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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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SUPPLEMENTAL NOTES

The Domestic Economy

Business plans for new plant and equipment outlays in 1966 as a whole and in each of the last two quarters of the year are virtually unchanged from plans last spring, according to the Commerce-SEC survey taken in late July and August. The May survey had shown a small increase from the February survey. The August survey was the first since the summer of 1963 which did not show a significant upward revision in earlier plans of business.

Business fixed investment this year will be 17 per cent more than last year, according to business plans. The indicated rise in the second half of this year, at an annual rate of 11.9 per cent, however, is considerably less than the 18.5 per cent in the first half. For manufacturing, the rate of increase in the second half of the year is only 13 per cent as compared to 23 per cent in the first half.

Since the spring survey, durable goods manufacturers, nonrail transportation companies, and public utilities have increased investment plans, while nondurable goods manufacturers, railroads, and the communication-commercial-and-other grouping have reduced planned spending. Of the durable goods manufacturers, producers of both primary and nonferrous metals, transportation equipment, and electrical machinery and equipment have raised investment plans significantly and non-electrical machinery producers have reduced theirs.

At the end of June the carryover of projects by manufacturers totaled \$18.1 billion, \$2.1 billion more than a year earlier. For public utilities the carryover totaled \$10 billion, also \$2.1 billion more than at mid-1965. These projects while underway, may not all be completed

NEW PLANT AND EQUIPMENT EXPENDITURES

	1966 plans reported in August (billions of \$'s)	Per cent increase				Actual 1965 from 1964
		1966 from 1965 plans reported in				
		August	May	February		
ALL INDUSTRIES	60.86	17.1	17.0	15.9	15.7	
Manufacturing	27.08	20.6	20.4	19.1	20.8	
Durable	13.96	22.5	20.9	18.4	20.9	
Nondurable	13.11	18.6	19.8	19.9	20.7	
Nonmanufacturing	33.80	14.5	14.3	13.4	11.8	
Mining	1.46	12.3	9.2	16.3	9.3	
Railroad	1.96	13.3	18.2	5.5	23.1	
Nonrail trans.	3.62	28.8	24.3	12.0	18.4	
Public utilities	8.16	17.6	15.1	15.8	11.7	
Communications, com'l & other	18.60	11.2	12.4	13.3	10.6	

in 1966. Only that portion of the carryover scheduled to be spent this year is included in 1966 anticipated outlays.

According to the National Industrial Conference Board, new capital appropriations of manufacturers in the second quarter rose appreciably further, while capital expenditures rose only a little. Consequently, the backlog of unspent appropriations rose considerably. At the end of June the backlog in dollar terms was more than a fourth larger than a year earlier. The rise in new appropriations and in backlogs over the past year indicate, according to experience of the NICB survey, that capital expenditures will continue to rise through mid-1967.

The NICB July survey also indicated that manufacturers expected capital appropriations in the second half of this year to be less than they were in the first half. But this decline does not necessarily indicate a decline in expenditures after mid-1967 because these appropriations are expected to continue to be larger than actual capital expenditures and backlogs are expected to rise further.

International Developments

U.S. balance of payments. Revised first-quarter and preliminary second-quarter balance-of-payments data are summarized in the table on the next page. (These data are confidential until published in the September Survey of Current Business.)

The balance on goods and services deteriorated less in the second quarter than the latest GNP estimates show, and is now put at an annual rate of \$5.3 billion in that quarter rather than \$4.7 billion. (In light of this revision, the staff projections for the second half of 1966 should be raised.) Military sales and investment income receipts were somewhat larger than earlier anticipated, and imports of services were somewhat smaller, although military expenditures abroad did rise about 8 per cent further.

The net outflow of U.S. Government grants and capital remained at the \$3.8 billion rate reached in the first quarter. The net outflow of U.S. private capital increased significantly, but that increase was more than matched by an increase in foreign borrowing to finance direct investments (such borrowing being shown in the table as an inflow of foreign capital). An additional large inflow of foreign nonliquid capital represented the shift of foreign-held U.S. assets from liquid to nonliquid forms that has been described in earlier Green Books.

U.S. Balance of Payments Summary, 1964-66
(In billions of dollars, at seasonally adjusted annual rates)

	Year	Year	1966	
	<u>1964</u>	<u>1965</u>	<u>I (r)</u>	<u>II (p)</u>
<u>Exports of goods and services</u> ^{1/}	<u>37.0</u>	<u>39.0</u>	<u>41.8</u>	<u>42.3</u>
Merchandise	25.3	26.3	28.5	28.4
Military sales	.7	.8	.8	1.0
Investment income receipts	5.4	5.9	6.2	6.4
Other services	5.5	6.0	6.4	6.4
<u>Imports of goods and services</u>	<u>-28.5</u>	<u>-32.0</u>	<u>-35.7</u>	<u>-37.0</u>
Merchandise	-18.6	-21.5	-24.0	-25.0
Military expenditures	-2.8	-2.9	-3.4	-3.7
Investment income payments	-1.4	-1.6	-1.7	-1.7
Other services	-5.6	-6.0	-6.5	-6.5
<u>Balance on goods and services</u> ^{1/}	<u>8.5</u>	<u>7.0</u>	<u>6.1</u>	<u>5.3</u>
<u>Remittances and pensions</u>	<u>-.9</u>	<u>-1.0</u>	<u>-.9</u>	<u>-1.0</u>
<u>U.S. Govt. grants and capital flow, net</u> ^{2/}	<u>-3.6</u>	<u>-3.4</u>	<u>-3.8</u>	<u>-3.8</u>
<u>U.S. private capital flow, net</u>	<u>-6.5</u>	<u>-3.7</u>	<u>-3.6</u>	<u>-4.4</u>
Direct investments	-2.4	-3.4	-2.7	-3.8
Foreign securities	-.7	-.8	-1.3	.0
Claims reported by banks	-2.5	.1	1.1	-.5
Claims reported by others	-1.0	.3	-.6	-.1
<u>Foreign capital flow, net, excluding change in liquid assets in U.S.</u>	<u>.7</u>	<u>.2</u>	<u>1.1</u>	<u>3.6</u>
Long-term investments	.1	-.2	1.1	3.6
Short-term claims	.1	.1	.2	.2
Nonliquid claims on U.S. Govt.	.5	.2	-.2	-.3
<u>Errors and omissions, net</u>	<u>-1.0</u>	<u>-.4</u>	<u>-1.1</u>	<u>-.3</u>
<u>Balance on liquidity basis</u>	<u>-2.8</u>	<u>-1.4</u>	<u>-2.2</u>	<u>-.6</u>
<u>Balance on basis of official reserve transactions</u>	<u>-1.5</u>	<u>-1.3</u>	<u>-1.0</u>	<u>-.7</u>

(r) Revised; confidential until published in the Survey of Current Business, September 1966.

(p) Preliminary; confidential until published in the Survey of Current Business, September 1966.

^{1/} Excludes military transfers under grants.

^{2/} Excludes military grants.