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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

June 12, 1968

SUMMARY AND OUTLOOK

Outlook for economic activity

The increase in gross national product in the current quarter is expected to be somewhat larger than that in the first quarter. Although the rise in consumption is likely to be large, it appears to be running well below the first quarter increase. On the other hand, the rate of inventory accumulation is expected to pick up markedly and net exports to recover somewhat. In addition, defense expenditures are expected to maintain their first quarter rate of advance.

The rate of expansion in activity should slow markedly in the third quarter. Passage of the bill providing for a 10 per cent surtax and a reduction of $6 billion in Federal expenditures should have a fairly prompt effect on the economy. Federal spending is expected to begin decelerating sharply, with the further increase in outlays almost entirely due to the Federal pay raise for military and civilian personnel. Housing starts are expected to decline and outlays for residential construction to drop after midyear, but plans for business investment in new plant and equipment suggest a more than offsetting rise.

Curtailed growth in personal income, reflecting smaller employment increases, and the increased withholdings expected to become effective early in July, should result in a marked slowdown in expansion of disposable income in the third quarter. Although a drop in the rate of saving is likely to offset some of the impact of this, total consumption expenditures are expected to increase only moderately further in current dollar terms and at a slow pace in real terms. With consumer takings of goods growing very little, the inventory accumulation of consumer goods should be substantially above the current rate, offsetting anticipated declines in stocks of steel and autos in the next quarter.

The rate of growth of real GNP is expected to drop from about 6-1/2 per cent in the current quarter to 2 per cent in the third quarter, largely reflecting curtailed growth in spendable income and consumption.

Outlook for prices and resource use

The abrupt slowing of expansion in aggregate demand now in prospect for the third quarter is expected to be accompanied by a minimal rise in industrial production, an appreciable decline in the rate of manufacturing capacity utilization, some decrease in manufacturing employment, and a moderate increase in the unemployment rate from the current low level.

The marked slackening of growth in demand and the accompanying easing of capacity and labor market pressures, however, will be accompanied by continuing increases in prices. Upward wage pressures are likely to continue, in part to cover the large increases in consumer prices over the past year and in part because of upward momentum imparted by the large wage settlements of recent months. With wages continuing to rise at a fast pace and with the recent pick up in productivity aborted by the sharp cutback in output growth, unit labor costs are likely to show renewed increase.

Although some "sensitive" prices have declined at wholesale, average prices of "sluggish" materials and finished products have continued to rise. The over-all industrial price average will probably be moving up again this summer--though at a much more moderate pace than last winter. Consumer prices may be responsive to the expected slackening in retail demands, although remaining subject to the effects of continuing upward cost pressures. Absent the Government pay increase, the GNP deflator is expected to show a slightly smaller rise in the third quarter than in the second.

Demands for credit

Demands for credit will be fairly heavy in the weeks immediately ahead, but if the tax bill is enacted by late June, as is still expected by the market, these demands are not likely to force interest rates higher. In fact, rates may very well show some further declines, particularly in long-term markets. Of course, if the tax bill should not be enacted, interest rates would quickly rise to, and undoubtedly through, the recent May highs.

Near-term increases in credit demands may be most pronounced in shorter-term markets. The Treasury may need to borrow as much as $4 billion by early July, presumably mainly through tax bills, while at the same time business demands for bank credit and for financing in commercial paper markets may be quite strong. Passage of the tax bill will occur too late to swell the tax borrowing needs of corporations in June, but business borrowing to finance inventories or current outlays already appears to be on the rise from the reduced May pace. In addition, corporations will have to make retroactive income tax payments in July totaling an estimated $1.1 billion--for which little advance preparation seems to have been made. Consequently, although corporate income tax payments due in June are relatively small, combined corporate payments for June and July together are estimated to be just as large as they were in the like months of 1967.

In long-term markets, demands for mortgage credit appear to be continuing strong. Moreover, June calendars of new offerings in both corporate and municipal securities markets seem likely to exceed those of other months this year. And clarification of the status of industrial revenue bonds, through the rider attached to the tax bill, may trigger a substantial additional near-term supply of these issues. On the other hand, about half of the expected June supply of publicly-offered corporate bonds has already been brought to market, and thus far, volume for July promises to be substantially lighter, as is often the case during the early summer.

Supply of funds

With enactment of the fiscal restraint package, the tendency evident in very recent days for institutional investors to hold back in acquiring new aggressively priced corporate bond issues is likely to dissipate. Other more speculatively inclined investors might also seek to add to bond positions in anticipation of lower long-term rates later in the year. But any general expectational change of this type toward lower long-term rates would likely not move very far in the absence of some confirming evidence of an easier monetary policy.

Short-term interest rates may show less immediate response to the enactment of fiscal legislation, partly because of heavy impending Treasury credit demands. So long as the present structure of short-term market rates continues, with 90-day bills around 5.70 per cent and short-maturity finance company paper at 6 per cent, banks can be expected to experience a fairly sizable run-off of negotiable CD's in June, though probably less than the worst fears of banks a few weeks ago. Following the midyear interest crediting, some further switching of consumer-type funds to other investment channels is likely to occur, principally from accounts at large banks. And at nonbank savings institutions, it seems likely that outflows of savings during the coming June-July reinvestment period will be at least somewhat larger, on an unadjusted basis, than at the end of the first quarter, when market yields on short-term instruments were about 50 basis points under their current levels and when fewer savings institutions credited dividends.

The public has accumulated a substantial increase in money holdings over recent months, partly because of the rapid transfers of deposits from U.S. Government accounts. But cash needs for transaction purposes have been rising along with the 10 per cent annual rate of increase in GNP during the first half. In the summer, Government deposits are not expected to be a significant source of supply for private deposits, and may at times absorb some such deposits. Downward readjustments of excess cash balances might also occur, if expectations were to develop that the trend of interest rates would be downward.

With inflows of funds to banks and other savings institutions remaining limited, and given the uncertainties of the dividend-reinvestment period, the immediate outlook is for continued pressure on mortgage markets at least through the early weeks of summer. Banks have reported considerable recent firming of policies on mortgage loans (as well as other loans), and nonbank institutions remain reluctant lenders. If a fiscal package is legislated within the next few weeks, a gradual lessening of pressures in mortgage markets might begin to develop as yields on long-term market instruments decline and thereby increase the relative attractiveness of mortgages to large, diversified institutional lenders. However, a more pronounced easing of mortgage market conditions would appear to depend on a sustained and sizable net increase in flows of savings to thrift institutions.

Balance of Payments

The liabilities of U.S. banks to their foreign branches increased by more than $1 billion (20 per cent) during May, bringing the total increase since December to more than $2 billion. The recent heavy inflow of foreign liquid funds apparently reflected both an increasing demand for funds by U.S. banks and an abnormal swelling of the supply of such funds as a result of confidence movements out of sterling and French francs.

The inflow temporarily swung the over-all payments balance on the official settlements basis into surplus in May, and perhaps also for the second quarter as a whole, even after adjustment for favorable seasonal factors. But, as on similar occasions in 1966 and 1967, the inflow may be expected to subside fairly soon, and the official settlements balance to revert to deficit. In addition, strong adverse seasonal influences will make themselves felt during the third quarter. Hence, the U.S. reserve position is likely to come under renewed pressure. Given the growing reluctance of leading foreign central banks to add to their uncovered dollar holdings, there are likely to be further gold losses and requests for the Federal Reserve to provide exchange guarantees through use of swaps.

The deficit on the liquidity basis before special official transactions diminished sharply in May, but for April-May together it was at a higher rate than during the first quarter. No early lasting improvement is in prospect, since an expected increase in the merchandise trade surplus is likely to be offset by increased net outflows of U.S. private capital, which were unusually small in the months immediately following the January 1 announcement of the new restraint programs.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest Period	Amount: Latest Period	Amount: Preced'g Period	Amount: Year Ago	Per Cent Chang: Year Ago*	Per Cent Chang: 2 Yrs. Ago*
Civilian labor force (mil.)	Apr'68	78.3	78.7	76.8	2.0	4.0
Unemployment (mil.)	"	2.7	2.9	2.9	-5.8	-3.5
Unemployment (per cent)	"	3.5	3.6	3.7	--	--
Nonfarm employment, payroll (mil.)3/	May'68	67.8	67.8	65.7	3.2	6.4
Manufacturing	"	19.7	19.7	19.3	1.6	2.7
Other industrial	"	8.2	8.3	8.1	1.4	1.7
Nonindustrial	"	40.0	39.8	38.3	4.4	9.3
Industrial production (57-59=100)	Apr'68	162.7	162.7	156.5	4.0	5.7
Final products	"	162.4	162.8	157.3	3.2	6.0
Materials	"	163.4	162.5	156.0	4.7	5.8
Wholesale prices (57-59=100)1/	"	108.3	108.2	105.3	2.8	2.7
Industrial commodities (FR)	"	108.0	107.8	105.1	2.8	3.9
Sensitive materials (FR)	"	107.7	108.2	100.7	7.0	1.2
Farm products, foods & feeds	"	106.8	106.9	103.4	3.3	-1.7
Consumer prices (57-59=100)1/	"	119.9	119.5	115.3	4.0	6.6
Commodities except food	"	112.2	111.9	108.4	3.5	5.8
Food	"	118.3	117.9	113.7	4.0	3.8
Services	"	132.5	132.1	126.6	4.7	9.4
Hourly earnings, mfg. ($)3/	May'68	2.97	2.96	2.80	6.1	10.0
Weekly earnings, mfg. ($)3/	"	120.39	118.38	113.24	6.3	7.6
Personal income ($ bil.)2/	Apr'68	670.1	666.5	616.5	8.7	16.6
Corporate profits before tax ($ bil.)2/	Q I'68	88.8	85.1	79.0	12.4	6.1
Retail sales, total ($ bil.)	May'68	27.9	27.6	25.9	7.6	13.9
Autos (million units)2/	"	8.7	7.9	7.9	9.1	13.2
GAF ($ bil.)	"	6.7	6.7	6.3	7.5	16.1
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	Apr'68	1,620	1,500	1,116	45.2	17.6
Factory workweek (hours)3/	May'68	40.6	40.0	40.5	0.2	-2.2
New orders, dur. goods ($ bil.)	Apr'68	25.3	26.3	22.2	13.9	4.6
New orders, nonel. mach. ($ bil.)	"	3.8	3.6	3.4	9.8	6.4
Common stock prices (1941-43=10)	May'68	97.87	95.67	92.59	5.7	12.8
Inventories, book val. ($ bil.)	Apr'68	143.2	141.9	137.1	4.4	15.1
Gross national product ($ bil.)2/	Q I'68	826.7	807.3	766.3	7.9	13.9
Real GNP ($ bil., 1958 prices)2/	"	689.7	679.6	660.7	4.4	6.9

* Based on unrounded data. 1/ Not seasonally adjusted. 2/ Annual rates.
3/ New Benchmark revisions.

SELECTED DOMESTIC FINANCIAL DATA

	Week ended June 7, 1968	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent)	5.95	5.91	6.42	4.30
U.S. Treas. bills, 3-mo., yield (per cent)	5.66	5.71	5.82	4.85
U.S. Treas. bills, 1-yr., yield (per cent)	5.72	5.86	5.99	5.17
Net free reserves 2/ ($ millions)	-590	-413	384	-590
Member bank borrowings 2/ ($ millions)	759	726	823	87
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	5.91	6.03	6.15	5.47
20-year U.S. Treas. bonds 1/	5.45	5.55	5.65	5.32
Corporate new bond issues, Aaa adj. 8/	6.62	6.69	6.83	6.18
Corporate seasoned bonds, Aaa 1/	6.29	6.28	6.29	6.07
Municipal seasoned bonds, Aaa 1/	4.25	4.32	4.42	3.90
FHA home mortgages, 30-year 3/	--	6.94	6.94	6.77
Common stocks, S&P composite series 4/				
Prices, closing (1941-43=10)	100.44	98.24	100.44	88.61
Dividend yield (per cent)	2.98	3.08	3.38	2.98

	Latest month	Amount	3-month average	Change from year earlier: Latest month	Change from year earlier: 3-month average
New Security Issues (N.S.A., $ millions)					
Corporate public offerings 5/	June '68 e/	2,350	1,992	-261	- 27
State & local govt. public offerings	"	1,300	1,200	-237	- 79
Comm. & fin. co. paper (net change in outstandings) 6/	April '68	-978	-287	-1,193	-797

	Latest month	Outstandings Latest month	Change Latest month	Change 3-month average	Annual rate of change from Preceding month	Annual rate of change from 3 months ago	Annual rate of change from 12 months ago
Banking (S.A.)		($ billions)			(per cent)		
Total reserves 1/	May '68	25.15	0.03	-0.04	1.4	-1.7	7.2
Credit proxy 1/	"	277.3	0.4	0.1	1.7	0.4	7.8
Bank credit, total 6/	"	356.3	1.7	1.1	5.8	3.7	9.8
Business loans	"	89.6	0.4	0.9	5.4	12.0	8.9
Other loans	"	142.4	-0.3	0.2	-2.5	2.0	8.5
U.S. Govt. sec.	"	60.7	1.5	-0.4	30.4	-7.1	8.2
Other securities	"	63.5	0.1	0.3	1.9	5.7	15.5
Total liquid assets 1/ 6/	Apr. '68	667.3	1.3	3.8	2.3	6.9	8.2
Demand dep. & currency 1/	May '68	186.3	1.6	1.3	10.4	8.3	6.7
Time & sav. dep., comm. banks 1/	"	187.1	0.2	0.7	1.3	4.5	10.1
Savings, other thrift instit. 6/	Apr. '68	187.6	0.3	1.1	1.9	7.2	7.9
Other 6/ 7/	"	108.1	-0.6	0.9	-6.6	9.9	6.0

N.S.A. -- not seasonally adjusted. S.A. -- seasonally adjusted.
e. Estimated by F.R.B. 1/ Average of daily figures. 2/ Average for statement week ending June 5 . 3/ Latest figure is for Apr . 4/ End of week closing prices; yields are for Friday. 5/ Corporate security offerings include both bonds and stocks. 6/ Month-end data. 7/ U.S. savings bonds and U.S. Government securities maturing within 1 year.
8/ Adjusted to Aaa basis.

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

	1967 Ir	1967 IIr	1967 IIIr	1967 IVr	1968 *Ir	1968 Mar.	1968 Apr.
	Seasonally adjusted						
Goods and services, net 1/	1,293	1,269	1,359	848	374		
Trade balance 2/	975	1,098	1,085	319	84	-170	230
Exports 2/	7,661	7,703	7,626	7,478	7,924	2,440	2,870
Imports 2/	-6,686	-6,605	-6,541	-7,159	-7,840	-2,610	-2,640
Services balance	318	171	274	529	290		
Remittances and pensions	-262	-392	-358	-263	-269		
Govt. grants & capital 3/	-1,176	-1,039	-988	-1,008	-1,163		
U.S. private capital	-975	-1,104	-1,788	-1,638	-711		
Direct investments	-653	-651	-902	-815	-468		
Foreign securities	-259	-199	-476	-332	-406		
Banking claims	79	-198	-435	95	365		
Other	-142	-56	25	-586	-202		
Foreign capital, nonliquid	865	1,202	766	353	1,311		
Official foreign accts.	382	724	18	150	336		
Long-term deposits	304	584	-215	147	117		
U.S. Govt. liab.	78	140	233	3	219		
Int'l. institutions 4/	64	95	121	13	-96		
Other 5/	419	383	627	190	1,071		
Errors and omissions	-250	-458	207	-34	-148		
Balances, with and without seasonal adjustment (- deficit)							
Liquidity balance, S.A.	-505	-522	-802	-1,742	-606		
Seasonal component	267	302	-410	-159	382		
Balance, N.S.A.	-238	-220	-1,212	-1,901	-224	-36	-571
Official settlements bal.,S.A.	-1,764	-806	247	-1,082	-510		
Seasonal component	485	101	-272	-314	600		
Balance, N.S.A. 6/	-1,279	-705	-25	-1,396	90	-205	-350
Reserve changes, N.S.A. (decrease -)							
Total monetary reserves	-1,027	419	375	181	-904	-864	-86
Gold stock	-51	-15	-92	-1,012	-1,362	-1,197	-156
Convertible currencies	-1,007	424	462	1,145	401	511	58
IMF gold tranche	31	10	5	48	57	-178	12

1/ Equals "net exports" in the GNP.
2/ Balance of payments basis which differs a little from Census basis.
3/ Net of scheduled and non-scheduled repayments.
4/ Long-term deposits and Agency securities.
5/ Includes some foreign official transactions in securities.
6/ Differs from liquidity balance by counting as receipts (+) increase in liquid liabilities to commercial banks, private nonbanks, and international institutions (except IMF) and by not counting as receipts (+) increases in certain nonliquid liabilities to foreign official institutions.
*/ STRICTLY CONFIDENTIAL until release of June Survey of Current Business.

THE ECONOMIC PICTURE IN DETAIL

The Nonfinancial Scene

Gross national product. Passage of the fiscal package--still anticipated before the end of this month--would slow sharply the growth of over-all output in the third quarter. The rise in GNP is expected to be cut almost in half, from an estimated annual rate of $22 billion this quarter to about $12 billion in July-September. The expected rate of real GNP growth would drop sharply from about 6-1/2 per cent annually in the second quarter to 2 per cent in the third quarter. This reduced rate of growth is not likely to have an appreciable effect on wage gains and other costs in the next few months, and prices in the private economy are expected to rise almost as rapidly in the third quarter as in the second. The GNP deflator should show no slackening in growth owing to the Federal workers' pay raise, due July 1, which is treated in the accounts as a price increase.

An abrupt third quarter slowdown would follow several quarters of accelerating expansion with mounting pressure on labor resources and wage rates. While data for the second quarter are incomplete, the rise in current dollar GNP for the quarter now seems likely to exceed the $19.5 billion gain of the first quarter by $2 to $3 billion, annual rate. This estimate is slightly below our original forecast for the second quarter, due largely to a smaller growth in nondurable goods consumption--up $4 instead of $6 billion--but some of the shortfall is likely to be reflected in a larger accumulation of inventories. In real terms the second quarter rise in GNP is expected to exceed that of any quarter since early 1966.

The impact of the surtax on disposable income and consumption is expected to be prompt. Other recent sources of expansion will also be curtailed. Although Federal spending in the third quarter will be increased by the Federal pay raise, other outlays, especially defense, are expected to level off. Moreover, residential construction is expected to drop moderately and business inventory accumulation to level off. Business investment in fixed capital is expected to more than offset the reduction in residential outlays according to the recent official survey of business plans for new plant and equipment expenditures.

Personal income is likely to expand considerably less than the extraordinary increases in the first and second quarters of this year, as employment growth slows. In addition, about $6.7 billion (annual rate) of the increase in pretax income will be offset by the anticipated increase in the surtax early in July. As a result, total spendable income will rise at a rate of only about $4 billion during the quarter--less than one third the increase of the preceding quarter.

A drop in the saving rate to 6.5 per cent from the high 7.2 per cent rate projected for the second quarter will help sustain consumer spending in the third quarter in the face of the tax increase. Although the saving rate could dip further, a drop of this magnitude appears generally consistent with the small cut in auto sales and the projected level of other durable goods expenditures.

With saving dropping moderately, the rise in consumer expenditure is expected to be reduced only from $10.5 billion in the second quarter to $8 billion in the third quarter. Unit sales of new domestic automobiles are expected to dip about 100,000 below the 8.5 million annual rate projected for the current quarter. Furniture and appliances sales are expected to continue to rise along with home completions, although at a somewhat more moderate rate. Nondurable goods outlays are expected to rise at a normal rate of about 6 per cent from the second quarter--far below the rate of increase in the first half of this year. The upward trend in outlays for services is assumed to be relatively unaffected by the tax rise.

The rather sudden slowing in the upswing in consumer purchases may leave distributors and producers with heavier stocks than anticipated. On the other hand, stocks of auto dealers which have been rising more than seasonally may decline in July-September and steel inventories are likely to be drawn down beginning in August. Reductions in stocks in these industries should offset in part a possible rise in inventories of other goods, and result in a net increase in business stocks at a rate about as fast as is now projected for the second quarter.

Housing starts are expacted to turn down before the end of this quarter as recent developments in financial markets begin to take their toll, and to dip to 1.33 million annual rate in the third quarter. This compares with a rate of close to 1.5 million in January-June, and would be the lowest rate in over a year. Outlays for new housing should fall less sharply than starts, from a rate of $29 billion to about $28 billion.

Business investment in plant and equipment will rise moderately in the third quarter, according to a recent Commerce-SEC survey. The new survey confirms the previous estimate that second quarter spending for plant and equipment would be slightly below that in the first. This is not inconsistent with the small rise in business fixed investment shown in the projections for the second quarter, since the latter reflect rising construction outlays of nonprofit institutions, and expanding business purchases of autos and trucks, which are not fully covered in the Commerce-SEC survey.

The bulge in Federal spending is projected to taper off sharply in the third quarter. Defense outlays are projected to rise only $1.5 billion, compared to $25. billion in each of this first two quarters. Moreover, about $1 billion of the rise reflects the pay increase for military and civilian defense workers. Nondefense purchases in the third quarter also reflect the pay increase.

Since much of the increase in GNP in the third quarter consists of a rise in consumer services or in government wages, industrial production is expected to show little further rise, and the rate of capacity utilization should decline appreciably. With a lower rate of output growth, productivity gains may slow, leading to a somewhat more rapid increase in unit labor costs, and corporate profits after adjustment for inventory valuation may edge down slightly.

The rise in personal withholding taxes as a result of the passage of the surtax in conjunction with a slower growth of Federal expenditures should cause the Federal deficit (NIA basis) to contract from the estimated second quarter rate of $10.3 billion to $4.8 billion in the third quarter. The decline would have been even sharper were it not for the fact that the retroactive increase in the corporate surtax is reflected in the second quarter receipts.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarterly figures at annual rates)

	1966	1967	1967			1968	1968 Projected	
			II	III	IV	I	II	III
Gross National Product	743.3	785.0	775.1	791.2	807.3	826.7	848.7	861.2
Final sales	729.9	779.8	774.6	787.4	798.1	824.0	842.7	855.2
Private purchases	575.6	603.5	599.6	609.2	616.4	635.7	649.3	657.9
Personal consumption expenditures	465.9	491.7	489.7	495.3	501.8	518.7	529.2	537.1
Durable goods	70.3	72.1	72.5	72.7	73.8	78.4	80.2	80.8
Nondurable goods	207.5	217.5	217.2	218.5	220.3	228.1	232.5	236.0
Services	188.1	202.1	200.0	204.1	207.7	212.1	216.5	220.3
Gross private domestic investment	118.0	112.1	105.1	112.2	120.8	118.0	122.6	122.9
Residential construction	24.4	24.4	23.1	25.6	27.6	28.2	29.1	27.9
Business fixed investment	80.2	82.6	81.5	82.8	84.0	87.2	87.5	89.5
Change in business inventories	13.4	5.2	.5	3.8	9.2	2.7	6.0	6.0
Nonfarm	13.7	4.8	.6	3.4	7.7	1.8	5.5	6.0
Net Exports	5.1	4.8	5.3	5.4	3.0	1.7	3.5	3.9
Gov't purchases of goods & services	154.3	176.3	175.0	178.2	181.7	188.3	193.4	197.3
Federal	77.0	89.9	89.5	90.9	92.2	96.2	98.9	100.8
Defense	60.5	72.5	72.5	73.3	74.2	76.7	79.1	80.6
Other	16.5	17.4	17.0	17.6	18.0	19.5	19.8	20.2
State and local	77.2	86.4	85.4	87.4	89.5	92.1	94.5	96.5
Gross National Product in constant (1958) dollars	652.6	669.3	664.7	672.0	679.6	689.7	701.4	704.6
GNP Implicit deflator (1958=100)	113.9	117.3	116.6	117.7	118.8	119.9	121.0	122.2
Personal income	584.0	626.4	619.1	631.0	642.5	659.0	675.2	687.6
Wages and salaries	394.6	423.8	418.3	426.2	435.9	447.6	457.0	466.3
Disposable income	508.8	544.7	540.0	548.2	557.9	571.5	586.7	591.0
Personal saving	29.8	38.7	36.0	38.5	41.6	38.0	42.4	38.5
Saving rate (per cent)	5.9	7.1	6.7	7.0	7.5	6.6	7.2	6.5
Corporate profits before tax	83.8	80.8	78.9	80.0	85.1	88.8p	95.8	95.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	143.2	151.8	148.1	152.7	157.3	164.9p	172.4	180.7
Expenditures	142.9	164.3	162.8	165.9	167.9	175.6	182.7	185.5
Surplus or deficit (-)	.3	-12.5	-14.7	-13.2	-10.7	-10.7p	-10.3	- 4.8
Total labor force (millions)	78.9	80.8	80.3	81.1	81.6	81.9	82.2	82.7
Armed forces "	3.1	3.4	3.5	3.5	3.5	3.5	3.5	3.6
Civilian labor force "	75.8	77.3	76.8	77.6	78.2	78.4	78.7	79.1
Unemployment rate (per cent)	3.8	3.8	3.8	3.9	3.9	3.6	3.5	3.7
Nonfarm payroll employment (millions)	64.0	66.0	65.7	66.1	66.7	67.4	67.9	68.2
Manufacturing	19.2	19.4	19.4	19.3	19.5	19.6	19.7	19.6
Industrial production (1957-59=100)	156.3	157.8	155.9	157.2	159.5	162.0	164.0	165.2
Capacity utilization, manufacturing (per cent)	90.5	85.1	84.9	84.1	84.4	84.4	84.2	83.6
Housing starts, private (millions A.R.)	1.17	1.29	1.21	1.41	1.44	1.50	1.47	1.33
Sales new U.S.-made autos (millions, A. R.)	8.38	7.57	8.11	7.57	7.44	8.19	8.50	8.40

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June 12, 1968

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1966	1967	1967 II	1967 III	1967 IV	1968 I	1968 Projected II	1968 Projected III
	------ In Billions of Dollars ------							
Gross National Product	59.4	41.7	8.8	16.1	16.1	19.4	22.0	12.5
Final sales	55.4	49.9	15.4	12.8	10.7	25.9	18.7	12.5
Private purchases	37.5	27.9	10.8	9.6	7.2	19.3	13.6	8.6
GNP in constant (1958) dollars	35.9	16.7	4.0	7.3	7.6	10.1	11.7	3.2
Final sales	32.1	24.6	10.3	4.2	2.5	16.2	8.5	3.2
Private purchases	21.9	10.4	7.1	3.0	1.7	11.9	5.5	3.6
	--- In Per Cent; Quarterly Changes are at Annual Rates --							
Gross National Product	8.7	5.6	4.6	8.3	8.1	9.6	10.6	5.9
Final sales	8.2	6.8	8.1	6.6	5.4	13.0	9.1	5.9
Private purchases	7.0	4.8	7.3	6.4	4.7	12.5	8.6	5.3
Personal consumption expenditures	7.6	5.5	7.9	4.6	5.2	13.5	8.1	6.0
Durable goods	6.5	2.6	17.9	1.1	6.1	24.9	9.2	3.0
Nondurable goods	8.5	4.8	5.6	2.4	3.3	14.2	7.7	6.0
Services	6.9	7.4	6.9	8.2	7.1	8.5	8.3	7.0
Gross private domestic investment	9.9	- 5.0	-19.2	27.0	30.7	- 9.3	15.6	1.0
Residential construction	- 9.6	0.0	31.8	43.3	31.2	8.7	12.8	-16.5
Business fixed investment	12.8	3.0	- 2.0	6.4	5.8	15.2	1.4	9.1
Gov't purchases of goods & services	13.1	14.3	10.8	7.3	7.9	14.5	10.8	8.1
Federal	15.3	16.8	11.0	6.3	5.7	17.4	11.2	7.7
Defense	20.8	19.8	13.1	4.4	4.9	13.5	12.5	7.6
Other	- 1.2	5.5	4.8	14.1	9.1	33.3	6.2	8.1
State & local	10.9	11.9	10.1	9.4	9.6	11.6	10.4	8.5
GNP in constant (1958) dollars	5.8	2.6	2.4	4.4	4.5	5.9	6.8	1.8
Final sales	5.3	3.8	6.3	2.5	1.5	9.7	4.9	1.8
Private purchases	4.4	2.0	5.5	2.3	1.3	9.0	4.1	2.6
GNP Implicit deflator	2.7	3.0	2.1	3.9	3.6	3.7	3.7	4.0*
Personal income	8.6	7.3	4.0	7.7	7.3	10.3	9.8	7.3
Wages and salaries	9.9	7.4	3.5	7.6	9.1	10.7	8.4	8.1
Disposable income	7.8	7.1	5.5	6.1	7.1	9.7	10.6	2.9
Corporate profits before tax	9.5	- 3.6	- 0.5	5.6	25.5	17.4p	31.5	- 3.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.7	6.0	- 2.7	12.4	12.0	19.3p	18.2	19.3
Expenditures	15.8	15.0	4.7	7.6	4.8	18.3	16.2	6.1
Nonfarm payroll employment	5.3	3.1	0.6	2.4	3.6	4.2	3.0	1.8
Manufacturing	6.1	1.0	- 4.1	- 2.1	4.1	2.0	2.0	- 2.0
Industrial production	9.0	1.0	- 3.1	3.3	5.9	6.3	4.9	2.9
Housing starts, private	-20.4	10.3	32.1	66.1	8.5	16.7	- 8.0	-38.1
Sales new U.S.-made autos	- 4.4	- 9.7	53.1	-26.6	- 6.9	39.2	15.1	- 4.7

* Excluding the pay increase of Federal government military and civilian employees the annual rate increase is 3.4 per cent.

Industrial production. Industrial production, based on revised March and April figures and available May data, is now estimated to show a decline from March to April of about one-half point followed by an increase of slightly over one point in May. At the currently estimated May level of 163.7, the total index is 5 per cent above May and June a year ago, the low for 1967.

Auto assemblies rose 10 per cent from the somewhat reduced April level and were at an annual rate of 9.4 million units. Output schedules for June are set at about the same rate. Production of television sets was unchanged in May but two producers have announced cutbacks in June output of color TV as sales failed to reach anticipated volume. Output of industrial and commercial equipment declined further, but production of trucks rose to record levels.

Among industrial materials, steel production rose further, output of automotive parts increased, and output of copper continued to recover from reduced strike levels. However, strikes curtailed output in the metal working and chemical industries.

Capacity utilization. The May rate of manufacturing capacity utilization is expected to be about 84 per cent, up slightly from April. The operating rate has remained in a very narrow range since last summer at about this level.

Most manufacturing industries have considerable unused physical capacity. The steel and aircraft industries, where operating rates are far above normal, are exceptions. Also, only moderate amounts of unused capacity are available for the production of most textile, petroleum, and rubber products.

UTILIZATION RATES
(Per cent)

Industry	1967 QIII	1967 QIV	1968 QI	1968 Feb.	1968 Mar.	1968 Apr.	1968 May
Manufacturing	84.1	84.4	84.4	84.4	84.3	83.7p	84.0e
Primary processing industries	82.5	84.6	84.4	84.4	84.3	--	--
Advanced processing industries	85.2	84.3	84.4	84.3	84.4	--	--

Retail sales. According to the advance Commerce report, the value of retail sales in May rose 1.1 per cent from an April level which had been adversely affected by civil disturbances in a number of cities. The May rise brought the average for the first two months of the second quarter 0.7 per cent above the first quarter. Sales in the first quarter already had increased a substantial 4.6 per cent above the relatively weak fourth quarter. May sales were nearly 8 per cent above a year earlier.

Sales at durable goods stores, which had the largest percentage dip in April, increased 1.6 per cent in May. Nondurable goods sales were up slightly less than 1 per cent. All major types of durable goods stores reported increases; sales at the various major types of nondurable goods stores were up slightly or unchanged.

PERCENTAGE INCREASES IN RETAIL SALES
(Seasonally adjusted)

	QIV 1967 to QI 1968	QI 1968 to: April	May	April-May average
Total	4.6	0.1	1.3	0.7
Durable goods stores	6.3	0.5	2.1	1.3
Automotive	8.3	0.3	2.5	1.4
Furniture and appliance	5.0	0.4	1.1	0.7
Lumber, building, hardware	9.7	1.7	3.6	2.7
Nondurable goods stores	3.8	--	0.9	0.4
Food	1.9	1.8	2.5	2.2
Eating and drinking	3.6	0.1	0.9	0.5
Apparel	6.9	-3.9	-3.8	-3.8
General merchandise group	4.6	0.7	1.3	1.0
Gasoline service stations	4.7	1.6	1.8	1.7

Unit auto sales and stocks. Dealer deliveries of new domestic autos rose in the final 10 days of May and for the month were at a seasonally adjusted annual rate of 8.7 million units, one-tenth above April and also a year earlier. Reduced sales in April apparently reflected in part civil disorders.

For the first 5 months of the year, domestic sales have been at an average annual rate of 8.2 million units, compared with 7.5 million in the corresponding months of 1967. Seasonally adjusted stocks of new cars increased somewhat further during May to a total of 1.5 million cars, a number 15 per cent above a year earlier. However, the seasonally adjusted stock of new cars dropped somewhat in May to about 51 days' supply about the level in January.

Sales of new imported cars in May continued exceptionally strong and were one-fourth above a year earlier. In the first 5 months sales of imported cars have been at an annual rate of about 900,000 units and have accounted for one-tenth of the total new car market as compared with about 8 per cent last year.

NEW CAR SALES AND STOCKS
(Seasonally adjusted, millions of units)

	Domestic			Import
	Sales	Stocks		Sales
	Annual rate	Number	Days' supply	Annual rate
1968 - January	8.0	1.3	51	.85
February	7.9	1.3	52	.87
March	8.7	1.3	46	.90
April	7.9	1.4	54	.94
May	8.7	1.5	51	.94p

p - preliminary.

Consumer instalment credit. Final figures for April show that consumers slowed their borrowing in that month while maintaining their repayments on existing instalment debt. The result was a slightly smaller rise in outstanding instalment credit than in either of the two preceding months. For both February and March, the annual rate of increase was $6.8 billion, while for April it was $6.5 billion.

The main area of reduced borrowing was autos, and this in turn was largely a reflection of the drop in auto sales. Credit intensity in auto purchases--i.e., the ratio of dollars borrowed to dollars spent--actually increased a little in April. Personal and home improvement loans were also off from the March volume, but extensions of credit for home goods and apparel continued to rise.

The April slowdown in credit expansion presumably was temporary, with auto sales rebounding sharply in May. For the second quarter as a whole, we are estimating an annual rate of expansion of about $7.0 billion. This would be less than the $8 billion increase for all of 1965, but still the highest quarterly rate in more than 2 years.

CONSUMER INSTALMENT CREDIT
(Billions of dollars, seasonally adjusted annual rates)

Period	Extensions	Repayments	Net increases in outstandings
1966 - Q1	78.8	71.7	7.1
Q2	78.6	72.3	6.3
Q3	80.0	73.4	6.6
Q4	78.5	73.9	4.6
1967 - Q1	78.0	75.0	3.0
Q2	79.9	77.1	2.8
Q3	82.7	79.3	3.4
Q4	84.0	79.6	4.4
1968 - Q1	86.9	80.7	6.1
Q2 (e)	88.5	81.5	7.0

Meanwhile, delinquency rates on consumer loans have taken a turn for the better. Since mid-1967, in fact, delinquency rates at banks have been running below year-earlier levels. And data for sales finance companies and credit unions reveal much the same pattern of improvement.

Consumer lending standards still show relatively few signs of tightening. Downpayment requirements on used cars have become somewhat more restrictive in recent months, but that is about the only significant change that has taken place in auto terms. There have been announcements of increases in consumer lending rates--particularly on auto loans where a differential still exists between current rates and usury limits--but these have been scattered. Some lenders--the small loan companies especially--are already charging the legal maximum and therefore are unable to raise rates.

The last increase in the prime rate did trigger increases by a number of banks and sales finance companies in rates charged on floorplan loans. But these wholesale rates typically respond more rapidly to changes in general market rates of interest than do consumer rates.

Business inventories. The rate of inventory accumulation increased sharply in April after declining substantially during the first quarter. The book value of inventories held by manufacturing and trade concerns increased $1.3 billion in April as compared with a little over $200 million in March and a first quarter monthly average of $370 million. Accelerated inventory gains were widespread in April among both manufacturing and trade lines.

Both the abrupt step-up in stock-building in April and the runoff in the rate of accumulation in the first quarter were apparently in part involuntary--particularly in trade. Retail sales dropped substantially in April, following an unusually sharp run-up from December to March. Manufacturers' sales declined moderately in April and were little changed from their first quarter average, whereas manufacturers anticipate a sales increase of 2 per cent for the second quarter as a whole. But the rise in inventories of manufacturers in April (a book value increase of over $700 million, as compared with a monthly average of $265 million in the first quarter) was in line with their anticipated increase for the second quarter ($2.1 billion).

As a result of the sharp rise in inventories and the decline in sales, stock-sales ratios increased in April for both manufacturers and distributors. Their combined average ratio, at 1.53, was up from 1.50 in March and unchanged from December 1967; at this level it was still well below the high of 1.58 a year earlier.

Conspicuous features of the business inventory change in April were renewed sizable inventory accumulation in equipment industries (particularly "defense") and a sharp step-up in the rate of accumulation of auto stocks at the retail level.

CHANGE IN BOOK VALUE OF NONFARM BUSINESS INVENTORIES
(Millions of dollars; seasonally adjusted)

	1968	
	QI monthly average	April (preliminary)
Manufacturing and trade, total	370	1,326
Manufacturing	265	737
Durable	115	463
Business & defense equipment	8	296
Consumer durables	66	54
Other durables	41	113
Nondurable	150	274
Trade	105	589
Wholesale	-2	80
Retail	107	509
Auto dealers	80	339
Other durable	12	92
Nondurable	15	78

Construction and real estate. New construction put in place, which had edged off in March and April, turned upward to a new high in May. About half the year-to-year increase in May reflected rising construction costs. Residential construction expenditures--a major force in the May advance--continued to rise for the 17th consecutive month. Private nonresidential construction expenditures apparently changed little after a further drop in April to a low for the year. Public construction expenditures moved higher in May, although at a level still under the peak in February of 1967.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	May 1968 ($ billions) 1/	Per cent change from April 1968	Per cent change from May 1968
Total	81.8	+1	+11
Private	54.9	+1	+15
Residential	28.3	+2	+28
Nonresidential	26.6	--	+ 3
Public	27.0	+2	+ 3

1/ Seasonally adjusted annual rates; preliminary. Data for the most recent month (May) are available under a confidential arrangement with the Census Bureau. Under no circumstances should public reference be made to them.

A factor in the slower pace of private nonresidential construction in recent months has been the sharply reduced rate of industrial construction activity. Such construction reached a 2-1/2 year low in April, the latest month for which data are available. Moreover, commercial and most other types of private nonresidential construction, which had accelerated to new highs early this year, also declined further in April.

For residential structures, vacancy rates have remained unusually low and, unlike 1966, demands for both new and used residential units this spring have generally been maintained in the face of both rising prices and higher interest rates. For example, sales of existing homes in April were 14 per cent above a year earlier, and the average price of homes sold was up 5 per cent, a somewhat larger rise from a year ago in such prices than earlier this year. Under these circumstances and with mortgage commitments outstanding still relatively large, the momentum of new residential activity has continued upward thus far, bolstered in part by the 1.62 million seasonally adjusted annual rate of housing starts reported for April. While an appreciable reduction from the exceptionally high April rate of starts is expected over the period ahead, starts for the second quarter as a whole will most likely hold near the advanced 1.5 million rate of the first quarter.

Plant and equipment expenditures. Business plans for fixed capital expenditures this year have been revised up slightly from plans of three months ago, according to the Commerce-SEC survey conducted in late April and May. Expenditures now planned for this year total $65.8 billion, 6.7 per cent more than in 1967. The preceding official survey, taken in late January and February, had indicated a rise of 5.8 per cent. The pattern of planned expenditures over the year is basically the same as three months earlier--a slight dip in the second quarter followed by a moderate rise in the second half. In 1967 fixed capital spending rose only 1.7 per cent, following increases of 15 per cent or more in 1964, 1965, and 1966.

The somewhat larger rise in the total now indicated for 1968 is attributable to a large upward revision in plans of nonmanufacturing industries--which now indicate an increase of more than 9.0 per cent rather than the 6.7 per cent indicated before. Much of this upward revision is concentrated in the first quarter.

Manufacturers now plan to increase outlays this year only 3.5 per cent, instead of the 4.6 per cent indicated by the January-February survey, with the downward revision entirely in nondurable industries. Actual spending in the first quarter was nearly 6 per cent below that being planned about midway through the quarter. Outlays planned by both the durable and nondurable goods sectors are now expected to rise further in the last half of the year. The January-February survey had shown a small decline.

BUSINESS SPENDING FOR NEW PLANT AND EQUIPMENT

	1967 Actual	1968 Planned	1968 Actual I	1968 Planned II	1968 Planned III	1968 Planned IV
	Billions of dollars, Seasonally Adjusted Annual Rates					
Total	61.66	65.78	64.90	64.60	66.05	67.50
Manufacturing	26.69	27.63	26.35	27.65	28.30	28.05
Durable goods	13.70	14.40	13.65	14.45	14.90	14.50
Nondurable goods	13.00	13.24	12.70	13.20	13.40	13.55
Nonmanufacturing	34.97	38.14	38.55	36.95	37.75	39.45
Mining	1.42	1.63	1.55	1.55	1.60	1.80
Railroad	1.53	1.44	1.65	1.30	1.35	1.45
Nonrail transportation	3.88	4.46	4.35	3.65	4.75	5.10
Public utilities	9.88	11.17	11.60	11.40	10.75	10.95
Communication	5.91	6.67	6.35	19.00	19.30	20.10
Commercial and other	12.34	12.77	13.00			

	1967 Actual	1968 Planned	1968 Actual I	1968 Planned II	1968 Planned III	1968 Planned IV
	Per Cent Change from Preceding Period At Annual Rates					
Total	1.7	6.7	14.0	- 1.9	9.0	8.8
Manufacturing	- 1.1	3.5	5.4	19.7	9.4	- 3.5
Durable goods	- 2.1	5.1	4.4	23.4	12.5	-10.7
Nondurable goods	0.0	1.8	4.8	15.7	6.1	4.5
Nonmanufacturing	4.0	9.1	20.2	-16.6	8.7	18.0
Mining	- 3.4	14.8	13.3	0.0	12.9	50.0
Railroad	-22.7	- 5.9	71.4	-84.8	15.4	29.6
Nonrail transportation	12.8	14.9	- 9.0	-64.4	20.5	29.5
Public utilities	17.5	13.1	35.7	- 6.9	-22.8	7.4
Communication	5.2	12.9	19.8	- 7.2	6.3	16.6
Commercial and other	- 3.1	3.5	11.1			

Capital appropriations. Manufacturers' newly approved capital appropriations declined 4.2 per cent further in the first quarter of this year, according to the recent National Industrial Conference Board's survey of the 1,000 largest manufacturing companies. Newly approved appropriations of durable goods producers, however, were up 4.4 per cent from the final quarter of last year. A sharp decline in capital set-asides in the petroleum industry resulted in lower appropriations for nondurable manufacturers; new appropriations of nondurable goods producers other than petroleum were up 5 per cent from the fourth quarter of 1967. The backlog of unspent appropriations of all manufacturers, and of durable goods producers, were worked down further in the first quarter as expenditures remained high or increased. But at nondurable goods producers, backlogs rose somewhat further. Despite the decline for all manufacturing, and for durable goods producers, appropriations unspent at the end of the quarter were sufficient to support recent high spending rates through the balance of the year.

Manufacturers now expect their capital appropriations to turn up in the current quarter with the rise continuing during the last half of the year.

Labor market. The labor market continues tight. The unemployment rate in May remained at 3.5 per cent, its lowest point since late 1953. Virtually fractional rates of unemployment for married men (1.6 per cent) and adult men (2.1 per cent) reflected the continued strong demand for manpower. Insured unemployment through the end of May remained well below year-earlier levels.

Nonfarm payroll employment failed to increase last month, but in the absence of increased strike activity--60,000 telephone and nearly 30,000 construction workers--total employment would have risen by about 100,000. Manufacturing employment was unchanged, though the workweek did rebound from the depressed April level. There were no significant employment gains or losses among the individual manufacturing industries and, for the most part, the workweek increases paralleled the March-April declines. The second quarter increase in manufacturing employment now appears likely to be nearer 100,000 than our initially projected 200,000, suggesting a continued rapid rise in productivity.

In the nonindustrial sectors, employment gains continued strong in State and local government, services, and trade. These three large industry groups continue as a major source of manpower demand and accounted for 72 per cent of the employment increase from a year ago. In total, nonfarm payroll employment increased by 2.1 million over the last year.

Earnings. Hourly earnings in manufacturing rose in May to $2.98, 6 per cent higher than a year earlier. There were large increases in primary metals (7.0 per cent), where overtime work is up sharply from a year earlier, and in transportation equipment (6.5 per cent), where the rise reflects higher wage rates under the auto contracts. Increases in earnings also continued large in the nonmanufacturing industries. With wages still rising faster than productivity, further increases in unit labor costs can be expected.

AVERAGE HOURLY EARNINGS

Industry	May 1968	Per cent increase from year earlier
Contract construction	$4.32	6.9
Wholesale and retail trade	2.38	6.7
Manufacturing	2.98	6.0
Finance, insurance, and real estate	2.72	5.8

Labor force. Labor demand continues to be met by sizable labor force increases among adults, with relatively few additional teenage workers entering the labor market. The continued inflow of adults (20 and over)--which has contributed substantially to the supply of labor resources--is an outgrowth of the post-war baby boom, which should continue to provide a large flow of adult workers over the next few years.

The over-all unemployment rate will likely average 3.5 per cent in the second quarter, its lowest quarterly average in 15 years. A year ago the rate was 3.7 per cent. With the tax increase assumed to cut aggregate demand after midyear, however, the demand for labor is also expected to slow and the unemployment rate is expected to rise to an average 3.7 per cent in the third quarter. Employers will likely curtail their hiring and new entrants into the labor force will probably bear the brunt of any third quarter rise in unemployment. In manufacturing, the immediate adjustment in output would likely be made by reduction in hours of work with only a modest number of layoffs initially.

New benchmark revisions. The payroll employment, hours, and earnings data discussed above reflect the annual BLS adjustment to benchmark data (March 1967) and the introduction of revised seasonal factors. The total nonfarm payroll employment estimate for the first quarter of 1968 was revised down by 116,000, reflecting reductions in trade, construction, and services. Partly offsetting these was an upward revision of 94,000 in manufacturing, entirely in durables. Hours and earnings figures were not significantly changed.

REVISED NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	1st quarter 1968 (monthly average)		
	Revised	Old	Change
Total nonfarm	67,438	67,554	-116
Manufacturing	19,610	19,516	94
Durable goods	11,517	11,425	92
Nondurable goods	8,094	8,091	3
Construction	3,275	3,358	- 83
Transportation	4,330	4,309	21
Trade	13,912	14,025	-113
Finance and service	13,686	13,724	- 38
Government	12,017	12,019	- 2

Industrial relations. Partial contract settlements were reached May 31 by the major aluminum producers (Alcoa, Kaiser, and Reynolds). About 17,000 members of the steel workers union and 6,000 members of the auto workers union agreed to the settlement. Members of the aluminum workers union refused to accept the package agreed to by the other unions and about 16,000 workers are still out at Alcoa and Reynolds plants.

The 3-year agreement which the steel workers negotiated with the major aluminum companies foreshadows a possible basis for settlement in upcoming steel bargaining. It provides for a total package estimated at 97 cents, including "roll-up" costs. (The "roll-up" is the estimated secondary effect of the rise in base pay on overtime and on shift differentials.) This works out at an annual average rate of increase in hourly compensation, including fringes, of 6.7 per cent (compounded), using as a base the pre-settlement average figure of $4.50. This compares with an estimated annual package increase of 6.1 per cent negotiated by the steel workers with the can companies in February and the 5.8 to 6.6 per cent increases won by the auto workers last fall.

Large wage increases as well as substantial improvements in fringe benefits were provided by the aluminum contract. "Front-loading"--a substantially larger increase in wages in the first than subsequent years of the contract--characterized the aluminum contract to an even greater degree than other recent settlements. The first year increase in hourly earnings averages 30.9 cents, or 10 per cent. The emphasis on first-year wage increases in these contracts in part reflects the workers' desire to "catch-up" with the sharp upward trend in living costs. The aluminum and can contracts have no provision for adjusting wages to future increases in consumer prices. However, the auto contract provides for two upward adjustments, each limited to a maximum of 8 cents and a minimum of 3 cents at the beginning of the second and third contract years.

ESTIMATED COST OF WAGE SETTLEMENTS
Aluminum, can, and autos

	Aluminum	Can	Autos
		Level	
Average hourly compensation 1/	$4.50	$4.70	$4.80
Average hourly wage rate	$3.10	$3.30	$3.40
		Increase in cents per hour	
Average increases			
Compensation - 3 years	97.0	90.0	88.0-101.0 2/
Wages - 3 years	55.9	52.5	53.0- 63.0 2/
- 1st year	30.9	28.5	25.0
		Increase in per cent	
Average annual increases			
Hourly compensation 3/	6.7	6.1	5.8 - 6.6
Hourly wages - 1st year	10.0	8.6	7.4

1/ Compensation includes wages and fringes.
2/ Includes minimum and maximum cost-of-living adjustment in addition to 47 cents in wage rate increases.
3/ Compounded.

Wholesale prices. Average prices of industrial commodities declined 0.2 per cent in May to 108.6 per cent of the 1957-59 average, according to the BLS preliminary estimate. The decline for industrial commodities was more than offset by a pronounced spurt in prices of foods and foodstuffs (owing in the main to large increases for fruits and vegetables because of short supplies), and the total wholesale price index edged up another 0.1 per cent to an estimated 108.4.

These preliminary estimates are subject to revision when complete reports are in. The May pricing date (May 14) was unusually late in the month and, to meet their release date, the BLS "closed out" their preliminary WPI estimate with a smaller sample of reports than usual. During the past 8 months, the estimate of the industrial commodity total has been revised upward 0.1 per cent in 5 months and has been confirmed in the other 3 months (including March and April). Revisions of the foods and foodstuff indexes have been a little larger.

The decline for industrial commodities in May (the first since June 1964) followed a marked slowing in April of the earlier rapid advance. Both the smaller rise in April and the May decline primarily reflected sharp price cuts following settlement of the copper strike: reversal of the earlier large run-up in prices of copper scrap and imported ingots began in April, and in May prices of brass and wire mill products were also cut sharply and lead prices were reduced.

Declines for these nonferrous metals, coupled with further decreases for steel scrap, led to an 0.5 per cent decline in the special FR index of sensitive industrial material prices in April and an estimated further decrease of close to 2 per cent in May. The decline accelerated in May, in part because the average decrease for nonferrous metals was much larger and in part because the earlier sharp rise in lumber and plywood prices finally slowed. In early June, prices of brass and wire mill products were reduced substantially further and steel scrap continued to decline, but prices of aluminum ingot and mill shapes were raised. Thus, the decline in average prices of sensitive industrial materials has probably slowed considerably since the May pricing date.

Average prices of all industrial commodities other than sensitive materials continued to rise in May, although at a slower pace than in April when the rise was close to the average for the preceding 5 months. According to the preliminary BLS estimates, the number of product classes showing increases dropped considerably in May and prices increased more slowly for both machinery and equipment and furniture and household durables.

WHOLESALE PRICES OF INDUSTRIAL COMMODITIES
(Special FR Groupings)

	Per cent of total index	Indexes (1957-59 = 100)				Per cent change		
		1967	1968			Oct. to March (aver.)	March to April	April to May[e]
		Oct.	March	April	May[e]			
All items	100.0	105.9	107.8	108.0	107.8	0.4	0.2	-0.2
Sensitive materials	12.5	101.1	108.2	107.7	105.7	1.4	-0.5	-1.9
All other industrial commodities	87.5	106.6	107.8	108.0	108.1	0.2	0.2	0.1

Consumer prices. The consumer price index rose 0.3 per cent in April to 119.9 per cent of the 1957-59 average. This rise was less than in March but it equaled the average increase over the past 6 months and also over the past year. The April CPI was 4 per cent above April 1967.

The most striking advances in April were in foods and apparel. Food prices showed a sizable contraseasonal rise reflecting in the main increases for fruits and vegetables, in response to dwindling supplies and delayed marketings of early spring crops, and for dairy products because of the recent boost in milk support prices. Prices of livestock products generally, including dairy products, will probably continue to move up.

The April rise in retail apparel prices, reflecting introduction of new spring lines at higher prices, was considerably larger than expected seasonally and brought the rise over the year to 5.1 per cent as compared with an increase at wholesale of 3.3 per cent. Upward cost and demand pressures have apparently been stronger at the retail level.

Apart from food and apparel, average prices of other nondurable goods in April were unchanged although some rise is normally expected seasonally. Gasoline prices declined contraseasonally. Average prices of durable goods showed a moderate further increase, with prices somewhat higher for appliances, furniture, and used cars; new car prices, however, declined in April as sales incentive programs for some makes led to larger discounts than usual.

The rise in service costs slowed appreciably--and probably temporarily--in April. Prices of all major types of services increased although gains for the month were generally smaller than in other recent months. Higher costs of home repairs were apparently a major factor in the April rise for services.

Farm real estate values. Prices of farmland increased over 6 per cent in the year ending March 1, 1968. Except for a slight dip in 1954 and a plateau in 1960, the price of farm land has risen in each year since 1950. The average annual rate of rise during the 18 years has been 5.5 per cent.

A moderate slowdown in values in the past two years has been associated with declining prices of farm commodities, particularly crops, and rising production costs which have reduced the parity ratio from a high of 82 per cent in February 1966 to an average of 73 per cent from March 1967 to date.

INDEXES OF PER ACRE VALUE OF FARM REAL ESTATE[1/]
BY FARM PRODUCTION REGIONS
1957-59 = 100

	Index March 1968	Per cent increase		
		March 1965 to March 1966	March 1966 to March 1967	March 1967 to March 1968
Total, 48 States	170	7.9	6.7	6.3
Northeast	170	5.7	7.4	6.9
Lake States	149	5.7	8.5	6.4
Corn Belt	160	11.2	9.4	5.3
Northern Plains	166	7.5	7.6	7.1
Appalachian	173	6.3	6.6	6.8
Southeast	192	5.7	6.5	7.3
Delta States	214	13.7	7.1	9.2
Southern Plains	188	5.1	4.8	8.0
Mountain	156	6.7	4.2	4.0
Pacific	172	7.3	1.2	5.5

1/ Land and buildings.
NOTE: Confidential until released by the Department of Agriculture in the Agricultural Situation around June 15.

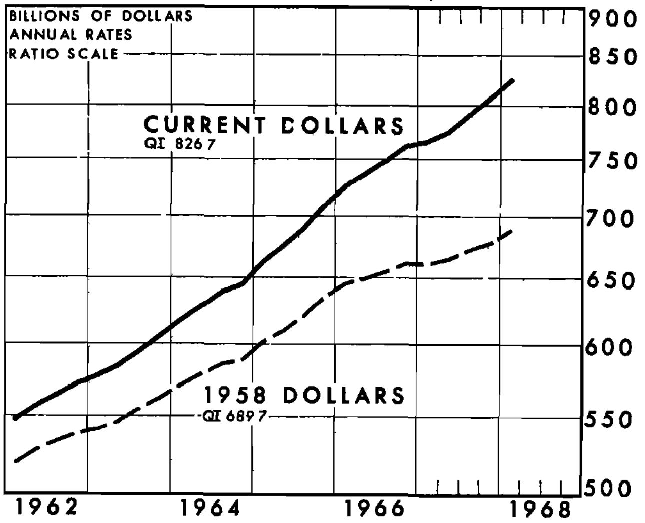
As shown in the table, the national indexes of land values conceal divergent trends among the farm regions which reflect differences with respect to income prospects, demand for land for farm enlargement, and capitalization of farm program benefits into the value of the land. Other factors varying in influence from area to area are demand for land for nonfarm uses such as rural residences, availability and cost of credit, and investment in land for expected long-term appreciation in value.

The March 1967 survey of the characteristics of the land market, the most recent available, showed that two-thirds of the buyers of farm land in 1966-67 were active farmers but this percentage varied markedly by production areas. Only 44 per cent of the buyers in the heavily urbanized Northeast (mainly dairying) were active farmers compared with 82 per cent in the Northern Plains (wheat and feed grains). Farm expansion was the major reason for buying by active farmers but here again regional variations were great. Purchases of add-on units as a per cent of all transfers ranged from 24 per cent in the Northeast to 65 per cent in the Corn Belt and 75 per cent in the wheat areas.

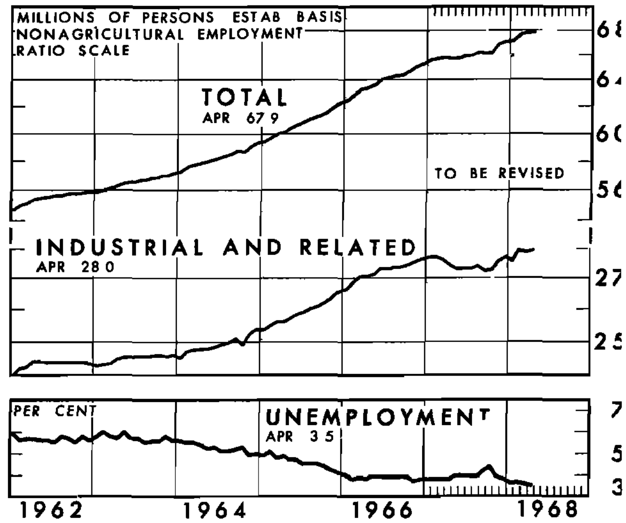
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

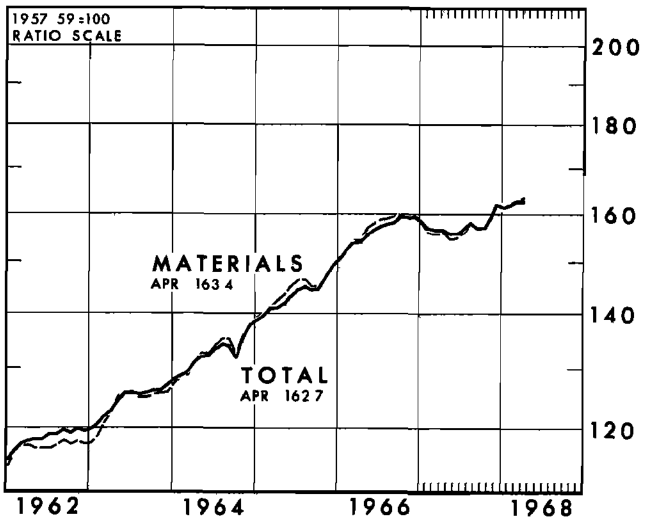
GROSS NATIONAL PRODUCT



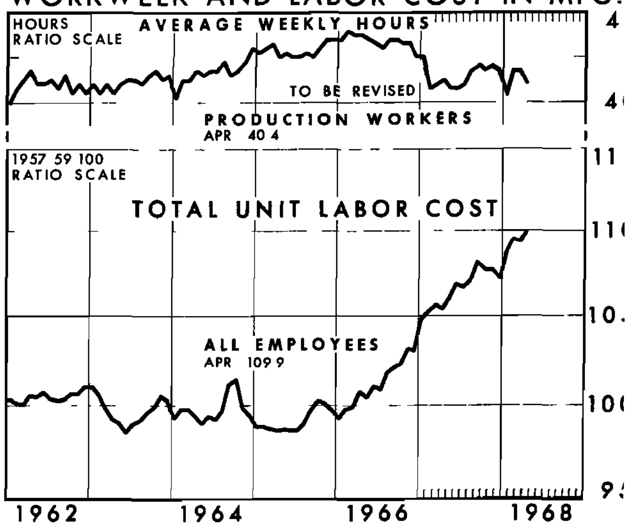
EMPLOYMENT AND UNEMPLOYMENT



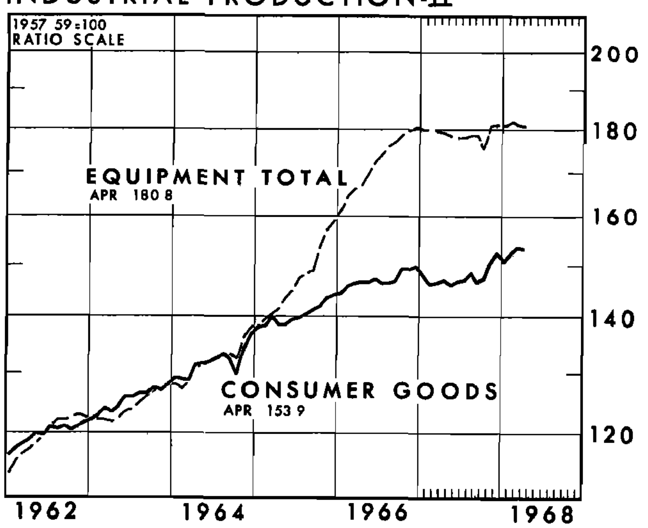
INDUSTRIAL PRODUCTION-I



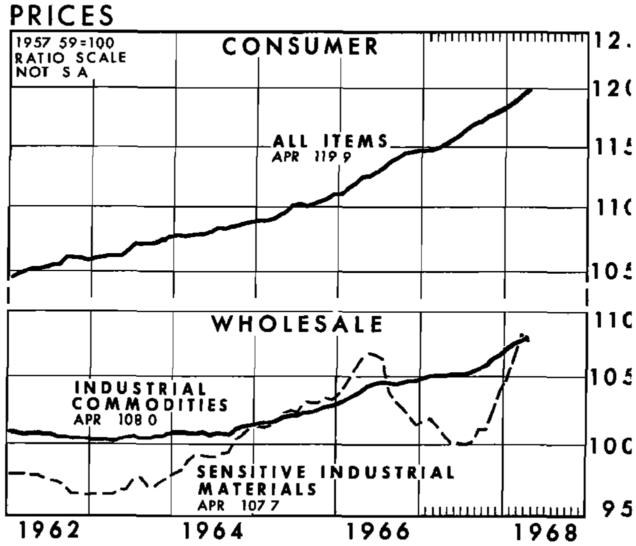
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



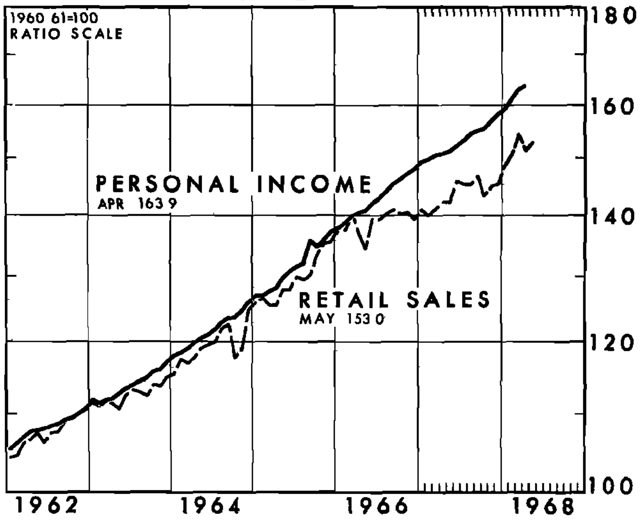
PRICES



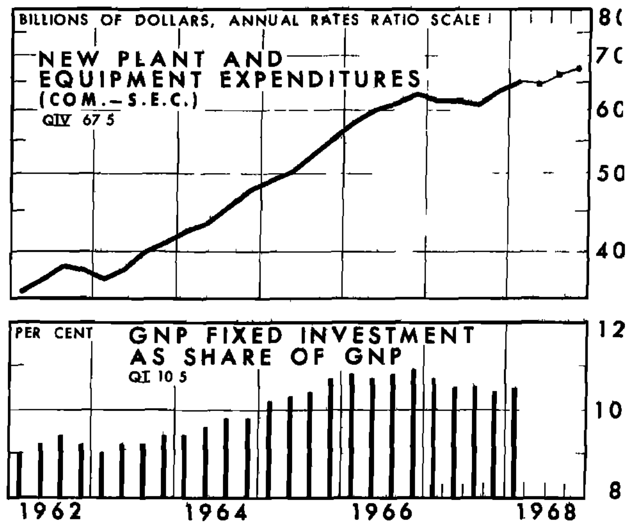
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

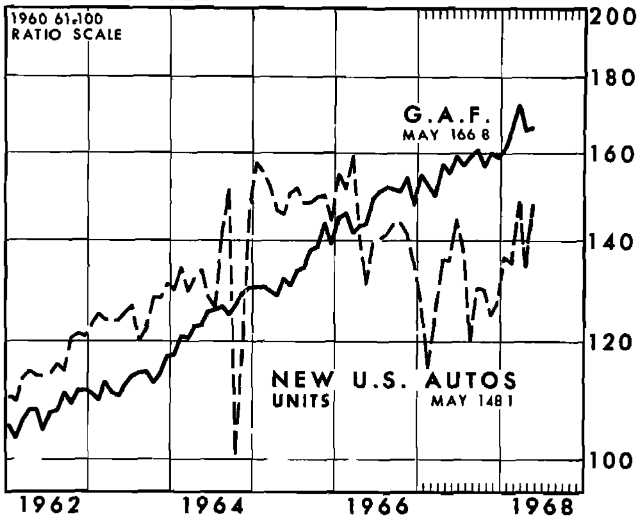
INCOME AND SALES



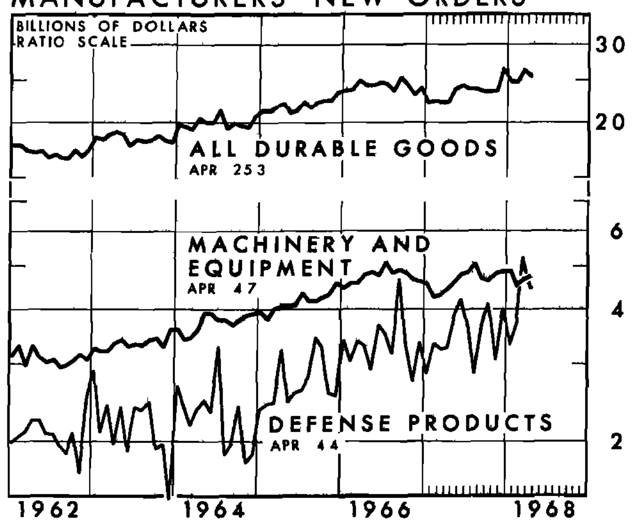
BUSINESS INVESTMENT



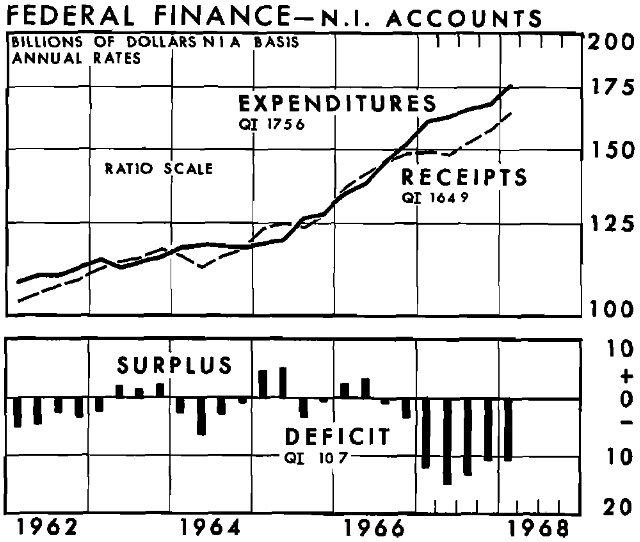
RETAIL SALES



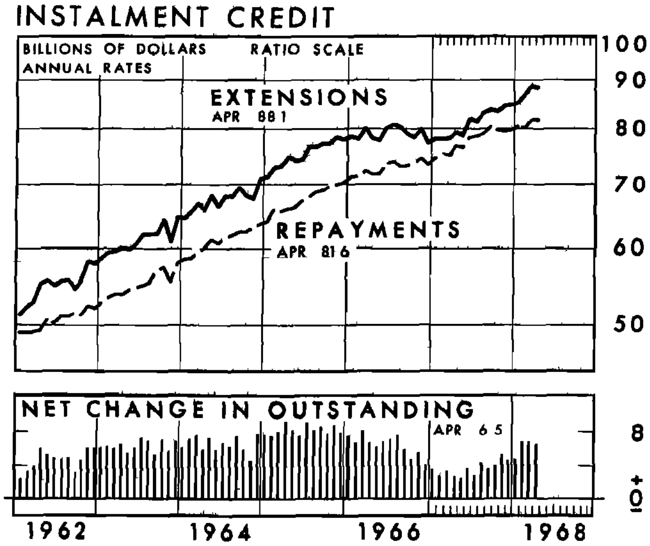
MANUFACTURERS' NEW ORDERS



FEDERAL FINANCE—N.I. ACCOUNTS



INSTALMENT CREDIT



DOMESTIC FINANCIAL SITUATION

Bank credit. Following rapid expansion in April, associated primarily with business loan growth, loans and investments at all commercial banks increased at a more moderate 5.8 per cent annual rate in May, somewhat below the rate of growth in the first quarter.1/ An increase in Government security holdings by banks accounted for a large part of the May credit expansion, as business loan growth dropped back from the rapid April pace.

NET CHANGE IN BANK CREDIT
All Commercial Banks, End of Month Series
(Seasonally adjusted annual rates)

	1967	1968		
		Q I	April	May 2/
Total loans and investments	11.5	6.8	9.5	5.8
U.S. Gov't. sec.	11.0	2.0	-14.0	30.4
Other securities	26.1	13.7	- 1.9	1.9
Total loans	8.2	6.4	17.8	0.5
Business loans	9.8	7.0	19.1	5.4

1/ There was a very much smaller increase in bank credit in the course of the two-month period when measured on a daily average basis by the member bank credit proxy. After adjustment to include the sharp increase in Euro-dollar borrowings by U.S. banks, the proxy rose only at a 0.6 per cent annual rate, on average, during April and May. The difference between the two series, aside from the growth in credit at non-member banks (not included in the proxy), represents in part problems of timing and seasonal adjustment. Over the somewhat longer period from February, the series are much closer, with the proxy (adjusted to include Euro-dollar borrowing) expanding at a 2.0 per cent annual rate and the end-of-month series at a 3.7 per cent rate.

2/ All May rates are preliminary estimates based on incomplete data and are subject to revision.

Holdings of Government securities rose approximately $1.5 billion at all commercial banks during May, largely reflecting acquisitions during the mid-month Treasury financing. In the two weeks following the financing, large banks liquidated almost $430 million in Treasury bills as well as many of the 15-month notes they had acquired in the financing. With tight reserve positions and weak deposit inflows, banks have sharply reduced their bill holdings to meet loan demands during the last few months--from a level of $6 billion at the end of January to $2.6 billion at the end of May.

Banks also have cut back sharply on their acquisitions of municipals and other securities for the same reasons. These holdings, after declining in April, showed only a small rise in May. Over the two months combined, there was no net increase in bank holdings of these securities, compared with a 14 per cent annual rate of growth in the first quarter. While large banks added about $600 million to their longer-term municipals since end of March, they reduced their short-term municipals by about an equal amount, with most of this reduction occurring at banks in New York City.

Despite the continued rapid expansion in general economic activity, business loan growth in May slackened from the rapid April pace. This slowdown was evident among most industry categories and may have reflected a temporary decline in corporate needs for short-term financing, or switching of some borrowing to the commercial paper market following the increase in the prime rate late in April.

To a minor extent, it may also have reflected recent firming in lending policies at banks as reported in the May Lending Practices Survey (See Appendix A). However, the large rise in business loans at New York City banks during the first week in June suggests that demand factors were primarily responsible for the May slowdown. This increase was heavily concentrated in durable goods manufacturing, and probably was associated with inventory accumulation in steel using industries.

While the expansion of total business loans slowed in May, term loans at large banks continued the strong growth trend evident in these loans since the first of the year. Moreover, the recent expansion has been more widespread among industry categories than in past months, when it centered mostly in primary metal producers and mining.

Real estate loans at all commercial banks expanded at a slightly lower rate in May than has prevailed since autumn, possibly reflecting firmer bank lending policies on these loans as reported in the May Lending Practices Survey. No appreciable firming, however, was reported for consumer loans, and growth in these loans appears to have been fairly rapid in May as automobile sales strengthened.

Bank deposits. Time and savings deposits at all commercial banks are estimated to have increased at about a 2.0 per cent annual rate in May, on a daily average basis, approximately the April pace. However, there was some improvement in net inflows of these deposits after mid-month, reflecting not only the cessation of the decline in CD's outstanding, but also somewhat increased inflows of consumer-type time and savings deposits.

NET CHANGES IN TIME AND SAVINGS DEPOSITS
(Millions of dollars, not seasonally adjusted)

Weekly Reporting banks 1/	1965 Apr. 28- June 2	1966 Apr. 27- June 1	1967 Apr. 26- May 31	1968 Apr. 24- May 29
Total time & savings deposits	915	948	1,404	-96
Consumer-type deposits	n.a.	n.a.	930	479
Savings deposits	389	-285	417	48
Time deposits, IPC (other than CD's, IPC)	n.a.	n.a.	513	431
CD's	327	282	493	-267
Memo: Total time & savings deposits excluding CD's	588	666	911	171
Country Banks 2/				
Total time & savings deposits	n.a.	n.a.	1,033	481
Savings deposits	n.a.	n.a.	303	151
Time deposits	n.a.	n.a.	730	330

1/ Wednesday figures.
2/ Daily average figures.
n.a.-- Not available.

Although outstanding CD's at large banks declined more than $250 million in May, most of this reduction took place in the first half of the month. As prospects for the passage of the proposed tax legislation improved, by May 24 Treasury bill rates had fallen below Regulation Q ceilings on 3-month maturities and over, and may have made CD's somewhat more competitive. While CD's outstanding at large banks showed no change in the aggregate during the last half of May, banks outside of New York City actually increased their outstandings by about $100 million after mid-month, while banks in New York City lost a similar amount during that period.

After declining in April, consumer-type time and savings deposits at large banks rose by almost $480 million in May. Savings deposits grew about $50 million, in contrast to the $580 million decline in April following the interest crediting period. Banks in New York and Chicago, where depositors are relatively interest-sensitive, accounted for little of this increase, however, with gains in time certificates and open accounts at these banks being nearly offset by losses in savings deposits. Time and savings deposits at country banks continued to expand at about the reduced pace prevailing since the end of March.

With reduced deposit inflows, and in spite of more moderate loan demand, banks relied heavily on the Euro-dollar market as a source of funds in May, probably partly in anticipation of the tax-related bulge in June loan demand. Bank liabilities to foreign branches increased more than $800 million, on a last Wednesday of the month basis, the largest expansion for any month to date.

With continued large reductions in U.S. Government deposits, the money stock, on a daily average basis, is estimated to have expanded at over a 10 per cent annual rate in May, following an 8.5 per cent increase in April. Since the end of February, the increase in the demand deposit component of the money stock has approximated the decline in U.S. Government demand deposits, indicating that businesses and individuals are in effect holding the increased deposits being transferred out of the Government account rather than switching into earning assets as rising interest rates would seem to warrant. While this might be explained to some extent by increased transactions demand associated with the expanding level of economic activity, it would also seem that uncertainty, related to the gold crisis in March and more recently to the prospects for a tax increase, the future course of monetary policy and interest rates, has been an important contributing factor.

Nonbank Depositary Institutions. Preliminary data indicate that inflows to mutual savings banks in May accelerated to a surprisingly large 8.9 per cent seasonally adjusted annual rate--the most rapid growth in deposits since last July. Accompanying this inflow, however, was the largest increase in passbook loans for any month on record for the New York State mutuals. This high rate of passbook loan growth was maintained in early June at the 15 largest savings banks in New York City.

GROWTH IN SAVINGS/SHARE ACCOUNTS AT NONBANK DEPOSITARY INTERMEDIARIES
(Seasonally adjusted annual rate)

	Mutual Savings Banks	Savings and Loan Associations	Combined
	(Per cent)		
1967 I	9.8	9.4	9.5
II	11.0	11.4	11.3
III	8.6	9.8	9.4
IV	6.7	5.8	6.1
1968 I	7.5	5.6	6.2
Feb.	8.8	6.0	6.9
Mar.	8.5	8.6	8.5
Apr. p/	4.7	3.8	4.1
May p/	8.9	n.a.	n.a.
Memo: April-May	6.9	n.a.	n.a.

The conflicting trends of both large deposit inflows and a rapid increase in passbook loans are extremly difficult to interpret. The May statistic, however, is preliminary (and confidential until June 14) and may be revised downward. In addition, while the seasonal adjustment factors were recently revised, it is also possible that a shifting seasonal pattern may have biased upward the May results. For April and May combined, however, the seasonally adjusted annual rate of 6.9 per cent is only marginally below the first quarter pace, when market yields were considerably lower.

Although no information is yet available for the May savings and loan experience, the staff hopes to have a preliminary indication in time for the supplement. Scattered information for early May suggests that the associations may also have had improved inflows during the months, although probably less marked than at savings banks.

The FHLBB recently announced its preparedness to lower its present "liquidity reserve" requirement[1/] in the event of large outflows during the forthcoming reinvestment period. Any change would be designed to permit S&Ls to maintain, rather than expand their recent rate of, mortgage lending. During May, member association net borrowing from the FHLBB increased by $174 million, a more than seasonal increase and a relatively large volume for the month, comparable to that in the same period in 1966. San Francisco District S&Ls accounted for about two-fifths of the May borrowing. Since S&Ls are discouraged from borrowing in anticipation of withdrawals, this increase in advances is presumably designed to support takedowns of existing mortgage commitments in light of the April savings experience. Rates charged on FHLBB advances have been increased, however; by July, nearly all district banks will charge 6 percent on such loans, in contrast to 5.75 per cent now generally prevailing.

Rate adjustments by mutual savings banks announced as of April 30 involved an increase in average offering rates on regular accounts and a continuation of the trend toward account differentiation. Since January, the number of FDIC-insured savings banks offering maximum rates has increased, as had the number offering bonus, installment, and special notice types of accounts--also at maximum rates. Of particular note, the number of non-FDIC-insured Massachusetts savings banks offering more than 5 per cent on special accounts increased from five in January to eleven as of April 30, at which time one bank was even offering 5.25 per cent on regular accounts.2/ In New York State, where legal constraints have effectivelly prevented account differentiation by thrift institutions, new legislation just passed now permits such institutions to establish special accounts, subject to rate ceilings imposed by the FDIC and FHLBB.

1/ This requirement presently calls for holdings of cash and Governments equivalent to a minimum of 7 per cent of savings capital.

2/ The current FDIC rate ceiling, regardless of account type, is 5 per cent.

<u>Mortgage market developments</u>. Reflecting increasing uncertainty among thrift institutions about savings flows through the forthcoming end-of-June dividend reinvestment period, the residential mortgage market apparently remained fairly tight through early June. The weekly FNMA commitment auctions imply that yields on FHA and VA home mortgages accelerated abruptly in May and rose even higher by June 10. Although the official, broad-based FHA home mortgage yield series has not yet become available for May, it seems likely that the gross yield spread of FHA mortgages over new issues of high-grade corporate bonds, which had remained exceptionally narrow since last fall, recovered substantially.

During May, availability of home mortgage funds remained limited in many major metropolitan areas, judging from FNMA field reports and other sources. These reports suggest that demands for home mortgage credit, in contrast, generally continued strong at this active season of the year, despite record yields required by lenders and exceptionally large downpayments associated with conventional first mortgages. Demands for multifamily mortgage credit--under terms which may be negotiated more flexibly than those on home loans--also are indicated to have remained strong.

With yields on all types of home mortgages rising above 7 per cent during the second quarter, several additional States have raised their below-market 6 per cent usury ceilings. Enactment of legislation in Pennsylvania (May 17), Delaware (May 28), New York (June 3), and New Jersey (June 6), has helped to remove a barrier to mortgage investment in these States under current market conditions. However, resolution of lender uncertainty about effective usury ceilings in New York and New Jersey still awaits action by the State Banking Commissioners.

In addition to these two States, there are now nine States where ceilings of 7 per cent or lower are becoming increasingly restrictive. Last year, these nine States accounted for a sixth of all housing units for which building permits were issued.

Corporate and municipal bond markets. Yields on new issues of corporate and municipal bonds have declined fairly substantially since late in May, in response to an improved outlook for passage of the fiscal package. The yield decline of about 20 basis points has largely erased the sharp run-up in yields that followed the May 15 announcement of a delay in consideration of the tax bill. Most recently, investors appear to have resisted underwriter attempts--through aggressive pricing--to push the yields on utility issues down further, although several large industrial offerings have been distributed rapidly. Moreover, the extremely high new issue volume in both markets as well as offerings of competing instruments--such as the Ex-Im PC's and the $100 million Canadian government issues--have acted in early June to restraint the extent of the decline in yields. Reflecting the high new issue volume--and some congestion--a few recent new issues contained delayed delivery provisions, last seen in volume during the summer of 1967.

BOND YIELDS
(Weekly averages, per cent per annum)

	Corporate AAA New With call protection	Corporate AAA Seasoned	State and local Government S&P High Grade	State and local Government Bond Buyer's (Mixed qualities)
1966				
Late summer high	5.98*	5.44	4.26	4.24
1967				
Low				
Late January-early February	5.03	5.00	3.43	3.40
High-December	6.55*	6.24	4.51	4.45
1968				
Low	6.12(2/2)	6.07(3/8)	4.23(2/2)	3.16(2/2)
High	6.83(5/24)	6.30(6/7)	4.68(5/24)	4.71(5/24)
Weeks ending:				
May 17	6.62	6.27	4.55	4.52
24	6.83	6.28	4.68	4.71
31	6.65*	6.29	4.65	4.64
June 7	6.62*	6.30	4.59	4.51

* Some issues included carry 10-year call protection.

Public offerings of corporate bonds in May exceeded $1.0 billion, the heaviest for any month so far this year. The May volume would have been substantially larger but for the indefinite postponement of several issues aggregating $185 million and the rescheduling of a $100 million issue to early June. Total bond and stock offerings in May aggregated $2.0 billion, including private placements, significantly above the first quarter pace.

Corporate security offerings in June will exceed the rapid May pace. Public bond issues are estimated at $1.4 billion, with about one-half of this already marketed in the first week of June. Taking privately placed bonds and stock issues into account, the aggregate volume of corporate issues is estimated at $2.4 billion for June, which brings the second quarter average of these issues to over $2.0 billion, nearly equal to the 1967 second quarter.

CORPORATE SECURITY OFFERINGS 1/
(Millions of dollars)

	Bonds					
	Public Offerings 2/		Private Placements		Total bonds and stocks	
	1967	1968	1967	1968	1967	1968
Q I monthly avg.	1,088	822	604	575	1,821	1,726
QII monthly avg.	1,339	1,050e	489	683e	2,069	2,037e
May	965	1,040e	396	650e	1,518	2,000e
June	1,684	1,400e	659	750e	2,674	2,400e
July	1,889	800e	486	650e	2,589	1,750e

1/ Data are gross proceeds.
2/ Includes refundings.
3/ Estimated.

One of the factors accounting for the enlarged public bond volume in June has been the sizable volume of industrial bond offerings added to a near record monthly total of utility issues. Although rumored industrial financings continue to abound, the volume of public utility issues now scheduled for July is relatively small, chiefly for seasonal reasons. The utility volume is less than one-half that in June and represents a major basis for the expected decline in July security financing, as shown in the last line of the table. All of this decline from the June volume reflects a probable drop-off in public offerings. The apparent void in the July calendar, however, could be filled quickly if a few large industrial offerings come to market.

With the municipal market deteriorating during the second half of May, announced postponements of bond issues increased to slightly more than $200 million, nearly twice the average monthly volume recorded over the first four months of this year. Even so, actual offerings in May were estimated to have aggregated about $1.2 billion--maintaining the large volume of issues earlier this year. Available evidence suggests this high level of offerings is likely to remain over the near-term--despite the continuation of reduced purchases by commercial banks--with June estimated at $1.3 billion and July at $1.2 billion.

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

	1967	1968
Q I Monthly average	1,391	1,238
QII Monthly average	1,294	1,242e
May	1,253	1,175e
June	1,497	1,300e
July	950	1,200e

1/ Data are for principal amounts of new issues.

Some additional information recently has become available in the likelihood of significant industrial revenue bond financing this year. The bill presently before Congress would permit tax-free financing of issues over $1 million if commitments had been made by May 1, 1968. It appears that the interpretation of commitments will be very liberal, and underwriters report at least $500 million could be brought to market in the near future. Immediate marketing of these issues is presently constrained by the current level of yields and the apparent additional yield premium required to induce investors to take such offerings, given the possibility that interest on the issues may become taxable. However, when the controversy is clarified it seems likely that industrial revenue bond financing may balloon temporarily. Such clarification should come with action on the tax bill, in as much as a rider to the bill contains the current proposal before Congress.

Stock market. In the two trading days following the Board's announcement of a 10 percentage point increase in margin requirements, common stock prices continued to advance in heavy trading. Since late May, common stock prices have resumed the advance which had begun in April but then had lost momentum during most of May. The sudden apparent shift in investor attitudes is apparently a reaction to the improved prospects for the passage of the tax bill to be followed--the market assumes--by an easing of monetary policy. By early June, stock prices indices--with the exception of Dow Jones Industrials--

had reached new highs and trading volume of both major exchanges had expanded to record levels. With heavy volume again producing back office and other clerical problems, all major exchanges and most over-the counter traders are expected to close markets on three consecutive Wednesdays beginning June 12, and on July 5.

STOCK PRICE INDICIES

	Dow Jones Industrial Average	New York Stock Exchange Index	American Exchange Index
1967 - Highs	943.08(9/25)	54.14(9/25)	23.52(12/25)
1968 - January High	908.92	54.17	25.67
March 29	840.67	50.05	22.42
May 8	918.86	55.29	26.75
May 27	891.60	54.56	27.93
June 7	914.88	57.11	29.71
June 11	917.95	57.32	29.80
Per cent increase:			
May 27 - June 11	3.0	5.1	6.7
January High-June 11	1.0	5.8	16.1

AVERAGE DAILY TRADING VOLUME

	NYSE	AMEX	Ratio: AMEX/NYSE
	(Millions of shares)		
1967 - High	11.5(Dec.)	5.9(Oct.)	--
1968 - Mar.	9.2	3.6	39.1
Apr.	14.8	6.6	44.6
May	13.3	8.1	60.9
Week ending:			
May 31	13.4	9.2	68.7
June 7	16.4	9.1	55.5
Two days ending:			
June 11	15.2	8.4	55.3

As has been the case in all recent market advances, the less seasoned stocks, such as those listed on the American Stock Exchange, have experienced the sharpest increases in prices and trading volume. The ratio of trading volume on the American Stock Exchange to that on the New York Stock Exchange--commonly viewed as a rough index of speculative trading activity in the stock market--rose dramatically in May and early June. Moreover, price advances carried aggregate American Stock Exchange price-earnings ratios to record highs at the end of May; over one-third of the issues of American Stock Exchange firms with any profits were selling at 30 or more times earnings, whereas a year earlier only one-eighth of American Stock Exchange issues were selling at such multiples. In contrast, the price-earnings ratios on the New York Stock Exchange--as measured by the Standard & Poor's 500 stocks--stood at 18 on June 5, still below the 1967 high. However, stock prices of certain industry groups on the New York Stock Exchange--such as "glamour" issues, stocks of industries that would benefit from an easing of monetary policy, and inflation hedge stocks--have shown sharp increases this spring.

Further indications that speculative activity has heightened on both exchanges also were displayed by the exchange officials. The New York Stock Exchange strongly urged voluntary cutbacks in operations, the American Exchange issued a stern warning against speculation, and both raised the number of issues subject to 100 per cent margin requirements to near record levels.

Incomplete data suggest that stock market credit in May rose sharply to a new high of almost $9 billion. Although tabulations have not yet been completed for the margin panel, the New York Stock Exchange staff indicate that the increase in margin debt last month was probably about the same as that in April or about $190 million. Furthermore, they believe that the number of margin accounts also advanced sharply during May--even more than the 20,000 increase in April. Final figures on weekly reporting large commercial banks indicate an increase in non-broker security loans of about $10 million in May, the first monthly increase this year.

U.S. Government securities market. After rising sharply to new highs just before the last meeting of the Committee, yields on U.S. Government securities have since dropped from 20 to 45 basis points. The abruptness of the reversal reflected the sudden renewal of hopes for passage of the tax bill, just when the bill had seemed dead. Comment from Chairman Mills forecasting a favorable House vote in June, and later from President Johnson acceding to the $6 billion spending cut, accounted for the change.

In early June yields on Treasury issues stopped declining as shown in the table, at levels close to those which had prevailed in mid-May when favorable action on fiscal restraint legislation also had seemed highly promising. Announcement of the further delay in the House vote until June 20 caused temporary consternation in the market; while a statement from Mills that the delay would not change the outlook for ultimate House action generally reassured market participants, yields have since backed up somewhat, particularly on Treasury bills.

MARKET YIELDS ON U. S. GOVERNMENT SECURITIES
(per cent)

	1966 Highs	1967 Nov. 17 1/	1968 May 13	May 21	June 3	June 11 2/
Bills						
1-month	5.60(9.19)	3.85	5.45	5.70	5.45	5.40
3-month	5.59(9/21)	4.67	5.53	5.92	5.65	5.70
6-month	5.98(9/19)	5.13	5.74	6.08	5.71	5.81
1-year	5.94(8/21)	5.27	5.73	6.03	5.70	5.80
Coupons						
3-years	6.22(8/29)	5.66	6.06	6.36	5.86	5.91
5-years	5.89(8/29)	5.72	5.98	6.22	5.90	5.90
10-years	5.51(8/29)	5.75	5.78	6.01	5.79	5.80
20-years	5.12(8/29)	5.70	5.49	5.66	5.45	5.45

1/ Pre-sterling devaluation yield levels.

2/ Quotations are for 2 p.m., June 11, on Treasury bills, and for the close on June 10 for coupon issues.

During the period of sharply declining yields, Government security dealers added significantly to their positions, particularly in Treasury bills. A few investors apparently also added marginally to their holdings of longer-term Treasury issues--possibly in anticipation of future rate declines--and some investors who still held temporary positions in the recently offered 6 per cent Treasury notes took advantage of the market improvement to liquidate these holdings.

The decline in yields also created a favorable market in which to sell the $500 million of Export-Import Bank participation certificates. This issue, offered on June 4 at 6-5/8 per cent, sold-out quickly even though its reoffering rate was 1/4 of a percentage point below the one underwriters thought might be needed prior to the down-turn of yields.

In the Treasury bill area, rate declines were greatest on longer maturities, suggesting expectations of an easing in monetary policy following enactment of the tax bill. While cash redemptions of maturing June tax bills not turned-in for taxes might possibly tend to reduce bill rates again later in the month, efforts of banks to issue new CD's to cover June maturities, in combination with the prospect for large Treasury cash borrowing early in the new fiscal year, will be operating as strong potential offsets to this tendency. Most recently, Treasury bill rates have backed up about 10 basis points--reflecting dealer efforts to pare positions as money market conditions have firmed.

Other short-term rates. Yields on most short-term obligations other than bills also have declined since the preceding meeting of the Committee, as indicated in the accompanying table. However, rates on commercial paper and finance company paper have been sluggish in following the decline of other rates, as is often the case with these types of instruments.

The rate on prime 4-to-6-month commercial paper, for example, has been 6.25 per cent (on a bank discount basis) since the third week in May. The investment yield at this rate on a 6-month maturity would be about 6.52 per cent. This compares favorably with the 6.25 per cent ceiling rate that banks are permitted to pay on new CD's, and thus to some extent may be tending to inhibit banks in their efforts to replace maturing June CD's.

SELECTED SHORT-TERM RATES

	1966 High	1967 Nov. 17 1/	1968 May 13	1968 May 21	1968 May 27	1968 June 11
1-month						
CD's (prime NYC)						
Highest quoted new issue	5.50 (12/31)	4.75	5.50	5.50	5.50	5.50
Secondary market	5.75 (9/28)	4.85	5.95	6.10	6.10	6.05
3-month						
Bankers' acceptances	5.75 (10/25)	4.88	6.00	6.13	6.00	6.00
Federal agencies	5.76 (9/21)	5.05	5.86	6.11	6.10	5.90
Finance paper	5.88 (12/31)	5.13	6.00	6.00	6.00	6.00
CD's (prime NYC)						
Highest quoted new issue	5.50 (12/31)	5.25	6.00	6.00	6.00	6.00
Secondary market	5.90 (9/21)	5.30	6.05	6.15	6.20	6.15
6-month						
Bankers' acceptances	6.00 (9/23)	5.00	6.13	6.25	6.13	6.13
Commercial paper	6.00 (12/31)	5.13	6.13	6.13	6.25	6.25
Federal agencies	6.04 (9/21)	5.40	5.92	6.26	6.25	5.95
CD's (prime NYC)						
Highest quoted new issue	5.50 (12/31)	5.38	6.13	6.25	6.25	6.25
Secondary market	6.30 (9/28)	5.60	6.25	6.30	6.40	6.35
1-year						
Federal agencies	6.13 (9/23)	5.75	5.79	5.97	5.97	5.95
Prime municipals	4.25 (9/21)	3.40	3.70	3.80	3.90	3.80

N.B. - Latest dates on which high rates occurred are indicated in parentheses.

1/ Yield levels prior to sterling devaluation.

Federal Finance. The Treasury will be making large repayments of debt during June, as $5.5 billion of tax bills mature. Only $1.0 billion of this repayment is presently scheduled to be offset by new borrowing, half from the recently offered Ex-Im participation certificate and the other half from additions to regular bill auctions. Thus, despite a sizable seasonal surplus of regular Federal receipts over outlays in June, the Treasury's cash balance is estimated to decline further, to and end-of-month level of about $4.5 billion.

TREASURY CASH OUTLOOK ASSUMING SURTAX PASSAGE BY END OF JUNE
(In billions of dollars)

	June	July	August	Sept.
Net cash flow receipts less outlays	3.6	-3.4	-3.5	3.0
Net borrowing from public	-4.4	4.0	4.0	--
Change in cash balance	- .8	.6	.5	3.0
Level of cash balance	4.5	5.1	5.6	8.6

Our projection for July and subsequent months assumes passage before the end of June of the Revenue and Expenditure Control Act now scheduled for a House vote on June 20. The Act authorizes the Treasury to set a date within 30 days after enactment on which corporations must pay the bulk of their retroactive surtax and acceleration liability. Corporate payments subject to this call total $1.1 billion. However, since the bill is not likely to be enacted before late June, the projection assumes the Treasury will not set the call date until sometime in July.

Because of the relatively low cash balance at the end of June and a large--partly seasonal--cash deficit expected in July, the Treasury will need to borrow an estimated $4 billion early in the new fiscal year. Unless the Treasury were to borrow temporarily from the Federal Reserve on special certificates, payment for this borrowing would probably be needed by July 9. While there has been some discussion of anticipating this need in June, with a borrowing timed for payment on June 24 when an estimated $3 billion or more of maturing tax bills will be redeemed for cash, this alternative no longer seems feasible in view of the delay in the House vote on the tax bill.

In August, the Treasury will again need to borrow from $3.5 to $4.0 billion in order to enter September with a balance large enough to tide the Treasury over until income tax payments are received after mid-September. These tax payments are expected to swell the end of September balance to more than $8.5 billion and will thus help to minimize the volume of borrowing needed to cover the expected further deficit in October.

NEW BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	Fiscal years				Calendar quarters				
	Actual		1968		1967		1968		
	1966	1967	Budget 1/ Document	F.R.B.[e]	III	IV	I	II[e]	III[e]
<u>Quarterly data, unadjusted</u>									
New Budget:									
Surplus/deficit	-3.7	-8.8	-19.8	-23.9	-8.5	-11.0	-8.6	4.2	-4.5
Receipts	130.9	149.6	155.8	154.3	35.4	31.9	36.3	50.7	43.6
Total expenditures and net lending	134.6	158.4	175.6	178.1	43.9	42.9	44.8	46.5	48.1
Means of financing:									
Total borrowing from the public	6.0	3.6	20.8	23.2	9.0	10.1	6.7	-2.6	8.0
Decrease in cash operating balance	.6	5.2	-1.0	1.2	-1.0	1.1	.1	.9	-4.1
Other 2/	-2.9	--	--	-.4	.5	-.2	1.8	-2.5	.6
Cash operating balance, end of period	10.9	5.7	6.7	4.5	6.7	5.6	5.4	4.5	8.6
<u>Seasonally adjusted annual rate</u>									
Federal surplus/deficit in national income accounts	.9	-7.5	-10.0	-11.2	-13.2	-10.7	-10.7	-10.3	-4.8
Receipts 3/	132.9	147.6	161.1	161.8 3/	152.7	157.3	164.9	172.4	180.7
Expenditures	131.9	155.1	171.1	173.0	165.9	167.9	175.6	182.7	185.5

e - Projections assume enactment of Conference Committee bill in late June.

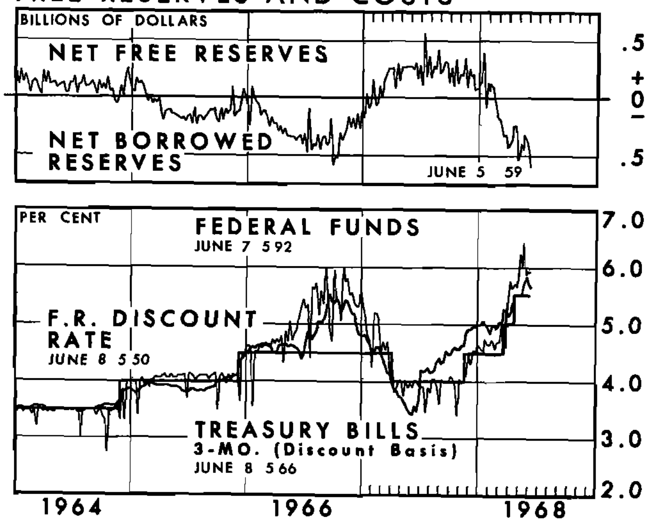
1/ New Budget receipts in Budget Document include the original surtax proposal, amounting to a total of $2.7 billion for surtax and acceleration.

2/ Includes various accrual items, such as deposit fund accounts and clearing accounts.

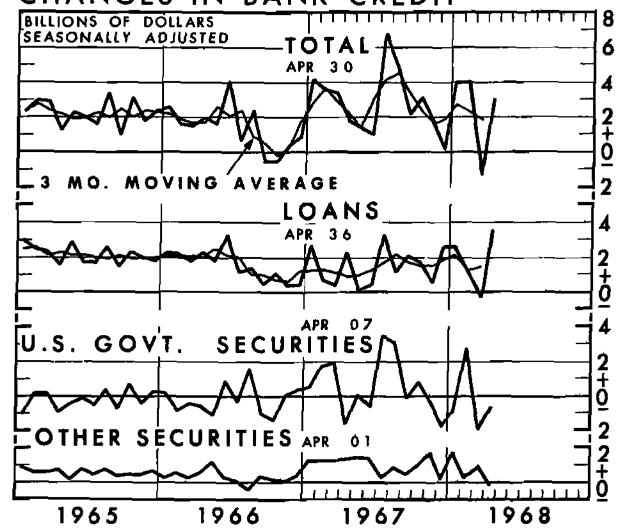
3/ Quarterly receipts do not add to fiscal year totals. Retroactive corporate surtax liability is excluded from the first quarter 1968 receipts as published by Commerce Department, but is included in the second quarter estimate. Fiscal year 1968 total incorporates entire retroactive corporate surtax liability.

FINANCIAL DEVELOPMENTS - UNITED STATES

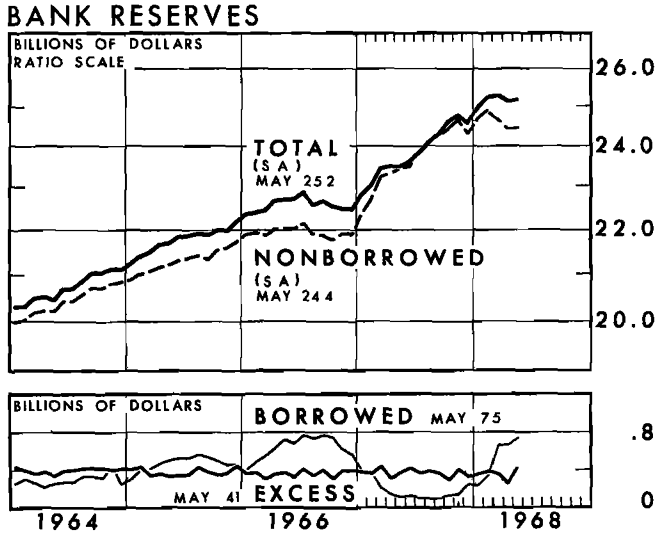
FREE RESERVES AND COSTS



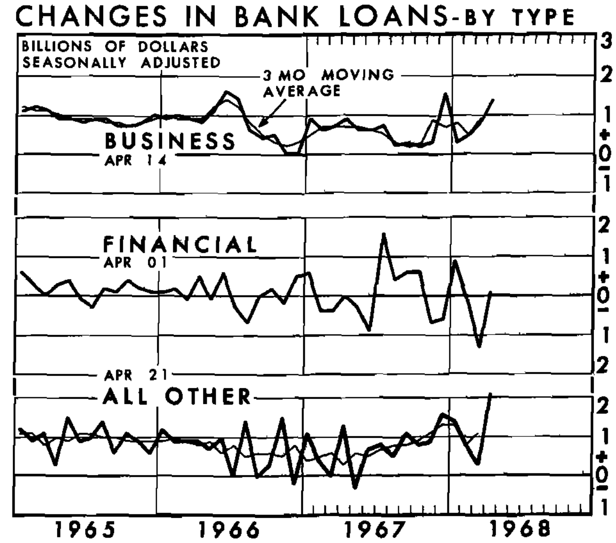
CHANGES IN BANK CREDIT



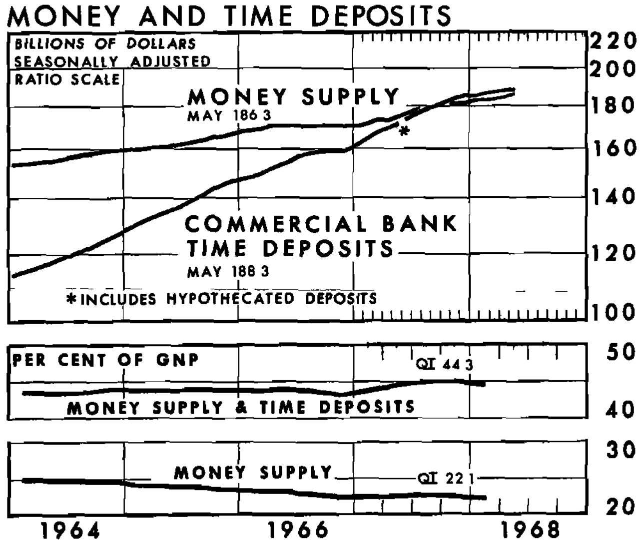
BANK RESERVES



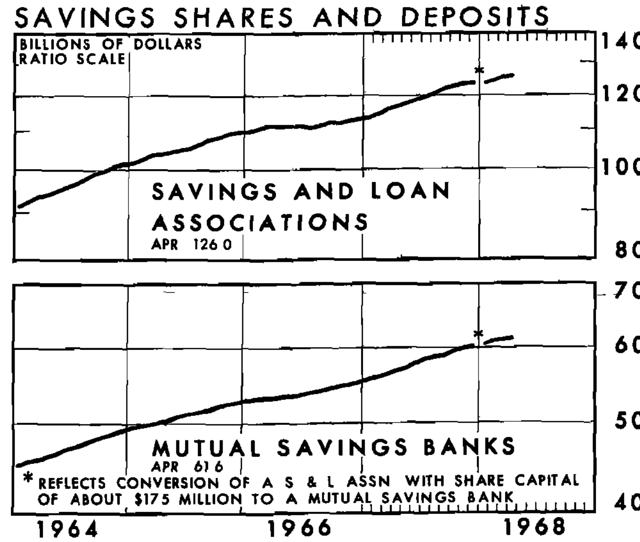
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

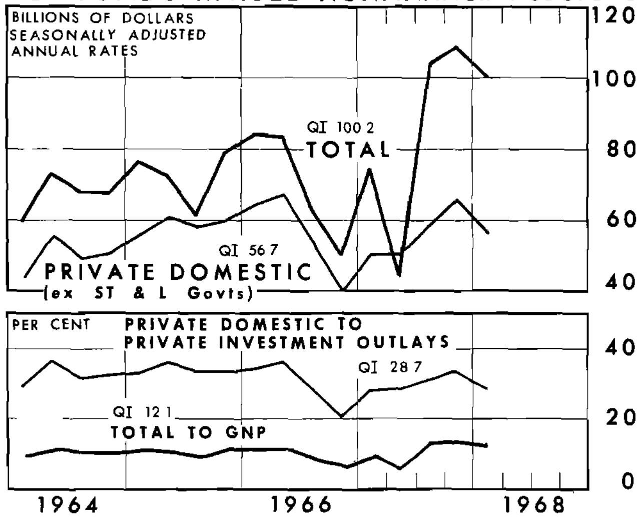


SAVINGS SHARES AND DEPOSITS

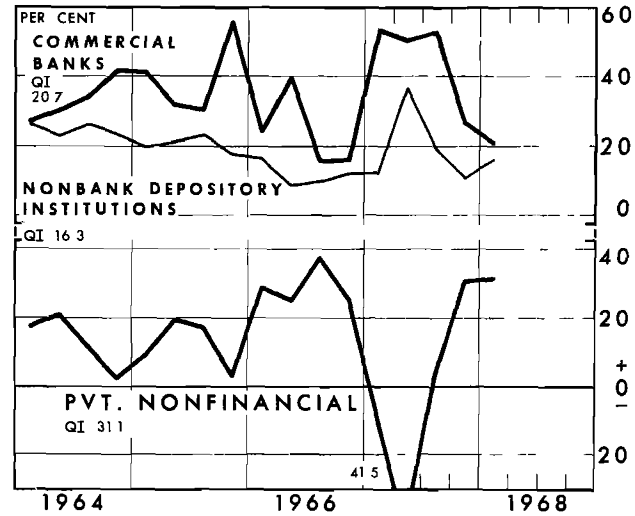


FINANCIAL DEVELOPMENTS - UNITED STATES

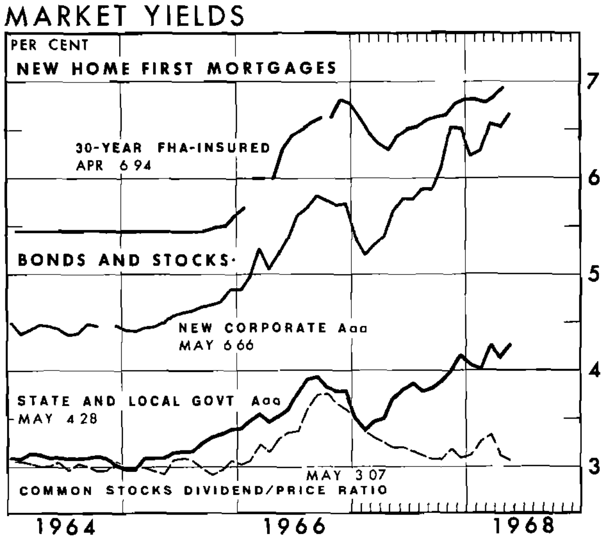
NET FUNDS RAISED-NONFINANCIAL SECTORS



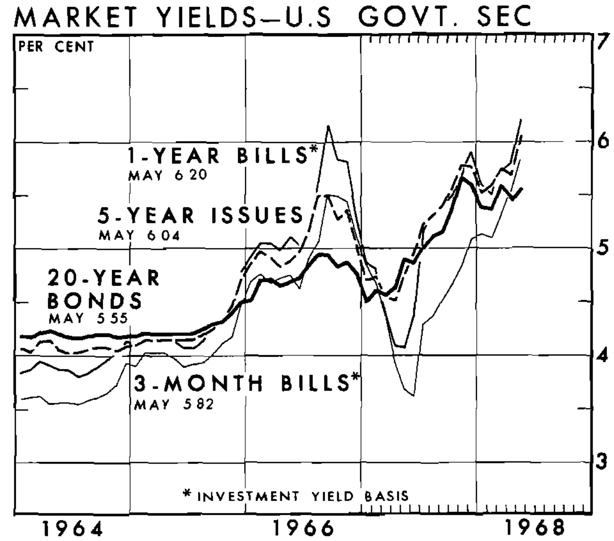
SHARES IN FUNDS SUPPLIED



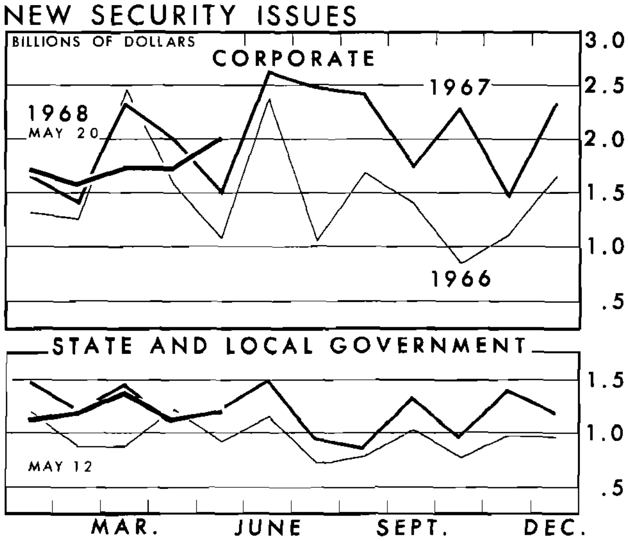
MARKET YIELDS



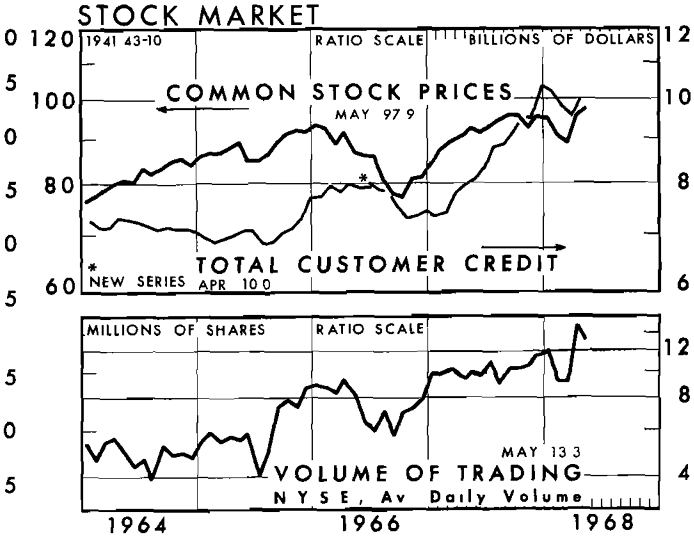
MARKET YIELDS—U.S GOVT. SEC



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

U.S. balance of payments. Preliminary data indicate the liquidity deficit before special transactions in April-May to be about $750 million (not seasonally adjusted). At a seasonally adjusted rate this deficit would be somewhat lower than that of the corresponding period of 1967 but greater than in the first quarter of this year. The deficit in May was down sharply from the very large deficit in April but this improvement stemmed, in part, from two unusual items in addition to those included in special transactions: (1) Redemption of $150 million of maturing IBRD securities held by U.S. residents, and (2) A special direct investment inflow of $50 million from a group of European banks. Special transactions in May amounted to $300 million and consisted almost entirely of Canadian purchases of nonconvertible Treasury notes.

On an official reserve transaction basis, the April-May balance is estimated to be a surplus of $600 million (not seasonally adjusted) compared with a deficit of over $900 million in the same two months of 1967. The surplus this year was largely associated with the heavy inflow of funds from foreign branches of U.S. banks. In the month of May alone the liabilities of U.S. banks to their branches abroad expanded by over $1 billion. In the same period last year such liabilities were being reduced. Transactions relating to the support of sterling and the French franc may have contributed both to the inflow through U.S. bank branches and to other inflows which produced the official settlements surplus.

Foreign purchases of U.S. stocks in April were high, and offerings of long-term securities by U.S. companies in the Euro-bond market in the first five months of this year approached $1 billion. Flotations in April-May totaled over $400 million.

In April, net U.S. purchase of foreign securities, largely Canadian, amounted to about $200 million, nearly one-half as much as total purchases in the first quarter.

Euro-dollar market developments. Euro-dollar rates during the period May 1 to May 29 advanced by an average of nearly 60 basis points in the one-, three-, six-, and twelve-month maturities. The largest rate increases occurred in the two weeks between May 15 and May 29 (see table below). More recently, rates have fallen back to about the mid-May level.

BROKERS' BID-RATES FOR DOLLAR DEPOSITS IN LONDON

	1-month		3-month		6-month		12-month	
	Rate	Change	Rate	Change	Rate	Change	Rate	Change
May 1	6-1/16		6-7/16		6-5/8		6-7/8	
15	6-1/4	+3/16	6-11/16	+3/16	6-13/16	+3/16	6-15/16	+1/16
29	6-3/4	+1/2	7-1/8	+7/16	7-3/16	+3/16	7-5/16	+6/16
June 12	6-7/16	-5/16	6-11/16	-7/16	6-3/4	-7/16	6-7/8	-7/16

A major influence on the Euro-dollar market during the month was the sharp tightening of U.S. money market conditions following the mid-May news that there would be a further delay in congressional action on the tax bill. This development was reflected in a large increase in

U.S. banks' demand for funds from their branches operating abroad. From May 1 to 29 U.S. banks' liabilities to their foreign branches increased by over $1,100 million (an increase of about 23 per cent); the largest increase ($542 million) occurred in the week of May 15 to 22.

At the same time, outflows from sterling and French francs swelled the supply of funds in the Euro-dollar market and prevented Euro-dollar rates from being bid even higher. More recent moderation of rates has come with a reduction in the rate of transfers from branches to home offices.

U.S. foreign trade. The trade balance in April returned to an export surplus following an import balance in March. The March balance was affected by the New York port strike, unusual low shipments of aircraft and a dip in exports to Canada. The surplus for March and April together, however, was still far below that of the first two months of this year and the closing months of 1967. For January-April as a whole, the trade surplus (balance of payments basis) was only $1.0 billion at an annual rate, a further drop from the poor rate of $1.3 billion in the last quarter of 1967.

Exports in April expanded by 18 per cent from the low March level. This sharp rise reflects, in large measure, shipments delayed by the New York port strike in March. Deliveries of aircraft, agricultural products and shipments to Canada also advanced from those in March. For the months of January through April combined, exports were at a rate of about 8 per cent higher than in the fourth quarter of last year. Exports of both agricultural and nonagricultural commodities expanded this year. Wheat and rice shipments, principally financed with P.L. 480 funds, to India, Indonesia and Viet Nam were particularly strong. Commercial shipments of corn also expanded as supplies in competing export countries became more limited. Among nonagricultural products, about two-thirds of the gain was in increased deliveries of aircraft, and cars to Canada.

U.S. EXPORTS AND IMPORTS
(billions of dollars; seasonally adjusted annual rates)

	1 9 6 7					1968 Jan.-Apr.
	Year	I	II	III	IV	
Agricultural exports 1/	6.5	6.6	6.6	6.4	6.2	6.7
Nonagricultural exports 1/	24.5	24.5	24.5	24.7	24.5	26.0
Total exports:						
Census basis	30.9	31.2	31.1	31.1	30.7	32.7
Balance of payments basis	30.5	30.6	30.8	30.5	29.9	32.4
Total imports:						
Balance of payments basis	27.0	26.7	26.4	26.2	28.6	31.4
Trade balance	3.5	3.9	4.4	4.3	1.3	1.0

1/ Census basis

By area, the greatest growth in exports in the first four months of the year was in shipments to Latin American, Asian and African countries. Exports to Japan and Canada also expanded but at a slower rate. Shipments to Western Europe, however, show very little change from the fourth quarter, aside from an increase in deliveries of aircraft. While economic activity in Continental European countries has expanded sharply since last fall, this upturn has not yet resulted in a substantially greater demand for U.S. products.

U.S. exports to EEC countries, other than Germany, for January-April this year were only about 6 per cent greater than shipments during the same period last year. But U.S. shipments to Germany were about $70 million less than a year earlier. Consequently the net increase in U.S. exports to the EEC countries was virtually nil.

Looking more closely at Germany, total German imports have increased sharply since October 1967. But the U.S. share of German imports has been and continues to be a decreasing proportion of their total imports. The main impetus for the recent increase in German imports has come from sharp increases in raw materials and semifinished or intermediate products.

U.S. imports increased only slightly in April and have remained fairly stable during the first four months of this year. Imports for January through April combined, however, were at a rate about 10 per cent higher than in the fourth quarter. In contrast to exports, the current expansion in imports is broadly based with all categories of goods increasing.

Arrivals of steel, copper and aluminum were particularly strong, and continued to reflect actual or potential work stoppages. Despite settlement of the copper strike in March, imports of copper in April were about 20 per cent higher than the monthly average in the first three months, as deliveries were made against orders placed earlier. With the recent negotiation of new labor contracts in the aluminum industry, the exceptionally high level of aluminum imports in March and April is not likely to persist after May. Steel imports, however, which in January-April were 50 per cent greater than the fourth quarter rate, may be expected to expand further in the coming months, as labor negotiations continue.

Imports of automobiles, both from Canada and Europe, were exceptionally heavy during January-April. Canadian production of cars topped 100,000 units for the first time in May, suggesting an even further increase in car arrivals from that country in the immediate future. Sales in the U.S. of European and Japanese cars set new records for the fourth consecutive month in May; current sales are close to an annual rate of a million cars, compared with less than 800,000 in 1967.

Although the overall rate of capacity utilization in manufacturing continues to be relatively low, about 84 per cent, higher rates in some individual industries may be inducing additional purchases of these products from foreign sources. The capacity-utilization rate in textiles is now about 92 per cent, considerably above the rate in mid-1967. Imports of textiles and apparel have expanded substantially from the fourth to the first quarter. Another example may be in heavy electrical-generating equipment. Domestic orders for such machinery have been accelerating for over two years, the approximate lead-time required for production of such equipment. The strong current rise in these imports may therefore reflect orders placed earlier when the domestic capacity-utilization ratio first began to rise.

Trade Expansion Act. On May 28 the President submitted to Congress the Trade Expansion Act of 1968. The proposed bill contains provisions in three basic fields.

(1) Extension of the President's authority to modify tariffs to July 1, 1970. No major tariff negotiations are contemplated but the authority is needed for maintaining flexibility in the GATT.

(2) Approval of the Supplementary Agreement concerning chemicals, the "ASP Package," of the Kennedy Round of negotiations. This provision would eliminate the use of the American Selling Price system of tariff valuation for benzenoid chemicals produced in the U.S. In return, the EEC would eliminate the discriminatory features of their automobile road taxes on American types of autos and also reduce further their tariffs on chemical imports from the U.S.

(3) Liberalization of the criteria and procedures for extending adjustment assistance to firms or groups of workers affected by import competition.

The proposed bill omitted recommendations for such trade measures as import surcharges, import quotas, or tax rebates on exports. Such measures were considered but it was decided that the longer-term risks involved would outweigh any possible temporary benefits.

Payments balances of other industrial countries. Large imbalances in the payments positions of European countries have persisted in 1968, with no sign as yet that the disequilibria have begun to be reduced to any important degree. British trade deficits in the first four months of this year were larger than at any time in many years, except for last October-November when trade movements were distorted by the dock strikes. Consequently, this year has seen a widening of the seasonally-adjusted rate of Britain's over-all payments deficit.

On the Continent, Germany and Italy have continued to run large surpluses. Payments positions of Continental countries in the aggregate are being adversely affected by the U.S. balance of payments program, but so far the effects of that program have been in good measure offset by very large increases in exports of Continental countries to the United States. France, however, has moved into deficit this year despite an improved trade performance. The civil unrest in France in May caused a heavy capital outflow and prompted the reimposition of exchange controls at the end of the month.

In Canada, there has been an appreciable reflow of funds since mid-March when the exemption of Canada from the U.S. balance of payments program, and the end of heavy gold buying in Europe, halted the previous intense speculation against the Canadian dollar. However, to rebuild reserves the Canadian government has recently borrowed in Europe and intends to borrow in the United States. Japan's external balance, in substantial deficit last year, has improved dramatically in 1968.

OECD experts feel that, between now and the end of the year, serious imbalances in world payments will begin to be corrected in significant degree. It is expected that the British trade balance will improve very decidedly, in response to the devaluation last November, the tax increases imposed in March, and the cessation of forces that have kept British imports unexpectedly high so far this year. The current account of the United States is also seen as improving in the second half, partly because the fiscal actions expected to be taken shortly will slow demand expansion and partly because of the disappearance of special factors that have swollen the volume of U.S. imports. From the first half of 1968 to the second half, the current account balances of the United States and the United Kingdom, together, may improve by a total of $3.5 billion at a seasonally-adjusted annual rate.

Partly because of the U.S. and U.K. measures, the current-account surplus of the European Common Market countries may shrink, between the first and second halves, by $2 billion at a seasonally-adjusted annual rate, according to OECD projections prepared before the May strikes in France. Most of this adjustment would be borne by Germany and Italy. The forecast reduction of the Common Market surplus rests on the assumption that rates of demand expansion will not slow down in most of the Common Market countries, but does allow for a substantial slowdown in Germany in the second half. It seems likely that the terms on which the strikes are being settled in France will lead to a substantial deficit for France and a rise in French imports that will help sustain demand expansion elsewhere in Europe.

As shown in the table, in the 12 months ending March 31 Britain had a balance of payments deficit of \$2.9 billion (CONFIDENTIAL) as measured by changes in official foreign assets and liabilities. In 1968 the seasonally-adjusted rate of deficit has been larger still, because of the worsened trade performance. The deficit on trade (on a balance of payments basis) was \$1.8 billion in the 12 months through March, but rose to a seasonally-adjusted annual rate of \$2.1 billion in January-April; the deterioration measured by this comparison would have been larger if the dock strikes in the autumn of 1967 had not delayed some export shipments until early 1968.

Since devaluation, the volume of British exports has risen because of their lower average price in foreign currencies, soaring import demand in the United States, and expansion of import demands in most other countries. The dollar value of exports has increased less than the volume because export prices in terms of foreign currencies have been reduced on the average by an estimated 9 per cent

Payments Balances of Selected Countries[1/]
(in millions of dollars)

	12 months ending 3/31/68	1st. Quarter 1967	1st. Quarter 1968	April 1967	April 1968
United Kingdom[2/]	-2,909	1,391	-1,382	494	n.a.
Germany	827	919	845	87	-79
Italy	500	-288	-114	16	29
France	-187[3/]	44	-110[3/]	39	24[2/]
Netherlands	78	-50	-34	-24	-35[2/]
Belgium	74	32	-68	56	-6[2/]
Total EEC	1,292	657	519	174	n.a.
Switzerland[2/]	-14	-227	-415	-281	-100
Sweden	-5	-27	-5	58	19
Canada	-49	-313	-712	-50	232
Japan	-535	-284	-247	-68	-12

1/ As measured by changes in official and short-term commercial bank foreign assets and liabilities, except where otherwise specified. Minus sign indicates deficit.
2/ As measured by changes in official foreign assets and liabilities only. United Kingdom data are STRICTLY CONFIDENTIAL.
3/ Excludes change in commercial bank net foreign assets in March 1968.

Source: CONFIDENTIAL BIS data.

from levels prevailing before devaluation. However, contrary to expectations, the volume of British imports has also increased since devaluation, apparently because of restocking of inventories of imported raw materials and a surge in consumer buying in anticipation of higher taxes on retail purchases effective in mid-March. With private consumption (in real terms) now declining after a prolonged upswing, the OECD secretariat looks for a 5 per cent drop in the volume of British imports between the first and second halves of this year. At the same time, it is felt that slower demand expansion in the United States and Germany in the second half will not slow the rise of British exports because the favorable response to devaluation will increase as time passes.

Since devaluation, pressures on British reserves have been severe not only because of the trade deficit but also because of conditions affecting capital flows. The Bank of England has had to meet large maturing forward sales of dollars and very little of this outflow has been reinvested in sterling assets. With confidence in sterling still at a low level, high interest rates in Britain have failed to attract funds on an uncovered basis, and the persistently wide forward discount on the pound has made covered yields on sterling assets unattractive. Movement of official reserves out of sterling by members of the overseas sterling area has added to the drain on British gold and dollar reserves this year. To encourage retention of sterling reserves, the U.K. authorities have agreed to convert part of Hong Kong's official sterling reserves into bonds denominated in Hong Kong dollars; the conversion privilege would apply to a maximum of one-half of those reserves, or of $360 million equivalent, whichever is lower. At present, Hong Kong official sterling reserves are estimated at about $500 million equivalent.

Germany's over-all surplus in the 12 months to March 31 was $827 million on the basis of official settlements and changes in commercial bank net foreign assets. In the first quarter of 1968 the surplus was not much less than it had been a year earlier. The trade balance was the same in both periods. The balance on services showed some year-to-year improvement, but this was more than offset by an adverse shift in the private nonbank capital account. The net inflow of foreign and German capital in January-March of this year totaled only $66 million compared with $322 million in the same months last year. All and more of this drop resulted because net long-term capital outflows rose from $49 million to $416 million, in reflection of larger purchases of foreign securities by German residents and repayments of foreign loans contracted earlier by German companies. Capital outflow has been encouraged by the maintenance of easy monetary conditions in Germany, but the capital account has presumably been affected also by the U.S. balance of payments program and the upsurge of Euro-bond issues by U.S. companies and their subsidiaries. Although German imports have been rising very rapidly since the resumption of domestic expansion last summer, through March the rise in exports was nearly as fast. In April, seasonally-adjusted exports fell rather sharply, and in consequence Germany had an over-all payments deficit compared with a surplus in April of last year.

German official net foreign assets increased more than $600 million in February-April, following a drop in January of about $200 million caused by reversal of year-end positioning. The February-April rise, which was well in excess of the cumulative balance of payments surplus for those months, partly reflected a decline in German commercial banks' net foreign assets.

Italy's external position has strengthened this year, the seasonal deficit in the first four months being substantially smaller than a year earlier. Primarily this reflected a shrinkage of the trade deficit. Italian exports have risen strongly since their decline in the spring and summer of last year, and receipts from exports in the first quarter were affected by smaller net extensions of trade credits than had been the case in the like period of 1967. However, some of the reduction in the trade deficit (measured by payments and receipts) could also reflect delays in making payment for imports, related to the fact that valuation problems posed by new Common Market regulations have occasioned delays this year in customs clearances for imports of corn and meat. These delays are the main reason why the customs data for Italian imports in the first quarter show a year-to-year drop notwithstanding the strong internal expansion during the intervening 12 months. In addition, special factors caused imports of crude oil to be speeded up in the fourth quarter of last year, following which there was slackening of such imports. This displacement may have affected payments for oil imports as well as the shipments themselves. The net outflow of nonbank capital in the first quarter was somewhat larger than a year earlier, but the rise was matched by renewal of the expansion of net receipts from tourism and emigrant remittances.

The net foreign assets of Italian commercial banks increased slightly in January-April, so that official net foreign assets declined by somewhat more than the cumulative payments deficit in those months.

Italy's over-all surplus was $500 million in the 12 months through last March, and its composition was typical of the past several years. Net receipts from tourism, other services, and emigrant remittances totaled nearly $2.5 billion, more than sufficient to cover a trade deficit and a $1.0 billion net outflow of nonbank capital, almost all of which was private funds.

The balance in the external payments of <u>France</u> has shifted, a small surplus of $56 million in the 12 months through last September giving way to a deficit estimated at around $187 million in the 12-month period terminating March 31 of this year. Since the balance on France's trade (excluding trade with the outer franc area) was nearly $370 million more favorable in the latter of these two periods, as measured by shipments through customs, it is clear that in the six-month period covering the last quarter of 1967 and the first quarter of 1968 there was an adverse year-to-year shift in other balance of payments components of a magnitude in the neighborhood of $600 million, of which close to $400 million was in the first quarter of this year. Presumably the bulk of this deterioration in non-trade items was in capital movements, and these figures suggest that the U.S. balance of payments program is having a substantial impact on French payments. However, it also seems likely that in November-December 1967 and in March of this year the balance on non-trade items was affected by large imports of non-monetary gold. In addition, the departure of NATO from France reduced receipts by perhaps around $50 million in October-March compared with a year earlier.

Nonbank capital outflow from France was heavy in May, in which month official reserves of gold and convertible currencies were drawn down $307 million. Across-the-board exchange controls were reimposed temporarily effective May 31. Reportedly, the French authorities intend to permit all current-account transactions as well as all movements of foreign capital and French direct investment abroad; thus, in practice restrictions would be applied only to outflows of French capital other than direct investment. Proceeds from exports and other current transactions must be sold to a French bank within one month. France drew the equivalent of $745 million from the International Monetary Fund on June 4. Gold and convertible-currency reserves of the Bank of France were $5,720 million at the end of May, but a substantial worsening of the French current account seems highly likely. The terms on which the strikes are being settled provide for hourly wage increases in June and October totaling 10 per cent (less any increase granted in 1968 prior to June) as well as increases in minimum wage rates of 35 per cent or more. In recent years, annual wage increases in France have averaged about 6 per cent in the private sector and 4 per cent in government.

In the smaller European countries, first-quarter results for the Netherlands and Sweden indicate little year-to-year change in the over-all payments positions of those countries. In Switzerland, an adverse shift in capital movements (including commercial bank funds) seems to have occurred. The seasonal decline in official net foreign assets in January-April approximated that of last year, despite some year-to-year improvement in the trade balance. In Belgium, both the trade balance and the balance on non-trade items were less favorable in the first quarter this year than last year, causing the over-all balance to shift from surplus to deficit.

In Canada, official net foreign assets rose only $28 million in 1967, but Canadian commercial banks increased their net assets abroad by $322 million. The combined increase was substantially larger than in the preceding year, in reflection of a strengthened current account. The trade surplus rose; exports increased $1 billion, 70 per cent of which was accounted for solely by increased sales of automobiles and parts to the United States. Late in the year, exports of copper to the United States rose sharply. Expo-67 added about $450 million to Canadian earnings last year.

Canada's payments situation changed abruptly with the announcement of the U.S. balance of payments program. Despite U.S. and Canadian intentions to the contrary, doubts arose whether Canada's access to U.S. capital markets and bank credit would remain sufficient to cover the structural deficit on current account, all of which is on invisible transactions. Uncertainty that the exchange rate could be maintained generated a heavy outflow of capital, principally of a short-term nature. Official reserve losses for the period from January 1 to March 15 totaled approximately $1 billion.

Pressure on the Canadian dollar ended in mid-March, mainly because Canada was exempted from the U.S. balance of payments program at this time. In addition, the communiqué of March 17 concerning the intentions of leading central banks with regard to free gold market operations aided confidence in the Canadian dollar because of brighter prospects that existing exchange rates for leading currencies could be maintained. During April and May there was a sizable reflow of short-term funds into Canada, but not sufficient to make up for the earlier reserve losses. To augment Canada's official reserves, in

May the Canadian Government floated a 5-year loan on the German capital market for $62 million equivalent, and borrowed $100 million equivalent at medium-term from the Italian Exchange Office. The Government is also floating a 20-year bond issue for $100 million in the United States.

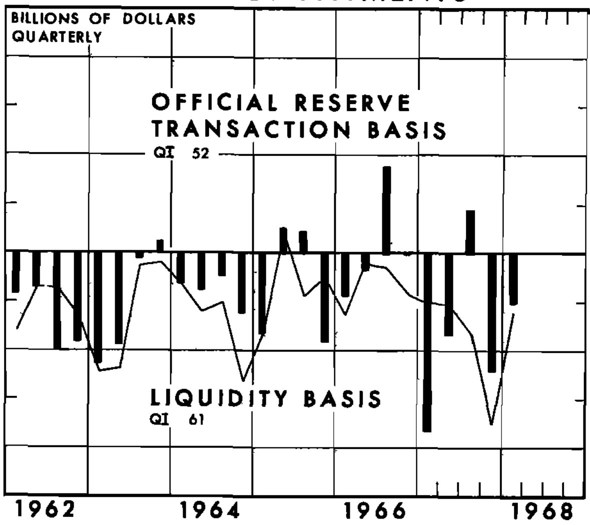
Canadian payments developments in the remainder of 1968 will be heavily influenced by U.S. fiscal policy and its impact on aggregate demand, as well as by the extent to which the U.S. dollar is untroubled by speculative attacks. A third factor could also be important. Much of the speculation against the Canadian dollar in the first quarter is believed to have been in the form of unfavorable shifts in leads and lags in current payments. These shifts may well be reversed in the course of the next few months. Official reserves might increase in consequence, and the possibility exists that official reserves might in fact rise above the $2.55 billion limit set by agreement with the U.S. authorities, even assuming some early repayments of Canadian drawings on the IMF and the Federal Reserve swap line.

After registering a deficit of $570 million in 1967, the Japanese balance of payments has shown very rapid improvement since January. The deficit in the first four months of this year, when seasonal factors were adverse, was about $90 million less than in the same months of last year. Part of the improvement was caused by a cutback in the net outflow of long-term capital; additionally, a favorable swing in errors and omissions took place which may have reflected the effects on leads and lags of the tightening of monetary conditions in Japan in the past year. Although the trade surplus (imports f.o.b.) for January-April as a whole was nearly unchanged from the year-earlier level, movements of Japanese trade since late last year have been very favorable. From December to April, exports rose 12 per cent (seasonally-adjusted) while imports dropped 7 per cent; as a result, the trade balance shifted from a \$175 million deficit in December to a \$10 million surplus in April.

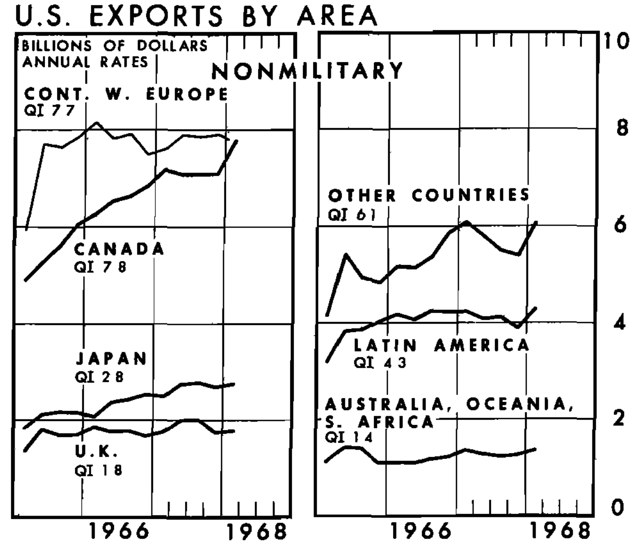
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

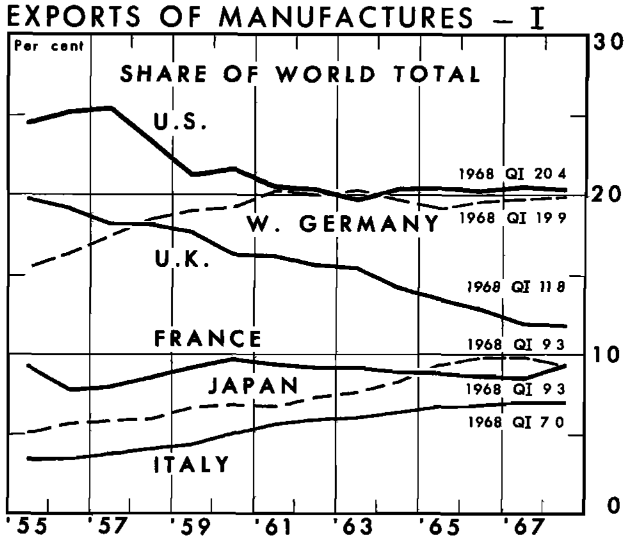
U.S. BALANCE OF PAYMENTS



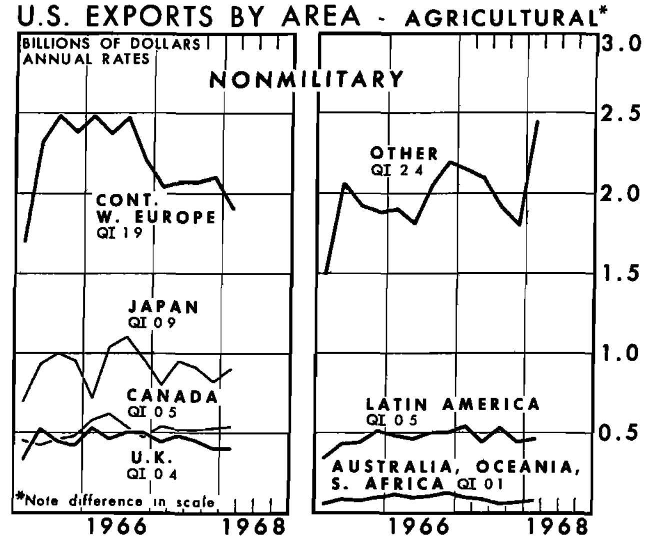
U.S. EXPORTS BY AREA



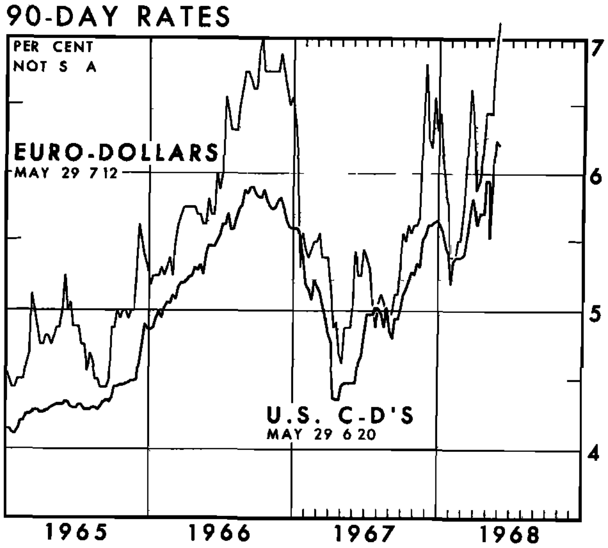
EXPORTS OF MANUFACTURES — I



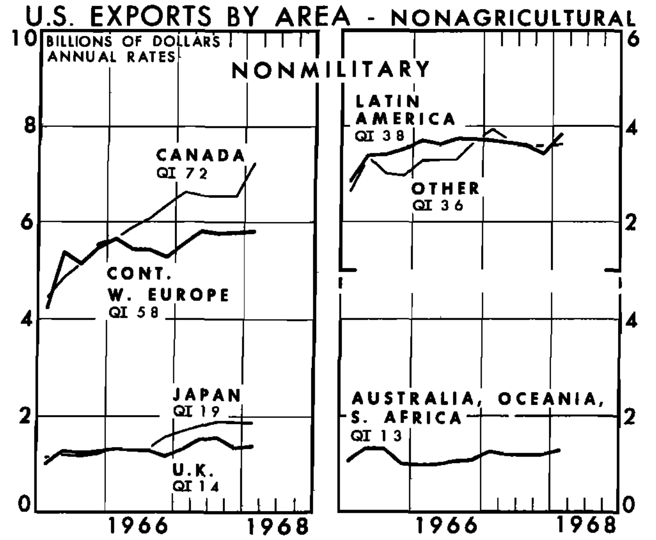
U.S. EXPORTS BY AREA - AGRICULTURAL*



90-DAY RATES



U.S. EXPORTS BY AREA - NONAGRICULTURAL



APPENDIX A: SURVEY OF BANK LENDING PRACTICES, MAY 1968*

Two-thirds of the 125 banks reporting in the May 15 Bank Lending Practices Survey indicated that demand for business loans had been stronger than during the preceding three months. (See Table 1.) This generally confirmed the anticipations expressed by over half of the banks in the preceding survey that loan demand would be stronger in this period. Nearly three-fourths of the reporting banks now anticipate stronger loan demand during the next three months ending in August. Both large and small banks reported firmer lending policies during the February to May period.

Interest rates and compensating balance requirements

Given the March increase in the prime rate, almost 94 per cent of the reporting banks raised interest rates on loans to nonfinancial businesses. The number of banks raising interest rates following the March prime rate increase was about three times the number following the November prime rate increase. Similarly, the number of banks reporting firmer compensating balance requirements, which influence the effective interest rates borrowers must pay, was almost four times greater following the prime rate increase in March than in November. In the current survey, 60 per cent of the banks firmed compensating balance requirements as well as raised their interest rates to business borrowers.

Other nonprice terms and conditions. With respect to nonprice terms and conditions of business lending, around three-fifths of the respondent banks reported firmer policies for nonlocal and new customers and nearly half of these reported that their policies had become "much firmer." For established or local service area customers, however, less than one-third had firmed policies, and most of them did so only "moderately.' About a third of the respondents had firmed policies also on standards of credit worthiness and term loan maturities. No banks had eased their nonprice terms and conditions for making loans. This is in marked contrast to the preceding survey in which 70 per cent of the banks reported their policies unchanged and a small percentage of banks reported moderate easing in some areas.

Loans to finance companies

A substantial number of banks reported that their policies on lending to "noncaptive" finance companies also had firmed over the preceding three months. As usual, the extent of firming on these loans had been somewhat less than that reported for nonfinancial businesses. Nevertheless, over half the banks had firmed their policies regarding interest rates and credit lines and one-fourth to one-third of them regarding compensating balances.

* Prepared by Don Matthews, Research Assistant, Banking Section, Division of Research and Statistics.

Other types of loans

The firmer lending policies reported in this survey also are reflected in the reduced willingness of banks to make particular types of loans. For example, half the respondents reported that they were less willing to make term loans to businesses and roughly two-fifths were less willing to make various types of mortgage loans. However, few banks had taken steps to restrain consumer instalment loans; over 80 per cent of the respondents reported that their policies on these loans were unchanged as compared to three months ago, while 12 per cent of the smaller banks were more willing to make them. There was little indication of increased willingness to make any other type of loan, which is in contrast with recent surveys.

Factors associated with policy changes

In their supplemental comments, several banks stated that tighter monetary conditions, accompanied by slower growth of time and savings deposits, as well as expectations that loan demand will continue to increase more rapidly than deposits were the predominant reasons for the firmer lending policies they had adopted. In addition, some banks indicated that they were having difficulty renewing CD's, even after the recent increase in Regulation Q ceilings. The relatively heavy restraint on loans to new or nonlocal customers reflected, as one Cincinnati bank put it, a "desire to keep our powder dry for existing customers." Many banks mentioned that tightening in the mortgage and construction loan categories had been quite severe.

While in the February 15 Survey, banks generally expressed a "wait and see" attitude, in the current survey, banks gave evidence that they had been bringing themselves in line with the more restrictive Federal Reserve policy.

Not for quotation or publication

Table 1

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S. 1/
STATUS OF POLICY ON MAY 15, 1968, COMPARED TO THREE MONTHS EARLIER)
(Number of banks & percent of total banks reporting)

	Total		Much Stronger		Moderately Stronger		Essentially Unchanged		Moderately Weaker		Much Weaker	
	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (after allowance for bank's usual seasonal variation) COMPARED TO THREE MONTHS AGO	125	100.0	12	9.6	73	58.4	36	28.8	4	3.2	0	0.0
ANTICIPATED DEMAND IN THE NEXT 3 MONTHS	125	100.0	12	9.6	76	60.8	32	25.6	5	4.0	0	0.0

	Answering Question		Much Firmer Policy		Moderately Firmer Policy		Essentially Unchanged Policy		Moderately Easier Policy		Much Easier Policy	
LENDING TO NONFINANCIAL BUSINESSES	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent
Term and Conditions												
Interest rates charged	125	100.0	40	32.0	77	61.6	8	6.4	0	0.0	0	0.0
Compensating or supporting balances	125	100.0	19	15.2	53	42.4	52	41.6	1	.8	0	0.0
Standards of credit worthiness	125	100.0	10	8.0	31	24.8	84	67.2	0	0	0	0.0
Maturity of term loans	125	100.0	15	12.0	26	20.8	84	67.2	0	0	0	0.0
Reviewing Credit Lines or Loan Applications												
Established customers	125	100.0	1	0.8	34	27.2	90	72.0	0	0	0	0.0
New customers	125	100.0	34	27.2	47	37.6	44	35.2	0	0	0	0.0
Local service area customers	123	100.0	2	1.6	35	28.5	86	69.9	0	0	0	0.0
Nonlocal service area customers	123	100.0	30	24.4	40	32.5	53	43.1	0	0	0	0.0
Factors Relating to Applicant 2/												
Value as depositor or source of collateral business	125	100.0	20	16.0	48	38.4	57	45.6	0	0	0	0.0
Intended use of the loan	124	100.0	21	16.9	34	27.4	69	55.6	0	0	0	0.0

(Continued)

1/ Survey of Lending Practices at 125 Large Banks Reporting in the Federal Reserve Quarterly Interest Rate Survey as of May 15, 1968.

2/ For these factors, firmer means the factors were considered more important in making decisions for approving credit requests, and easier means they were less important.

LENDING TO "NONCAPTIVE" FINANCE COMPANIES	Answering Question		Much Firmer Policy		Moderately Firmer Policy		Essentially Unchanged Policy		Moderately Easier Policy		Much Easier Policy	
	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent
Terms and Conditions												
Interest rate charged	124	100.0	18	14.5	57	46.0	49	39.5	0	0.0	0	0.0
Compensating or supporting balances	124	100.0	7	5.6	24	19.4	93	75.0	0	0.0	0	0.0
Enforcement of balance requirements	124	100.0	14	11.3	26	21.0	84	67.7	0	0.0	0	0.0
Establishing new or larger credit lines	124	100.0	28	22.6	38	30.6	58	46.7	0	0.0	0	0.0

WILLINGNESS TO MAKE OTHER TYPES OF LOANS	Answering Question		Considerably less willing		Moderately less willing		Essentially Unchanged		Moderately more willing		Considerably more willing	
	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent	No. of banks	per cent
Term loans to businesses	125	100.0	19	15.2	43	34.4	63	50.4	0	0	0	0.0
Consumer instalment loans	124	100.0	1	0.8	10	8.1	101	81.5	11	8.9	1	0.8
Single family mortgage loans	122	100.0	18	14.8	26	21.3	73	59.8	5	4.1	0	0.0
Multi-family mortgage loans	121	100.0	18	14.9	27	22.3	75	62.0	1	0.8	0	0.0
All other mortgage loans	122	100.0	11	9.0	43	35.2	67	54.9	1	0.8	0	0.0
Participation loans with correspondent banks	125	100.0	2	1.6	22	17.6	97	77.6	4	3.2	0	0.0
Loans to brokers	124	100.0	10	8.1	19	15.3	95	76.6	0	0	0	0.0

TABLE 2

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DEPOSITS 1/
(STATUS OF POLICY ON MAY 15, 1968, COMPARED TO THREE MONTHS EARLIER)
(Number of banks in each column as per cent of total banks answering question)

Size of bank - total deposits in billions

	Total		Much Stronger		Moderately Stronger		Essentially Unchanged		Moderately Weaker		Much Weaker	
	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (after allowance for banks's usual seasonal variation)												
COMPARED TO THREE MONTHS AGO	100	100	8	10	64	56	28	29	0	5	0	0
ANTICIPATED DEMAND IN THE NEXT 3 MONTHS	100	100	10	9	72	56	18	29	0	6	0	0

	Total		Much Firmer		Moderately Firmer		Essentially Unchanged		Moderately Weaker		Much Weaker	
	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1
LENDING TO NONFINANCIAL BUSINESSES												
Terms and Conditions												
Interest rates charged	100	100	26	35	64	60	10	5	0	0	0	0
Compensating or supporting balances	100	100	13	16	36	45	51	37	0	1	0	0
Standards of credit worthiness	100	100	10	7	18	28	72	65	0	0	0	0
Maturity of term loans	100	100	13	11	18	22	69	66	0	0	0	0
Reviewing Credit Lines or Loan Applications												
Established customers	100	100	3	0	27	28	70	72	0	0	0	0
New customers	100	100	23	29	33	40	44	31	0	0	0	0
Local service area customers	100	100	3	1	22	31	76	67	0	0	0	0
Nonlocal service area customers	100	100	14	29	24	36	62	35	0	0	0	0

1/ Survey of Lending Practices at 39 large banks and 86 small banks reporting in the Federal Reserve Quarterly Interest Rate Survey as of May 15, 1968.

TABLE 2 (continued)

	Size of bank - Total deposits in billions											
	Number Answering Question		Much Firmer Policy		Moderately Firmer Policy		Essentially Unchanged Policy		Moderately Easier Policy		Much Easier Policy	
	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1
Factors Relating to Applicant 2/												
Value as depositor or source of collateral business	100	100	15	16	31	42	54	42	0	0	0	0
Intended use of the loan	100	100	23	14	23	29	54	56	0	0	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
Terms and Conditions												
Interest rate charged	100	100	18	13	45	47	37	41	0	0	0	0
Compensating or supporting balances	100	100	3	7	21	19	76	74	0	0	0	0
Enforcement of balance requirements	100	100	13	10	16	23	71	66	0	0	0	0
Establishing new or larger credit lines	100	100	24	22	29	31	47	47	0	0	0	0

	Number Answering Question		Considerably less willing		Moderately less willing		Essentially Unchanged		Moderately more willing		Considerably more willing	
	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1	$1 & over	Under $1
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
Terms to businesses	100	100	13	16	33	35	54	49	0	0	0	0
Consumer instalment loans	100	100	0	1	5	9	89	78	3	12	3	0
Single family mortgage loans	100	100	14	15	22	21	65	58	0	6	0	0
Multi-family mortgage loans	100	100	23	12	16	25	62	62	0	1	0	0
All other mortgage loans	100	100	14	7	24	40	62	52	0	1	0	0
Participating loans with correspondent banks	100	100	3	1	18	17	79	77	0	5	0	0
Loans to brokers	100	100	5	9	21	13	74	78	0	0	0	0

2/ For these factors, firmer means the factors were considered more important in making decisions for approving credit requests, and easier means they were less important.