

## **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,<sup>1</sup> and then making the scanned versions text-searchable.<sup>2</sup> 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.

---

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

<sup>2</sup> 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.

**CONFIDENTIAL (FR)**

# **CURRENT ECONOMIC and FINANCIAL CONDITIONS**

**Prepared for the  
Federal Open Market Committee**

*By the Staff*

**BOARD OF GOVERNORS  
OF THE FEDERAL RESERVE SYSTEM**

**January 29, 1969**

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

January 29, 1969

---

SUMMARY AND OUTLOOK

---

Outlook for economic activity

The slowdown in growth of real GNP evident last quarter is expected to continue during the first half of the year as an increasing number of demand sectors show less ebullience. Inventory accumulation, which rose substantially last quarter and helped sustain growth then, is unlikely to rise further and may well decline. The recently released budget figures suggest no further increase in Federal purchases of goods and services for the remainder of the fiscal year. High interest rates and reduced availability of funds should, after some lag, begin to reduce the level of residential construction expenditures. And as a result of higher tax payments, further increases in personal consumption expenditures are expected to be moderate.

Weekly data suggest that retail sales in January may return to about the November level from the particularly low rate indicated by the advance estimate for December, but little increase, if any, is expected in durable goods consumption. The recent downdrift in auto sales appears to have continued in January (based upon data for the first 20 days) and production schedules for February have been curtailed. With growth of disposable income dampened, any large rise in consumption in the first half would require an even larger cut in the savings rate than has been projected.

Thus, the burden of expansion in the immediate future seems to rest with sustained optimism of business, particularly as reflected

in spending decisions for fixed investment. Although a new (confidential) report on business plans for investment in plant and equipment does call for a fairly substantial--10-1/2 per cent--rise in 1969 from the 1968 level of spending, the quarterly rate of increase, nevertheless, would have to taper off sharply after the first quarter to meet the total now planned for the year.

Over-all the growth rate in real output is now expected to decline further, to under 2-1/2 per cent in the first quarter and to about 1-1/2 per cent in the second quarter. With demand pressures easing, the rise in the GNP deflator is expected to moderate to about a 3-1/2 per cent rate by the second quarter, from about 4 per cent last quarter.

#### Outlooks for prices and resource use

The rise of nearly 0.6 per cent in industrial prices from mid-December to mid-January appears to have been the largest and most pervasive of the past three years of generally growing inflationary pressures. This step-up in the pace of the industrial price advance was heralded by trade reports, which had revealed an extraordinary bunching of price increases in early January, particularly for metals. Large price increases for some industrial materials in recent months and continuing strong upward wage pressures will provide continuing pressure on prices of industrial commodities. However, since mid-January there has been a fall-off in the number of announced increases, suggesting that the pace of advance in industrial prices overall will subside, particularly as demand pressures slacken.

The rise in retail prices of consumer products moderated appreciably at the end of 1968, while prices of services continued upward at a fast pace. Housing costs--including mortgage interest, which will now be boosted further by the recent action in raising FHA and VA ceilings--are again bulking especially large in the rise in the CPI, leading to a larger rise in the CPI than will be reflected in the GNP deflator.

With auto assemblies down moderately and steel output rising only seasonally in early January, the sharp step-up in industrial production of late 1968 appears now to be shading off. Consumer goods output has been exceeding the rate of final takings for some months and efforts are now being made to reduce the rate of stock build-up in this sector. Some of the sizable rate of total business inventory accumulation in late 1968 probably reflected hedging against industrial price increases that appeared imminent. The immediate outlook for business equipment output, however, remains strong.

Insured unemployment continued at very low levels at the turn of the year, suggesting that the total unemployment rate in mid-January remained close to the November-December level of 3.3 per cent. For the current quarter as a whole, labor demand--and the growth in employment--is expected to moderate somewhat from the high late-1968 levels, owing in part to the expected leveling off of the rise in industrial activity.

Prospects for supply of funds

Assuming yields on money market instruments are maintained near current levels, time and savings deposits at commercial banks will continue under considerable pressure. The rate of decrease of such deposits may moderate some from the January level, which was augmented by transfers out of consumer-type deposits. In past periods of disintermediation at commercial banks, consumer-type deposit losses tended to be concentrated in the first few weeks immediately following quarterly interest crediting, with moderate net inflows over the remainder of the quarter. CD's, however, are expected to continue to run off, at least over the next several weeks.

CD attrition may fall back to a somewhat less rapid rate than prevailed in January, but such a slackening would be associated mainly with the somewhat lower volume of maturities estimated for February. The heaviest run-offs are likely to occur at large money market banks, with significant losses occurring at a number of the larger regional banks as well.

Privately held demand deposits, and the money supply, are likely to grow more slowly over the next few months. The reduced rate of growth in disposable income would be expected to contribute to such slackening and the firming of bank lending policies should lead businesses to economize on holdings of cash and liquid assets. Moreover, the recently reduced volume of stock market transactions, if it continues, should be a marginal factor leading to slower growth in money.

At current levels of market yields, net savings inflows to thrift institutions are expected to slow, relative to last year, and the coming March-April reinvestment period is likely to be affected by net withdrawals associated with April income and surtax payments. Data thus far available this month suggest that the more interest-sensitive institutions in New York and California have already begun to face much slower net savings inflows. Under such circumstances, and with outstanding mortgage commitments at very high levels, new mortgage commitment activity is likely to be cut back in coming months. Nevertheless, provided the reduction in net savings inflows is not excessively large, thrift institutions are still likely to be able to accommodate existing commitments, through increased borrowing from Home Loan Banks and through further reductions in liquidity. Commercial banks, with their fund inflows reduced, are also likely to cut back their mortgage activity after a year in which they provided considerable market support. FNMA mortgage acquisitions under existing commitments will probably take up at least part of the slack, and the life insurance industry still appears to have reasonable leeway between expected cash flows and projected takedowns of commitments.

Outlook for credit demand

Credit demands in bond markets are expected to be on the comparatively moderate side over the next several weeks. Nevertheless, it is quite possible that interest rates in intermediate and longer-term markets will rise over the near-term, as the pressure on banks



and other financial institutions cumulates. Contrary to earlier market anticipations, the Treasury is not likely to raise new cash in the forthcoming Treasury refunding (to be announced January 29) because of debt ceiling problems. But some upward interest rate adjustment on coupon issues is still likely to develop in the process of distribution, in view of the limited bank demand in prospect. Moreover, recent new corporate and municipal issues have received a lukewarm reception this has led to a rise in dealer inventories in these markets, with a potential for a run-up of interest rates, particularly in the municipal market.

In the corporate bond market, new issue volume is expected to drop from the January level, when volume had been buoyed by unusually large offerings of public utility issues. The February calendar of utility offerings is relatively light, and there are no signs yet of a build-up in straight industrial bond offerings. A number of borrowers may be holding back in anticipation of lower interest rates in the spring.

Municipal volume is also expected to drop off in February, although offerings will remain at about \$1 billion for the month. There have been relatively large postponements of new issues during the past several weeks since banks have virtually withdrawn from the market.

Demand for loans from banks is expected to remain fairly strong over the next few weeks. Only a modest reduction in the advanced rate of inventory accumulation by businesses is anticipated, and this should help sustain business loan demands. In addition, expectations

that bond yields may be declining in the spring may encourage interim borrowing from banks.

Apart perhaps from consumer loans, other loan demands on banks, too, are expected to show little abatement. Mortgage loan activity should remain relatively high given the strong basic housing demand, although banks may begin curtailing participation in that market, as noted in the preceding section, given the limited rise in total bank credit in prospect and continued strength in business loans. And security loan demands may rise as dealers help underwrite the forthcoming Treasury refunding.

Balance of payments outlook. Earlier expectations that the balance on the liquidity basis would revert to deficit in January are borne out by preliminary data. The repatriation of funds by direct investor corporations in December to meet or surpass 1968 program goals of course did not continue after the yearend. It is unlikely that a reverse flow of any great size has been occurring; while the companies have large leeway now for outflows to their foreign affiliates under the 1969 program, tight money conditions in this country are doubtless inhibiting such movements.

The continuing longshoremen's strike is probably affecting the payments balance adversely. The prospect is still for some improvement in the goods and services account after the port strike ends. In the capital accounts, foreign purchases of U.S. stocks are expected to continue large, but there is great uncertainty as to just how large they may be this year; the dip shown in partial December data, after record volume in October-November, can hardly be taken as a portent for the future.

The over-all balance on the official settlements basis has again been in surplus this month. The very sharp reversal since the yearend of the flows of liquid funds through the Euro-dollar market (from large outflow in December to very heavy inflow in early January) owes a good deal to seasonal ease in the German money market and the ebbing of speculation on DM revaluation, and further inflows on the same large scale are not to be expected.

## SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest Period	Amount			Per Cent Change	
		Latest Period	Preced'g Period	Year Ago	Year Ago*	2 Yrs. Ago*
Civilian labor force (mil.)	Dec '68	79.5	79.0	78.5	1.3	3.6
Unemployment (mil.)	"	2.6	2.6	2.9	-10.6	-9.9
Unemployment (per cent)	"	3.3	3.3	3.7	--	--
Nonfarm employment, payroll (mil.)	"	69.2	68.9	67.1	3.2	6.0
Manufacturing	"	19.9	19.9	19.6	1.7	1.7
Other industrial	"	8.4	8.3	8.2	2.2	3.2
Nonindustrial	"	40.9	40.8	39.3	4.1	8.8
Industrial production (57-59=100)	"	168.9	167.4	162.1	4.2	5.9
Final products	"	168.2	167.4	162.1	3.8	5.4
Materials	"	169.6	167.5	162.0	4.7	6.5
Wholesale prices (57-59=100) <sup>1/</sup>	"	109.8	109.6	106.8	2.8	3.7
Industrial commodities (FR)	"	109.3	109.0	106.7	2.4	4.4
Sensitive materials (FR)	"	110.1	108.4	103.9	6.0	8.6
Farm products, foods & feeds	"	108.4	108.3	104.8	3.4	1.6
Consumer prices (57-59=100) <sup>1/</sup>	"	123.7	123.4	118.2	4.7	7.8
Commodities except food	"	115.2	115.3	111.1	3.7	7.0
Food	"	121.2	120.5	116.2	4.3	5.6
Services	"	138.1	137.4	130.1	6.1	10.3
Hourly earnings, mfg. (\$)	"	3.08	3.08	2.89	6.6	12.0
Weekly earnings, mfg. (\$)	"	125.77	125.59	118.04	6.5	11.5
Personal income (\$ bil.) <sup>2/</sup>	"	713.4	708.0	652.6	9.3	17.5
Corporate profits before tax (\$ bil.) <sup>2/</sup> QIII '68	"	92.7	91.8	80.8	14.7	6.9
Retail sales, total (\$ bil.)	Dec '68	28.3	28.9	26.4	7.2	11.2
Autos (million units) <sup>2/</sup>	"	8.5	8.8	7.4	14.3	7.9
GAF (\$ bil.)	"	7.4	7.8	7.1	4.5	13.4
Selected leading indicators:						
Housing starts, pvt. (thous.) <sup>2/</sup>	"	1,454	1,717	1,250	16.3	56.2
Factory workweek (hours)	"	40.7	40.8	40.7	0.0	-0.5
New orders, dur. goods (\$ bil.)	"	29.1	29.3	28.1	3.7	15.6
New orders, nonel. mach. (\$ bil.)	"	5.3	5.1	4.6	15.1	24.3
Common stock prices (1941-43=10)	"	106.48	105.40	95.30	11.7	30.9
Inventories, book val. (\$ bil.)	Nov '68	153.2	152.1	142.6	7.5	12.9
Gross national product (\$ bil.) <sup>2/</sup>	QIV '68	887.8	871.0	811.0	9.5	15.6
Real GNP (\$ bil., 1958 prices) <sup>2/</sup>	"	719.1	712.3	681.8	5.5	7.8

\* Based on unrounded data. <sup>1/</sup> Not seasonally adjusted. <sup>2/</sup> Annual rates.

## SELECTED DOMESTIC FINANCIAL DATA

	Week ended	4-week average	Last 6 months			
	Jan. 24		High	Low		
<b>Money Market <u>1/</u> (N.S.A.)</b>						
Federal funds rate (per cent)	6.35	6.22	6.50	5.08		
U.S. Treas. bills, 3-mo., yield (per cent)	6.11	6.15	6.22	4.96		
U.S. Treas. bills, 1-yr., yield (per cent)	6.05	6.09	6.38	5.10		
Net free reserves <u>2/</u> (\$ millions)	-572	-450	- 30	-572		
Member bank borrowings <u>2/</u> (\$ millions)	780	821	1,318	377		
<b>Capital Market (N.S.A.)</b>						
Market yields (per cent)						
5-year U.S. Treas. bonds <u>1/</u>	6.17	6.26	6.36	5.45		
20-year U.S. Treas. bonds <u>1/</u>	5.96	5.98	6.06	5.18		
Corporate new bond issues, Aaa adj. <u>8/</u>	6.94	6.94	6.94	6.13		
Corporate seasoned bonds, Aaa <u>1/</u>	6.59	6.58	6.59	5.95		
Municipal seasoned bonds, Aaa <u>1/</u>	4.58	4.58	4.58	4.20		
FHA home mortgages, 30-year <u>3/</u>	--	7.50	7.50	7.28		
Common stocks, S&P composite series <u>4/</u>						
Prices, closing (1941-43=10)	102.38	102.33	108.37	96.63		
Dividend yield (per cent)	3.04	3.04	2.87	3.14		
-----						
	Latest month	Amount	3-month average	Change from year earlier Latest 3-month month average		
<b>New Security Issues (N.S.A., \$ millions)</b>						
Corporate public offerings <u>5/</u>	Feb. <u>e/</u>	1,100	810	304	119	
State & local govt. offerings	Feb. <u>e/</u>	1,000	1,100	-153	-70	
Comm. & fin. co. paper (net change in outstandings) <u>6/</u>	Dec. 1968	-1,723	78	-1,660	-210	
-----						
	Latest month	Out- standings Latest month	Change Latest month	3-month average	Annual rate of change from Pre- 3 12 ceding months months month ago ago	
<b>Banking (S.A.)</b>						
	(\$ billions)			(per cent)		
Total reserves <u>1/</u>	Dec. '68	26.98	0.25	0.19	11.2	8.8 7.3
Credit proxy <u>1/</u>	Dec. '68	296.7	3.1	2.9	12.7	12.2 8.6
Bank credit, total <u>6/</u>	Dec. '68	384.5	2.9	3.2	9.1	10.4 11.0
Business loans	Dec. '68	94.7	0.4	0.9	5.1	12.2 9.7
Other loans	"	157.6	1.5	1.9	11.5	15.0 13.3
U.S. Govt. sec.	"	61.7	0.7	-0.8	13.8	-14.4 3.4
Other securities	"	70.5	0.3	1.2	5.1	20.9 14.8
Total liquid assets <u>1/</u> <u>6/</u>	"	703.3	5.4	5.1	9.3	9.0 7.9
Demand dep. & currency <u>1/</u>	"	193.1	1.2	1.2	7.5	7.6 6.5
Time & sav. dep., comm. banks <u>1/</u>	"	204.3	2.4	2.6	14.3	15.7 11.3
Savings, other thrift instit. <u>6/</u>	"	194.9	-0.2	0.7	-1.2	4.1 5.9
Other <u>6/</u> <u>7/</u>	"	111.0	2.0	0.7	22.0	7.7 8.4

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

S.A. -- Seasonally adjusted.

e. Estimated by F.R.B. 1/ Average of daily figures. 2/ Average for statement week ending Jan. 22. 3/ Latest figure is monthly average for Dec. 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. 9/ Federal funds data are 7-day averages for week ending Sunday; latest figure is for week ending Jan. 26.

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

	1967	1 9 6 8					Dec. <sup>P</sup>
	Year	Year <sup>P</sup>	I	II	III	IV <sup>P</sup>	
			Seasonally adjusted				
Goods and services, net <u>1/</u>	4,769		326	592	878		
Trade balance <u>2/</u>	3,477	96	57	5	262	-228	-161
Exports <u>2/</u>	30,468	33,328	7,924	8,325	8,840	8,239	2,801
Imports <u>2/</u>	-26,991	-33,232	-7,867	-8,320	-8,578	-8,467	2,962
Services balance	1,292		269	587	616		
Remittances and pensions	-1,275		-266	-286	-300		
Govt. grants & capital <u>3/</u>	-4,211		-1,164	-1,072	-953		
U.S. private capital	-5,505		-707	-1,448	-1,768		
Direct investment	-3,021		-374	-1,035	-1,102		
Foreign securities	-1,266		-385	-83	-313		
Banking claims	-459	252	303	196	-203	-44	-116*
Other	-759		-251	-526	-159		
Foreign capital, nonliquid	3,186		1,367	2,479	1,740		
Official foreign accounts	1,274		344	927	430		
Long-term deposits	820		122	145	118		
U.S. Govt. liabilities	454		222	782	312		
International institutions <u>4/</u>	314		-94	-20	51		
Other <u>5/</u>	1,598		1,117	1,572	1,259		
Errors and omissions	-535		-243	-429	444		
			Balances, with and without seasonal adjustment (- deficit)				
Liquidity balance, S.A.			-687	-164	80	903	
Seasonal component			428	236	-491	-173	
Balance, N.S.A.	-3,571	132	-259	72	-411	730	1,771
Official settlements bal., S.A.			-556	1,528	425	218	
Seasonal component			646	35	-353	-328	
Balance, N.S.A. <u>6/</u>	-3,405	1,615	90	1,563	72	-110	633
			Reserve changes, N.S.A. (decrease -)				
Total monetary reserves	-52	880	-904	137	571	1,076	50
Gold stock	-1,170	-1,173	-1,362	-22	74	137	-5
Convertible currencies	1,024	1,183	401	-267	474	575	-127
IMF gold tranche	94	870	57	426	23	364	182

1/ Equals "net exports" in the GNP, except for latest revisions.

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.

\*/ N.S.A. The December net outflow was less than seasonal.

THE ECONOMIC PICTURE IN DETAIL

---

The Nonfinancial Scene

Gross national product. The economy appears to be showing signs of decelerating growth. The official GNP figures indicate a somewhat slower fourth quarter than we had been estimating earlier, reflecting largely a dramatic slowdown in growth of consumption expenditures. Although a step-up in inventory accumulation and business fixed investment did help to sustain the increase in current dollar GNP at close to the third quarter rate, the price deflator accelerated, and the annual rate of real growth declined to a 3.8 per cent rate from 5 per cent in the third quarter and from over 6 per cent in the first half.

A continued move toward slower growth is anticipated in the current and upcoming quarters. Inventory accumulation is unlikely to provide further stimulus; indeed, it will probably slacken by spring. Residential construction is already leveling off and business fixed investment--currently a major source of growth in final demand--is likely to rise less rapidly from now on. As a result, the increase in GNP this quarter is expected to slow to an annual rate of \$13.5 billion from \$16.8 billion in the final quarter of 1968, and to fall to \$11 billion in the second quarter. The upward trend in prices should also begin to ease somewhat with slackening demands; real growth in GNP is expected to dip to less than 2-1/2 per cent in the current quarter and to about 1-1/2 per cent by the second quarter.

Easing in consumer demand in the fourth quarter proved to be greater and more widespread than anticipated, in part because of special

circumstances such as the flu epidemic. Although some increase in consumer outlays from the fourth quarter level would seem likely in this quarter, mainly in nondurable goods, demand for durables is expected to continue moderate. Sales of new domestic autos have shown a steady decline, after reaching a high of 9.1 million units (at annual rates) in October. In December, sales were 8.5 million and sales in the first 20 days of January suggest that the downward trend has continued. Overall consumption expenditures are expected to continue to increase in the first half of 1969 but at a much more moderate pace than during last year on average.

The moderate growth of consumer demand projected for the first half reflects in part a reduced growth in personal income and an even sharper curtailment of gains in disposable income because of an increase in social security taxes and larger than usual final settlements on income taxes. Largely because of the tax bite, the projected rise in consumption can only be attained by a decline in the saving rate from 6.9 per cent in the fourth quarter to about 6.2 per cent in the first half.

Federal expenditures are expected to provide little stimulus to overall economic growth in the first half of 1969. In fact, according to the 1970 Budget, no further expansion is anticipated in Federal purchases of goods and services in the remainder of the present fiscal year from the fourth quarter level; we have adjusted our projections down accordingly. Federal expenditures such as transfer payments and grants to States, which add indirectly to growth in GNP, will continue



to rise, but the overall increase will be less than in Federal receipts. Consequently, the Federal Budget (NIA basis), which was about in balance in the fourth quarter, should swing to a surplus of \$6 billion annual rate in the second quarter.

The rise in inventory investment which occurred in the past three months, seems more likely to be reversed than repeated in the current and upcoming quarters. Auto stocks probably continued to rise in January although output was reduced slightly. With unfilled orders rising, inventories of machinery and equipment also may rise. Nevertheless, the rate of inventory accumulation will depend mainly on how rapidly production of consumer goods is adjusted to less ebullient consumer markets. It is obviously impossible to predict when businessmen will decide stocks are excessive and trim production. We have therefore rather arbitrarily projected a continuation of inventory building in the current quarter at a rate only a little below that of the fourth quarter. But by the second quarter, the more moderate growth of final sales seems likely to result in a significantly lower rate of accumulation.

In contrast to the apparently dampened enthusiasm of consumers, businessmen continue to be optimistic. Our earlier estimates of business fixed investment in the fourth quarter were revised upward by almost one billion dollars in the official GNP estimates. The outlook for continued expansion in plant and equipment has been strengthened by a strictly confidential Commerce-SEC survey of business intentions to invest in 1969, taken in December. This survey, which is not to be published or even publicly alluded to, indicates a year-to-year rise in plant and

equipment expenditures of about 10 per cent. But in conjunction with the published November survey, these data suggest that the pace of the investment surge may be slowing down. Most of the rise in investment--except for manufacturers--is planned for the first half of the year. The first quarter increase is expected to be somewhat smaller than in the fourth quarter of 1968, with a further slackening indicated in the second quarter. This pattern of moderating growth could be accentuated somewhat if, as we expect, production levels begin to be adjusted to an easing in demand, and profit margins begin to be squeezed.

Large existing commitments and very strong pent-up demand for housing are expected to raise housing starts to over a 1.6 million rate in the current quarter, despite the sharp--and presumably temporary--drop in December. Residential construction outlays are projected to rise by about half a billion dollars, somewhat less than previously anticipated. With tightening financial markets, a reduced current flow of loanable funds to nonbank thrift institutions and sharp curtailment in deposit growth, a noticeable trend toward a lower rate of starts should emerge by the second quarter. The level of residential construction expenditures may also drop back somewhat. This downturn, coinciding with moderate growth in consumption, no increase in Federal purchases, a tapering in the rate of capital expansion and a reduced rate of inventory accumulation is expected to result in a rate of overall growth in GNP of about \$11 billion. This easing in demand should reduce price pressures somewhat, and the GNP deflator is projected to edge down to about a 3.4 per cent rate of increase from a 3.9 per cent

rate in the fourth quarter of last year. Although this is a much slower deceleration than in the first half of 1967, when the drop in real growth was sharper, the inventory swing was much larger at that time, inflation had achieved less momentum, and had not affected long-term anticipations to the same extent. Food prices were also dropping in early 1967.

NOTE: The outlook for the second half of calendar 1967 will be distributed Friday with the Bluebook and supplement to the Greenbook and will be discussed by the staff at the FOMC meeting.

CONFIDENTIAL - FR

January 29, 1969

**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	1968p	1968				1969	
			I	II	III	IVp	Projected	
			I	II	III	IVp	I	II
Gross National Product	789.7	860.7	831.2	852.9	871.0	887.8	901.3	912.3
Final sales	783.6	853.1	829.1	842.1	863.5	877.8	891.8	906.3
Private	605.2	656.0	638.6	646.4	663.9	675.3	686.4	698.1
Personal consumption expenditures	492.2	533.7	519.4	527.9	541.1	546.3	555.1	563.4
Durable goods	72.6	82.5	79.0	81.0	85.1	84.8	84.3	84.3
Nondurable goods	215.8	230.2	226.5	228.2	232.7	233.5	238.4	242.4
Services	203.8	221.0	213.9	218.7	223.4	228.0	232.4	236.7
Gross private domestic investment	114.3	127.5	119.7	127.3	127.1	136.1	139.0	136.4
Residential construction	24.6	30.0	29.1	29.5	29.5	31.8	32.3	31.9
Business fixed investment	83.6	90.0	88.6	87.0	90.1	94.2	97.2	98.5
Change in business inventories	6.1	7.6	2.1	10.8	7.5	10.0	9.5	6.0
Nonfarm	5.6	7.2	1.6	10.4	7.3	9.2	9.2	6.2
Net Exports	4.8	2.4	1.5	2.0	3.3	3.0	1.8	4.3
Gov't. purchases of goods & services	178.4	197.1	190.5	195.7	199.6	202.5	205.4	208.2
Federal	90.6	100.0	97.1	100.0	101.2	101.6	101.6	101.6
Defense	72.4	78.9	76.8	79.0	79.6	80.0	80.0	80.0
Other	18.2	21.1	20.3	21.0	21.5	21.6	21.6	21.6
State & local	87.8	97.1	93.4	95.6	98.4	100.8	103.8	106.6
Gross national product in constant (1958) dollars	673.1	706.9	692.7	703.4	712.3	719.1	723.3	726.0
GNP implicit deflator (1958=100)	117.3	121.8	120.0	121.2	122.3	123.5	124.6	125.7
Personal income	628.8	685.8	662.7	678.1	694.3	708.2	719.5	730.0
Wages and salaries	423.4	463.5	448.3	457.6	469.0	479.0	488.0	495.4
Disposable income	546.3	589.0	574.4	586.3	592.7	602.5	608.7	616.5
Personal saving	40.2	40.8	40.8	44.0	37.1	41.4	38.6	37.9
Saving rate (per cent)	7.4	6.9	7.1	7.5	6.3	6.9	6.3	6.1
Corporate profits before tax	81.6	92.3	88.9	91.8	92.7	95.8*	92.8	90.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	151.2	176.9	166.6	171.8	182.1	187.1*	193.7	195.5
Expenditures	163.6	182.2	175.1	181.9	184.9	186.8	188.2	189.3
Surplus or deficit (-)	-12.4	-5.3	-8.6	-10.2	-2.8	.3*	5.5	6.2
Total labor force (millions)	80.8	82.3	81.9	82.2	82.4	82.6	83.2	83.4
Armed forces "	3.4	3.5	3.5	3.5	3.6	3.5	3.5	3.5
Civilian labor force "	77.3	78.7	78.4	78.7	78.8	79.1	79.6	79.9
Unemployment rate (per cent)	3.8	3.6	3.6	3.6	3.6	3.4	3.6	3.8
Nonfarm payroll employment (millions)	66.0	68.1	67.4	67.8	68.3	68.9	69.3	69.4
Manufacturing	19.4	19.7	19.6	19.7	19.8	19.9	19.9	19.7
Industrial production (1957-59=100)	158.1	164.7	162.1	164.2	165.2	167.3	168.8	169.1
Capacity utilization, manufacturing (per cent)	85.3	84.5	84.9	84.8	84.0	84.1	83.5	82.5
Housing starts, private (millions A.R.)	1.29	1.50	1.50	1.44	1.55	1.58	1.63	1.53
Sales new domestic autos (millions, A.R.)	7.57	8.62	8.19	8.44	9.01	8.82	8.75	8.50

\* Projected.

CONFIDENTIAL - FR

January 29, 1969

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1967	1968p	1968				1969	
			I	II	III	IVp	Projected	
			I	II	III	IVp	I	II
-----In billions of dollars-----								
Gross National Product	42.1	71.0	20.2	21.7	18.1	16.8	13.5	11.0
Inventory change	-8.6	1.5	-6.2	8.7	-3.3	2.5	-0.5	-3.5
Final sales	50.8	69.5	26.4	13.0	21.4	14.3	14.0	14.5
Private	28.6	50.8	19.4	7.8	17.5	11.4	11.1	11.7
Government	22.2	18.7	7.0	5.2	3.9	2.9	2.9	2.8
GNP in constant (1958) dollars	16.0	33.8	10.9	10.7	8.9	6.8	4.2	2.7
Final sales	24.0	32.7	16.9	2.8	12.0	4.5	4.5	5.9
Private	9.8	24.2	12.4	0.1	11.1	3.6	3.0	6.1
-----In Per Cent Per Year-----								
Gross National Product	5.6	9.0	10.0	10.5	8.5	7.7	6.1	4.9
Final sales	6.9	8.9	13.2	6.3	10.2	6.6	6.4	6.5
Private	5.0	8.4	12.5	4.9	10.8	6.9	6.6	6.8
Personal consumption expenditures	5.7	8.4	13.7	6.5	10.0	3.8	6.4	6.0
Durable goods	3.0	13.6	25.9	10.1	20.2	-1.4	-2.4	0.0
Nondurable goods	4.4	6.7	14.8	3.0	7.9	1.4	8.4	6.7
Services	8.2	8.4	8.2	9.0	8.6	8.2	7.7	7.4
Gross private domestic investment	-5.4	11.5	-6.9	25.4	-0.6	28.3	8.5	-7.5
Residential construction	-0.8	22.0	8.4	5.5	0.0	31.2	6.3	-5.0
Business fixed investment	2.8	7.7	16.9	-7.2	14.3	18.2	12.7	5.3
Gov't. purchases of goods & services	14.2	10.5	15.3	10.9	8.0	5.8	5.7	5.5
Federal	17.1	10.4	15.4	11.9	4.8	1.6	0.0	0.0
Defense	19.5	9.0	11.8	11.5	3.0	2.0	0.0	0.0
Other	8.3	15.9	27.4	13.8	9.5	1.9	0.0	0.0
State & local	11.4	10.6	15.1	9.4	11.7	9.8	11.9	10.8
GNP in constant (1958) dollars	2.4	5.0	6.4	6.2	5.0	3.8	2.3	1.5
Final sales	3.7	4.9	10.0	1.6	6.9	2.5	2.5	3.3
Private	1.9	4.6	9.3	0.1	8.2	2.6	2.1	4.3
GNP implicit deflator	3.1	3.8	3.5	4.2	3.4*	3.9	3.7	3.4
Personal income	7.2	9.1	10.8	9.3	9.6	8.0	6.4	5.8
Wages and salaries	7.3	9.5	10.9	8.3	10.0	8.5	7.5	6.1
Disposable income	6.8	7.8	10.6	8.3	4.4	6.6	4.1	5.1
Corporate profits before tax	-4.7	13.1	16.4	13.0	1.7	13.4	-12.5	-8.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	5.7	17.0	26.1	12.5	23.5	11.0	14.1	3.7
Expenditures	14.9	11.4	15.4	15.5	6.6	4.1	3.0	2.3
Nonfarm payroll employment	3.1	3.2	4.2	2.4	2.9	3.5	2.3	0.6
Manufacturing	1.0	1.5	2.0	2.0	2.0	2.0	0.0	-4.0
Industrial production	1.2	4.2	6.0	5.2	2.4	5.1	3.6	0.7
Housing starts, private	10.9	16.4	15.5	-16.3	29.7	8.5	13.9	-24.6
Sales new domestic autos	-9.7	-14.0	40.6	12.0	27.3	-8.4	-3.2	-11.4

\* Excluding Federal pay increase, 2.8 per cent.

Industrial production. Available output data for January are insufficient as yet to provide a basis for estimating this month's production index. Output of raw steel has increased about seasonally so far--through January 25. Auto assemblies are running at a seasonally adjusted annual rate of about 8.7 million units, down 2 per cent from December. Production schedules for February, after allowing for a 20 per cent cut in Chrysler's original domestic output plans, are tentatively set at an 8.6 million rate. Output of television sets was low in the first 3 weeks of January suggesting either a further decline for the month or a leveling off at the reduced December level. However, the anticipated further rise in production of business equipment and some materials--construction materials, chemicals, paper--should more than offset the moderate declines mentioned above.

For 1968 as a whole, industrial production was 4.6 per cent higher than in 1967 and a little above its long-term growth rate of 4 per cent. Rates of change in output during the year varied considerably from quarter to quarter and among the major market groupings of the total index, as shown in the table.

INDUSTRIAL PRODUCTION  
(Per cent changes, at annual rates)

	Change from preceding quarter				1967 to 1968
	1968				
	QI	QII	QIII	QIV	
Total index	6.0	5.2	2.4	5.2	4.6.
Consumer goods	6.8	4.8	4.8	5.2	5.5
Business equipment	4.0	-1.2	2.0	12.8	1.1
Defense equipment	1.0	.3	1.6	-4.9	4.6
Materials	5.6	7.2	1.2	4.8	5.0

There have been two major developments in industrial production in recent months. First, the sharp rise in output of business equipment in the last quarter of 1968, which was shared by most equipment industries. If business outlays for equipment equal the anticipated expenditures reported by the Commerce-SEC survey, production of business equipment in the early part of 1969 should continue to increase, but probably at a less rapid rate than in the fourth quarter.

The second has been the continued growth in output of consumer goods in the fourth quarter of 1968 in the face of a decline in retail sales. While advance weekly data on retail sales for January suggest a rise from the reduced December level, sales in current dollars have been edging off from the August 1968 peak and retail prices have been rising. Thus, the physical volume of consumer takings declined and inventories increased over this period; beginning in November production of some consumer goods, especially autos and other durable goods, is to be maintained or increased without excessive inventory accumulation, retail sales must soon show a significant upward movement above the August 1968 high.

Capacity utilization. The December rate of manufacturing capacity utilization rose to 84.4 per cent, from 84.0 per cent in November. This was the third consecutive monthly increase. Little further rise is expected in January.

Recent sharp increases in production of rubber and nonferrous metal products have pushed operating rates in those industries to above

normal levels. Utilization rates are also high in the aircraft, auto, petroleum and textile industries. Appreciable unused capacity remains for the production of most other manufacturing products.

UTILIZATION RATES  
(Per cent)

Industry	1967	1968						
	QIV	QI	QII	QIII	QIV	Oct.	Nov.	Dec.
Manufacturing	84.8	84.9	84.8	84.0	84.1	83.7	84.0	84.4
Primary processing industries	85.6	85.5	86.5	84.6	85.3	84.3	85.1	86.4
Advanced processing industries	84.3	84.4	83.6	83.5	83.2	83.3	83.3	83.0

Unit auto sales and stocks. Sales of new domestic autos increased in the second ten days of January from the first selling period, but for the first 20 days were at a seasonally adjusted annual rate of about 8.0 million units, down 5 per cent from the same period in December and up 3 per cent from a year earlier. Stocks increased 10 per cent from December 31, 1968 to January 20, 1969, about the usual seasonal rise. They then amounted to a 59-day supply and were at the record level of the first quarter of 1967 when sales and output were declining.

Retail sales. Figures for the first two full weeks in January (Jan. 4-18) suggest the possibility that retail sales (seasonally adjusted) are recovering this month from the decline now reported for December (the December figures are still advance estimates).



In early January total sales of nondurable goods appear to have recovered most of the December drop, despite little change indicated for general merchandise. Sales of auto dealers (including service departments), which had declined for three months, appeared to be a little stronger, while furniture and appliance sales continued their earlier down-trend.

Consumer credit. The rate of increase of instalment debt leveled off in late 1968, after rising for six successive quarters. The largest increase in 1968 occurred in October; in November growth fell back to the monthly average of the third quarter, and early reports from commercial banks indicate that December may have been somewhat lower than that. Nevertheless, consumers continue to use instalment credit to supplement other funds at a rate of about \$10 billion per year, as may be seen in the following table.

INCREASE IN CONSUMER INSTALMENT CREDIT OUTSTANDING  
(Seasonally adjusted annual rates, in billions of dollars)

	1965	1966	1967	1968
Quarter I	8.0	7.1	2.2	7.0
Quarter II	9.4	6.0	2.4	8.4
Quarter III	8.7	6.0	3.9	10.0
Quarter IV	7.5	5.0	4.3	10.0e
Year	8.6	6.2	3.4	8.8e

e - estimated

The December slackening in instalment credit growth appears to have taken place mainly in auto credit, reflecting somewhat lower

auto sales. It is too early to ascertain whether a tightening of credit terms contributed to this slackening because of the lag in the availability of these data. However, reports from sales finance companies in November indicate some reduction in the proportion of new car loans of over 30 months, and also some reduction in the proportion of loans carrying very small down payments.

Leading indicators. The Census Bureau's composite index of twelve leading indicators, which increased strongly in October, showed a small decrease in November followed by a small increase in December (preliminary) which brought it back to the October level. This series had been rising with little interruption since early 1967. The movements of the last two months are well within the usual range of irregularities.

COMPOSITE CYCLICAL INDICATORS  
1963 = 100

	12 leading indicators	5 coincident indicators	6 lagging indicators
1968: July	139.0	157.1	165.0
August	139.2	157.7	167.1
September	140.8	158.7	168.2
October	144.3	159.9	169.5
November	143.6	162.1	172.0
December	144.6p	162.6p	173.2p

Component leading indicators increasing in December included nonagricultural job placements, contracts and orders for plant and equipment, industrial materials prices, stock prices, and the monthly

profit margin proxy (ratio of price to unit labor cost in manufacturing). The manufacturing workweek, durable goods new orders, and private housing permits declined. The changes were small, and all of the series except stock prices were below their recent and historical high points.

The composite leading index is made up of twelve series chosen and weighted according to the Census-NBER evaluation of their usefulness in forecasting short-term movements in aggregate economic activity. Components not yet available for December are net business formation, corporate profits, change in book value of manufacturing and trade inventories, and net change in consumer instalment debt.

New orders for durable goods. The value of new orders for durable goods declined fractionally further in December, according to the advance report, following a 3 per cent November drop. However, the fourth quarter average was 7-1/2 per cent above the third quarter.

NEW ORDERS FOR DURABLE GOODS  
Seasonally adjusted, billions of dollars

	1968				
	QIII avg.	QIV avg.	Oct.	Nov.	Dec.
Total durable manufacturers	27.5	29.6	30.3	29.3	29.1
Iron and steel	1.6	2.0	2.0	2.1	2.0
Motor vehicles and parts	4.1	4.1	4.1	4.3	4.0
Consumer durables (excluding autos)	2.0	2.1	2.0	2.0	2.2
Machinery and equipment	5.9	6.3	6.6	6.1	6.2
Defense products industries (old series)	3.7	4.1	4.4	3.9	4.1
All other durable manufacturers	10.2	11.0	11.2	10.9	10.6
Defense products (new series)	2.1	2.0	2.4	2.0	1.6

A major element in the new orders decline in December was a further drop in fabricated metal products from a downward-revised November level. Iron and steel orders also declined, after their strong recovery in the preceding three months. Motor vehicles and parts were down significantly from autumn highs, but other consumer durables orders increased. The pick-up in plant and equipment spending was reflected in an advance in machinery and equipment orders and may also be responsible for the increase in the defense products industries, which include the entire aircraft and communication equipment industries. The new, more precise defense products orders series dropped sharply for the second month.

Shipments of durable goods declined in December, particularly for motor vehicles and nonferrous metals. Machinery shipments declined somewhat. Unfilled orders increased in most durable goods manufacturing industries.

Business plant and equipment. Businesses now plan expenditures in 1969 for new plant and equipment about 10 per cent larger than last year, according to a special Commerce-SEC survey of business plans taken in December. (The results of this survey will not be published and are confidential.) Manufacturers, as a group, are planning the largest increase, nearly 15 per cent, with gains of more than a fifth by producers of motor vehicles, other transportation equipment, textiles, and paper. A relatively small rise in investment outlays is indicated for the commercial and other group of businesses, and a decline by mining.

PLANT AND EQUIPMENT EXPENDITURES - I  
(Per cent changes, year-to-year)

	1967	1968 <sup>1/</sup>	1969 <sup>2/</sup>
All industries	1.7	4.7	10.0
Manufacturing	-1.1	.3	14.9
Durable goods	-2.1	-.9	15.8
Nondurable goods	0.0	1.5	14.0
Nonmanufacturing	4.0	7.9	6.6
Mining	-3.4	4.9	-8.1
Railroad	-22.7	-1.3	7.6
Transportation, other than rail	12.8	14.9	6.7
Public utilities	17.5	15.2	12.7
Communications	5.2	5.9	6.3
Commercial and other	-3.1	2.5	2.8

<sup>1/</sup> November published survey.

<sup>2/</sup> Anticipations from December confidential survey.

This survey, if combined with the November Commerce-SEC survey which provided data on investment plans for the first two quarters of 1969, suggests that the rate of rise in total outlays will slow substantially in the second half of the year. This slowing in expansion results largely from a decline in outlays by nonmanufacturing industries. It should be noted, however, that the two surveys may not be fully comparable. The December annual survey is consistent with the November quarterly survey with respect to their samples, but the later survey may reflect modifications of plans reported in the earlier one. In addition, the survey of annual plans may warrant a bias adjustment as does the survey of quarterly plans.

PLANT AND EQUIPMENT EXPENDITURES - II  
(Annual rate, per cent change)

	1968		1969	
	1st half	2nd half	1st half	2nd half <sup>1/</sup>
All industries	6.1	5.2	15.7	3.1
Manufacturing	0.0	10.2	16.6	15.3
Durable goods	-4.1	10.2	19.4	13.1
Nondurable goods	4.0	9.7	13.7	17.6
Nonmanufacturing	10.6	1.9	14.9	-5.5

<sup>1/</sup> Change implied by December annual survey and the November quarterly survey, combined.

The December survey was the fourth taken at yearend to ascertain businessmen's plans for the following year. Sufficient experience does not yet exist with these annual surveys to suggest what sort of adjustment may be appropriate for possible systematic bias (understatement or overstatement of actual expenditures). However, the three previous December annual surveys and the adjustment applicable to the quarterly surveys suggest that the increase in investment this year may be larger than was planned in December.

Residential construction and real estate. Seasonally adjusted private housing starts, which had soared to an exceptionally high annual rate of 1.72 million units (after a 2 per cent upward revision) in November dropped 15 per cent in December to a rate of 1.45 million, the lowest since last June. On a quarterly basis, however--to allow for the marked irregularity in the monthly series--starts for the fourth quarter as a whole were up moderately further from the advanced third quarter

rate to 1.58 million units, the highest since the first quarter of 1964. For all of 1968, starts totaled 1.50 million, a sixth more than a year earlier and the highest since 1964--when the total was 1.53 million--with multifamily starts at a new annual high of 606 thousand.

While multifamily starts accounted for most of the fluctuation through the fourth quarter, they also continued to account for most of the rise, averaging a record 42 per cent of the total, compared with 40 per cent for all of 1968. Among the regions, the South, where the marked fluctuation from October to December was concentrated, led the quarter-to-quarter advance in total starts. But all other regions shared in the increase in the final quarter except the Northeast where a surge had occurred in the third quarter reflecting in part upward adjustments in usury ceiling rates in a number of states.

Seasonally adjusted residential building permits held relatively steady in December, and in the fourth quarter as a whole were up more sharply than starts from the third quarter. December permits dropped in all regions except the South, where they advanced a fifth from an already high November rate and contributed importantly to the over-all fourth quarter rise.

## PRIVATE HOUSING STARTS AND PERMITS

	QIV 1968 (Thousands of units) <u>1/</u>	Per cent change from	
		QIII 1968	QIV 1967
Starts	1,580	+ 2	+ 9
1-family	918	+ 1	+ 3
2-or-more family	663	+ 3	+19
Northeast	196	-32	-10
North Central	373	+ 4	- 2
South	693	+13	+18
West	319	+10	+25
Permits	1,401	+ 6	+ 9
1-family	708	+ 4	+ 1
2-or-more family	693	+ 8	+17

1/ Seasonally adjusted annual rates; preliminary.

Based on the level of net inflows (including repayment flows) which became available to major lenders during the second half of last year, and allowing for the composition and strength of prevailing shelter demands and other factors, housing starts in the first half of this year could average as much as 1.58 million units or the same as the annual rate in the fourth quarter of 1968. Moreover, with reported mortgage commitments outstanding still generally rising and permits relatively high, builders are likely to attempt to advance their schedules in the wake of the further uncertainties caused by tightening in mortgage and related markets and rising costs this winter. As a result, starts could temporarily expand further, possibly beyond the 1.6 million unit rate in January and for the first quarter as a whole.



Higher mortgage-interest costs and related problems may be expected to become an increasingly important factor in real estate markets as the year develops. However, last November--the latest month for which data are available--seasonally adjusted sales of new homes by speculative builders were holding somewhat above their improved year-earlier rate. Moreover, stocks of such homes in all stages of construction, although up moderately since last summer, were still well below pre-1966 levels. Sales of existing homes, which had apparently shown a much greater year-to-year increase (14 per cent) than new home sales through the first eleven months of 1968 were still over a tenth higher than a year earlier in November, with the year-to-year price increase holding in the 5-6 per cent range.

Personal income. Personal income figures for December reflect continuing strong gains in wage and salary payments. A personal income increase of \$5.4 billion at annual rates in December was comprised of \$4.2 billion in wages and salaries and \$1.2 billion from other sources. In addition to the strong December advance, the November increase reported earlier was revised up sharply, with the wage payments figure boosted to \$4 billion from a previously reported \$2.5 billion. The estimated changes in wage and salary payments for November and December now appear to be more in line with the trends indicated by production, employment, hours, and earnings data.

INCREASES IN PERSONAL INCOME  
(Billions of dollars, seasonally adjusted annual rates)  
1968

	Monthly average			
	QI	QII	QIII	QIV
Personal income	\$5.8	\$4.6	\$5.3	\$4.6
Wage and salary disbursements	2.7	3.3	3.5	3.4
Manufacturing	1.0	1.1	0.7	0.9
Nonmanufacturing	1.6	2.2	2.8	2.5
Other sources	3.1	1.2	1.8	1.1

Even with the upward adjustment for November and the strong December figure, the average monthly increase in personal income over the fourth quarter was significantly below the third quarter rise, mainly because of smaller increases in dividends and personal interest. In addition, income flows to self-employed farmers stabilized over the last several months of the year, after rising strongly between June and September. Average increases in wages and salaries have not changed appreciably over the past three quarters. The increases--averaging \$3.4 billion monthly over that period--are basically an outgrowth of the rapid increases in wage and salary scales and to a lesser extent the continued strong rise in employment.

Although the strong upward trend of personal income continues as a stimulant to demand, both the surtax and an accelerated rate of increase of consumer prices have contributed to a drastic reduction in the rate of increase of real purchasing power. After rising at annual

rates of 6.7 and 4.3 per cent in the first and second quarters, the rate of increase of real disposable income fell to less than 2 per cent in both the third and fourth quarters. The last time the annual growth rate of real disposable income fell below 2 per cent for two consecutive quarters was during the 1960 recession--the growth rate averaged nearly 5 per cent per quarter between mid-1961 and mid-1968.

CHANGES IN DISPOSABLE PERSONAL INCOME  
(Billions of dollars, seasonally adjusted annual rates)

	Change from preceding quarter			
	I	II	III	IV
Personal income	17.5	15.4	16.2	13.9
Disposable income	14.8	11.9	6.4	9.8
Disposable income in 1958 \$	8.1	5.3	2.1	2.4
In per cent (annual rate)	6.7	4.3	1.7	1.9

Labor market. Labor demands continued strong last month and the labor market entered the new year in an exceptionally tight condition. Unemployment averaged only 3.3 per cent of the labor force in November and December, and the market for adult male workers was tighter than any other time since the end of World War II. Some easing in labor resource use was suggested by a reduction in the factory workweek from about 41 hours in the early fall to 40.7 hours in December and a drifting up of claims filed for unemployment benefits in the past few months. However, claims in mid-January were still well below the low year-ago levels, the rate of insured unemployed as a proportion of covered workers

in December was as low as at any time since the end of World War II, and the number of weeks claimed remained well below year-earlier levels through the third week of January.

Nonfarm payroll employment adjusted for strike activity rose by 233,000 in December, continuing the accelerated October and November rates of increase. Renewed strength in manufacturing, where employment had shown no growth from June through September, contributed to the advance. The manufacturing increase from October through December occurred largely in durables, specifically machinery and fabricated metal products--reflecting strengthening demands for investment goods. Although revised figures are not yet available, there are indications that both the November and December employment figures for manufacturing will be revised up.

INCREASES IN NONFARM PAYROLL EMPLOYMENT  
(In thousands, seasonally adjusted)

	Average monthly			
	QI	QII	QIII	QIV
Total	199	128	114	268
Manufacturing	05	57	-07	54
Nonmanufacturing	194	71	122	214

Over the last several months of 1968, employment growth also increased at a more rapid pace in the nonmanufacturing industries. Construction employment continued to rise in response to high and rising demand, and sizable gains occurred in trade, State and local government,

and finance and services. On the other hand, Federal employment has declined about 100,000 since June in line with budget restraints enacted last summer. In the prior six-month period Federal employment rose by about 80,000.

Wage increases continued large in all industries in 1968. Hourly earnings for private nonfarm workers reached \$2.93 in December, an increase of 7.3 per cent over the year. Large gains were evident in union and nonunion, and in high and low-wage industries.

AVERAGE HOURLY EARNINGS OF PRODUCTION OR NONSUPERVISORY WORKERS  
(Per cent change from a year earlier)

	December 1967	December 1968
Private nonfarm industries	5.0	7.3
Manufacturing	5.1	6.5
Retail trade	5.7	7.8

In manufacturing, the rapid wage pickup was in part the result of a very active period of collective bargaining in 1968. New contracts have emphasized large first-year wage increases and hourly earnings continue to show unusually large gains. But because most major contract negotiations in this important bargaining round are now completed, pressure on wages from first-year wage increases (which have averaged about 7-1/2 per cent) are likely to diminish, while second and third year contract increases (which are expected to average a little over 4 per cent) will take on added weight.

Outside of manufacturing, continued tightness in the labor market has increased competition for workers in all skill categories forcing wage rates up, and the February 1968 increase in the minimum wage put a much higher floor under the general wage level. The combined effect of these forces has been most noticable in the lower-wage industries such as retail trade, where hourly earnings between December 1967 and 1968 rose almost 8 per cent. Similar advances were recorded in such low-wage manufacturing industries as apparel (8.7 per cent) and lumber (7.9 per cent), while manufacturing as a whole rose by 6.5 per cent. The wage bill cost of the 1969 minimum wage increase will be much smaller than in 1968--an estimated \$450 million, or about one-fifth of the 1968 cost of about \$2.3 billion--and with labor demand expected to ease somewhat, advances in hourly earnings and wage rates should slow down somewhat in 1969.

Industrial relations. Agreement on a three-year contract covering 24,000 dock workers in New York has not yet established a pattern for other Atlantic and Gulf Coast ports, and some 60,000 long-shoremen continue on strike. Wage and fringe benefits in the New York contract--which costs out at about 10 per cent annually--include a first-year wage increase of 10-1/2 per cent, a guarantee of a full year's work, increased pension and welfare benefits, 2 additional weeks of vacation and an extra holiday. The effects on costs and on employment of mutual concessions on the handling of containerized freight will not be evident for several years. Employers at other Atlantic

and Gulf Coast ports contend they are unable to meet the costs of the New York contract which the unions consider the pattern settlement. The union leadership is reportedly committed not to end the strike at any one port until agreements have been reached at all ports. The economic consequences of the prolonged strike have brought pressure for Government intervention again in the negotiations.

Agreement has been reached on new two-year contracts at a number of oil refineries and about half of the 60,000 oil workers on strike since January 4 have returned to work. The strike has apparently not affected production schedules significantly. The contract settlements reached so far provide for estimated average annual increases in wage and fringe benefits generally in line with the 6 to 6-1/2 per cent negotiated in 1968. However, the first-year wage increase of 6 per cent is much smaller than the 7.5 per cent increase provided in major contracts negotiated last year.

Consumer prices. The consumer price index rose 0.2 per cent further in December, to 123.7 per cent of the 1957-59 average. This was 4.7 per cent above December 1967, and the average for the year 1968 was 4.2 per cent higher than 1967.

The December rise compares with increases of 0.4 per cent in November and 0.6 per cent in October. The slowing over that period reflected slackening in the rise in average prices of consumer products, which was in part seasonal. Prices of new and used cars were down seasonally in December and apparel showed only a small further increase. On a seasonally adjusted basis, average prices of non-food commodities rose less than 0.2 per cent in December, well below the average rate of increase over the preceding 12 months. Food prices rose somewhat more than seasonally in December, but the net increase from October to December was small.

Average prices of services continued to rise at a fast pace in December--by 0.5 per cent, the average monthly increase over the entire year. Charges for household services, public utilities, and medicare (particularly hospital fees) were up substantially further. Home purchase costs, which had jumped in November, increased further in December, but mortgage interest charges were about unchanged.

Wholesale prices. Wholesale prices of industrial commodities increased 0.5 per cent in January, according to the BLS preliminary



estimate. In December, as in the preceding 2 months, the preliminary estimate was revised up by 0.1 per cent and the December increase is now recorded at 0.4 per cent. In view of the narrow rounding margin and of the experience of upward revision in other recent months, the January industrial price rise may well have been 0.6 per cent. The diffusion of price increases, which had been declining in late 1968, jumped sharply in January. After allowing for the usual downward bias in the preliminary count, the number of industrial product classes showing increases probably exceeded the 1967-68 peak of 131--or 58 per cent--reached in February 1968.

Prices of farm products and processed foods and feeds showed a largely seasonal rise in January--1.3 per cent according to the preliminary BLS estimate--and the total WPI rose 0.8 per cent, to an estimated 110.7 per cent of the 1957-59 average.

Since the January pricing date, the 14th, the number of industrial price increases appears to have slackened off, and part of the zinc price rise effected in early January has been rescinded. Moreover, prices of sulphur have been reduced, following a succession of increases adding up to a reported total rise of over two-thirds over the past four years.

Major factors in the large January rise in industrial prices were: an abrupt 3 per cent jump in average prices of nonferrous metals, following three months of moderate advance; a 1.2 per cent increase in steel mill products, reversing the November decline; a

sharp pick-up in steel scrap; and a 4.3 per cent further rise in average prices of lumber and plywood. In December, a 7 per cent increase in lumber and plywood prices had accounted for nearly two-thirds of the rise in the industrial commodity total.

Increases outside the lumber and metals areas were relatively numerous, particularly in January, but in general they were moderate. Thus, prices of machinery and equipment, which had increased by 0.3 per cent a month between July and November, rose only 0.1 per cent in December and an estimated 0.2 per cent in January. Textile and apparel prices had also increased sharply in late summer and in the autumn but then showed only a slight rise from November to January.

Largely as a result of the extraordinary further advance in lumber and plywood prices (20 per cent since July, as much as over the preceding year and a half), but also because of the more recent pick-up in nonferrous metals prices and steel scrap, the Federal Reserve composite of "sensitive industrial materials" has played a major role in the industrial price rise over the past 6 months, just as it did in the rapid upswing from July 1967 to March 1968. In that earlier period, nonferrous metals--primarily copper--accounted for roughly half the rise in the sensitive index and about one-fifth of the increase in the industrial total. From July 1968 to January 1969, lumber and plywood accounted for over two-thirds of the increase in the sensitive index and for over one-fourth of the rise in the over-all industrial average. The Table below shows, for selected

periods, the per cent changes (at annual rates) in sensitive material prices and other components of the Federal Reserve industrial commodity grouping.

Wholesale Prices of Industrial Commodities  
(FR Groupings of BLS data; 1957-59=100)

	Percentage Change at Annual Rates			
	July 1967 to March 1968	March 1968 to July 1968	July 1968 to Dec. 1968	July 1968 to Jan(est) 1969
All industrials	3.7	0.5	2.9	3.6
<u>Sensitive materials</u>	<u>12.3</u>	<u>- 5.3</u>	<u>8.6</u>	<u>11.5</u>
Nonferrous metals	28.9	-24.6	2.4	8.0
Lumber and plywood	15.7	17.2	36.7	40.4
Other sensitive materials	6.8	0.3	1.3	1.7
<u>All other industrials</u>	<u>2.4</u>	<u>1.4</u>	<u>2.2</u>	<u>2.4</u>
Sluggish materials	2.1	1.1	1.6	n.a.
Consumer nonfoods	2.4	2.0	1.8	n.a.
Producers' equipment	4.3	2.1	3.9	n.a.

Developments in the farm sector. Net earnings of farmers from farming increased 5 per cent during 1968 from the relatively low levels of 1967 but were 8 per cent below 1966 when a rare combination of short supplies of farm products and strong foreign and domestic demands pushed prices to levels unprecedented since the Korean War. Major factors raising net incomes last year were: strong consumer demands enabling farmers to market more livestock products at prices higher than the year before; high prices received for fresh fruits and vegetables which were in short supply part of the year; price-support loans that sustained prices of grains and oilseeds despite sharply increased production; and increased direct Government payments.

Production expenses increased throughout 1968 and averaged 3.2 per cent above 1967. Prices of almost all production inputs were higher in 1968 than the year before except feeds and fertilizer. Gross farm income (seasonally adjusted) increased through the first three quarters and dropped back in the fourth as volume of marketings of livestock dipped below the very high levels of a year earlier. Nevertheless, farmers closed out the year with net earnings in the fourth quarter estimated at \$14.8 billion (seasonally adjusted annual rate), 6.4 per cent above a year earlier.

The mix of livestock marketings in 1968 gave full play to the effects of strong consumer demands on farm prices. Strong consumer preference for red meats, particularly beef, enabled farmers to market larger volume of meat animals than the year before at higher prices.

For items somewhat lower on the preference scale, other factors strengthened prices. Depressed prices for poultry, meat, and eggs during 1967 were strengthened in 1968 by cutbacks in production during much of the year. Milk prices were strengthened by higher price supports.

Supplies of red meats and poultry are expected to exceed a year earlier at least through the first half of 1969.

Crop production in 1968 broke the preceding year's record by 2 per cent as output of food grains and soybeans reached new highs and feed grain output was the second highest on record. Large quantities of these crops are moving under price-support loan. At the end of December, commodities valued at \$3.6 billion were under loan, a record for December and an amount exceeded only in March 1959. With seasonally heavy impoundings of cotton, feed grains, and soybeans expected through March, it appears that price-support loan outstandings are headed for a new high. Preliminary figures through January 15 show loans already at a record \$3.9 billion.

In view of this loan activity, the \$3.8 billion official estimate for fiscal 1969 net outlays for price support shown in the 1970 Budget may be low. Still, the Commodity Credit Corporation may be able to hold net outlays to this level by selling a larger than planned volume of certificates to private lenders (mainly banks). The \$3.8 billion Budget estimate assumed an increase from a year earlier of \$500 million in certificates outstanding at the end of fiscal 1969.

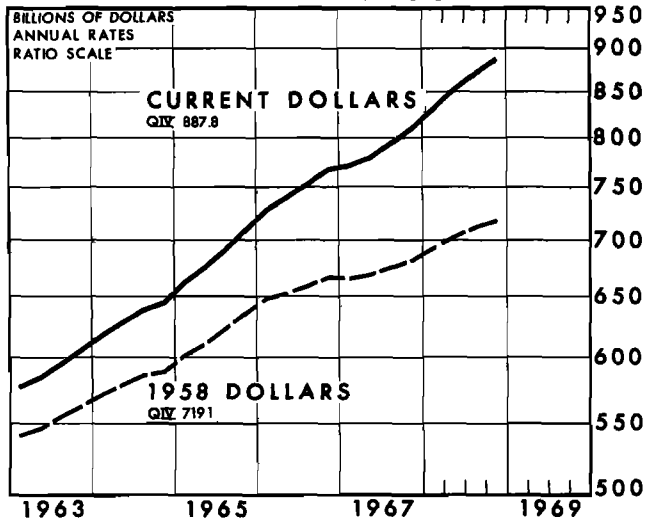
Since this increase was treated as a receipt, it lowered the estimated outlay from \$4.3 billion to \$3.8 billion. Presumably, an even larger build-up in certificates could be effected to offset burgeoning gross outlays for price support. Much depends on money market conditions and the willingness of the CCC to maintain competitive rates.

Rates to investors were boosted on January 14, 1969 from 6.0 to 6.625 per cent in order to attract investors. For a net increase in certificates in fiscal 1969, the tempo of sales will have to quicken during the rest of the year, because, at the end of December 1968, certificates were a third, or \$0.6 billion, below a year earlier.

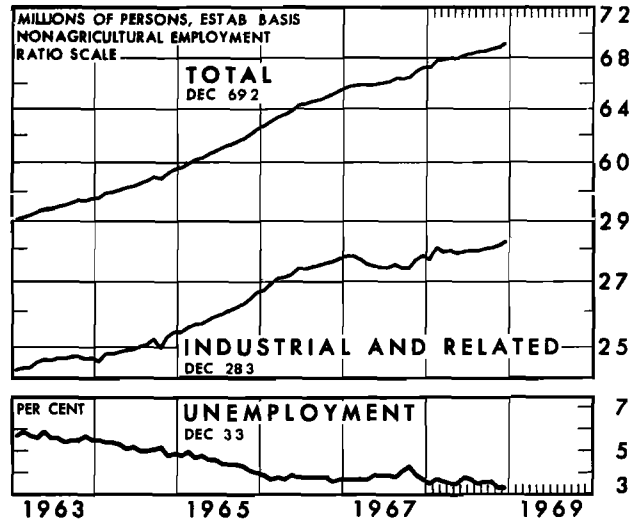
# ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

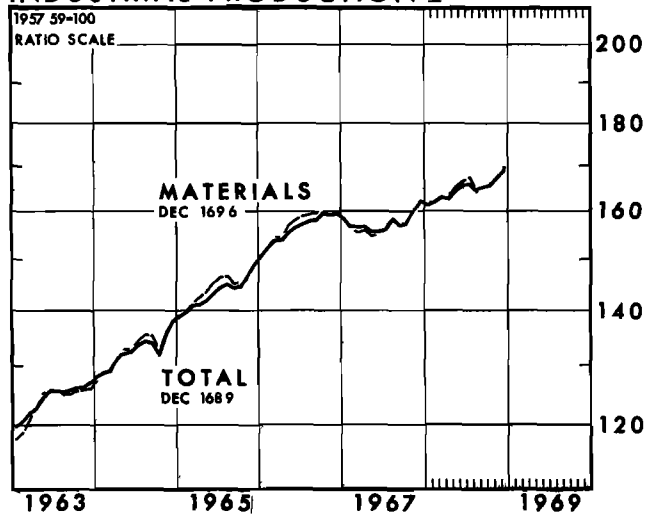
## GROSS NATIONAL PRODUCT



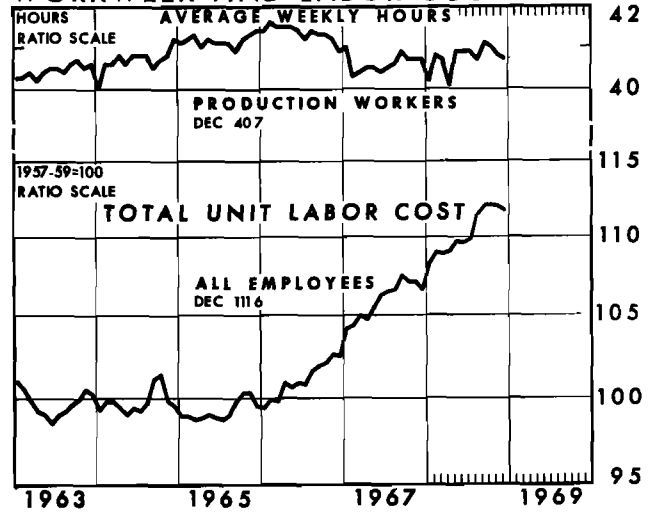
## EMPLOYMENT AND UNEMPLOYMENT



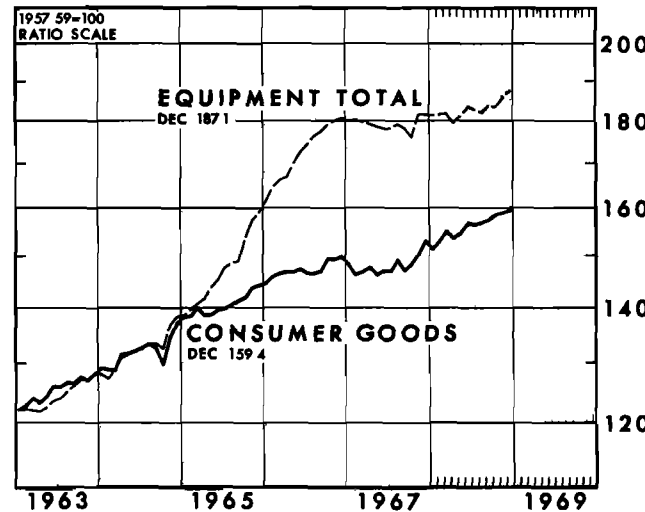
## INDUSTRIAL PRODUCTION-I



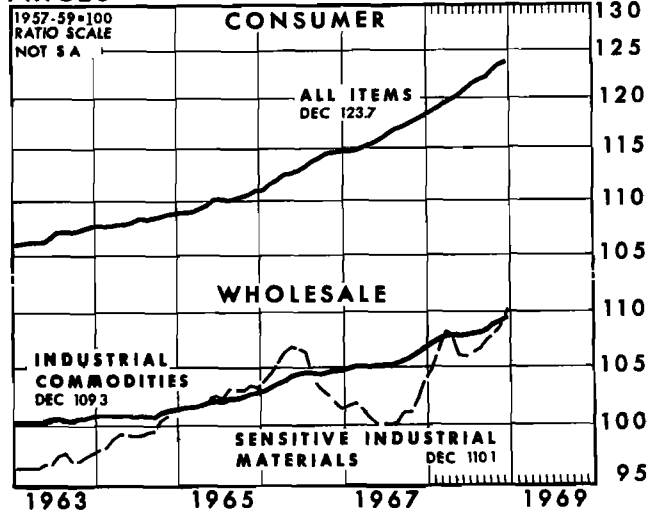
## WORKWEEK AND LABOR COST IN MFG.



## INDUSTRIAL PRODUCTION-II



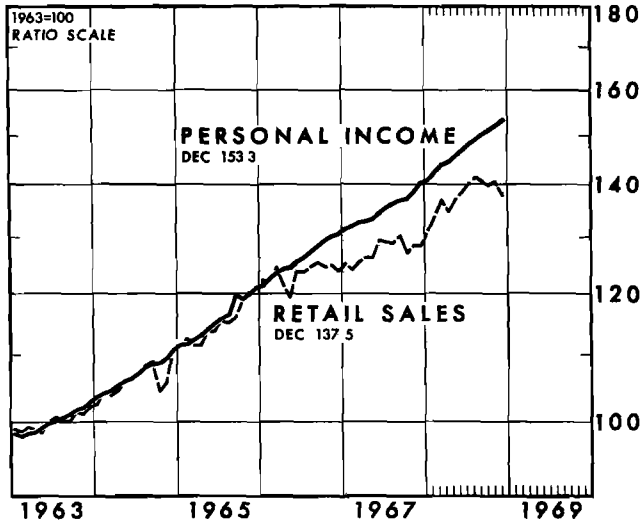
## PRICES



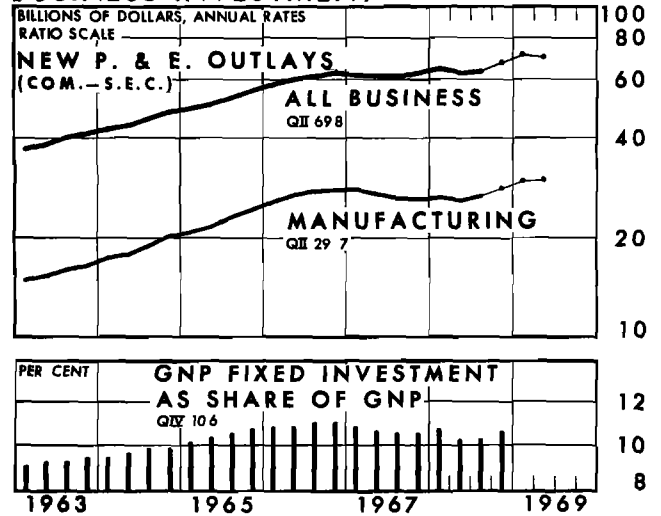
# ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

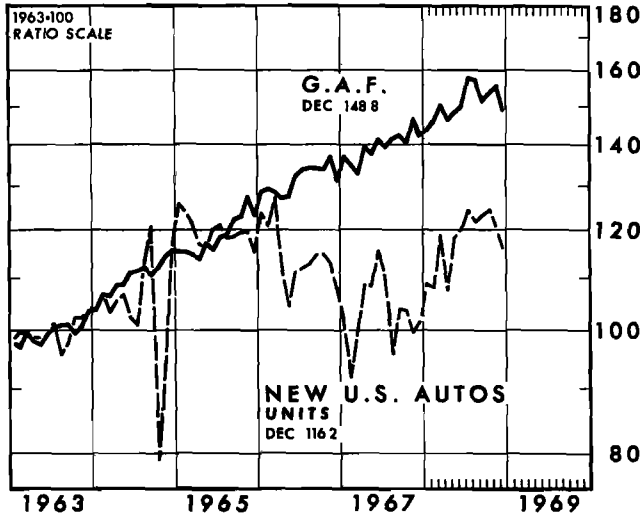
## INCOME AND SALES



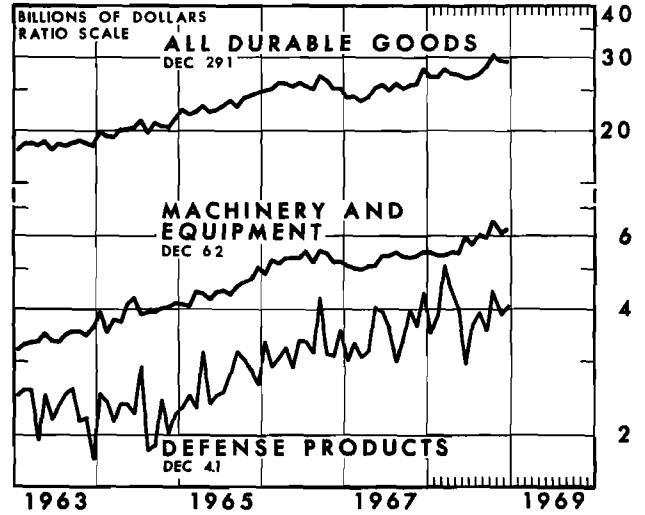
## BUSINESS INVESTMENT



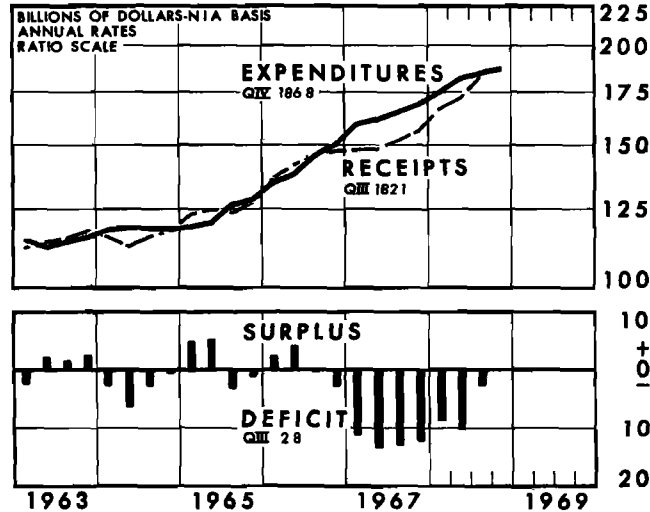
## RETAIL SALES



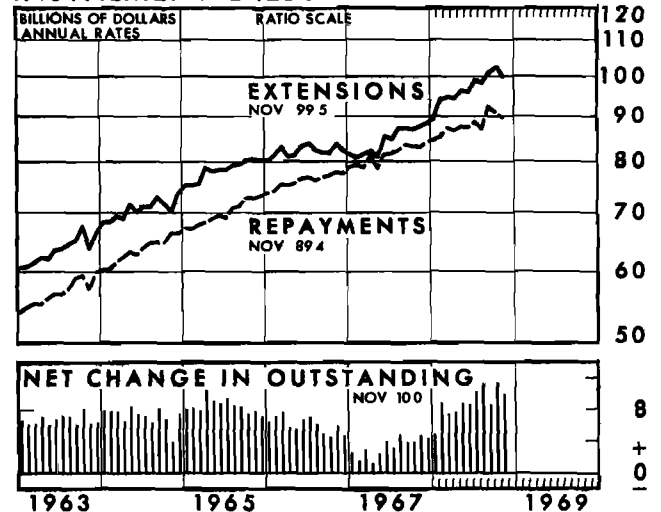
## MANUFACTURERS' NEW ORDERS



## FEDERAL FINANCE—N.I. ACCOUNTS



## INSTALMENT CREDIT





III-I

DOMESTIC FINANCIAL SITUATION

Bank credit. Total loans and investments at weekly reporting banks showed an unusually sharp drop in the four weeks following the December tax period, falling several times the amounts in comparable periods of recent years. Reflecting in part the large run-off of CD's, these large banks liquidated about \$2.4 billion of security holdings-- principally Treasury bills--as total loans fell off only slightly more than usual over this period. As measured by the daily average credit proxy, adjusted to include Euro-dollar borrowing, member bank credit is projected to show only a slight increase, on average, during January.

NET CHANGE IN BANK CREDIT  
Weekly Reporting Banks  
(Millions of dollars, not seasonally adjusted)

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
	Dec. 15- Jan. 12	Dec. 21- Jan. 18	Dec. 20- Jan. 17	Dec. 18- Jan. 15
Total loans & investments	- 656	- 335	- 646	-3,453
U.S. Government securities	- 245	459	409	-2,030
Other securities	- 256	194	- 164	- 375
Total loans	- 155	- 988	- 891	-1,048
Business loans	- 801	- 325	163	821
All other loans	- 956	- 663	-1,054	-1,869

Business loans rose more in the four weeks ending January 15 than in comparable periods of most recent years, in spite of extraordinarily large repayments by retail trade and sizable repayments

of temporary tax period and year-end borrowing in several other industry categories. The rise of business loans in the face of these heavy repayments may be explained partly by a \$225 million increase in loans to the petroleum industry early in January, associated with the financing of the Atlantic-Richfield merger. In addition, there are indications that the recent strength in business loans may reflect increased borrowing associated with expanding plant and equipment programs. Recently, durable goods manufacturers, particularly producers of primary metals, transportation equipment, and machinery, have been borrowing more than usual amounts at banks, although as in past months, public utilities, construction, and services industries also continue to show strength.

Other bank loans, however, dropped much more over the four weeks ending January 15 than in past years. Most of this decline was in security loans, in response to large reductions in dealer inventories. Outstanding consumer instalment and real estate loans, on the other hand, continued to rise at a fairly rapid rate.

On balance, with total bank loans declining only slightly more than usual and with large outflows of CD's, banks--particularly in New York and Chicago--reduced substantially their holdings of securities. Their \$2.0 billion liquidation of U.S. Government securities--which was confined principally to Treasury bills--was more concentrated in the weeks prior to the large increases in Euro-dollar borrowings.

Their reductions in holdings of other securities, although mainly in short-term municipals during late December, had encompassed longer-term municipals as well as participation certificates and agency issues by early January. However, bank holdings of liquid assets, as well as liquid asset/deposit ratios, are still very high and are substantially above those in late 1966.

Bank deposits. Total time and savings deposits at large banks declined contraseasonally in late December and in the first half of January. Most of this reduction represented outflows of CD funds, although consumer-type time and savings deposits also declined after year-end.

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

	1966	1967	1968	1969
	Dec. 15- Jan. 12	Dec. 21- Jan. 18	Dec. 20- Jan. 17	Dec. 18- Jan. 15
Total time & savings deposits	1,208	2,523	997	-1,274
Consumer-type deposits	n.a.	803	684	356
Savings deposits	101	- 443	20	- 150
Time deposits, IPC (Other than CD's, IPC)	n.a.	1,246	664	506
Negotiable CD's	282	1,598	298	-1,726
All other time deposits <sup>1/</sup>	n.a.	122	15	96
-----				
MEMO:				
Euro-dollar borrowings <sup>2/</sup>	- 160	- 500	140	844

<sup>1/</sup> Consists primarily of time deposits held by State and local governments and by foreign institutions.

<sup>2/</sup> Bank liabilities to foreign branches from a current sample of 19 banks. These banks borrowed another \$442 million in the week ending January 22.

n.a. - Not available.

By late December, yields on most money market instruments were above Regulation Q ceilings on all CD maturities and banks began experiencing large losses of these funds. Even though money market rates dropped somewhat in early January, outstanding CD's at large banks continued to decline, falling by over \$1.7 billion in the four weeks ending January 15. New York and Chicago banks lost another \$236 million in the following week, bringing the total decline in CD's at these banks from the late November peak to almost \$2.1 billion, or a loss of about 22 per cent of total outstanding. This eight week run-off at New York and Chicago banks--expressed as either a percentage decline in total outstandings or as an average weekly dollar volume of attrition--was slightly larger than that in the first eight weeks of the late 1966 CD run-off, and was much larger than the comparable period CD decline in the spring of 1968. At these banks, January run-offs appear to be running close to 50 per cent of scheduled maturities, and attrition at outside banks are almost 20 per cent of maturing CD's. The run-offs have become increasingly more widespread, with banks outside New York and Chicago accounting for about 40 per cent of the decline in the first two weeks of January as compared to 15 per cent of those in the latter part of December.

Large banks moved to offset CD declines by increased borrowing in the Euro-dollar market in spite of the high cost of these funds. In the first three weeks of January, large banks increased their

liabilities to foreign branches by over \$2.5 billion, more than recovering the large year-end reduction in these liabilities and bringing outstandings to almost \$8.6 billion, some \$1.3 billion higher than the mid-December level.

Although inflows of consumer-type time and savings deposits were fairly well sustained through the end-of December interest-crediting period, these deposits declined contraseasonally by more than \$250 million in the first two weeks in January, with banks in New York and Chicago losing another \$9 million in the week ending January 22. The January decline reflected in part a much larger than usual reduction in passbook savings deposits that more than offset the moderate expansion in time certificates and open accounts. The outflow of savings deposits, however, was concentrated in the San Francisco district--where about one-third of all passbook savings deposits at weekly reporting banks are held--with other banks, including country banks, experiencing only slightly more than the usual post-interest-crediting reductions. However, it appears that some of the San Francisco decline in savings deposits went into time certificates and open accounts--probably in response to the recent expansion in the types of these accounts offered--since only in this district did banks show a more than normal increase in these accounts in the first half of January.

The money stock rose sharply in early January, but dropped back later in the month. The initial build-up in money balances

probably was partly in response to uncertainties concerning the direction of future interest rate movements. The subsequent decline in demand deposits developed as markets stabilized, and as the public purchased the large amount of securities sold by banks. U.S. Government deposits rose sharply, on balance, during the first three weeks in January, following declines over the previous three months.

Nonbank depository intermediaries. Net savings withdrawals during the recent reinvestment period, though somewhat larger than a year earlier, apparently were considered "normal" by the institutions in light of market yields and the enlarged stock of deposits. Net reinvestment outflows were larger in the more interest-sensitive areas, as California savings and loans accounted for all of the year-over-year increase in net withdrawals from the associations. Also, savings banks in New York were subject to increased withdrawals, while the experience of savings banks elsewhere was reportedly quite similar to last year. Moreover, New York City savings banks continued to experience net withdrawals through January 22, in contrast to net deposit inflows in past years. In light of this indication from the savings banks, the January savings growth at thrift institutions could well be below the fourth quarter rate.

DECEMBER-JANUARY REINVESTMENT PERIOD SAVINGS FLOWS  
 (\$ millions; not seasonally adjusted)

	New York City MSB's 1/	Savings and Loans 2/		
		All	San Francisco	All Other
1966-67	- 64	-360	+ 60	-420
1967-68	-189	-632	-109	-523
1968-69	-226	-740	-234	-506

1/ 15 largest savings banks in New York City for the last 3 business days of December and the first 5 business days of January.

2/ Universe estimates based on a FHLBB sample of 40 associations in each District for the last 3 business days of December and the first 9 business days of January.

Seasonally adjusted inflows to the thrift institutions moderated during December. Savings and loan share growth has shown a marked retardation since October, although advances from the FHLBB since then have increased less than seasonally. Financial adjustments were made in seasonal fashion by associations during December, resulting in no net change in liquidity ratios nor in any further easing of the relatively high ratio of outstanding mortgage commitments to cash flow. S&L new mortgage commitment activity nevertheless apparently remained strong, as detailed in the following section.

GROWTH IN SAVINGS AT  
NONBANK DEPOSITARY INTERMEDIARIES  
(Seasonally adjusted annual rates in per cent)

	Mutual Savings Banks	Savings and Loans	Both
1968 - I	7.2	5.6	6.1
II	6.6	5.6	5.9
III	6.3	6.0	6.1
IV <sub>p</sub> /	7.0	6.0,	6.3
Sept.	6.8	7.2	7.1
Oct.	6.9	7.4	7.2
Nov.	7.5	5.4	6.1
Dec. <sub>p</sub> /	6.3	5.1	5.5

<sub>p</sub>/ Preliminary.

Corporate and municipal bond markets. Since the beginning of the year, yields on corporate and municipal bonds have fluctuated in a narrow range near the high levels reached in late December. But new issues, on the whole, have not experienced a good reception and dealer inventories, consequently, have mounted since mid-month. Most recently, dealers have continued to bid aggressively in the face of dissapointing sales.

BOND YIELDS  
(Weekly averages, per cent per annum)

	Corporate Aaa		State and local Government	
	New With call Protection	Seasoned	S&P High Grade	Bond Buyers (mixed qualities)
<u>1968</u>				
Low	6.13(8/30)	5.95(9/13)	4.15(8/9)	4.07(8/9)
High	6.92(12/13)	6.53(12/27)	4.93(12/27)	4.85(12/27)
Week ending:				
January 3	--	6.55	4.93	4.85
10	6.90	6.58	4.93	4.85
17	6.93	6.59	4.94	4.83
24	6.92	6.59	4.93	4.82



The relative stability of bond yields during the past few weeks seemed to reflect a combination of psychological factors, rather than any basically better balance of current security supply and investor demand. The hope for progress at the Paris peace talks, the release of the Budget message proposing continuance of the surtax, and the change in Administration all seemed to buoy the spirits of dealers. Moreover, market commentators and bond dealers for a time adopted the view that the tight stance of monetary policy would not be maintained to the point of substantial market deterioration. Although ultimate investors did not fully share this optimistic outlook, dealers were apparently willing to tolerate a buildup in their inventory positions, especially since the forward calendar of issues did not appear to be building up substantially.

The volume of corporate security offerings expected in January has not changed appreciably since the time of the last Greenbook. Public corporate bond offerings are estimated at \$1,025 million this month, nearly 15 per cent above the 1968 average monthly volume. Issues of public utilities account for an unusually large portion of the total--about 55 per cent--which appears to reflect both continued heavy capital outlays and the advance scheduling of some offerings. Total corporate security offerings in January, including private placements and stock issues, are estimated at \$1.8 billion, comparable to the average pace of last year.

CORPORATE SECURITY OFFERINGS<sup>1/</sup>  
(Millions of dollars)

	Bonds				Total bonds and stocks	
	Public Offerings <sup>2/</sup>		Private Placements		1967	1968
	1967	1968	1967	1968	1967	1968
YEAR - Monthly avg.	1,249	895 <sub>e/</sub>	580	547 <sub>e/</sub>	2,066	1,813 <sub>e/</sub>
November	645	939	551	355	1,500	1,729
December	1,087	605	1,020	900 <sub>e/</sub>	2,385	1,905 <sub>e/</sub>
	<u>1968</u>	<u>1969</u>	<u>1968</u>	<u>1969</u>	<u>1968</u>	<u>1969</u>
January	903	1,025 <sub>e/</sub>	546	500 <sub>e/</sub>	1,771	1,800 <sub>e/</sub>
February	796	800 <sub>e/</sub>	585	500 <sub>e/</sub>	1,607	1,600 <sub>e/</sub>

e/ Estimated.

1/ Data are gross proceeds.

2/ Includes refundings.

Flotations of corporate bonds in February are expected to decline significantly. Public bond offerings now scheduled aggregate \$650 million and further additions to the calendar are likely to boost the ultimate volume to \$800 million, one-fifth below that of January. As now constituted, the calendar contains relatively few public utility issues and a large volume of convertible bond issues. Notably absent from the scheduled offerings are any sizable issues by manufacturing corporations.

The expected decline in February bond volume and the absence of large industrial borrowers should not, as yet, be viewed as reflecting a scaling down of investment plans and associated credit requirements.

Given the current high level of yields, corporate treasurers are unlikely to rush to the bond markets if other sources of credit are available. Internal sources of funds, including first quarter tax accruals and drawing down of liquid assets, as well as use of credit lines at banks should permit considerable near-term flexibility in bond market financing. However, if these sources of funds threaten to dry up, credit demands may well spill over into the corporate bond market.

In the municipal market, January offerings will aggregate an estimated \$1.2 billion, \$200 million above earlier estimates. Late additions to the calendar have more than offset nearly \$200 million of postponements this month. This relatively large volume of issues has not been fully distributed, however, and dealer inventories have shown a considerable advance throughout the month. Furthermore, upward rate pressure seems to be building as commercial banks have already sharply curtailed their acquisitions of municipal securities.

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

	1967	1968
YEAR - Monthly average	1,230	1,369 <sub>e/</sub>
November	1,401	990
December	1,182	1,100 <sub>e/</sub>
	<u>1968</u>	<u>1969</u>
January	1,175	1,200 <sub>e/</sub>
February	1,153	1,000 <sub>e/</sub>

e/ Estimated.

1/ Data are for principal amounts of new issues.

State and local government bond offerings in February are estimated at \$1.0 billion, well below the 1968 average monthly volume. Although municipal financing requirements remain large, the developing upward rate pressure in this market suggests an acceleration of postponements which will likely hold down the ultimate volume especially in the near-term. Moreover, it may be much more difficult for governmental units to issue short-term notes as a substitute for long-term financing than in 1966. To date, the bulk of bank portfolio adjustments in their municipals has been in short-term issues and yields on these securities have advanced more than 100 basis points over the last three months. And, in addition, some governmental units reportedly are bumping against statutory constraints on the volume of short-term notes they may issue. Thus, it is possible that the postponements of long-term financing may be more quickly translated into an impact on capital outlays than was the case in 1966, when borrowers had considerably more flexibility to issue short-term debt or draw down liquid assets.<sup>1/</sup>

Mortgage market. Through the dividend reinvestment period and most of January, yields in the sensitive secondary market for FHA and VA home mortgage continued to advance each week, as shown in the table. By January 27, average yields on FNMA's 6-month forward purchase commitments had risen 15 basis points above the previous high in mid-1968, and were 70 basis points above the end-of-September low.

---

<sup>1/</sup> See Appendix A for a further discussion of recent postponements in the tax-exempt market.

FNMA WEEKLY AUCTIONS  
(6-month forward commitments)

	Accepted bids (\$ millions)	Implicit private market yield (per cent)
1968 High, June 10	44.8	7.71
December 23	31.6	7.60
30	32.2	7.65
January 6	28.4	7.66
13	36.7	7.68
21	39.1	7.72
27	38.6	7.86

Note: Average secondary market yield after allowance for commitment fee and required purchase and holding of FNMA stock, assuming prepayment period of 15 years for 30-year Government-underwritten mortgages. Yields shown are gross, before deduction of 50 basis point fee paid by investors to servicers. The first auction date was May 6, 1968.

Even at these yield levels, private market investors--some of whom had held back during the reinvestment period--apparently showed little enthusiasm thereafter, according to FNMA field reports, partly because of large discounts on FHA and VA mortgages carrying contract rates of 6-3/4 per cent which were in effect until nearly the end of the month. Reflecting these developments, the backlog of FNMA's own mortgage purchase commitments, which had been slowly accumulating for some time under its new auction system, reached \$1.2 billion, a new high. Representing commitments to buy about 82,000 Government-underwritten mortgages secured by new or existing homes, the backlog was about double the unadjusted total at mid-1968, when the auction system was just getting underway, and promised a degree of market support for some

months ahead. Ten per cent of FNMA's commitment backlog--largely involving mortgages for purchase from mortgage companies at the option of the seller--was scheduled to expire before the end of April, and 70 per cent before the end of July.

During December, average contract interest rates on conventional first mortgages in the primary home-mortgage market also continued upward to a new postwar high, according to FHA estimates shown in the table. In the private secondary market for Government-underwritten mortgages, average yields rose to within 2 basis points of the peak attained earlier this year. Perhaps even more important, discounts on these 6-3/4 per cent mortgages increased to still more restrictive levels exceeding 6 points.

In order to make FHA and VA loan rates more competitive and to minimize large discounts, the contract interest rate on both types of mortgages was raised by administrative action to 7-1/2 per cent, effective January 24--the first upward revision since last May. The rate increase was equivalent to about 6 discount points, in terms of effective yield to investors as calculated in the table. Even at 7-1/2 per cent, the new contract rate was apparently several discount points below market yields prevailing at the time. In a number of States where restrictive usury limits do not exempt Government-underwritten mortgages, FHA and VA loans will be obliged to bear a contract rate of less than 7-1/2 per cent, at least until current laws or regulations are changed.

## 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)
<u>1967</u>					
December	6.70	19	6.81	30	6.8
<u>1968</u>					
January	6.75	53r	6.81	59r	6.8
February	6.75	50r	6.78	53r	6.6
March	6.80	23r	6.83	26r	7.0
April	6.90	40r	6.94	44r	7.9
May	7.15	51r	7.50e	86e	6.1e
June	7.25	60	7.52	87	6.3
July	7.30	79r	7.42	91r	5.5
August	7.30	115r	7.35	120r	5.0
September	7.30	103r	7.28	101r	4.4
October	7.25	78r	7.29	82r	4.5
November	7.30	69r	7.36	75r	5.1
December	7.40	61r	7.50	71r	6.2

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 1968. Data for May 1968 estimated by Federal Reserve based on 6-3/4 per cent regulatory rate in effect through January 23, 1969, on which a change of 1.0 points in discount was associated with a change of 12 to 13 basis points in yield. Gross yield spread is average mortgage return, before deducting servicing fees, minus average yield on new issues of high grade corporate bonds with 5-year call protection.

\* Based on series for average yields on new issues of high-grade corporate bonds carrying 5-year call protection; in computing spreads, these yields have generally averaged somewhat below yields indicated by the series used previously, which included all new high-grade corporate bond issues, with or without call protection.

e - Estimated.

r - Revised.

Despite the further rise in December, however, returns on conventional as well as Government-underwritten home mortgages remained unattractive relative to yields on new issues of high-grade corporate bonds. In addition, they probably continued well below yields on income-property mortgages, which are less subject to usury ceiling restraints and may include equity-type participations in property income that are designed to supplement returns from high contract rates.

During December, demands for home mortgage credit apparently slackened less than usual for a winter month, and funds remained available in most major areas to accommodate these demands at the record or near-record costs prevailing. By the end of the month, the backlog of mortgage commitments at all savings and loan associations had built up further for the sixth consecutive month to reach another new high, after adjustment for seasonal variation and an upward revision in November data. At \$6.7 billion, the volume of outstanding S&L mortgage commitments--chiefly for residential loans--was 12 per cent above mid-year. It continued to represent about a 3-1/2 month volume of mortgage takings, based on the seasonally adjusted rate of S&L loan closings in December.

During the entire fourth quarter of 1968, the rate of expansion in mortgage holdings of all lenders accelerated to a record high, according to preliminary Federal Reserve estimates. The fourth-quarter expansion, which followed little change at a moderately reduced rate in the preceding quarter, was buoyed by exceptionally strong support from commercial banks. Running at a seasonally adjusted annual



rate of over \$29 billion, growth during the fourth quarter in all types of outstanding mortgage debt slightly exceeded the previous peak reached in early 1966 and again in late 1967. In a period when housing starts climbed to the highest average rate in several years and transactions in existing homes were at an advanced level, the fourth quarter rate of expansion in outstanding residential mortgage debt was especially marked.

Stock market. Having declined sharply in early January, common stock prices advanced somewhat during the latter half of the month, but remained significantly below their early December highs. Greater gains were registered by the less seasoned issues on the American Exchange. The recent modest recovery in prices has been achieved despite the continuation of high interest rates, concern about which had contributed to the sharp drop in prices early in the month. Apparently, the break in the Vietnam negotiations deadlock, the recent encouraging corporate earnings reports, and the growing feeling that a credit crunch is not in prospect have outweighed the concern exhibited earlier.

STOCK PRICE INDICES

	Dow-Jones Industrials	New York Stock Exchange Index	American Exchange Index
<u>1968</u>			
Early August low	869.65	54.18	28.82
Early December high	985.21	61.27	33.251/
<u>1969</u>			
January low	923.13	56.77	31.13
January 28	938.40	58.10	32.64
Per cent change:			
From early December high to January 28	- 4.8	-5.2	-1.8
From January low to January 28	+ 1.7	+2.4	+4.9

1/ Occurred December 20.

While shortened trading hours helped to reduce the average daily trading volume in January, weekly volume was almost unchanged from December when 4-day trading weeks were still in force. In December, furthermore, volume was so heavy that "fails to deliver" for New York Stock Exchange member firms rose 25 per cent to \$4.1 billion. This worsening of back-office difficulties led both the National Association of Security Dealers and the New York Stock Exchange to propose new regulations which would further motivate members to effect a reduction in the backlog of paperwork.

TRADING VOLUME

	<u>New York Exchange</u>		<u>American Stock Exchange</u>	
	<u>Average Daily Trading Volume</u>	<u>Weekly Trading Volume</u>	<u>Average Daily Trading Volume</u>	<u>Weekly Trading Vol.</u>
Week ending:				
December 6	16.4	65.5	7.9	31.5
13	16.2	65.2	9.0	35.9
20	16.6	66.2	8.7	34.7
27	11.4	45.4	7.1	28.5
January 3	11.9	47.2	6.8	27.0
10*	13.4	67.1	6.6	32.9
17	11.7	58.4	6.2	30.9
24	11.8	59.0	6.6	33.3

\* First week with 5 days of trading but shortened hours.

The increase in the December "fails" was largely responsible for the \$700 million increase in customer net debit balances during the month. The margin debt of brokers' customers--a series which does not include the cash account debt arising from such "fails"--is estimated to have risen only slightly during the month. Bank purpose loans to non-brokers, meanwhile, which include unregulated as well as regulated purpose loans, rose \$79 million to \$2,710 million during December.

Government securities market. Yields on U.S. Government securities have declined on balance from the peak levels reached following the January 7 boost in the prime rate to 7 per cent. Through mid-January, declines ranged from 20 to 40 basis points on both bills and coupon issues in 5 years or less. Most recently a part of the declines have been reversed.

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

	1968		1969		
	Lows	Highs	Jan. 7	Jan. 16	Jan. 28
<u>Bills</u>					
1-month	4.55(1/2)	6.35(12/23)	6.25	6.07	6.06
3-month	4.82(1/29)	6.29(12/24)	6.25	6.05	6.16
6-month	4.98(1/29)	6.41(12/24)	6.42	6.18	6.24
1-year	5.05(8/1)	6.47(12/24)	6.18	5.86	6.07
<u>Coupons</u>					
3-year	5.34(8/19)	6.52(12/23)	6.44	6.06	6.17
5-year	5.42(1/12)	6.34(12/24)	6.43	6.11	6.22
10-year	5.37(8/8)	6.27(12/24)	6.14	5.98	6.05
20-year	5.14(8/2)	6.12(12/24)	6.08	5.94	6.01

N. B. Latest dates of high or low rates in parentheses.

Early in the new year, there was a considerable relaxation of the pressures on the Government securities market which had developed in late December for seasonal reasons and which had been intensified by fears of severe financial adjustments in response to continued CD attrition. Good sales of bills, an improved outlook for the budget and the economy, and the apparent ready availability of Euro-dollars to ease the banks' adjustments to CD attrition, all worked to stimulate a more relaxed atmosphere in the market in January. Also, weekly data on the money supply and the monetary base were widely cited as evidence that monetary policy had not tightened greatly, despite the run-off of CD's, and further served to allay fears of a sharp curtailment in credit.

As market psychology improved with the better demand for Treasury securities--particularly bills--dealers inventories of Treasury issues declined by more than \$2 billion from late December to mid-January. On balance, dealers have replenished their holdings somewhat since mid-month, due partly to bank selling of the June tax bills auctioned on January 14, as well as to acquisition of potential February "rights" in anticipation of the imminent quarterly Treasury refinancing.

DEALER POSITIONS IN GOVERNMENT SECURITIES<sup>1/</sup>  
(Millions of dollars)

	December 23	January 13	January 27
Total	<u>4,396</u>	<u>2,036</u>	<u>2,814</u>
Treasury bills	3,703	1,668	2,162
Coupon issues	<u>693</u>	<u>368</u>	<u>651</u>
Due within 1 year	236	260	484
1-5 years	193	- 5	- 16
over 5 years	264	113	183

<sup>1/</sup> Monday figures.

To some extent, the somewhat more comfortable money market conditions prevailing in recent weeks relative to the seasonal tightness in late December have also contributed to the improved underlying market psychology. Dealer financing costs at major New York banks have receded from their record year-end levels, making it easier for dealers to carry their reduced inventories.

In light of the above developments, the market should be in a generally good technical condition to underwrite the Treasury's February refunding, the terms of which will be announced this week. However, the most recent tendency for yields on Treasury securities to back-up suggests that the market may be becoming more sensitive to the continuing attrition of CD's.

SHORT-TERM INTEREST RATES

	1968		1969			
	Low	High	Jan. 7	Jan. 16	Jan. 23	Jan. 28
<u>1-month</u>						
CD's (prime NYC)						
Highest quoted new issue	4.88 (2/8)	5.50 (12/31)	5.50	5.50	5.50	5.50
Secondary market	4.90 (1/31)	6.45 (12/26)	6.45	6.45	6.38	6.40(1/23)
<u>3-month</u>						
Bankers' acceptances	5.25 (3/7)	6.50 (12/31)	6.50	6.50	6.38	6.38
Federal agencies	5.00 (2/9)	6.38 (12/26)	6.45 (1/2)	6.34	6.37	6.37(1/23)
Finance paper	5.13 (3/7)	6.25 (12/31)	6.25	6.38	6.38	6.25
CD's (prime NYC)						
Highest quoted new issue	5.25 (2/8)	6.00 (12/31)	6.00	6.00	6.00	6.00
Secondary market	5.20 (1/3)	6.50 (12/26)	6.75	6.50	6.45	6.45(1/23)
<u>6-month</u>						
Bankers' acceptances	5.38 (3/7)	6.62 (12/31)	6.62	6.62	6.50	6.50
Commercial paper	5.50 (3/7)	6.25 (12/31)	6.25	6.50	6.50	6.50
Federal agencies	5.25 (2/9)	6.62 (12/26)	6.59 (1/2)	6.32	6.50	6.50(1/23)
CD's (prime NYC)						
Highest quoted new issue	5.50 (3/7)	6.25 (12/31)	6.25	6.25	6.25	6.25
Secondary market	5.45 (1/31)	6.75 (12/26)	6.88	6.60	6.55	6.55
<u>1-year</u>						
Prime municipals	2.75 (8/8)	3.80 (12/26)	3.90 (1/2)	4.25	4.10	4.10(1/23)

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

Federal finance. Although the new Federal Budget forecasts a \$2.4 billion surplus for the current fiscal year, the Board staff is now projecting a smaller surplus of \$1.3 billion.<sup>1/</sup> The difference between the two estimates occurs on the spending side, with the staff estimate of receipts the same as that in the Budget. Like the Budget the staff is assuming that the surtax will be extended before corporations remit advance payments on calendar 1969 taxes in April. April as well as June receipts would each have to be trimmed by about \$250 million if the surtax extension were delayed, although these receipts could, of course, be raised retroactively in fiscal 1970.

Even though the staff projection of Federal spending on a national income accounts basis is the same as in the Budget, the staff estimate on a cash basis exceeds the Budget projection by a little over \$1 billion, due to differences in loan transactions and in the details of timing adjustments. A close look at the level of cash spending thus far in fiscal 1969 suggests that the new Administration may find it difficult to hold spending down to the \$183.7 billion Budget forecast. Outlays for transportation and agriculture, for instance, are areas where budget forecasts may be too low. As the Greenbook agricultural story indicates, CCC spending for price supports may exceed budget estimates, and in view of tight bank credit conditions there is some doubt whether the financing burden of this higher spending level can be fully shifted to the banks by means of certificate sales. If the staff estimate of overall spending should prove to be

---

<sup>1/</sup> For a more detailed review of the new Federal Budget, see Appendix B.

more accurate than the Budget forecast, the difference would probably be spread fairly gradually over the final quarter of the fiscal year and become evident principally in a somewhat smaller Treasury cash balance during May and June.

Because the Federal debt subject to ceiling is expected to approach the statutory limit in late February, as trust account holdings of non-marketable special issues are increased, the new Treasury administration has no immediate leeway for the further cash borrowing that market participants had generally been expecting. As a result, the Treasury is confronted with an exceedingly difficult problem of cash management. Since the cash balance experiences a large seasonal drain in the two weeks preceding receipt of March 15 income tax payments, an inability to raise new money in February will put a very tight squeeze on cash resources prior to that date. In the circumstances, the Treasury could have to resort to special measures--such as sales of assets or monetizing of "free" gold--in order to cover some of its cash needs.

In the latter half of March, corporate income tax receipts will replenish the Treasury balance somewhat, but in the first half of April, the balance experiences another large seasonal cash drain prior to receipt of April income tax payments. Repayment of maturing March tax bills should provide the Treasury with additional leeway to finance at least part of this further drain through additional cash borrowing.



PROJECTION OF TREASURY CASH OUTLOOK  
(In billions of dollars)

	Dec. <sup>a/</sup>	Jan.	Feb.	Mar.
<u>Borrowing operations</u>				
New cash raised				
Week bills	--	--	--	--
Tax bills	1.9	1.7	--	--
Coupon issues	--	--	--	--
PC's	--	--	--	--
Other (agency, debt repayment, etc.)	-.7	--	-.5	-2.0
Total net borrowing from public	1.2	1.7	-.5	-2.0
Plus: Other net financial sources <sup>b/</sup>	--	.9	-.6	.9
Plus: <u>Budget surplus or deficit (-)</u>	.7	-.2	.3	-1.2
Equals: <u>Change in cash balance</u>	1.9	2.4	-.8	-2.3
Memorandum: Level of cash balance end of period	4.7	7.1	6.3	4.0

a/ Actual and estimated data.

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

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

	Fiscal years				1968		1969	
	Actual		Jan. budget	F.R. Bd	III	IV <sup>e/</sup>	I <sup>e/</sup>	II <sup>e/</sup>
	1967	1968	1969	1969				
<u>Quarterly data, unadjusted</u>								
New budget:								
Surplus/deficit	-8.8	-25.2	2.4	1.3	-3.2	-7.8	-1.1	13.5
Receipts	149.6	153.7	186.1	186.1	43.6	38.9	43.6	60.0
Total expenditures and net lending	158.4	178.9	183.7	184.8	46.9	46.8	44.7	46.5
Means of financing:								
Total borrowing from the public	2.9	23.1	-3.1	1.6	7.7	3.6	-0.8	-8.9
Decrease in cash operating balance	5.2	.4	n.a.	-4.0	-3.3	3.9	.7	-5.3
Other <u>1/</u>	.7	1.7	n.a.	1.1	-1.1	.3	1.2	.7
Cash operating balance, end of period	5.7	5.3	n.a.	9.3	8.6	4.7	4.0	9.3
<u>Seasonally adjusted annual rate</u>								
Federal surplus/deficit								
in national income accounts	-6.9	-11.0	2.7	2.3	-2.8	.3	5.5	6.2
Receipts <u>2/</u>	147.4	161.8	190.0	189.6	182.1	187.1	193.7	195.5
Expenditures	154.3	172.7	187.3	187.3	184.9	186.8	188.2	189.3

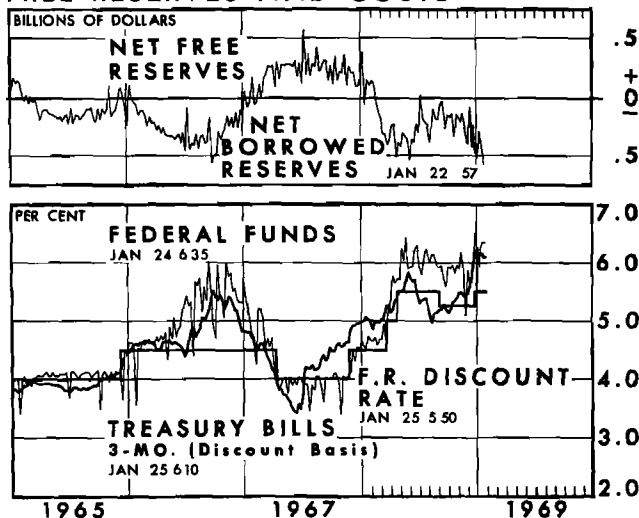
e--Projected.

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

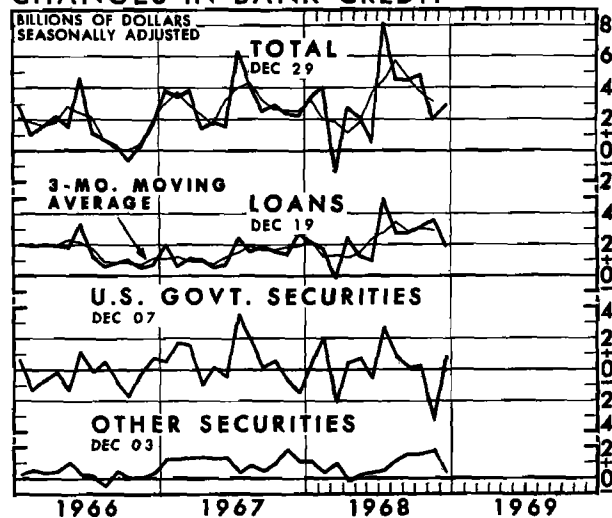
2/ Retroactive corporate surtax liability is included beginning first quarter 1968. Quarterly receipts do not add to fiscal year totals due to seasonal adjustment of social security taxes.

# FINANCIAL DEVELOPMENTS - UNITED STATES

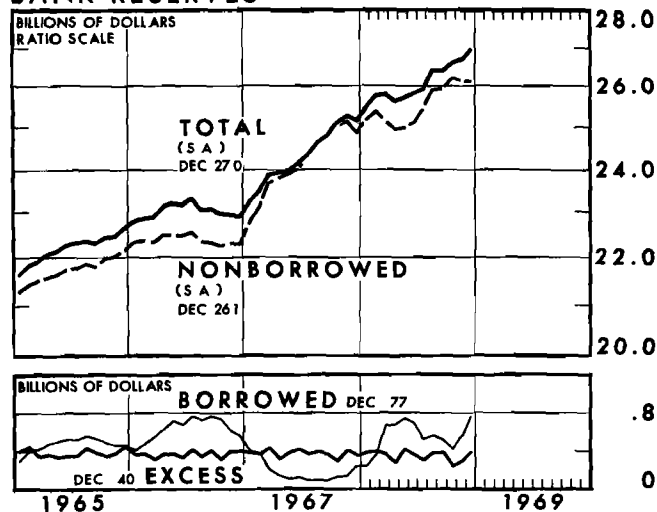
## FREE RESERVES AND COSTS



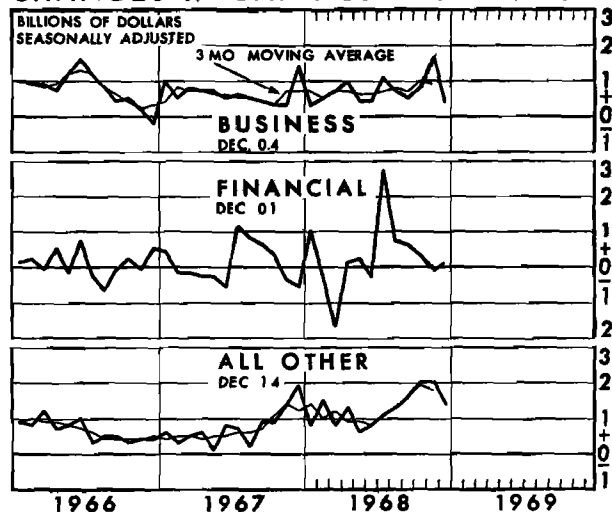
## CHANGES IN BANK CREDIT



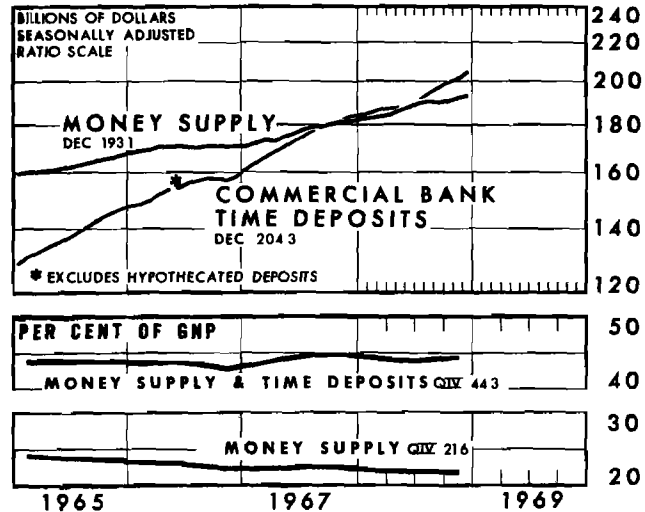
## BANK RESERVES



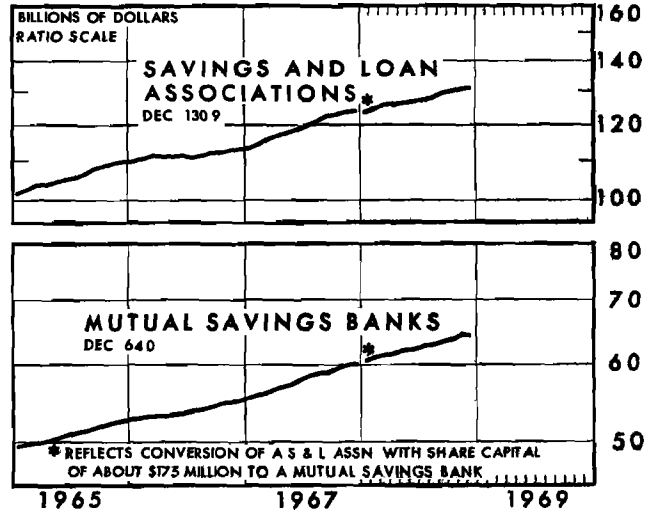
## CHANGES IN BANK LOANS-BY TYPE



## MONEY AND TIME DEPOSITS

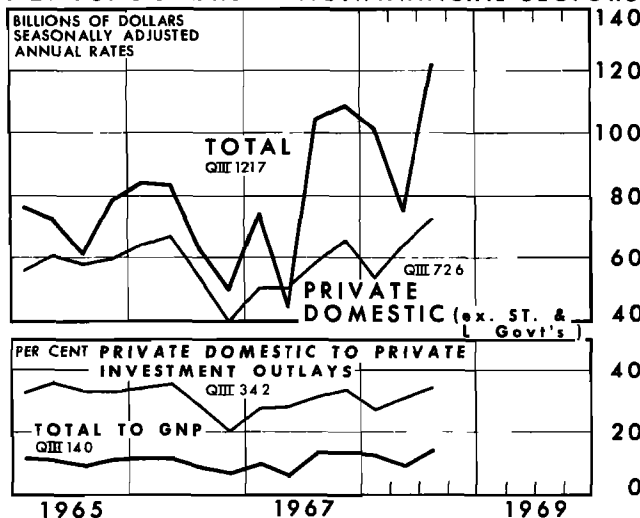


## SAVINGS SHARES AND DEPOSITS

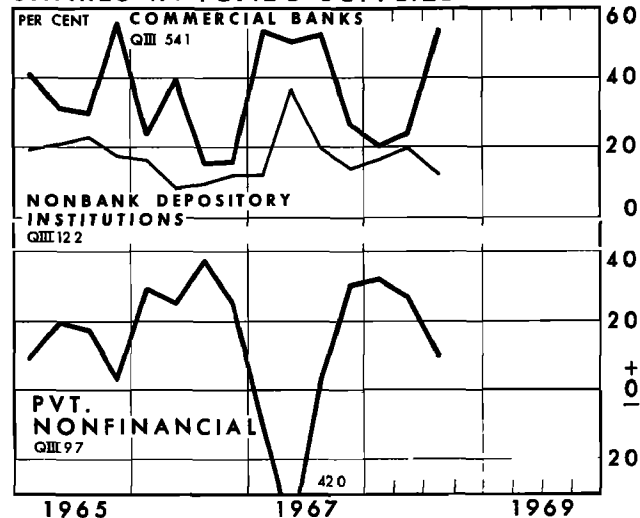


# FINANCIAL DEVELOPMENTS - UNITED STATES

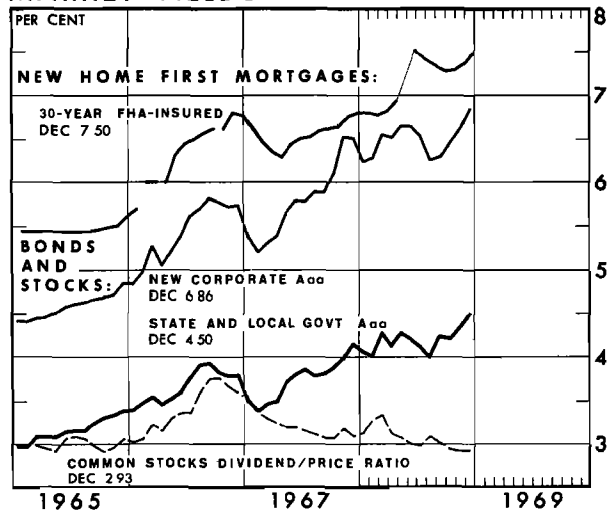
## NET FUNDS RAISED - NONFINANCIAL SECTORS



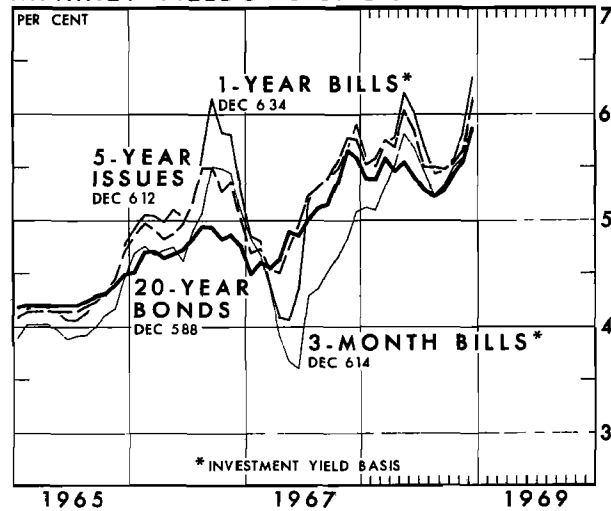
## SHARES IN FUNDS SUPPLIED



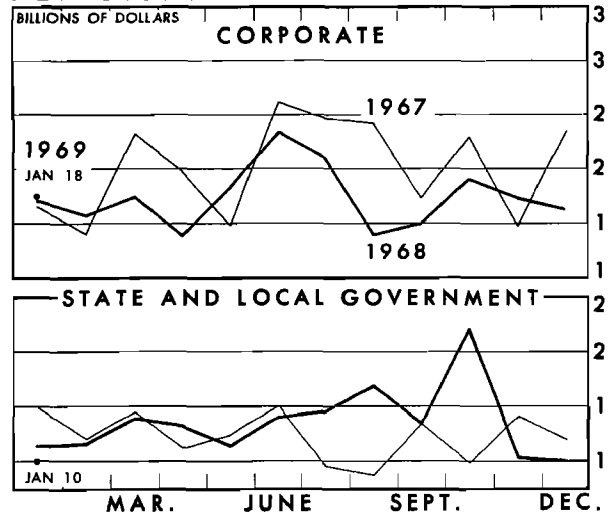
## MARKET YIELDS



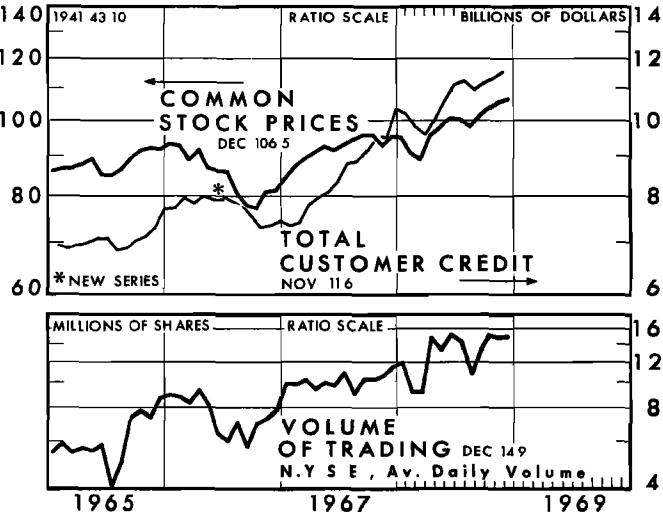
## MARKET YIELDS - U.S. GOVT. SEC.



## NEW SECURITY ISSUES



## STOCK MARKET



---

 INTERNATIONAL DEVELOPMENTS
 

---

<u>Contents</u>	<u>Page</u>
U.S. balance of payments	IV - 1
Merchandise trade	3
The Euro-dollar market	7
Foreign exchange market developments	9
Price developments in major industrial countries	12

U.S. balance of payments. The shape of the 1968 balance of payments is now a little clearer than it was at the turn of the year, though there are still sizable blank areas. There was indeed a surplus for the year on the liquidity basis of about \$130 million, a little less than earlier indicators suggested. For December alone the surplus was \$1.8 billion (not seasonally adjusted) and for the entire fourth quarter it was \$.9 billion (seasonally adjusted). However, the trade balance (discussed in detail below) was much worse in the fourth quarter than expected because of a slump in exports in December. For the year the trade balance (balance-of-payments basis) was only \$100 million, far less than any projection made during the year. Moreover, there was a small net outflow of bank-reported claims in the fourth quarter despite the year-end sell-offs of loans to branches. For the year the net inflow of bank-reported claims was about \$250 million, including claims not subject to the VFCR which increased by at least \$100 million during the year. Also, foreign purchases of U.S. corporate stocks in December were probably not much over \$100 million, compared to over \$200 million per month in October and November.

Since trade and bank lending showed a less favorable outcome in the fourth quarter, more of the weight of explanation falls on the transactions of direct investors and the unrecorded component. The best guess at the moment for direct investments is that the net outflow of U.S. funds in the fourth quarter (that is, the reported net outflow for direct investment less the use of funds borrowed abroad) was insignificant, compared to over \$600 million in the third quarter. This kind of result implies that the reduction of \$1 billion from the 1967 outflow (including reinvested earnings) required by the Commerce program was greatly exceeded. The potential for outflows in 1969 under the program which had been increased by some liberalization of allowables (about \$250 million) is further enlarged by a very large carry forward from 1968.

Even with this more favorable estimate of direct investment flow in the fourth quarter, the liquidity surplus in that quarter can not be fully accounted for, so that the residual item ("errors and omissions") was quite possibly on the net receipt side for the second consecutive quarter. If so, this residual may register a net receipt in 1968 for the first time since 1959; over the 1960-67 period net unrecorded payments averaged nearly \$700 million per year.

Weekly indicators for the first three weeks of 1969 show a sizable liquidity deficit of about \$400 million, contrary to usual seasonal expectations. Some of this reflected the sale of new foreign securities in the U.S., and there may also be some adverse effects from

the continued dock strike. However, there was very likely a reflow abroad of some of the funds that were returned to the United States at the year end. In the third week of January a moderate surplus was registered.

On the official settlements basis there are only small deviations from the estimates in the last Green Book; a surplus of about \$635 million in December (NSA), yielding a surplus of about \$200 million for the fourth quarter (seasonally adjusted) and \$1.6 billion for the year. Through January 22 this year this balance showed a surplus of nearly \$1.5 billion. The major factor in the difference between the liquidity deficit and this surplus was an increase in liabilities of U.S. banks to their foreign branches of \$2.5 billion in the three-week period, partly offset by a fall of about \$0.5 billion in liabilities to foreign commercial banks other than branches. With these additions, liabilities to foreign branches more than recovered the end-of-year losses and reached a new peak of \$8.6 billion. Official accounts in the United States dropped by \$1.5 billion in the three week period, very largely reflecting a decline in German central bank holdings of dollars in the United States.

Merchandise trade. The trade balance swung back into a deficit for the fifth month in 1968 -- as exports fell while imports increased. The curtailment of cargo movements, particularly outbound, after the dock workers' strike in East coast and Gulf ports began on

December 20 apparently offset the acceleration in shipments in the first part of December. Imports are affected less than exports since the value of general cargo (requiring dock workers) through the strike-affected ports is less for imports than for exports. Also, a considerable amount of diversion of import shipments to West coast and Canadian ports has been reported, and a heavy increase in imports by air. With the strike continuing throughout January, another deficit this month seems likely.

The erratic trade movements during 1968 occasioned by potential or actual strikes by U.S. longshoremen, and earlier by Canadian workers on the St. Lawrence Seaway, have made it difficult to obtain a true reading on the basic trends in our trade position. Adjusted for timing distortions, the export surplus is now believed to have been equally low in both halves of 1968 -- about \$100 million at an annual rate, balance of payments basis, compared with \$3-1/2 billion surpluses in 1966 and 1967. However, with economic activity in Europe and Japan projected to continue expanding this year, while the pace of growth in expenditures in the United States is expected to slow down, conditions are favorable for a moderate improvement in the trade balance this year.

Exports in calendar 1968 were \$33.3 billion, balance of payments basis, about 10 per cent higher than in 1967. Adjusted for timing distortions, exports advanced at a rate of 15 per cent per year from the second half of 1967 to the first half of 1968, and then somewhat less rapidly -- about 10 per cent per year -- to the second half of 1968. These rates of growth were considerably greater than the 6.5 per cent average from 1960 to 1967.



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

	YEAR 1967	YEAR 1968	1967		1968	
			1st Half	2nd Half	1st Half	2nd Half
Agricultural exports <u>1/</u>	6.4	6.4	6.6	6.3	6.5	6.2
Nonagricultural exports <u>1/</u>	24.5	27.4	24.5	24.6	26.3	28.6
Total exports:						
Census basis	30.9	33.8	31.1	30.9	32.8	34.8
Balance of payments basis	30.5	33.3	30.7	30.2	32.5	34.2
Total imports:						
Balance of payments basis	27.0	33.2	26.6	27.4	32.4	34.1
Trade balance	3.5	0.1	4.1	2.8	0.1	0.1

1/ Census basis

Particularly encouraging for the outlook for exports in 1969 was the commodity diversification of the expansion in shipments in the second half of last year. Pacing the advance in that period were greater sales of machinery, and also of consumer goods and industrial materials. Deliveries of aircraft, a major element in the export increase in the early months, leveled off at a high rate, while shipments of automobiles and parts to Canada continued to expand. The value of exports of agricultural commodities sagged in the latter part of 1968 under pressure of improved world supplies of grain and cotton.

The rise in exports to the Western European countries, particularly to the EEC countries, was prominent in the export growth in the second half of 1968. The strong expansion in total

export orders for U.S. machinery (more than 20 per cent from the end of 1967 to the end of 1968) reflects plans for increased investment expenditures abroad and also the approach of manufacturing plant utilization to capacity levels in the EEC countries.

Imports in calendar 1968 were \$33.2 billion, balance of payments basis, nearly 25 per cent more than in the preceding year. The rate of increase per year from the last half of 1967 to the first half of 1968 was an incredibly high 36 per cent, swollen especially by rising steel and copper imports. The rate of increase slowed to about 10 per cent in the following period, adjusted for timing distortions due to port strikes.

The ratio of imports to GNP in 1968 was at an all-time high -- 3.9 per cent. The market penetration of foreign goods was particularly significant for finished manufactures -- automobiles, capital equipment and consumer goods. Sales of European and Japanese cars were at a record one million units, topping 10 per cent of total U.S. car sales for the first time since 1959. The inflow of automobiles and parts from Canada was up by 60 per cent from 1967 to 1968, shifting the balance of exports and imports of cars and parts in trade with Canada from an export surplus -- \$600 million in 1965 and \$150 million in 1967 -- to a deficit of about \$250 million in 1968. (However, the official recorded value of car imports from Canada probably overstates the payments value, and the figures for exports to Canada do not cover all components and materials used in auto manufacturing.)

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

	1967	1968	1 9 6 7		1 9 6 8	
			1st half	2nd half	1st half	2nd half
<u>Total Imports</u> <u>1/</u>	26.8	33.0	26.5	27.3	32.1	33.8
Food and Beverages	4.6	5.3	4.6	4.6	5.1	5.4
Industrial Supplies	11.8	14.0	11.8	11.8	14.0	13.9
Fuels	2.2	2.5	2.3	2.2	2.4	2.6
Building Materials	0.8	1.1	0.7	0.8	1.0	1.2
Iron and Steel	1.4	2.1	1.4	1.5	2.0	2.2
Other metals	2.9	3.3	2.9	2.8	3.8	2.8
(Copper) <u>2/</u>	0.6	0.7	0.5	0.6	1.0	0.4
Capital Equipment	2.4	2.8	2.4	2.4	2.7	2.9
Machinery	2.3	2.6	2.2	2.3	2.5	2.7
Auto vehicles and parts	2.6	4.3	2.5	2.8	3.9	4.6
Canada	1.6	2.6	1.5	1.7	2.4	2.8
Other	1.0	1.7	1.0	1.1	1.5	1.8
Consumer Goods <u>3/</u>	4.2	5.3	4.1	4.3	5.1	5.5
Durable	2.6	3.3	2.6	2.7	3.1	3.5
Nondurable	1.6	2.0	1.5	1.6	2.0	2.0
All Other	1.2	1.4	1.1	1.3	1.3	1.4

1/ Census basis.

2/ Not seasonally adjusted.

3/ Excluding food and automotive.

p/ Preliminary.

Faced by expanded purchases of foreign radios and TV's the ratio of durable consumer imports, other than automobiles, to total consumer expenditures for these items was 7.2 per cent compared with 6.3 per cent in 1967. (these ratios are based on foreign port values of imports and retail values of total consumer spending and are therefore understated.) A major factor stimulating new advances in imports of apparel and footwear was the 6-1/2 per cent use in U.S. consumer prices for such products from the end of 1967 to November 1968. The value of imports of nondurable consumer goods was 2.1 per cent of domestic sales in 1968; in the year before the ratio had been 1.8 per cent.

Purchases of foreign capital equipment, principally machinery, also rose sharply in 1968, both absolutely and relative to total U.S. sales of producers' equipment. The rise in the ratio to total U.S. sales continued a long upward trend -- from 1.2 per cent in 1953 to 3.1 per cent in 1963, 5.0 per cent in 1967, and 5.5 per cent in 1968.

The Euro-dollar market. Euro-dollar interest rates reached historic peaks on January 10, with the three-month deposit rate at 7.75 per cent per annum. At present, Euro-dollar rates are about 7.40 per cent for maturities of one month and more.

The rise in the early part of January was counter to the usual seasonal pattern, and reflected pressure from U.S. banks' bidding for funds. In the first three statement weeks of this

month U.S. banks increased their liabilities to foreign branches by over \$2.5 billion, more than reversing the decline of about \$1.4 billion during the last three weeks of December. The resulting net increase of \$1.1 billion in such liabilities since early December, despite net repatriation of Euro-dollar deposits by U.S. corporations, was facilitated by large outflows of German commercial bank liquid funds. In early January the Bundesbank provided German banks with a large volume of forward cover through swap transactions, as noted below. In addition, there was probably a substantial reflow of foreign (non-German) money out of DM holdings.

SELECTED U.S. MONEY MARKET RATES  
AND EURO-DOLLAR RATES  
(weekly average of daily figures)

Average for week ending	(1) Call Euro-\$ Deposit	(2) Federal Funds	(3) = (1)-(2) Differ- ential	(4) 3-month Euro-\$ Deposit	(5) 3-month Treasury Bill	(6) = (4)-(5) Differ- ential
Dec. 11	6.54	5.82	.72	7.04	5.75	1.29
18	6.54	6.00	.54	7.07	5.93	1.14
25	7.51	6.21	1.30	7.33	6.21	1.12
Jan. 1	7.21	5.95	1.26	7.17	6.21	.96
8	7.67	6.43	1.24	7.45	6.18	1.27
15	7.65	6.30	1.35	7.64	6.14	1.50
22	6.88	6.46	0.42	7.31	6.07	1.24
29	6.83	6.36	0.47	7.38	6.12	1.26

Foreign exchange market developments. Exchange market activity has been relatively uneventful during the past three weeks. The Bundesbank has continued to lose reserves but at a decreasing

rate and greater strength in the demand for sterling has enabled the Bank of England to make moderate purchases of dollars. The price of gold in European markets rose to record levels during the period. In London the fixing price rose to \$42.75 an ounce, and in Zurich the offer price rose to \$43.00 an ounce at one time. On January 29 the London price was about \$42.50. Turnover in gold markets reportedly has been relatively small.

The sterling exchange rate climbed to \$2.3910 on January 22, its first time above the \$2.3900 level since early November. Following this rise, however, demand moderated as apprehension increased over a possible strike in the British steel industry. Since mid-January the Bank of England has purchased about \$200 million in the exchange market.

The discount on forward sterling has continued to narrow and averaged about 2.7 per cent per annum on three-month contracts during the week ending January 29, compared to a discount of 4 per cent per annum at the beginning of this month.

Since January 20 the volume of both spot and swap market activity by the German Federal Bank has been sharply reduced, relative to the volume of such transactions earlier in the month. Between the first of the month and January 20 the Bundesbank delivered \$650 million to the exchange markets as a result of spot sales and about \$1,050 million on a swap basis; since that time spot sales have totaled about \$250 million while sales of dollars

on a swap basis have amounted to only \$50 million. Between the year-end and January 29 the total of \$2 billion delivered to the exchange markets by the Bundesbank has been offset by over \$500 million entering German reserves as forward contracts matured.

Except for the Italian lire and the French franc, major continental currency exchange rates have generally weakened against the dollar, perhaps reflecting a seasonal tendency for funds to move back into dollar investments as well as the very strong pull being exerted by the all-time high Euro-dollar rates. Several European central banks have sold a modest volume of reserves. The French franc, on the other hand, has remained relatively firm, protected as it is by stringent exchange controls. The discount on forward francs in markets outside France has narrowed significantly since the first of the year; it is currently under 5 per cent per annum on three month francs, compared with over 9 per cent in early January.

Price developments in major industrial countries. Price

advances abroad in 1968 were with few exceptions more moderate than in the United States, where consumer prices rose nearly 5 per cent. Despite active economic expansion, pressures of aggregate demand abroad generally did not become excessive. Exogenous influences, such as devaluation, changes in indirect taxation, and consequences of social disturbances, raised domestic prices by as much as 5 or 6 per cent in some cases, but these influences were not felt in the export prices of the countries concerned.

CONSUMER PRICES<sup>a/</sup>  
(1967 = 100)

	Per cent increase from previous quarter					November 1968	
	1967	1967	1968	1968	1968	Index	Per cent in- crease from Nov. 1967
	Q-3	Q-4	Q-1	Q-2	Q-3		
France	0.6	1.4	1.4	0.6	1.2	107.0	5.2
United Kingdom <sup>b/</sup>	-0.5	1.2	1.4	2.4	0.6	106.2	5.2
Japan	0.4	3.2	1.7	0.2	0.8	107.6	5.1
United States	1.0	0.8	1.1	1.1	1.2	106.1	4.8
Canada	1.5	0.4	1.1	1.0	1.1	105.7	4.3
Netherlands	-0.8	0.0	1.6	0.8	0.8	105.8	4.1
Germany	-0.3	-0.4	1.4	0.2	0.0	102.3	2.4
Belgium	0.8	0.9	0.5	0.4	0.7	103.7	2.3
Switzerland	1.3	0.5	0.6	-0.1	0.3	103.8	2.2
Sweden	0.8	0.0	0.8	0.8	0.0	101.7	1.7
Italy	0.8	0.3	0.3	0.3	-0.2	101.5	0.6

<sup>a/</sup> Countries are listed in descending order of price increases from November 1967 to November 1968. Quarterly changes relate to quarterly averages.

<sup>b/</sup> Sterling prices, not adjusted for devaluation.



Consumer prices rose somewhat more rapidly this past year than in 1967 in some countries, including France, Britain, Canada, Japan, and the Netherlands. In Germany, where the 1967 advance had been only 1 per cent, consumer prices rose 2 per cent during 1968. In several other countries consumer prices rose less in 1968 than the year before. Acceleration of price increases, however, is expected to be more prevalent this year.

WHOLESALE PRICES OF MANUFACTURED GOODS<sup>a/</sup>  
(1967 = 100)

	Per cent increase from previous quarter					November 1968 <sup>b/</sup>	
	1967	1967	1968	1969	1968	Index	Per cent in- crease from Nov. 1967
	Q-3	Q-4	Q-1	Q-2	Q-3		
Germany <sup>b/</sup>	-0.1	0.0	3.9	-0.7	1.0	103.3	4.8
United Kingdom <sup>c/</sup>	0.8	0.9	2.5	1.5	0.2	105.6	4.5
Canada	0.7	0.4	0.5	0.7	0.8	104.2	3.4
United States	0.8	0.3	1.1	0.7	0.8	103.8	3.2
Japan	0.9	1.4	0.3	0.7	0.7	104.4	2.9
Netherlands	0.0	0.9	1.7	0.0	-0.8	101.7 <sup>f/</sup>	1.8 <sup>f/</sup>
Sweden	0.9	0.0	0.0	0.0	0.0	101.8	0.9
Belgium	0.1	0.2	0.4	-0.2	0.0	100.9	0.6
Italy <sup>d/</sup>	0.2	1.0	0.2	-0.7	-0.7	100.5	0.4
Switzerland <sup>d/</sup>	0.3	-0.1	0.5	-0.9	-0.2	100.4	0.2
France <sup>e/</sup>	0.6	0.9	-3.0	-1.5	+1.8	99.7	-1.2

<sup>a/</sup> Countries are listed in descending order of price increases from November 1967 to November 1968. Quarterly changes relate to quarterly averages.

<sup>b/</sup> Industrial products.

<sup>c/</sup> Sterling prices, not adjusted for devaluation.

<sup>d/</sup> All items.

<sup>e/</sup> Intermediate products.

<sup>f/</sup> September (and increase from Sept. 1967.)

Last year's wholesale price advances were generally greater than in 1967. The outstanding exception was in Japan, where a brief slowing of economic expansion occurred early in 1968.

For most countries, price increases for food have been smaller than for non-food items, thereby moderating somewhat the advance in total consumer prices. While a decline in food prices contributed to the relative price stability in Germany, the principal determinant of over-all price movements in that country was the stability of unit labor costs.

Although other factors besides prices -- such as buoyant U.S. import demand -- contributed to good foreign trade performance of many industrial countries during the past year, the maintenance of relatively stable prices probably played an important role in improving competitiveness. In both Germany and Japan, export prices performed significantly better than consumer and domestic wholesale prices, declining by 0.6 per cent in Germany and rising only by 0.4 per cent in Japan over the year through November. Both of these countries recorded significant export gains during the past year.

German prices in recent months have shown signs of advancing somewhat more rapidly following very slight increases in 1967 and only a moderate rise in the first half of 1968. The upward movement of prices was restrained until recently by substantial margins of unemployment and idle capacity.

A significant part of the German price rise in 1968 is attributable to the shift from the turnover tax to the value-added tax (TVA). The January 1, 1968 introduction of the TVA was accompanied by a rise of over 1 per cent in consumer prices. From January through September consumer prices remained virtually unchanged, but in October and November

they advanced by 1 per cent. It is still too early to tell whether this is the start of more rapid price increases in the months to come.

Producer (wholesale) price movements followed a somewhat similar pattern. In this case the rise associated with the shift to the TVA in January 1968 was about 4 per cent, since the change from a lower rate of gross turnover tax bore more heavily on the earlier stages of the production and distribution process. There was another, but smaller, general advance when the TVA rate increased from 10 to 11 per cent in July.

German domestic price rises, however, were not reflected in export prices. Following the introduction of the TVA, export prices of manufactured goods declined by 1 per cent, and thereafter they remained level through November. Under the TVA system exporters receive a full rebate for domestic indirect taxes, whereas under the previous gross turnover tax system they were undercompensated by an estimated average of 0.6 per cent of their prices. The decline in export prices no doubt contributed to an improvement of German competitiveness in export markets. While world exports increased 9 or 10 per cent last year, German exports increased nearly 12 per cent. However, the availability of industrial capacity and the ability to deliver export orders promptly were equally, if not more, important in the realization of this export gain. It remains to be seen what effect the recent changes in border tax adjustments are going to have on Germany's export competitiveness.

German price advances (apart from forward shifting of the TVA) have been kept small by substantial productivity gains and a decline in unit labor costs. In industry, output per man-hour rose by 9 per cent from September-October 1967 to September-October 1968, following a similar gain in the preceding twelve months. Hourly earnings in industry increased less than 7 per cent. Consequently, unit labor costs declined by approximately 3 per cent.

In 1968, Italy achieved another enviable record in holding price increases to exceptionally small amounts, although this was attained under conditions of a slower increase in aggregate demand than in the preceding two years. In November, wholesale prices were 0.4 per cent above the level of November 1967. The rise in consumer prices in 1968 through November was the smallest of the present decade; the increase from November 1967 to November 1968 was only 0.6 per cent, a marked slowing from the preceding year when prices advanced by 3.8 per cent. The 1968 deceleration of price advances involved all major components of the price index.

The favorable trend of wage costs contributed to the stable price performance. Unit labor costs in manufacturing seem to have declined. Output per employed worker in manufacturing during January-September 1968 was 4.8 per cent greater than in the first three-quarters of 1967, whereas minimum contractual wages of workers in manufacturing increased only 3.5 per cent.

Italy's good price record helped to produce a notable increase in the Italian share of world export markets in 1968. In the period from

1961 to 1968 (January-September), Italy's share of world exports rose from 3.56 to 4.78 per cent, or by an average of 0.18 percentage points per year. But the gain from January-September 1967 to January-September 1968 amounted to 0.23 percentage points, the largest increase in the 1961-1968 period except for 1965. Average export unit values -- admittedly an imperfect measure of export price competitiveness -- declined by 6 per cent from the third quarter of 1967 to the third quarter of 1968.

The most significant recent development affecting prices in the United Kingdom was the devaluation of sterling in November 1967. The direct and immediate effect was a fall of 14.3 per cent in the dollar price of U.K. exports and a rise of 16.7 per cent in the sterling price of U.K. imports.

Post-devaluation policy has been designed to reduce real consumption in order to allow for and induce a shift of resources to investment and export production. A very stringent budget was announced in March 1968, along with an incomes policy that placed a planned ceiling of 3-1/2 per cent on wage increases. In conjunction with the rise in retail prices -- reinforced by tax measures -- this was expected to reduce real consumer income and expenditure.

Contrary to the avowed policy aims, retail prices did not rise faster than earnings. Average earnings in October were 9.5 per cent higher than the average level in 1967, while retail prices were up only 5.6 per cent, despite a 13 per cent rise in import prices in terms of sterling over the same period. (Imports equal approximately 22 per cent of GNP.) The relatively low rate of price increases is attributable in

large part to fuller use of capacity and consequent sharp increases in productivity. The high rate of productivity growth is not likely to be sustained in 1969.

From November 1967 to November 1968, export unit values, in sterling terms, rose 8.8 per cent. Since the increased costs to exporters arising from the devaluation and other market factors were expected to be 5 to 6 per cent, it appears that exporters passed on to foreign buyers much of the price advantages of the devaluation. The 8.8 per cent rise in the sterling price of U.K. exports, taken together with the 14.3 per cent devaluation, means that the dollar price of U.K. exports fell by about 7 per cent in the year ending last November. In volume terms, British exports have risen strongly since devaluation.

Consumer prices in France increased by 5.4 per cent in 1968 (year-over-year). They advanced by 1 per cent in January 1968 largely as a result of the introduction of the TVA at the retail level. In delayed reaction to the sizable wage increases negotiated during the May-June unrest, prices started to climb sharply in September-October -- rising by 1.2 per cent over August. By November prices were 3.2 per cent above the May levels. Wholesale prices declined in the early months of last year as a result of the shift in the TVA from the wholesale to the retail level and will still show a decline for 1968, although from May to November they rose by 4 per cent.

Prices will increase sharply in January -- perhaps by as much as 2 per cent, principally owing to the delayed application of increases in TVA rates which went into effect on January 1, 1969. Prices have been

subject to a complicated system of controls, which encompasses virtually all sectors of the economy. Price developments in 1969 will depend on what success the authorities have in applying price controls and resisting union wage demands.

French export prices have increased at a slower pace than domestic prices. Partly to offset the consequences of the wage increases on the export sector, exporters have been helped by an export subsidy scheme and a preferential rediscount rate on export paper, which currently is 3 percentage points lower than the Bank of France basic discount rate. The subsidies, currently amounting to about 1-1/4 per cent of the export price, are scheduled to expire at the end of this month, but, with effect from January 1st, exporters receive a larger export rebate to compensate for the increased rates of TVA. In addition, the 4-1/4 per cent payroll tax has been eliminated, and exporters are expected to reflect most of this cost reduction in their prices.

Consumer price increases accelerated in the Netherlands during 1968. Part of the 4.1 per cent price advance over the year through November can be ascribed to an increase in indirect taxes at the beginning of 1968. By far the greatest part of price increases, however, is the result of growing demand pressures. Economic activity has developed with unexpected strength since the 1966-67 slowdown. Real GNP in 1968 increased by about 5.5 per cent in contrast to an increase of 3.5 per cent projected a year ago. As a result of growing inflationary pressures and their detrimental effect on the current account, Dutch officials have recently announced a number of measures -- including an increase in the

discount rate, restriction on installment credit, and an accelerated phasing out of investment tax credits -- designed to bring the growth of domestic demand into line with the economy's supply capacity.

The threat of inflation is generally regarded as the major economic problem for Canada in 1969. Consumer prices advanced by 4.2 per cent in 1968, following rises of 3.5 and 3.7 per cent in 1967 and 1966, respectively. The rise in wholesale prices also accelerated during 1968, and in November they were 3.4 per cent higher than a year earlier. Monetary and fiscal policies are currently moving in a relatively contractionary direction, and the pace of price advances may slow toward the latter half of the year.

Total exports have not been adversely affected by the acceleration of price increases. Exports increased by 19 per cent in 1968, but most of the increase was to the United States, whose rate of price advance paralleled that of Canada and where such special factors as the U.S.-Canadian Automotive Products Agreement and American labor problems aided Canadian exports. Exports to the United States increased by 25 per cent, while exports to other markets increased only by 7.5 per cent. With the expected slowdown in the growth of U.S. import demand this year, Canadian exports are likely to face greater competitive pressure. In these circumstances, the policy objective of slowing the rate of inflation has assumed greater urgency.

Consumer prices in Japan have accelerated since the autumn of 1967, and the 1968 price rise was larger than a year earlier. The increase in food prices contributed to the over-all price rise, but the



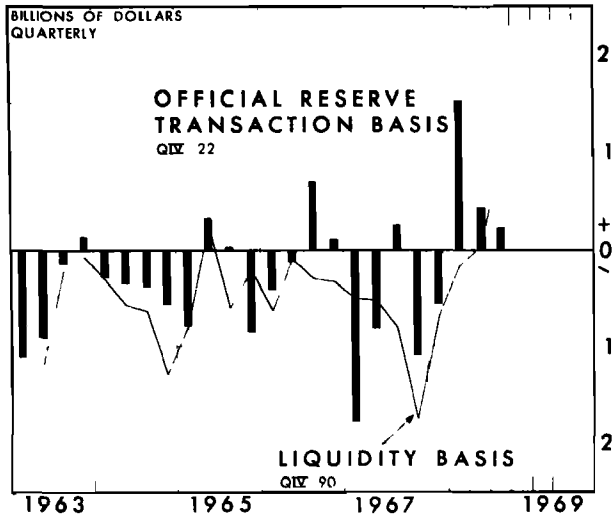
continuation of an active expansion has placed increasing pressure on resources, which is beginning to be reflected in price advances. Wholesale prices of manufactured products increased somewhat more moderately this past year than a year earlier.

Export prices advanced less rapidly than domestic prices, and this has contributed to a further improvement of Japan's competitive position in international markets in 1968. Japanese exports accounted for 3.6 per cent of world exports in 1961. By 1967 this proportion had increased to 5.5 per cent and it rose further to 6.3 per cent in 1968.

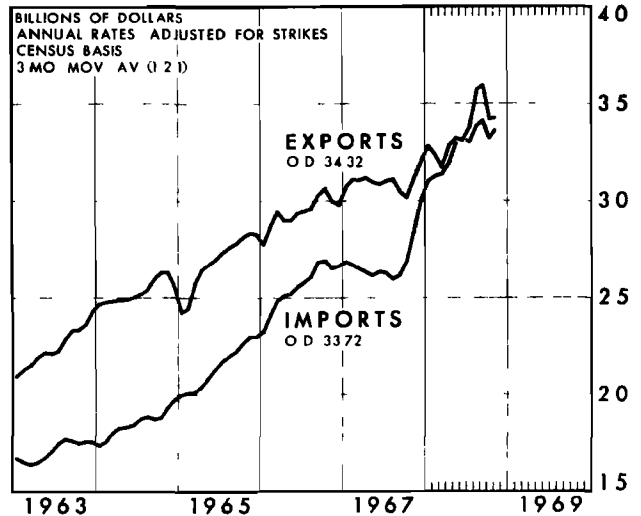
# U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

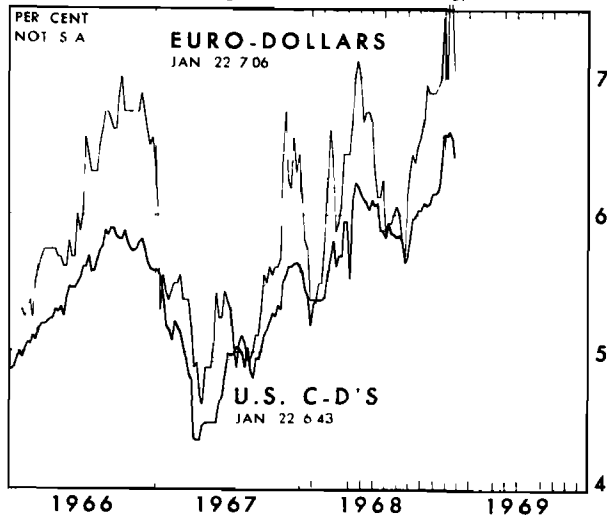
## U.S. BALANCE OF PAYMENTS



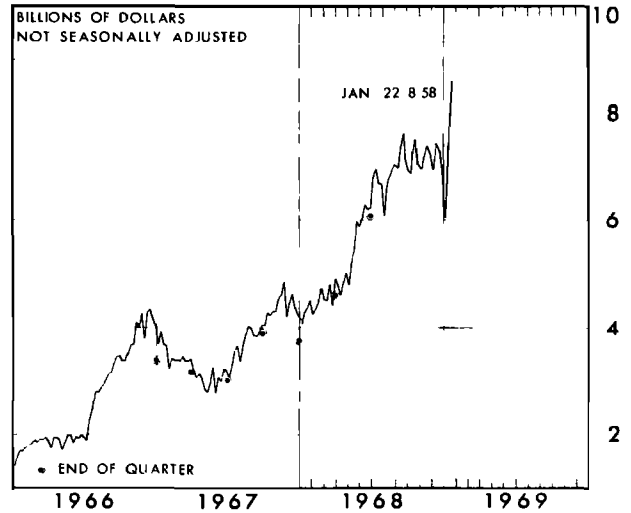
## U.S. MERCHANDISE TRADE



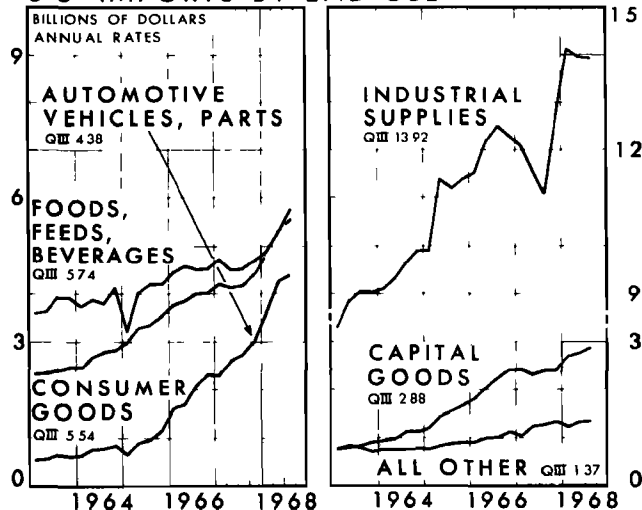
## 90-DAY RATES



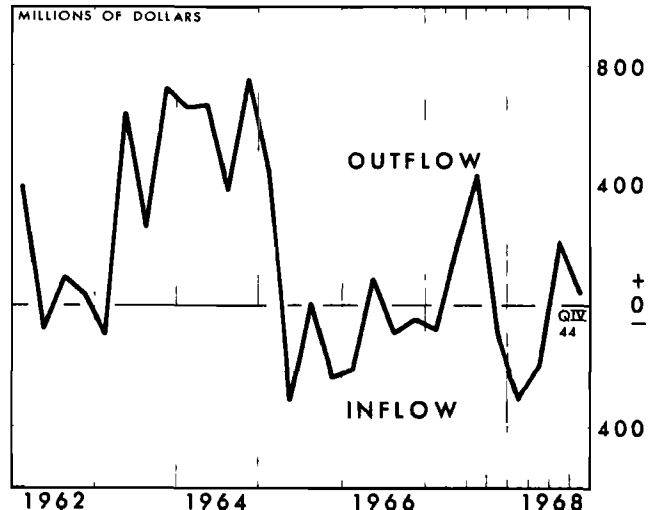
## LIAB OF U.S. BANKS TO FOR. BRANCHES



## U.S. IMPORTS BY END USE



## PVT CAP FLOWS-BANK REPT CLAIMS



## APPENDIX A: RECENT MUNICIPAL BOND POSTPONEMENTS\*

Among the more visible reactions to stringency in the credit markets are the municipal bond postponements reported in the financial press.<sup>1/</sup> In all but a few instances, published postponements are directly attributable to adverse capital market conditions reflecting high and uncertain levels of interest rates.

As Table 1 illustrates, the level of reported postponements, although fluctuating quarterly, has been relatively high over the past three years. In 1968, the dollar volume of announced postponements was somewhat lower than that in 1967, but the number of issues was greater. Aggregation on a quarterly basis tends to blur the relationship between postponements and fluctuations in bond yields. Nevertheless, a positive association between these series is observable as both the dollar volume and number of postponements tend to lunge ahead in those quarters when rates advance sharply.

Those postponements reported in the financial press give only a partial picture of the total shortfalls in State and local borrowing emanating from financing market conditions. On the basis of the 1966 State and local borrowing survey, it is estimated that the dollar totals of long-term borrowing abandonments, postponements, and reductions are approximately twice those given in Table 1.<sup>2/</sup>

Thus in 1968 the overall shortfall in State and local government long-term borrowing due to high and rising rates of interest could have been \$2.2 billion. Since some of these were of only a temporary nature and others were complete abandonments, the net carry forward of unsatisfied

---

\* Prepared by John E. Petersen, Economist, Capital Markets Section.

- <sup>1/</sup> Principal sources of this information are the Bond Buyer, Rand & Co. "Sheets," Commercial and Financial Chronicle, and the Investment Dealers Digest. Postponements can be either temporary delays or complete abandonments but there is no way of telling this from the information available. They may be voluntary on the part of communities which reject bids or cancel an announced bidding; or involuntary, in those cases where no bids are submitted. The latter situation occurs when no underwriter can bid below a pre-set interest ceiling or when bond prices are expected to drop rapidly and they fear capital losses.
- <sup>2/</sup> In 1966, the estimated total of long-term borrowing shortfalls due to high and rising rates of interest was \$2.2 billion as compared with the \$1.1 billion reported in the financial press. While the financial press does not achieve 100 per cent coverage on municipal borrowings (particularly on direct placements), most of the discrepancy is due to decisions not to borrow having been made before formal advertising of the issue for bids.

Table 1

## Reported Municipal Bond Postponements, 1966-1968

Year/ Quarter	Postponements		Municipal Yields 1/
	Amount (\$ Mil.)	Number	
1966 1	517.3	17	3.61
2	84.1	19	3.72
3	360.5	42	4.04
4	<u>146.6</u>	<u>6</u>	<u>3.88</u>
Total	1,108.5	84	--
1967 1	172.2	18	3.57
2	135.7	17	3.84
3	341.6	47	4.08
4	<u>580.9</u>	<u>66</u>	<u>4.34</u>
Total	1,230.4	148	--
1968 1	247.8	33	4.33
2	397.8	68	4.43
3	100.3	17	4.35
4	<u>322.8</u>	<u>43</u>	<u>4.63</u>
Total	1,068.7	161	--

1/ Bond Buyers 20 Bond Municipal Index - Average of "First Thursday of the Month" yields for the 3 months in the quarter and that of the month immediately following.

demand for long-term funds from that year would be less than the above figure. Examination of data collected for 1966 and 1967 indicates that approximately 60 and 50 per cent of the issues postponed in those years, respectively, were brought back to market within a year after the initial postponement. Complete information does not exist for 1968, but about half of all postponements occurring in the first half of the year were brought back to market by the end of September, especially in the third quarter when municipal bond sales surged to a record-breaking \$4.6 billion.

The significance of postponements is two-fold. First, to cover shortfalls in planned long-term borrowing governments must turn to liquid assets, short-term borrowing, or current revenues for construction cash needs. While the heavy volume of long-term borrowing in 1967 and 1968 did replenish the available funds of some borrowers, the steadily dropping growth of liquid assets in the face of rapidly accelerating growth in expenditures no doubt means that many units are reaching relatively tight liquidity positions. Moreover, if banks continue to liquidate short-term municipals, bond anticipation borrowing will be exceedingly expensive and, perhaps, not a viable alternative to long-term funding.<sup>3/</sup> Symptomatic of the liquidity pressures developing in the general government sector (net of retirement funds) is the rapidly increasing proportion of borrowing that is going immediately into cash outlays instead of a build-up of liquid assets for future spending. Thus, the string between current borrowing and capital spending is being tightened. In 1965, the net increase in general government assets was 60 per cent the net increase in liabilities; by the first three quarters of 1968 the ratio had dropped to about 35 per cent, with almost two-thirds of the increase in liabilities flowing directly into cash expenditures, mainly for capital outlays.

The second significant point concerning postponements is their impact on State and local expenditures. It is conjectured that a \$2.2 billion shortfall in planned long-term borrowing might generate reduced outlays (mostly for capital items) of \$400 to \$600 million over 1968 and 1969 combined. While the lower limit is indicated by the overall results of the 1966 survey, a higher estimate for effects arising from 1968 difficulties is appropriate for two reasons. First, three years of tightness has probably reduced the flexibility of many units in finding alternative sources of funds (as was pointed out above). Second, there are compositional differences in the 1966 and 1968 postponement experiences. As Table 2 shows, smaller issues are becoming relatively more important both in the number and amount of postponements. The average size of reported postponements in 1968 was only half that of 1967 and two-thirds that of 1967. It is safe to assume that to some degree this indicates that a relatively greater share of borrowing delays are being borne by

---

<sup>3/</sup> Yields on one-year prime municipal rates rose from 3.20 per cent in mid-November 1968, to 4.25 per cent in mid-January 1969.

smaller governmental units. And since smaller governments have displayed less ability to insulate spending cutbacks from borrowing disappointments, the ratio of spending cutbacks to borrowing setbacks most likely has increased.

The mounting trend in the number of reported postponements since 1966, combined with the smaller size of the average postponement, strongly indicates that continued high municipal bond rates and resulting borrowing delays will lead to cumulatively higher levels of expenditure reductions.

Table 2

Percentage Composition of Municipal Bond Postponements  
by Size of Issue

Size of Issue - (Mil. of \$)	1966	1967	1968
	<u>Dollar Volume</u>		
Under 1.0	1.0	1.7	1.6
1.0 - 9.99	12.5	23.9	29.6
10.0 - 49.99	30.5	26.9	41.8
50.0 and over	<u>56.0</u>	<u>47.5</u>	<u>27.0</u>
	100.0	100.0	100.0
	<u>Number</u>		
Under 1.0	21.4	23.6	20.5
1.0 - 9.99	53.6	60.2	66.5
10.0 - 49.99	20.2	10.8	10.5
50.0 and over	<u>4.8</u>	<u>5.4</u>	<u>2.5</u>
	100.0	100.0	100.0

## APPENDIX B: HIGHLIGHTS OF NEW FEDERAL BUDGET<sup>1/</sup>

The new budget projects surpluses of \$2.4 billion and \$3.4 billion in the current and succeeding fiscal years. Thus, after a \$27-1/2 billion swing from deficit to surplus between fiscal 1968 and fiscal 1969, the Federal budget is now entering a more stable period in which receipts and outlays will both be growing an estimated \$12 billion during fiscal 1970.

When these annual budget totals are broken down by quarters, however, the pattern of expected fiscal performance looks much less stable. For example, the swing from deficit to surplus during the current fiscal year has not yet been completed. The Federal sector in the national income accounts moved close to balance in the fourth quarter of 1968, and is expected to show a surplus of \$5 to \$7 billion at an annual rate in the first two quarters of 1969. Thereafter, the budget assumptions (which show higher corporate profits than present Board staff estimates) suggest that the NIA surplus will decline to around \$3 billion and hold at that point throughout fiscal year 1970.

Looking at the movement from deficit to surplus on a seasonally unadjusted basis, it appears that during the half-year ending December 1968 only 45 per cent of the receipts projected for the whole fiscal year were collected; outlays through December, on the other hand, amounted to an estimated 51 per cent of the expected total. To realize the fiscal year estimate of a \$2.4 billion surplus, Federal spending will have to be cut back further from recent levels. While this outcome is certainly possible, it would not be surprising if actual spending proved to be somewhat higher than projected. In any event, however, the Federal Government after being a sizable net borrower in the July-December period of 1968, will become a very large net repayer of debt over the remainder of the fiscal year. Thus the influence of fiscal policy in the immediate period ahead is restrictive on private incomes and stimulative in regard to declines in Treasury bill rates.

The annual unified and NIA budget totals are summarized in Table 1. Comparison of these estimates indicates that while NIA expenditures are expected to increase by almost \$15 billion during the current fiscal year, unified budget expenditures (excluding net lending) rise by only \$9-1/2 billion. The difference largely reflects an expected \$4 billion shift in the timing of defense goods deliveries as compared to the timing of defense checks issued.

---

<sup>1/</sup> Prepared by Helmut Wendel, Senior Economist, Government Finance Section.

Receipts. Federal receipts, shown in Table 2, are estimated to increase by a mammoth \$32.4 billion in fiscal year 1969 but to increase by only \$12.6 billion in fiscal year 1970. Less than half--or some \$13.9 billion--of the increase for fiscal 1969 is derived from the revenue effect of economic growth with a large part of the remainder reflecting the surcharge. In fiscal 1970 the contribution of economic growth drops to \$11.3 billion, as calendar year 1969 personal income and corporate profits are assumed to rise at a more moderate pace.

During the current fiscal year the increase in taxes derived from economic growth considerably exceeds the increase in projected outlays and in fiscal 1970 it is nearly as large as the increase in outlays. However, additional taxes were imposed for fiscal year 1969 in order to offset the imbalance between receipts and expenditures that existed in fiscal year 1968. If those additional taxes are not extended in fiscal year 1970, the revenue outlook would change considerably. If the surtax is not extended after June 1969 and if excise taxes were allowed to drop as presently scheduled in January 1, 1970, there would be a revenue loss of \$9.5 billion in fiscal year 1970. While there will be some revenue losses in fiscal 1970 in any event because the extra retroactive surtax payments that occurred in fiscal year 1969 will not be available again, these losses will be partially offset by gains resulting from a full year of collections under the increased employment tax rate of 9.6 per cent, which became effective on January 1, 1969. Thus, in the absence of any Congressional legislation (and given the budget income assumptions), revenues in fiscal year 1970 would show a net increase of only \$1.0 billion--the growth effect of \$11.3 billion, less the \$9.5 resulting from expiration of surtaxes and excise taxes, and less another \$0.8 billion resulting from the timing effects of tax rate changes.

In addition to his recommendation that present income and excise tax rates be maintained for another year, President Johnson recommends two new tax rate increases for fiscal 1970:

(1) The employment tax rate is to increase from 9.6 per cent to 10.4 per cent effective January 1970 instead of a year later as provided for by existing legislation. This change would be made in combination with an increase in the income ceiling on which the employment tax is collected, from \$7,800 to \$9,000, again effective in January 1970. This latter provision is not provided for at all under existing legislation. The increase in social insurance taxes would serve to finance a general increase in old-age benefit scales.

(2) Selective increases would be made in excise taxes connected with air travel and diesel fuel for trucks. These are recommended as user charges to offset Federal outlays benefiting those areas, and would amount to \$400 million.



Spending. The spending side of the budget is summarized in Table 3. The lending component of outlays is declining quite sharply during the current fiscal year, partly because the FNMA, Banks for cooperatives and Federal intermediate credit banks all have gone private. Other declines in net lending during fiscal year 1969 are accounted for by the Export-Import Bank and the Farmers Home Administration.

Defense spending is projected to rise by only \$500 million during the current fiscal year despite the need for a \$3.0 billion supplemental appropriation for Vietnam still to be legislated. A good share of the expenditure cuts under the Revenue and Expenditure Control Act are in the non-Vietnam defense area. For fiscal year 1970, defense spending is again projected to increase by \$500 million with Vietnam spending tapering off by \$3.5 billion and other defense spending rising by almost \$4.0 billion. Once the supplemental appropriation is enacted, total obligational authority for all military outlays will be the same during the current fiscal year as it was last year, but this advance indicator of spending is scheduled to increase by \$3.5 billion in fiscal year 1970. None of these figures include the \$2.8 billion Federal pay raise in July, of which defense accounts for \$2 billion.

The budget assumes that the war in Vietnam continues at the present scale of combat and U. S. participation in fiscal year 1970. Thus, it is the recent reduction in combat activity, and not a projection of further reductions, that accounts for the \$3.5 billion decline projected in Vietnam related outlays. Unofficially, it is estimated that a complete cease-fire with troops held in place would save an additional \$5 to \$6 billion a year. A reduction of military personnel to the level that existed in June 1965 would allow the demobilization of 800,000 men and would produce a further saving of about \$8 billion.

Nondefense expenditures are shown in two groupings in Table 3. The first group lists the categories that were exempted from the fiscal year 1969 spending ceiling. The characteristics which earned them the exempt status also makes it unlikely that the new Administration will be able to cut these types of expenditures in fiscal year 1970, except perhaps for the proposed increase in social security benefit scales.

Total spending in the exempted categories is estimated to rise less in fiscal year 1970 than it will during the current year. The large boost in social security benefits in March 1968, the big 1968 harvest resulting in large CCC payments, unexpectedly rapid growth in outlays for medicaid, and increases in interest payments all contributed to the sizable increases in exempted outlays during the current fiscal year. Some of these items are expected to grow less or even to decline in fiscal year 1970. An increase in social security benefits, however, is recommended for January 1970, which would cost \$1.6 billion in fiscal year 1970 and \$3.8 billion on a full year basis. Medicaid expenditures also are projected to continue to rise rapidly.

Nondefense expenditures that were subject to the spending ceiling in fiscal 1969 are projected to increase more rapidly during fiscal year 1970. Here the new Administration will no doubt take a hard look at the composition of outlays and at the possibility of substituting tax incentives for direct subsidies, but it seems doubtful that the total Federal contribution will be cut by much. In President Johnson's Budget, education, manpower programs and health services show an increase of \$1.6 billion. In manpower training most emphasis is on expanding the JOBS and WIN programs. Under JOBS, private employers are reimbursed for the added cost of hiring and training the disadvantaged. Under WIN, state welfare agencies refer persons now receiving public assistance to the employment service for counseling, remedial education, job training and eventual placement. Also there is a considerable growth in planned grants for vocational rehabilitation of disabled persons.

Community development and housing expenditures absorb only a small fraction of the total budget in fiscal year 1969, but a \$1.3 billion growth--which amounts to a doubling of expenditures other than loans--is planned for fiscal year 1970. This increase is accompanied by a reduction in direct Federal loans. Under the older programs the Federal Government purchased mortgages, whereas the new programs emphasize subsidies and leave the financing to private institutions. Federal payments that reduce rents or mortgage costs are planned to result in housing starts during fiscal 1970 of 500,000 units for low- and moderate-income housing. While these starts can be either in the form of new construction or rehabilitation, the 500,000 target level is more than double the number of such starts expected during the current fiscal year.

Outlays are also scheduled to increase sharply for the model cities program, from \$75 million in fiscal 1969 to \$570 million in fiscal year 1970. Moreover, new obligational authority requested for this program amounts to \$1.0 billion. Office of Economic Opportunity community action programs which the new Administration may want to cut are budgeted at \$700 million. Of course, the eventual level of spending that will actually be realized in many of these non-defense programs during fiscal year 1970, is likely to depend heavily on developments in Vietnam.

Another way to appraise the spending outlook for the programs not exempted from the spending cut is to compare the amount of the cut in fiscal year 1969 with the amount of the rebound in spending now projected for fiscal 1970. Table 4 provides a break-down for key non-exempted programs showing (1) the actual level of spending in fiscal year 1968, (2) the difference between the original budget estimates for fiscal year 1969 and actual spending in fiscal year 1968, (3) the size of the fiscal 1969 spending cut, and (4) the projected spending change for fiscal 1970. Spending categories that will increase significantly in fiscal 1970 after absorbing part of the spending cut in fiscal 1969 include outlays for non-Vietnam defense, the Farmer's Home Administration,

highway grants, other commerce and transportation (partly airport expenditures), community and housing, education, and all others (reflecting largely the July 1969 Federal pay increase). There is also a sizable increase in spending for health, welfare, and manpower, even though this category of outlays was spared from the spending cut in fiscal 1969.

Some of the fiscal 1969 spending cuts in net lending are expected to be maintained in fiscal 1970, or at least not to show increases. Again this is due in large measure to the transfer of agencies like FNMA and the Farm Credit Administration into the private sector. In the case of the Export-Import Bank and housing credit other than FNMA, however, a lower level of loan outlays is projected to continue. Finally, continued reductions are planned in international expenditures, the space program and the Post Office deficit. In the latter case, the projected saving reflects President Johnson's request for an increase in postal rates.

Table 1

## FEDERAL BUDGET SUMMARY

Source: January 1969 Budget Document  
(In billions of dollars)

	Fiscal Years				
	Amounts			Changes	
	1968 (actual)	1969 (estimated)	1970	1969 (estimated)	1970
<b><u>NEW BUDGET</u></b>					
<b>Expenditure Account:</b>					
Receipts	153.7	186.1	198.7	32.4	12.6
Expenditures (excludes net lending)	172.8	182.3	194.4	9.5	12.1
Surplus or deficit (-)	-19.2	3.8	4.3	23.0	.5
<b>Loan Account:</b>					
Net lending	6.0	1.4	.9	-4.6	-.5
<b>Total Budget:</b>					
Receipts	153.7	186.1	198.7	32.4	12.6
Outlays (expenditures and net lending)	178.9	183.7	195.3	4.8	11.6
Budget surplus or deficit (-)	-25.2	2.4	3.4	27.6	1.0
<b>Budget Financing:</b>					
Net borrowing from the public	23.1	-3.1	-4.0	-26.2	-.9
Other means of financing	2.1	.7	.6	-1.4	-.1
<b><u>Federal Sector in NIA Accounts:</u></b>					
Receipts	161.1	190.0	202.3	28.9	12.3
Expenditures	172.4	187.3	199.6	14.9	12.3
Surplus or deficit (-)	-11.3	2.7	2.7	14.0	--

ESTIMATES OF FEDERAL RECEIPTS<sup>1/</sup>

Based on January 1969 Budget Document  
(In billions of dollars)

	Fiscal Years				
	Amounts			Changes	
	1968 (actual)	1969 (estimated)	1970	1969 (estimated)	1970 (estimated)
<b>TOTAL BUDGET RECEIPTS</b>	<b>153.7</b>	<b>186.1</b>	<b>198.7</b>	<b>32.4</b>	<b>12.6</b>
Individual Income taxes	68.7	84.4	90.4	15.7	6.0
Corporate Income taxes	28.7	38.1	37.9	9.4	-.2
Social Insurance taxes and Contributions	34.6	40.5	45.9	5.9	5.4
Excise taxes	14.1	14.8	15.7	.7	.9
Estate & Gift taxes	3.1	3.2	3.4	.1	.2
Customs duties	2.0	2.3	2.3	.3	--
Miscellaneous Receipts	2.5	2.8	3.1	.3	.3

	Analysis of Changes 1968 to 1969			
	Total	Economic growth	Full year effect of tax rate changes	Timing of tax rate changes 1/
<b>TOTAL</b>	<b>32.4</b>	<b>13.9</b>	<b>15.4</b>	<b>3.1</b>
Individual Income taxes	15.7	7.3	7.4	1.0
Corporate Income taxes	9.4	3.5	2.8	3.1
Social Insurance taxes and Contributions	5.9	1.9	5.2 <sup>2/</sup>	-1.2
Excise taxes	.7	.5		.2
Estate and Gift taxes	.1	.1		
Customs duties	.3	.3		
Miscellaneous Receipts	.3	.3		

	Analysis of Changes 1969 to 1970				
	Total	Economic growth	Tax increases	Timing of tax change 3/	Memo: Effect no extension present rate
<b>TOTAL</b>	<b>12.6</b>	<b>11.3</b>	<b>2.1</b>	<b>-.8</b>	<b>-9.5</b>
Individual Income taxes	6.0	6.4		-.4	-7.2
Corporate Income taxes	-.2	2.1		-2.3	-1.8
Social Insurance taxes and Contributions	5.4	1.6	1.7	2.1	
Excise taxes	.9	.7	.4	-.2	-.5
Estate and Gift taxes	.2	.2			
Customs duties	--	--		--	
Miscellaneous Receipts	.3	.3		--	

Note: Economic Assumptions by calendar year

	1967	1968	1969
GNP	789.7	860.7	921
Personal Income	628.8	685.8	736
Corporate profits before tax	81.6	92.3	96

1/ For individual and corporate taxes, reflects the fiscal year 1969 revenue effect of the retroactive feature of the surtax and corporate acceleration. For social insurance taxes, reflects the increase in employment tax rates to 9.6% effective only on January 1, 1969.

2/ Shows full year effect of increase in tax rate to 9.6% effective January 1, 1969, and increase in ceiling to \$7,800 effective January 1, 1968.

3/ Mainly reflects loss of retroactive surtax payments and gain from full-year receipts under 9.6% employment tax rate.

Table 3

FEDERAL OUTLAYS  
As Estimated in January 1969 Budget Document  
(In billions of dollars)

	Fiscal Years				
	Amounts			Changes	
	1968 (actual)	1969 (estimated)	1970	1969 (estimated)	1970 (estimated)
<u>TOTAL OUTLAYS</u>	<u>178.9</u>	<u>183.7</u>	<u>195.3</u>	<u>4.8</u>	<u>11.6</u>
<u>Net Lending</u>	<u>6.0</u>	<u>1.4</u>	<u>.9</u>	<u>-4.6</u>	<u>-.5</u>
Agencies now privately owned <sup>1/</sup>	2.5	.1	--	-2.4	-.1
Other agencies	3.5	1.3	.9	-2.2	-.4
<u>Expenditures</u>	<u>172.8</u>	<u>182.3</u>	<u>194.4</u>	<u>9.5</u>	<u>12.1</u>
<u>National Defense</u>	<u>80.5</u>	<u>81.0</u>	<u>81.5</u>	<u>.5</u>	<u>.5</u>
Vietnam	26.5	28.8	25.4	2.3	-3.4
Other	54.0	52.2	56.1	-1.8	3.9
<u>Nondefense exempted from 1969     spending ceiling 2/</u>	<u>58.7</u>	<u>66.6</u>	<u>71.3</u>	<u>7.9</u>	<u>4.7</u>
Interest 3/	11.1	12.2	12.4	1.1	.2
Veterans	6.7	7.4	7.8	.7	.4
Social Security trust funds:					
Present programs	32.2	36.9	38.8	4.7	1.9
Proposed legislation	--	--	1.6	--	1.6
Commodity Credit Corporation	3.2	3.6	3.1	.4	-.5
Public assistance grants to States (incl. Medicaid)	5.5	6.5	7.6	1.0	1.1
<u>Other expenditures</u>	<u>33.6</u>	<u>34.7</u>	<u>41.6</u>	<u>1.1</u>	<u>6.9</u>
Education, Manpower, and Health (not above)	12.3	13.0	14.6	.7	1.6
Community development and housing	1.0	1.3	2.6	.3	1.3
All other	20.3	20.4	21.6	.1	1.2
Allowance for pay increase	--	--	2.8	--	2.8

<sup>1/</sup> FNMA, Banks for Coops, and Federal Intermediate Credit Banks.

<sup>2/</sup> Program definitions are slightly different than the categories exempted by law.

<sup>3/</sup> Excludes interest received by trust funds.

Table 4

MAJOR SPENDING CUTS AND FUTURE PLANS IN PROGRAMS  
UNDER 1969 SPENDING CEILING  
(In billions of dollars)

	Fiscal years			
	1968 actual	Change 1969 original estimates 1/	1969 Spending revision	Planned change 1970
<u>Total</u> <sup>2/</sup>	<u>93.6</u>	<u>3.0</u>	<u>-8.3</u>	<u>10.3</u>
National Defense other than Vietnam	54.0	1.2	-3.0	3.9
International Affairs and Finance				
Export-Import Bank loans	.9	-.2	-.4	--
Other international	3.7	.8	-.8	-.2
Space	4.7	-.1	-.3	-.3
Agriculture other than CCC				
Farm Credit Administration	.5	.2	-.9	<u>3/</u>
Farmers Home Administra- tion	.3	-.2	-.3 <sup>4/</sup>	.3
Other agriculture	2.0	.1	+.1 <sup>4/</sup>	.1
Natural resources	1.7	.8	-.6	--
Commerce and transportation				
Highways	4.3	--	-.3 <sup>4/</sup>	.7
Postal service	1.1	-.3	+.2 <sup>4/</sup>	-.4
Other	2.7	.4	-.1	.6
Community development and housing				
FNMA	1.9	-1.2	-.7	<u>3/</u>
Other housing credit	1.1	-.4	+.1	-.6
Other expenditures	1.1	1.2	-.8	1.1
Education	5.0	.1	-.2	.5
Health, welfare and manpower	7.8	-.1	--	1.8
All other <sup>5/</sup>	.8	.7	-.5	3.2

1/ Compares the January 1968 estimate for fiscal year 1969 with actual spending in fiscal year 1968.

2/ Differs from tabulations in Budget Document because interest paid to trust funds is not deducted from total shown here.

3/ Agencies now private; change from 1969 estimate to zero level in 1970 is not shown.

4/ Largely reflect July 1968 pay increase, shown in a separate category in original 1969 estimates.

5/ Includes general government functions, contingency fund, civilian part of July 1968 pay increase, all of July 1969 pay increase and deduction for Government contribution to employee retirement fund.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

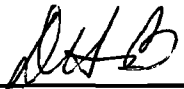
Date January 30, 1969.

To Federal Open Market Committee

Subject: \_\_\_\_\_

From D. H. Brill, Economist

The Greenbook distributed on January 29 contained a note (page II-5) that "The outlook for the second half of calendar 1967 will be distributed Friday . . . ." The staff wishes to inform the Committee that this was a typographic error, and to assure the Committee that the staff has not so lost confidence in its prophetic powers as to limit its forecasting to the past. We will indeed be projecting the balance of calendar 1969, with our usual confidence and accuracy.

  
\_\_\_\_\_