Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

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

[2] A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Content last modified 6/05/2009.

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

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

[2] A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

August 7, 1968

SUMMARY AND OUTLOOK

Outlook for economic activity

Economic activity is expected to slow sharply this summer, as a result of the combined impact of a substantially reduced rate of inventory accumulation, the 10 per cent tax surcharge, and the beginning of a slowdown in Federal government expenditures. Real growth in GNP is projected to come close to a standstill, and the easing of demands seems likely to be reflected in some reduction of price pressures.

To date the evidence supporting this outlook is principally the cutbacks beginning in steel production and ordering. Consumer spending appears to have been strong in July. But the impact of the surcharge on consumer incomes has hardly been felt as yet, and in the fall months, slower employment gains and reduced workweeks should be additional dampening factors. The precise nature and timing of Federal expenditure curtailments has not as yet been determined, but a slowing in the rate of rise in outlays is scheduled now that the Federal pay raise is behind us. Moreover, private final demand should contribute relatively little in the way of strength in the second half.

With final sales rising only moderately, the anticipated sharp curtailment in inventory investment will have an appreciable impact on over-all economic activity. The rapid liquidation of excess steel stocks is likely to be the major immediate factor, with the run-off continuing past the end of the year despite a sharp cutback in steel production. Also, reductions of auto stocks are anticipated in the current quarter, and a reduction of defense-industry stocks should accompnay the leveling off in defense spending.

Outlook for resource use and prices

With final demands generally not expected to show much expansion, and substantial steel inventory liquidation starting and more in prospect, industrial production is likely to edge down during the second half of this year. With capacity continuing to rise and output drifting off, a distinct drop appears likely in the utilization rate. The labor market remained firm in July but, as growth in real output slows, employment gains are likely to moderate, the average workweek to shorten, and the unemployment rate to drift up to about 4 per cent or so by year-end.

The steel wage increase, as well as other wage adjustments, is well above productivity gorwth trends, indicating further pressure on labor costs and prices this quarter. However, upward pressures on wages from new collective bargaining agreements should decrease somewhat after the third quarter, as the number of workers affected by contract expirations drops off sharply.

The rise in consumer prices has continued unabated, but the exceptionally large rise in June reflected, in part, special influences. Industrial prices, however, increased very little in July, a continuation of the pattern prevailing since early spring. A note of uncertainty has been injected into industrial price prospects by the flurry of increases in steel prices following the wage settlement. How large and widespread the steel advance will be, and how extensively it will pervade the whole price structure is still in doubt.

Outlook for credit demands

Credit demands are expected to moderate over the balance of the third quarter and probably into the fourth quarter. The Federal Government has already obtained, or is in the process of obtaining, a little more than half of the cash needed in the July-December period. The remaining need, announced at about $7 billion by the Treasury, is expected to be raised through tax anticipation bills, and about $1.5 billion, net, of Federal Agency securities. A pre-refunding by the Treasury of the relatively heavy late 1968 and 1969 maturities of coupon issues remains a possibility in the months ahead if market conditions are receptive.

Business demands for credit may be expected to show a marked slowing. During the past two months, business loan demands at banks were bolstered by needs to finance accelerated tax payments. Over the next few months, tax related demands will be less, and in addition the rate of inventory accumulation is expected to slow down. If expectations of still lower interest rates continue, net corporate bond issues are also expected to be at a slower pace in the months ahead. The calendar in sight for the weeks ahead is relatively moderate, and there are not many reports of large new issues in the pipeline.

In contrast to the corporate calendar, State and local government security issues are expected to remain at near their recent relatively rapid pace. Industrial revenue bonds may continue to contribute to maintaining the flow of new issues. But in addition, the return of commercial banks to the market as buyers may encourage the marketing of securities that were difficult, or too costly, to place earlier.

The demand outlook suggests that the lower level of bond yields which has developed in recent weeks, largely on the basis of expectations, might be maintained. Further declines in bond yields may develop in the weeks ahead, but the declines may be limited if there is some snapback in short-term yields. Such a snapback cannot be ruled out if dealer financing costs remain at relatively high levels.

Outlook for supply of funds

A major factor pushing down longer-term yields has been the increase of commercial banks investments in intermediate- and longer-term State and local and U. S. Government securities (including PC's), largely in the expectation of future declines in interest rates. These acquisitions were financed for the most part by substantial additions to outstanding negotiable CD's.

Banks are expected to continue as a source of support to security markets over the next few months, although the degree of support may lessen somewhat since banks have been reducing CD offering rates in recent weeks and, most recently net inflows of CD funds have slowed. Moreover, the stimulus to consumer-type time and savings deposits provided by lower market interest rates may well be offset by cutbacks in growth of disposable personal income. On the other hand, moderation in business loan demand may provide some additional impetus for banks to invest in securities.

While firm data are not yet available, it appears that net inflows to mutual savings banks and savings and loan associations for July were somewhat below the second quarter average. Nevertheless, net inflows of savings are expected to pick up over the remainder of the summer, and some expansion in mortgage commitment activity is indicated. Interest rates on mortgages may also begin to drift down not only because of the improved prospects for thrift institutions, but also because the recent marked declines in yields on U. S. Government and corporate bonds have made mortgages a relatively more attractive investment to other institutions.

Balance of payments

The over-all balance of payments in June was much better than had seemed likely, despite an unexpectedly sharp rise in imports which deepened the trade deficit that had emerged the month before. Preliminary indications for July confirm the improvement. During the past three months--May, June, and July--the liquidity deficit before special transactions seems to have been running well below a $1 billion annual rate, compared with over $4 billion earlier.

Probably the explanation of this development lies in factors affecting movements of private capital other than foreign short-term dollar holdings. While evidence as to the nature of these movements is still scanty, it is conceivable that the net flow may remain relatively favorable for longer than had previously seemed possible. If so, the expected recovery in the U.S. trade balance during the rest of 1968 could be accompanied by maintenance of only a small over-all deficit on the liquidity basis, or even by further improvement in the over-all balance. But a marked slowing of the recent large capital inflows and a renewal of outflows, as projected earlier, is an alternative development that cannot be ruled out either.

The statistical evidence on recent capital flows relates to U.S. bank credit repayments received in May and June, which were moderately large, and to foreign purchases of U.S. corporate stocks in the same months, which continued very large by accustomed standards. "Errors and omissions" in the U.S. balance of payments may conceivably have turned more favorable. There may also have been an unforeseen diminution of U.S. direct investment outflows, already reduced in the first quarter of the year. If so, this could have reflected unexpected success in the raising of local finance by U.S. corporate affiliates abroad.

Three kinds of forces influencing these movements may be distinguished. Regulatory requirements strongly affected U.S. bank lending and corporate direct investment flows during the first half of 1968, but may lose force as program goals are approached or passed. Relatively easy monetary policies in continental European countries, especially Germany, have been another important influence and may continue so for some months to come. Finally, since May the uncovering to general view of political instabilities in France, with their reminder of latent instabilities in other Common Market countries, has surely been an important factor. Given these instabilities, and given widespread fears of future inflations, it is possible that the movement of foreign money into U.S. corporate stocks may continue even if our stock market turns bearish.

In contrast to these capital flows reducing the deficit on any basis of calculation, the flow of liquid funds to the United States through foreign branches of American banks--which affects only the official settlements balance--was reversed in the last three weeks of July, after a $3 billion inflow since the first of the year. The easing of monetary conditions in the United States will probably lead to further outflows. But resulting difficulties in financing the U.S. payments balance will be minimized if a flow of foreign private funds into sterling develops, enabling Britain to pay off official obligations to us. Such a flow into sterling seems to have begun in July, when despite a continuing large deficit on current account the British reserve position improved.

August 6, 1968

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest Period	Amount: Latest Period	Amount: Preced'g Period	Amount: Year Ago	Per Cent Change: Year Ago*	Per Cent Change: 2 Yrs. Ago*
Civilian labor force (mil.)	Jul'68	79.0	79.0	77.5	1.9	4.3
Unemployment (mil.)	"	2.9	3.0	3.0	-2.3	1.7
Unemployment (per cent)	"	3.7	3.8	3.9	---	---
Nonfarm employment, payroll (mil.)	"	68.2	68.0	65.9	3.4	6.0
Manufacturing	"	19.8	19.8	19.3	2.8	2.8
Other industrial	"	8.2	8.1	8.1	0.8	1.1
Nonindustrial	"	40.2	40.1	38.5	4.3	8.8
Industrial production (57-59=100)	Jun'68	164.4	164.1	155.6	5.7	5.0
Final products	"	163.9	163.1	156.8	4.5	5.5
Materials	"	164.9	164.9	154.9	6.5	4.3
Wholesale prices (57-59=100)1/	"	108.7	108.5	106.3	2.3	2.8
Industrial commodities (FR)	"	107.9	107.8	105.2	2.6	3.3
Sensitive materials (FR)	"	105.9	106.0	100.1	5.8	-0.7
Farm products, foods & feeds	"	108.0	107.9	106.8	1.1	0.3
Consumer prices (57-59=100)1/	"	120.9	120.3	116.0	4.2	7.1
Commodities except food	"	113.0	112.5	108.9	3.8	6.2
Food	"	119.1	118.8	115.1	3.5	4.6
Services	"	133.9	133.0	127.4	5.1	9.8
Hourly earnings, mfg. ($)	Jul'68	3.01	3.00	2.83	6.4	10.7
Weekly earnings, mfg. ($)	"	123.08	122.81	114.51	7.5	9.7
Personal income ($ bil.)2/	Jun'68	683.1	678.3	625.8	9.2	17.0
Corporate profits before tax ($ bil.)2/	Q I'68	88.9	85.4	79.9	11.3	4.3
Retail sales, total ($ bil.)	Jun'68	28.0	28.0	26.5	5.7	10.4
Autos (million units)2/	Jul'68	9.1e	8.8	8.1	13.3	11.4
GAF ($ bil.)	Jun'68	6.8	6.8	6.4	5.2	12.2
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	"	1,313	1,345	1,233	6.5	10.8
Factory workweek (hours)	Jul'68	40.9	40.9	40.5	1.0	-0.7
New orders, dur. goods ($ bil.)	Jun'68	24.8	25.5	24.3	2.1	0.7
New orders, nonel. mach. ($ bil.)	"	3.9	3.8	3.6	8.1	7.6
Common stock prices (1941-43=10)	Jul'68	100.30	100.53	93.01	7.8	16.8
Manufacturers' Inventories book val. ($bil.)	Jun'68	84.5	84.5	80.1	5.5	17.9
Gross national product ($ bil.)2/	QII'68	850.8	831.2	780.2	9.0	14.9
Real GNP ($ bil., 1958 prices)2/	"	701.7	692.7	669.2	4.9	7.4

* Based on unrounded data. 1/ Not seasonally adjusted. 2/ Annual rates.
e Estimate.

SELECTED DOMESTIC FINANCIAL DATA

	Week ended Aug. 3, 1968	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent)	6.00	6.09	6.42	4.61
U.S. Treas. bills, 3-mo., yield (per cent)	5.09	5.27	5.82	4.97
U.S. Treas. bills, 1-yr., yield (per cent)	5.18	5.33	5.99	5.17
Net free reserves 2/ ($ millions)	-288	-172	134	-551
Member bank borrowings 2/ ($ millions)	602	531	823	241
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	5.49	5.56	6.15	5.46
20-year U.S. Treas. bonds 1/	5.18	5.27	5.68	5.18
Corporate new bond issues, Aaa adjusted 8/	6.36	6.41	6.83	6.21
Corporate seasoned bonds, Aaa 1/	6.14	6.22	6.29	6.07
Municipal seasoned bonds, Aaa 1/	3.90	4.05	4.42	3.90
FHA home mortgages, 30-year 3/	--	7.52	7.52	6.83
Common stocks, S&P composite series 4/				
Prices, closing (1941-43=10)	96.63	99.44	102.34	88.42
Dividend yield (per cent)	3.14	3.04	3.36	2.94

	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 offerings 5/	Aug. '68 e/	1,625	2,016	- 782	474
State & local govt. public offerings	Aug. '68 e/	1,300	1,341	442	242
Comm. & fin. co. paper (net change in outstandings) 6/	June '68	+ 381	+ 104	+1,298	+65

	Latest month	Out-standings Latest month	Change: Latest month	Change: 3-month average	Annual rate of change from: Pre-ceding month	3 months ago	12 months ago
Banking (S.A.)		($ billions)			(per cent)		
Total reserves 1/	July '68 p	25.90	0.10	0.09	4.5	4.4	6.4
Credit proxy 1/	"	280.9	2.2	1.3	9.5	5.8	7.1
Bank credit, total 6/	June '68	356.6	0.3	1.6	1.0	5.5	9.5
Business loans	"	90.5	0.9	0.9	12.0	12.3	9.2
Other loans	"	142.7	0.3	0.7	2.5	5.7	8.9
U.S. Govt. sec.	"	60.0	-0.7	--	-13.8	0.7	8.3
Other securities	"	63.4	-0.1	--	-1.9	-0.6	12.6
Total liquid assets 1/ 6/	June '68	672.7	2.9	2.2	5.2	4.0	8.0
Demand dep. & currency 1/	July '68 p	189.3	2.1	1.7	13.5	10.8	6.4
Time & sav. dep., comm. banks 1/	July '68 p	190.5	2.4	1.1	15.3	7.3	9.0
Savings, other thrift instit. 6/	June '68	189.3	0.8	0.7	5.1	4.3	7.1
Other 6/ 7/	"	108.1	0.5	-0.2	5.6	-2.2	10.6

N.S.A. -- not seasonally adjusted. S.A. -- seasonally adjusted. p - Preliminary. e. Estimated by F.R.B. 1/ Average of daily figures. 2/ Average for statement week ending July 31 . 3/ Latest figure is monthly average for June. 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 I	1967 II	1967 III	1967 IV	1968 I	1968 II	1968 MAY	1968 JUNE
	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	-5	-90	-110
Exports 2/	7,661	7,703	7,626	7,478	7,924	8,315	2,690	2,760
Imports 2/	-6,686	-6,605	-6,541	-7,159	-7,840	-8,320	-2,780	-2,870
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	-633	-245		
Seasonal component	267	302	-410	-159	382	300		
Balance, N.S.A.	-238	-220	-1,212	-1,901	-251	55	368	270
Official settlements bal.,S.A.	-1,764	-806	247	-1,082	-500	1,453		
Seasonal component	485	101	-272	-314	600	100		
Balance, N.S.A. 6/	1,279	-705	-25	-1,396	100	1,553	934	991
	Reserve changes, N.S.A. (decrease -)							
Total monetary reserves	-1,027	419	375	181	-904	137	508	-285
Gold stock	-51	-15	-92	-1,012	-1,362	-22	-79	213
Convertible currencies	-1,007	424	462	1,145	401	-267	582	-907
IMF gold tranche	31	10	5	48	57	426	5	409

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.

THE ECONOMIC PICTURE IN DETAIL

The Nonfinancial Scene

Gross national product. The economy is expected to be entering a period of sharply slower growth, as the effect of the surtax begins to exert its influence, inventory adjustments takes place in steel and autos, and expansion of government spending is curtailed. Current dollar GNP is estimated to rise at the rate of $10 billion in the third quarter and $9 billion in the fourth--about half the quarterly average increase of the first half of the year. In real terms, growth would virtually come to a halt in the second half. It is estimated that GNP adjusted for price change will increase by less than one per cent per quarter, as compared with an average rise of 5 to 6 per cent in the first half.

On the favorable side, it appears likely that price pressures will be dampened by these developments. By the fourth quarter, the increase in the GNP deflator is expected to have eased to 3.4 per cent, annual rate, from 4.0 per cent in the second quarter. (The GNP figures for recent years have been revised by the Department of Commerce. A summary of these revisions is contained in Appendix B.)

Deceleration of expansion anticipated in the second half reflects a sharply curtailed rate of inventory accumulation at the same time that growth of final sales is being held to the relatively slow second quarter rate. The immediate effect of the surtax is to cut sharply into the gains in disposable personal income. Personal income is expected to rise at a rate of $11 billion in the current quarter--down sharply from the $16-17 billion average increase in the first two quarters--and the surtax will absorb over half of this. The anticipated $4 billion increase in disposable income would be the smallest in over 5 years. But consumers are likely to attempt to maintain their level of expenditures--as they normally do in the face of a downward shift in their income--so that the rate of saving is expected to dip, from 7.7 per cent in the second quarter to under 7 per cent in the third. Consumption expenditures are expected to increase by $8 billion in the third quarter, about the same dollar gain as in the second quarter.

Spendable income was relatively unaffected by the tax increase last month, since most paychecks did not have the additional taxes deducted till after the middle of the month. July sales data do not, therefore, provide an adequate base for assessing consumer response to the surcharge. Nevertheless, July weekly retail sales suggest a rise of more than 2 per cent above the second quarter average with greater strength than expected in both automobile sales and in other durable goods purchases. As a result, unit sales of new autos in the current quarter are now expected to rise slightly from the second quarter average. Nondurable goods sales, which declined in real terms last quarter, are also expected to improve moderately in the current period. But the July pace of gain could be short lived as the full impact of the surcharge is felt in August and September.

In the fourth quarter, personal income is likely to grow much more slowly than in the current period, as industrial output is cut back further. Reduced gains in nonfarm employment--the quarterly increase of over 100,000 we have projected is only one-fourth of the average quarterly increase over the past year--along with shorter work-week schedules, would sharply curtail gains in wage and salary payments. This is expected to limit growth in consumption to only $7 billion, despite a further small decline in the saving rate. Durable goods sales are expected to decline, partly because sales of autos may be adversely affected by the accelerated purchase of cars this quarter because of anticipated higher prices on 1969 models.

Restrictions on Federal government spending also are likely to be felt increasingly through the remainder of this year. Federal expenditures had contributed directly $3 billion per quarter to the increase in GNP in the first half of 1968. Our projections assume that a significant slowdown in fiscal 1969 expenditures will begin to appear in the third quarter, reflecting in part spending restraint incorporated in the recent legislation. Total defense expenditures are expected to level off in this quarter and to dip slightly in the fourth. As a result, apart from the recent pay increase, Federal purchases of goods and services are estimated to rise by only about $500 million in the third quarter and about level off in the fourth quarter. Growth in State-local outlays also may slow in view of the tapering-off of grants to States as part of the move to cut Federal spending.

Business investment in plant and equipment is still projected to show moderate growth in the second half of this year, in line with the findings of the recent Commerce-SEC survey. But it should be noted that passage of the surtax, and the Budget clamp-down, were not certainties when the survey was taken in April-May. A more realistic appraisal by business of the possible impact on profits of the fiscal package seems to be under way and could be reflected in some downward revision of investment expenditures for future quarters.

The significantly reduced rate of business investment in inventories in the second half of the year is likely to be a major factor retarding economic growth. Total nonfarm inventory accumulation of $5 billion is anticipated in the third quarter and only $3 billion in the fourth--down significantly from the net accumulation of over $8 billion in the past quarter. With the settlement of the steel wage negotiations, steel producers and users have in August begun to run down their heavy stocks. We are estimating that decumulation will continue beyond the end of this year, even with a possible reduction of steel output by as much as one-third from recent advanced levels. In addition, some decumulation of defense stocks is anticipated to accompany the leveling off in defense spending in the second half of the year. On the other hand, there may be some unintended accumulation of consumer goods in the fourth quarter, if consumer spending for goods shows little strength.

Residential construction outlays should decline in the third quarter for the first time since early 1967 and to continue at these lower levels in the fourth quarter. The rate of housing starts consistent with this expenditure projection calls for a further drop in the third quarter to a seasonally adjusted annual rate of 1.32 million units--about the same rate as in June. If there is a continuation of the recent improvement in availability of mortgage funds, glimmerings of which seemed to appear in July, a revival in housing starts would be possible later this year, but too late to have much impact on residential construction outlays in the fourth quarter.

The Federal deficit should decline significantly in the second half, mainly reflecting additional tax revenues but also the moderation of growth in government expenditures. Higher withholdings from personal taxes alone will boost Federal revenues by over $6 billion, at an annual rate. (The increase in corporate taxes, which are treated on an accrual basis, was included retroactively in first and second quarter receipts.) The deficit, NIA basis, should dip to $7 billion in the fourth quarter, from a level of over $10 billion in the second; in late 1967, the deficit was over $12 billion.

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)

	1967	1968	1967		1968			
							Projected	
			III	IV	I	IIp	III	IV
Gross National Product	789.7	853.1	795.3	811.0	831.2	850.8	860.8	869.8
Final sales	783.6	848.3	789.9	802.7	829.1	842.5	855.8	866.3
Private	605.2	651.5	610.3	619.2	638.6	646.9	656.2	664.8
Personal consumption expenditures	492.2	530.9	495.5	502.2	519.4	527.1	535.1	542.0
Durable goods	72.6	80.3	73.1	74.2	79.0	81.0	81.2	80.0
Nondurable goods	215.8	230.5	216.4	218.4	226.5	227.9	231.7	236.0
Services	203.8	220.1	205.9	209.6	213.9	218.2	222.2	226.0
Gross private domestic investment	114.3	122.7	114.7	121.8	119.7	126.1	122.9	122.1
Residential construction	24.6	29.2	26.0	28.5	29.1	30.1	29.0	28.9
Business fixed investment	83.6	88.7	83.3	85.0	88.6	87.6	88.9	89.7
Change in business inventories	6.1	4.8	5.3	8.3	2.1	8.4	5.0	3.5
Nonfarm	5.6	4.4	4.8	7.1	1.6	8.1	5.0	3.0
Net Exports	4.8	2.7	5.4	3.4	1.5	2.0	3.2	4.2
Gov't. purchases of goods & services	178.4	196.8	179.6	183.5	190.5	195.6	199.6	201.5
Federal	90.6	100.1	91.3	93.5	97.1	100.0	101.8	101.7
Defense	72.4	79.3	72.9	74.6	76.8	79.3	80.8	80.5
Other	18.2	20.8	18.4	19.0	20.3	20.7	21.0	21.2
State & local	87.8	96.7	88.4	90.0	93.4	95.7	97.8	99.8
Gross national product in constant (1958) dollars	673.1	700.1	675.6	681.8	692.7	701.7	702.3	703.7
GNP implicit deflator (1958=100)	117.3	121.9	117.7	118.9	120.0	121.2	122.6	123.6
Personal income	628.8	681.9	633.7	645.2	662.7	678.0	689.3	697.6
Wages and salaries	423.4	460.8	426.3	436.4	448.3	457.4	465.5	471.9
Disposable income	546.3	586.9	550.0	559.6	574.4	586.4	590.5	596.3
Personal saving	40.2	41.7	40.5	43.4	40.8	45.0	41.0	39.8
Saving rate (per cent)	7.4	7.1	7.4	7.8	7.1	7.7	6.9	6.7
Corporate profits before tax	81.6	88.1	80.8	85.4	88.9	91.0	87.5	85.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	151.2	173.5	152.2	156.4	166.6	171.3	177.5	178.5
Expenditures	163.6	181.9	165.1	168.6	175.1	181.7	185.2	185.7
Surplus or deficit (-)	-12.4	- 8.4	-12.9	-12.2	- 8.6	-10.4	- 7.7	- 7.2
Total labor force (millions)	80.8	82.5	81.1	81.6	81.9	82.2	82.7	83.0
Armed forces "	3.4	3.6	3.5	3.5	3.5	3.5	3.6	3.6
Civilian labor force "	77.3	78.9	77.6	78.2	78.4	78.7	79.1	79.4
Unemployment rate (per cent)	3.8	3.8	3.9	3.9	3.6	3.6	3.8	4.0
Nonfarm payroll employment (millions)	66.0	67.9	66.1	66.7	67.4	67.8	68.1	68.2
Manufacturing	19.4	19.6	19.3	19.5	19.6	19.7	19.7	19.5
Industrial production (1957-59=100)	158.0	162.9	157.2	159.5	162.1	163.7	163.2	162.5
Capacity utilization, manufacturing (per cent)	85.3	83.5	84.3	84.7	84.9	84.5	83.0	81.5
Housing starts, private (millions A.R.)	1.27	1.38	1.38	1.43	1.47	1.40	1.32	1.35
Sales new U.S.-made autos (millions, A.R.)	7.57	8.35	7.57	7.44	8.19	8.44	8.50	8.25

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967	1968	1967 III	1967 IV	1968 I	1968 IIp	1968 Projected III	1968 Projected IV
	In billions of dollars							
Gross National Product	42.1	63.4	15.1	15.7	20.2	19.6	10.0	9.0
Final sales	50.8	64.7	11.9	12.8	26.4	13.4	13.3	10.5
Private	28.6	46.3	9.6	8.9	19.4	8.3	9.3	8.6
GNP in constant (1958) dollars	16.0	27.0	6.4	6.2	10.9	9.0	0.6	1.4
Final sales	24.0	28.5	3.5	3.4	16.9	3.4	3.6	2.7
Private	9.8	20.3	3.1	2.8	12.4	0.6	3.0	2.6
	In Per Cent Per Year							
Gross National Product	5.6	8.0	7.7	7.9	10.0	9.4	4.7	4.2
Final sales	6.9	8.3	6.1	6.5	13.2	6.5	6.3	4.9
Private	5.0	7.7	6.4	5.8	12.5	5.2	5.7	5.2
Personal consumption expenditures	5.7	7.9	4.2	5.4	13.7	5.9	6.1	5.2
Durable goods	3.0	10.6	-1.6	6.0	25.9	10.1	1.0	-5.9
Nondurable goods	4.4	6.8	2.0	3.7	14.8	2.5	6.7	7.4
Services	8.2	8.0	8.5	7.2	8.2	8.0	7.3	6.8
Gross private domestic investment	-5.4	7.3	26.4	24.8	-6.9	21.4	-10.1	-2.6
Residential construction	-0.8	18.7	58.1	38.5	8.4	13.7	-14.6	-1.4
Business fixed investment	2.8	6.1	2.9	8.2	16.9	-4.5	5.9	3.6
Gov't purchases of goods & services	14.2	10.3	5.2	8.7	15.3	10.7	8.2	3.8
Federal	17.1	10.5	5.8	9.6	15.4	11.9	7.2	-0.4
Defense	19.5	9.5	4.4	9.3	11.8	13.0	7.6	-1.5
Other	8.3	14.3	11.2	13.0	27.4	7.9	5.8	3.8
State & local	11.4	10.1	5.5	7.2	15.1	9.8	8.8	8.2
GNP in constant (1958) dollars	2.4	4.0	3.8	3.7	6.4	5.2	0.3	0.8
Final sales	3.7	4.3	2.1	2.0	10.0	2.0	2.1	1.5
Private	1.9	3.9	2.4	2.1	9.3	0.4	2.2	1.9
GNP implicit deflator	3.1	3.9	3.8	4.1	3.7	4.0	4.3	3.4
Personal income	7.2	8.4	7.8	7.3	10.8	9.2	6.7	4.8
Wages and salaries	7.3	8.8	8.3	9.5	10.9	8.1	7.1	5.5
Disposable income	6.8	7.4	6.3	7.0	10.6	8.4	2.8	3.9
Corporate profits before tax	-4.7	8.0	2.5	22.8	16.4	9.4	-15.4	-11.4
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	5.7	14.7	10.8	11.0	26.1	11.3	14.5	2.3
Expenditures	14.9	11.2	8.9	8.5	15.4	15.1	7.7	1.1
Nonfarm payroll employment	3.1	2.9	2.4	3.6	4.2	2.4	1.8	0.6
Manufacturing	1.0	1.0	-2.1	4.1	2.0	2.0	0.0	-4.1
Industrial production	1.1	3.1	3.3	5.9	6.5	3.9	-1.2	-1.7
Housing starts, private	11.4	8.7	63.9	14.5	11.2	-19.0	-22.9	9.1
Sales new U.S.-made autos	-9.7	10.3	-26.6	-6.9	40.3	12.2	2.8	-11.8

Industrial production. Present indications are that industrial production in July rose one-half index point or more from the preliminary June level of 164.4 per cent. At about 165, the total index would be 5 per cent above a year earlier and 6 per cent above the 1967 low.

The July gain in industrial production stems in part from a much smaller than usual decline in steel output. With settlement of the labor contract, steel production will be reduced sharply in August and September, months in which output normally rises, and this is likely to depress the total index. In 1962, 1963, and 1965, under somewhat similar circumstances, steel production declined 30 per cent in 4 months or the equivalent of 2.5 points in the total index. In 1963 and 1965, however, the economy was expanding rapidly and the cutbacks in steel had only a marginal influence on the continued rise in industrial production.

In July auto and truck assemblies, after allowances for the model changeover period, continued at the high June level. Output of television sets, especially monochrome, declined in July. Other available data, including manhours, indicate further increases in production of industrial materials, especially paper, chemicals and rubber products; a renewed upswing in output of defense equipment; and, at the least, no decline in production of business equipment.

Capacity utilization. The June rate of manufacturing capacity utilization is estimated at 84.6 per cent, down slightly from

May. If manufacturing output increased slightly in July, as now indicated, the operating rate will show little change.

The capacity and utilization series have recently been revised. The main effect of these revisions has been to raise the level of operating rates for recent quarters by about 0.4 points. Manufacturing investment in fixed capital remains high and estimated capacity continues to increase rapidly. The utilization rate has remained within a very narrow range in the past 12 months.

UTILIZATION RATES
(Per cent)

Industry	1967		1968				
	QIII	QIV	QI	QII	May	June	July(e)
Manufacturing	84.3	84.7	84.9	84.5	84.9	84.6	84.5
Primary processing industries	83.0	85.3	85.5	86.1	86.7	85.8	--
Advanced processing industries	85.2	84.3	84.4	83.4	83.6	83.7	--

Unit auto sales and stocks. Dealer deliveries of new domestic autos increased sharply in the final 10 days of July and were almost one-fourth above a year earlier. For the month, deliveries were up 13 per cent from last year and were at an annual rate of 9.1 million units, compared to 8.8 million in June. July sales were the highest since March 1966. Sales contests and the anticipation of higher prices on the 1969 models are reported to have contributed to the surge in sales.

The stock of new cars decreased only slightly during the middle period of July and on July 20 totaled a record 1.71 million units (unadjusted). It is estimated that the supply of new cars dropped seasonally to about 1.6 million units in the final period of July, up one-third from a year earlier and equal to the record 1966 level.

Sales of new imported cars in July continued strong and were over one-fourth above a year earlier. Despite the surge in domestic new car sales, imports still captured 9.5 per cent of the total new car market. For the first 7 months of this year, import sales were one-third above a year ago.

Consumer credit. Consumer installment credit again increased at a rapid pace in June. The seasonally adjusted annual rate of expansion in credit outstanding amounted to $7.6 billion, compared with $7.3 billion in May and $7.1 billion for the second quarter as a whole. As may be seen in the table, the second quarter rise is the largest since early 1966.

Demand for auto credit and personal loans continued high in June, while extensions of nonautomotive consumer goods credit, which had slackened in May, exceeded the previous high reached in April. The strength of new auto sales in July suggests a continued large rise in auto credit.

INCREASE IN CONSUMER INSTALLMENT CREDIT
(Seasonally adjusted annual rates)

Period	Billions of dollars
1966-Q1	7.1
Q2	6.3
Q3	6.6
Q4	4.6
1967-Q1	3.0
Q2	2.8
Q3	3.4
Q4	4.4
1968-Q1	6.1
Q2	7.1

As reported in our new monthly series, indebtedness on bank credit card and check-credit plans increased approximately $170 million between the end of January and June 1968, of which $100 million was in credit card accounts. At midyear, consumers owed commercial banks a total of $914 million on credit card plans and $600 million on check-credit and other revolving credit plans. Thus, the rate of increase so far this year has been at a annual rate of around 30 per cent.

Manufacturers' inventories. The book value of inventories held by manufacturers was little changed in June, following a rise of almost $1.3 billion in April and May combined. Revised figures for May show a rise of $550 million--nearly twice as much as shown a month ago by the preliminary figures. For the April-May-June period book value of manufacturers' stocks rose at an annual rate of $5.2 billion.

Durable goods producers continued to build up inventories in June, while nondurable goods manufacturers reduced stocks somewhat as shipments surged relative to production. The rise at durable goods industries was largely concentrated at producers of defense products (aircraft) and machinery and equipment. At nondurable goods industries stocks held by producers of foods and chemicals were reduced.

The June rise in stocks held by durable goods producers resulted in an edging up of their inventories-shipments ratio following a substantial decline in May, but the ratio continued at a level below most of last year. The stocks-sales ratio of nondurable goods producers declined further in June and was lower than any time since the present series began in 1948.

The bulk of the accumulation in the second quarter as a whole was by producers of defense products, machinery and equipment, and construction materials and supplies. Quarterly changes in inventories of selected groupings of manufacturing industries are shown in the following table.

CHANGE IN BOOK VALUE OF MANUFACTURERS' INVENTORIES
(Millions of dollars)

	1967				1968	
	I	II	III	IV	I	II
All manufacturing	1,849	689	722	1,584	794	1,296
Durable goods industries	1,179	593	763	1,358	344	944
Nondurable goods industries	670	96	-41	226	450	352
Market categories:						
Defense products	673	434	374	568	224	411
Machinery and equipment	238	186	181	171	-201	240
Consumer durables	97	-54	19	117	36	28
Automotive equipment	-15	-283	191	186	180	96
Construction materials and supplies	-46	0	-176	189	76	183
Other items	902	406	133	353	479	338

Durable goods orders and shipments. New orders received by manufacturers of durable goods declined 3 per cent in June and were 6.5 per cent below their peak at the end of last year. Unfilled orders of durable goods manufacturers declined a bit in June from their record high in May. The June decline in new orders veils several significant, but diverse, developments. There were sharp cutbacks in orders for iron and steel and aircraft and parts and a moderate reduction in orders for fabricated metal products. On the other hand, orders for nonferrous metals and machinery and equipment, particularly electrical machinery, rose substantially.

The June rise in new orders for machinery and equipment--6.7 per cent--continued the pattern of monthly increases which began in March and lifted the total to a level 15 per cent above the February low. The decline in orders for aircraft resulted in a reduction in the defense products grouping to the lowest level in more than six months. Orders for commercial aircraft, which are included with military aircraft in the defense products market category, had been exceptionally high in April and moderately high in May.

Shipments of durable goods producers were off in June, but only slightly from the record high in May as all industry groupings except transportation equipment registered advances. Shipments of nondurable goods rose in June to a record high more than 8 per cent above the level six months earlier.

Construction and real estate. New construction put in place apparently changed little in July--based on revised series which now incorporate new basic data for some series and results of Census review of seasonal adjustment factors for all series back to 1965. However, the July development followed a 3 per cent downward revision in the rate originally reported for June, owing mainly to a 5 per cent correction in outlays for private residential construction. Such outlays in July were well below their April peak, but they were still considerably above the rising rate a year earlier, unlike private nonresidential construction expenditures. Public construction activity, which was also revised downward for June, edged to a new high in July.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	July 1968 ($ billions) 1/	Per cent change from	
		June 1, 1968	July 1967
Total	81.7	--	+11
Private	52.9	--	+ 8
Residential	27.0	--	+14
Nonresidential	25.9	--	+ 2
Public	28.8	+1	+19

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

Private housing starts, which on the basis of revised data had already dropped 15 per cent in May from the advanced April rate, edged off moderately further in June. Unlike May, the June decline was concentrated entirely in single family starts. Multifamily starts reversed direction again to leave the second quarter average for this extremely volatile group 8 per cent above the first quarter average and the highest since the first quarter of 1964. With single family starts down 13 per cent on a quarter-to-quarter basis, the annual rate of total starts in the second quarter as a whole averaged 1.42 million, 6 per cent below the first quarter rate and about the same as in the third quarter of 1967 when starts were rising.

Permits in permit-issuing areas dipped further in June. With single family units in decline for the third consecutive month, multi-family permits accounted for virtually half of total permits in June, an unusually high share. Regionally, only the North Central states showed a decline in total permits rates from May to June.

PRIVATE HOUSING STARTS AND PERMITS

	June 1968 (thousands of units) 1/	Per cent change from	
		May 1968	June 1967
Starts	1,313	- 2	+ 6
1 family	772	- 7	- 9
2-or-more family	541	+ 5	+41
Northeast	181	-13	- 3
North Central	312	- 2	+ 1
South	538	- 3	+ 6
West	282	+ 7	+23
Permits	1,259	- 2	+10
1 family	635	- 4	- 3
2-or-more family	624	--	+29

1. Seasonally adjusted annual rates; preliminary.

The prospective slowing in general economic growth and the possibility of monetary easing in the period ahead as a result of passage of the fiscal restraint package in late June has already begun to raise industry hopes that a sustained recovery in housing starts will commence even before the yearend. Currently, housing activity is in a transitional situation, marked by the lagged effects of earlier tightening in mortgage and related markets and bullish expectations for 1969. For the current quarter, the less than expected drop in net inflows to major lending institutions over the first half of the year and the pressures of demands pent up by more than two years of under-building are likely to operate against further declines this summer. If so, starts in July and August may run at least somewhat above the June average, and even with September temporarily lower--for technical reasons--the third quarter average may stay above June's 1.31 million seasonally adjusted annual rate and within 7 per cent of the still relatively advanced rate in the second quarter.

Unlike 1966, the momentum of builders has remained largely unbroken, even though mortgage commitments, building permits and housing starts were in decline through most or all of the second quarter. Thus, going farther into the future, the possibility that fourth quarter starts may rise above the third quarter rate now seems tenable. This will depend, however, on the extent to which builders have not already moved ahead of schedule in their drive to maintain the advanced pace which developed earlier this year. It will also depend on actual as well as expected funds flows and interest rate developments as the second half progresses. (The speed with which various elements of the exceptionally broad housing legislation signed by the President on August 1 can be implemented may also be a factor, though a minor one, as described in Appendix A.) In any event, because of the inevitable lag from inflows through commitments to starts, any improvement in funds flows will now most likely have its major impact on construction and real estate activity in 1969 rather than this year. On this score, a summary of the FRB-FHLBB survey of mortgage lenders' evaluations of current and prospective inflow and commitment activity in the present quarter may be found on page III - 8 of this Greenbook; the detailed results are scheduled for release in the Greenbook Supplement this Friday.

Labor market. Although the labor market continues firm and the workweek relatively long, employment gains have been comparatively modest in recent months. Growth in the civilian labor force also has moderated, tending to limit increases in unemployment. Nevertheless, at 3.7 per cent in July, the unemployment rate was up slightly from its April-May low of 3.5 per cent.

Thus far, the easing in demand for labor has been reflected in a rise in teenage unemployment. Their unemployment rate, at 13.6 per cent in both June and July, was well above rates earlier this year, suggesting that youngsters are not doing as well in the job market as they did during the school year or last summer. Moreover, the teenage labor force showed a net reduction in July--to its lowest level since last January--suggesting that some youngsters may have become discouraged with the lack of employment opportunities and given up the job search.

RECENT UNEMPLOYMENT RATES

	QI	QII	July
Total	3.6	3.6	3.7
Men aged 20 years and over	2.3	2.2	2.2
Women aged 20 years and over	3.9	3.7	3.9
Teenagers, both sexes	12.3	12.7	13.6
Whites	3.2	3.2	3.3
Nonwhites	6.8	6.8	6.9

The recent slowdown in employment growth has been relatively widespread, with the most noticeable weakness in construction, where July employment was off by 207,000 from its February peak. Total nonfarm payroll employment rose 159,000 in July, but this partly reflected a late model changeover in the auto industry--inflating the manufacturing figure by about 50,000--which will have a reverse effect in August. Exclusive of the transportation equipment industry, manufacturing employment rose by only 15,000 in July. Half of that rise occurred in the volatile primary metals group where, following the steel-labor agreement, output is being curtailed and substantial layoffs are expected. Much of the job gain in July was concentrated in government, trade, and services.

EMPLOYMENT CHANGES FROM PREVIOUS QUARTER
(Seasonally adjusted)

	Nonagricultural payroll employment	Manufacturing employment
1967 - QIV	632,000	144,000
1968 - QI	730,000	139,000
QII	410,000	93,000
Projected:		
1968 - QIII	300,000	No change
QIV	150,000	-150,000

With real growth expected to drop to low levels in the third and fourth quarters, employment growth is likely to ease further. The bulk of the adjustment is anticipated in the industrial sector where actual employment declines are expected. Though some of the necessary adjustment probably will come through reduction of the workweek, large employment cuts are expected in steel and, to a lesser extent, in other metal-using industries. With employment growing more slowly, unemployment will likely rise through the fall with the rate reaching 4 per cent in the fourth quarter.

The steel contract. Based on the data now available to the staff, the steel settlement calls for an increase of about 5-1/2 to 6 per cent annually in hourly compensation (which includes both wages and fringes). This seems a somewhat more moderate increase than those won in recent agreements in the auto, aluminum, and can industries, which average over 6 per cent.

ESTIMATED COST OF WAGE SETTLEMENTS
(Steel, aluminum, can, and auto)

	Steel	Aluminum	Can	Auto 3/
		Level		
Average hourly compensation 1/	$4.85	$4.50	$4.70	$4.80
Average hourly wage	3.70	3.10	3.30	3.40
		Increase in per cent		
Average annual increases				
Hourly compensation 2/	5.6-6.0	6.7	6.1	6.1-6.6
Hourly wages				
1st year	6.8	10.0	8.5	7.4
2nd and 3rd (average)	3.5	3.7	3.3	4.5-5.2

1/ Compensation includes wages and fringes prior to the new contract.
2/ Compounded.
3/ Extent of the increase in wages depends upon rise in consumer price index.

In line with the recent pattern of large first-year wage increases in new contracts, basic wage rates in steel will rise by an average of 25 cents (almost 7 per cent) immediately. In 1969 and 1970 wage gains should drop sharply to about 14 cents (about 3.5 per cent) a year. Fringe benefits in the new contract provide for increased pensions and supplemental unemployment payments, and an improved vacation and holiday plan. The increases in fringe benefits are estimated to be somewhat less than those obtained in other comparable industries. When fringes are included, the annual increases in compensation are more uniform, but still show a pronounced decline over the life of the contract.

The steel settlement about completes a round of important collective bargaining settlements which have been dominated by large first-year wage increases designed to catch-up with the consumer price increases of recent years. These same contracts typically include much smaller wage boosts in subsequent years, which should allow easing in labor cost pressure in later years of the contract. In addition, recent settlements generally have not included new cost-of-living escalator clauses, and those in existence were frequently curtailed. By accepting smaller wage increases in subsequent years of long-term contracts, unions seem to assume that price rises may ease over the next several years. Thus, recent agreements are in marked contrast to those negotiated in earlier inflationary periods when increases in the number of contracts with escalator clauses and high annual wage increases over the life of contracts were characteristically associated with expectations of a continuing price spiral.

For the remainder of this year the only important bargaining in durable goods industry takes place in the aerospace industry. In 1969, the number of durable goods workers affected by new contract negotiations drops by more than half from the 1968 average. The number of workers affected by contract negotiations outside durable-goods manufacturing rises somewhat in 1969, with especially large increases in communications and apparel. Since wage settlements in these industries are generally not pace setters, and some slack in the economy is expected to limit wage advances, pressures for large negotiated settlements in 1969 should be less than in 1967 and 1968.

With key settlements largely over for several years, future wage increases scheduled to be more in line with expected productivity gains, and escalator clauses nonexistent or weakened, the outlook is for some slowing down in the rate of increase in hourly compensation in manufacturing.

Wholesale prices. Average prices of industrial commodities increased only 0.1 per cent in July according to the BLS preliminary estimate. The over-all wholesale price index, however, rose 0.4 per cent as farm products and processed foods and also feeds advanced substantially, in large part seasonally.

An increase of 0.2 per cent in industrial commodity prices in June had returned the industrial index to the April level of 108.8 per cent of the 1957-59 average, increases in prices of gasoline and apparel were major elements in the rise. The termination of dealer incentive programs sent prices of new cars up 0.5 per cent. There were few other important changes in June, and it is expected that more complete July data will show few significant developments for industrial commodities. The easing in the upward pressure on industrial commodity prices in recent months is apparent from an examination of price changes for 225 industrial product classes included in the index.

WHOLESALE PRICES OF 225 INDUSTRIAL PRODUCT CLASSES, 1968
(Number of changes from preceding month)

	January	February	March	April	May	June	July (estimated)
Increases	127	131	110	115	90	90	76
Decreases	36	25	30	38	42	38	49
Unchanged	62	69	85	72	93	99	100

The importance of special factors--the copper strike and the lumber situation, for example--that acted as major propellants to the rise in industrial prices last fall and winter have diminished in importance. Copper prices have declined sharply in recent months following the strike settlement--although they are still about 10 per cent above the pre-strike level. The circumstances affecting the lumber industry earlier--including increased housing starts, drought, exports to Japan, and labor problems in the Canadian lumber industry--have also changed as housing starts have declined and materials supplies have increased. The outlook for prices of both copper and lumber, therefore, is for more stability. The importance of this is underlined by the fact that nonferrous metals and lumber and wood products alone accounted for nearly one-quarter of the total rise in industrial commodities over the past year.

Prices of finished steel were relatively stable earlier this year, helping to limit the rise in average industrial prices. But recent announcements of price increases following the steel wage settlement will boost the wholesale price index for August. The weight of about 3-1/4 per cent for steel mill products in the wholesale price index understates steel's importance as increases in steel prices have secondary effects which far exceed its direct weight in the index.

No across-the-board increases had occurred for 10 years in the steel industry, but there have been numerous selective increases; for example, prices were increased in 1967 for about 70 per cent of steel items produced. Steel mill prices in June were about 2-1/2 per cent above June 1967. Bethlehem and several other producers have posted an across-the-board increase of close to 5 per cent; but even if this does not hold, a sizable average increase gained through selective boosts seems likely.

Consumer prices. The consumer price index rose 0.5 per cent in June, the largest increase since February 1966. About one-half of this increase was attributable to the broad advance of consumer services which spurted by 0.7 per cent. Increased homeownership costs led the advance in service charges, with home mortgage interest charges up nearly 4 per cent (and accounting for as much as one-fourth of the total rise in the CPI) as a result of increases in rates on conventional mortgages and in the maximum interest rate allowed on Federally-underwritten home loans. As usual, prices of other services and rents also advanced. Medical care services, however, which had shown extraordinarily large advances for some time, tapered off to a 0.3 per cent increase in June.

Prices of food at home rose 0.2 per cent--less than seasonally. Restaurant meals, which contain a large element of service costs, increased 0.5 per cent in June. Prices of food can be expected to increase seasonally during the summer as meats show an upward trend at retail, but fruits and vegetables should decline further. Prices of commodities other than foods on average advanced considerably in June.

<u>Farm production prospects in 1968</u>. Last year's record crop and livestock production, 18 per cent above the 1957-59 average, is likely to be at least equaled in 1968 according to July surveys of production prospects. Crop progress reported on July 1 indicates that higher yields will offset 2 per cent smaller plantings. Wheat, rice and soybean crops are expected to be larger than in 1967 and feed grains and tobacco smaller. Corn output, with acreage reduced 7.5 per cent through diversion, is estimated at 4.5 billion bushels, 6 per cent below last year's record. The estimate, based on average yields, may be understated. A second year of moderate net additions to carryover stocks of soybeans, wheat, and corn seems likely. The prospective 11.0 to 11.5 million bale cotton crop is less than utilization, but carryover stocks of 6.75 million bales this August assure adequate supplies. Prospects for fruits and vegetables in the second half of the year are excellent.

For livestock food products, the major question in 1968 is the level of beef and pork slaughter in the fourth quarter. Earlier projections had indicated fairly significant declines. From the number and weight distribution of cattle on feed in July, however, it appears that beef production in the fourth quarter will exceed a year earlier. If the estimated 3 per cent fewer pigs reported on farms on June 1 for fall slaughter is reasonably accurate, the fourth quarter seasonal rise in pork production will fall short of a year earlier. However, many analysts doubt that fall slaughter will vary much from a year earlier. One reason cited is that the cut-back in March-May farrowings interrupted an uptrend in production in response to favorable returns that began last fall and is continuing in June-November 1968, according to producer intentions.

Another reason is the fact that the entire decline in March-May farrowings in the Western Corn Belt was in Iowa, the leading producing state, while neighboring states' production was little changed. One Iowa analyst believes that this sharply different pattern in Iowa is unlikely.

Through the first half of 1968, livestock food production was about the same as last year but the mix differed a little, as moderately reduced output of dairy and poultry products was just about offset by increased output of red meats, principally pork. Civilian per capita consumption of red meats, amounting to 44.5 pounds in the first quarter and 43.9 in the second, was 2 per cent above a year earlier in both quarters. Third quarter livestock food production appears to be following trends set in the first half, with pork and beef production continuing above year earlier levels.

By the fourth quarter there are indications that the downtrend in milk will have leveled out and broiler production risen above 1967. Egg and turkey output will be sharply below a year earlier. As is often the case, the principal unknown in the fourth quarter outlook for livestock production and prices is hog production.

JULY 1 CROP PRODUCTION PROSPECTS

	1968 Acreage for Harvest		Prospective 1968 Output	
	No. of acres (millions)	% change from 1967	Output (millions)	% Change from 1967
Total, U.S.	297.6	- 1.1	n.a.	n.a.
Winter wheat	43.0	- 5.7	1,265 bu.	4.4
Spring wheat	13.0	- 2.6	322 bu.	3.3
Rice	2.4	19.8	110 cwt.	23.1
Corn	64.5	- 7.5	4,452 bu.	- 5.7
Sorghum grain	17.4	- 6.6	n.a.	n.a.
Hay	63.6	- 1.8	121 tons	- 4.1
Soybeans	40.9	3.0	n.a.	n.a.
Tobacco	.9	- 6.5	1,828 lbs.	- 7.3
Cotton	11.1 1/	17.0 1/	n.a.	n.a.

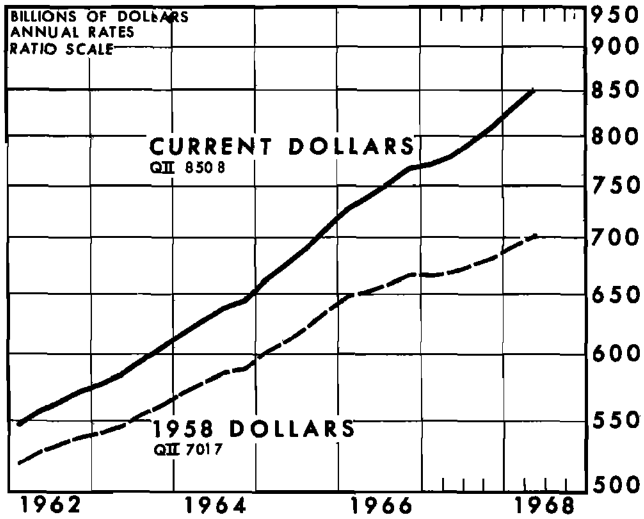
1/ Planted acreage.

n.a. -- not available until August survey.

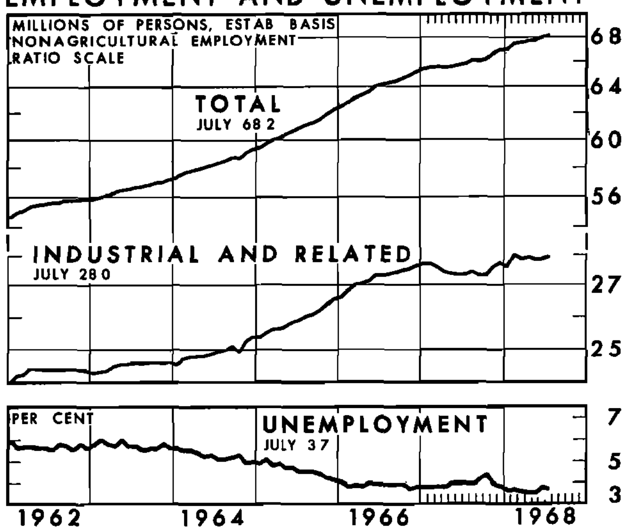
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

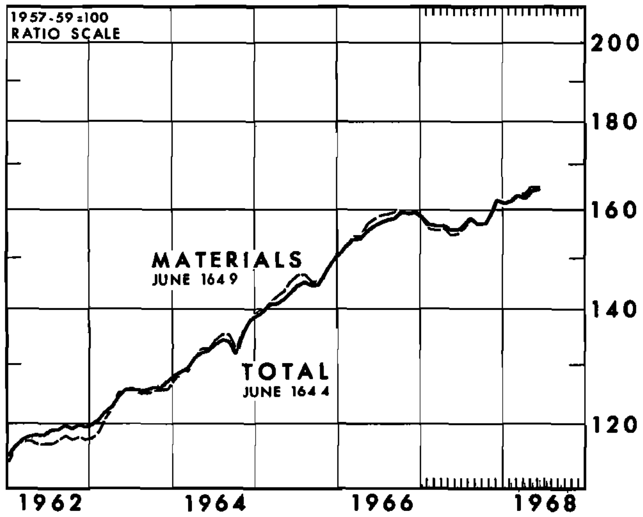
GROSS NATIONAL PRODUCT



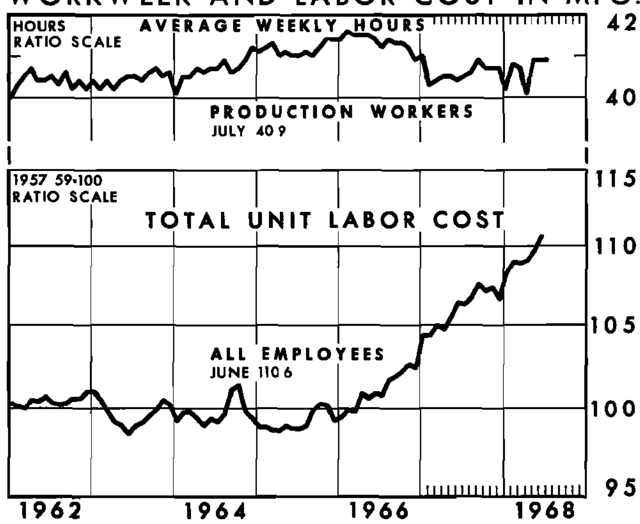
EMPLOYMENT AND UNEMPLOYMENT



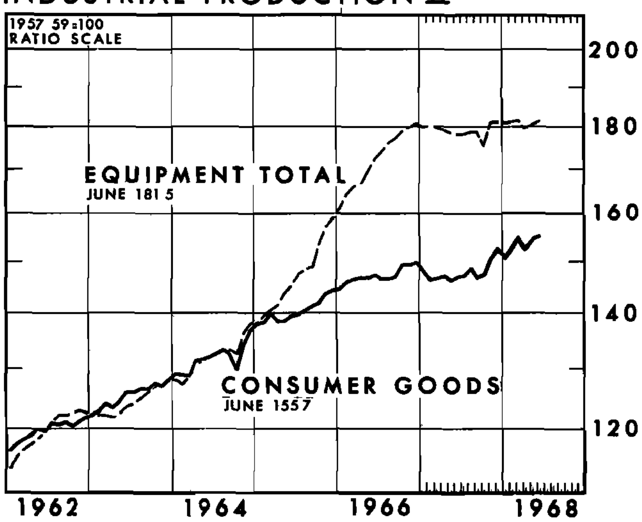
INDUSTRIAL PRODUCTION-I



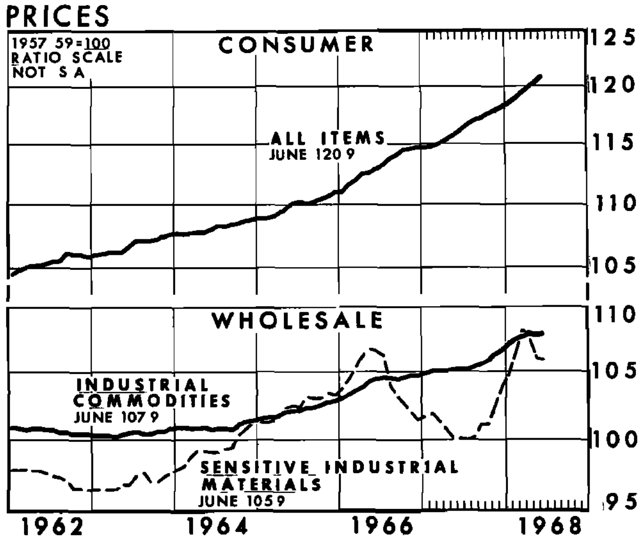
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



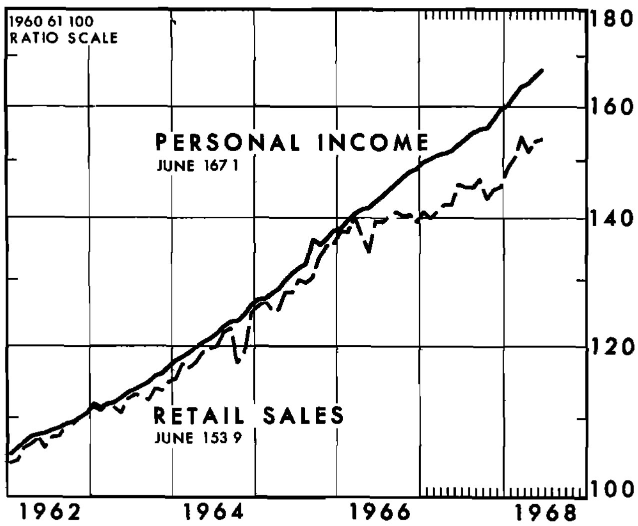
PRICES



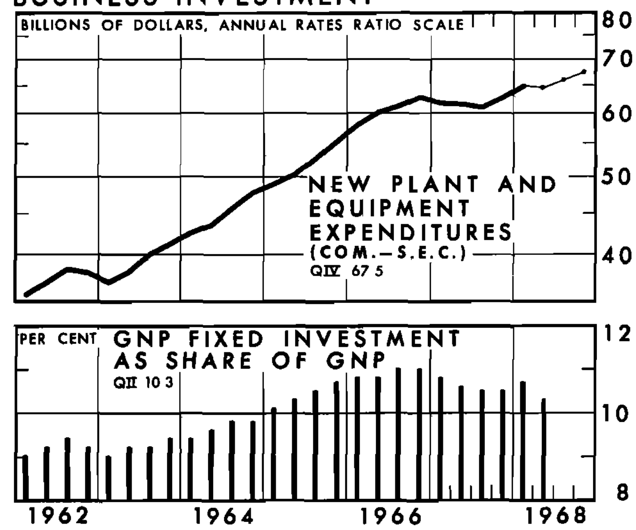
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

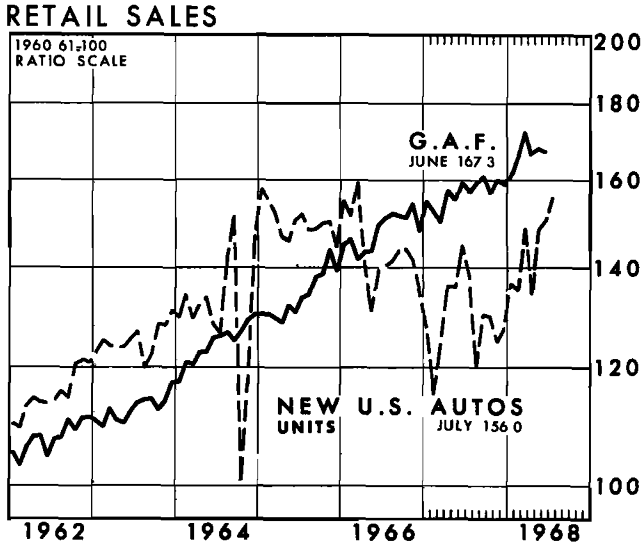
INCOME AND SALES



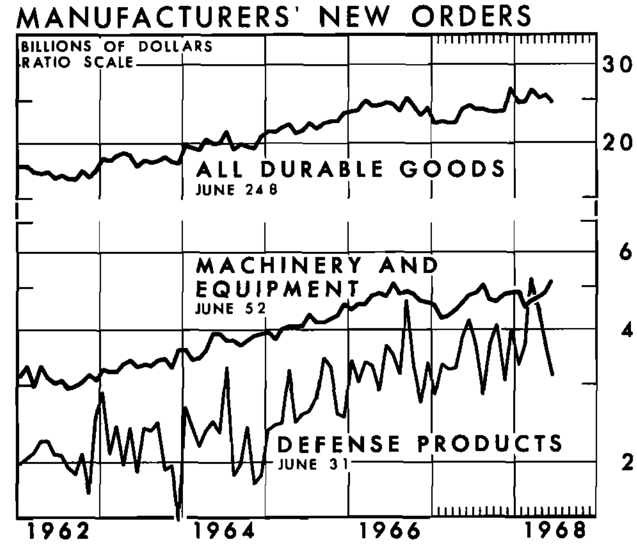
BUSINESS INVESTMENT



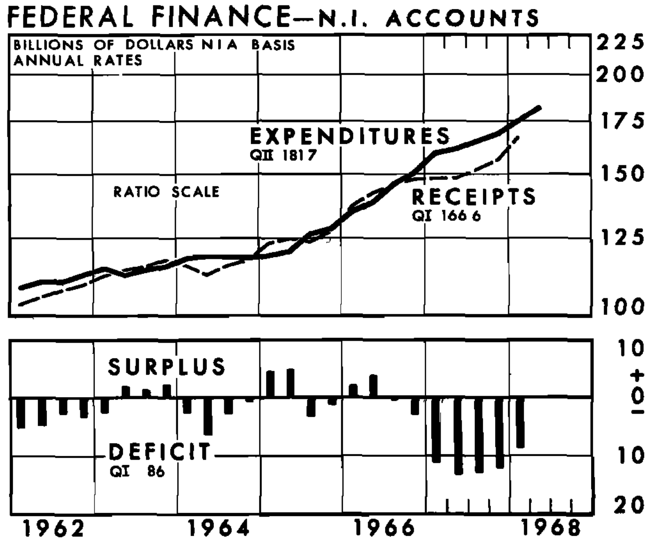
RETAIL SALES



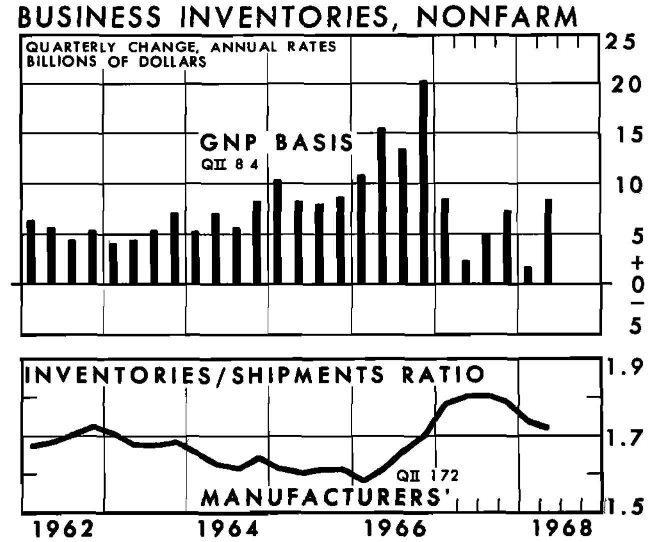
MANUFACTURERS' NEW ORDERS



FEDERAL FINANCE—N.I. ACCOUNTS



BUSINESS INVENTORIES, NONFARM



DOMESTIC FINANCIAL SITUATION

Bank credit. Following relatively little expansion in June--when bank liquidation of security holdings nearly offset the large rise in business loans--total loans and investments at all commercial banks are estimated to have increased $8.5 billion in July, or at about a 28.5 per cent annual rate. The July surge reflects primarily heavy bank participation in the Treasury bill financing, and broker-dealer borrowing to finance increased inventories of securities. (The large July increase--for the second consecutive year--reflects in part the difficulty of developing seasonal adjustment factors to take account of the shifting pattern of Treasury financings.) Business loan growth in July, although substantial, was somewhat less than expected in view of the recent increase in corporate tax liabilities.

NET CHANGE IN BANK CREDIT
All Commercial Banks
(Seasonally adjusted annual rates in per cent)

	1967	1968			
		H1	Q1	Q2	July 1/
Total loans & investments 2/	11.5	6.2	6.8	5.5	28.6
U.S. Gov't. securities	11.0	1.3	2.0	0.7	82.0
Other securities	26.1	6.5	13.7	- 0.6	7.6
Total loans	8.2	7.4	6.4	8.2	20.6
Business loans	9.8	9.7	7.0	12.3	10.6
Memo:					
Credit proxy 3/	11.6	5.5	7.5	3.4	11.8

1/ All July rates are preliminary estimates based on incomplete data and are subject to revision.
2/ Last Wednesday of the month series.
3/ Monthly average of daily figures, adjusted to include Euro-dollar borrowing.

Following little net change in the second quarter, bank holdings of U.S. Government securities rose sharply in July, accounting for almost one-half of the total expansion in bank credit. Banks were allotted virtually all of the $4 billion in tax anticipation bills offered by the Treasury in the early-month financing--payable with full tax and loan credit--and liquidation of these and other Treasury issues immediately subsequent to the financing was relatively light. In the last reporting week of July, large banks in New York and Chicago again added to their holdings of Governments, mainly Treasury bills. The increase in bank holdings of Government securities combined with the increase in loans to brokers and dealers for purchasing or carrying Government securities accounted for roughly two-thirds of the July expansion in total bank credit.

With deposit inflows much improved and with prospects for a slowing of loan demand, banks also have begun to add to their holdings of other securities. These holdings increased $400 million in July--mostly in relatively high yielding longer-term municipals--after having declined slightly in the second quarter.

Although total bank loans expanded rapidly, business loan growth slowed somewhat from the pace of the second quarter in spite of the $1.1 million increase in July corporate tax payments resulting from the recent tax legislation. Business borrowing over the tax date was moderate, apparently as corporate liquidity positions were sufficient to allow corporations to meet their increased tax liabilities without heavy reliance upon bank credit. A contra-seasonal increase in loans to finance companies during the tax period suggests that corporations may have liquidated holdings of finance company paper to meet some of their tax payments.

The industrial breakdown of business loans shows more than normal use of bank credit by retail trade, textiles, and petroleum refining, while public utilities, chemicals, mining, and construction borrowed somewhat less at banks than is usual during July. Growth in term loans, as in recent months, remained relatively substantial, reflecting for the most part continued borrowing by both metal-producing and metal-using industries.

Security loans rose approximately $2.7 billion in July with much of this increase reflecting bank financing of increased dealer positions of Government securities. Broker-dealer loans for purchasing or carrying other securities also rose sharply, particularly in the first half of the month, and may reflect the speculative inventory build-up of CD's and other money market instruments in anticipation of future interest rate declines. Consumer loans continued to expand at the increased pace, and real estate loans at the reduced pace, of recent months.

Bank deposits. Time and savings deposits at all commercial banks in July are estimated to have increased by $2.4 billion, on a daily average basis, or at about a 15.5 per cent annual rate. Most of the acceleration can be attributed to heavy CD sales by banks, since inflows of consumer-type time and savings deposits remained close to the moderate pace of recent months.

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

	1965 June 30- July 28	1966 June 29- July 27	1967 June 28- July 26	1968 June 26- July 24
Total time & savings deposits	942	752	1,352	2,405
Consumer-type deposits	n.a.	763	643	458
Savings deposits	300	- 969	78	- 317
Time deposits, IPC (Other than CD's, IPC)	n.a.	1,732	565	775
CD's	502	- 9	543	2,009
All other time deposits	n.a.	- 2	166	- 62

n.a. - not available.

With most short-term market rates of interest still declining, all but the shortest-maturity CD's have become competitive with money market instruments and banks have taken the opportunity to recoup CD's lost in recent months. During the first four weeks in July, large banks added more than $2.0 billion to their outstandings, bringing this total to a new high of $21.3 billion. Moreover, in view of the ready availability of these funds, large money market banks have reduced their offering rates from 25 to 50 basis points below Regulation Q ceilings on 3-month maturities and over.

During the first four weeks of July, consumer-type time and savings deposits at large banks expanded at about the pace of recent months in spite of a decline in regular savings deposits following mid-year interest crediting. The reduction in savings deposits was moderate, given interest rate relationships, as compared to the declines in April of this year and in July 1966. Growth in time certificates and open accounts more than offset the reduction of savings deposits, probably reflecting some movement of funds within individual banks. At country banks, too, savings deposits declined following the interest-crediting period, but less than at large banks, where depositors are more interest-sensitive. This decline also was much more than offset by increases in time deposits.

With deposit inflows much improved, banks did not resort to the Euro-dollar market for increased funds in July as they had in recent months. Over the four weeks ending July 31, the level of bank liabilities to foreign branches declined about $600 million on balance, in sharp contrast to the $2 billion increase in these liabilities during the previous two months.

The money stock, on a daily average basis, is estimated to have expanded at about a 13.5 per cent annual rate in July, almost twice the rate of growth in June. This rapid increase reflects in part the $1.1 billion decline in U.S. Government deposits, although the large expansion of bank credit in July probably also contributed to a temporary build-up of demand deposits and the money stock.

Nonbank depositary institutions. Complete data for intermediary savings flow during July are not yet available. However, preliminary information from the FHLBB sample survey suggests that inflows to the savings and loan associations continued to deteriorate during the latter half of July, in contrast to typical patterns. Most of the deterioration occurred in the San Francisco District. On a seasonally-adjusted basis, July inflows to all S&L's are now estimated to have grown at slightly less than a 5 per cent annual rate. The volume of inflows--approximately $6 billion at an annual rate--is about 15 per cent less than in the first half of 1968.

INFLOWS TO SAVINGS AND LOAN ASSOCIATIONS
(Increase in per cent)

	1966	1967	1968
Q1	5.2	9.4	5.7
Q2	2.0	11.4	5.8r/p/
February	6.1	8.4	6.0
March	5.1	11.2	8.5
April	- 1.1	12.3	3.9
May	2.8	10.2	5.9
June	4.1	11.5	7.6r/p/
July	- 5.0	11.3	4.8 e/

r/ Revised.
p/ Preliminary.
e/ Estimate based on FHLBB sample of 480 insured associations.

In addition to the liberalization of Federal savings and loan operations stemming from the 1968 Housing Bill as discussed in Appendix A, two other developments affecting savings and loan associations have materialized. Effective August 1, the FHLBB has reduced member savings and loan reserve requirements by one-half of one per cent[1/] in an attempt to stimulate mortgage lending, at least in the short run. Although the aggregate amount potentially freed has been estimated at $600 million, there is no assurance that this liberalization will be fully utilized--and in fact there will probably not be any reliable way to measure its impact.

The FHLBB also has permitted Federal associations to offer a "90-day notice" [2/] account as of the end of July, at ceiling rates of 4.75 per cent for most associations, but at 5 per cent for those associations in direct competition with mutual savings banks. While these ceilings are no higher than those on regular accounts, this new account broadens the options available to associations in the competiton for savings--and will possibly enable associations to offer below-ceiling rates on regular accounts to thereby reduce total dividend costs.

The New York State legislation, effective July 1, enabling thrift institutions to offer both day-of-deposit to day-of-withdrawal savings accounts and time deposits,[3/] was implemented by most of the

---

1/ Effective August 1, reserves in the form of holdings of cash and U.S. Governments are required to equal at least 6.5 per cent of total share capital.

2/ This new account requires 90-days' written notice of withdrawal except for withdrawals at the end of a dividend-crediting period if the funds had been in the account for at least 90 days, and in the case of emergencies. Prior to this action, Federal S&L's could issue special accounts for no less than 6 months.

3/ Prior to this legislation, New York State thrift institutions were unable to contract in advance an interest rate to be paid on their deposits.

savings banks in the New York City area as well as by a few banks located elsewhere in the State. The prevalent rate on the day-of-deposit plans was 4.75 per cent; that on time deposits was 5 per cent, with a minimum initial deposit of $1,000 also generally required. Most of the savings banks in the State continued to offer 5 per cent--the current ceiling--on regular deposits.

Mortgages market developments. Results of the July FRB-FHLBB mortgage market surveys, to be detailed in the Greenbook Supplement, suggest that the residential mortgage market was turning toward ease at the time the surveys were taken after the end of the reinvestment period. In this transitional phase, the mortgage market was still characterized by some uncertainty about future inflows of funds and interest rate developments, compounded by some continuing structural problems posed by below-market usury ceilings, policy loan demands, and discounts on Government-underwritten mortgages. Nevertheless, new mortgage commitments being made in July by the lenders interviewed were generally running only slightly below advanced year-earlier levels, with considerable variation by type of respondent and area in the face of relatively strong credit demands. Over the August-October period, the same lenders anticipated that their inflows of funds would be somewhat below the exceptionally strong volume for the same period a year earlier, with savings and loan associations looking for much less favorable savings inflows than their bank competitors. In view of these and other factors, respondents on balance anticipated that their new mortgage commitments to be approved during the next 3 months would fall somewhat short of matching the large year-earlier rate.

The surveys took place at a time when other signs were appearing that both the primary and secondary mortgage market had begun to ease, following an extended period of gradual tightening which had persisted for more than a year. Although official FHA series for July are not yet available, confidential FNMA field reports inicate that yields on FHA and VA mortgages traded in the private secondary market turned down last month, undoubtedly in response to passage of the fiscal package as well as the less unfavorable than expected savings experience of thrift institutions during the June-July reinvestment period. The FNMA field reports also emphasize that availability of residential mortgage funds generally improved in July, although non-rate terms remained relatively strict. In line with quickened investor interest in mortgages, there was talk among some mortgage bankers about a possible shortage of loans available for immediate delivery, with a number of mortgage companies reportedly delaying delivery in anticipation of more favorable mortgage prices ahead.

Supporting these signs of a recent turnaround in the mortgage market, implicit yields in the FNMA weekly forward commitment auction on FHA and VA home loans available for future delivery to FNMA dropped sharply through mid-July from their mid-June peak, and then changed little further at a still-advanced level, as the table shows. Since mid-June, there has been a noticeable downtrend in the share of total auction bids accounted for by one-year purchase commitments on mortgages to be secured by new homes not yet started. The decline has apparently resulted from a lessening of builder needs for this type of backstop protection in anticipation of easier mortgage market conditions some time later--a viewpoint confirmed by trade reports.

FNMA WEEKLY AUCTIONS
(6-month forward commitments)

Auction Date	Accepted bids ($ millions)	Implicit private market yield (per cent)
June 3	40.0	7.65r
10	44.8	7.71r
17	49.8	7.69r
24	50.4	7.60r
July 1	60.5	7.48r
8	65.9	7.40r
15	57.3	7.35
22	47.4	7.32
29	53.7	7.33
Aug. 5	49.7	7.32

Note: Average secondary market yield after allowance for commitment fee and required FNMA stock purchase, assuming prepayment period of 15 years for 30-year mortgages. Yields shows are gross, before deduction of 50 basis point fee paid by investors to servicers.

With average home mortgage yields remaining above 7.0 per cent through July, below-market usury ceilings have continued to limit mortgage investment. Currently 11 states, which accounted for about a fifth of the total unit volume of residential building permits issued last year, still have rate limits of 7 per cent or less. In addition, many lenders have apparently sharply curtailed lending in Maryland (which accounted for 3 per cent of total permits last year), because of difficulties in interpreting the new 8 per cent usury statute which became effective July 1.

On July 22, the President authorized additional Government funds for housing construction by releasing $350 million for certain FNMA special assistance purchase commitments. These commitments, to be issued against below-market rate residential mortgages during the current fiscal year, could underwrite the start of about 27,00 dwellings within the next 6 months or so. On August 1, the President signed the new omnibus housing act, summarized in Appendix A, which authorizes programs of public and private assistance that could bolster total housing starts during the fiscal year 1969 by up to 50,000 net additional units.

Over the month of June as a whole, mortgage rates on new homes averaged around 7-1/4 per cent in the primary market for conventional loans and 7-1/2 per cent in the more volatile private secondary market for Government-underwritten loans, according to the FHA series shown in the table. Increases in rates on conventional first mortgages continued in all geographic regions, and tended to be particularly sharp in areas where increases in usury rate ceilings had recently been put into effect. Meanwhile, discounts on FHA mortgages remained large enough to inhibit some transactions involving this type of financing. However, yield spreads favoring home mortgages relative to new issues of high grade corporate bonds improved somewhat further in June.

AVERAGE RATES AND YIELDS ON SELECTED NEW-HOME MORTGAGES

	Primary Market: Conventional loans		Secondary Market: FHA-insured loans		
	Level (per cent)	Yield spread (basis points)	Level (per cent)	Yield spread (basis points)	Discount (points)
1967					
May	6.45	79	6.44	78	3.8
June	6.50	71	6.51	72	4.4
July	6.50	72	6.53	75	4.6
August	6.55	66	6.60	71	5.2
September	6.55	67	6.63	75	5.4
October	6.55	43	6.65	53	5.6
November	6.65	12	6.77	24	6.5
December	6.70	19	6.81	30	6.8
1968					
January	6.75	51	6.81	57	6.8
February	6.75	46	6.78	49	6.6
March	6.80	24	6.83	27	7.0
April	6.90	38	6.94	42	7.9
May	7.15	49	7.50e	84e	6.1e
June	7.25	59	7.52	86	6.3

Note: FHA series; interest rates on conventional first mortgages (excluding additional fees and charges) are rounded to the nearest 5 basis points; secondary market yields and discounts are for certain 6 per cent, FHA-insured Sec. 203 loans through April with data for May 1968 estimated by Federal Reserve based on the new 6-3/4 per cent regulatory rate. Gross yield spread is average mortgage return, before deducting servicing fees, minus average yield on new issues of high grade corporate bonds.

Total outstanding residential mortgage commitments available for future takedown on new and existing properties from reporting lenders edged lower in June for the second consecutive month, although they continued sharply above year-earlier levels. The commitment backlog remained slightly above the advanced rate attained at the end of 1965, as the table shows. But with construction costs and housing prices climbing further since 1965, the dollar volume of commitments outstanding this June probably underwrote somewhat fewer future mortgage transactions than the same volume in 1965, because more credit is now required per commitment. Also, takedowns of old commitments have apparently slowed as expiration dates have been stretched out, so that somewhat less of the total current backlog remained available for near-term takedown than was the case several years ago. Offsetting, at least in part, these limiting factors or near-term construction is the current tendency for more real estate transactions to be consummated without reliance on new extensions of mortgage funds, by making use of assumed mortgages, instalment land contracts, and similar arrangements.

INDEX OF RESIDENTIAL MORTGAGE COMMITMENTS OUTSTANDING

(December 1965 = 100)

	Dollar volume at end of:			
	June 1967	April 1968	May 1968	June 1968
Savings and loan associations	87	114	112	109p
Savings banks in New York State	93	91	93	95
Reporting thrift institutions	(89)	(107)	(106)	(104p)
Reporting life insurance companies	76	90	91	91
All three groups	86	102	102	101p

NOTE: Based on seasonally adjusted data which are confidential for life insurance companies. Reporting savings banks and life insurance companies account for about 70 per cent of total industry assets. Data for savings and loan associations and savings banks include some nonresidential mortgages.

Corporate and municipal bond markets. Corporate and municipal bond yields have declined substantially since early July. While the rate of decline has tapered off recently, the present level of yields in both markets is nonetheless about one-half percentage point below the peaks registered in May.

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)
1968				
Low	6.12 (2/2)	6.07 (3/8)	4.18 (8/2)	4.11 (8/2)
High	6.83 (5/24)	6.29 (6/7)	4.68 (5/24)	4.71 (5/24)
Week ending:				
June 7	6.66*	6.29	4.59	4.51
14	6.61*	6.28	4.61	4.56
21	6.67	6.29	4.52	4.42
28	6.70	6.27	4.50	4.48
July 5	--	6.27	4.50	4.48
12	6.56*	6.27	4.44	4.36
19	6.51	6.26	4.41	4.33
26	6.40	6.22	4.27	4.16
Aug. 2	6.37	6.15	4.18	4.11

* - Some issues included carry 10-year call protection.

A general shift in the sentiments of market participants appears to account in large measure for the yield declines, as recent events have strengthened the view that bond yields had reached an upper turning point. In this atmosphere, dealers priced bonds aggressively as well as sought additional inventory, and investors responded with enthusiasm to the now lower-yielding new issues. Consequently, the volume of unsold bonds in syndicate and available on original offering terms is relatively light.

Flotations of new corporate public bonds in July is estimated to have aggregated about $1.3 billion, slightly below earlier estimates due to the rescheduling to August of some issues orignallly expected in July. Nonetheless, the volume of issues exceeded the average monthly volume during the first half by a sizable margin. Corporate security offerings in July, including private placements and stock offerings, are estimated to have totaled $2.3 billion--somewhat below June as well as below the outsized volume recorded during the summer months of 1967.

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
Q II monthly avg.	1,339	1,038e	489	584e	2,069	1,952e
June	1,684	1,350e	659	750e	2,674	2,550e
July	1,889	1,260e	486	600e	2,589	2,310e
August	1,813	825e	412	600e	2,481	1,650e

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

Scheduled offerings of corporate public bonds in August now approximate $500 million, with the ultimate volume estimated at a relatively light $825 million. This places expected August offerings about one-third less than July, a more than seasonal decline, and nearly $1 billion less than the outsized volune a year earlier. Absent from the August calendar so far are any sizable straight debt offerings of prime industrial corporations--the type of issues which led to a bulge in the past two months as well as during the summer and fall of 1967. And underwriters report that such offerings are not presently in the pipeline for near-term issuance. Several factors appear to contribute to the slowing of corporate long-term credit demands, including the prospective restraint in growth of the economy, a good availability of bank credit, a relatively strong corporate liquidity position, and increased profits (likely through the second quarter even after allowing for the surcharge). Most important, however, may be the expectations of corporate treasurers that yields will be lower some months hence. When taking account of private placements and stock offerings, the volume of total corporate security issues will likely aggregate less than $1.7 billion in August, well below recent months.

In contrast to the corporate market, the volume of State and local government bond offerings shows no signs of abating. The volume of new issues in July amounted to an estimated $1.4 billion, the largest month in a year. Successful distribution of these issues at declining yields was reportedly accomplished in large part by the increased participation of commercial banks.

The usual seasonal drop-off of new offerings in August is not expected this year, and estimated volume for the month is $1.3 billion. It should be noted, however, that the calendar contains several large negotiated revenue bond issues that might be pushed into September and, therefore, lead to a reduced August volume.

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

	1967	1968
Q I Monthly average	1,391	1,238
Q II Monthly average	1,294	1,236e
June	1,497	1,325e
July	950	1,400e
August	860	1,300e

1/ Data are for principal amounts of new issues.
2/ Estimated.

Stock market. Having reached new all-time highs in mid-July, common stock prices subsequently turned down relatively sharply. By early August New York Stock Exchange issues on average were approximately 6 per cent below their mid-summer peaks. Trading volume during the decline grew steadily lighter, with block transactions--an indicator of institutional activity--especially reduced. Continuation of back-office difficulties, however, has resulted in the extension of the 4-day trading week through the end of August.

The latest market retreat has apparently been associated with institutional apathy produced by the expected relatively greater capital gains opportunities in the bond market; belated pessimism on the part of some investors regarding the economic impacts of the tax increase probably also contributed to the market decline. Disenchantment with less seasoned issues has been evident, as indicated by the American Exchange Index which has dropped somewhat more sharply in the last few weeks.

STOCK PRICE INDICES

	Dow-Jones Industrial Average	New York Stock Exchange Index	American Ex. Index
1968			
January High	908.92	54.17	25.67
March 29	840.67	50.05	22.42
Mid-July High	923.72	57.69	30.08
August 6	876.92	54.60	28.02
Per cent decline: Mid July to August 6	- 5.1	-5.4	-6.8

AVERAGE DAILY TRADING VOLUME

	New York Stock Exchange	American Stock Exchange
1968		
March	9.2	3.6
June	15.1	7.4
Week ending:		
July 12	17.1	8.4
19	14.7	7.7
26	13.7	5.8
August 2	11.4	4.6

The earlier indications that the growth in stock market credit was sharply curtailed in June--probably owing in part to the increase in margin requirements--are confirmed by the preliminary figures for customers' margin debt at brokers. Such debt rose only $10 million (preliminary) during that month. Bank purpose loans to non-brokers rose $50 million, the largest increase since October 1967. The increase, however, could reflect a rise in borrowing against bonds (other than U. S. Governments) as traders moved to take advantage of the rising bond prices expected to follow the tax increase.

U.S. Government securities market. Market expectations of generally lower interest rates have received increasing confirmation in the weeks since the July 16 meeting of the Committee. Treasury coupon issues have posted net yield declines ranging generally from 15 to 20 basis points, with declines on a few shorter maturities amounting to about 50 basis points. Bill rates also moved as much as 50 basis points lower with the bid yield on the key 3-month bill rate dropping from 5.42 per cent on July 15 to 4.89 per cent on August 5.

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

	1966	1967	1968			
	Highs	Highs	Highs	June 17	July 15	Aug. 6
Bills						
1-month	5.60 (9/19)	4.75 (1/4)	5.70 (5/21)	5.45	5.40	4.95
3-month	5.59 (9/21)	5.07 (12/15)	5.92 (5/21)	5.58	5.42	4.98
6-month	5.98 (9/19)	5.60 (12/1)	6.08 (5/21)	5.64	5.53	5.18
1-year	5.94 (8/21)	5.71 (12/29)	6.03 (5/21)	5.65	5.50	5.13
Coupons						
3-years	6.22 (8/29)	5.87 (11/13)	6.36 (5/21)	5.78	5.64	5.46
5-years	5.89 (8/29)	5.91 (11/13)	6.21 (5/21)	5.81	5.68	5.50
10-years	5.51 (8/29)	5.87 (11/13)	6.02 (5/21)	5.71	5.56	5.38
20-years	5.12 (8/29)	5.81 (11/20)	5.77 (3/14)	5.39	5.33	5.17

The moderate decline in interest rates which had been underway since late June seemed in danger of stalling just prior to the last Committee meeting. Several developments in succeeding weeks, however, sparked renewed market optimism and moved rates significantly lower. The lowering of the System's repurchase agreement rate on the day after the Committee meeting from 5-5/8 to 5-1/2 per cent was the first of these influences, since it was widely construed as an indication of Committee intentions. The logic of this interpretation was at the same time encouraged by economic reports showing a slower growth in final demands druing the second quarter and pointing to substantial further slackening of business activity later in the year. In consequence, demand for Government issues increased markedly, with dealers reporting substantial sales to a wide range of investors and at the same time moving to build up their own positions.

Expectations of lower rates created particularly strong demands for issues of longer maturity as investors sought to acquire positions while rates were still historically attractive. In this atmosphere, the Treasury's offering of $800 million of FNMA participation certificates received a very enthusiastic response. Banks are reported to have acquired the bulk of the $300 million, 10-year PC's, offered to yield 6-1/8 per cent, while a wide variety of investors showed interest in the $500 million, 20-year maturity, sold to yield 6.20 per cent. Both issues soon traded up in price to yield around 6.00 per cent and yields on longer-term Government securities responded accordingly to this impressive demonstration of the underlying strength of investor demands.

Expectations of sizable new money borrowing on the Treasury's August refinancing, along with the possibility of some pre-refunding of near-dated maturities other than August "rights" stimulated dealers to adjust their positions in anticipation of these possibilities and temporarily slowed the decline in yields in the longer area of the Government list. When the refinancing was announced as a straight cash operation without a pre-refunding and new money borrowing was limited to $1.5 billion, yield declines were renewed.

The yield response was particularly pronounced in the Treasury bill market. With no new short-term coupon issue being offered in the financing, holders of the $3.7 billion of publicly-held August maturities not wanting the 6-year note began to seek alternative investments in other short-term securities. In the week following the Treasury's announcement, when the market supply of immediately available bills had already been substantially depleted, downward pressures on bill rates became intense. At one point the yield in the key 3-month bill dropped to a low of 4.87 per cent. But most recently bill demand has slackened, and dealers have become more sensitive to present high financing costs; in consequence bill rates have tended to back-up.

Other short-term market rates have also declined. The generally sticky rates on bankers' acceptances, finance company paper and commercial paper have all moved lower by approximately 1/8 of a percentage point. And, in large part reflecting heavy July inflows but also because of the general reduction in market rates, CD offering rates have been adjusted downward, with even the 90-day maturity now paying less than the Regulation Q ceiling rate.

SELECTED SHORT-TERM RATES

	1966 Highs	1967 Highs	1968 Highs	1968 June 17	1968 July 15	1968 Aug. 5
1-month						
CD's (prime NYC)						
Highest quoted new issue	5.50 (12/13)	5.50 (12/29)	5.50 (8/5)	5.50	5.50	5.50
Secondary market	5.75 (9/28)	5.50 (12/29)	6.20 (5/31)	6.00	5.90	5.80
3-month						
Bankers' acceptances	5.75 (10/25)	5.63 (12/29)	6.13 (5/24)	6.00	5.88	5.63
Federal agencies	5.76 (9/21)	5.30 (12/29)	6.11 (5/17)	5.91	5.65	5.46
Finance paper	5.88 (12/31)	5.88 (1/6)	6.13 (6/25)	6.00	5.88	5.75
CD's (prime NYC)						
Highest quoted new issue	5.50 (12/31)	5.50 (12/29)	6.00 (7/18)	6.00	6.00	5.80
Secondary market	5.90 (9/21)	5.70 (12/29)	6.20 (5/31)	6.10	6.05	5.80
6-month						
Bankers' acceptances	6.00 (9/23)	5.75 (12/29)	6.25 (5/24)	6.13	6.00	5.75
Commercial paper	6.00 (12/31)	6.00 (1/16)	6.25 (7/25)	6.25	6.25	5.88
Federal agencies	6.04 (9/21)	5.55 (12/29)	6.25 (5/24)	6.08	5.80	5.61
CD's (prime NYC)						
Highest quoted new issue	5.50 (12/31)	5.50 (12/29)	6.25 (7/11)	6.25	6.25	5.80
Secondary market	6.30 (9/28)	6.00 (12/29)	6.40 (5/31)	6.25	6.18	5.90
1-Year						
Federal agencies	6.13 (9/23)	5.95 (12/29)	6.01 (5/31)	6.00	5.88	5.65 *
Prime municipals	4.25 (9/21)	4.00 (12/29)	3.90 (5/31)	3.70	3.30	3.00 *

N.B. - Latest dates on which high rates occurred are indicated in parentheses.
* July 31.

<u>Federal finance</u>. With the completion of this week's financing, the Treasury will have no further need to enter the market until late October. Any marked further decline of Government security yields in the weeks ahead, however, could encourage Treasury officials to undertake a pre-refunding of some of the sizable volume of coupon issues that mature in late 1968 and 1969. Also, the already announced cycle of $100 million additions to weekly bill auctions will continue through the second Thursday of October.

For the third quarter as a whole net Federal borrowing from the public will total about $7.3 billion, as the table shows. While the Federal cash deficit in the fourth quarter is projected to be even larger than in the third (for seasonal reasons), the weight of Federal borrowing will actually be more moderate. Quarterly income tax payments will swell the Treasury's end-of-September balance to an estimated $8.3 billion, so that most of the October seasonal deficit can be covered by drawing the balance down. The market impact of the $5.5-- $6.0 billion of new money that <u>is</u> expected to be needed in the fourth quarter should also be moderated because of the probability that the Treasury will finance this need with tax anticipation bills. This type of issue is best suited to the sizable repayment of debt which is expected to develop in the last half of the fiscal year.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

Details and totals	QIII July a/	QIII Aug.	QIII Sept.	QIV
New cash raised				
Weekly bills	.4	.5	.4	.2
Tax bills	3.9	--	--	5.5
Coupon issues	--	1.5	--	--
PC's	--	.8	--	--
Debt Repayment etc. (-)	- .2	--	--	-.3
Net borrowing from public	4.1	2.8	.4	5.4
Other net fin'l sources b/	.3	- .5	.9	- .7
Budget surplus or deficit (-)	-3.7	-3.2	1.9	-8.4
Change in cash balance	.7	- .9	3.2	-3.7
Level of cash balance, end of period	6.0	5.1	8.3	4.6

a/ Actual or estimated data.

b/ Checks issued less checks paid and other accrual items.

The broad outlines of the fiscal 1969 Budget as now projected, and the actual results for fiscal 1968 (as well as for 1967) are compared in the table that follows. Three summary versions of the aggregate fiscal impact are given in the table, (1) the new unified budget, (2) the Federal sector in the national income accounts, and (3) a computation of the high-employment NIA budget.

The tentative fiscal year 1969 projection shows the same deficit of $3.8 billion, both for the new budget and the Federal sector in the NIA accounts. However, when the NIA receipts are calculated on the assumption of a steady high-employment GNP model the deficit shrinks to about $1.0 billion.

THREE MEASURES OF FEDERAL SECTOR FISCAL IMPACT
Fiscal 1967 - 1969
(In billions of dollars)

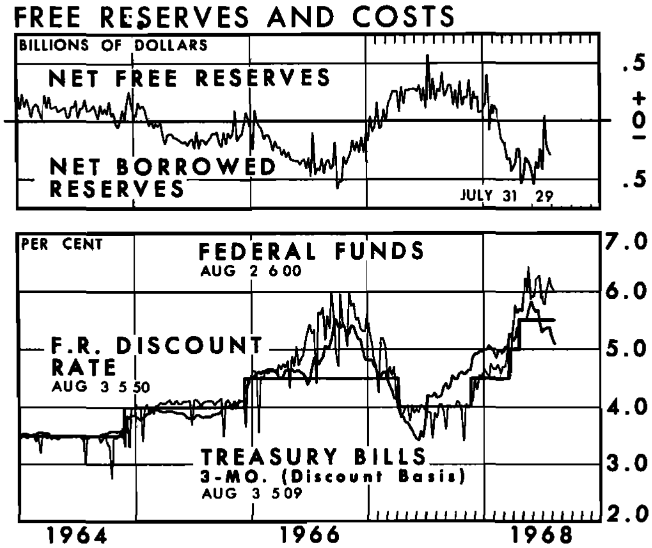
	Fiscal 1967 (Actual)	Fiscal 1968 (Est.)	Fiscal 1969	Fiscal 1969 July-Dec.	Fiscal 1969 Jan.-June
			(Projected)		
(Not seasonally adjusted)					
1) New unified budget a/					
Receipts	149.6	153.5	182.0	81.5	100.5
Outlays	158.4	178.9	185.8	94.8	91.0
Deficit (-)	-8.8	-25.4	-3.8	-13.3	9.5
(Seasonally adjusted at Annual rates)					
2) Federal sector, NIA accounts					
Receipts	147.7	160.8	181.8	178.0	185.5
Expenditures	154.4	172.6	185.6	185.5	185.7
Deficit (-)	- 6.7	-11.8	- 3.8	- 7.5	-.2
(Seasonally adjusted at annual rates)					
3) High Employment budget b/					
Receipts	148.7	162.4	184.4	179.6	189.0
Expenditures	154.3	172.4	185.4	185.3	185.4
Deficit (-)	-5.6	-10.0	-1.0	-5.7	3.6

a/ Data for new budget for fiscal year 1968 are actuals.
b/ Assumes four per cent per annum real growth in GNP beginning with base quarter 1966-Q4.

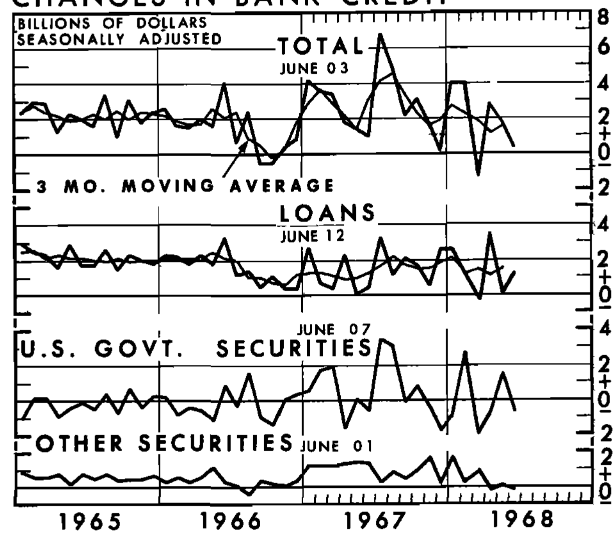
The half-year pattern is highly divergent as between the new budget and the Federal sector in the NIA accounts. For one thing, new budget data are only available seasonally unadjusted, thus showing a large deficit in the last half of calendar year 1968 and a surplus in the first half of calendar 1969. Also, corporate and social security tax receipts are entered in the NIA accounts on a smooth accrual basis, whereas the new budget, as presently measured, records cash flows for these taxes. The collection pattern for these two types of taxes is highly seasonal and this year it has special irregularities reflecting both the delay in enacting the surtax bill--with the consequent need to schedule retroactive tax payments--and an increase in income ceilings for social security taxes, effective in January 1968.

FINANCIAL DEVELOPMENTS - UNITED STATES

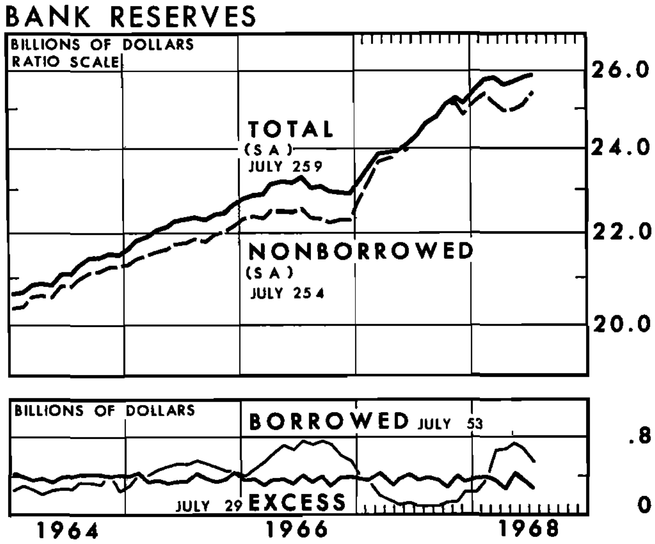
FREE RESERVES AND COSTS



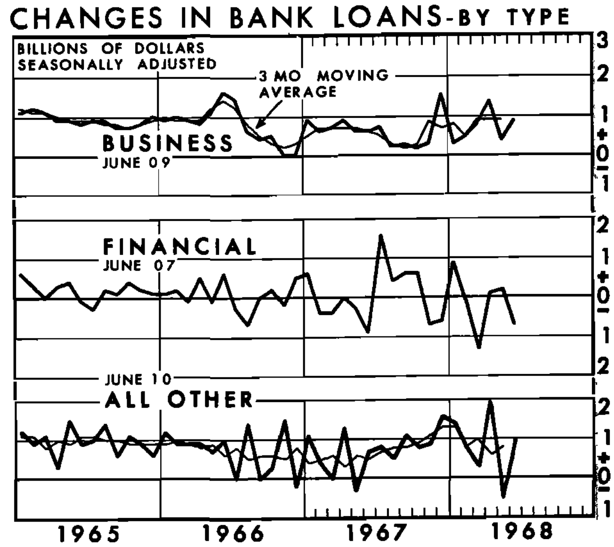
CHANGES IN BANK CREDIT



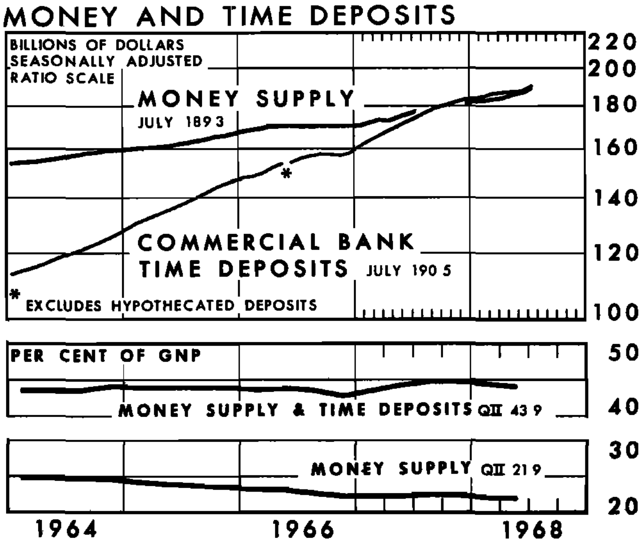
BANK RESERVES



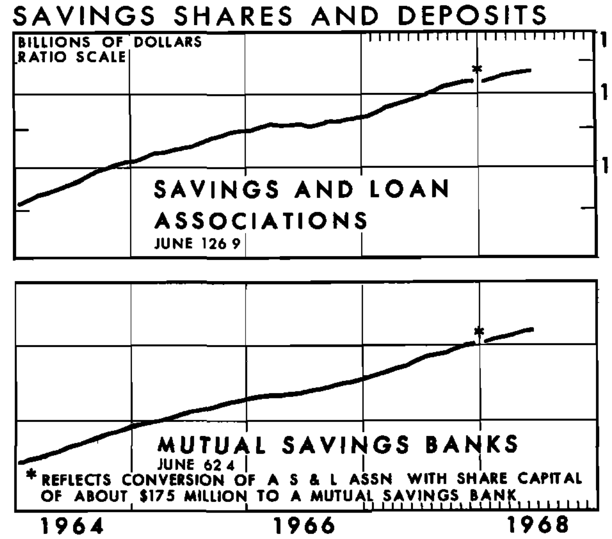
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

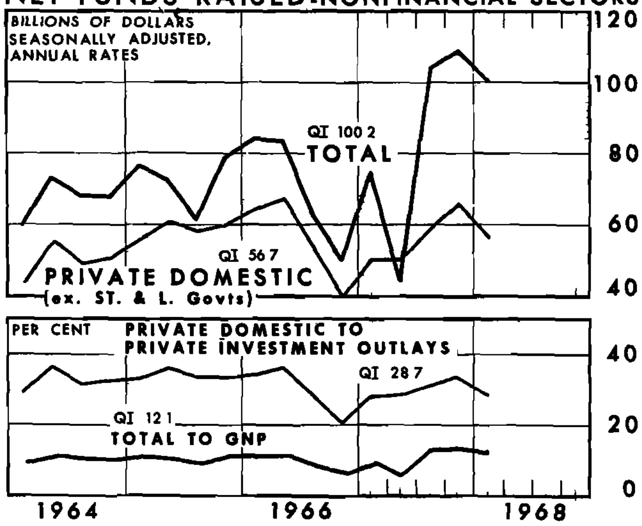


SAVINGS SHARES AND DEPOSITS

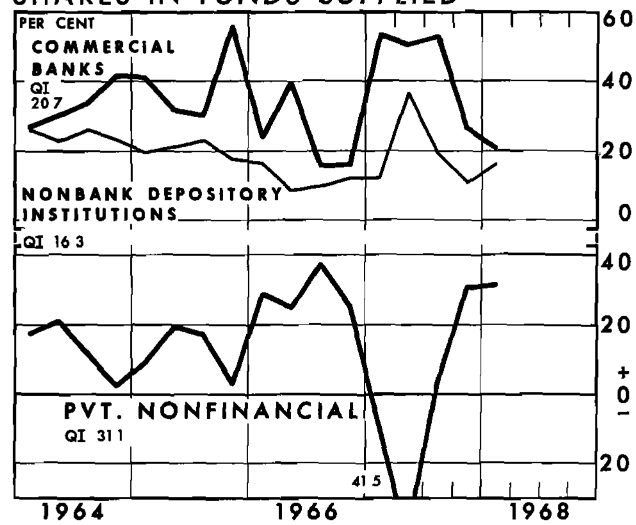


FINANCIAL DEVELOPMENTS - UNITED STATES

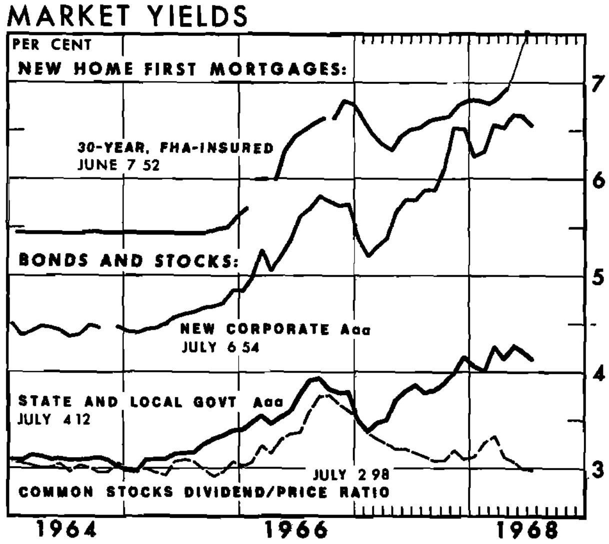
NET FUNDS RAISED-NONFINANCIAL SECTORS



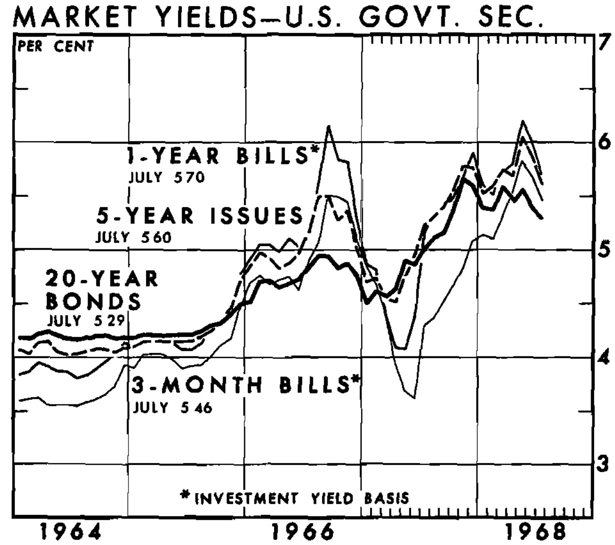
SHARES IN FUNDS SUPPLIED



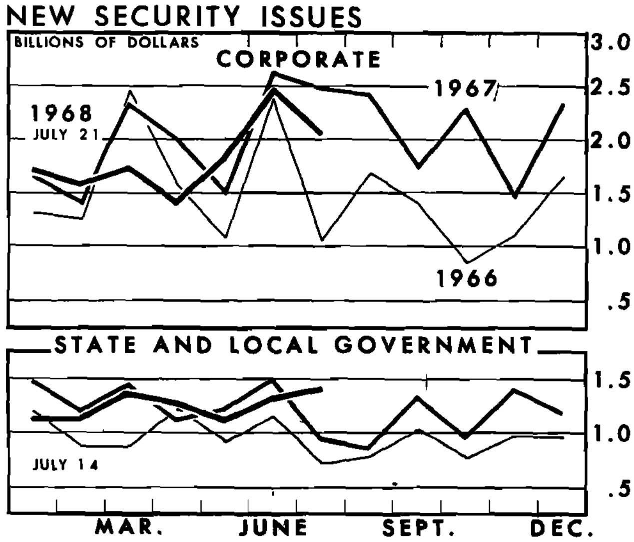
MARKET YIELDS



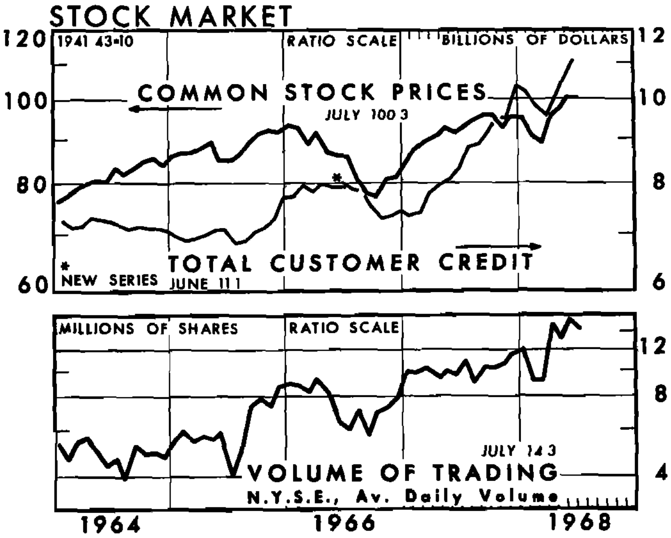
MARKET YIELDS—U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

Contents | Page

Exchange markets. The dollar has been consistently strong in exchange markets against most continental currencies during July and early August. Though this is a season for adverse changes in the trade and travel accounts of the U.S. balance of payments and though U.S. banks have been reducing their liabilities to branches abroad since July 10, few reports of reserve gains for continental European central banks have been heard. French official reserves continued to suffer sizable weekly drains during July. Italian reserve gains have been much smaller than is usual at this time of year. Demand for the German mark has been relatively weak, and toward the end of July demand for the Swiss franc abated.

The pound sterling and the Canadian dollar have been beneficiaries, along with the U.S. dollar, of the changes in payments flows that underlie these market developments. The July 6 announcement about negotiations for a sterling-balances safety net and the July 11 news of better U.K. trade figures for June served to clear the atmosphere enough to make July the best month for sterling since the abortive recovery of early 1967. Britain's basic balance of payments is unlikely to show a surplus until 1969; it is therefore clear that the July gain in the U.K. reserve position net of assistance reflected private capital inflows of a short-term nature. These would include shifts in lead-and-lag accounts payable or receivable, rebuilding of working balances, short-term investments giving high yields on an uncovered basis, and purchases of U.K. Government bonds, which had jumped sharply in price on the good trade news and which are widely expected to appreciate further over the coming year. The three-month forward discount on the pound has narrowed to about 2 per cent per annum.

In the case of Canada, the recent exchange market strength reflected U.S. import buying and further effects of the renewal of confidence in the Canadian dollar, such as repayments of loans obtained earlier this year by non-Canadians from Canadian banks.

The unexpected strength of the U.S. dollar cannot yet be explained in terms of specific types of capital flows. It is significant, however, that foreign purchases of U.S. corporate stocks continued unusually large in June. Further discussion will be found below.

U.S. balance of payments. The broad outlines of the U.S. balance of payments for the first half year are now reasonably clear, though hard information is lacking for some important sectors in the second quarter. The liquidity deficit for the second quarter as it will be published about the middle of the month was at an annual rate of about $1 billion, substantially below the first quarter rate of $2-1/2 billion. Before special transactions (given in Appendix C) there was some deterioration from the first quarter, to an annual rate of over $4 billion in the second quarter.

More recently, however, a sharp improvement has occurred. The second quarter deficit before seasonal adjustment was concentrated in April to a greater extent than usual. After rough allowance for seasonal variations the May and June liquidity deficits before special transactions were at considerably reduced rates. In July the early indicators suggest little or no deficit, before special transactions, in sharp contrast to the July deficits in 1966 and 1967 which were each over $500 million.

Euro-dollar funds and official settlements. These developments with respect to the balance on the liquidity basis were unaffected by the dramatic changes which have occurred in flows of funds to the United States through commercial banks abroad, predominantly through foreign branches of U.S. banks. During the second quarter -- and expecially strongly in May and June -- total U.S. liquid liabilities to commercial banks abroad and to other private foreigners increased by $2.3 billion. After a further increase in the first ten days of July, liabilities to foreign branches fell by $750 million in the next three weeks.

This reversal of flows is clearly a result of the easing of U.S. interest rates and the increased availability of CD funds to banks. In turn it has led to a decline in Euro-dollar interest rates. Today, August 7, the Euro-dollar call money rate stands at 5-3/4 per cent, compared with 6-1/2 per cent toward the end of June, and the 3-month rate at 5-7/8 per cent compared with 6-7/8 per cent then.

The earlier massive inflow reflected both active bidding for funds in Europe by American banks and the augmentation of supply by movements out of sterling and the French franc which were both under severe pressure during May and June. In July the continued movements out of the French franc have presumably contributed to easing in the Euro-dollar market.

In conjunction with factors affecting the liquidity balance, the increase in liabilities to commercial banks and other private foreigners produced a surplus of $1-1/2 billion in the second quarter on the official settlements basis. As an increase in the U.S. gold tranche position in the Fund was offset in good part by a reduction in U.S. official holdings of convertible currencies, this surplus meant a decline of $1.4 billion in U.S. liabilities, liquid and near-liquid, to foreign central banks and governments.

Unlike the flows of Euro-dollar funds, large inflows of other types of capital have apparently continued in July. During the first half of the year there were large net acquisitions by foreign investors of U.S. corporate securities, and a sharp slowdown in U.S. investing abroad. It is these changes in capital flows which have brought improvement in the liquidity balance despite a marked deterioration in the current account so far this year.

Foreign capital flows to the U.S. In each of the first two quarters of this year private foreigners invested more than $1 billion (net) in long-term debt or equity issues of U.S. corporations (see following table). The total for the half year exceeded the $2.1 billion invested in these types of assets in the full year 1967, and was nearly twice the total for 1966. In the same period when U.S. corporations have been able to sell very large amounts of long-term debt issues (mainly in the form of convertible debentures) in the international capital markets on favorable terms, foreign investors have been buying U.S. corporate stocks in extraordinary volume. Over the whole postwar period, until the middle of 1967, net foreign purchases of U.S. corporate stocks were maintained on a relatively small scale, reaching a peak of $360 million in 1959, and infrequently exceeding $200 million in a year. In 1967 such pruchases (apart from the U.K. liquidation) were about $800 million, and in the first half of this year the total was probably $1-1/4 billion. It is not clear why this massive inflow has been taking place; two explanations that have been offered are the increasing activity of aggressive sales organizations in Europe, and a general association with a broad surge of equity investment in other capital markets as an inflation hedge and possibly as a hedge against currency devaluations.

PRIVATE FOREIGN CAPITAL FLOWS TO THE U.S. 1/
(in millions of dollars)

	1966	1967		1968		
	Year	1st half	2nd half	Q-1	Q-2[e]	1st half[e]
Total 1/	1,255	748	1,325	1,078	1,355	2,433
Direct investments in U.S. 2/	86	134	116	225	75	300
U.S. corporate stocks	93	91	720	282	500	782
U.S. corporate debt issues to finance U.S. direct investments abroad	594	191	255	550	750	1,300
Other 3/	482	332	234	21	30	51
Total, excluding special debt issues	661	557	1,070	528	605	1,132

1/ Excludes transactions for foreign official accounts and net transactions in liquid claims in the U.S.
2/ Excludes reinvested earnings.
3/ Includes other corporate bonds and nonliquid private obligations.
e - estimated

In this market atmosphere U.S. companies found ready acceptance of well over $1 billion of securities placed in foreign markets in the first half of the year to finance their current and prospective direct foreign investments. The volume of such placements will most likely be considerably lower in the second half since major companies have largely satisfied their financing requirements, and the proceeds of earlier borrowings can be drawn down. The supply of foreign financing for U.S. affiliates abroad appears to be ample, but any marked deterioration in U.S. equity markets causes difficulties for the sale of convertible issues. Up to now the sale of convertible debentures offshore does not appear to have touched off any significant switching out of existing foreign holdings of U.S. equities, though some activity of that type might be obscured by the inflow of fresh funds. It is even possible that the development of a market for these offerings contributed to a general interest in acquiring U.S. corporate stocks.

U.S. capital flows abroad. The outflow of U.S. funds for lending and investment abroad in the first half of the year was very sharply curtailed by the various control programs, and perhaps also to some extent by relatively strong demand for investment funds in the U.S. At this date figures for the second quarter on foreign direct investments by industrial companies can only be based on fragmentary evidence, but assuming that this sector rose only moderately over the very low rate of the first quarter, it seems likely that the U.S. capital outflow abroad was less than $2 billion in the January-June period. Since the comparable outflow for the last half of 1967 was $3.4 billion, this was obviously a major change in the accounts. The overall U.S. payments outcome for the second half of the year will depend heavily on whether the outflow remains at this very low rate or returns to more normal rates.

U.S. PRIVATE CAPITAL FLOWS ABROAD
(in millions of dollars, seasonally adjusted, inflow (-))

	1966	1967		1968		
	Year	1st half	2nd half	Q-1	Q-2^e	1st half^e
Direct investments 1/	3,623	1,304	1,717	468	650	1,118
less: use of proceeds of foreign borrowing 2/	445	138	140	100	200	300
Direct investments, net	3,178	1,166	1,577	368	450	818
Purchases of foreign securities (net)	481	458	808	406	284	690
Claims reported by U.S. banks	-253	119	340	-365	-210	-575
Other long-term claims	112	238	51	-42	142	100
Other short-term claims	334	-40	510	244	325	569
less: proceeds of foreign borrowing	143	19	77	420	500	920
Other short-term claims, net	191	-21	433	-176	-175	-350
Total, before deducting foreign borrowing	4,297	2,079	3,426	711	1,191	1,802
Total, after deducting foreign borrowing	3,709	1,922	3,209	191	491	682

1/ Excludes reinvested earnings.
2/ Includes only proceeds of foreign issues sold by special U.S. financing affiliates.
e - estimated

In the case of direct investments it seems likely that the second half rate will rise somewhat over the estimated first half rate, but greater use of the accumulated proceeds of foreign borrowing will reduce the impact on the balance of payments. After deducting the use of foreign borrowing, the outflow may be about $1.7 billion for the year, compared to $2.7 billion on the same basis in 1967. The Commerce Department regulations require that companies that hold proceeds of foreign borrowings abroad use those proceeds rather than make any investments of U.S. funds, even though they might have room under their ceilings to do so. There is also a carry-forward provision in the regulations that would encourage some savings of allowable ceilings. Since the accumulated unused proceeds of foreign borrowings were over $1 billion by the end of June, and the foreign affiliates themselves may well be in a fairly liquid position through their own direct borrowings abroad, which have also risen sharply this year, there is at least a good chance a reduction of capital flows by $1 billion compared to 1967 can be achieved. The reduction will fall very largely on Continental Europe.

Bank-reported claims have shown a marked turnaround from moderate outflows in the last half of 1967 to sizable inflows this year, continuing through June. At the end of June outstanding claims under the FCRP were $675 million under the ceiling, and the ceiling will decline by only about $200 million. While a further liquidation of foreign claims on the scale of the first half rundown is not anticipated neither is a reversal to sizable outflows. Similarly, short-term assets held abroad by U.S. non-financial-organizations apart from the unused proceeds of foreign borrowing -- were built up at an unusually high rate at the end of last year, but have been drawn down in the first half of 1968, presumably because of the requirements of the Commerce Department controls. Here again a further reduction on a significant scale seems unlikely, since balances remaining are probably close to minimum working requirements.

Finally, net U.S. purchases of foreign securities, unlike other forms of investment, continued at a high rate in the first half of the year and may rise somewhat in the second half. Most of the outflow is related to new issues in the United States by Canadian borrowers and the IBRD. There is also a steady though moderate net flow of investment into outstanding foreign equity securities, subject to the Interest Equalization Tax.

Summing up these potentialities for the rest of the year, the very low estimated net outflow of U.S. private capital in the first half is not likely to be repeated in the second. Assuming only that the net reductions of banking claims and other short-term foreign assets will not continue, the second half outflow would rise by some $800 million over the first half. If there are also increases in the rate of direct investment (excluding the use of foreign funds) and in purchases of foreign securities, the deterioration might exceed $1 billion.

With respect to private foreign long-term investments in the United States, the principal question about the second half is whether the rate of purchases of U.S. corporate stocks will be maintained. Foreign purchases of these securities began and have continued when the U.S. market was not rising relative to foreign markets, but a slowdown in the U.S. economy coupled with further market declines could cause the inflow to revert to a much lower amount. Also, there was an unusual inflow of $200 million for foreign direct investments in the United States in the first half that will not be repeated. The overall adverse swing from first half to second half in U.S. and foreign private capital flows -- apart from private foreign liquid assets in the United States -- could well be on the order of $1-1/2 billion, tending to offset the improvement in the liquidity balance that is expected from gains in trade and other current transactions.

U.S. foreign trade. In June the trade balance was in deficit for the second successive month and for the third time in four months as imports rose 3-1/2 per cent above the record May level. Exports also rose but at a lower rate than imports. The export surplus in the first half of the year was at an annual rate of about $1/4 billion, far below the more than $4 billion rate in the first half of 1967.

Exports in the second quarter were about 5 per cent higher than in the first quarter, but most of this rise is attributable to delays in shipments from March to April caused by the New York port strike. For May and June together exports were at annual rate of $32.7 billion (balance of payments basis), only about 1 per cent higher than the rate in the first four months of the year.

U.S. MERCHANDISE TRADE
(billions of dollars; seasonally adjusted annual rates)

	1967					1968	
	YEAR	I	II	III	IV	I	II
Agricultural exports 1/	6.5	6.6	6.6	6.4	6.2	6.7	6.2
Nonagricultural exports 1/	24.5	24.5	24.5	24.7	24.5	25.4	27.3
Total exports:							
Census basis	30.9	31.1	31.1	31.1	30.8	32.1	33.5
Balance of payments basis	30.5	30.6	30.8	30.5	29.9	31.7	33.3
Total imports:							
Balance of payments basis	27.0	26.7	26.4	26.2	28.6	31.4	33.3
Trade balance	3.5	3.9	4.4	4.3	1.3	0.3	*

1/ Census basis.
* Less than $50 million.

Shipments of agricultural products, which had been relatively large in the first quarter, fell sharply in May-June. This decline was more than offset by an increase in exports of nonagricultural commodities. Deliveries of aircraft, and cars to Canada continued to expand while sales of machinery picked up noticeably in June. It may be that the sharp upturn in export orders for machinery last fall is just now beginning to be realized in higher exports. Shipments of copper, particularly to the United Kingdom, France, and Italy, also increased as domestic refineries resumed operation with settlement of the copper strike in March.

In May-June exports to the EEC countries expanded by 11 per cent from the rate in the first four months; more than half of the increase was in commodities other than aircraft and copper. Shipments to Latin America and Japan also rose but more moderately. Aside from cars, shipments to Canada fell substantially.

Exports of silver, included in the trade data on the balance of payments basis, increased sharply in the second quarter to an annual rate of over $300 million, triple the amount sold in 1967. The redemption of silver certificates for silver bullion by the Treasury Department has made available increased quantities of silver for export. Demand for silver by London bullion dealers has been heavy -- primarily as backing for silver certificates which these dealers started issuing last January. With completion of the redemption program, exports of silver can be expected to fall sharply in the second half of the year.

<u>Imports</u> rose sharply in May and June after remaining fairly level at a very high rate from January through April. In the second quarter, imports (which did not appear to be much affected by the March port strike) were at an annual rate of $33.3 billion (balance of payments basis), a new record. They were 6 per cent higher than in the first quarter and 26 per cent larger than a year earlier.

The recent import expansion has been largely in foods, automobiles, and other consumer goods. Purchases of foreign machinery held at the high first quarter rate, about in line with the behavior of total domestic expenditures for such goods. Imports of industrial supplies, in the aggregate, fell from the very high rate of the first quarter as copper imports fell and steel imports rose.

Copper imports, after reaching a peak in April -- the month following the end of the 9-month industry-wide strike -- dropped sharply in May and again in June to a level approximately equal to the pre-strike rate. The copper strike is estimated to have resulted in about $600 million (annual rate) of abnormal copper imports in the first half of the year.

In contrast, steel imports in the second quarter were about 10 per cent higher than the record rate of the first quarter, despite a dip in June arrivals resulting from the strike on the St. Lawrence Seaway. The build-up in inventories of foreign steel in the first seven months of the year was estimated to be about $400-450 million (annual rate). Despite the recent agreement on a new labor contract in the steel industry, contractual commitments, renewed exposure of American steel-using industries to foreign steel, and their reaction to the recently announced price increases for domestic steel may all serve to limit the decline now expected in steel imports.

The threat of still another strike -- the longshoremen's contract expires at the end of September -- is reported to have caused some acceleration in buying of coffee and sugar and of some items normally imported heavily in the fall for Christmas sales. The removal in early April of the quarterly allocation of sugar imports was still another factor in the heavy arrivals of sugar. The substantial rise in imports of foods in the second quarter reflects a 20 per cent increase in coffee inventories and higher-than-usual inventories of sugar.

Exceptionally heavy arrivals of automobiles, both from Canada and from Europe and Japan, accounted for nearly two-fifths of the increase in total imports from the first to the second quarter. Sales of foreign cars (other than those from Canada) increased by 22 per cent in the second quarter and increases in inventories were also sizable. Arrivals of automobiles and parts from Canada also rose sharply. In the first half of 1968, an automotive import balance with Canada of about $160 million (annual rate), was recorded. In 1964, before the U.S.-Canadian automotive agreement became effective, there had been an export surplus on such transactions of about $500 million.

U.S. MERCHANDISE IMPORTS BY PRINCIPAL COMMODITY CATEGORIES
(millions of dollars; seasonally adjusted)

	1967					1968	
	YEAR	I	II	III	IV	I	II
Total Imports 1/	26,816	6,688	6,593	6,542	7,102	7,830	8,239p
Foods and Beverages	4,856	1,180	1,126	1,129	1,173	1,219	1,331
Industrial Supplies	11,780	3,018	2,893	2,766	3,159	3,524	3,492
Fuels	2,235	564	579	503	599	591	578
Building Materials	754	186	179	189	201	244	237
Iron and Steel	1,422	352	334	341	403	472	515
Other metals	2,862	753	709	635	788	1,012	880
(Copper) 2/	563	126	132	113	192	296	217
Capital Equipment	2,382	605	581	600	600	670	684
Machinery	2,252	569	554	568	565	625	625
Auto vehicles and parts	2,627	575	651	683	738	893	1,053
Canada	1,593	316	416	435	449	544	623
Other	1,034	259	235	248	289	349	430
Consumer goods 3/	4,221	1,049	1,031	1,043	1,096	1,218	1,334
Durable	2,190	557	530	535	566	591	626
Nondurable	1,564	385	382	388	408	506	531
All other	1,220	261	311	321	336	306	346

p = preliminary.
1/ Census basis.
2/ Not seasonally adjusted.
3/ Excluding food and automotive.

The expansion in imports of consumer goods (other than foods and automobiles) continued to be paced by heavy arrivals of apparel and footwear. The f.o.b. value of imports of consumer nonfood nondurables in the second quarter was equal to about 2.3 per cent of total domestic retail expenditures on such goods, a further increase over the high ratio of the first quarter.

<u>Foreign trade of other industrial countries</u>. The large spurt in world trade which occurred in the fourth quarter of 1967 and the first month or two of 1968 has not continued at the same pace in recent months. However, in continental Europe expansion of economic activity is continuing, and is expected to continue even if U.S. demand for European exports falls off later this year. Consequently, continental European <u>imports</u> are expected to increase further. Imports of the EEC countries were running in April -- before the French troubles -- at a rate 9 per cent higher than in the first half of 1967.

IMPORTS
(1st half 1967 = 100)

	1967		1968				Value in Q-1 (in millions of U.S. $'s)
	Q-3	Q-4	Q-1	Apr.	May	June	
OECD-Europe	100	104	105	107	104	...	8,432
United Kingdom	98	99	105	105	107	99	1,560
EEC	101	108	107	109	103	...	4,830
W. Germany	101	109	112	118	114	107 a/	1,580
France	102	105	107	108	71	102 a/	1,089
Italy	104	111	95	107	104	...	739
Japan	106	114	111	110	116	108	1,030
Canada	101	99	112	113	109	...	937
United States	99	107	118	119	124	129	2,593

Source: OECD, but see footnote a/.
a/ Seasonal adjustment estimated by Board staff.

On the other hand, in Britain and Japan policy measures aimed at restoring payments equilibrium have tended to check the growth of imports. In both countries imports in June were significantly lower than in earlier months. Canadian imports, too, do not appear to be increasing; they leveled off during the spring after a sharp rise up to February.

U.S. imports, as noted in a previous section, advanced further in May and June. Strength of import demand in the United States and Canada beginning last autumn contributed to rapid increases in the exports of Japan and of continental Europe, and also aided growth of U.K. exports. EEC exports in April were running 13 per cent higher than in the first half of 1967. In dollar amount the bulk of this increase in EEC exports was intra-European -- their exports to countries in Europe rose 13 per cent -- but they also had a sizable increase in exports to North America, which showed a 23 per cent rise.

EXPORTS
(1st half 1967 = 100)

	1967		1968				Value in Q-1 (in millions of U.S. $'s)
	Q-3	Q-4	Q-1	Apr.	May	June	
OECD-Europe	99	100	107	108	103	...	7,902
United Kingdom	96	80	97	95	94	96	1,232
EEC	99	105	110	113	104	...	5,104
W. Germany	100	105	108	110	108	101 a/	1,933
France	100	104	113	114	80	81 a/	1,056
Italy	96	104	110	116	111	...	801
Japan	105	102	113	118	134	122	969
Canada	92	101	116	120	113	...	1,034
United States	101	100	103	110	104	106	2,672

Source: OECD, but see footnote a/.
a/ Seasonal adjustment estimated by Board staff.

Accompanying the worsening of the U.S. trade balance since last autumn there have been reductions in trade deficits for Japan, France, Italy and the Netherlands, and an increase in Canada's export surplus. The German export surplus has remained very large, with possibly some tendency toward decrease in recent months. French trade shifted sharply into deficit in June.

TRADE BALANCES1/
(millions of U.S. dollars, monthly rates)

	1966	1967	1968			
			Q-1	Apr.	May	June
OECD-Europe	-850	-730	-547	-569	-702	...
United Kingdom	-168	-279	-328	-351	-391	-259
EEC	- 85	99	274	311	235	...
W. Germany	176	365	353	294	307	304a/
France	- 82	- 85	- 33	- 29	21	-283a/
Italy	- 45	- 83	62	11	- 2	...
Japan	21	-102	- 60	- 8	79	47
Canada	20	41	97	128	97	...
United States	378	368	78	236	- 44	- 87

Source: OECD: but see footnote a/.
1/ Exports (f.o.b.) less imports (c.i.f.), except for United States and Canada, for which imports are f.o.b.
a/ Seasonal adjustment estimated by Board staff.

Britain's trade deficit narrowed sharply in June to £50 million, down from £86 million in both April and May (balance of payments basis). Most of this sizable improvement was attributable to a 7 per cent decline in the value of imports. Whereas exports have shown strength this year in accordance with forecasts made at the time of the devaluation, a steep and unexpected rise in imports had been the major factor casting doubt on the ability of the new sterling parity to produce the requisite improvement in Britain's balance of payments.

The June drop in imports was partly due to special factors, such as anticipation of the Kennedy Round tariff cuts on July 1, and the disorders in France. On the other hand, imports in June, as in previous months, may have been inflated by uncertainty over the permanence of the $2.40 parity. Speculative import buying should be greatly diminished if the confidence that has now begun to return to sterling is sustained.

Imports of finished manufactured goods and of food, beverages and tobacco were 6 per cent lower in the second quarter than in the first, when they had been swollen by the pre-Budget consumer goods boom. Imports of industrial materials, on the other hand, rose 1 per cent in the second quarter. The value of total imports was down 1 per cent, and the volume probably 2 per cent, still comparing the second quarter as a whole with the preceding quarter.

After the sharp drop from May to June, import volume was probably still 4 or 5 per cent higher than in June 1967. In terms of sterling, the total value of imports was up 18 per cent from a year earlier. The dollar value was up 1 per cent.

British exports in June were 2 per cent higher in value than in May. As shipments of exports delayed by last autumn's dock strikes recede into the past, an uptrend is emerging.

In comparison with the third quarter of 1967, before the dock strikes, the volume of exports this June was up 9 or 10 per cent. As the sterling prices (unit values) of British exports had risen about 6 per cent, the sterling value of total exports was up 17 per cent from last summer. In dollar terms, unit values were down about 9 per cent, just about offsetting the volume gain, so that the total dollar value was virtually unchanged. Volume gains can be expected to continue, bringing commensurate gains in dollar earnings. There have been substantial increases in recent months in export orders in such major exporting industries as machinery, motor vehicles, and shipbuilding.

Germany's large trade surplus tended to shrink during the first half of 1968, but the rate of shrinkage was quite slow. In April-May, the seasonally adjusted surplus averaged $304 million per month (imports c.i.f.), compared with $345 million per month in the fourth quarter of 1967. June exports and imports were both affected by the French disbances.

German imports continued to rise through May, under the impetus of expanding domestic demand. After the low point of Germany's 1966-67 recession was reached in the second quarter of last year, industrial production rose very sharply, with an extra bulge toward the end of the year stimulated by certain tax considerations connected with the changeover on January 1 from the turnover tax to the value-added tax. Although the fourth-quarter average level of industrial production was not surpassed until March, imports rose fairly steadily -- though not as rapidly after the yearend as they had last autumn. In April-May they were 16 per cent above their average in the first half of 1967.

German exports have risen less rapidly than imports, and in April-May were up 9 per cent from the level of January-June 1967. Much of the increase in exports was to other European OECD countries, but in relative terms German exports to North America rose very sharply (by about 40 per cent) over the same period.

Prospects appear good for a continued increase in German imports and a further reduction of the trade surplus. After sharp declines in January, new domestic orders and German industrial production showed substantial increases in March and April and moved up again in May. In its latest assessment of German economic conditions through May, the Bundesbank has noted an acceleration of the heretofore quite slow rise of private consumption spending; the latest monthly report of the Economics Ministry also observes more active consumer spending. Forecasts of inventory investment and fixed capital outlays have been raised. Even though a contraction of the Federal budget deficit and a slackening of the export rise are anticipated for the second half of this year, German representatives at the EPC meeting in Paris on July 17 said they expected real GNP in 1968 to average between 5 and 5-1/2 per cent greater than in 1967. Earlier OECD forecasts had put the rise at 4-1/2 per cent, with some slackening after mid-1968. The new prediction presumably implies a steadier advance.

French trade figures for May and June were seriously distorted by the national unrest and general strike. Both imports and exports were depressed in May, but imports recovered rapidly in June while exports did not. The diappointing export performance in June is understandable in view of the fact that normal production did not resume until mid-month. The sharp increase in June imports, under these conditions, probably reflected an increase in consumer goods imports to make up for the stoppage of domestic output, as well as fears of a devaluation or of import restrictions.

Earlier both exports and imports had been rising, and the trade deficit -- which had been at its largest in late 1966 -- had been shrinking.

As of July 1, import quotas were applied to iron and steel, major household appliances, textiles, motor vehicles, and miscellaneous other goods. These items, supplied to France mainly by other European countries, together accounted for about 10 per cent of French imports in 1967. These quotas are scheduled to be removed at the end of this year.

French trade prospects for the remainder of 1968 are uncertain. The official French forecast is that imports in 1968 will be 13 per cent larger, in real terms, than in 1967. Exports are predicted to grow by only 9 per cent. Both forecasts imply very sharp increases ahead, to compensate for the low May and June levels; these predictions should perhaps be discounted. The expected export growth is based on a continuing German recovery and on the effects of export subsidies which will run through the end of next January. These subsidies, based on labor content, will at least partly offset the effect of wage increases granted in June. Moreover, the fact that they will be terminated at the end of January will tend to shift some exports forward.

Italian imports, as officially recorded, dipped sharply in the first two months of 1968. Despite partial recovery, they were still below their fourth-quarter-1967 level in April and May. Exports meanwhile continued to advance.

The import dip was partly unreal, due to statistical valuation problems which caused delay in recording certain foodstuff imports; partly a reaction after heavy petroleum imports in late 1967 caused by fears of termination of a subsidy; and partly connected with what seems to have been a real slowing of the Italian economic expansion. The slowing began early in 1967, to some extent reflecting the German recession. From the first quarter of 1967 to the first quarter of 1968 Italian industrial production rose only 6 per cent, after an 11 per cent increase the year before.

Accompanying the German recovery and the rise in U.S. demand since mid-1967, Italian exports have risen rapidly during the past twelve months.

Canada has been a major beneficiary of the rise in U.S. imports since last autumn. Canada is a supplier of both copper and steel, which bulked large in U.S. demands. The Canadian-U.S. auto agreement has produced continuous growth in Canadian exports of autos and parts to the United States since 1964. More recently, McDonald-Douglas has set up production facilities in Canada; originally for the DC-9, these will now provide airframe sections for the new airbus.

Canadian exports to the rest of the world were smaller in the first half of 1968 than a year earlier, mainly because of smaller wheat exports.

Canadian imports rose sharply for several months up to February, but have leveled off since then. Fiscal and monetary restraint have contributed to a slowing in growth of Canadian demand, despite an upswing since last autumn in residential construction activity. However, industrial production in April-May showed renewed expansion.

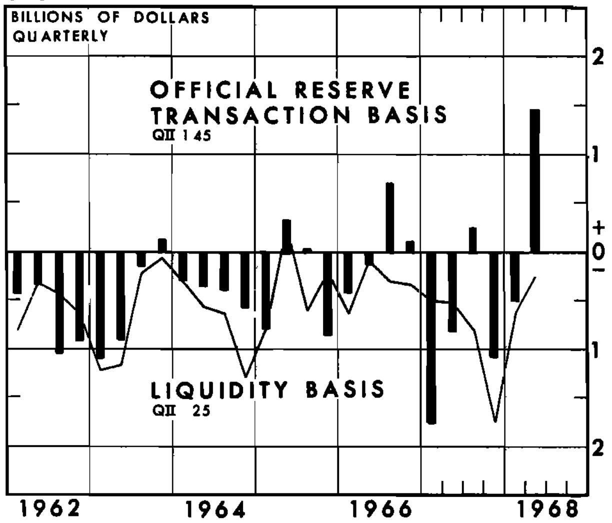
Japan, too, has been a heavy exporter to the United States this year, particularly of steel. As Japanese imports have leveled off after a strong two-year rise which took them to a peak last November, a dramatic reversal of last year's deterioration in the Japanese trade balance has taken place. The leveling off of imports is ascribable to effects of the credit tightening measures inaugurated last September and reinforced in January.

As a result of the improvement in Japan's balance of payments, the first step toward easier credit conditions was taken on August 7 with a lowering of the Bank of Japan's discount rate from 6.205 per cent to 5.840 per cent. In April-May there was a renewal of the rise in domestic activity. The expected slowing of Japanese exports to the United States may restrain the domestic expansion, but moderate growth in Japanese import demand during the rest of this year is still expected.

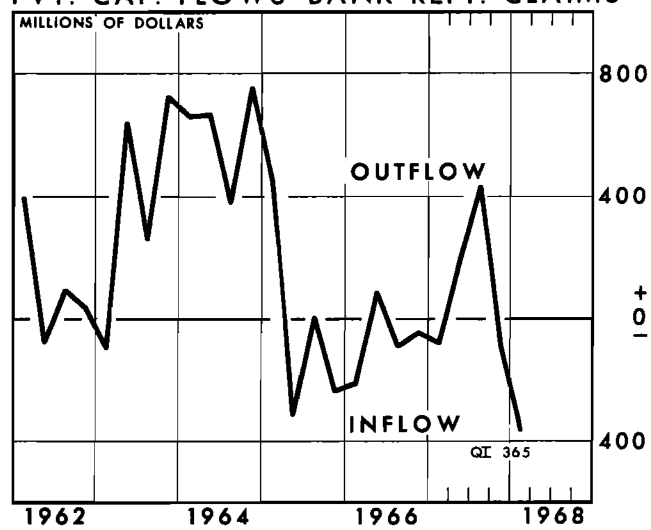
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

U.S. BALANCE OF PAYMENTS

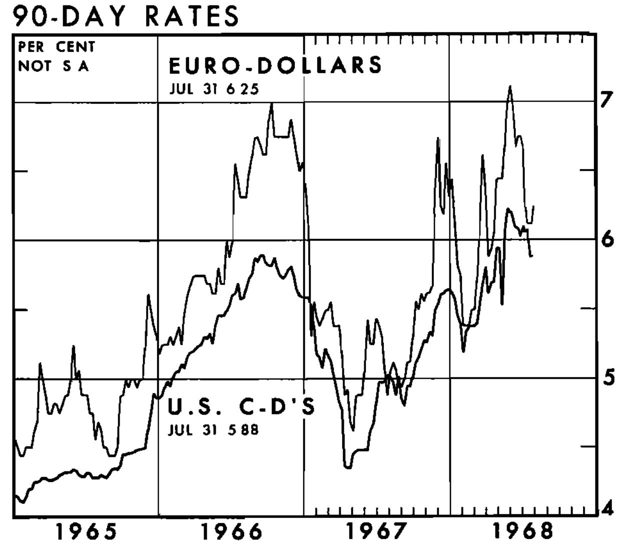


PVT. CAP. FLOWS-BANK REPT. CLAIMS

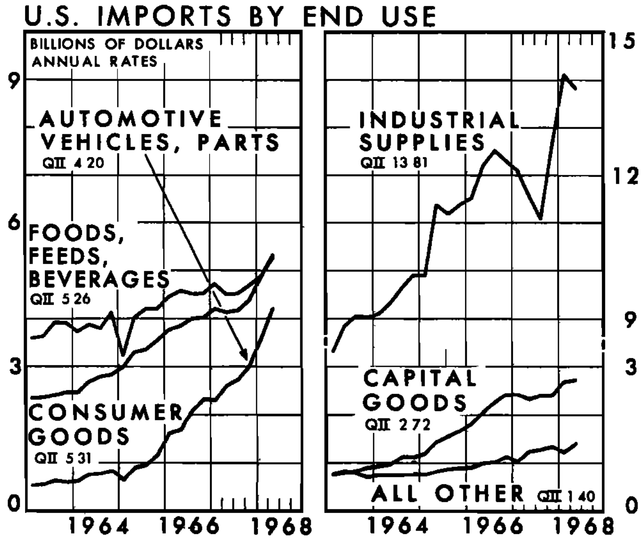


U.S. MERCHANDISE TRADE

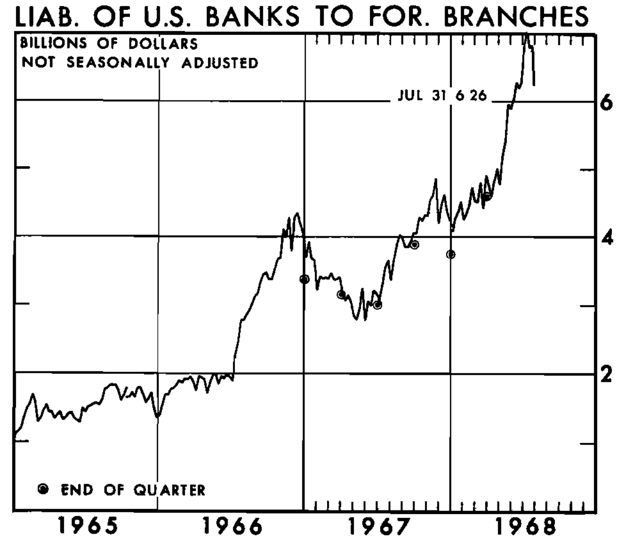
90-DAY RATES



U.S. IMPORTS BY END USE



LIAB. OF U.S. BANKS TO FOR. BRANCHES



APPENDIX A: RECENT HOUSING LEGISLATION*

On August 1, the President signed the Housing and Urban Development Act of 1968 (Public Law 90-448), the first omnibus housing legislation in two years. Probably the most comprehensive housing bill ever passed by the Congress, the 1968 Act is said to represent an initial 3-year installment in the President's announced program to build and rehabilitate enough dwellings within the next decade to replace substantially all housing now deemed to be below standard, and to provide adequate dwellings for all families.

In terms of this and related objectives, the Act provides a variety of new programs designed to strengthen or supplement private market operations. Among these new programs are (a) HUD monthly grants--extended on behalf of occupants--to mortgage lenders that finance private housing to be owned or rented by lower income families. Eligible occupants, otherwise unable to meet going market mortgage interest rates or housing rents, will pay reduced occupancy outlays calculated on the basis of mortgages bearing interest rates as low as 1 per cent; (b) HUD reinsurance or insurance to backstop private property (riot) and flood insurance; (c) HUD guarantees of obligations issued by private developers to help finance the development of new communities; and (d) FHA mortgage insurance for vacation homes and nonprofit hospitals. The Act also includes substantial additional authorizations for such existing Federal programs as urban renewal and low-rent public housing. Finally, the Act seeks to improve the structure of the mortgage market by reconstituting FNMA's secondary market operations and by liberalizing Federal savings and loan association operations and national bank real estate lending.

The provisions of the Act seem likely to give only a very limited net stimulus to residential construction outlays during the current fiscal year. Any estimate of the aggregate short-run impact is obviously hazardous in view of uncertainties and lags involving program appropriations and implementation as well as the limited first-year authorizations. The impact of the rigid housing-cost and occupant-income limitations applicable to certain new programs also has to be taken into account. These and other considerations suggest that the Act by itself may at best generate a net of 50,000 or so additional public and private housing starts in fiscal 1969. This would imply roughly a 4 per cent increase in total starts above the volume that might otherwise be expected, involving perhaps no more than $0.5 billion in additional expenditures for residential structures during fiscal 1969.

---

* Prepared by Robert M. Fisher, Senior Economist, Capital Markets Section, Division of Research and Statistics.

The actual degree of net stimulus will likely depend also on the availability of mortgage funds in coming months; the easier the mortgage market, the less reliance private builders will probably place on the programs of public supplementary assistance provided in the Act.

Coupled with earlier legislation on the books, however, the cumulative stimulus of the 1968 Act will undoubtedly be more substantial into the 1970's. Indeed, the Department of Housing and Urban Development has projected as much as a five-fold expansion over the next decade in the annual number of new or rehabilitated public and private dwellings receiving Federal cash assistance. Assuming full funding and implementation of all new and existing programs, HUD estimates that the total number of assisted new and rehabilitated units would reach 700,000 to 800,000 yearly by the late 1970's. Relative to total housing units to be started or rehabilitated, Federally aided dwellings would increase from the current share of about a twelfth to almost a fourth.

Stepped-up Federal involvement in the housing market in coming years would be consistent with the housing goals reaffirmed in the Act by the Congress for a decent home and a suitable living environment for every American family. In that connection, a novel provision in the legislation requires the President, by early next year, to submit a plan to the Congress for substantial achievement of these goals within the next decade. Then in January 1970 and each year thereafter, the President must report on progress made toward these 10-year goals. He must also project mortgage needs and prospects for the coming calendar year, including "an analysis of the monetary and fiscal policies of the Government . . . required to achieve the objectives of the plan and the impact upon the domestic economy of achieving the plan's objectives for such periods. . . ."

<u>FNMA reorganization</u>. As of September 1, 1968, FNMA will be reorganized under the Act in order to provide greater operational flexibility for its secondary market functions. Operating under HUD regulation, a new Government sponsored private corporation--retaining the name of FNMA--will take over FNMA's present secondary market functions which are now conducted as a trust fund under mixed Treasury-private ownership. As a private corporation, the new FNMA will thereby become independent of the Federal budget in acquiring mortgages under its secondary market operations, which have expanded often during the very periods that over-all Federal expenditures have come under growing restraint. With 100 per cent private ownership, FNMA's reorganized operations will be excluded from Federal budget expenditures and financing totals in the new accounting system. Presumably, these changes will allow FNMA to give somewhat greater countercyclical support to the mortgage market than it has already done to date.

A successor Federal corporation, to be known as the Government National Mortgage Association (Ginnie Mae), will be set up to retain FNMA's present special assistance and management and liquidating functions. In order to broaden sources of funds available for mortgage lending, GNMA will be able to guarantee participation certificates or other securities issued against pools of Government underwritten mortgages set aside by GNMA, FNMA, Federal savings and loan associations, national banks, or other approved lenders. The extent of such participation sales at any given time will, of course, depend heavily on the attractiveness of the yields generated by the pooled loans.

Private lenders. The Act provides for greater flexibility within the primary mortgage market by broadening the powers of Federal savings and loan associations and by liberalizing the real estate lending authority of national banks.

A number of new powers authorized for Federal savings and loan associations furnish the basis for greater ultimate diversification of their assets and liabilities, and hence for greater potential cyclical stability in savings inflows and mortgage lending. Under the Act, Federal S&L's can (a) use such terms as "savings deposits" in lieu of "savings shares"; (b) accept deposits for fixed periods of time and issue certificates of deposits, presumably under a creditor-debtor relationship; (c) issue subordinated notes, bonds, debentures, and other obligations and securities (except capital stock), all of which would be ineligible for FSLIC insurance; (d) invest in time deposits, certificates, or accounts of any FDIC-insured bank; (e) make repair, equipping, alteration, or improvement loans of up to $5,000 against any type of real property fixture; (f) finance mobile homes and vacation homes; and (g) invest up to 1 per cent of their assets in AID guaranty loans to developing countries outside Latin America as well as inside Latin America (as already permitted). Some of these changes--such as the use of "savings deposits" long sought by the industry--will take effect only after implementation of FHLBB regulations and amendment of association charters, a process likely to span one or more months. Issuance of subordinated securities would obviously depend in addition on how favorable a market reception an association's offerings would receive in competition with other capital market borrowers.

For national banks, the Act broadens the incentive as well as the capacity for mortgage investment. It (a) extends the present 24-month limit on construction loans to 36 months; (b) clarifies bank authority to purchase participations in existing mortgages in addition to newly-made loans; and (c) codifies an earlier ruling of the Comptroller of the Currency liberalizing real estate lending investment potential. In connection with (c), the new law states that when a bank makes a loan to any type of borrower and looks primarily for repayment from the borrower's income or relies on non-mortgage security as collateral, but in addition also takes a mortgage, the loan shall be classed as an ordinary non-real-estate loan rather than as a conventional mortgage. Such classification thereby exempts the loan from the statutory limits on real estate mortgages applicable to aggregate bank holdings (the greater of capital and surplus, or 70 per cent of time and savings deposits), maximum maturity (25 years), and maximum loan-to-value ratio (80 per cent); Federally-underwritten mortgages have always been exempt from most of these limitations.

APPENDIX B: ANNUAL REVISION OF NATIONAL INCOME AND PRODUCT*

The 1968 annual revision of the national income and product figures, based on newly available benchmark data, changed earlier estimates--including the general contour of developments--relatively little. Gross national product, personal income, and corporate profits were revised up slightly throughout the revision period, which extends back to the first quarter of 1965. Revisions in the GNP price deflator were small and so the upward revisions in current dollar GNP were reflected in the constant dollar figures. GNP in current dollars in 1967 is now estimated at $789.7 billion, $4.7 billion or .6 per cent higher than before; the largest upward revision, .8 per cent, was for the fourth quarter of 1966.

PER CENT CHANGES IN GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Previous changes are shown in parentheses)

	1964-IV to 1965-IV	1965-IV to 1966-IV	1966-IV to 1967-IV
Gross national product	10.1	8.1	5.6
	(9.8)	(7.6)	(5.9)
Final sales	9.9	6.9	7.3
	(9.6)	(6.5)	(7.3)
Real GNP	8.2	4.8	2.2
	(7.8)	(4.2)	(2.8)
GNP deflator	1.7	3.3	3.2
	(1.9)	(3.4)	(3.0)
Personal income	9.4	8.3	6.7
	(8.9)	(8.2)	(6.8)
Corporate profits before tax	22.6	2.9	.5
	(19.9)	(3.8)	(1.4)

* Prepared by J. Cortland Peret, Economist, National Income, Labor Force and Trade Section, Division of Research and Statistics.

The new figures generally show slightly larger quarterly gains in the last half of 1965 and throughout 1966 than the previous figures did, and slightly smaller gains throughout 1967. In general the revised figures for 1968-I indicate larger increases than before.

Revisions of the quarter-to-quarter changes in the expenditure components of GNP generally were also relatively small, with the signficant revisions concentrated in three components. Business fixed investment over the last three years is now somewhat larger. Inventory accumulation by nonfarm businesses throughout most of the period was somewhat faster than indicated earlier. Somewhat larger quarter-to-quarter increases also are now shown for State and local government purchases in the last half of 1965 and in 1966.

The upward revision in personal income was largely in interest income, rental income, and business and professional proprietors' income. The wage and salary income component was relatively unaffected. The revision in personal income carried through to disposable income and, with personal consumption expenditures changed little (actually lowered slightly through 1966), the earlier estimates of personal saving were raised a bit, as were the ratios of personal saving to disposable personal income. The fraction of disposable income saved in 1966 is now estimated at 6.4 per cent, .5 percentage point higher than indicated by the previous figures, and the already high rate for 1967 as a whole was raised by .3 percentage point to 7.4 per cent, with the ratio for the final quarter of the year now at 7.8 per cent. In 1968-I, at 7.1 per cent, the ratio was again .5 percentage point higher than indicated before. Preliminary estimates for 1968-II indicate a 7.7 per cent saving rate, almost as high as in 1967-IV.

The revised figures and changes for gross national product and related items are shown in the attached tables. These tables, which are the ones regularly carried in the "Greenbook" with the GNP write-up, also contain the Board's newly revised manufacturing capacity utilization rates and revised industrial production and housing starts figures for 1968-II.

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)

	1960	1961	1962	1963	1964	1965	1966	1967
Gross National Product	503.7	520.1	560.3	590.5	632.4	684.9	747.6	789.7
Final sales	500.2	518.1	554.3	584.6	626.6	675.3	732.8	783.6
Private	400.6	410.5	437.2	462.1	497.9	538.3	576.6	605.2
Personal consumption expenditures	325.2	335.2	355.1	375.0	401.2	432.8	465.5	492.2
Durable goods	45.3	44.2	49.5	53.9	59.2	66.3	70.5	72.6
Nondurable goods	151.3	155.9	162.6	168.6	178.7	191.1	206.7	215.8
Services	128.7	135.1	143.0	152.4	163.3	175.5	188.3	203.8
Gross private domestic investment	74.8	71.7	83.0	87.1	94.0	108.1	120.8	114.3
Residential construction	22.8	22.6	25.3	27.0	27.1	27.2	24.8	24.6
Business fixed investment	48.4	47.0	51.7	54.3	61.1	71.3	81.3	83.6
Change in business inventories	3.6	2.0	6.0	5.9	5.8	9.6	14.7	6.1
Nonfarm	3.3	1.7	5.3	5.1	6.4	8.6	14.9	5.6
Net Exports	4.0	5.6	5.1	5.9	8.5	6.9	5.1	4.8
Gov't. purchases of goods & services	99.6	107.6	117.1	122.5	128.7	137.0	156.2	178.4
Federal	53.5	57.4	63.4	64.2	65.2	66.9	77.4	90.6
Defense	44.9	47.8	51.6	50.8	50.0	50.1	60.6	72.4
Other	8.6	9.6	11.8	13.5	15.2	16.8	16.8	18.2
State & local	46.1	50.2	53.7	58.2	63.5	70.1	78.8	87.8
Gross national product in constant (1958) dollars	487.7	497.2	529.8	551.0	581.1	617.8	657.1	673.1
GNP implicit deflator (1958=100)	103.3	104.6	105.8	107.2	108.8	110.9	113.8	117.3
Personal income	401.0	416.8	442.6	465.5	497.5	538.9	586.8	628.8
Wages and salaries	270.8	278.1	296.1	311.1	333.7	358.9	394.6	423.4
Disposable income	350.0	364.4	385.3	404.6	438.1	473.2	511.6	546.3
Personal saving	17.0	21.2	21.6	19.9	26.2	28.4	32.9	40.2
Saving rate (per cent)	4.9	5.8	5.6	4.9	6.0	6.0	6.4	7.4
Corporate profits before tax	49.7	50.3	55.4	59.4	66.8	77.8	85.6	81.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	96.5	98.3	106.5	114.5	115.0	124.7	143.0	151.2
Expenditures	93.0	102.1	110.3	113.9	118.1	123.5	142.4	163.6
Surplus or deficit (-)	3.5	-3.8	-3.8	0.6	-3.0	1.2	0.7	-12.4
Total labor force (millions)	72.1	73.0	73.4	74.6	75.8	77.2	78.9	80.8
Armed forces "	2.5	2.6	2.8	2.7	2.7	2.7	3.1	3.4
Civilian labor force "	69.6	70.5	70.6	71.8	73.1	74.5	75.8	77.3
Unemployment rate (per cent)	5.5	6.7	5.5	5.7	5.2	4.5	3.8	3.8
Nonfarm payroll employment (millions)	54.2	54.0	55.6	56.7	58.3	60.8	64.0	66.0
Manufacturing	16.8	16.3	16.9	17.0	17.3	18.1	19.2	19.4
Industrial production (1957-59=100)	108.7	109.7	118.3	124.3	132.3	143.4	156.3	158.0
Capacity utilization, manufacturing (per cent)	80.6	78.5	82.1	83.3	85.7	88.5	90.5	85.3
Housing starts, private (millions A. R.)	1.23	1.28	1.44	1.58	1.50	1.45	1.14	1.27
Sales new U.S.-made autos (millions, A.R.)	6.14	5.56	6.75	7.33	7.62	8.76	8.38	7.57

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Quarterly changes are at annual rates)

	1960	1961	1962	1963	1964	1965	1966	1967
	In billions of dollars							
Gross National Product	20.0	16.4	40.2	30.2	41.9	52.5	62.7	42.1
Final sales	21.3	17.9	36.2	30.3	42.0	48.7	57.5	50.8
Private	18.7	9.9	26.7	24.9	35.8	40.4	38.3	28.6
GNP in constant (1958) dollars	11.8	9.5	32.6	21.2	30.1	36.7	39.3	16.0
Final sales	13.1	11.0	28.6	21.4	30.0	33.6	34.4	24.0
Private	12.9	5.4	21.6	19.3	28.4	30.1	22.6	9.8
	In Per Cent Per Year							
Gross National Product	4.1	3.3	7.7	5.4	7.1	8.3	9.2	5.6
Final sales	4.4	3.6	7.0	5.5	7.2	7.8	8.5	6.9
Private	4.9	2.5	6.5	5.7	7.7	8.1	7.1	5.0
Personal consumption expenditures	4.5	3.1	5.9	5.6	7.0	7.9	7.6	5.7
Durable goods	2.3	-2.4	12.0	8.9	9.8	12.0	6.3	3.0
Nondurable goods	3.2	3.0	4.3	3.7	6.0	6.9	8.2	4.4
Services	7.0	5.0	5.8	6.6	7.2	7.5	7.3	8.2
Gross private domestic investment	-0.7	-4.1	15.8	4.9	7.9	15.0	11.7	-5.4
Residential construction	-10.6	-0.9	11.9	6.7	0.4	0.4	-8.8	-0.8
Business fixed investment	7.3	-2.9	10.0	5.0	12.5	16.7	14.0	2.8
Gov't purchases of goods & services	2.7	8.0	8.8	4.6	5.1	6.4	14.0	14.2
Federal	-0.4	7.3	10.5	1.3	1.6	2.6	15.7	17.1
Defense	-2.4	6.5	7.9	-1.6	-1.6	0.2	21.0	19.5
Other	13.2	11.6	22.9	14.4	12.6	10.5	0.0	8.3
State & local	6.5	8.9	7.0	8.4	9.1	10.4	12.4	11.4
GNP in constant (1958) dollars	2.5	1.9	6.6	4.0	5.5	6.3	6.4	2.4
Final sales	2.8	2.3	5.8	4.1	5.5	5.8	5.7	3.7
Private	3.4	1.4	5.5	4.6	6.5	6.5	4.6	1.9
GNP implicit deflator	1.7	1.3	1.1	1.3	1.5	1.9	2.6	3.1
Personal income	4.6	3.9	6.2	5.2	6.9	8.3	8.9	7.2
Wages and salaries	4.8	2.7	6.5	5.1	7.3	7.6	9.9	7.3
Disposable income	3.8	4.1	5.7	5.0	8.3	8.0	8.1	6.8
Corporate profits before tax	-4.6	1.2	10.1	7.2	12.5	16.5	10.0	-4.7
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	7.5	1.9	8.3	7.5	0.4	8.4	14.7	5.7
Expenditures	2.2	9.8	8.0	3.3	3.7	4.6	15.3	14.9
Nonfarm payroll employment	1.7	-0.4	3.0	2.0	2.8	4.3	5.3	3.1
Manufacturing	0.6	-3.0	3.7	0.6	1.8	4.6	6.1	1.0
Industrial production	2.9	0.9	7.8	5.1	6.4	8.4	9.0	1.1
Housing starts, private	-17.5	4.1	12.5	9.7	-5.1	-3.3	-21.4	11.4
Sales new U.S.-made autos	12.0	-9.4	21.4	8.6	4.0	15.0	-4.3	-9.7

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.)

	1965				1966			
	I	II	III	IV	I	II	III	IV
Gross National Product	662.8	675.7	691.1	710.0	728.4	740.4	753.3	768.2
Final sales	651.9	666.8	682.1	700.3	717.5	725.0	740.4	748.4
Private	520.4	532.4	543.2	560.0	569.7	571.9	580.9	584.1
Personal consumption expenditures	419.8	427.9	436.3	447.4	457.8	461.1	469.3	473.7
Durable goods	65.4	64.4	66.5	68.9	71.6	68.2	71.0	71.1
Nondurable goods	184.4	189.7	192.4	197.8	202.8	206.3	208.3	209.3
Services	170.0	173.8	177.4	180.7	183.4	186.7	190.0	193.3
Gross private domestic investment	105.3	105.3	108.7	113.2	116.8	121.0	119.9	125.7
Residential construction	27.4	27.0	27.2	27.4	27.3	25.8	24.4	21.7
Business fixed investment	67.1	69.5	72.4	76.2	78.6	79.8	82.6	84.2
Change in business inventories	10.9	8.9	9.1	9.7	10.9	15.4	12.8	19.8
Nonfarm	10.3	8.1	7.8	8.5	10.7	15.4	13.3	20.2
Net Exports	6.2	8.1	7.3	6.0	6.0	5.2	4.5	4.5
Gov't. purchases of goods & services	131.5	134.4	138.9	143.3	147.8	153.1	159.5	164.3
Federal	64.4	65.5	67.6	70.1	72.5	75.6	79.9	81.5
Defense	48.6	49.2	50.1	52.5	55.3	58.6	63.0	65.4
Other	15.8	16.2	17.4	17.6	17.2	17.0	16.9	16.1
State & local	67.0	68.9	71.3	73.2	75.3	77.4	79.7	82.7
Gross national product in constant (1958) dollars	601.6	610.4	622.5	636.6	648.6	653.3	659.5	667.1
GNP implicit deflator (1958=100)	110.2	110.7	111.0	111.5	112.3	113.3	114.2	115.2
Personal income	520.4	530.8	546.1	558.4	570.4	580.3	592.1	604.5
Wages and salaries	347.4	354.0	361.7	372.4	381.0	390.2	399.8	407.2
Disposable income	455.9	464.7	480.8	491.6	500.0	505.5	515.4	525.4
Personal saving	24.7	24.9	32.3	31.8	29.5	31.4	32.9	38.1
Saving rate (per cent)	5.4	5.4	6.7	6.5	5.9	6.2	6.4	7.3
Corporate profits before tax	74.5	76.5	77.6	82.6	85.2	85.6	86.7	85.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	123.2	124.8	123.4	127.4	136.8	142.1	145.5	147.7
Expenditures	118.8	120.2	126.5	128.5	134.8	138.4	145.8	150.5
Surplus or deficit (-)	4.4	4.7	-3.1	-1.1	2.0	3.7	-0.3	-2.8
Total labor force (millions)	76.6	77.1	77.3	77.7	78.1	78.5	79.1	79.8
Armed forces "	2.7	2.7	2.7	2.8	2.9	3.1	3.2	3.3
Civilian labor force "	73.8	74.4	74.6	74.9	75.2	75.5	75.9	76.5
Unemployment rate (per cent)	4.8	4.7	4.4	4.1	3.8	3.8	3.8	3.7
Nonfarm payroll employment (millions)	59.8	60.4	61.1	61.9	62.9	63.8	64.4	65.0
Manufacturing	17.7	17.9	18.2	18.4	18.8	19.2	19.4	19.5
Industrial production (1957-59=100)	139.8	142.0	144.4	147.1	152.3	155.3	157.7	159.3
Capacity utilization, manufacturing (per cent)	88.5	88.4	88.5	88.6	90.5	90.8	90.6	90.0
Housing starts, private (millions A. R.)	1.41	1.46	1.44	1.48	1.40	1.25	1.06	0.90
Sales new U.S.-made autos (millions, A. R.)	9.05	8.62	8.73	8.65	9.07	8.00	8.29	8.19

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)

	1967				1968			
	I	II	III	IV	I	IIp	III	IV
Gross National Product	772.2	780.2	795.3	811.0	831.2	850.8		
Final sales	763.8	778.0	789.9	802.7	829.1	842.5		
Private	590.7	600.7	610.3	619.2	638.6	646.9		
Personal consumption expenditures	480.9	490.3	495.5	502.2	519.4	527.1		
Durable goods	69.8	73.4	73.1	74.2	79.0	81.0		
Nondurable goods	212.9	215.3	216.4	218.4	226.5	227.9		
Services	198.2	201.6	205.9	209.6	213.9	218.2		
Gross private domestic investment	113.0	107.6	114.7	121.8	119.7	126.1		
Residential construction	21.1	22.7	26.0	28.5	29.1	30.1		
Business fixed investment	83.5	82.7	83.3	85.0	88.6	87.6		
Change in business inventories	8.4	2.3	5.3	8.3	2.1	8.4		
Nonfarm	8.3	2.2	4.8	7.1	1.6	8.1		
Net Exports	5.2	5.1	5.4	3.4	1.5	2.0		
Gov't. purchases of goods & services	173.1	177.3	179.6	183.5	190.5	195.6		
Federal	87.4	90.0	91.3	93.5	97.1	100.0		
Defense	70.0	72.1	72.9	74.6	76.8	79.3		
Other	17.4	17.9	18.4	19.0	20.3	20.7		
State & local	85.8	87.2	88.4	90.0	93.4	95.7		
Gross national product in constant (1958) dollars	665.7	669.2	675.6	681.8	692.7	701.7		
GNP implicit deflator (1958=100)	116.0	116.6	117.7	118.9	120.0	121.2		
Personal income	614.8	621.6	633.7	645.2	662.7	678.0		
Wages and salaries	413.3	417.6	426.3	436.4	448.3	457.4		
Disposable income	534.2	541.5	550.0	559.6	574.4	586.4		
Personal saving	39.7	37.0	40.5	43.4	40.8	45.0		
Saving rate (per cent)	7.4	6.8	7.4	7.8	7.1	7.7		
Corporate profits before tax	79.9	80.3	80.8	85.4	88.9	--		
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	148.1	148.2	152.2	156.4	166.6	--		
Expenditures	159.3	161.5	165.1	168.6	175.1	181.7		
Surplus or deficit (-)	-11.2	-13.3	-12.9	-12.2	- 8.6	--		
Total labor force (millions)	80.3	80.3	81.1	81.6	81.9	82.2		
Armed forces "	3.4	3.5	3.5	3.5	3.5	3.5		
Civilian labor force "	76.8	76.8	77.6	78.2	78.4	78.7		
Unemployment rate (per cent)	3.7	3.8	3.9	3.9	3.6	3.6		
Nonfarm payroll employment (millions)	65.6	65.7	66.1	66.7	67.4	67.8		
Manufacturing	19.6	19.4	19.3	19.5	19.6	19.7		
Industrial production (1957-59=100)	157.1	155.9	157.2	159.5	162.1	163.7		
Capacity Utilization, manufacturing (per cent)	87.1	85.0	84.3	84.7	84.9	84.5		
Housing starts, private (millions A.R.)	1.09	1.19	1.38	1.43	1.47	1.40		
Sales new U.S.-made autos (millions, A.R.)	7.16	8.11	7.57	7.44	8.19	8.44		

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1965				1966			
	I	II	III	IV	I	II	III	IV
	In billions of dollars							
Gross National Product	17.7	12.9	15.4	18.9	18.4	12.0	12.9	14.9
Final sales	14.5	14.9	15.3	18.2	17.2	7.5	15.4	8.0
Private	12.8	12.0	10.8	16.8	9.7	2.2	9.0	3.2
GNP in constant (1958) dollars	13.1	8.8	12.1	14.1	12.0	4.7	6.2	7.6
Final sales	10.8	10.4	11.9	13.3	11.0	0.2	9.1	0.9
Private	9.9	8.7	9.1	10.8	7.9	-3.0	5.3	-1.9
	In Per Cent Per Year							
Gross National Product	11.0	7.8	9.1	10.9	10.4	6.6	7.0	7.9
Final sales	9.1	9.1	9.2	10.7	9.8	4.2	8.5	4.3
Private	10.1	9.2	8.1	12.4	6.9	1.5	6.3	2.2
Personal consumption expenditures	10.7	7.7	7.9	10.2	9.3	2.9	7.1	3.7
Durable goods	45.7	-6.1	13.0	14.4	15.7	-19.0	16.4	0.6
Nondurable goods	3.3	11.5	5.7	11.2	10.1	6.9	3.9	1.9
Services	6.5	8.9	8.3	7.4	6.0	7.2	7.1	6.9
Gross private domestic investment	30.2	0.0	12.9	16.6	12.7	14.4	- 3.6	19.3
Residential construction	9.0	- 5.8	3.0	2.9	- 1.5	-22.0	-21.7	-44.3
Business fixed investment	23.3	14.3	16.7	21.0	12.6	6.1	14.0	7.7
Gov't purchases of goods & services	5.2	8.8	13.4	12.7	12.6	14.3	16.7	12.0
Federal	- 0.6	6.8	12.8	14.8	13.7	17.1	22.7	8.0
Defense	- 2.5	4.9	7.3	19.2	21.3	23.9	30.0	15.2
Other	7.7	10.1	29.6	4.6	- 9.1	- 4.6	- 2.4	-18.9
State & local	10.4	11.3	13.9	10.7	11.5	11.2	11.9	15.1
GNP in constant (1958) dollars	8.9	5.8	7.9	9.1	7.5	2.9	3.8	4.6
Final sales	7.4	7.0	7.9	8.7	7.0	0.1	5.7	0.6
Private	8.4	7.2	7.4	8.7	6.2	- 2.3	4.1	- 1.5
GNP implicit deflator	2.2	1.8	1.1	1.8	2.9	3.6	3.2	3.5
Personal income	7.8	8.0	11.5	9.0	8.6	6.9	8.1	8.4
Wages and salaries	5.4	7.6	8.7	11.8	9.2	9.7	9.8	7.4
Disposable income	5.6	7.7	13.9	9.0	6.8	4.4	7.8	7.8
Corporate profits before tax	42.1	10.7	5.7	25.8	12.6	1.9	5.1	- 7.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	20.5	5.2	- 4.5	13.0	29.5	15.5	9.6	6.0
Expenditures	3.4	4.7	21.0	6.3	19.6	10.7	21.4	12.9
Nonfarm payroll employment	4.7	4.0	4.6	5.2	6.5	5.7	3.8	3.7
Manufacturing	6.9	4.5	6.7	4.4	8.7	8.5	4.2	2.1
Industrial production	14.2	6.3	6.8	7.5	14.1	7.9	6.2	4.1
Housing starts, private	-24.0	14.2	- 5.5	11.1	-21.6	-42.9	-60.8	-60.4
Sales new U.S.-made autos	112.0	-19.0	5.1	- 3.7	19.4	-47.2	14.5	- 4.8

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967				1968			
	I	II	III	IV	I	IIp	III	IV
	In billions of dollars							
Gross National Product	4.0	8.0	15.1	15.7	20.2	19.6		
Final sales	15.4	14.2	11.9	12.8	26.4	13.4		
Private	6.6	10.0	9.6	8.9	19.4	8.3		
GNP in constant (1958) dollars	-1.4	3.5	6.4	6.2	10.9	9.0		
Final sales	9.2	9.2	3.5	3.4	16.9	--		
Private	2.4	6.3	3.1	2.8	12.4	--		
	In Per Cent Per Year							
Gross National Product	2.1	4.1	7.7	7.9	10.0	9.4		
Final sales	8.2	7.4	6.1	6.5	13.2	6.5		
Private	4.5	6.8	6.4	5.8	12.5	5.2		
Personal consumption expenditures	6.1	7.8	4.2	5.4	13.7	5.9		
Durable goods	-7.3	20.6	-1.6	6.0	25.9	10.1		
Nondurable goods	6.9	4.5	2.0	3.7	14.8	2.5		
Services	10.1	6.9	8.5	7.2	8.2	8.0		
Gross private domestic investment	-40.4	-19.1	26.4	24.8	-6.9	21.4		
Residential construction	-11.1	30.3	58.1	38.5	8.4	13.7		
Business fixed investment	-3.3	-3.8	2.9	8.2	16.9	-4.5		
Gov't purchases of goods & services	21.4	9.7	5.2	8.7	15.3	10.7		
Federal	29.0	11.9	5.8	9.6	15.4	11.9		
Defense	28.1	12.0	4.4	9.3	11.8	13.0		
Other	32.3	11.5	11.2	13.0	27.4	7.9		
State & local	15.0	6.5	5.5	7.2	15.1	9.8		
GNP in constant (1958) dollars	-0.8	2.1	3.8	3.7	6.4	5.2		
Final sales	5.7	5.6	2.1	2.0	10.0	--		
Private	1.9	4.8	2.4	2.1	9.3	--		
GNP implicit deflator	2.8	2.1	3.8	4.1	3.7	4.0		
Personal income	6.8	4.4	7.8	7.3	10.8	9.2		
Wages and salaries	6.0	4.2	8.3	9.5	10.9	8.1		
Disposable income	6.7	5.5	6.3	7.0	10.6	8.4		
Corporate profits before tax	-24.0	2.0	2.5	22.8	16.4	--		
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	1.1	0.3	10.8	11.0	26.1	--		
Expenditures	23.4	5.5	8.9	8.5	15.4	15.1		
Nonfarm payroll employment	3.7	0.6	2.4	3.6	4.2	2.4		
Manufacturing	2.0	-4.1	-2.1	4.1	2.0	2.0		
Industrial production	-5.5	-3.1	3.3	5.9	6.5	3.9		
Housing starts, private	84.4	36.7	63.9	14.5	11.2	-19.0		
Sales new U.S.-made autos	-50.3	53.1	-26.6	-6.9	40.3	12.2		

APPENDIX C

MEASURES OF THE U.S. BALANCE OF PAYMENTS AND SELECTED "SPECIAL" TRANSACTIONS
(millions of dollars) 1/

		1967					1968	
		YEAR	I	II	III	IV	I	II
	1. Liquidity balance, NSA (deficit -)	-3,571	-238	-220	-1,212	-1,901	-251	+55
	Seasonal adjustment		-267	-302	+410	+159	-382	-300
	Liquidity balance, SA		-505	-522	-802	-1,742	-633	-245
	2. SELECTED "SPECIAL" TRANSACTIONS							
	A. Investments in long-term deposits:							
	By foreign governments 2/	+907	+306	+434	-14	+181	+134	+122
	By international and regional institutions	+178	+70	+24	+54	+30	50	+38
	B. Investments in U.S. Gov't Agency Securities:							
*	By foreign governments 2/	+28	--	--	--	+28	+10	+4
	By international and regional institutions	+120	-6	+70	+67	-11	-38	-34
	C. U.K. official transactions:							
	Long-term deposits	-72	-1	-50	-1	-20	-16	--
*	Private liquidation of U.S. securities other than Treasury issues	-495	+9	+52	+4	-560	--	--
	D. Canadian Gov't transactions							
	Long-term deposits	--	--	+200	-200	--	--	--
	Net purchases of nonmarketable, nonconvertible U.S. Gov't. Securities	+170	--	--	+200	-30	+100	+500
*	Nonscheduled repayment of U.S. private credits	+30	--	+30	--	--	--	--
*	Purchases of IBRD bonds from U.S. owners	--	--	--	--	--	-35	--
*	Postponement of new Canadian issues	--	--	--	--	--	--	--
*	E. Nonscheduled debt repayment	+5	--	(*)	+5	(*)	+42	--
	F. Transactions in nonmarketable, nonconvertible U.S. Gov't. securities 3/	+243	-1	-3	+122	+124	+116	+251
	(of which are German transactions)	(+250)			(+125)	(+125)	(+125)	(+250) 4/
	TOTAL SELECTED "SPECIAL" TRANSACTIONS	+1,113	+377	+757	+237	-258	+263	+881
	3. LIQUIDITY DEFICIT BEFORE REDUCTION BY "SPECIAL" TRANSACTIONS	-4,684	-882	-1,279	-1,039	-1,484	-896	-1,126
	4. Official settlements balance, NSA (deficit -)	-3,405	-1,279	-705	-25	-1,396	+100	+1,553
	Seasonal adjustment		-485	-101	+272	+314	-600	-100
	Official settlements balance, SA		-1,764	-806	+247	-1,082	-500	+1,453
	5. "SPECIAL" TRANSACTIONS AFFECTING OFFICIAL SETTLEMENTS BALANCE (Items marked * above)	-432	+9	+82	+9	-532	+17	+129
	6. OFFICIAL SETTLEMENTS BALANCE BEFORE REDUCTION BY "SPECIAL" TRANSACTIONS	-2,973	-1,773	-888	+238	-550	-517	+1,324

1/ Figures may not add because of rounding
2/ Excluding the U.K. and Canada
3/ Excluding Canada
4/ $125 million of which was sold to German commercial banks, thus affecting both measures of the U.S. Balance of Payments