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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 14, 1964.

SUPPLEMENTAL NOTES

The Domestic Economy

Gross national product in the second quarter is now estimated at \$618.6 billion, seasonally adjusted annual rate, according to revised Commerce estimates. (Confidential until released Tuesday, August 18) These estimates, shown in the following table, are virtually the same as those of a month earlier. The major difference is the sizable increase in the figure for inventory accumulation.

According to the Commerce preliminary estimate, corporate profits before tax in the second quarter were \$57.4 billion, seasonally adjusted annual rate, \$800 million higher than in the first quarter.

On an income and product basis, total government receipts in the second quarter are estimated at a seasonally adjusted annual rate of \$180.2 billion and total expenditures at \$187.1 billion. Thus, the annual rate of government expenditures exceeded receipts by \$6.9 billion; in the first quarter, receipts and expenditures were in balance.

For the Federal Government alone expenditures in the second quarter exceeded receipts by \$9.2 billion, as compared with \$2.4 billion in the first quarter. The increase resulted from the full effect of the tax cut. State and local government expenditures were less than receipts by an annual rate of \$2.3 billion in the second quarter and by \$2.4 billion in the first quarter.

GROSS NATIONAL PRODUCT
(Seasonally adjusted at annual rates)
Billions of dollars

	1964	
	2nd Qtr.	1st Qtr.
GROSS NATIONAL PRODUCT	618.6	608.8
Final sales	614.9	606.4
Personal Consumption Expenditures	396.1	390.0
Durable goods	57.0	55.9
Nondurable goods	175.3	172.9
Services	163.8	161.1
Gross Private Domestic Investment	87.2	85.9
Residential construction, nonfarm	26.2	26.9
Other construction	22.7	22.3
Producers' durable equipment	34.6	34.2
Change in inventories	3.7	2.5
Nonfarm	3.4	2.2
Net exports of Goods and Services	5.7	7.7
Exports	33.7	34.5
Imports	27.9	26.8
Government Purchases of Goods and Services	129.6	125.2
Federal Government	67.1	64.3
National defense	57.0	54.0
Other, net of sales	10.1	10.3
State and local government	62.5	60.9
GROSS NATIONAL PRODUCT -- 1954 PRICES	513.5	508.0
PERSONAL INCOME	487.9	480.9
Disposable personal income	431.3	419.5
Saving/disposable income (per cent)	8.2	7.0
Corporate Profits Before Tax	57.4p	56.6
GOVERNMENT SURPLUS (+) OR DEFICIT (-)		
National Income Basis	-6.9p	.0
Federal	-9.2p	-2.4
State and local	2.3p	2.4

*--For earlier data see Table I - T-2 from FOMC notes for July 22, 1964.

Industrial production continued to rise in July, the eighth consecutive increase since November 1963. At 132.7 per cent, the index was 1 point above June and 5-1/2 per cent above a year earlier.

Increases were shown by nearly all major groups of industries.

Among final products, consumer goods output rose further in July and was also 5-1/2 per cent above a year ago. The gains in output were widespread among consumer goods. Production of business equipment expanded further, reflecting increases in industrial and commercial machinery, and was 9 per cent above a year earlier.

Output of materials also rose in July with increases in iron and steel, construction materials, and most nondurable materials.

INDUSTRIAL PRODUCTION
Seasonally Adjusted 1957-59=100

	pJuly 1964	Per cent change from		
		Month ago	Year ago	Nov. 1963
Total	132.7	+ .8	+ 5.6	+4.4
Consumer goods	132.3	+ .5	+ 5.3	+4.3
Home goods & apparel	131.9	+1.1	+ 6.7	+4.8
Staples	129.3	- .1	+ 4.0	+4.2
Business equipment	140.5	+1.0	+ 9.1	+6.4
Materials	133.1	+1.1	+ 5.7	+6.0
Durables	132.2	+1.1	+ 6.2	+7.9
Nondurables	134.1	+ .8	+11.8	+9.5

Nonfarm payroll employment increased 140,000 in July, and May and June figures have been revised upward to show a rise of 250,000 for those two months (preliminary data had indicated a rise of only 165,000 from April to June). At 58.9 million, seasonally adjusted, nonfarm employment in July was 1.55 million above a year earlier.

As in earlier months, most of the July increase was outside the industrial sector. A 20,000 advance in manufacturing employment was in durable goods industries. Primary metals increased 18,000, while transportation equipment, employment declined 14,000 and was 30,000 below the April level. In the nonindustrial sector, the increase was concentrated in the service industry where employment rose by 56,000. Further gains were also recorded in trade and finance. State and local government employment declined somewhat following steady gains in earlier months.

The average workweek, seasonally adjusted, in manufacturing industries continued at 40.6 hours, unchanged from June and 0.2 hours longer than a year earlier. Average hourly earnings were \$2.53, or at the level maintained since April, and 3.3 per cent higher than a year earlier. Average weekly earnings, at \$103 were down less than seasonally from the June high and were 3.8 per cent above a year earlier.

Wholesale prices advanced 0.4 per cent in July, but remained below a year earlier. Major price movements in July included a substantial rise in livestock and meat prices and significant increases in fuels and metals prices. A variety of other industrial products advanced moderately.

WHOLESALE PRICES
(1957-59=100)

	July 1964	Per cent change from	
		June 1964	July 1963
Total	100.4	+0.4	-0.2
Farm products & foods	98.1	+1.0	-1.7
Other commodities	101.1	+0.2	+0.3

The Domestic Financial Situation

Turnover of demand deposits at 343 centers outside New York increased to 35.5 (preliminary) in July from 35.0 in June. Over the past four months turnover has averaged 3.5 per cent above the first quarter of 1964 and 6.6 per cent above the April-July period last year. Turnover had begun to increase in April this year after having shown little net change since July 1963.

Yields on corporate bonds--both new and outstanding--increased slightly last week. Adjusted to an Aaa basis, an August 12 utility issue was priced to yield 4.39, up 2 basis points from relevant July offerings. Moody's Aaa series for outstanding bonds rose 1 basis point to 4.42. Stock prices recovered further from the drop associated with the Vietnam crisis and are now only 2 per cent below their July peak.

International Developments

The preliminary figures for the outflow of short-term capital in June have been revised downward because of the correction of a reporting error and the receipt of some additional information. The corrected total outflow of \$223 million was about equally divided between bank credit and movements of liquid funds.

Japanese trade figures for July show a further diminution of the trade deficit. The deficit was about half as large as the peak monthly average deficit of the first quarter; imports have shown little net change while exports have risen by nearly one-sixth.