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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

August 6, 1965

The Domestic Economy

The unemployment rate, seasonally adjusted, declined further in July, to 4.5 per cent from 4.7 per cent in June and 4.6 per cent in May, continuing its gradual downward trend. This is the lowest monthly rate since October 1957. The jobless rate of teenagers declined significantly, by nearly a percentage point to 13.2 per cent, reflecting a sharp increase in their employment. The jobless rates of adult men and women also fell, to 3.1 per cent and 4.3 per cent respectively, and the rates for married men and blue collar workers also declined. The unemployed color differential widened, with the rate for nonwhites at 9.1 per cent and the white rate at 3.9 per cent, but the differential was not quite so wide as in July last year. Long-term unemployment declined significantly, to less than 700,000 seasonally adjusted, well below the 1 million level of a year ago.

Total civilian employment increased by 650,000 in July to 72.8 million, with all of the gain occurring in the nonagricultural sector. Of this, teenagers contributed 550,000 and adult women the remainder, as adult male employment remained unchanged. The civilian labor force also rose sharply, by a half million to 76.2 million. This large gain raised average labor growth so far this year to 1.3 million, about in line with official expectations for 1965. The increase in the teenage labor force accounted for all of the July increase in the total labor force and half of the July 1964-July 1965 total gain of 2.2 million.

The book value of business inventories increased \$575 million in June, according to preliminary figures, and, as a result of a fairly typical large upward revision, the May rise now totals \$630 million (instead of about \$400 million reported a month ago). For the second quarter as a whole, inventory accumulation averaged \$685 million per month, as compared with \$763 million in the first quarter. However, the second quarter average is subject to change when June figures are revised.

June figures show a moderately higher rate of accumulation at manufacturers--and a lower rate at distributors--than in May. The book value of wholesale stocks, which had been increasing sharply, was about unchanged in June. At retail stores, inventory accumulation had been small in May when sales showed a spurt; in June, the rate of accumulation picked up although it remained below earlier highs. The rise in retail inventories in June was mainly at auto dealers and general merchandise stores.

Seasonally adjusted new construction expenditures changed little in July. Both private residential and public construction outlays held at the improved June rate while expenditures for business construction edged to a new high and continued appreciably above a year earlier. June figures were revised upward by 2 per cent, with all major groups sharing in the upward revision.

NEW CONSTRUCTION PUT IN PLACE

	July <u>1/</u>	Per cent change from	
		Q II av.	July 1964
Total	\$69.2	2	4
Private	48.9	2	6
Residential	27.3	1	3
Nonresidential	21.6	3	10
Business	16.0	4	16
Public	20.2	1	--

1/ Seasonally adjusted annual rate; preliminary.

Domestic Financial Situation

The Treasury's August refunding was successful despite weakness which developed in the Treasury bond market and minimal dealer participation. Preliminary figures indicate exchanges by public holders totaling \$2.1 billion for the new 18-month notes and around \$0.8 billion for the reopened 4's of February 1969. Attrition on public holdings was about 8 per cent.

Erratum

The attached table should be substituted for III - 14 and related changes made in text. Higher profits estimates shown here for calendar 1965 would raise fiscal 1966 corporate and total receipts shown before by about .6 billion and lower the deficit correspondingly. Revenue estimates subject to revision pending release of revised national income series.

Corrected
August 6, 1965

III - 14

THE FEDERAL BUDGET PROJECTED
(Fiscal years. In billions of dollars)

	1964	1965		1966	
	Actual	Jan. Bud. Doc	Actual	Jan. Bud. Doc	FRB 1/ 2/
Cash receipts	115.5	117.4	119.7	123.5	125.8
Cash payments	120.3	121.4	122.4	127.4	130.1
Surplus (+) or deficit (-)	- 4.8	- 4.0	- 2.7	- 3.9	- 4.3
<u>Cash receipts</u>	<u>115.5</u>	<u>117.4</u>	<u>119.7</u>	<u>123.5</u>	<u>125.8</u>
Withheld income taxes	39.3	36.2	36.8	38.4	39.9
Other individual inc. tax	15.3	15.3	16.8	14.9	15.5
Corp. income tax	24.3	26.4	26.1	28.4	28.6
Excise & highway tax	14.0	14.6	14.8	14.0	13.3
Soc. Sec. receipts	21.9	21.8	22.1	23.9	24.6
Repayments	1.7	1.9	2.1	1.9	1.9
Other receipts	6.2	6.9	7.0	8.4	8.4
Refunds	7.1	5.8	6.0	6.4	6.4
<u>Cash payments</u>	<u>120.3</u>	<u>121.4</u>	<u>122.4</u>	<u>127.4</u>	<u>130.1</u>
National defense	54.5	52.8	50.8	52.5	3/ 53.3
International affairs & finance	2.0	2.2	2.9	2.8	2.7
Space	4.2	4.9	5.1	5.1	5.1
Agriculture	7.3	6.1	7.1	5.5	6.5
Natural resources	2.6	2.8	2.7	2.9	2.9
Commerce & transportation	6.5	7.4	7.5	6.5	6.5
Housing & community develop.	1.7	- .2	.9	.7	1.2
Health, labor & welfare	27.3	28.9	28.3	34.1	34.2
Education	1.3	1.5	1.5	2.6	2.6
Veterans	6.1	6.0	6.1	5.1	5.1
Interest	8.0	8.5	8.7	8.8	8.8
Deposit fund accounts	- .6	- .1	- .2	*	*
Civil service	- 2.0	- 2.1	- 2.1	- 2.1	- 2.1
Clearing account	- .9	.2	.9	- .1	- .1
General Govt.	2.2	2.5	2.3	2.9	3.5

Income assumptions--calendar years (in billions of dollars)

	1963	1964	1965		1966 1st half
			Bud. Doc.	FRB	FRB
GNP	583.9	622.6	660.0	661.0	686.0
Corporate profits	51.3	57.6	61.0	64.0	65.0
Personal income	464.1	491.4	520.0	524.0	540.0

* Less than \$50 million.

1/ Reflects President's original proposed reduction of \$1.75 billion in excise taxes.

2/ Reflects President's recent proposed reduction of \$4.0 billion in excise taxes.

3/ Includes \$800 million for pay increase.

NOTE: Revenue estimates subject to revision pending release of revised national income series.