans ^{6/}	100	1,200	18.9	17.2
Other loans ^{6/}	100	900	8.5	9.8
U.S. Government securities	1,800	300	6.5	- 3.1
Other securities	- 400	- 100	- 3.4	8.6
Money and liquid assets:				
Demand dep. & currency ^{6/}	0	- 200	- 1.4	4.0
Time and savings dep. ^{6/}	1,300	1,600	12.3	12.6
Nonbank liquid assets	1,700	400	1.6	4.5

N.S.A.--not seasonally adjusted. S.A.--seasonally adjusted.

^{1/} Average of daily figures. ^{2/} Averages for statement week ending September 21.

^{3/} Latest figure indicated is for month of August. ^{4/} Data are for weekly closing prices. ^{5/} Where necessary, comparisons shown below have been adjusted for

definitional changes in June and July. ^{6/} Based on revised series.

U. S. BALANCE OF PAYMENTS
(In millions of dollars)

	1 9 6 6				1 9 6 5			1965
	Aug.	July	QII	QI	QIV	QIII	QII	Year
	Seasonally adjusted							(billions)
Current account balance			1,084	1,298	1,290	1,527	1,761	6.0
Trade balance <u>1/</u>	275	190	853	1,118	1,271	1,231	1,317	4.8
Exports <u>1/</u>	2,425	2,425	7,111	7,121	7,027	6,826	6,798	26.3
Imports <u>1/ 2/</u>	-2,150	-2,235	-6,258	-6,003	-5,756	-5,595	-5,481	-21.5
Services, etc., net			231	180	19	296	444	1.2
Capital account balance			-1,175	-1,586	-1,542	-1,821	-1,426	-6.9
Govt. grants & capital <u>3/</u>			-961	-948	-881	-743	-949	-3.4
U.S. private direct investment			-957	-687	-731	-569	-859	-3.4
U.S. priv. long-term portfolio			-94	-219	-154	-363	101	-1.1
U.S. priv. short-term			-53	-2	-27	105	412	0.8
Foreign nonliquid			890	270	251	-251	-131	0.2
Errors and omissions			-66	-268	-80	-240	-109	-0.4
Balances, with and without seasonal adjustment (- = deficit)								
Liquidity bal., S.A.			-157	-556	-332	-534	226	-1.3
Seasonal component			-27	488	-3	-472	-37	--
Balance, N. S. A.	-329	-500	-184	-68	-335	-1,006	189	-1.3
Official settlements bal.,			-186	-246	-1,158	232	239	-1.3
Seasonal component			-182	628	33	-508	-184	--
Balance, N. S. A. <u>4/</u>	27	142	-368	382	-1,125	-276	55	-1.3
Memo items:								
Monetary reserves (decrease -)	-133	190	-68	-424	-271	-41	-68	-1.2
Gold purchases or sales (-)	-94	-116	-209	-68	-119	-124	-590	-1.7

1/ Balance of payments basis which differs a little from Census basis.

2/ Monthly figures tentatively adjusted for changes in carry-over of import documents.

3/ Net of loan repayments.

4/ Differs from liquidity balance by counting as receipts (+) increases in liquid liabilities to commercial banks, private nonbanks, and international institutions (except IMF) and by not counting as receipts (+) increase in certain nonliquid liabilities to foreign official institutions.

THE ECONOMIC PICTURE IN DETAIL

The Nonfinancial Scene

Gross national product. Gross national product is projected at an annual rate of \$746.5 billion in the current quarter and \$761.0 billion in the final quarter of the year. These figures and the indicated quarterly gains of \$14-15 billion are little changed from those indicated by the projection of three -- and also six -- weeks ago.

In real terms, total output is still projected as increasing at an annual rate of close to 4 per cent in each of the last two quarters of the year; the rate in the first quarter was 6 per cent, in the second quarter 2 per cent. Prices, particularly of consumption items, have risen a little faster in recent months than expected earlier.

Underlying data which have become available in recent weeks imply slightly different patterns of development for several of the major expenditure categories than were projected earlier. Consumption expenditures are now projected at a slightly higher level than before -- they have been raised \$1.5 billion in the third quarter and \$2.0 billion in the fourth. Although some easing apparently occurred in retail sales in September, following a sharp run-up the preceding 3 months, large gains were registered for the third quarter as a whole for most types

of merchandise. Expenditures for autos are still being estimated for the third quarter and projected for the fourth on the basis of an 8.5 million annual rate for new domestic cars, as compared with 7.8 million in the second quarter.

Although personal income is expected to show sizable gains in both the third and fourth quarters, the relatively large increases projected for consumption expenditures and continued substantial increases in personal tax payments are resulting in a small drop in the ratio of personal saving to disposable income.

Private construction outlays, both residential and business, were revised down moderately in the current projection. Residential outlays were reduced because of a further decline in housing starts in August, and business construction was lowered on the basis of recent changes indicated by the new construction put-in-place data. The increase projected for total business fixed investment, including producers' durable equipment as well as business structures, embodies business plans as reported in the August Commerce-SEC plant and equipment survey.

Defense expenditures apparently are accelerating even faster than anticipated three weeks ago. On the other hand, net outlays by the Commodity Credit Corporation are now expected to continue in smaller volume than in earlier years and this is acting to limit the rise in "other Federal purchases" in the last half of the year.

Quarterly changes now projected for GNP imply continued intensive use of productive resources -- particularly manufacturing capacity. Consequently, pressure on prices is projected to continue about as strong as in the first half of the year.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditure and income items are billions of dollars,
quarterly figures are seasonally adjusted annual rates)

	1964	1965	1966 Proj.	1965 IV	1966			
					I	II	Projected III IV	
Gross National Product	631.7	681.2	740.4	704.4	721.2	732.3	746.5	761.0
Final sales	627.0	672.1	730.0	694.0	712.3	720.0	736.0	751.7
Personal consumption expenditures	401.4	431.5	466.9	445.2	455.6	460.1	471.0	481.0
Durable goods	59.4	66.1	69.1	68.0	70.3	67.1	69.0	70.0
Nondurable goods	178.9	190.6	207.9	197.0	201.9	205.6	210.0	214.0
Services	163.1	174.8	190.0	180.2	183.4	187.4	192.0	197.0
Gross private domestic investment	93.0	106.6	116.0	111.9	114.5	118.5	116.0	115.0
Residential construction	27.6	27.8	26.4	27.6	28.6	28.0	25.5	23.5
Business fixed investment	60.7	69.7	79.4	73.9	77.0	78.2	80.0	82.2
Changes in business inventories	4.7	9.1	10.3	10.4	8.9	12.3	10.5	9.3
Nonfarm	5.3	8.1	10.3	9.0	8.5	12.1	11.0	9.5
Net Exports	8.5	7.0	4.9	6.1	6.0	4.7	4.5	4.5
Gov. purchases of goods & services	128.9	136.2	152.4	141.2	145.0	149.0	155.0	160.5
Federal	65.2	66.8	76.5	69.8	71.9	74.0	78.2	81.9
Defense	50.0	50.1	59.3	52.5	54.6	57.1	61.0	64.5
Other	15.2	16.7	17.2	17.3	17.4	16.9	17.2	17.4
State & local	63.7	69.4	75.9	71.4	73.1	75.0	76.8	78.6
Gross National Product in constant (1958) dollars	580.0	614.4	647.6	631.2	640.5	643.5	649.7	656.5
GNP Implicit deflator(1958 = 100)	108.9	110.9	114.3	111.6	112.6	113.8	114.9	115.9
Personal income	496.0	535.1	580.5	552.8	564.6	573.5	585.5	598.5
Wage and salaries	333.6	358.4	392.7	370.8	380.0	387.4	397.0	406.5
Disposable personal income	436.6	469.1	506.2	486.1	495.1	499.9	509.4	520.5
Saving rate (per cent)	5.6	5.5	5.1	5.9	5.4	5.3	4.9	4.9
Per cent change, annual rate								
GNP, current dollar	7.0	7.8	8.7	10.4	9.5	6.2	7.8	7.8
Implicit deflator	1.6	1.8	3.1	2.2	3.6	4.3	3.9	3.5
Real GNP	5.3	5.9	5.4	8.4	5.9	1.9	3.9	4.2
Total labor force (millions)	77.0	78.4	80.1	79.0	79.4	79.7	80.4	80.8
Armed forces	2.7	2.7	3.1	2.8	2.9	3.1	3.2	3.3
Civilian labor force	74.2	75.6	77.0	76.2	76.5	76.7	77.2	77.5
Employed	70.4	72.2	74.0	73.0	73.6	73.7	74.2	74.6
Unemployed	3.9	3.5	3.0	3.2	2.9	3.0	3.0	2.9
Unemployment rate (per cent)	5.2	4.6	3.9	4.2	3.8	3.9	3.9	3.7

Industrial production. Available production data for September are insufficient to estimate the industrial production index, particularly in view of the usual large seasonal rise which must be allowed for from August to September. Only fragmentary information is available: output of steel ingots has increased about seasonally. Auto assemblies through September 23, although they failed to meet earlier production schedules, indicate a rate about 10 per cent above the sharply reduced August level but 15 per cent below the rate prevailing earlier in the year. Fourth quarter schedules suggest a further rise to an average annual rate of 8.9 million units, which would be 5 per cent below a year earlier. In the first three weeks of September, output of color television sets changed little while monochrome sets and home radios declined. Truck production rebounded from the model changeover low and was about unchanged from the advanced levels prevailing earlier.

The increase in the total index has slowed considerably from the extraordinary pace earlier in the year, as shown in the table. While all components of the index, except nondurable materials, recorded a slower rate of increase in the second quarter of 1966 than in the first, four showed some acceleration from June to August. The sharp decline in auto assemblies from June to August amounted to .5 of one point in the total index. Exclusive of the decline in auto assemblies, the annual rate of change in the over-all index from June to August was the same as from the first to the second quarter.

INDUSTRIAL PRODUCTION
(Annual rates of per cent increases)

	IV Qtr. 1965 to I Otr. 1966	I Otr. 1966 to II Otr. 1966	June 1966 to August 1966
Total	14.2	8.7	6.9(8.8)*
Consumer goods	6.4	3.6	1.2
Autos	-3.1	-20.2	-93.3
Home goods	12.7	8.5	2.2
Apparel and staples	5.9	4.3	8.9
Business equipment	14.9	13.0	13.9
Defense equipment	31.6	22.0	26.1
Materials	16.4	11.0	7.2
Iron and steel	50.2	33.4	n.c.
Other durable materials	18.8	7.1	9.6
Nondurable materials	9.4	9.8	6.1

* Excluding autos.
n.c. -- no change.

The decline in new private housing starts in recent months has not (through August) led to actual declines in output of home goods and construction materials. The rate of increase in output of home goods, however, has slowed considerably in the latest period, as shown in the table, and since May, production of construction materials has been stable at a level about 5 per cent below the March peak. Output of iron and steel has changed little since last May at a level exceeded only by the peak in July 1965.

Retail sales. Retail sales in early September, according to weekly figures, may have slackened off slightly from the advanced August level. In the first two weeks of the month, however, they were 9 per cent above a year earlier.

Sales increased 1.5 per cent in August, with gains in both durable goods -- autos and furniture and appliances -- and nondurable goods -- particularly apparel. The total was up 10 per cent from a year earlier as compared with a 9 per cent rise in personal income.

The August sales increase extended the rise that began in June -- the total increase from May to August amounted to 6 per cent -- and brought the level of total retail sales above the preceding high reached last March. With new auto sales in August still well below March -- although up considerably from the May low -- total dollar sales of durable goods stores remained below March. Nondurable goods sales, on the other hand, were substantially higher than in March -- with appreciable gains in prices a significant factor in steadily rising dollar volume.

Unit auto sales and inventories. Sales of new domestic autos in the first 20 days of September were down 15 per cent from a year earlier and 22 per cent from a month ago. This decline probably reflects the lessened consumer interest in the old models prior to the introduction of the majority of the 1967 models on September 29. Strong sales in the last 10 days of September, however, are expected to raise the seasonally adjusted annual sales rate of domestic cars to something close to 8.5 million units for the month. Dealer inventories are expected to increase further by month end, to 1.3 million units.

Consumer credit. Preliminary reports for August and early September suggest continuation of the instalment credit expansion at

about the July rate, or perhaps a little faster. The increase in July was \$6.8 billion, seasonally adjusted annual rate, up from \$6.3 in the second quarter but below the \$7.1 billion rate of the first quarter.

Activity picked up in the auto credit area in August along with the improvement in new car sales, but other types of consumer instalment credit apparently showed little more than the usual seasonal changes. Demands for credit to purchase appliances and other home goods had been especially strong earlier in the summer.

Credit played a more important role than usual in new car sales in recent months. During June and July, nearly 4 out of 5 new cars sold involved the use of credit financing. This was a considerably higher proportion than during the same two months in other recent years. High inventories of 1966 models and prospective early introduction of 1967 models spurred dealers to extra sales efforts; credit buyers are typically attracted into the market in such circumstances.

There has not been any easing of terms; indeed, auto terms have tightened somewhat this year. The proportion of new car contracts written for 36 months was rising steadily by 2 or 3 points a year from 1961 to 1965, but in 1966 there has been little further change, and lately, even a slight decrease. Buyers of used cars also have found it more difficult to obtain unusually long maturities. Major sales finance companies report a sizable decline this spring and summer in used car contracts in the over-30-month category.

Personal income. Personal income in August showed the largest monthly gain of the year, rising \$5 billion to a seasonally adjusted annual rate of \$585 billion, nearly 9 per cent above a year earlier. The acceleration came mainly from a \$1-1/2 billion spurt in transfer payments as the pay-out of benefits under the Medicare program reached sizable volume. These benefits had shown only a slight gain in July, the first month of the new program.

Wage and salary disbursements increased \$3 billion, about the same as the July and June increases but more than in the spring months. Manufacturing payrolls showed a pronounced spurt, after showing little change in July, while construction employment and payrolls declined. There were further advances in trade and service industries and government.

Personal interest income increased appreciably further. The volume of farm marketings was down and despite higher prices, another drop was reported in farm proprietors' income -- to a level 12 per cent below the peak reached last March.

Construction activity. Value of construction put in place declined slightly further in August. The decline, which followed downward revisions of 1 per cent or more for July in all major private categories, was to the lowest rate since last October, a rate 8 per cent below the recent peak in March.

Reflecting the sharp and pervasive further contraction in housing starts and permits in recent months, further attrition in

residential construction expenditures is indicated over the period ahead. The extended boom in nonresidential expenditures also may have already passed its peak, although unlike residential activity, the adjustments within the nonresidential group have been quite selective. For example, the decline (through July) was concentrated in commercial structures and in religious, educational and related building; expenditures for public utilities, on the other hand, have been maintained at an advanced rate and expenditures for industrial plants have moved irregularly higher. The lower rate of commercial construction possibly may reflect mainly seasonal adjustment problems instead of underlying weakness. In the previous two years, this series also slowed or declined during the early summer months only to soar again in the latter part of the year.

Revised data available for state and local construction for the first half of the year suggest that a peak in public construction may have been reached in February, although the reduction since then has been moderate.

NEW CONSTRUCTION PUT IN PLACE

	August 1966 (billions) <u>1/</u>	Per cent change from	
		March 1966	August 1965
Total	\$72.8	- 8	+ 3
Private	49.2	-11	--
Residential	24.4	-11	- 8
Nonresidential	24.8	-11	+10
Public	23.5	- 3	+ 9

1/ Seasonally adjusted annual rates; preliminary.

Seasonally adjusted private housing starts, which were revised upward somewhat for July, dipped further in August. This left the rate still barely above the recession low in December 1960 and marked the fifth consecutive month of decline, a development almost without precedent in the history of the series. On a three-month moving average basis, the rate for the June-August period was 1.14 million, a third below the recent high reached in early 1964.

The downward movement of starts may not yet have run its course. Building permits, for example, also were down sharply further in August. (Unlike starts, seasonal adjustment of the permits series includes an explicit allowance for the number of working days.) As in the other months this year, the decline has affected all regions and was greater for multifamily structures than for single family dwellings.

PRIVATE HOUSING STARTS AND PERMITS

	August (thousands of units) <u>1/</u>	Per cent change from March 1966
Starts	1,057	-33
Permits	808	-36
1 family	492	-34
2-or-more family	316	-40
Northeast	172	-36
North Central	208	-45
South	281	-28
West	147	-37

1/ Seasonally adjusted annual rate; preliminary.

Orders for durable goods. New orders for durable goods declined about 5 per cent in August, according to advance figures, after being relatively stable from April to July at a level moderately below the March peak. August orders remained above shipments but the rise in unfilled orders was the smallest since August 1965 and was only one-third of the average gain in the intervening eleven months.

The August decline in new orders amounted to \$1.1 billion, and was about equally divided among steel, machinery and equipment, and defense products. New orders for steel were the lowest since January and the steel order backlog declined moderately. The decline in new orders for machinery and equipment followed a bulge in July; the August level was only a little below the second quarter average and unfilled orders continued to rise -- although at a much slower pace than in other recent months. Large monthly fluctuations are fairly typical of new orders for defense products, and such orders were at sharply advanced levels in June and July.

New orders received by the auto industry (roughly equal to shipments), were about unchanged in August following a sharp decline between May and July.

Inventory anticipations of manufacturers. According to the Commerce August survey, manufacturers anticipate that their inventory accumulation in the third quarter will about equal the high second quarter rate. The book value increase in the third quarter is expected to total \$2.4 billion; in July alone -- the latest month for which actual figures

are available -- accumulation totaled nearly \$1 billion; realization of the anticipated figure for the quarter would require a significant drop in the rate of accumulation in August and September.

For the fourth quarter, manufacturers anticipate a halving of the third quarter increase -- to only \$1.2 billion -- mainly because of an expected abrupt drop in the rate of accumulation by durable goods manufacturers who have been accounting for the bulk of the recent large increases in inventories. Along with the lower rate of inventory accumulation, durable goods manufacturers are expecting a further speed-up in their sales gains -- from less than 1 per cent in the second quarter, to 2-1/2 in the third and to 3-1/2 in the fourth quarter.

These inventory surveys have shown a large downward bias in the quarterly anticipations over the past year. Thus, from the second quarter 1965 to the second quarter 1966, the first anticipations (i.e., the equivalent of the August survey finding for the fourth quarter) understated the actual reported rate of accumulation on average by \$1 billion -- or over 50 per cent per quarter -- and the second anticipations showed surprisingly small improvements over the first ones. While little confidence can be placed in the size of the drop in the rate of projected accumulation for the fourth quarter, these anticipations may well be pointing in the right direction and the

rate of inventory accumulation by manufacturers may have reached a peak in July and now be receding.

Labor market. Increasing employment and overtime work, particularly in automobile factories, and further expansion in the armed forces are adding to pressure on labor resources.

A substantial increase in over-all nonfarm employment is expected in September. Unemployment claims which appeared to level off during the summer months declined again in September after seasonal adjustment. In mid-September, the number of weeks claimed under State programs was 25 per cent below a year ago and at the lowest level for this time of the year since 1952. The ratio of claims to covered employment -- estimated at 2.2 per cent in September -- was the lowest for the month since World War II.

Another indication of strong demand for manpower has been the steady decline in the number of geographical areas classified as having substantial labor surpluses. The number of areas with unemployment rates of 6 per cent or more dropped from 35 in July 1964, to 19 in July 1965 to only 10 this July.

UNEMPLOYMENT IN 150 MAJOR LABOR MARKET AREAS

Labor supply categories	July 1964	July 1965	August 1966
	<u>Unemployment rate</u>		
	<u>Number of areas</u>		
Group A - less than 1.5	0	0	0
Group B - 1.5 to 2.9	25	46	57
Group C - 3.0 to 5.9	90	85	83
Group D - 6.0 to 8.9	32	17	8
Group E and F - 9 or more	3	2	2

Recent rapid expansion in employment has removed from the surplus group a number of areas which have suffered from heavy unemployment for many years, such as Lawrence-Haverhill, Massachusetts; Scranton and Wilkes-Barre, Pennsylvania; Charleston, West Virginia and San Diego, California. Remaining in the 6 per cent or more unemployment category were 3 areas in California; 3 in Massachusetts; one in Pennsylvania; one in New Jersey and 2 in Puerto Rico. At the same time, the number of areas with 3 per cent or less unemployment rates has increased substantially. About 2 out of 5 areas were in this low unemployment group in August.

Wages. Increases in average hourly earnings in manufacturing over a year ago are substantially greater than in the preceding year. The upward drift is accounted for in part by larger negotiated settlements and by escalator clauses included in the contracts of some major industries. Recent stability in the workweek, however has tended to limit further increases in take-home pay from this source.

AVERAGE HOURLY EARNINGS
(Per cent increase)

	1960 to 1965	1964 to 1965	August 1965 to August 1966
Manufacturing	3.1	3.2	3.9
Communication	4.0	3.3	3.9 <u>1/</u>
Retail trade	n.a.	4.0	4.4
Mining	2.4	3.9	4.8
Construction	4.0	3.9	4.9
Electric, gas & sanitary	3.9	4.3	5.1 <u>1/</u>
Laundries & dry cleaning	4.5	5.6	5.3 <u>1/</u>
Hotels & motels	4.8	4.7	6.0 <u>1/</u>

1/ Latest data are for year-ended July.

In August hourly earnings in manufacturing were 10 cents or almost 4 per cent above a year ago -- the same rate of increase as in the two previous months. This rate of increase is above the approximately 3 per cent rise in productivity now indicated for manufacturing. Rising consumer prices, a pattern of 4-5 per cent wage increases in new contracts and an unusual bunching of deferred wage increases in September and October suggest further increases in hourly earnings in the coming months.

Wage increases have been in the 4-5 per cent range in most nonmanufacturing industries with even larger increases reported in the low-wage service activities. Wages rose earlier in these industries than in manufacturing over the past year and generally increases were above those reported from 1964 to 1965. The rapid advances in trade and service wages contributed significantly to upward pressures on the consumer price index. Both the direct and indirect effects of the expansion in coverage in these industries under the new minimum wage law, effective next February, will probably add to upward momentum in wages in these sectors and continue to influence price movements.

Changes in the minimum wage law. Recent revisions of the Fair Labor Standards Act will become effective February 1, 1967. It is estimated that the direct impact will be to raise wages and salaries by \$1 billion, annual rates in the first quarter of 1967. In addition, there will be a substantial secondary impact as other wages tend to adjust upward to maintain traditional wage differentials.

In addition to lifting the minimum wage from the current \$1.25 per hour to \$1.40 in February 1967 and \$1.60 in February 1968 for workers now covered, the new amendment provides for an extension of coverage to an additional 8 million workers mainly in trade, services, and on farms. The minimum for newly-covered nonfarm workers will start at \$1.00 per hour in February 1967 and will increase by 15 cents a year until a \$1.60 an hour is reached in February 1971. For farm workers the \$1.00 minimum goes up in two annual steps to \$1.30 by February 1969.

Minimum wage protection is extended for the first time to 1.5 million service workers in hospitals and educational institutions; to 700,000 workers in restaurants, hotels and motels; to 500,000 laundry workers; and to some 700,000 Federal government wage board and other workers previously specifically exempted. In these newly-covered industries, the largest concentration of workers with hourly earnings of less than \$1.00 is in hospitals and educational institutions and on farms.

The amendments also lower or eliminate previous annual volume of sales criteria for coverage. In retail trade, coverage is increased by lowering the annual volume of sales test from \$1 million, set in the 1961 amendments to \$500,000 on February 1, 1967 and to \$250,000 on February 1, 1969. In construction, the \$350,000 annual sales volume criterion is eliminated.

Farm production prospects. Surveys of crop and pig production prospects reported in September were generally reassuring from the standpoint of supply outlook. Marked improvement in crop yields during August raised the September 1 index of crop production 3 points from the August 1 forecast to 112 per cent of the 1957-59 average. The crop index was still 4 per cent below the record output of last year, but about half of the difference resulted from the planned cut-back in cotton, which is in surplus supply.

Increases in crop prospects during August were sharpest in soybeans and feed grains, although food grains, cotton, tobacco, peanuts, and sugar crops also improved. Future prices of most of the traded commodities except cotton weakened in response to news of improved crop prospects. The most pronounced price declines were soybeans and grains.

The pig crop survey showed that numbers are expanding, although not quite so rapidly as the June survey had indicated, and that increasing slaughter can be expected through the summer of 1967.

Wholesale prices. The wholesale price index for mid-August showed a further rise, as expected, but one not so large as in July -- .4 per cent compared with .7 per cent. Information through September 20 suggests no further increase in the total index. Over the past year, the wholesale index has risen by about 3-3/4 per cent; prices of foodstuffs have increased 8 per cent, and although they have an importance in the index of only a fourth, foodstuffs have contributed about half the rise in the total index; industrial commodities have increased somewhat more than 2 per cent over the year.

From mid-July to mid-August, average prices of industrial commodities were unchanged, apart from the effect of a decrease of about 25 per cent in raw cotton which resulted mainly from a change in the form of the Federal program. Prices of some sensitive commodities -- copper scrap, hides, lumber, and plywood -- declined but the other or "sluggish" group of industrial materials continued to rise at about the same pace as earlier in the year, mainly as a result of increases for steel sheet and strip and for fuels. Wholesale prices of both consumer finished products and producers' equipment edged up only slightly further.

Since mid-August, however, price increases have been announced for a number of products, suggesting resumption of the rise in the industrial average, although some of the increases are not scheduled to take effect until October 1. Increases have been announced for many consumer durable goods -- including furniture, color television sets, room air-conditioning units, and small appliances. In addition prices for some tractors have been raised by one manufacturer and the increase announced earlier for trucks has been followed by additional producers.

Following many weeks of speculation about the amount of the likely increases in autos, the price tags have now been announced for the 1967 auto models that go on sale this week. Ford, the first to make an announcement, appraised its changes as being slightly greater than accounted for by the new safety features and other changes in specifications, but General Motors followed with smaller increases in price tags which it appraised as being slightly less than accounted for

by safety and other features. Ford then scaled down its increases in price tags, but about half the revision was attributable to changing the status of some equipment items from "standard" back to "optional." The Bureau of Labor Statistics technicians have the task of determining what the real change in prices is, after taking into consideration the addition of some safety features and other changes in specifications, and the Bureau is having engineering evaluations made. At this point, one may guess that the BLS index for autos after adjustment for quality change will show little if any increase.

While prices of industrial commodities have resumed their rise in recent weeks, those of foodstuffs have declined somewhat. Prices of livestock have fallen about 5 per cent since mid-August in response to seasonal expansion in marketings. So far in September, hog marketings appear to be little larger than a year ago although a large year-over-year expansion is expected this autumn.

Consumer prices. The consumer price index showed another large rise -- .4 per cent -- in August, a month in which the balance of seasonal influences usually produce stability or a small decrease. The list of increases was long; the number of decreases was small and they were chiefly of a seasonal variety. The rise from a year earlier amounted to 3.5 per cent.

Continuing increases in food prices accounted for about three-fourths of the August rise in the total index. The increase of 1.5 per cent in food purchased for home consumption was both large and contrary to the usual seasonal change. Increases were sizable for eggs, for bread

and some other bakery products, and for milk, butter and other dairy products. Retail prices of meats continued to change little.

The increase of .3 per cent in services in August was slightly below the monthly average over the past year. The rise in medical services, however, remained very rapid.

The index for nonfood commodities changed little in August. New cars declined and used cars increased, both more than seasonally. Apart from autos, nonfood commodities rose on a seasonally adjusted basis as increases in furniture and floor coverings were about balanced by seasonal reductions in textile housefurnishings.

In commenting on price changes from August 1965 to August 1966, BLS noted that mortgage interest rates rose by more than 8 per cent and hospital rates by 9 per cent, that auto insurance, public transportation, professional medical fees, barber and beauty shop services, and taxes, insurance, and upkeep on owned homes increased by amounts between 4 and 6 per cent. Aside from foods and services, the largest increases were for shoes, newspapers, cigarettes, and furniture.

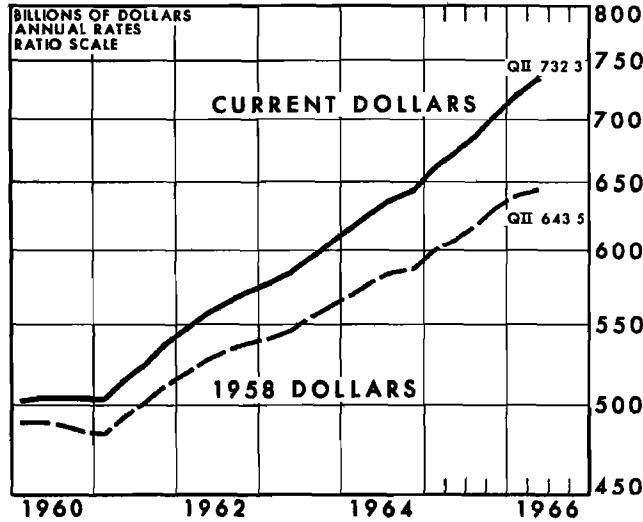
CONSUMER PRICES

	Per cent change to	
	August from	
	July 1966	August 1965
All items	.4	3.5
Food	1.3	5.2
Nonfood commodities	-.1	1.8
Apparel	-.2	2.5
Other nondurables	-.1	2.1
New cars	-.9	-1.3
Used cars	1.5	1.5
Household durables	.1	1.3
Services	.3	4.3
Medical	.6	5.5
Transportation	.2	4.8
Rent	.3	1.5
Other household	.2	5.0

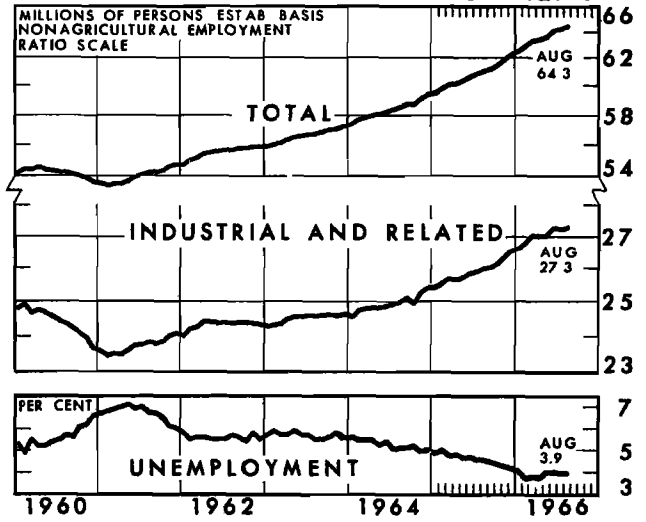
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

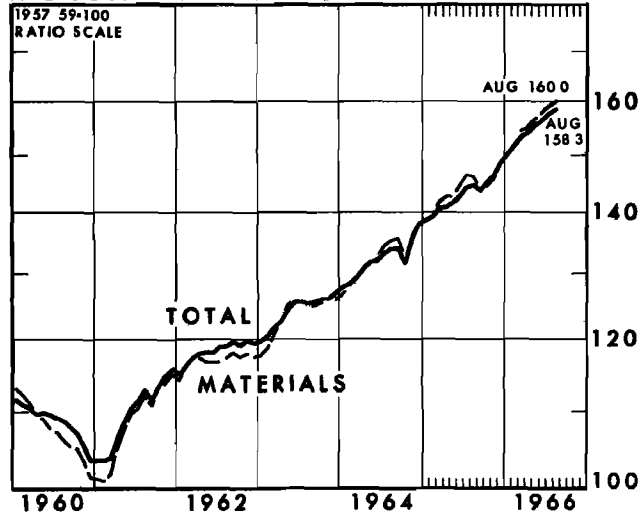
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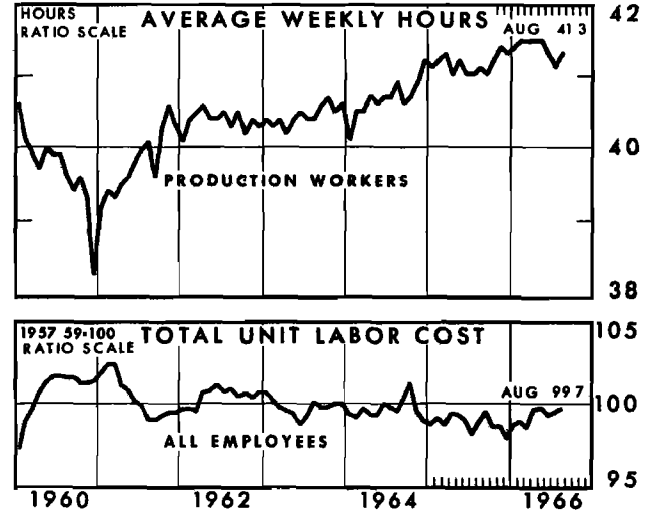
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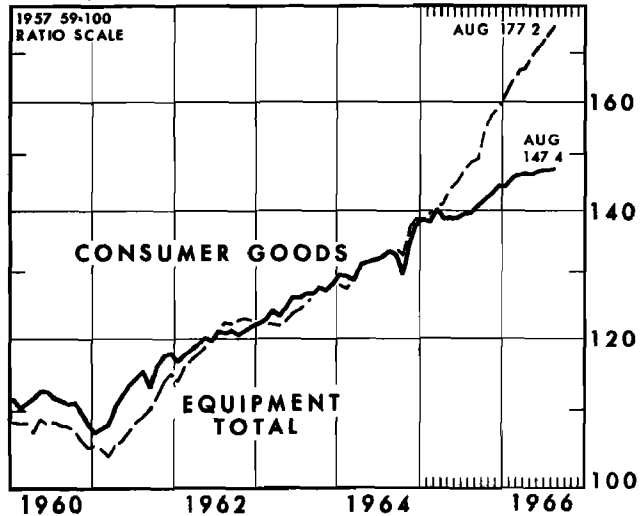
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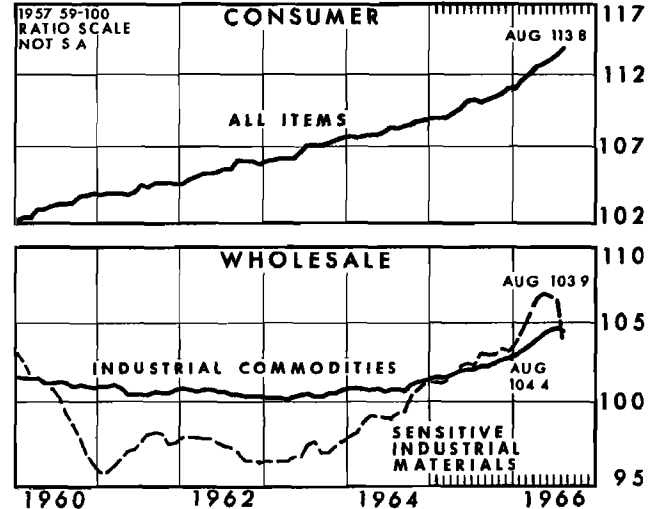
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



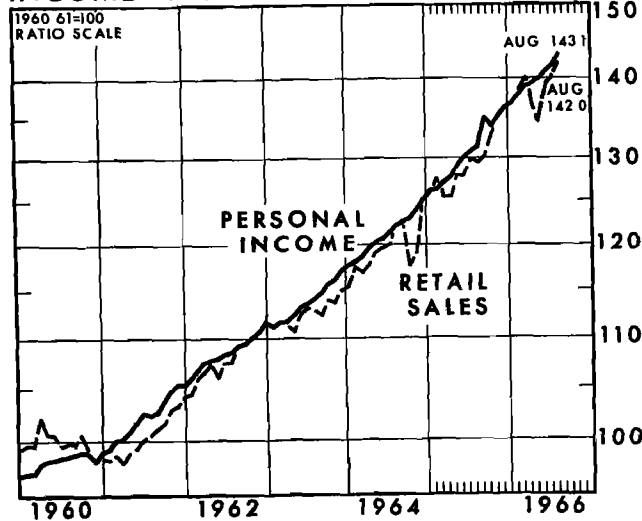
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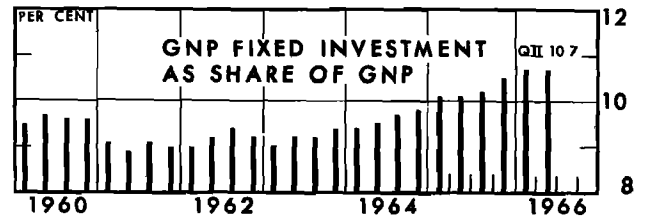
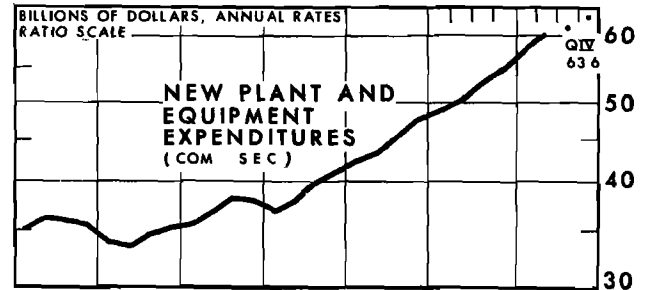
ECONOMIC DEVELOPMENTS - UNITED STATES

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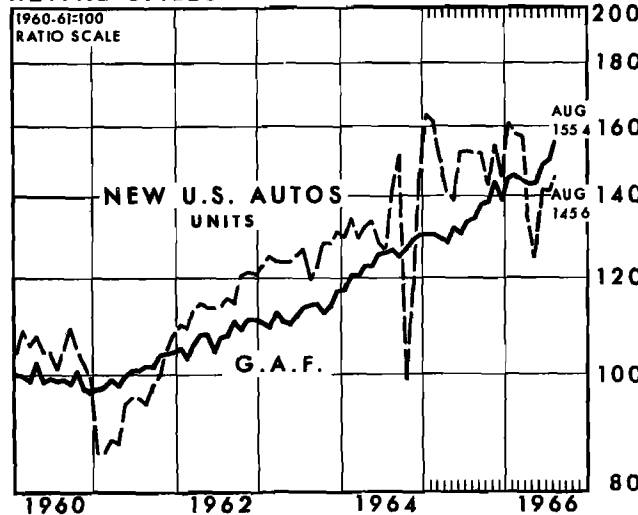
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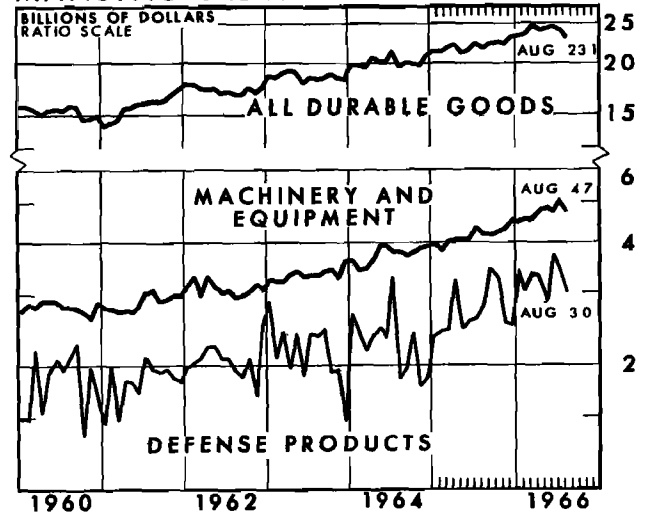
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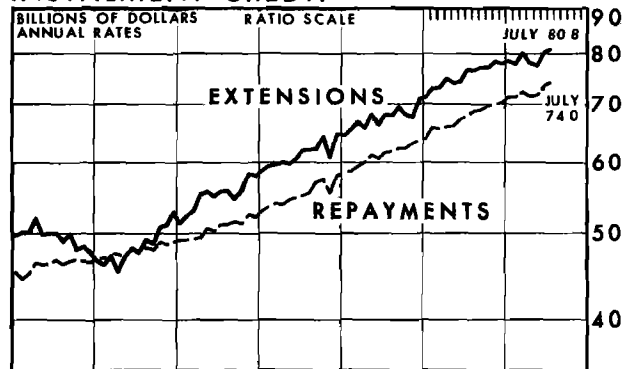
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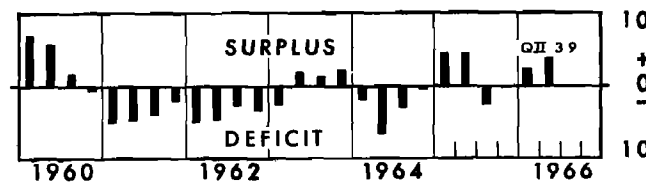
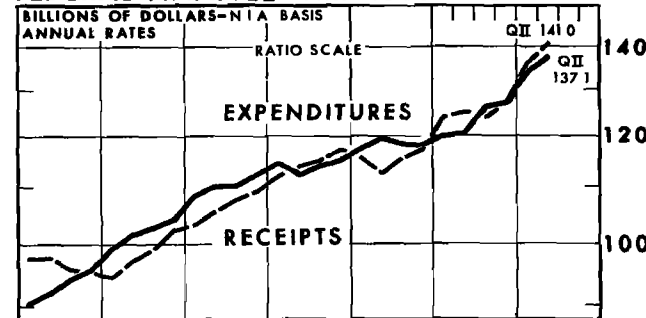
MANUFACTURERS' NEW ORDERS



INSTALMENT CREDIT



FEDERAL FINANCE-N.I. ACCOUNTS



DOMESTIC FINANCIAL SITUATION

Bank credit. Growth in bank credit over the past two months has come to an abrupt halt. As measured on a daily average basis by the bank credit proxy, there was no net change over the August-September period, after allowing for increased borrowing from foreign branches. Over the first three weeks of September, loans and investments at city banks rose \$810 million, only a third to a fourth as much as in the comparable periods of other recent years. This recent slackening in credit expansion contrasts sharply with developments over the first seven months of the year, when the credit proxy (adjusted for borrowings from foreign branches) rose at an annual rate of 8.2 per cent and the end-of-month credit series at a 9 per cent rate.

The recent smaller bank credit growth has been influenced by lessened bank financial intermediation, a run-down in U.S. Government deposits, and a reduction in the rate of growth in bank loans. Tightening of bank lending terms and conditions as banks came under increasing pressure presumably contributed to the slackened loan growth; in August, it also appeared to reflect some backwash of the earlier tax speed-up and, thus far in September, perhaps a less-than-expected resurgence of business loan demands.

So far this month, business loans at city banks have increased \$1.2 billion, about \$200 million more than in the comparable weeks (ending September 22) last year. However, this year's increase included

a substantial amount of term loans to Consolidated Coal to facilitate its absorption by Continental Oil. In the absence of this borrowing, the increases for the two years would not have differed greatly. On the other hand, relative to the volume of corporate tax payments, which were about \$1 billion less this September than last, business borrowing at banks this year was heavier than a year ago. While corporate income tax payments were about \$400 million larger this year than last, owing mainly to acceleration, withholding tax payments were much lower because September payments this year were to be made in two instalments early and late in the month rather than concentrated entirely at midmonth as in former years.

Security loans at weekly reporting banks showed a substantial contraseasonal decline over the first three weeks of September. One factor contributing to this weakness was the substantial purchase of money market paper at midmonth by some large business corporations and local governmental bodies. Government security dealers were able to reduce their bill inventories over the tax week more than usual, with some of the demand for bills presumably representing funds transferred out of CD's. Finance company loans thus far in September have increased about the same as a year ago.

Reflecting their generally tight positions, weekly reporting banks reduced their holdings of Treasury issues by over \$800 million in the first three weeks of September in contrast with increases in these holdings in other recent years. The September decline included large reductions in tax bills at banks outside of New York City. New York

City banks, in contrast, having built up their bill holdings for several weeks prior to the tax week in anticipation of both large loan demands and CD run-offs, liquidated only about \$100 million of bills over the tax week. Holdings of "other" securities at weekly reporting banks rose less than in most other recent years, as might have been expected.

Bank deposits. All weekly reporting banks lost almost \$900 million of negotiable CD's from mid-August to September 14, as yields on these instruments became increasingly less attractive than money market assets. Most of this decline was centered in New York City banks, who lost \$630 million, with further losses at these banks running about \$100 million over the tax week. If CD losses for the rest of September are similar to those experienced so far during this month, New York City banks are likely to lose one-third of their \$2.2 billion of September maturities this month, and other weekly reporters will lose about one-fifth of their scheduled maturities of \$3.1 billion. This implies a September reduction in negotiable CD's of about \$1.4 billion, compared to less than \$300 million for the same month last year.

This month's decline in negotiable CD's, however, was \$500 million less than it might have been, because of the Continental Oil-Consolidated Coal merger, which resulted in purchases of CD's by Consolidated Coal in that amount. These CD's -- \$380 million placed in New York -- were acquired during the tax week and have a 33-day maturity. CD's were apparently the vehicle used for investing the funds borrowed

to facilitate the merger because of the need for a specific maturity to meet the liquidating dividend. The resultant smaller decline in New York City bank CD's, therefore, provided these banks with only temporary comfort because of the near certainty of the complete run-off of these Consolidated Coal CD's next month.

The large CD run-offs account for most of the projected sharp decline in time and savings deposit inflows to all banks in September. However, it is also apparent that bank inflows of other time deposits have moderated from the pace earlier this year, as shown in the table. The inflow of time deposits other than CD's at weekly reporting banks this year in mid-September was only about half again as large as last year, whereas through the first 8 months of 1966 the increase was more than 2-1/2 times that for the comparable period last year. Newly revised data now indicate that September inflows of time and savings deposits will be at a 4 per cent annual rate compared to 15 per cent in July and 11 per cent in August.

On the basis of the revised seasonal factors, Treasury deposits at banks during September, as in August, show a large seasonally adjusted decline -- \$1.4 billion in August and \$0.7 billion in September -- as Government expenditures continue to increase and

early heavy agency financing is terminated. These recent declines provided liquidity to the public partly in the form of funds that were used to make loan repayments and partly in the form of a sharp increase in the money stock in September. The expected \$1.3 billion September increase in the money stock would bring the seasonally adjusted annual rate of increase for the year to date to 2.9 per cent.

U. S. Government securities market. Prices of Treasury notes and bonds have fluctuated sharply since mid-September, but on balance have changed relatively little. The market has been very sensitive to news or rumors, particularly concerning taxes, the war in Vietnam, and the Treasury's huge financing needs over the rest of the year. In this environment, the market has been dominated by trading among professionals, with investor activity remaining relatively light.

YIELDS ON U. S. GOVERNMENT SECURITIES
(Per cent)

Date (closing bids)	3-month bills	6-month bills	3 years	5 years	10 years	20 years
<u>1959-1961</u>						
Highs	4.68	5.15	5.17	5.11	4.90	4.51
Lows	2.05	2.33	3.08	3.30	3.63	3.70
<u>1966</u>						
Highs	5.59	5.98	6.22	5.89	5.51	5.12
Lows	4.33	4.46	4.78	4.76	4.56	4.49
<u>1965-1966</u>						
Dec. 3	4.12	4.26	4.54	4.52	4.52	4.44
Aug. 29	5.02	5.51	6.22	5.89	5.51	5.12
Sept. 13	5.43	5.85	5.77	5.48	5.16	4.91
Sept. 21	5.59	5.96	5.90	5.55	5.21	4.97
Sept. 27	5.44	5.75	5.75	5.42	5.13	4.93

Yields in the Treasury bill market continued to advance to new highs during the recent period, reflecting mainly the Treasury financing outlook but also pressures associated with the mid-September tax date. Most recently, bill rates have declined sharply from their peaks, as substantial investment demand has served to reduce dealer

inventories to relatively low levels, and a more comfortable tone in the central money market has facilitated the financing of the lighter dealer holdings. The recent demand for bills appears to have originated from a wide range of investors and may reflect in part the reinvestment of proceeds from maturing CD's. Bill yields on all but the shortest maturities have been more attractive than yields on CD's recently.

In other short-term markets, most yields have changed little since late August, although secondary market yields on CD's and short-term Agency issues have advanced somewhat, as the table shows.

SELECTED SHORT-TERM INTEREST RATES 1/

	1965	1966		
	Dec. 3	June 30	Aug. 26	Sept. 23
Commercial paper 4-6 months	4.375	5.625	5.875	5.875
Finance company paper 30-89 days	4.375	5.50	5.625	5.625
Bankers' Acceptances 1-90 days	4.25	5.50	5.75	5.75
Certificates of deposit (prime NYC)				
Highest quoted new issue:				
3-months	4.50	5.50	5.50	5.50
6-months	4.50	5.50	5.50	5.50
Highest quoted secondary market issue:				
3-months	4.50	5.56	5.85	6.00
6-months	4.59	5.65	6.10	6.50
Federal Agencies (secondary market):				
3-months	4.34	5.29	5.59	5.76
6-months	4.49	5.53	5.95	6.04
9-months	4.58	5.64	6.04	5.96
Prime Municipals 1-year	2.65	3.50	4.25	4.25

1/ Rates are quoted on the offered side of the market; rates on commercial paper, finance company paper, and bankers' acceptances are quoted on a bank discount basis while rates on the other instruments are on an investment yield basis.

Federal Agency securities. Sales of new Agency issues since early September have involved a net paydown of over \$300 million in the amount of such securities sold to private investors, as the table below shows. Agencies nevertheless have raised over \$200 million, net, of new money in this period through sales of portions of the new issues directly to Government Trust Accounts. These direct sales, which actually were initiated in early August, represent one aspect of the President's five point program to minimize cash borrowings in the market by Federal Agencies over the balance of the calendar year. One result has been an excellent market reception accorded recent new issues.

RECENT OFFERINGS OF FEDERAL AGENCY SECURITIES
(Amounts in millions)

Offering Date	Agency	Maturing issue	New issue	Placed with Treasury Trust Accounts	New money (public)	Maturity and Yield
Aug. 10	FNMA	--	350	50	300	25 mo. at 5.91%
16	FHLB	569	590	90	- 69	1-yr. at 6.00%
17	FICB	290	293 ^{1/}	--	3	9-mo. at 6.00%
Sept. 7	FLB	219	302	83	--	10-mo. at 6.05%
15	FHLB	500	650	250	-100	1-yr. at 6.20%
21	Bks. Coops	230	305 ^{2/}	125	- 50	6-mo. at 6.25%
23	FICB	312	230	75	-157	9-mo. at 6.20%

^{1/} Includes \$15 million reopening. ^{2/} Includes \$10 million reopening.

Treasury finance. On September 21 the Treasury announced a \$1.4 billion auction of 9 and 12 month bills to replace \$1.0 billion of maturing 1-year bills. The auction -- comprised of \$500 million reopened 9-month bills and \$900 million new 1-year bills -- initiates a new

financing cycle which is expected to raise \$400 million of cash each month until next June.

The Treasury also indicated that its next major cash borrowing is expected to be announced in early October with the payment date after mid-October. The Treasury may raise perhaps \$3.0 billion to \$3.5 billion in this financing which will probably involve tax bills. Over the balance of the calendar year, many market observers expect the Treasury to raise a total of around \$8.0 billion, a figure derived from a recent statement made to the press by President Johnson. On this assumption, the Treasury would be raising some \$11.0 billion over the second half of 1966, a figure that was last approached, but not equalled, in the second half of 1959, as the table indicates.

TREASURY GROSS CASH FINANCINGS
(Amounts in billions)

Year	3rd Quarter		4th Quarter		Total Second half
	Additions to bills	Other	Additions to bills	Other	
1959	5.1	--	2.5	2.3	9.9
1960	3.0	- 0.7	3.0	--	5.3
1961	5.9	--	0.8	--	6.7
1962	4.1	1.6	2.1	--	7.8
1963	2.5	--	1.8	0.4	4.7
1964	4.2	--	1.5	0.8	6.5
1965	4.0	--	2.5	*	6.5
1966	3.4	--	(7.5 - 8.0?)		11.0 proj.

* Less than \$50 million. All figures are based on payment dates.

Corporate and municipal bond markets. Yields on new and recently offered corporate bonds have fluctuated since Labor Day 20 to 25 basis points below their highs of late August. Yields on municipal bonds also dropped back from their late August highs by roughly 15 to 20 basis points, but turned up slightly on balance after mid-month. Both the sharp general rise of bond yields in late August and the sharp subsequent reversal in early September strongly reflected changing market judgments about the future availability of loan funds and the strength of expected demands. Recently, with the outlook for both still uncertain, yields have showed a high degree of sensitivity to renewed press speculation about a post-election tax increase and a shift in the Vietnam situation.

BOND YIELDS
(Per cent per annum)

	Corporate Aaa		State and local Government	
	New	Seasoned	Moody's	Bond Buyer's
	With call Protection	Without call Protection	Aaa	(mixed qualities)
<u>1965</u>				
Low	4.33(1/29) ^{1/}	4.41(3/12)	2.95(2/11)	3.05(2/11)
<u>1966</u>				
Low	4.79(1/7)	4.84(1/7)	3.39(1/21)	3.51(1/21)
<u>Weeks Ending</u>				
July 29	5.47	5.65	3.78	3.96
Sept. 2	5.98**	--	4.02	4.24
Sept. 9	5.91	--	3.99	4.11
Sept.16	--	5.81	3.85	4.11
Sept.23	5.69*	--	3.89	4.11
Sept.30	5.87 est.			

^{1/} Issues with and without call protection averaged together.

* Not representative.

** Includes issues with 10-year call protection.

With respect to current demands for funds, corporate flotations of publicly-offered bonds appear to be smaller in September than had been previously estimated, amounting to approximately \$750 million or only 60 per cent of the record August total. The August total had been enlarged mostly because offerings of several large issuers had bunched together and partly because borrowers were tending to accelerate planned offerings in order to get ahead of feared credit availability crisis.

The smaller than estimated September total reflects both a moderate volume of postponements and the absence of further significant additions to the calendar after the crisis atmosphere of late August had colored. While the aggregate volume of public issues estimated for September exceeds that for September 1965 by about \$90 million, the volume of all corporate financing -- including private placements -- is expected to fall somewhat below a year ago. More than half of the public bond offerings are convertibles.

Looking ahead, the forward calendar of scheduled corporate offerings as yet shows little evidence of any significant further build-up of offerings stemming from the intensified squeeze on business loans at banks. Bond offerings already listed for October amount to \$500 million and total public offerings for the month are now estimated at about \$575 million. While substantially below August and September, \$575 million would still be a relatively large figure for October.

CORPORATE SECURITY OFFERINGS^{1/}
(In millions of dollars)

	Bonds				Stocks	
	Public Offerings ^{2/}		Private Placements			
	<u>1966</u>	<u>1965</u>	<u>1966</u>	<u>1965</u>	<u>1966</u>	<u>1965</u>
1st Qtr.	1,774	905	2,586	1,673	734	429
2nd Qtr.	1,941	1,864	2,083	2,259	1,090	920
3rd Qtr.	2,415e	1,575	1,493e	1,954	285e	383
August	1,225e	369	450e	468	100e	93
September	750e	664	500e	706	75e	168
October	575e	287	450e	574	150e	124

^{1/} Data are gross proceeds.

^{2/} Includes refundings.

e/ Estimate.

In the municipal market, underwriters apparently over-estimated the significance of the early September down-turn in yields, and aggressive pricing of new issues produced a rather poor investor response. Advertised inventories rose from about \$250 million to \$375 million in less than a week. At the same time, continued pressure on short-term market yields resulted in the postponement of more than \$200 million of short-term municipal notes. New issues of longer maturity offered at the higher yields established last week have been accorded a good investor reception, however, as evidenced by several recent sell-outs, including the previously postponed \$179 million New Jersey Turnpike issue which carried a 4.75 per cent yield.

The expected September volume of municipal issues -- at \$975 million -- is above earlier estimates due to late additions to the calendar but it is still below a year ago. Likewise, the calendar for

October, at about \$775 million, is expected to fall short of last year. In September, however, some issues postponed in August were induced back into the market following the down-turn of yields, and any further yield decline in the period ahead would be likely to encourage other additions to the calendar.

STATE AND LOCAL GOVERNMENT BOND OFFERINGS
(In millions of dollars) 1/

	1966	1965
1st Quarter, total	3,006	2,851
2nd Quarter, total	3,216	3,046
3rd Quarter, total	<u>2,425e/</u>	<u>2,781</u>
Total	<u>8,647e/</u>	8,678
August	750e/	733
September	975e/	1,008
October	775e/	844

1/ Data are for principal amounts of new issues.

Stock market. After hitting a two-year low at the end of August, common stock prices have since turned up on balance, with Standard and Poor's composite index showing a net advance of nearly 5 per cent. This up-turn was more than accounted for, however, by the sharp rally -- the largest for any week in three years -- which developed following announcement of the President's new program of fiscal actions. Later, as investors reappraised the likely near-term impact of such measures on economic activity and monetary policy, about two-thirds of the gain was erased. Since then stock prices have fluctuated uncertainly with shifting appraisals of the prospects for peace in Vietnam and for a post-election increase in Federal income taxes.

Trading volume has likewise shown considerable variation since late August, generally rising and falling with stock prices. Reports indicate that institutional investors have been returning to the stock market, acquiring blue chip stocks and largely accounting for a moderate pick-up of activity in utilities and other investment grade issues.

During August, when stock prices were still declining to their two-year lows, the volume of credit used by investors contracted significantly further. Customers' net debit balances which had already declined \$103 million in July were down another \$56 million in August, and margin credit as measured by the New York Stock Exchange margin panel dropped \$163 million in August. On the other hand, because market values of stocks shrank faster than debt was repaid, the ratio of net debit balances to market values of listed shares rose to 1.23 per cent in August from 1.15 per cent in July and 1.02 per cent at the beginning of 1966.

Mortgage market development. Interest rates on mortgages rose substantially further during August, reflecting the intense general pressures then prevailing in capital markets. Secondary market yields for 5-3/4 per cent, 30-year FHA-insured mortgages advanced 7 basis points to a new high of 6.58 per cent. This was 1-1/8 percentage point higher than a year earlier when mortgage markets were still relatively easy and a possible shift in underlying conditions was just beginning to be felt.

Contract rates for conventional first mortgages also rose further in August, to 6.55 per cent on loans for new homes and 6.65 per

cent on existing homes. While its year-to-year increase in such rates was also large -- 3/4 of a percentage point -- it was not so large as the advance in FHA secondary market yields.

The sharp upward adjustment in mortgage rates over the past year has been associated with tightening in loan-to-price ratios and in maturities, particularly for loans on existing houses. Moreover, as in other recent years, purchase prices of both new and existing homes have continued to advance and, even with some downward adjustment in loan-to-price ratios, average loan amounts have continued to rise.

AVERAGE TERMS ON CONVENTIONAL FIRST MORTGAGES FOR HOME PURCHASES

	1966		Per cent change from August 1965
	July	August	
New home loans			
Loan amount (\$1,000)	19.5	20.1	10
Loan/price (per cent)	72.1	74.0	--
Maturity (years)	24.2	25.4	4
Existing home loans			
Loan amount (\$1,000)	14.5	14.6	4
Loan/price (per cent)	70.5	70.6	-2
Maturity (years)	19.9	19.8	-3

Source: Federal Home Loan Bank Board and FDIC.

Savings flows. Savings and loan associations and mutual savings banks continued to experience reduced rates of growth in August compared to previous years, according to preliminary figures. S & L's were again the most severely affected with a net increase of \$180 million in savings capital two-thirds below that of a year ago. The \$160 million net inflow at mutual savings banks was one-fourth smaller than in August 1965.

SAVINGS FLOWS OF DEPOSITORY-TYPE FINANCIAL INTERMEDIARIES
(Millions of dollars)

	Total	Commercial* Banks	Savings and Loan Assn's	Mutual Savings Banks
(In millions of dollars)				
<u>August</u>				
1966	1,154	814	180	160
1965	2,062	1,298	554	210
1964	1,952	820	787	345
(In per cent)				
<u>Growth in 1st 8 months</u>				
1966	3.9	7.2	.7	2.2
1965	6.3	9.0	4.2	4.3
1964	6.5	6.6	6.8	5.8

* Does not include negotiable CD's at weekly reporting banks.

Combining these net changes in savings at the S & L's and mutuals with changes in time and savings deposits (other than negotiable CD's) at commercial banks, the over-all flow to depository-type intermediaries shows a larger year-to-year short-fall in August than in earlier months of the year -- due chiefly to the less favorable August experience at banks. Thus, the net inflow to all types of institutions was 44 per cent less than in August 1965, whereas that for the first eight months was 32 per cent less than a year earlier. While the relative disparity between types of institutions in their ability to secure savings was still substantial in August, as the table shows, commercial bank dominance in securing both current savings and savings transferred from other types of institutions apparently diminished somewhat even before the announcement of new maximum rate ceilings.

CHANGES IN THE VOLUME AND DISTRIBUTION OF SAVINGS FLOWS
(In per cent)

	Total	Commercial Banks	S & L's	MSB's
<u>Year-to-year shrinkage in flows:</u>				
August 1966 vs. August 1965	-44	-37	-68	-24
First 8 mos. 1966 vs. first 8 mos. 1965	-32	- 9	-82	-46
<u>Share of total flows of all major depository-type intermediaries</u>				
August 1966	100	70	16	14
First 8 mos. 1966	100	83	7	10

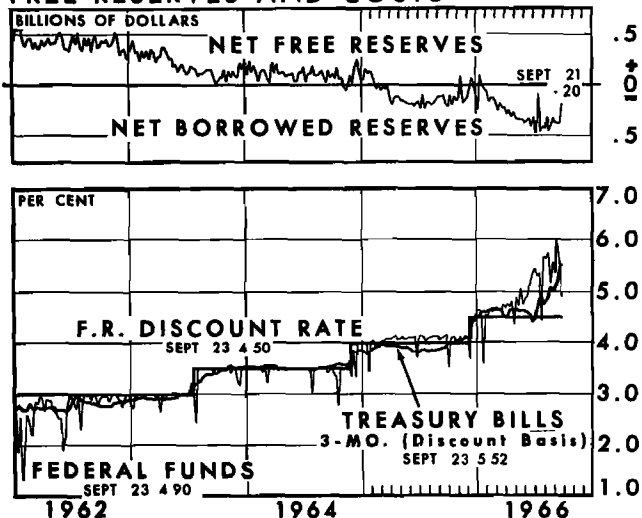
Last week's general roll-back of maximum permissible rates payable on consumer-type time deposits at commercial banks is likely to enhance the competitive position of S & L's and mutuals vis a vis banks in the key geographic areas where competition between depository-type institutions has caused the sharpest increase in savings rates. In particular, the medium and small sized commercial banks in California and New York City, which have been competing most aggressively for consumer savings by offering smaller denomination certificates at the maximum 5-1/2 per cent rate, are likely to be seriously disadvantaged. More generally, the California S & L's have an advantage relative to banks in attempting to hold existing accounts, because they can continue to offer a 5-3/4 per cent rate on existing minimum-term bonus accounts

whereas the banks must roll-back rates to 5 per cent on all accounts of less than \$100,000. Also, the California S & L's can maintain their 5-1/4 per cent passbook rate on new accounts, which gives them a 1/4 of a percentage point spread above the peak rate payable at area banks. Similarly, in New York City mutual savings banks can continue to pay a maximum of 5 per cent on their passbook accounts, whereas their bank competitors have had to give up the 1/4 to 1/2 per cent spread advantage which some institutions in the area had been maintaining on certificates.

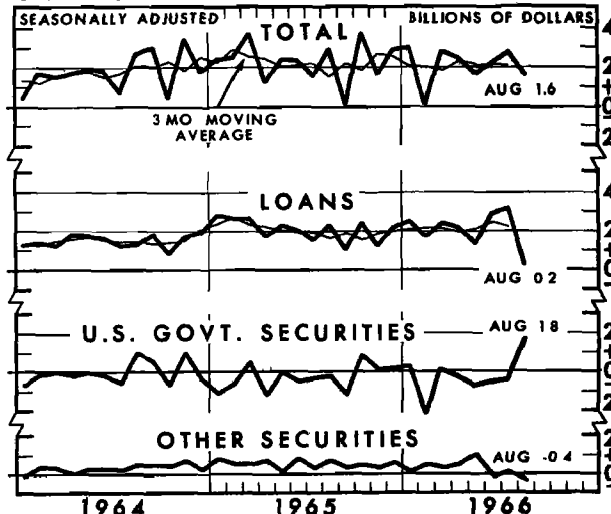
Reflecting the improved competitive positions of S & L's and mutuals under the new rate ceilings, spokesmen for both industries have reacted favorably to the changes. However, considerable uneasiness still prevails about prospective competition from market rates during the October quarterly reinvestment period.

FINANCIAL DEVELOPMENTS - UNITED STATES

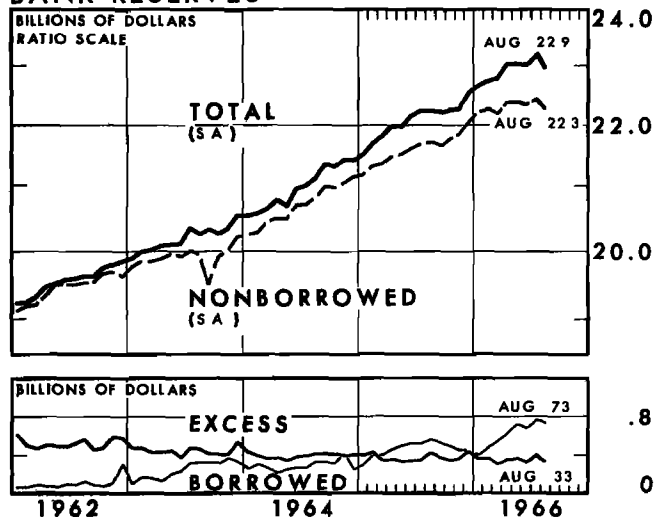
FREE RESERVES AND COSTS



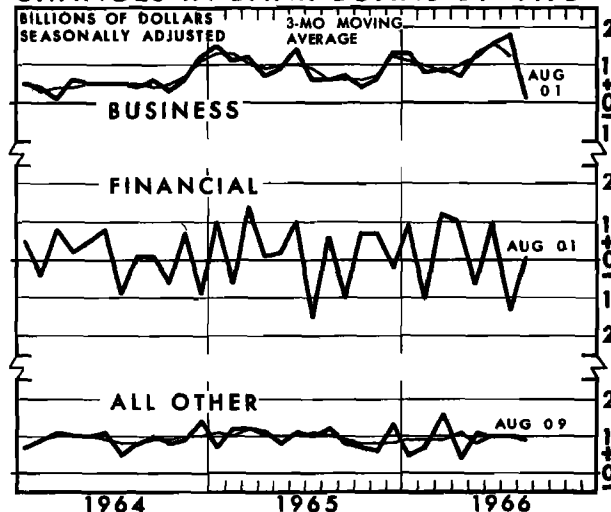
CHANGES IN BANK CREDIT



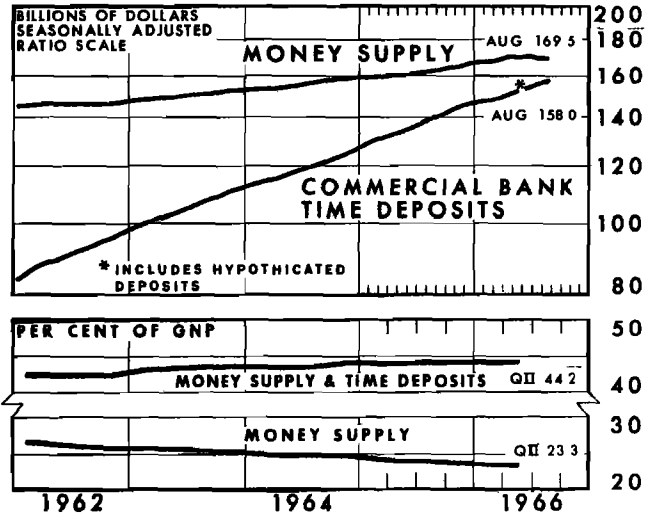
BANK RESERVES



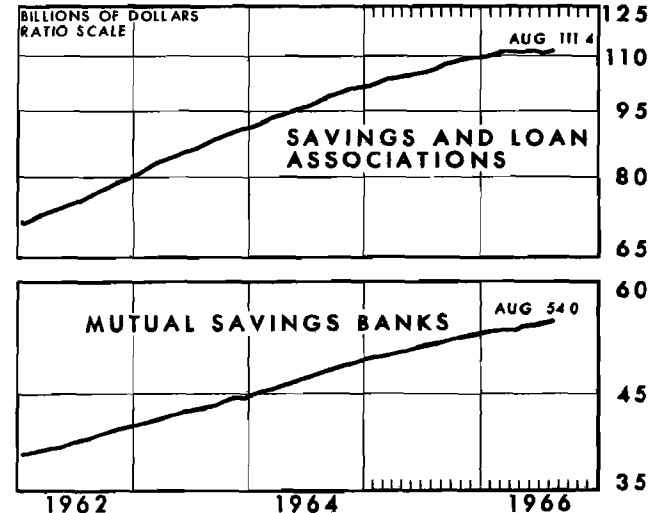
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

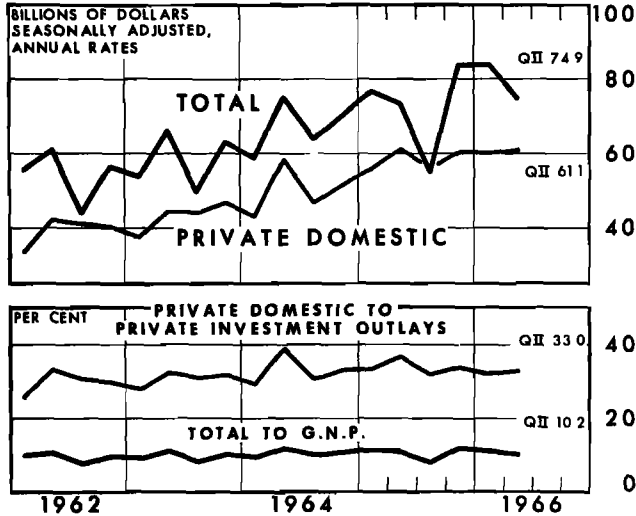


SAVINGS SHARES AND DEPOSITS

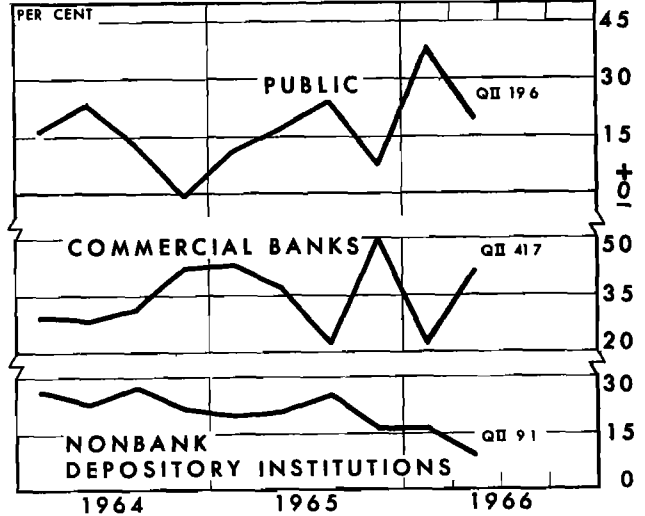


FINANCIAL DEVELOPMENTS - UNITED STATES

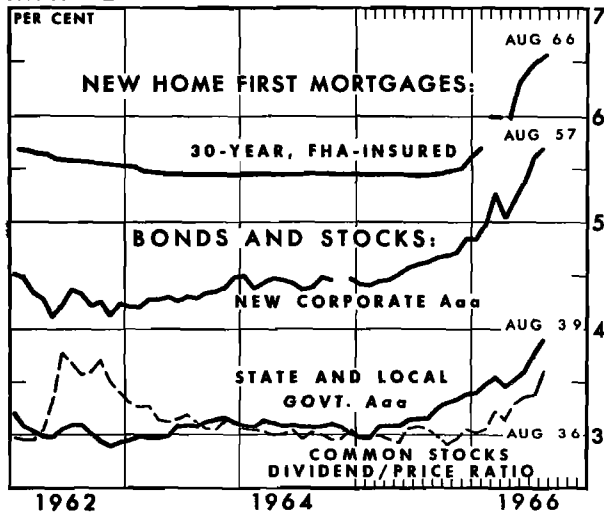
NET FUNDS RAISED - NONFINANCIAL SECTORS



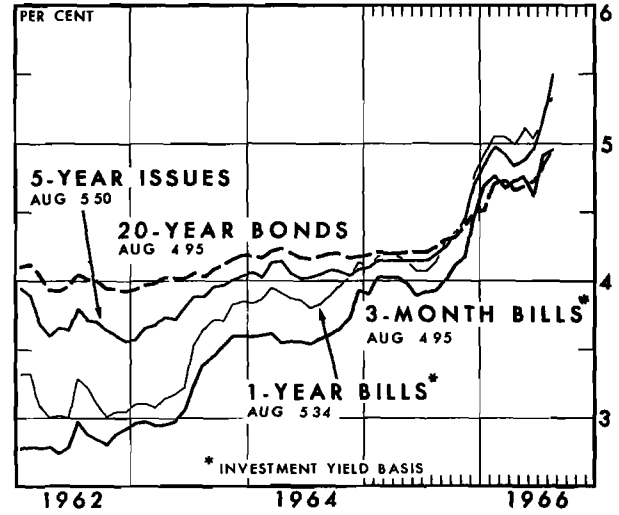
SHARES IN TOTAL CREDIT



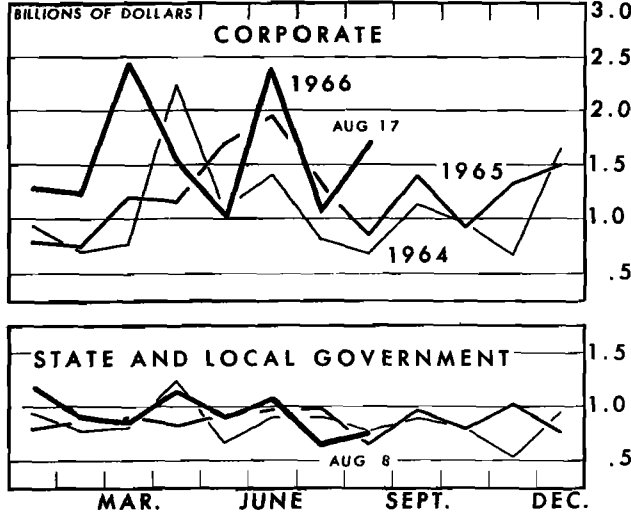
MARKET YIELDS



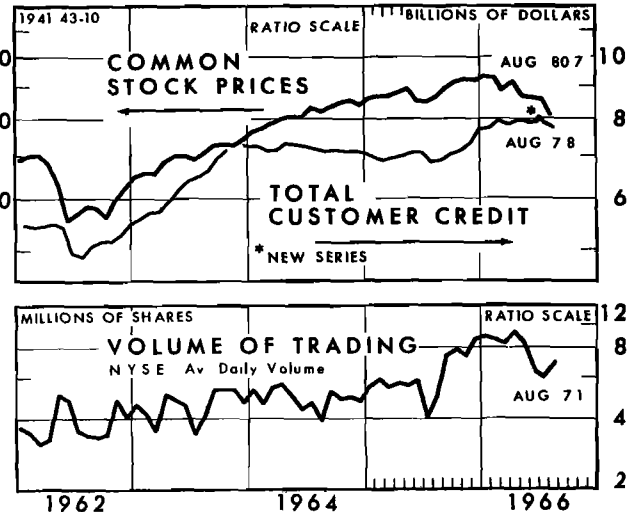
MARKET YIELDS - U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



 INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. There continues to be a marked divergence between the two customary measures of the payments position. On the liquidity basis before seasonal adjustment, the first three weeks of September show another deficit, although at a rate substantially below the figures for July (\$500 million) and August (\$330 million), even after allowance for the favorable effect of a French debt prepayment of \$70 million. On the other hand, on official settlements there was a surplus of almost \$300 million in the three weeks of September, following smaller surpluses in July and August.

For the third quarter (through late September) the deficit on the liquidity basis after seasonal adjustment was about \$500 million, whereas on official settlements there was a surplus of close to \$1 billion, seasonally adjusted. The difference between these two measures is accounted for by an increase of nearly \$1-1/2 billion in U.S. liabilities to commercial banks abroad, almost entirely liabilities of a few member banks to their foreign branches.

CHANGES IN U.S. SHORT-TERM LIABILITIES TO FOREIGN COMMERCIAL BANKS
(In billions of dollars, not seasonally adjusted)

	Total	Liab. to foreign branches	Liab. to other banks
1964	+1.5	+0.3	+1.2
1965	+0.1	+0.2	-0.1
1966			
I	+0.4	+0.5	-0.1
II	+0.3	+0.3	--
III est.	+1-1/2	+1-1/2	--
Total			
I-III est.	+2-1/4	+2-1/4	--

For the year 1966 (through September 21) U.S. liabilities to foreign branches have risen about \$2-1/4 billion, while U.S. liabilities to other foreign banks on balance have shown little change. Thus, broadly speaking, the supplies of dollars which the foreign branches have attracted and left at the disposal of their head offices have come not from reductions of dollar holdings in the United States by other foreign banks, but from reductions in holdings of foreign monetary authorities and from additions to total foreign dollar holdings arising from the U.S. payments deficit. Private foreigners have purchased dollars, or refrained from converting into their own currencies dollars they have received.

The deficit on the liquidity basis in the third quarter (through late September) appeared to be in the range of \$2 to \$2-1/2 billion at a seasonally adjusted annual rate. This estimate is a little below the second-quarter rate, adjusted to exclude the effects of shifts from liquid to nonliquid assets, which were very large in the second quarter and negligible in the third. Information that might account for this modest improvement is not yet at hand. The trade balance in July-August deteriorated from the already low second-quarter rate, while the shift from an outflow to a reflow of bank credit was partly offset by increased new security issues.

The trade balance in July-August was at a seasonally adjusted annual rate of less than \$3 billion, compared to almost \$3-1/2 billion in the second quarter and to \$4-1/2 billion in the first quarter. Exports in August were unchanged from July, at an annual rate of slightly more

than \$29 billion, up more than 2 per cent from the second quarter. Although imports in August eased from the extraordinarily high July level, they averaged \$26-1/4 billion at an annual rate for July-August, up 5 per cent from the second quarter. The growth in exports in recent months has been mainly to the primary producing countries (see chart). Among industrial countries, Japan and Canada have continued to increase their purchases from the United States, but these gains have been offset by declines in purchases by Europe.

Total bank-reported claims on foreigners declined \$260 million in July and August combined, while those bank claims reported under the VFCR fell \$210 million. These reflows were larger than the customary seasonal ones, and appear to confirm that the second-quarter outflows were temporary. Long-term loan commitments to foreigners in July-August were less than \$50 million a month, apart from extension of the maturity of a large loan that already had several years before maturity. This rate of commitment is down one-third from the first half of the year, and only half of the rate in 1965 (post VFCR).

Foreign trade of other industrial countries. The leveling-off in U.S. non-military exports from late 1965 through May of this year resulted in part from parallel slackening in the growth of Continental European and Canadian total imports. In European Economic Community countries, according to the EEC Commission's economists, stocks of imported materials were being built up rapidly last year but this buildup came more or less to a halt in most of the member countries in the first half of 1966. Demand for food imports also moderated in view

of gains in Community agricultural production and prospects. (An additional factor in the slackening of import growth was a reduction in German military imports, but in so far as corresponding U.S. exports are paid for through the Defense Department they are excluded from U.S. "non-military exports.")

Increases in many industrial countries' imports -- including those of the United States and Canada as well as of the EEC countries -- had been unusually rapid between the second and fourth quarters of 1965 as the table on page IV-5 shows. In the next interval of seven or eight months, from 1965 Q-4 to mid-1966, increases in imports were in some cases much slower. The change in pace was quite out of proportion to the changes in rate of expansion of industrial output that were occurring. In some of these countries output gains diminished, but in others industrial production rose more rapidly in the second period than in the first. It is evident that industrial production indexes are not always sensitive indicators of import demand. This is illustrated by the following tabulation referring to total EEC industrial production and imports.

COMPARISON OF CHANGES IN EEC
INDUSTRIAL PRODUCTION AND IMPORTS
(Seasonally adjusted annual rates of change, per cent)

	Industrial production	Value of imports
1963-Q1 to 1964-Q1	11	18
1964-Q1 to 1965-Q1	4	4
1965-Q1 to 1965-Q4	4	18
1965-Q4 to 1966-Q2	6	6

Germany has shown especially striking contrast between movements of industrial production and imports. Partly because domestic

IMPORTS: RATES OF INCREASE
(Seasonally adjusted annual rates of change, per cent)

Country (and magnitude of its imports)	From 1965-Q2 to 1965-Q4	From 1965-Q4	
		to 1966-Q1	to June-July
<u>Recently declining:</u>			
Germany (18.2)	11	5	- 5
Netherlands (8.0)	28	-12	- 3
<u>Little change since 1966-Q1:</u>			
United Kingdom (16.9)	3	13	4 _a /
<u>Marked slowdown since 1965-Q4:</u>			
Canada (8.9)	27	3	7 _b /
Belgium-Luxembourg (6.7)	16	-14	2 _c /
Switzerland (3.8)	10	2	3
<u>Slowdown, but still rising rapidly:</u>			
France (11.5)	21	12	12
Italy (8.3)	24	17	7 _d /
<u>Still rising rapidly:</u>			
United States (24.5)	17	17	20 _e /
<u>Upturn after 1965-Q4:</u>			
Japan (9.1)	- 2	28	27
Sweden (4.6)	- 2	31	14

Note: Numbers in parentheses after name of country give annual rate of imports in 1st half of 1966, in billions of U.S. dollars, f.o.b. for U.S. and Canada, c.i.f. for others. U.S. data are on balance of payments basis; 1965-Q2 adjusted for strike distortion.

a/ June-July-August. June was low, due to seamen's strike; July and August were swollen by delayed arrivals.

b/ May-June.

c/ April-May.

d/ May-June. To June alone, annual rate of increase from 1965-Q4 was 11 per cent.

e/ June-July-August. Adjustment to balance of payments basis estimated.

investment demand was easing -- and partly because of resource limitations, German industrial output had changed little during most of 1965, while imports were rising rapidly. In the first quarter of 1966 both industrial production and imports rose somewhat. Since then, with domestic production stable, imports have fallen off.

In three of the countries covered in the table on page IV-5, United Kingdom, Japan and Sweden, both imports and industrial production were nearly stable during a considerable part of 1965. In the United Kingdom, imports jumped to a higher level early this year, but since the first quarter British imports have been virtually stable, apart from fluctuations due to the May-June shipping strike. The increase in British imports at the beginning of 1966 was mainly in finished manufactures and semi-manufactures, rather than in basic materials or foods. In Japan, rapid domestic expansion began again late last year. The upturn in demand led to a sharp step-up in Japanese imports early this year and, more recently, to a further increase in imports in August. In Sweden, too, there were upturns in both domestic production and imports this year.

In contrast to the wide variation in import patterns, exports of industrial countries have shown a considerable degree of similarity in rate and time of growth since the spring of 1965. See the table on page IV-7. At mid-1966, exports of most of these countries were running about 12 to 15 per cent higher than in the second quarter of 1965. (For the United States this comparison is based on 1965-Q2 figures adjusted down to remove the post-strike distortion; the unadjusted data

show a somewhat smaller increase.) Italian exports have risen even more rapidly than the general average. British exports moved in line with others until this spring, but the May-June seamen's strike cut June exports drastically.

Export increases since the latter part of 1965 have been particularly rapid for Japan and Italy, countries in which there is now considerable capacity for output expansion. In both cases export growth had leveled off during 1965; also, in Japan, a maritime strike had cut down December exports.

EXPORTS
(Indexes, 1965-Q2 = 100)

Country (and magnitude of its exports)	1965		1966		June- July
	Q2	Q4	Q1	Q2	
United States (28.5)	100	110	112	112	115 ^{a/}
Germany (19.5)	100	106	110	113	114
United Kingdom (14.1)	100	108	109	...	105 ^{b/}
France (10.8)	100	108	107	112	113
Japan (9.5)	100	97	111	111	116
Canada (9.2)	100	111	119	117	116 ^{c/}
Italy (8.0)	100	103	108	115	119 ^{c/}
Netherlands (6.7)	100	106	101	110	109
Belgium-Luxembourg (6.6)	100	112	106	111	112 ^{c/}
Switzerland (3.2)	100	107	109	113	113

Note: Numbers in parentheses after name of country give annual rate of exports in 1st half 1966, in billions of U.S. dollars. U.S. data are on balance of payments basis excluding military sales; 1965-Q2 adjusted for strike distortion.

^{a/} June-July-August.

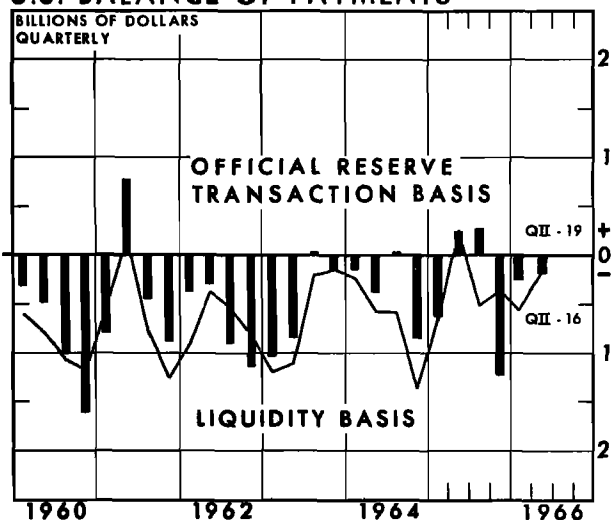
^{b/} June-July-August. Strike delays from June may not have been fully caught up in July and August.

^{c/} May-June.

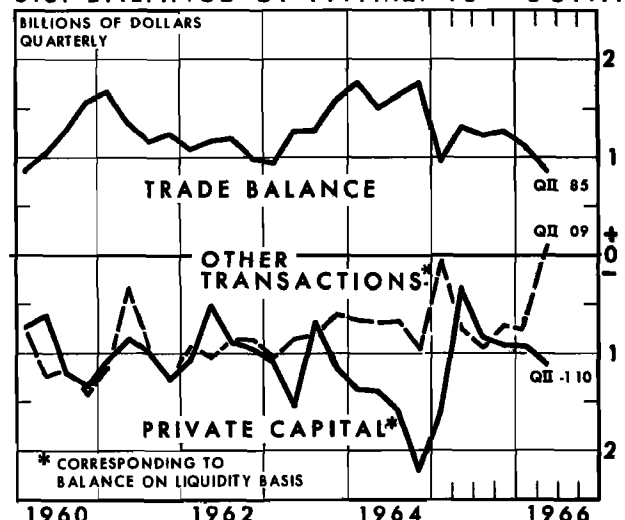
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

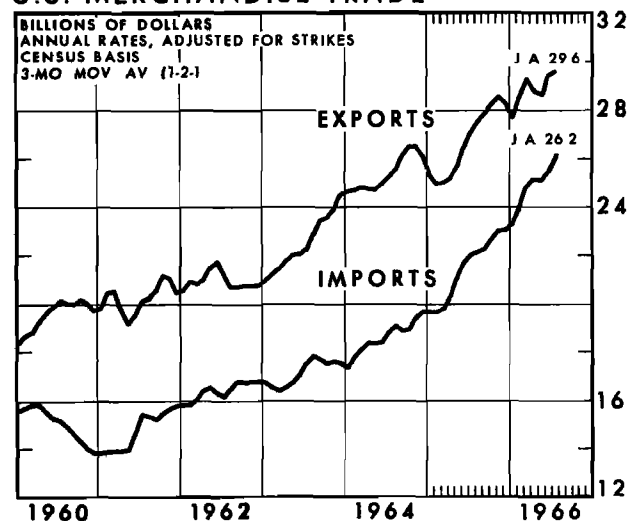
U.S. BALANCE OF PAYMENTS



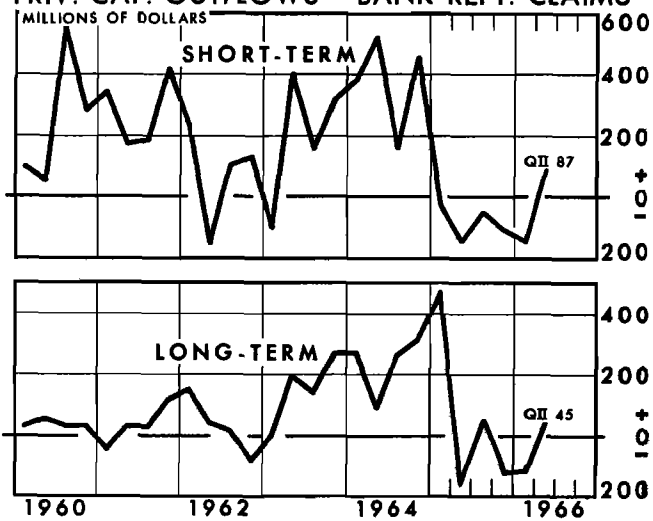
U.S. BALANCE OF PAYMENTS - CONT.



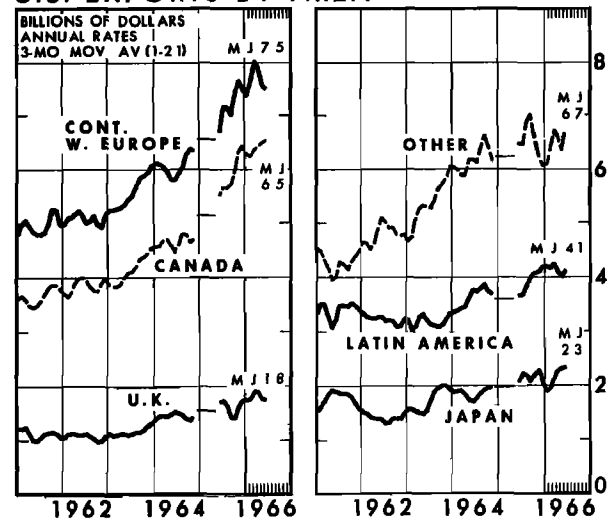
U.S. MERCHANDISE TRADE



PRIV. CAP. OUTFLOWS - BANK REPT. CLAIMS



U.S. EXPORTS BY AREA



90-DAY RATES

